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# Support for Farmers' Cooperatives

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## *Case Study Report* **ZON-UNICA Partnership**

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## **Preface and acknowledgements**

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives (SFC)”, in order to provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, by the European Commission, and by national and regional authorities in their effort to encourage and support the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project, this case study report on the international collaboration between ZON Fruit & Vegetables and the UNICA Group has been written.

Data collection for this report has been done in the spring of 2012.

In addition to this report, the SFC project has delivered 33 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

The authors would like to thank the directors and managers of ZON Fruit & Vegetables and of UNICA Group for their willingness to collaborate in this project and to share information on structure and strategy of their cooperatives.

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## List of abbreviations

APO	Association of Producer Organisations
BoD	Board of Directors
CAP	Common Agricultural Policy
CMO	Common Market Organisation
DPA	Dutch Produce Association
F&V	Fruit and Vegetables
GA	General Assembly
PO	(recognized) Producer Organisation
OP	Operational Programme
S.A.T.	Sociedad Agraria de Transformación
S.C.A.	Sociedad Cooperativa Agraria
ZON	ZON Fruit & Vegetables

# **1. Introduction**

## **1.1 Objective and research questions**

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, including from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives”, that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In the framework of this study, this report provides information on the strategic alliance between the Dutch cooperative ZON Fruit & Vegetables and the Spanish cooperative UNICA Group.

Instead of going international themselves, cooperatives may set up close collaboration with cooperatives from another country. Several European cooperatives have set up collaborations with cooperatives in other countries. Such collaboration can be in the form of a strategic alliance or a joint venture.

Particularly in the Fruit and Vegetables (F&V) sector, the number of collaborations among nationally based cooperatives has been increasing, partly due to the support from the EU policy on (Associations of) Producer Organisations.

One of the collaborations that has been operating for several years now, is the strategic alliance between ZON Fruit & Vegetables and UNICA Group, cooperatives in the Netherlands and Spain respectively. This exemplar case for collaborations in the F&V industry in order to improve the competitiveness of the farmers, will give some valuable insights into the effect of both EU and national/regional policies on (international) collaborations. Furthermore, the manner in which the organisations deal with differences regarding structure, markets and culture, will improve our understanding of the success factors for international collaboration.

Although farmers are encouraged to form Producer Organisations in order to increase their bargaining power, very little research has been conducted into the effect of EU policies on the establishment of international collaborations between cooperatives. Therefore, this report attempts to address this knowledge gap and to give recommendations on how EU, national and regional policies may support the creation of international collaborations.

In this case study, the following research questions have been guiding the research. First, what have been the main reasons for the national-based cooperatives to set up international collaborations? Second, what are the similarities and differences in the external environment of the two cooperatives, both in terms of the sector and country they are embedded in and in terms of their main destination markets? Third, what are the differences and similarities in the internal governance, the strategies and the culture of the cooperatives. Fourth, what were the main reasons for starting this strategic alliance? Fifth, what policies at regional, national or EU level have been effecting, positively or negatively, this international partnership between two cooperatives in the F&V industry.

## **1.2 Analytical framework**

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and

(c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

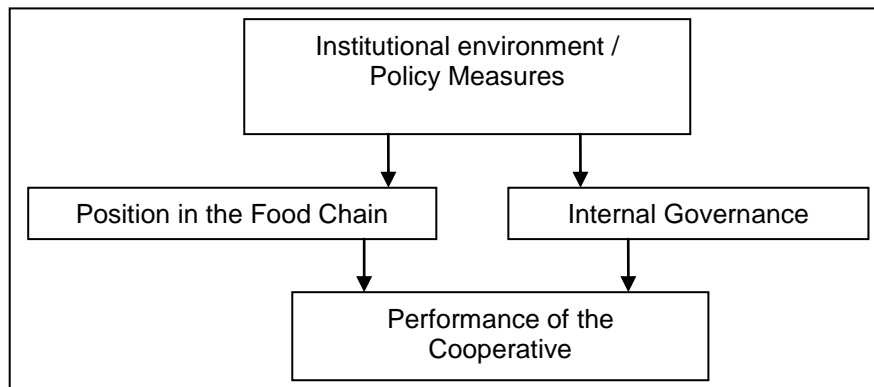


Figure 1. The core concepts of the study and their interrelatedness

### 1.3 Method of data collection

The case study is based on multiple data sources. First of all, secondary data was used such as academic literature, country reports of the Support for Farmers' Cooperatives project, popular press and electronic media, various archives and other sources of information.

Additional information has been collected through personal interviews with various co-operative stakeholders. For this particular study, board members and managers of both ZON Fruit & Vegetables and the UNICA Group have been interviewed, as well as other stakeholders such as Coexphal, the Spanish organisation of fruit and vegetables exporting cooperatives from Almería. Standard techniques and approaches used in case study research were used in order to maximise reliability and avoid biases.

### 1.4 Motives for strategic alliances

To get a full understanding of the international collaborations between cooperatives, we will first give a short review of the incentives and strategies for international collaborations.

Strategic alliances are motivated by a combination of external and internal drivers (Child et al., 2005). The following external factors induce firms to seek strategic collaborations:

- turbulence in world markets and high economy uncertainty;
- the existence of economies of scale and/or scope as competitive cost-reducing agents;
- the globalization or regionalization of industries;
- the globalization of technology;
- fast technological change leading to ever-increasing investment requirements; and
- shortening product life cycles.



Concerning the F&V industry, some of these external factors seem to play an important role (Neven and Reardon, 2002). Consumer demand has changed over the last decades; lifestyles have become both more diverse and more health conscious, and end consumers want to be able to choose from a wide variety of fresh fruits and vegetables all year round. In addition, concentration and globalization of food retail companies have made these players more powerful. To create value for their customers, retailers seek suppliers that not only can guarantee a year-round supply of a diversified set of F&V, but also can guarantee sufficient and uniform quality of the products. Other factors might originate from the supply side. Trade liberalization, and technology developments that enable more efficient communication, information processing and cold chain logistics and packaging, have changed the competitive environment in which individual firms need to survive.

Motives for collaboration can also come from the internal objective of strengthening the competitive advantage of the companies. Companies seek strategic benefits by creating economies of scale, gaining access to other's tangible and intangible resources, and reducing risk by sharing it. As a response to developments in their market environment, organizations in the F&V industry seek collaboration in order to obtain one or more of the following benefits (Neven and Reardon, 2002):

- improved technology, managerial skills or logistical infrastructures;
- increased scope of operations (more products, more locations); or
- increased scale of operations (market share, size).

Organizations that choose to collaborate for one of these reasons, have to select a partner that meets their needs. In other words, the potential partners need strategic fit. The organizations need to be complementary to each other, whether it concerns their assets or capabilities, and need to be able to create synergies from their complementarity. Furthermore, cultural fit has been described as essential for the operation of the alliance. Differences in both national and corporate cultures could lead to relatively simple misunderstandings or to fundamental conflicts in values (Child et al., 2005). Developing an understanding of the partner's beliefs and behaviour and setting up unitary management processes, might overcome any cultural diversity problem (Parkhe, 1991).

Inter-organisational collaborations exist in a wide range of forms, which usually differ in their level of integration. Firms may choose to develop a contractual partnership, or may set up a totally separate entity, which is most often referred to as a joint-venture (Kale and Singh, 2009). Successful examples of contractual partnerships are the Japanese supplier-buyer relationships (also referred to as keiretsu models); R&D collaborations in pharmaceuticals and biotechnology; multi-firm consortia in the construction industry; and the strategic alliances in the airline industry (Child et al., 2005; Dyer, 1996). Joint ventures are more often observed in medium and low technological industries, such as the food and beverage sector (Hagedoorn, 2002).

## **1.5 International collaborations between cooperatives in the European F&V industry**

At the moment of writing this case study report (mid 2012), the number of international collaborations among European F&V cooperatives is still low. However, the number has been increasing over the last decade. Several international collaborations have been induced by the opportunities provided by the European policy on the Common Market Order for F&V. Other collaborations have emerged independently from the EU policies. In this section we briefly describe three examples of international collaborations. All three have been formalized in an Association of Producer Organisations (APO) with international members.

### *FINAF*

An example of joint venture organized in an APO is Italy-based First International Association of Fruit (FINAF). It was founded in 2001 by an Italian PO consortium APO Conerpo, and the French PO Conserve Gard. In February 2012 it merged with the Italian APO Gruppo Mediterraneo, and it is now one of the largest APOs in Europe, with a marketing production of nearly EUR 1,4 billion and 22 member POs. Approximately 15,000 growers from Italy and France belong to this new APO and they grow over 100 different fruit and vegetable products, representing 27% of Italy's pear crop, 20% of its kiwifruit, 14% of its peach and nectarine output, and 25% of its processed tomato crop. FINAF manages the EU and national subsidies for Operational Programmes of the member POs. The members of FINAF have the opportunity to bring their own production into an integrated system that uses over 80 associated structures (Bono, 2011).

### *EFC*

Another international collaboration between F&V cooperatives is the European Fruit Cooperation (EFC). The EFC was set up as a cooperative venture between Veiling Haspengouw in Belgium, Koninklijke FruitmastersGroep in the Netherlands and WOG (Württembergische Obstgenossenschaft) Raiffeisen e.G. in the south of Germany. All three POs hold one third of the shares. EFC, as a cooperative company with limited liability, was founded in 2002 in Belgium in order to provide an adequate answer to the increasing internationalization of the fruit trade.

EFC is also an APO, and it works for approximately 2,000 fruit producers who together represent a yearly turnover of EUR 460 million. The EFC also organises the production of propagation material and trees of new varieties worldwide. In 2005, EFC acquired the worldwide licensing rights for two apples varieties, namely Nicoter cov and Nicogreen cov, which are being marketed under the trademark names Kanzi® and Greenstar®.

### *In-Co*

Another example of a joint venture between cooperatives in Belgium and the Netherlands is In-Co, also an APO. Being a second tier cooperative established in 2006, In-Co markets mainly strawberries, tomatoes, capsicums and cucumbers. Initially three auction cooperatives were involved: Veiling Hoogstraten and the Profruco auction from Belgium and CLTV Zundert from the Netherlands. However, Profruco merged with Belgische Fruitveilingen after which only Veiling Hoogstraten and CLTV Zundert remained. In 2010 In-Co reached a turnover of EUR 157 million. Next to the development and execution of an Operational Programme, In-Co is pooling resources such as packing machines, integrating administrative systems, jointly organising training, and centralising communication to producers.

## **1.6 Structure of the report**

Chapter 2 and 3 of this report are aimed to provide a full picture of respectively the Dutch and Spanish fruit and vegetable sector, as well as a description of the two cooperatives under study. The sectors and cooperatives will then be compared to each other in chapter 4. In addition, this chapter also describes the strategic alliance that the two cooperatives have established. Finally, in chapter 5 conclusions are drawn on the effect of the European, national and regional policy measures on the development and operation of the ZON-UNICA collaboration.

## 2. Netherlands F&V sector and ZON Fruit & Vegetables

This chapter first provides an overview of the Dutch fruit and vegetable sector, by describing the production, trade, and market of F&V, and finally the relevant policy measures. It then continues with a description of the Dutch cooperative ZON Fruit & Vegetables.

### 2.1 Sector description of the Netherlands

In this first section of the chapter, a description of the Dutch sector will be provided. In addition to a description of the supply chain, divided into production, trade, and market, the main developments and policy measures will be discussed.

#### 2.1.1 Production

The Fruit and Vegetables (F&V) sector is an important part of Dutch agriculture. F&V represent 2.8 billion euro production value at farm gate prices. This figure excludes the value of potato production, which is another 1.2 billion euro (Bijman et al., 2011). In Figure 2, production of 2005 – 2010 is represented. Although fruit production has remained relatively stable, vegetable production has increased slightly to over 4 million tonnes in 2010 (Van den Berg et al., 2011). Among producers of vegetables, a distinction should be made between greenhouse growers and open air growers. The main greenhouse vegetables are cucumber, tomato and sweet peppers. Although the greenhouse growers account for 36% of all fruit and vegetables production in kilos, their share in the total production value is much higher (56%) (Van den Berg et al., 2011). Producers of open ground vegetables often grow different vegetables, for instance combination of leek with cauliflower and carrots. This group also includes arable farmers that produce vegetables for the processing industry, such as beans, peas, beets or spinach (Bijman et al., 2011).

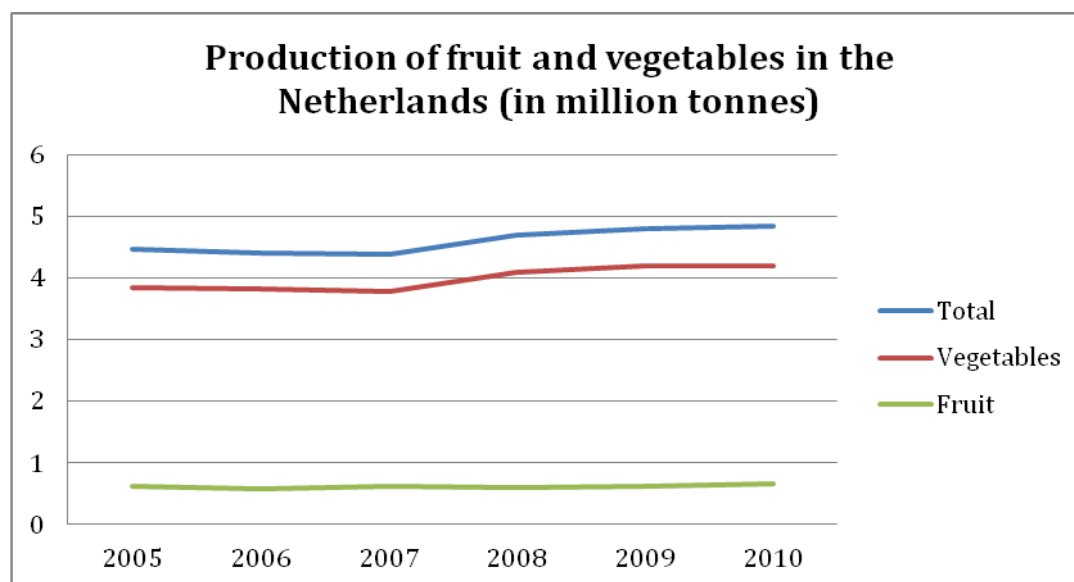


Figure 2. Production fruit and vegetables in the Netherlands (in tonnes)

One of the most striking developments is the increasing scale growth of the F&V industry. First, the number of greenhouse growers has decreased with 52% to 1,210 in the period 2000 – 2011, while their average size increased with 19% to 4 ha. in the same period. Secondly, the open ground growers went through a similar development, with a decline in the number of (specialised) farms of 40% to 1,030 in 2011. Their average size increased with 21% in the

period 2000 – 2011 to 14 ha. Finally, the number of (specialised) fruit growers declined as well, with 28% to 1,680 growers in the period 2000 – 2011, in conjunction with an increase in the average size to 10 ha. in 2011 (De Bont et al., 2011).

One of the crops in which scale growth is most explicit is tomato. While in 2000 more than 80% of all production took place on farms with a maximum of 5 hectares, in 2008 farms with less than 5 hectares accounted for only 35% of production. Even 40% was on farms larger than 15 hectares. Farmers more and more produce year-round, with the help of growth light in the winter season. Year-round production is important for those farmers that have a close relationship with a particular retailer and want to supply tomatoes year-round to this retailer (Bijman et al., 2011).

European producers of F&V are experiencing increased competition from countries outside of the Union. Temperate climate fruits are imported from the Southern hemisphere countries like Chile, South Africa and New Zealand, particularly in the European winter season, but even beyond this season. In fresh vegetables like beans and peas the European producer has found significant competition from African producers, both from West-Africa (e.g. Senegal), East-Africa (Kenya and Ethiopia), North Africa (Morocco, Egypt) and Turkey (Bijman, 2011).

## 2.1.2 Trade

### *Import and export*

The Netherlands is an important trade country for the international F&V industry. In the period 2006 – 2010, imports of fruit and vegetables increased with respectively 3% and 5%. The Netherlands also increased its exports, with a growth of 6% for fruit and 5% for vegetables (Van den Berg et al., 2011).

Including re-exports, 84% of all greenhouse product supply is exported to mainly EU countries (Bunte, 2009), as is also depicted in Table 1. Mainly onions (34%), tomatoes (28%), cucumbers (12%), and capsicums (12%) are exported (only Dutch produce). Concerning Dutch produced fruit, primarily apples (30%) and pears (63%) are sold to foreign markets. Although the Netherlands imports most of its vegetables also from EU countries, a substantial amount of fruit is imported from South Africa and Chile. Citrus fruit is dominating among the imported products, especially oranges (16%), grapes (11%) and mandarins (7%). Also apples (10%) and bananas (8%) are imported, of which apples are mainly destined for re-exports (Frugi Venta, 2010).

Table 1. Major export markets and import countries for the Dutch F&V sector

Export				Import			
Vegetables	%	Fruit	%	Vegetables	%	Fruit	%
Germany	32	UK	18	Spain	35	South Africa	16
UK	14	Germany	17	Belgium	15	Spain	13
Russia	7	Russia	16	Germany	8	Belgium	8
France	5	Sweden	8	France	7	Chile	7

Source: Frugi Venta, 2010

Most of the imported fruit and vegetables are exported again **Error! Reference source not found.** Of the total export from the Netherlands, especially fruit is re-exported (see also Figure 3). From the exported vegetables, approximately 75% is Dutch produce (Van den Berg et al., 2011).

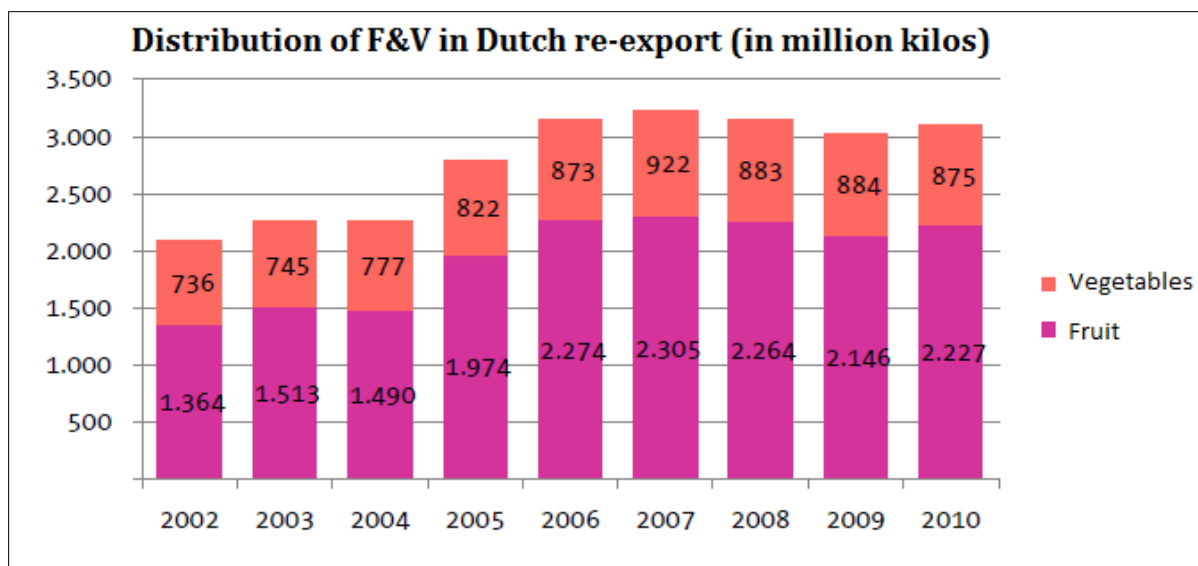


Figure 3. Distribution of F&V in Dutch re-export. Source: Van den Berg et al., 2011.

The importance of re-export in the total export from the Netherlands is also shown in Figure 4. It becomes clear that of the total exported volume fruit and vegetables, approximately 50% is re-export and this share has somewhat increased in the period 2002 - 2010.



Figure 4. Distribution of re-export and Dutch produce in total export from the Netherlands (in million kilos). Source: Van den Berg et al. (2011).

#### *Wholesalers and other intermediary traders*

In the Netherlands, intermediary traders exist in the form of wholesalers, exporters, importers and producer organisations. The latter will be discussed separately. Traders might also combine domestic trade, import and export activities. The main functions of intermediary traders are as follows:

- Matching supply and demand, which saves time and transaction (search, information and contracting) costs for both parties.
- Providing logistic services, such as sorting, packing, transporting and inventory management.

- Assuring quality and food safety.
- Transfer of market and production knowledge to suppliers and buyers respectively.

The number of intermediary traders has remained relatively stable during the last 10 - 15 years, around 1,100 – 1,200 firms (Van den Berg et al., 2011; Van der Noll et al., 2010). This number includes firms at which the trading activities are not the core activities. The actual number of traders that have specialised in this business is therefore lower.

There are many different supply chain structures. The traders (including wholesalers, importers and exporters) not only source their products from the growers directly, but also from POs or other traders. This internal market between traders arises from over supply, shortages or specialisations (Van der Noll et al., 2010). For example, traders that cannot sell certain products to their regular customers due to unexpected lower demand, may try to sell these products to other traders. Also, some traders are specialised in certain product groups, whereas others offer a diversified set of products. When the latter cannot source its full assortment from its regular growers, it may choose to buy from a specialised trader. This internal market could also cross national borders, in case exporters or POs sell their products to importers or wholesalers in another country. These different product streams between all kinds of organisations within the chain, makes the market among traders slightly non-transparent.

There is strong competition in this part of the chain (Van den Berg et al., 2011). Over 20% of all traders are relatively small firms, with a turnover less than EUR 0.5 million a year. Of the larger firms, approximately half are wholesalers that focus on the domestic market, a third are exporters and the other firms are importers (HBAG, 2009). When European figures of 1996 – 2003 are compared, the number of wholesalers has also remained stable in most EU countries. Only the number of wholesalers in Italy decreased, and the UK and Poland had a significant increase (Tacken et al., 2007).

Although the number of wholesalers remained stable, this part of the supply chain on European level is characterized by increasing consolidation and internationalisation. For instance, Total Produce (Ireland) acquired Haluco (NL) for 60% in 2008 and created a Joint Venture with Frankort & Koning (NL) in 2011 in order to improve their access to the European market (Verheul, 2011). During the last 10 years, also UNIVÉG Group has gone through a significant internationalisation. The Belgian firm acquired and merged with several traders from different European countries, such as Bakker Barendrecht (NL), Alara (TR), Bocchi Group (IT), Katopé Group (FR) and Atlanta AG (DE). However, last year the firm announced a reorganization, including disinvestments in its flower and plant activities and a separation of its overseas production facilities into a new entity for which additional investors are approached. In the Netherlands, Staay Food Group strengthened its trade activities with the acquirement of Hispa Fruit and its production facilities with the acquirement of Savasun Fresh, a citrus plantation in Argentina. Another example is German agricultural giant BayWa's takeover of a majority shareholding in New Zealand fresh produce exporter Turners & Growers (T&G). Main reasons were the possibilities for year-round supply of products and access to other markets, such as Asia. This trend is in line with the concentration and internationalisation of the retail industry. Since the retailers want to rely to a greater extent on a small number of traders, e.g. in the form of full service-provider or preferred suppliers, the traders need to consolidate in order to provide a diversified assortment all year-round for a good price.

The size (in turnover) of the Dutch wholesalers is relatively large compared to other European countries. However, compared to the size of the largest retailers in Europe, the wholesalers are much smaller, which has a negative effect on their competitiveness. The size of the wholesalers is much more in line with the specialised retailers (Tacken et al., 2007).

## Cooperatives

In the Dutch fruit and vegetables industry, the majority of products is sold through cooperative marketing organisations. All of the major fruit and vegetable cooperatives are registered producer organisations under the EU/CMO regulation (and all of the approved POs are cooperatives). In 2000, there were 14 formally registered POs, accounting for about 70% of all fruits and vegetables sold in the Netherlands (Bijman, 2002). In 2009 there were 21 officially registered POs in the Dutch fruit and vegetables industry, while this number reduced to 19 in 2010 (due to mergers). The total value of products marketed by these POs was 2,345 billion euro. This represent approximately 95% of the production value of all fruit and vegetables produced in the Netherlands (Bijman, 2011).

One of the major developments in the Dutch F&V sector, is the declining importance of the auction clock as a market place for the daily supply of fresh produce. In the 1990's, the market was characterized by many suppliers and many buyers, or in other words perfect competition. The auction clock was therefore a very efficient and transparent pricing mechanism. However, the retail began to concentrate, wanted to move from a spot market to contract-based sourcing, and required more differentiated products. As a response, the cooperatives reduced the role of the auction clock in their activities, as is also shown in Figure 5. These days, approximately 5% of all fruit and vegetables is traded through the auction clock (Bunte, 2009).

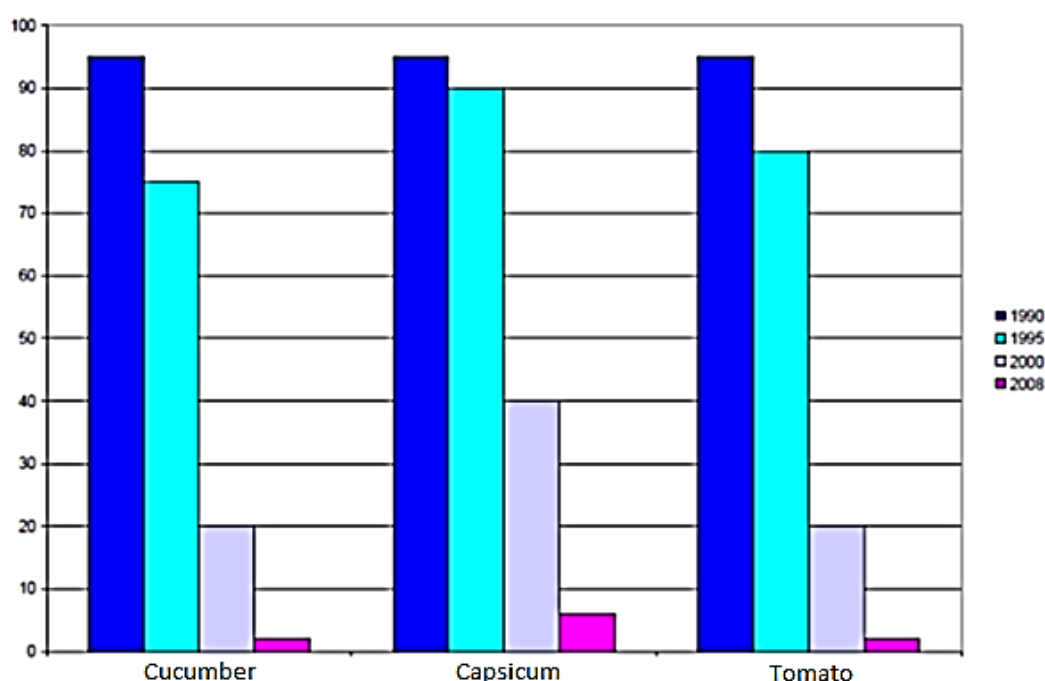


Figure 5. Market shares of auction clock in F&V industry in the Netherlands (Source: Bunte, 2009).

Until recently, no second tier cooperative existed in the Dutch F&V industry. Instead, there was a structure of multi-level organisations, which is still common practice. Growers of the same product often have set up so-called growers associations. Within such an association, growers collaborate for product innovation, process innovation, and joint input purchasing. They may also have a jointly owned packaging station. The actual marketing of the products is done by the large F&V marketing cooperatives, such as Coforta/The Greenery, FresQ, or ZON. Because growers are members of both a small grower's association and a large marketing cooperative, this structure is not the same as the first – second tier cooperative structure (Bijman, 2011).

In the last decade, many discussions have taken place between different producer organisations about closer collaboration in sales, as well as about establishing Associations of Producer Organisations (APO). Discussions about collaboration, in a new joint organisation or even in a merger, have taken place between Fruitmasters and Coforta/The Greenery, between Fruitmasters and ZON, between Coforta/The Greenery and Funghi, Coforta/The Greenery and FresQ, Coforta/The Greenery and BGB. Partly due to barriers set up by competition authorities, only one APO has been established. Kompany was set up in 2009 by ZON Fruit & Vegetables, Komosa and Sun Quality, for the collective marketing of cucumbers. In 2011, BGB joined Kompany, the latter now being responsible for the sales of 47% of all cucumbers produced in the Netherlands (Bijman et al., 2011).

## 2.1.3 Market

### *Retail*

In the Netherlands, supermarkets have become more and more dominant in the retail channel for F&V, as is shown in Table 2. Similar to other North European countries, Dutch retailers are highly concentrated. The top 5 supermarkets had a 66% share of the food market in 2007. The purchasing power of supermarkets is actually larger, as only 3 purchasing organisations account for 73% of all food purchases (Bunte, 2009). With a 34% market share, Albert Heijn is the largest supermarket (Frugi Venta, 2010). After its acquisition of C1000 in 2011, Jumbo reached a market share of 23% and became the second largest supermarket in the Netherlands (Seegers, 2011). The concentration of the retailers and their purchasing organisations makes them very powerful chain actors. It has led to lower prices and strict quality standards, but probably also to greater product innovation and more efficient chains (Bijman, 2011).

Table 2. Market shares retail for fresh fruit and vegetables in the Netherlands 2002 - 2010

	<b>Fruit</b>		<b>Vegetables</b>	
	<b>2002</b>	<b>2010</b>	<b>2002</b>	<b>2010</b>
<b>Supermarkets</b>	63%	71%	74%	82%
<b>Specialised retail</b>	15%	14%	12%	9%
<b>Markets</b>	16%	11%	9%	5%
<b>Non-retail</b>	4%	3%	2%	2%
<b>Other</b>	2%	1%	3%	2%

Source: Hoofdbedrijfscap Detailhandel (2012)

Also in Europe, the supermarket channel is becoming more concentrated. The fifteen largest supermarkets are accountable for an estimated EUR 515 billion turnover (total assortment) and a market share of 65% - 75% of all F&V purchases in European supermarkets. Most of these supermarkets are operating in 5 - 10 countries, including Eastern European countries (Frugi Venta, 2009).

The concentration and dominance of supermarkets in the sales of F&V to consumers has effect on the functions and structure of the wholesale companies that supply these supermarkets. Retail companies prefer to trade with a limited number of preferred suppliers. Thus, wholesalers are competing among each other to become preferred supplier. Also, retailers want their suppliers to be able to supply year-round a broad category of products, including seasonal products available off-season. Finally, retailers want large quantities of uniform products, in order to be able to sell the same products in all of their stores (Bijman, 2011). However, retailers may also decide to pursue a vertical backward integration strategy, by excluding the wholesalers from their supply chain, as recently announced by a major UK retailer (Verheul, 2012b).



About 40% off all fresh vegetables sold in supermarkets was processed to some extent (e.g. cut, washed, ready-made) (Frugi Venta, Annual Report 2010). Most vegetables sold through the supermarket segment are produced in the Netherlands (89%), while most fruit is imported (82%) (ING, 2010).

### *Consumption*

Concerning consumption, the average number of kilos vegetables per household has been stable over the period 2005 – 2010, as shown in Table 3. This table also shows that the average number of kilos fruit per household has decreased with approx. 7%, while vegetable consumption remained relatively stable (Productschap Tuinbouw, 2012). One of the major developments on the demand side is the increasing demand for a diversified set of products (convenience, health and taste).

Table 3. Household consumption F&V in the Netherlands 2007 – 2010 (kilos/person)

<b>Product</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Vegetables	74.1	73.3	73.2	72.5	74.0	72.4
Fruit	94.5	96.2	95.6	89.6	89.1	87.8

Source: Productschap Tuinbouw

## **2.1.4 Policy measures for Dutch cooperatives**

According to the National Strategy of the Netherlands, POs have to prioritise the following (Ministry of Economics, Agriculture and Innovation, 2011):

- product innovation;
- mechanisation;
- environment;
- scale growth and collaboration;
- planning of supply and demand;
- prevention of crisis;
- PR and promotion.

To execute their Operational Programmes, the POs in the Netherlands receive EUR 80 – 100 million yearly (Verheul, 2012a). According to Frugi Venta (2010) these CMO subsidies are mainly used for investments in buildings, sorting and packing installations, cooling cells, and other logistical facilities to improve the efficiency and reduce the cost price. However, other intermediaries such as traders, importers and exporters, also have invested in similar facilities. Therefore, they conclude that the CMO subsidies are not used for the purposes they are meant for, namely to improve the competitiveness of the growers in relation to the international retailers by stronger collaboration in the chain and more promotion of F&V (Frugi Venta, 2010). Less than 10% is spend on marketing, promotion, chain collaboration and innovation (Ministry of Economics, Agriculture and Innovation, 2011). Several organizations, including Frugi Venta, DPA and LTO, have requested the Ministry of Economics, Agriculture and Innovation to adapt the National Strategy to let producers spend at least 10% of the Operational Programme (including their own investments) on promotion, innovation and collaboration. Although the National Strategy has not been changed, the involved organisations reached an agreement on this issue (Frugi Venta, 2010). More performance indicators for each goal of the National Strategy are likely to be developed by Dutch government in order to evaluate whether these goals are actually achieved (Ministry of Economics, Agriculture and Innovation, 2011).

## 2.2 ZON Fruit & Vegetables

### *Description and history*

ZON Fruit & Vegetables (will be referred to as ZON from hereon) is a Dutch cooperative, founded in 1915. It is a marketing and sales oriented cooperative, selling mostly peppers, tomatoes, asparagus, leeks, cucumbers, strawberries, chicory/radicchio and blueberries. In 2011, its revenue amounted EUR 326 million (2010: EUR 334 million) and the cooperative had 354 (farmer) members at the 1<sup>st</sup> of January 2012 (2011: 377)<sup>1</sup>. Based on its turnover of 2010, ZON is the third largest F&V cooperative in the Netherlands.

Before 2000, ZON was a second tier cooperative with 27 member cooperatives, of which the majority were fruit and vegetable cooperatives. However, in 2000/2001 ZON restructured its organisation from a second tier cooperative to a first tier structure. ZON recognized that more vertical coordination and collaboration was required in order to deal with market challenges such as the increasing heterogeneity between producers, power of the retailers, stronger competition and stricter quality and safety requirements. By means of restructuring, the growers would become more involved in the decision-making processes. In addition, the commercial activities were strongly affected. While the auction clock was one of ZON's main activities before the restructuring, ZON decided to diminish this activity and, instead, focus on providing services for which several subsidiaries were set up. As a result of this restructuring, growers nowadays have organized themselves in growers' groups or growers' associations, concentrating on one crop. Some groups have developed their own marketing strategy and rely on the services provided by ZON subsidiaries for the actual realisation of the strategy (Bijman, 2003).

### *Strategy*

As to the actual selling of the growers' products, ZON used different sales mechanisms. Although the figures for the different products may range from 5% – 80%, on average approximately 30% of all produce is still sold via the auction clock. ZON has developed a specific auction clock policy, in order to increase the effectiveness of this instrument. In contrast to earlier years, it now targets specific products and customers which are most appropriate for the clock. Most produce is sold through contracting (55%) and another 15% is sold directly to European retailers (including their service providers). One of the strategic goals of ZON is to increase the percentage of sales directly to retailers. In addition to the sales activities (direct and through an auction system), ZON also provides its members marketing, logistics and packing services.

The main customers of ZON are the retailers and wholesalers, in the Netherlands, Germany, England, Belgium, Scandinavia, and Eastern-Europe. ZON wishes to retain its profile as a complete service provider. It aims to advance the harmonization between supply and demand, specifically the quantities and the number of varieties, in order to improve the competitiveness of the growers and realize better prices. It will further develop its marketing and sales activities, of which promotion and product innovation are essential to create added value (ZON, Annual Report 2010).

According to ZON, the European market is becoming less attractive because of lower population growth and a decline of fruit and vegetable consumption. Due to new competition from countries which have lower production and human capital costs, creating a competitive advantage through cost efficiency is largely impossible. Therefore ZON pursues a differentiation

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<sup>1</sup> Press release at [www.zon-business.com](http://www.zon-business.com) of 18 January 2012

strategy, by focussing more on branding, and it will also develop R&D activities. ZON has also invested in a fruit juice production facility, previously owned by the Royal Fruitmasters Group.

By means of Fresh Park Venlo, ZON also has its own business park. Its main activities include the construction, renovation, renting and management of the facilities on the park and its users. In addition, it is continuously searching for other business activities that contribute to the development of the business park. Different kind of companies from the fresh products industry are located in Venlo, which enables the clustering of related activities and knowledge.

#### *European and national policies*

The total CMO investments, including the investments from the growers, amounted EUR 6,3 million in 2010 (ZON, 2010). In 2011, ZON has invested approx. EUR 10 million, of which 50% is financed by the CMO. The major investments of the last few years are a sorting machine for capsicums, the acquisition of Sun Berry International, the acquisition of a fruit juice production facility and some other investments on the site of ZON and Fresh Park Venlo. ZON (among others) agreed with the Dutch Produce Association to aim for a minimum of 10% which is spend on marketing activities.

ZON has explored its options to merge with other cooperatives (Royal Fruitmasters Group) to improve its market position. However, due to differences in marketing and sales strategies, the attempts to collaborate failed. ZON also considered to establish an APO, but the current legislation seems to hinder this possibility (Heijboer, 2010).

#### *Internal governance*

The Board of Directors (BoD) consists of five members, with at least one representative from the open ground growers and one from the greenhouse growers. The members of the BoD of the cooperative are also member of the Board of Commissioners of the ZON Holding, together with two external commissioners. The membership of the BoD usually lasts for 4 years, but re-election is possible twice.

In the General Assembly, members have proportional voting rights according to their trade value with the cooperative.

### 3. Spanish F&V sector and the UNICA Group

This chapter provides an overview of the Spanish fruit and vegetable sector, by describing production, trade and market, followed by the identification of relevant policy measures. It then continues with a description of the Spanish cooperative UNICA Group.

#### 3.1 Sector description of Spain

In this first section of the chapter, an overview of the Spanish sector will be provided. In addition to a description of the supply chain, divided into production, trade, and market, main developments and policy measures will be discussed.

##### 3.1.1 Production

The Spanish fruit and vegetable sector (production, transformation and commercialization) is the second largest in Europe behind that of Italy and the first in worldwide exports. In 2010, it represented 38% of final agricultural production and more than 60% of final vegetable production (MARM, 2010a). The role of cooperatives is extremely important, representing approximately 50% of the market share (Giagnocavo and Vargas-Vasserot, 2011).<sup>2</sup>

The surface area dedicated to fruits and vegetables has experienced a slight decline in recent years while the area dedicated to citrus has increased in the last decade. Within the fruit sector, dried fruits and nuts represent the largest area, in excess of 60% of the total. The production of vegetables has been increasing progressively until 2005, after which it declined, picking up again in 2009 with a production close to 14 million tonnes. Production levels of fruits have also been fluctuating over the last 10 years, with a yearly production of 9 – 11 million tonnes (Giagnocavo and Vargas-Vasserot, 2011). Production levels of fruit and vegetables are also depicted in Figure 6.

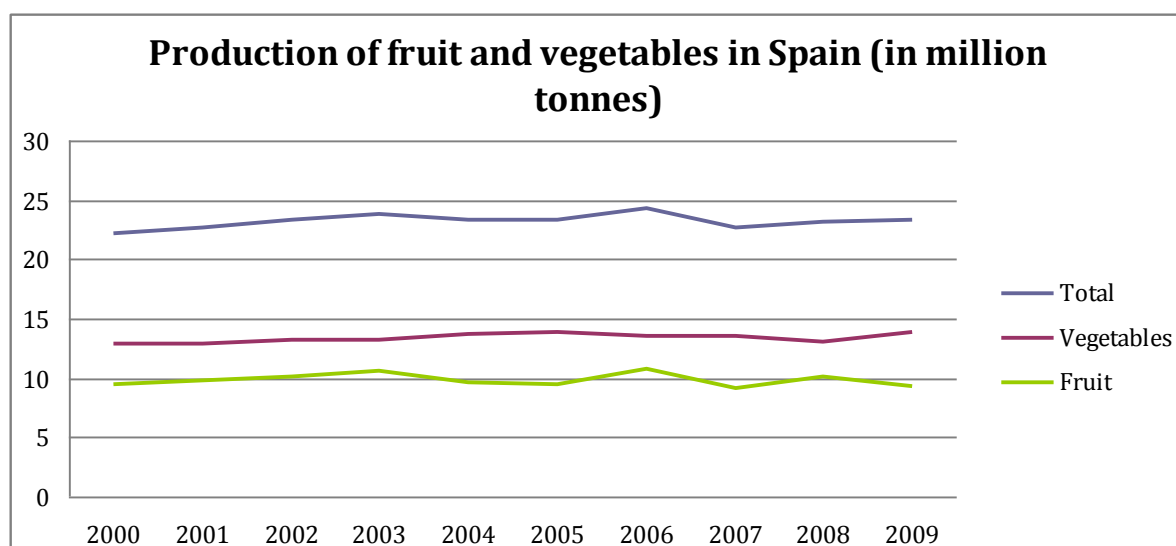


Figure 6. Production of fruit and vegetables in Spain.

<sup>2</sup> Cooperativas Agroalimentarias, as the source for the market share.

The sector is made up of predominantly small farms, although in the last few years there has been a decrease in the number of farms and an increase in farm size, principally due to mergers and concentration. Such mergers are both an attempt to gain market power and to join forces and share risk in the face of the necessity to make major investments in technology. The “atomization” of the sector contrasts with the growing power of distribution entities which exert constant pressure on obtaining uniform products in terms of quality, ripeness and precision in the supply (Giagnocavo and Vargas-Vasserot, 2011).

### 3.1.2 Trade

#### *Import and export*

In Spain, approximately half of all production is exported. During the last three years, the export volume of F&V has increased by 15% (Giagnocavo, 2011).

The main markets for Spanish produced fruits are shown in Table 4. Total value and volume of imports of fresh fruits and vegetables in Spain are relatively small. Major import items include beans (15%), tomatoes (11%), asparagus (6%), and garlic (5%). Major fruits imported into Spain are apples (16%), kiwis (13%), bananas (9%), and oranges (9%) (FEPEX, 2011).

Table 4. Major export markets and import countries for Spanish F&V sector

<b>Export</b>				<b>Import</b>			
<b>Vegetables</b>	<b>%</b>	<b>Fruit</b>	<b>%</b>	<b>Vegetables</b>	<b>%</b>	<b>Fruit</b>	<b>%</b>
Germany	24	Germany	22	Morocco	30	France	14
France	17	France	20	France	27	Chile	14
UK	16	UK	12	Peru	10	Italy	10
The Netherlands	11	Italy	7	The Netherlands	7	Belgium	7
Italy	6	The Netherlands	7	Portugal	5	The Netherlands	6

Source: FEPEX (export figures, representing 2011) and APEDA Agri Exchange/EUROSTAT 2007 (import figures, representing 2006).

In the German market, Spanish capsicum and tomato suppliers face strong competition from Dutch suppliers. In the period November – March, Spain supplies over 50% of all capsicums, and during the rest of the year the Netherlands is the main supplier for this market. Prices for capsicums from the Netherlands also tend to be higher than for Spanish produce, while the price of capsicums from Israel are comparable to the Spanish produce. Concerning tomatoes, Germany imports mainly from Spain during the months of December to March and during the rest of the year from the Netherlands. Even during the period in which Germany’s main imports are from Spain, the Netherlands is still the strongest competitor by re-exporting produce from Israel (Hortifruta, 2009/2010).

Imports have increased significantly. During the period 1996 – 2004, imports of vegetables in Spain increased by approximately 15% per year (Tacken et al., 2007). According to MARM (2010b), between 2000 and 2009 imports have increased by 83%. The main growth occurred between 2004 and 2006 increasing more than 15% annually and between 2007 and 2009 increasing more than 30%.

Table 5: Imports of fruits and vegetables (tonnes).

	Fruits	Vegetables	Citrics	Total
2000	488,899	131,108	155,623	775,630
2001	476,620	142,655	113,769	733,045
2002	371,431	196,707	247,933	816,072
2003	361,194	243,362	159,899	764,455
2004	413,967	275,845	236,195	926,007
2005	419,919	419,424	237,028	1,076,371
2006	458,136	486,419	283,180	1,227,735
2007	460,064	409,534	207,304	1,076,902
2008	569,444	612,813	252,108	1,434,365
2009	562,445	577,474	280,100	1,420,019

Source: MARM (2010b)]

#### *Wholesalers and other intermediary traders*

According to Camanzi et al. (2009), the supply chain for F&V in Spain is fragmented. The fresh produce industry still includes many other economic agents, like small traders, wholesalers, transport companies, processing firms and import/export companies.

There are two distribution channels in relation to origin: the alhóndigas or auctions and the fruit and vegetables terminals. In Almería in 2008, the latter represented 60% and the alhóndigas 40%. In the alhóndiga system the farmers bring in their product independently, without a contractual relationship with the company. There is a daily auction with multiple buyers and in this way alhóndigas serve to group together product and act as intermediaries between the farmers and the commercial distribution, covering a commission in the process (Instituto de Estudios Cajamar, 2004). They have gone through an intense process of concentration since the end of the 1990s and only a dozen or so still exist, the majority in Almería (Ferraro and Aznar, 2008). Alhóndigas also offer diverse services to the farmer related to planning, advising and supply of inputs (Instituto de Estudios Cajamar, 2004). In this model farmers receive payment for their product without knowing the final price which is received by the alhóndiga. However, at times this method is preferred as the transaction and payment is carried out more rapidly and is useful when cash is needed quickly by the farmers.

The second method of commercialization in origin is the sale through F&V terminals. This type of commercialization has many legal forms, often being associative in the form of cooperatives or S.A.T.'s or alternatively through other contractual methods. In this model there is a greater integration of producer and commercial entity in origin (MARM, 2004). These terminals carry out a range of activities including collection from farmers and handling, as well as the necessary logistics to send product to clients nationally and internationally. Packaging also allows the farmers to retain more of the value in the supply chain (MARM, 2009). Cooperatives are beginning to take on extra importance in this type of forward integration through the concentration of offer by way of second-tier cooperatives, whose principal function is commercial. Their advantage lies in the capacity to supply large volumes and a wide range of product to distributors (CAP, 2008). These second-tier cooperatives are often dynamic market players, who invest continually in improving product and increasing added value, with

initiatives in the 4<sup>th</sup> and 5<sup>th</sup> range<sup>3</sup> of processed foods (Martínez and Rebollo, 2008). For more information specifically on cooperatives, please see the next section.

With respect to the commercialization by intermediaries (distributors and wholesalers), in the F&V sector there are two channels: first, the wholesalers who operate through central markets and secondly, the purchasing terminals associated with large distributors. According to MERCASA data (2008) approximately 60% of national production of fruits and vegetables are sold through a network of wholesalers organized in central markets, evidence of the importance of this traditional channel. These wholesalers are found in 23 central markets that exist throughout Spain, where small and medium sized enterprises predominate. They sell principally to traditional stores and are oriented to the national market.

With respect to the second channel, those wholesalers that market large volumes operate with supermarket distribution platforms (CAP, 2008). More than 3,650 companies participate of which 2,200 are wholesalers, while the rest are companies dedicated to complementary distribution activities, logistics or attention to users. However, recently the number of wholesalers has fallen, due to concentration, reducing competition (MARM, 2008).

The purchasing terminals which belong to the large groups of retailers concentrate demand at the distinct points of sale, thus giving them a huge power of negotiation as against the suppliers. This distribution platform receives the product from origin (F&V terminals), manages the orders from the point of sales, prepares the orders and delivers them through their own transport to the various points of sale (MARM, 2009). Generally these terminals establish their own quality standards, both for the product and for packaging and handling (CAP, 2008). These platforms, in general, are cost centres tied to distributors, which means by definition they do not have their own profit objectives, although cases do exist where such distribution platforms have a separate and independent legal identity. The terminals and their related retailers are depicted in Table 6. Principal Spanish terminals in 2010

Table 6. Principal Spanish terminals in 2010

Company	Purchases (M€)	Chains in Destination
Socomo, SA	483	Carrefour
Edeka Fruchtkontor España, SL	337	Grupo Edeka
Zenalco, SA	174	Grupo Auchan
Iberiana Fruch, SA	140	Grupo EMD
Coop. Trading	135	Coop. Norden
Tengelmann Fruta España, SL	45	Grupo Tengelmann

Source: Alimarket, 2011a

### *Cooperatives*

The role of cooperatives in the F&V industry is substantial, with a market share of about 50%. According to EU data, the market share of POs (cooperatives and other legal forms) in F&V sector was almost 58% (PO database 2009). In 2000, this figure was 35%. In 2009, the number of recognized POs was 613, in 2000 it was about 550. Despite the financial support available for POs, not all farmers want to sell through registered POs. From the perspective of some farmers, they wish to maintain the right to decide to sell through auctions and not just through the F&VPPO, which generally does not use such system (CASI is an exception). As well they point to

<sup>3</sup> The range corresponds to the level of processed food; the 5<sup>th</sup> range being the highest, as it is ready to be consumed (e.g. gazpacho). The 4<sup>th</sup> level means it is processed and only needs minimal preparation or cooking.

obstacles which make it difficult to join POs. As well, experts have indicated that not all farmers are willing or able to improve the quality of production processes (including labour conditions). Also not all farmers want their sales to be registered and thus transparent for tax authorities and other state agencies. This issue, of course, is not typical for Spain, as also other Mediterranean countries have a substantial informal economy (Bijman, 2011).

Most F&V are marketed through a multi-tier system of first tier collecting cooperatives and second tier marketing cooperatives. Three out of the five largest F&V cooperatives are second tier cooperatives (Bijman, 2011). The F&V sector is still characterized by high fragmentation of production and trade. However, over the last decade, significant mergers have taken place among F&V cooperatives (Meliá et al., 2010).

Cooperatives and S.A.T.'s principally market the products of the members, whether in their natural state or after being processed (Fundación Cajamar, 2010). Increasingly cooperatives are carrying out warehousing, transformation and marketing tasks as well as selling products (UPA, 2004). Cooperatives in this sector have been the principal instrument of adding value to the farmer's product in commercialization channels (Montegut and Cristóbal, 2005). Advisory, consulting and crop planning services are offered to farmers so that all products comply with client demands in terms of quality, quantity, characteristics and delivery times (Giagnocavo and Vargas-Vasserot, 2011).

The principal competitors of the cooperatives are the private auction houses (or *alhóndigas*, see earlier section on wholesalers and other intermediary traders). They buy product directly from producers and have only a commercial relationship with the individual farmer. One of the problems which arises in the Almería context is that farmers may clandestinely sell production to either auction houses or cooperatives, depending on the necessity for ready cash (Fernández, 2010); in the case of the private auction house, the receipt of cash is quicker. Such short term vision on the part of the farmers does not value the overall cooperative advantage and seriously undermines the common interest (Giagnocavo, 2011).

In Spain, agricultural producer organisations may be constituted under different legal structures and subject to different tax regimes. For example, a cooperative may be constituted under either a specific autonomous community cooperative law or the national cooperative law. A different kind of entity such as the Sociedad Agraria de Transformación/Agricultural Company of Transformation (S.A.T.) also exists. Other more obscure forms are available, such as entities that hold land in common, but they are scarce. Tax laws are national and the cooperatives and S.A.T.s have different tax treatment. The most common form of POs are the Sociedad Cooperativa Agraria/Agricultural Cooperative Company (S.C.A.), set up under regional, as opposed to national, legislative. Almería's oldest and largest POs are S.C.A. (CASI, Murgiverde, Vicasol, etc). However, S.A.T.'s are also a popular form of collective entrepreneurship in Almería. While many of them are small, there are a few large ones that compete in size with the cooperatives (e.g. Bonnyssa and Agroiris). S.A.T.'s are somewhat like general partnerships and regular companies at the same time. Their membership is limited to farmers, farm workers or those with farm related purposes, but their statutes and bylaws allow voting in proportion to share capital when decisions that need to be taken are financial in nature (Giagnocavo, 2011).

The legal and economic regulation of cooperatives present a series of limitations with respect to other types of companies, such limitations stemming for the most part from legal-organizational structures, functional and operative limits and financial limitations. In contrast, the very basic and sparse regulatory requirements of S.A.T.'s, dating from 1981, result in few limitations and conflicts. When such regulation is compared to that of agricultural cooperatives, the advantages are evident: there are none of the traditional legal limitations of cooperatives (difficulty to transfer the position of members, obligation to allocate funds to collective funds, limits on dealings with third parties, limitations to invest in commercial entities, limits in the distribution



of surpluses, etc.). In the case of S.A.T.'s, competitive advantage in the agricultural sector and elsewhere is being enjoyed due to the lack of adequate regulation of the various legal forms of social enterprises (Giagnocavo, 2011). However, a new Andalusian cooperative law has been brought into force on December 23, 2011, in which most of these issues are dealt with. For more information on this new law, we refer to section 3.1.4.

#### *Andalusia and Almería*

In contrast to other European countries, the majority of cooperatives in Spain are set up under regional and not national legislation. As a result of different autonomous community legislative frameworks (in Spain there are 17 different autonomous regions with varying levels of jurisdictional competence) Spanish agricultural cooperatives have significant differences, with distinct social, political and legislative histories and characteristics (Giagnocavo, 2011).

Almería is the most important province in Spain for the F&V sector. Since 2005/2006, Almería has gone through a “green” revolution based on biological control systems. The products to which biological control is applied vary: in 2010/2011, 90% of the farming area dedicated to peppers was controlled biologically, while 26% of the area of tomatoes was controlled as such. Research in bio-control is on-going as it is a method of adding value and also protecting the environment at the same time. Associations of cooperatives were instrumental in rolling out the adoption of bio-control and integrated practices (Giagnocavo and Vargas-Vasserot, 2011).

Mainly due to (international) market developments and changing regional policies, there has been a trend towards collaboration between cooperatives in Almería. In addition to UNICA, other cooperatives have initiated steps to establish partnerships with each other. The interest to cooperate seems to be mainly present at the cooperatives that export fruit and vegetables to international retailers. Cooperatives which are mainly oriented at Spanish and French intermediary traders seem to have a much lower interest in collaboration (Rombouts, 2009a) although recently many cooperatives focused on the national markets have collaborated to directly market their F&V product. Five Almería cooperatives are part of Anecoop, which has significant dealings with France and is a cooperative, although based in Valencia, which has many collaborations.

### **3.1.3 Market**

#### *Retail*

Traditional retail (including traditional markets) accounts for more than 40-45% of F&V sales, while supermarkets also account for about 40-45% of the final F&V market (Bijman, 2011).

Within the retail sector of fruits and vegetables, we can distinguish between various channels in which the traditional small shops and the large supermarkets have an important role (see also Figure ).

In recent years, food commercialization and distribution has been characterized by concentration processes and the increase in the dimension of the large distribution companies. This concentration has given such companies the capacity to effectively control the market, thus affecting producer and processing industry strategies. The sector is characterized by an elevated pressure over the supplier on price as well as payment periods, although in some cases there has begun to be evidence of a new model based on long term collaboration (MARM, 2008). In 2010, the principle distribution chains in Spain represented 60.3% of total sales (Alimarket, 2011b). Table 7 shows the market shares of the supermarket chains in Spain.

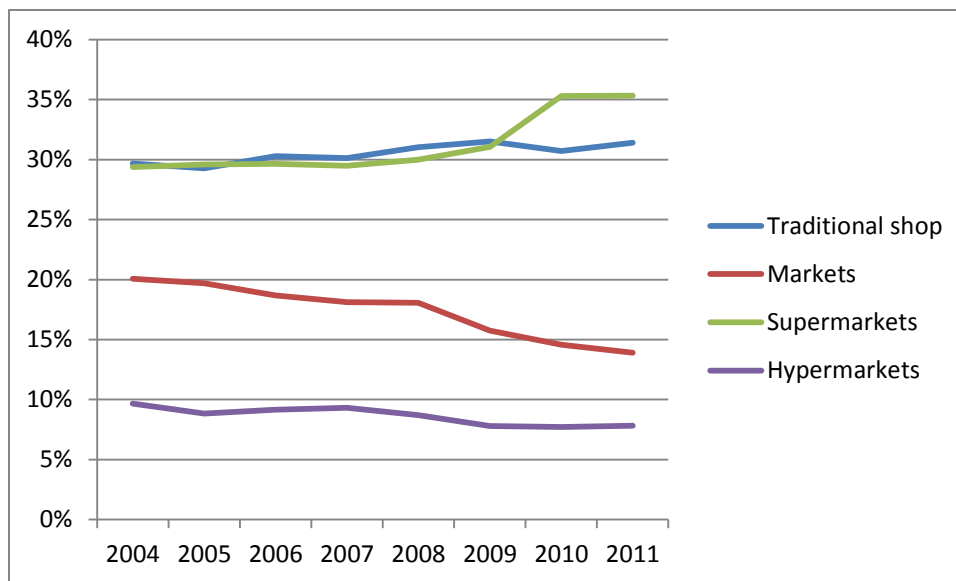


Figure 7. Relative importance (by percentage) of the various sales channels. Source: MARM (2011a).

Table 7. Principle market shares by Supermarkets in 2010

Mercadona	22.0%
Carrefour	18.3%
Eroski	9.4%
Auchan	6.2%
Corte Inglés	4.4%

Source: Alimarket, 2011b

On the other hand there are traditional small shops that sell directly to the public. This type of shop has lost some importance due to supermarkets, but its weight continues to be high (MARM, 2009). They have sought to modernise and look for market niches which allows them to survive in spite of the fierce supermarket competition (Langreo, 2009).

There exist various differences between traditional shops and modern supermarkets. In the first place, supermarkets and hypermarkets usually offer products of the highest quality category, while the small shops offer a range of categories. Modern distribution has significantly advanced in terms of product traceability and control in the refrigerated/cold chain, developments which have not been adopted in general in small shops (MARM, 2004).

### *Consumption*

In the last 25 years, the Spanish food consumer has experienced relevant changes that has affected consumer behaviour, such as the incorporation of women in the workplace, a concern for health, food safety and as well the loss of weight of food expenditures in the general family budget (Boccherini, 2010). In response to these changes, consumers demand more information about the origin of food products, their composition and production systems. In the quest for more healthy products and more demand for fruits and vegetables, price is not the principle element in the purchase decision (Deloitte, 2004).

In 2011, Spanish fruit consumption represented 15.4% of total food consumption, representing 9.2 % of consumer value (MARM 2011b). Vegetables reached 12.9% of consumed volume and 7.7% of value (MARM, 2011b). The consumption of fruits and vegetables in 2010 reached EUR 11 million, the per capita consumption evolving positively in the period from 2000 to present, with an average growth of 1% (Fundación Cajamar, 2010). See also Table .

Table 8. Fruit and vegetable consumption in Spain, kg/person

<b>Product</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Vegetables	55.6	56.5	57.1	58.8	60.5
Fruit	92.7	95.5	94.3	95.7	102.2

Source: FEPEX

Consumption of organic products represented 12% of vegetables and 8% of fresh fruit in 2011 (MARM, 2011a). Except for a temporary increase in 2009, consumption of organic products has been relatively stable over the last four years. New social trends give more importance to the processing of the product, making it necessary for producers to offer more products in the 4<sup>th</sup> or 5<sup>th</sup> range (Giagnocavo and Vargas-Vasserot, 2011).

### 3.1.4 Policy measures for Spanish cooperatives

The production of fruits and vegetables is regulated as a consequence of Common Agricultural Policy (CAP), which affects the decisions taken by farmers and their cooperatives. The sector has undergone a high degree of market liberalization and there are limited means to influence or control prices. The sector receives little public aid (which is scarce), and as such EU community aid represents a small part of the product value. This situation is in contrast to other agricultural sectors in which the income of the farmers is dependent on the amount of aid received.<sup>4</sup>

With respect to POs, two laws are particularly relevant, the first being Royal Decree 1972/2008 28 of November, which recognizes POs of fruit and vegetable producers and establishes the basic norms for these organizations. The second law is Royal Decree 1302/2009, regarding funds and operating programs of fruit and vegetable POs which establishes the basic norms in relation to the agricultural common market organization (CMO) Council Regulation (EC) n. 1234/2007 and establishes specific dispositions for certain agricultural products (Single CMO Regulation) and the Regulation (EC) no. 1580/2007 of the Commission which establishes the disposition of the application of Council Regulations (EC) n. 2200/1996, (EC) 2201/1996 and (CE) no. 1182/2007, in the sector of fruits and vegetables.

With respect to Almería, currently 9,000 Almería farmers are integrated in recognized producer organisations and received subsidies for their operating programs in the amount of EUR 31 million for the year 2010 and EUR 36 million in 2011. This represents 60% of such funds destined for Andalusia. Farmers are able to invest in various activities for the benefit of the sector. In the period 2004-2008 they carried out actions worth almost EUR 260 million. For 2011 the amounts are shown in Table .

Table 9. CMO funds and PO contribution (in EUR million)

<b>Value of Marketed Production</b>	1,588
<b>Operating Funds</b>	132
<b>Member contribution</b>	68
<b>Contribution of EU</b>	63

Source: Coexphal

<sup>4</sup> Fundación Cajamar (2002). Situación del sector comercial español de productos hortofrutícolas.

Table shows that most of the operating funds are destined for production planning, product quality improvement, marketing improvement, and environmental objectives.

Table 10. Amounts spend on actions in Operational Programme

<b>Actions</b>	<b>Amount (in EUR million)</b>	<b>Percentage</b>
1. Production planning	40.3	32.1%
2. Product quality improvement	25.5	20.3%
3. Marketing improvement	27.5	21.9%
4. Research and experimental production	0.4	0.3%
5. Training and advice services	0.9	0.7%
6. Prevention and management of risk	1.2	1.0%
7. Environmental objectives	26.3	20.9%
8. Other actions, activities, investments, etc.	3.7	2.9%
<b>Total</b>	<b>125.7</b>	<b>100%</b>

Source: Coexphal

The regional government of Andalusia also offers aid and subsidies, although for the most part not specific to cooperatives, which include:

- aid for improvement of quality systems for ecological production;
- subsidies for carrying out cooperative activities with other parties;
- aid for management groups of agricultural farms;
- aid to contract agricultural insurance;
- subsidies for improving irrigation systems;
- exceptional aid for supporting the F+V sector;
- subsidies to improve and modernise production structures for farms;
- subsidies for the modernization of greenhouses.

The February 2012 renewal of the 2000 agricultural agreement between Morocco and the EU has been particularly problematic for the Spanish F&V sector since it includes further liberalization measures for F&V imports from Morocco. This is likely to lead to further market instability (European Parliament, 2012).

In December, 2011 the Andalusian Co-operative Law (Ley de Sociedades Cooperativas Andaluzas) was approved with the support of the Regional Andalusian Federation of Agricultural Cooperatives (FAECA). It is too soon to gauge the potential success or failure of such measures.

The approved law project attempts to improve competitiveness: the social object of agricultural cooperatives is widened; percentages of contributions to the obligatory fund are reduced; in the case of a member leaving, the former obligation to reimburse the social capital by the cooperative can be substituted by the member receiving the value of his/her contributions through the transfer to third parties who gain the condition of member. New rules apply to non-member investors. As well, post-liquidation amounts returned to the Administration have been reduced from 100% to 30%.

A unique concept, in Spain at least, is the notion of a “trial period” for new members.

The text also contemplates the inclusion of multiple votes in proportion to member cooperative activity, allowing qualified non-members to be named as directors (*consejeros*) in an amount that does not exceed  $\frac{1}{3}$  of the total and established that the general assembly has the power to determine the new contributions in function of the assets or reasonable value of the company.

Finally limitations with third parties have been lifted and the process for mergers has been simplified.

### 3.2 UNICA Group

#### *Description and history*

UNICA Group is an international cooperative, structured as a second-tier group which consists of four F&V first tier cooperatives and two first-tier F&V S.A.T's: Cabasc S.C.A., AgriECO S.A.T., Casur S.C.A, Cohorsan S.C.A., Ferva S.A.T. and El Grupo S.C.A. Because of the fact that two of its members are S.A.T.s, UNICA is officially an 'integrated group'. UNICA was established in 2009, with the objective of better serving clients and guaranteeing sustainable revenues for the farmer members of the first tier cooperatives. At the operational level, each of the first-tier cooperatives/S.A.T.s is specialized in a small number of F&V products.

In 2010, the UNICA turnover amounted to EUR 94 million. Through the six member cooperatives/S.A.T.s, UNICA Group has 1,400 farmer suppliers which account for 160,000 tonnes of production. In total 1,500 hectares are under cultivation with 6,500 agricultural workers and 1,800 warehouse workers. The revenues of UNICA, according to the manager of the group, rose to EUR 105 million in 2011, which corresponds to an approximate production of about 100 million kg (However, with the recent entrance of El Grupo, the production reaches 160 million and hence the new turnover is estimated to be 139 million, according to the press).<sup>5</sup> The principal products are: tomatoes, peppers, cucumbers, courgettes, aubergines, watermelons, melons and beans. Based on its 2010 turnover (which was EUR 94 million), the UNICA Group is the fifth largest F&V cooperative in Spain (Giagnocavo and Vargas-Vasserot, 2011).

For UNICA, the planning of production and the commercialization and marketing of the fruit and vegetable production of the members are its main activities. UNICA is in charge of planning and advising their cooperative members for the coming year's plantings.

In general UNICA is concerned with:

1. realizing sustainable profits for the farmers;
2. improving the internal efficiency which should lead to a reduction in costs and rise in productivity;
3. creating a nexus of integration through the incorporation of more cooperatives so as to be a first class reference for European distribution.

The first tier cooperative and S.A.T.members are:

- AgriECO, also known as Agricultores Ecológicos, is a S.A.T. specialising in 100% ecological fruit and vegetables and is one of the leading intensive ecological producers in Spain. It has 10 founding producers and 30 associated farmers. It has 120 ha. of ecological production, representing 50% of the Almería total.
- Cabasc S.C.A. is a cooperative with 230 farmer members, producing cucumber, tomato, peppers, green beans, watermelon, zucchini and aubergine.
- Casur S.C.A is a cooperative that specializes in tomato, although it also has other products. It was founded in 1994, and it now has 200 members and 670 workers.

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<http://www.elalmeria.es/article/finanzasagricultura/751709/unica/group/estudia/la/posibilidad/aliarse/con/la/cooperativa/holandesa/zon.html>

- Cohorsan S.C.A. is a cooperative founded in 1980 and its main products are aubergine, zucchini, melon, cucumber and peppers.
- Ferva was founded as a S.A.T. in 1991 and it also specialises in tomato, although it grows also other fruits and vegetables.
- El Grupo S.C.A. is one of the main cooperatives of Granada, founded in 1973. It has 330 members which cultivate 500 ha. for the production of tomato, cucumber, green beans, pepper, watermelon, asparagus and strawberries.

Table shows the turnover of each member cooperative of UNICA.

Table 5. UNICA member turnover (in EUR)

<b>Member cooperative</b>	<b>Turnover</b>
Cabasc	20,900,000
Casur	30,500,000
Ferva	31,600,000
El Grupo	50,000,000
AgriECO and Cohorsan	13,000,000

Source: Coexphal

### *Strategy*

UNICA bases its potential on alliances and has the intention to grow, both horizontally and vertically. It has a long term view and as such, its bylaws and constitution documents have made it difficult for its cooperative members to exit the consortium.<sup>6</sup>

All sales are centralised in UNICA, which is in charge of commercialising production, setting strategy, managing clients, purchasing of farm inputs, and quality control. The member cooperatives are in charge of the management of the warehouses and the billing of clients. The commercial sections of the individual cooperatives have disappeared.<sup>7</sup> UNICA Group sells its products under various brands: Unica, Gigante Verde Fresh, Unica Bio, Soolpassion, Freshquita, Mini Freshquita, and Emotions.

UNICA Group specializes in supplying foreign markets. The main destination countries are, by order of importance, Germany, the UK, and Northern-Europe. France and Italy are also destination countries. Of the total marketed volume of UNICA only 10% is distributed domestically. In 2010, exports reached the value of 93 million euros.<sup>8</sup> Forty per cent of sales is destined for direct sales to supermarkets, the rest through intermediaries. The central terminals of fruits and vegetables that supply small fruit markets, restaurants, etc. in the domestic market are not an important channel for UNICA.

The current production is 160 million kg and UNICA hopes to reach 300 million in 2 or 3 years. The ambition of UNICA is to grow in volume, not necessarily in the number of members.

### *Internal governance*

With respect to internal governance of UNICA, the General Assembly includes the Boards of Directors of the member cooperatives (about 70 people). The Board of Directors of UNICA is composed of three representatives from each of the member cooperatives/S.A.T.s (president,

<sup>6</sup> <http://www.fruittoday.com/articulos.php?id=1256811740501162&idioma=C>

<sup>7</sup> <http://www.fruittoday.com/articulos.php?id=1256811740501162&idioma=C>

<sup>8</sup> Alimarket, 2011

general manager and an ordinary member). The management of UNICA is carried out by the general manager and his team. The general manager is the only member of the General Assembly and the Board of Directors that does not belong to any of the member cooperatives. There are no “intervenors” (a sort of “supervisory” option under most Spanish cooperative laws).

The ownership shares of are distributed among the members on the basis of volume of production (50%) and value of turnover (50%). This was calculated at the date of the constitution of UNICA. With respect to voting rights, there is voting in proportion of turnover. However, since the establishment of UNICA decisions have been taken by consensus and it has never been necessary to use this decision-making mechanism.

#### *European, national and regional policies*

UNICA has received a EUR 200,000 subsidy from the Junta de Andalucía (regional government), for the introduction of new technologies, specifically for the application of an ERP (Enterprise Resource Planning). It is software that combines most of the operational and financial processes of the company into one program.

UNICA does not actively seek to obtain governmental subsidies. In the case of European subsidies, it is the member cooperatives/S.A.T.s who would be eligible to receive such aid, not UNICA.

#### *Commercial Partnerships*

UNICA Group has entered into various commercial agreements with valuable strategic partners to take advantage of synergies and complementarities, its agreement with ZON being an important example.<sup>9</sup> The agreement was structured as such to comply with the requirements of both the competition authorities in Holland and Spain<sup>10</sup>. The agreement allows UNICA to distribute specialized product, to count on a logistics system to carry out various operations<sup>11</sup> and to improve negotiation position with distributors, given that the product is marketed together.<sup>12</sup> The sales volume of both entities reached over 400 million euros, of which 139 corresponded to Unica Group.<sup>13</sup>

In February 2011, UNICA entered into a commercial agreement with the North American General Mills to sell products under the brand “Gigante Verde” or Green Giant. Next to UNICA, two cooperatives from the neighbouring region of Murcia also participate: Dulze and Agromark. The three cooperatives have created a limited company Union Produce Fresh S.L., which markets the products.<sup>14</sup> In this agreement with General Mills for the sales of production under the Green Giant brand, the main objective was to obtain a license for using a prestigious brand, instead of trying to build one from the beginning.

It is important to understand that the concept of branding in the Spanish F&V sector is the name that is on the product boxes (*marca de canal*), but this is never identified to the final consumer. With respect to branding experiences in Almería, CASI, the largest cooperative producer of

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<sup>9</sup> <http://www.alimarket.es/noticia/63958/El-Grupo-se-integra-en-Unica>

<sup>10</sup> <http://www.elalmeria.es/article/finanzasyagricultura/751709/unica/group/estudia/la/posibilidad/aliarse/con/la/cooperativa/holandesa/zon.html>

<sup>11</sup> <http://www.ideal.es/almeria/v/20110726/agricultura/unica-group-potenciara-proxima-20110726.html>

<sup>12</sup> [http://www.revistamercados.com/articulo.asp?Articulo\\_ID=3609](http://www.revistamercados.com/articulo.asp?Articulo_ID=3609)

<sup>13</sup> <http://www.elalmeria.es/article/finanzasyagricultura/751709/unica/group/estudia/la/posibilidad/aliarse/con/la/cooperativa/holandesa/zon.html>

<sup>14</sup> <http://www.alimarket.es/noticia/54629/Unica-vendera-la-ensenaa-Gigante-Verde-Fresh--en-Europa>

tomato in Europe, has tried in the past to establish a brand of “tomate tigre” (tiger tomato), without much success. On the other hand, a brand that is recognized and that is very restrictive is “Sandia Fashion”, owned by a group of cooperatives brought together by a seed producer that only sells to associated companies, with very restrictive conditions. The consumers buy these watermelons because of their quality. Given the scarce examples of brand success, it is not surprising that UNICA has decided to use the Gigante Verde brand.

Another commercial agreement of UNICA is the one with the Valencia citrus commercial entity Cofrumark Quality Distribution Fruits. For UNICA, this agreement allows access in a more direct manner to an important portfolio of clients due to the marketing experience of that company, which centres most of its business on export markets.<sup>15</sup>

Regarding the processed foods area, UNICA has an agreement with Almentaria Andarax (Solfrío), which has given the rights to UNICA Group to commercialize its gazpacho in the European Union. In addition, it participates through its member cooperatives in Alcoex, which is dedicated to the production of vegetable purees and roasted vegetables.<sup>16</sup>

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<sup>15</sup><http://www.alimarket.es/noticia/67702/QDF-se-engrandece>

<http://www.alimarket.es/noticia/13614/Unica-Group-y-QDF-suscriben-un-acuerdo-comercial>

<sup>16</sup> <http://www.alimarket.es/noticia/29318/Solfrio-preve-duplicar-ventas-tras-su-integracion-en-Unica-Group>



## 4. Comparative Analysis

This chapter aims to answer several research questions. First of all, it will provide a comparative analysis of the sector, including production, trade and markets. This is addressed in section 4.1. In the next section, ZON Fruit & Vegetables and the UNICA Group are compared, with regards to their structure, strategy and markets. In addition, this chapter also discusses the strategic alliance between the aforementioned cooperatives, in section 4.3. Finally, conclusions on the comparison are drawn in section 4.4.

### 4.1 Sector

In line with chapter 2 and 3, this section analysis both sectors' production, trade, market and relevant policy measures.

#### 4.1.1 Production

The first difference relates to size of the F&V sector, both in absolute numbers and relative to other agricultural sectors. Spain produces over 23 million tonnes of F&V, while The Netherlands only produces 5 million tonnes (2009 figures). Although the F&V sector has a relatively large share in the Dutch agriculture (13%), it is much lower than the share of F&V in Spanish agriculture (38%).

Table shows that the number of farms which are specialised in fruit and/or vegetables is much higher in Spain than in the Netherlands. However, in both countries the number is decreasing and scale growth has been observed. The large difference in the number of farms between the two countries does not fully explain the (much smaller) difference in national production. Another important factor here is the average size of the firms. In the Netherlands, over 30% of all specialised F&V farms has a size of over 250 ESU (European Size Units), whereas a large share in Spain (approximately 20%) is only 4 – 8 ESU and farms of over 100 ESU represent less than 5%. Thus, on average, horticultural farms in Spain are much smaller than in The Netherlands.

Another difference that can be observed in Table 12, is the share of fruit farms and vegetables farms in the total number of horticultural farms. In Spain, there are many more fruit producers than vegetables producers, while in The Netherlands the majority of farms are producing vegetables. With respect to Spain, the region of Valencia produces mostly fruit and citrus and Almería produces predominantly vegetables.

Table 6. Number of farms in the Netherlands and Spain for 2000 and 2007.

		2000	2007	% change per year
NL	Vegetables	14,110	9,050	-5.83
	Fruit (incl. citrus fruit)	2,390	1,790	
	Total fruit and vegetables	16,500	10,840	
ES	Vegetables	55,980	42,080	-2.72
	Fruit (incl. citrus fruit)	217,000	183,000	
	Total fruit and vegetables	272,980	225,080	

Source: EUROSTAT, Farm Structure Survey

One of the essential differences is the production season. The Dutch and Spanish seasons are largely complementary to each other, with a small overlap at the beginning and the end of the season.

### 4.1.2 Trade

#### *Import and export*

For both countries, a substantial part of their production is destined for export. In 2007, the Netherlands exported approximately EUR 6 billion, while Spain exported EUR 8 billion. Since Spain has a significant higher production than the Netherlands, the small difference between their export values is remarkable. Both countries also have increased their export volumes over the last 3 years, with 5% for the Netherlands and 15% for Spain. Germany and the UK are for both countries the principal destination markets, while the Netherlands also exports a large share to Russia, and Spain exports to France.

The relatively small difference in export values in relation to the large difference in production values of both countries, can be explained twofold. First, the share of production that is destined for export is much higher in the Netherlands (70%), than in Spain (50%). Secondly, the Netherlands also re-exports a substantial amount of its imported products; almost 90% of all imported vegetables and 68% of all imported fruit is re-exported.

#### *Wholesalers and other intermediary traders*

Intermediary trade in the F&V sector of both countries is organised somewhat differently. In the Netherlands, there are investor-owned firms that perform wholesale, import and/or export activities. Next to this, there are also cooperatives that may sell their products to the aforementioned intermediary traders or directly to retailers. The cooperatives still use auction selling for a small share of their products.

The supply chain for F&V in Spain is fragmented and still includes many economic agents. Farmers still sell through auctions, although this has decreased. As opposed to auctions, farmers usually sell their product through F&V terminals, which are often cooperatives (increasingly so) or S.A.T.'s. With respect to the next step in the F&V supply chain, which is the commercialization by distributors and wholesalers, there are two channels: first, the wholesalers who operate through central markets, and secondly the purchasing terminals associated with large distributors. Given that approximately 60% of national production of fruits and vegetables are sold through a network of wholesalers organized in the 23 central markets in Spain, the importance of this traditional channel is evident. This network is made up predominantly of small to medium wholesalers who sell principally to traditional stores and oriented to the national market. In contrast, wholesalers that market large volumes operate with supermarket distribution platforms, as described above (CAP, 2008).

There is much higher concentration among cooperatives in The Netherlands than in Spain. Where the Netherlands has only 19 F&V registered cooperatives, Spain has over 600 registered POs. Furthermore, in the Netherlands, the five largest POs are all first tier cooperatives, while in Spain three out of the five largest POs are second tier cooperatives. It should be noted though, that the organisation of POs in first and second-tier is dependent on regions to some degree. In Almería, the overwhelming majority of cooperatives are first-tier.

### 4.1.3 Market

#### *Retail*

In contrast to the Netherlands, where the supermarkets have an average market share of 76% for F&V, the traditional specialised F&V shops is still one of the most important retail channels in Spain. Only the last two years, this channel has lost some market share to supermarkets.

Although the share of supermarkets as a retail channel for F&V is much higher in the Netherlands, its share has been increasing in both countries compared to the more traditional channels. Furthermore, supermarket chains have been concentrating.

### Consumption

In Table , the consumption of fruit and vegetables by Dutch and Spanish consumers is presented. The table shows that Dutch consumers eat more vegetables, although the difference between the two countries has diminished over the years. The opposite applies to fruit consumption. Furthermore, consumption of both fruit and vegetables has increased in Spain, while in most European countries consumption has decreased.

Table 13. Fruit and vegetable consumption in the Netherlands and Spain (in kilos/capita)

Product	Country	2006	2007	2008	2009	2010
Vegetables	NL	73.3	73.2	72.5	74.0	72.4
	ES	55.6	56.5	57.1	58.8	60.5
Fruit	NL	96.2	95.6	89.6	89.1	87.8
	ES	92.7	95.5	94.3	95.7	102.2

Source: FEPEX and Productschap Tuinbouw

### 4.1.4 National cultures

Table 7 shows the scores for both the Netherlands and Spain for the five cultural dimensions defined by Hofstede and Hofstede (2005): *power distance* (PDI; from small to large), *collectivism versus individualism* (IDV), *femininity versus masculinity* (MAS), *uncertainty avoidance* (UAI; from weak to strong) and *long-term versus short-term orientation* (LTO). For each dimension, scores can range from 0 to about 100, where a high score represents a culture with a large power distance, strong degree of individualism and masculinity, strong uncertainty avoidance and a long term orientation. As these scores are relative, they need to be compared. The data clearly shows that there are some differences in national cultures between the Netherlands and Spain. Especially the degrees of individualism, masculinity, and uncertainty avoidance show rather extreme scores for one of the countries.

Table 7. Cultural dimension scores

Country	PDI	IDV	MAS	UAI	LTO
Netherlands	38	80	14	53	67
Spain	57	51	42	86	48

Source: Hofstede and Hofstede (2005)

Individualism is the degree to which ties between individuals in a society are loose (Hofstede and Hofstede, 2005). Interestingly, the Netherlands scores relatively high on individualism, yet there is a long history of cooperative institutions. Gijssels and Bussels (2011) support this finding, with no correlation found between the degree of individualism and membership intensity of farmer cooperatives. On this dimension, Spain has an average score, which implies that its culture can neither be regarded collective nor individual. The combination of a high degree of individualism and a high degree of cooperative membership may indicate a strong individual motive for joining cooperatives. It is mainly self-interest that makes farmers join a cooperative, and not cooperative ideology or normative pressure to act collectively.

The dimension of masculinity vs. femininity refers to the distribution of emotional roles between the genders. In feminine countries, such as the Netherlands, the women have the same modest, caring values as the men, whereas in the masculine countries there is a gap between men and

women values, with men being much more assertive and competitive (Hofstede and Hofstede, 2005). Spain has a rather average score.

Concerning the degree of uncertainty avoidance, Spain shows a fairly extreme score. This implies that the possibility of uncertain situations is minimized by the deployment of strict laws, rules, and safety and security measures (Hofstede and Hofstede, 2005). The rather large number of policy measures, as discussed in section 3.1, might be related to this cultural characteristic. In the Netherlands, the degree of uncertainty avoidance is lower and this might imply that Dutch farmers are more entrepreneurial.

Although the countries show differences on all five dimensions, the differences on the degree of individualism, masculinity and uncertainty are most substantial. The Netherlands has relatively extreme scores on the individualism and masculinity dimensions, while Spain has more medium scores on these dimensions but in contrast, scores relatively high on uncertainty avoidance.

This description of cultural differences between Spain and The Netherlands refers to generalizations across the whole country. It does not say much about particular farmers or particular cooperatives, which may actually be the exception to the rule.

## **4.2 Cooperatives**

When ZON and UNICA are compared, some clear differences can be observed. First, the size of the cooperatives. While ZON has approximately 400 members, UNICA has, indirectly, over 1,400 farmer members. When measuring size in terms of turnover, ZON is three times larger than UNICA; EUR 326 million versus EUR 105 million.

Another difference between the two cooperatives is their structure. ZON is a first tier cooperative, where growers are direct members and thus have direct control over the organisation. UNICA, however, is a second-tier group (two of its members are S.A.T.s instead of a S.C.A. (cooperative)). While UNICA is not a recognized Producer Organisation and consequently, cannot receive subsidy under the CMO policy, all of its member cooperatives and S.A.T.s are recognized POs and are eligible to receive EU subsidies.

The cooperatives pursue a different sales strategy. At UNICA, all sales are fully centralized. The member cooperatives do the collecting, sorting, storing and packaging of the products, but all sales are done by UNICA. At ZON, the picture is more diverse. Some of the sales of the members are done centrally by ZON, another part is done by the growers' associations that are allied to ZON.

Concerning their product assortment, both cooperatives are fairly similar. Main products are tomatoes and capsicums, although cucumbers are somewhat underrepresented in UNICA compared to ZON. Also their main markets overlap to a certain extent. Although ZON regards its home market as one of the main markets, both cooperatives supply large amounts to customers in Germany and the UK. Approximately 90% of UNICA's produce is destined for export. At ZON, this percentage is lower and achieved by exporting directly themselves and indirectly via exporters and service providers.

## **4.3 Strategic alliance**

This section is devoted to a description of the strategic alliance between ZON Fruit & Vegetables and the UNICA Group. It will start with the goals of the collaboration and to what extent these have been realised. In the second subsection, the motives for the partner selection from both cooperative's perspectives are discussed. Subsection 4.3.3 then addresses the governance structure of the alliance, after which the influence of the cultural diversity in the partnership is set out. Lastly, subsections 4.3.5 and 4.3.6 discuss the effect of European, national and regional

policy measures on, respectively, the collaboration between ZON and UNICA and collaborations in general.

### **4.3.1 Goals and achievements of the collaboration**

The partnership between ZON and UNICA has been established for several reasons. First of all, the partners wanted to be able to supply their customers product all year-round. As the Spanish and Dutch seasons complement each other, a partnership would enable the organisations to source their produce throughout the year. Secondly, the partnership is set up to share knowledge and exchange information on customers, production and costs. For instance, the partners exchange information on production by which they attempt to harmonize any seasonal overlap. This overlap only occurs for approximately three weeks at the end and beginning of the two seasons. Thirdly, the organisations intend to gain access to new markets and customers by joint meetings with customers and introducing each other in new markets. Lastly, ZON provides logistical services to UNICA, such as packing, quality control and storage. In case of rejection of UNICA products by its customers, ZON also facilitates sorting and the re-inspection in order to get the products sold again.

After the official establishment of the collaboration in the summer of 2010, UNICA has supplied ZON in the winter of 2010/2011 with a substantial amount of produce. During the winter of 2011/2012 this amount was somewhat lower. In addition, both organisations have one manager located near the office of the partner.

The cooperatives also want their members to be involved in the partnership. Therefore, they have organised several exchange visits which enable the member farmers to exchange ideas and knowledge with their colleagues in the host country. Interaction and knowledge exchange is thus not limited to management or board level, but all levels of the organisation are involved.

Both ZON and UNICA consider the collaboration to function well. UNICA expressed that, in addition to achieving commercial and logistics synergies, the partnership also allowed for accessing new markets, like those of the Arabic Emirates. Since the partnership has been operational for just two years now, it needs more effort to develop the collaborative activities and to create more added value.

One of the goals for ZON has not been fully achieved yet. In line with one of the collaboration goals to give each other access to new markets, ZON wanted to improve its position in the Spanish market. As UNICA mainly focuses on export markets, supporting the introduction of ZON in the Spanish market proved to be somewhat difficult. However, the cooperatives have agreed to take action on this.

### **4.3.2 Partner selection**

According to ZON, UNICA's similarity in terms of size, philosophy, reputation, assortment and quality standards has been the main reason to choose this partner. Both organisations position themselves as a transparent F&V supplier, who sources directly from the growers. By this positioning, the organisations respond to the consumer demand for more information on the product's origin. In addition, there were already some contacts between both organisations. The fact that UNICA is a second tier group and ZON is a first tier cooperative has not been an issue in the partnership. ZON has indicated that UNICA and its member cooperatives are becoming more uniform and that communication is centralized which eases the cooperation.

From UNICA's perspective, ZON was chosen for its size, its product offer, and finally for the personal relationships; there was a good "feeling" between both cooperatives. ZON and UNICA

compete in the same markets, but the majority of the time they are in counter-harvest. In this manner they can serve the same customers during the whole year, meaning their customers do not have to look elsewhere or use other suppliers. Furthermore, as UNICA considers other Spanish cooperatives as competitors, an international partner was regarded a more appropriate partner.

#### **4.3.3 Governance structure**

The motive for choosing a strategic alliance was to use a simple and flexible arrangement which allowed fast action. In addition, given that it is the start of a new relationship, they have gone slowly: “one holds hands first before getting into bed with someone”. Furthermore, an alliance enables both organizations to retain their own identity. A more hierarchical structure such as a joint venture or an APO is less suitable, also because of potential impact of cultural differences between the two countries.

Decision-making within the partnership is based on periodic meetings between the 2 cooperatives. In the case of strategic decisions, there are meetings every 2-3 months. However, for operational issues, there is weekly to daily contact.

#### **4.3.4 Cultural diversity**

ZON and UNICA did not encounter any problems caused by differences in national or organizational cultures. The location of a manager in each country (and near to the office of the partner) has supported the collaboration to a certain extent, since they know the country, the culture and the language. ZON mentioned that board members in Spain have a different status, but this did not lead to any problems.

The problems that did arise are generic and in no case have been due to cultural or organizational differences, in the opinion of both UNICA and ZON. The concerns and problems of the farmers are similar in both countries and this common understanding compensates any cultural difference.

#### **4.3.5 Effect of policy measures**

To understand the effect of the policy measures on the collaboration between ZON and UNICA, it is important to differentiate between regional, national and European policies.

Regarding the regional policies, UNICA has received some financial support. However this was not for the collaboration with ZON. More specifically, UNICA received approximately EUR 200,000 by the local government of Andalusia for the implementation of an ERP system.

Moving to the national level, especially the competition law of the Netherlands seems to hinder the collaboration between ZON and UNICA. Even though the collaboration is aimed to transfer knowledge and harmonize their production, the law prohibits them to exchange knowledge on many important issues such as customers and prices. A merger would solve these issues, but this is not considered an option. ZON has also expressed that the competition regulations are often unclear, which results in extensive legal costs to clarify the regulations. Spanish competition law (Law15/2007 Defense of Competition) applies to agricultural cooperatives and S.A.T.s (art. 7-10 and 55-60) with respect to economic concentrations and are subject to obligatory and prior notification, when certain thresholds are met as a consequence of a transaction. Thresholds include, amongst other scenarios, where the volume of global business in Spain together with the participants in the transaction, exceeds in the last accounting period the amount of 240 million Euros, and the volume of individual business in Spain of at least 2 of the participants

exceeds 60 million. Consequently, optimizing the potential synergies in more loose and contractual collaborations is hindered.

Finally on European level, both cooperatives have indicated that they have not used any financial support to establish or develop the collaboration. Since UNICA is not a registered PO, it cannot receive subsidy under from the CMO policy. Although ZON did received over EUR 7 million in 2011 and EUR 10 million in 2010 (Database EU subsidies for fishery and agriculture, Dutch Ministry of Economics, Agriculture and Innovation), no funds were allocated specifically to the collaboration.

#### **4.3.6 Effect of policy measures on the establishment of collaborations in general**

The CMO regulations are considered very strict in the Netherlands. It appears to hinder loose collaborations or partnerships because it requires that the PO keeps full control over the total sales. The Dutch APO Kompany is an example in which this regulation seems to have a negative impact on the operation of such a collaboration. As an APO, all products (in this case cucumbers) need to be sold through Kompany. This would imply that these products are not sold through the member POs (including ZON) anymore. However ZON aims to provide its customers a full assortment, so the sales of cucumbers solely through Kompany is not in its interest.

Similarly, POs in the Netherlands differ in the roles they want to fulfil in the industry and therefore have different business models. In order to comply to the strict regulations of the CMO, these differences need to be overcome. Although several POs have extensively explored the options for mergers or partnerships such as APOs, most attempts have failed.

Lastly, the CMO policy seems to limit the mobility of growers, that is, it limits the possibility of growers to shift to another PO.

### **4.4 Conclusions comparative analysis**

#### *Cultural similarity*

According to Hofstede's cultural dimensions, the Netherlands and Spain mainly differ on the degree of individualism, masculinity, and uncertainty avoidance. However, these differences did not seem to affect the collaboration, possibly also due to the fact that both cooperatives have a manager located near to the partner's office who are familiar with the culture and language.

#### *Market situation similarity*

Compared to the rather concentrated production of F&V in the Netherlands, the sector is very fragmented in Spain. The number of farms is much higher and the average size is much smaller. However, the aggregated production is almost five times as high and the sector represents a larger share in total agriculture. Both countries produce similar products, such as tomatoes and capsicums, but for most of the year the countries are in counter-season.

Both countries rely heavily on their exports, mainly to other European countries. It is therefore not surprising that they share some of the markets, like Germany, United Kingdom and Scandinavian countries. Because of their counter-seasons, competition on these markets is of a short period only.

Concerning trade, the Spanish sector is very fragmented with high numbers of intermediary traders and cooperatives. In the Netherlands, this part of the sector is still regarded as fragmented, but is becoming more concentrated.

The Spanish and Dutch market situations regarding the retail channels are not very similar. In Spain, the traditional shops are still important, while in the Netherlands the supermarkets have a market share of approximately 75% in the F&V category. In both countries, as well as in other European countries, the supermarket sector is becoming increasingly concentrated, making the supermarket firms dominant chain actors.

Finally, Dutch and Spanish F&V consumption show contrasting developments. In the Netherlands, consumers have been eating less fruit and vegetables over the years, with a higher vegetable than fruit consumption. While in Spain, fruit and vegetable consumption has increased over the years and consumers are eating more fruit than vegetables.

So even though the Dutch and Spanish market situations show many differences, the following similarities, relevant for the cooperatives, can be observed:

- common (vegetable) products;
- increasing concentration in production and among intermediary traders;
- reliance on export and common key markets;
- increasing concentration and market power of European retailers.

These similarities, in conjunction with the counter-seasonality, have positively influenced the collaboration between ZON and UNICA. For instance, the partners considered each other to be suitable, because they offered the same products, they were of the same size and pursued a similar strategy, with similar markets and customers. Therefore we conclude that the ZON-UNICA collaboration is (partially) set up because the market situations were fairly similar and consequently, the cooperatives faced the same developments.



## 5. Overall conclusions

As described in the introduction of this case study, five research questions have been guiding the research. In this last chapter, all research questions will be answered and conclusions will be drawn.

The first research question related to the main reasons for the national-based cooperatives to set up international collaborations. International collaborations in the form of strategic alliances are generally motivated by a combination of external and internal drivers. Concerning the F&V industry, some external factors seem to play an important role (Neven and Reardon, 2002). Consumer demand has changed over the last decades; lifestyles have become both more diverse and more health conscious, and end consumers want to be able to choose from a wide variety of fresh fruits and vegetables all year round. In addition, concentration and globalization of food retail companies have made these players more powerful. To create value for their customers, retailers seek suppliers that not only can guarantee a year-round supply of a diversified set of F&V, but also can guarantee sufficient and uniform quality of the products. Other factors originate from the supply side. Trade liberalization, and technology developments that enable more efficient communication, information processing, cold chain logistics and packaging, have changed the competitive environment in which cooperatives need to survive. As a response to these developments, organizations in the F&V industry search for collaborations in order to improve technology, managerial skills or logistical infrastructures; increase the scope of operations (e.g. more products, more locations); and/or increase the scale of operations (e.g. market share, size).

The second research question was about the similarities and differences in the external environment of the two cooperatives, both in terms of the sector and country they are embedded in and in terms of their main destination markets. The Dutch and Spanish sector have some clear differences as well as some similarities. First, production in Spain is very fragmented compared to the Netherlands. Nevertheless, production volumes in Spain are almost 5 times as high and the sector therefore represents a larger share in total agriculture. Some of the main products are important in both countries, such as tomatoes and capsicums, but for most of the year the countries are in counter-season. Secondly, both countries rely heavily on export, mainly to other European countries such as Germany, United Kingdom and the Scandinavian countries. Thirdly, the Spanish and Dutch market situations regarding the retail channels are not very similar. In Spain, the traditional shops are still relatively important, while in the Netherlands the supermarkets have a market share of approximately 75% in the F&V category. However, in both countries, supermarkets are becoming more concentrated, increasing their market share and becoming dominant players in the chain.

So even though the Dutch and Spanish market situations show many differences, the following similarities can be observed which are most relevant for cooperatives:

- common (vegetable) products;
- increasing concentration both in production and among intermediary traders;
- reliance on export and common key markets;
- increasing concentration and market power of European retailers.

The third research question focussed on the differences and similarities in the internal governance, the strategies and the culture of the cooperatives. When ZON and UNICA are compared, some clear differences can be observed. First, the size of the cooperatives. While ZON has approximately 400 members, UNICA has, indirectly, over 1,400 farmer members. When measuring size in terms of turnover, ZON is three times larger than UNICA; EUR 326 million versus EUR 105 million. Secondly, ZON's structure is different than that of UNICA: ZON is a first

tier cooperative, while UNICA is a second-tier group. While ZON is a recognized PO under EU legislation, UNICA is not, although all of its cooperative and S.A.T. members are recognized POs. Thirdly, the cooperatives pursue a different sales strategy. At UNICA, all sales are fully centralized. The member cooperatives do the collecting, sorting, storing and packaging of the products, but all sales is done by UNICA. At ZON, the picture is more diverse. Some of the sales of the members are done centrally by ZON, another part is done by the growers' associations that are allied to ZON. Finally, the cooperatives are fairly similar concerning their product assortment and main markets. Although ZON regards its home market as one of the main markets, both cooperatives supply large amounts to customers in Germany and the UK.

The fourth research question asked about the main reasons for starting this strategic alliance. One of the main reasons was the aim to supply their customers year-round a full assortment. As the Netherlands and Spain are largely in counter-season, and both cooperatives market a similar range of products, a collaboration would enable them to harmonize production and provide their customers a wide range of quality products. Other reasons stemmed from a demand for new markets and customers. Both cooperatives export large shares of their products to foreign countries, and are looking for new markets. By using each other's reputation and network, the collaboration would help to access new markets. In addition, the partnership was set up to exchange knowledge and information on customers, production and costs. And lastly, logistical services are provided by ZON to UNICA, such as packing, quality control and storage.

The collaboration is considered by both ZON and UNICA to function well. Next to achieving commercial and logistics synergies, the partnership also allowed for accessing new markets, like those of the Arabic Emirates. Exchange visits of management and farmers to the partner has also facilitated knowledge transfer. Since the partnership has been operational for just 2 years now, it still needs more effort to further strengthen and deepen the collaborative activities and to create more added value.

The fifth and last research question was formulated as follows: what policies at regional, national or EU level have been effecting, positively or negatively, this international partnership between two cooperatives in the F&V industry. Based on the ZON-UNICA case, we can conclude that the CMO for F&V policy did not have much affect the collaboration. Firstly, the UNICA Group does not have to comply with the CMO regulations, since it is not a recognized PO. All of its members are recognized POs, but have not allocated any funds specifically to the collaboration. Secondly, ZON has received CMO funds, but has not used them specifically for the partnership. The Dutch competition law has a significant influence on the collaboration. The added value of the collaboration cannot be optimized because the regulations prohibit the organisations to share essential information on customers and potential new markets, and to undertake activities such as joint sales meetings.

The support of the CMO policy is expected to positively influence a collaboration in the case of an APO, but both cooperatives have indicated that this organizational structure is not possible. Cultural and organizational differences and complex and strict regulations hinder the establishment of such an integrated structure, whereas these issues are less influential in more contractual relationships.

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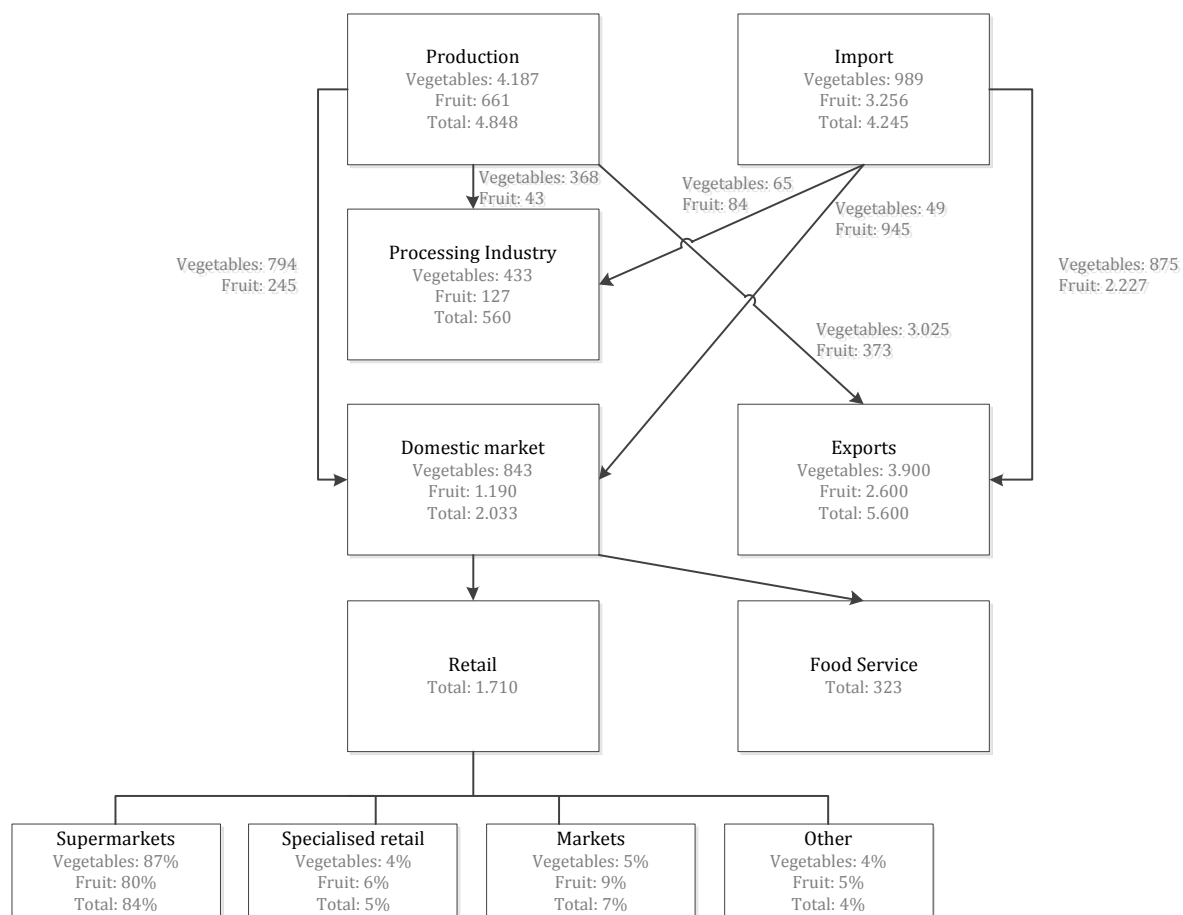
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## Appendix A

### Supply chain and volumes in the Netherlands (in tonnes)



Source: Van den Berg et al., 2011