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### ► To cite this version:

Stéphane Guin, Erwan Charles, Jean-Pierre Boude, . European Association of Fisheries Economists. Contractualisations, profit margin build-up and actions to valorize sea food : from producer to retailer. 15th Annual Conference of the European Association of Fisheries Economists, European Association of Fisheries Economists (EAFE). FRA., May 2003, Brest, France. 6 p. hal-02311402

**HAL Id: hal-02311402**

**<https://hal.science/hal-02311402>**

Submitted on 7 Jun 2020

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## Contractualisations, profit margin build-up and actions to valorize sea food : from producer to retailer

Gouin S., Charles E., Boude JP.<sup>1</sup>

### Summary

New forms of coordinations adapted to competition changes and new market conditions have recently emerged within the fisheries commercial channel. They redistribute the value added between the various actors and also bear significant consequences on fishing practices and resource exploitation.

This study based its conclusions on two series of qualitative surveys jointly conducted by retail chains.

The aim of the first qualitative survey, conducted in national and regional purchase centrals, was to identify and understand the procurement mechanisms applied by retail chains to seafoods and the marketing policies implemented and applied to their members.

The second qualitative survey involved retail stores and tried to match the marketing mix of non-industrial fisheries produce with retail store commercial applications.

The first part of this paper describes the on-going evolutions of contractualisation. The second part analyses the new marketing and commercial policies applied to sea food in the various French retail chains, profit margin make up and commercial valorisation in particular.

*Key-words:* Contractualisation, profit margins, covenant, marketing strategies, market surveys

### Introduction

In recent years, the fisheries channel has seen moves to valorise sea products, involving all actors from producers (fisheries) to end retailers. Those moves began mainly with the initiation of a quality label. They had strong repercussions on prices, on producers' income and also on their operative strategies and fishing behaviours (Charles 2001, Boude, Charles, Gouin, 2001). New contract forms were thus developed between producers-wholesalers and retailers.

This paper analyses the economic impact of such moves on the organisation, the coordination and contractualisation of the relationships between the actors of the channel.

The first part explains the theoretical implications of the emergence of those valorisation moves by a common quality labelling, in terms of transactional changes and gain according to Williamson's understanding. The second part analyses the marketing and commercial repercussions on retailers' policies.

### I. Theoretical approaches to valorisation moves

Transactions in fisheries share common points with those of fresh foodstuffs but also have their own sea-food-specific ones.

Fish can be defined as more than a procurement product, rather as a confidence product, one whose quality cannot be assessed objectively and unexpensively by consumers (Gouin, Cordier, 2001). Knowing the quality of a fish before buying and consuming it is difficult because it is perceived as delicate (Charles 1997) and potentially risky (a pathogenic vector).

#### 1.1. Impact of valorisation on transaction determinants

Using Williamson's trilogy of transaction determinants, the impact of actions taken to enhance the value of products (quality standards and label) can be assessed in terms of transaction.:

- Specific quality marking will reduce the uncertainty attached to fish quality and promote transaction repetition and frequency by guaranteeing that quality through specific control modalities. Quality marking therefore can be construed as an implicit or even explicit contract, with all that it implies in terms of management, follow-up and possible contractual hazards (Salanié 1994).
- Such a "contractualisation" will reduce transaction insecurity and promote exchange recurrence between the various actors..

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The reality of the warranties granted consumers by a quality label generates consumers' loyalty. Conversely, irregular or inconsistent quality will be immediately sanctioned by a nonrenewal of purchase. That reduces potential risks of opportunistic behaviours by producers but these two elements depend on the credibility of the quality label. That credibility will be all the more reinforced as quality will be linked to production assets.

- Lastly, placing a quality label on a specific production method e.g., line fishing, highly increases the material and human specificity of production assets. The transaction subject product owes its quality to the specific know-how required for its production.

By highlighting the production asset specificity as the source of product quality, this quality labelling makes it a highly specific asset, warranting sustainable added value. The more determinant the asset specificity is in achieving quality, the more difficult it would be to change activity because reconversion would be too costly in terms of lost opportunities.

This quality label therefore constitutes a very special investment and a very specific asset (Charles et Boude 2000). A label induces a durable dependency link between producers and production quality. The capital opportunity cost is thus high and is an incentive for producers to optimize their production quality so as to ensure long-term continuance of their trade.

Such a high dependency (producer-specific asset – quality) bolsters the credibility or the approach and the implicit « contractuality » of the label.

According to the type of transactions, adapted governance structures will occur as frameworks for those transactions.

According to Williamson, a type of governance that is meant to last will be more efficient in that it will minimise transaction costs and aim at maximising the profitability of the valorisation setup. In the case of coastal fishing quality markings, several hybrid and intermediate forms occur between the market and the firm. That governance will take the interactions or transactions between producers, their associate label holders and other actors of the channel into account. So the essence of the quality marking and adequate governance implementation amounts to offering producers transactional benefits. The higher the risks, the higher the transaction costs induced by market governance in comparison with other modes of governance.

But the quality moves undertaken in the fishing industry involved collective quality signs, assets under shared ownership. They ensure individual producers transaction cost savings as well as scale savings (Barjolle, Chapuis, 2000) according to the type of grouping or organisational identity. The cost of creating a quality label is loosely linked to the size of the market. There is such a thing as the minimum effective size for product promotion (Alchian et Woodward, 1987, Rosen, 1996).

*According to Williamson (1996) "governance must be the means whereby order is achieved within the relationship where potential conflicts may threaten to cancel or disrupt opportunities to make mutual profits".*

This is why various hybrid forms of collective organisations, of governance, were developed in coastal fishing to provide a suitable response to that concern for efficiency and common-interest management—a quality approach—between producers alone or between all actors of the channel.

## **1.2. Impact of valorisation on standards**

The economic theory of standards promotes analysing the various organisational systems in terms of relationship spaces within which individual and collective actors participate. Inside the spaces, specific quality standards are in force, which tends to promote coordination between actors.

The predominance of a special standard is determined by the types of actors present in the specific channel, by their strategies, by their specific operative context and by the cooperative or conflictual relationships internally established (Van der Meulen & Vantura, 1994).

According to quality standards in force, a single quality feature (material or immaterial) of the product may be highly important. Agreement on production quality may with time lead to the development of a variety of products according to various traditional modes, depending on the specific feature or characteristic to be highlighted.

The socially elaborated move towards quality and valorisation will help restricting of regulating tensions resulting from the exploitation specificity of a natural resource under shared ownership. Such a quality label creation by producers' associations, amounting to creating a common interest, constitutes a social and economic regulation tool. This is particularly enhanced by the specificity of the seafarers community, fishermen in particular.

The search for quality reveals new links, new standards among actors of the channel, like fishermen's relations for example. The quality approach of line fishermen may actually be interpreted as an endogenous social construction that will help coordinating actors' activities and prices alike (Thévenot & Boltansky 1987, Eymard-Duvernay, 1989). Instead of being just a consequence of trading relations, it precedes exchanges or even



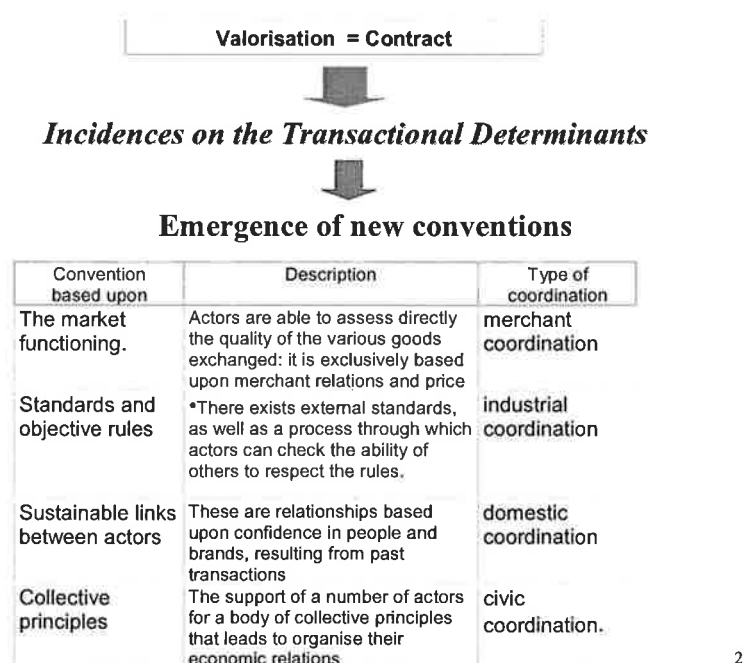
production (Gomez, 1994). Such quality definition channels imply a certain degree of coordination between actors in addition to the competitive functioning of the market (Sylvander, 1995, Thévenot Boltanski 1991).

The main types of quality standards have been identified in the agrofood industry, in particular by Eymard-Duvernay and from there four quality classes are being defined:

- On standards : objective rules, external standards exist together with the process whereby actors can verify each other's capability to comply. This is industrial coordination.
- On durable links between actors : relationships based on confidence in persons or brand names, originated in best transactions. This is domestic ordination.
- On the adhesion of a set of actors to the body of collective principles, resulting in the structuring of their trade relationships. This is civic coordination.
- On market functioning : actors are in a position to directly assess the quality of exchange goods. This is merchant coordination, based exclusively on trading relations and prices.

It appears that the token of success of the liberalisation efforts made in coastal fishing (BQM, Bar de ligne de la Pointe de Bretagne, etc....) must be based on civic-domestic coordination (figure 1).

The latter is a strong safeguard against risks inherent in such moves- but often leads to failure-namely stowaways and diversions of common interests to private use (Charles 2001, Charles et Boude 2001).



**Figure 1 : Transactional analysis of quality label creation**

## **II. New marketing and commercial policies for Seafoods in relation to contracts in the various French retailers**

Since 1986, retailers have undertaken contractual moves aimed at guaranteeing the origin of products, hence their quality. Through such a move, the intrinsic and extrinsic qualities are highlighted: brand names, processing mode packaging, traceability. Such is the case with Carrefour and its FQC (Filière Qualité Carrefour), Casino with Terre et Saveurs, Cora with Engagement Dès l'Origine, Intermarché with Pétre, Gulf Stream and Odyssee, Leclerc with Amiral de Bretagne.

To illustrate contractual approaches and more specifically those related to operational marketing, a quality survey was implemented. It was based on the leading interview method in the various purchase centrals of the French main retailer names: Carrefour & Promodès, Intermarché, Leclerc, Casino and Cora<sup>2</sup>.

<sup>2</sup> The aim of this study was to understand the stakes and prospects of the French retailers in regard of all sea foods from coastal fishing. Ten species were involved in the study, including two from fish farming : sea bass and sea bream. The other species used in the surveys were : line bass, wild sea bream, emperor fish, halibut, monkfish, red gurnet, swordfish and sole. Those species are caught by industrial and coastal fisheries alike, hence their interesting comparisons.



That survey was later supplemented by a study of the retail prices in Brittany's large and medium sized stores. Seventy-three buyers of sea products were interviewed, irrespective of their employers' brand names. The region is interesting on several counts. On the one hand, the names Leclerc, Intermarché et Système U are strongly established. On the other hand, its sea food consumption index is above the national average (106 versus 96 in the Paris region). Lastly, its seaboard localisation facilitates direct procurement. Centralised purchase in relation to direct buying is all the more interesting to analyse.

**2.1. Procurement policies in terms of prices and volumes**

Most retailers use purchase centrals that help them grouping orders and making substantial savings in logistic costs. These platforms also contribute to greater homogeneity of shelf products.

To supply their fresh fish departments, retailers use either their purchase centrals or direct suppliers in highly variable proportions.

A five-week study of average prices per species revealed that Intermarché clearly stands out from its competitors with its low-price policy (figure 2).

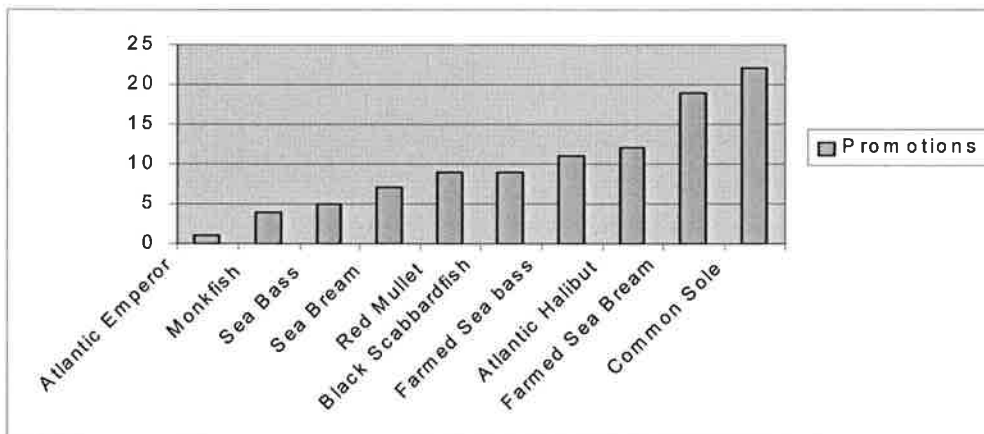


Figure 2 : Retailer ranking according to prices, all names combined

The pricing policies of all other retailers could not be statistically segregated (Leclerc, Géant, système U, Champion et Cora) as there were no significant difference in their average prices. In contrast, retailer names could be rated according to their sales volume (figure 3).

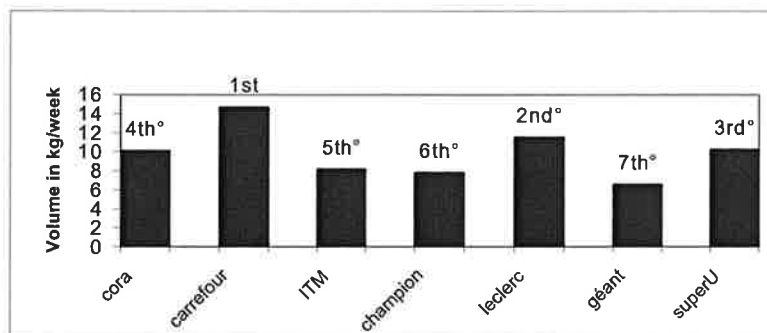


Figure 3 Ranking according to sales volumes





**2.2. Types of promotional actions according to species**

In the subject species, the average promotion frequency was once every three weeks in each store (all species combined). Compared with other promotions in other species, that frequency was low. (figure 4). The species that were most promoted during the five study weeks were **sole** (22 stores promoted that product at least once a week), **farm sea bream** (19 times) and **halibut** (12 times).

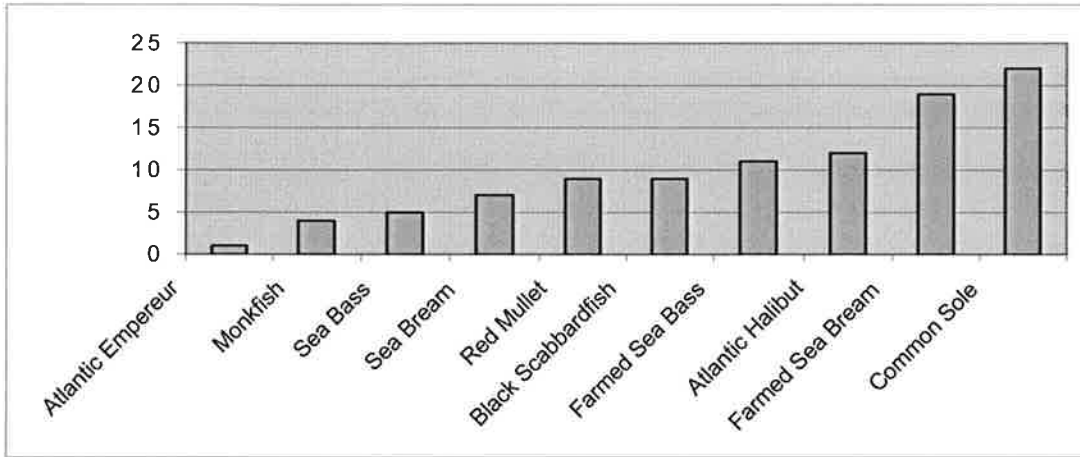


Figure 4 : Number of promotions per species

Of the 99 promotions counted during the study, 38 were at the national level, i.e., about 40% national promotions imposed by centrals.

The species selected for national or regional promotion schemes were sea bream, halibut and swordfish. Fish-farm and industrial species were preferred for national promotions. These promotions need to be scheduled one or two months in advance and the purchase quotations of those species should therefore be predictable. Sole was often the subject of promotions, although it is not a product of industrial fishing. Indeed, it is fished all year round and withdrawals are practically inexistent, making all-year-round procurement easy. However, it is less subject of national promotions because its pricing becomes too variable. Focussing more specifically on Carrefour, Système U, ITM and Leclerc, the retailers most present in Brittany, there is a correlation between promotion frequency and the degree of centralisation. The more centralised the retailer chain, the more frequent the promotions. Indeed, it is easier to setup a promotion by placing large orders through a central (figure 5).

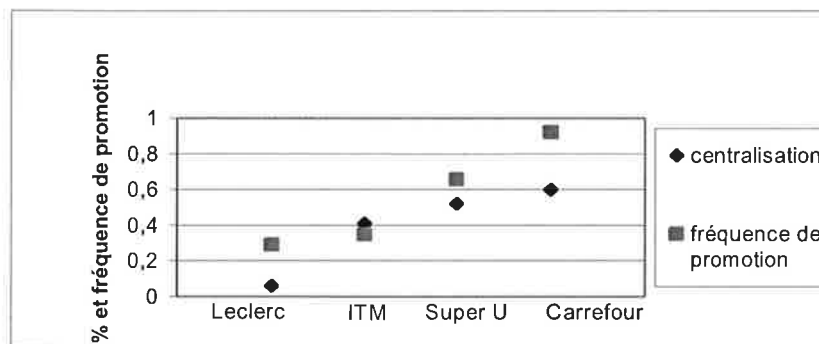


Figure 5 : Relationship between centralisation and promotion frequency



To summarize the results observed, the retailers rank as follows :

Positioning	Prices	Volume	Promotions	Central ranking
Carrefour	2 <sup>nd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Champion	5 <sup>th</sup>	6 <sup>th</sup>	7 <sup>th</sup>	1 <sup>st</sup>
Cora	3 <sup>rd</sup>	4 <sup>th</sup>	1 <sup>st</sup>	7 <sup>th</sup>
Géant	6 <sup>th</sup>	7 <sup>th</sup>	4 <sup>th</sup>	2 <sup>nd</sup>
Leclerc	4 <sup>th</sup>	2 <sup>nd</sup>	6 <sup>th</sup>	6 <sup>th</sup>
Super U	7 <sup>th</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
Intermarché	1 <sup>st</sup>	5 <sup>th</sup>	5 <sup>th</sup>	5 <sup>th</sup>

#### Retailer rating according to the survey criteria

Carrefour is highly competitive in Brittany for sea foods, although department standardization could be noted between stores, either regarding prices, number of items or department layout.

Champion, owned by Carrefour, is on the contrary little competitive (small volume, few promotions, relatively high prices, very few direct purchases). This is reflected by the small size and paucity of the fishmonger's department and by the mobilisation and awareness of department supervisors

Géant and Cora are not very different from one another but those two names are not representative of Brittany and are strongly implanted in northern and eastern France.

Leclerc and Système U are « intermediate » retailers that favour quality, even if prices are slightly higher than those of Intermarché and Carrefour. Those retailers sell large volumes and despite their different functioning (centralised and decentralised) they are rather similar.

Intermarché, with its original strategy which consists in integrating the fishing channel through being its own shipowner, has managed to control its production costs and is now in the lead pricewise. Nonetheless, its competitors are definitely not considering buying fishing boats (stick to your own craft) and have doubts on Euromarché's future success. They are threatening to turn to imported fish if ITM has a monopoly on the resource..

As to the criteria to be favoured for effective communication, retailers do not have the same priorities (figure 6). Fish freshness is the obvious criterion for Carrefour. But it partially derives from the fishing method (coastal or industrial fishing...).

Product geographic origin is the priority criterion to Intermarché and Système U.

Creating brand names (retailer-specific name, collective names (Bretagne Qualité Mer), labels, certification...) is to Casino a crucial element of consumers' buying act.

Lastly, to the Leclerc group, consumers are sensitive to suppliers' loyalty to retail stores.

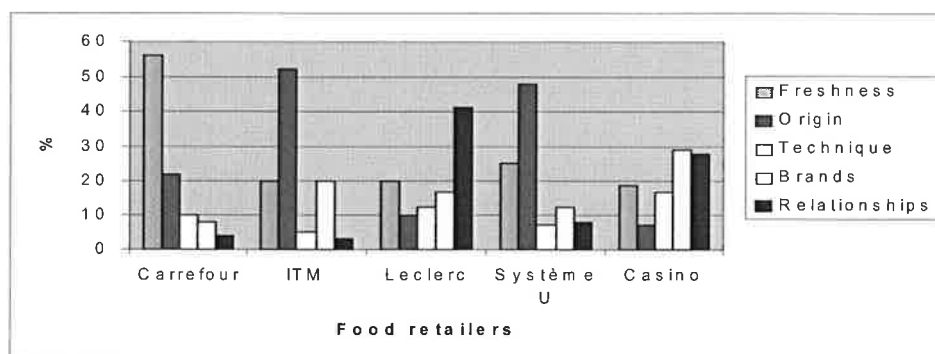


Figure 6 : Communication criteria

Overall, 40 stores (63%) believe that freshness is the first criterion to base communication on ; only 16 stores put that criterion in second place. Likewise, 34 stores put the geographic origin of fish in second place.



## Conclusion

That study revealed the existence of a real coordination problem between the actors of the channel, detrimental to the development of added value for coastal fisheries. That is mainly due to the divergence of interest between upstream and downstream actors. Fishermen seek the highest possible prices for unprocessed raw material rather than their integration into the organised channel through contracts with their various partners. But consumer demand is increasingly turning to processed products with value added.

Analysing other participants' valorisation practices (wholesalers, distributors and fishmongers) confirmed the above observation, in general terms as well as for each of the species studied. Global valorisation research with adequate marketing tools is still missing in that channel.

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