

## **A Win-Win Relationship between Producers' Unions and Supermarket Chains in Turkish Fresh Fruits and Vegetables Sector**

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### **Abstract**

*The rapid growth of supermarkets in Turkey during these recent years could offer new marketing opportunities for producers, in particular for fresh fruits and vegetables supply, for which proximity may be a source of better freshness quality (Dries and al., 2004). Moreover FFV growing could increase significantly farmers' income with intensive production systems since a majority of producers in Turkey are very small landholders. Thus, FFV sector is a highly relevant subject to study as the paper focuses specifically on market access of small producers.*

*However, the FFV marketing in Turkey is highly regulated. Since 1995, a market regulation law obliges all FFV to pass through wholesale markets under commissioners' control. Otherwise, the law allows "Producers' Unions" to market their produce without passing through wholesale markets.*

*In this research work, which is part of the international project "Regoverning markets", the main assumption of the authors is that both supermarkets and producers in Turkey have interest in contracting with each other through Producers' Unions, because they reduce their marketing costs related to transaction fees.*

*Actually, it can be observed that supermarket chains seem looking for this kind of direct linkages. Most of the difficulties come from the producers who can not organize themselves around unions.*

*The present paper focuses on, the "success story" of a Village Development Cooperative that became a "Producers' Union" since 1995, and contracts directly with supermarkets. This case illustrates a "win-win" relationship between producers and buyers.*

## INTRODUCTION

The fast growth of urban population in emerging countries, induced a high increase in the end-consumer food demand in urban centers. This expansion of urban markets was accompanied by an extended liberalisation process of national economies and international trade, and involved a rapid and deep transformation process within the agri-food systems particularly characterised by the key place that supermarkets gained (Reardon and Berdégue, 2002; Weatherspoon and Reardon, 2003). These new dominant players require specifically high and regular volumes in quality products; a fact that modifies greatly the governance systems of the agri-food chains and appeals for new governance patterns largely different than those observed in the traditional food marketing systems.

This new pattern of urban food supply pushes local agricultural producers towards new challenges in terms of production and marketing. However, small scale agriculture, main income source for the livelihood of the majority of rural poor, is poorly prepared for these changes that bring new opportunities but also set up high entry barriers concerning these new marketing channels. So, it becomes urgent to require for *anticipatory policy responses* to agri-food restructuring, with special focus on *inclusion of small-scale producers in dynamic markets*.

Over these last years, the rise of supermarkets in developing countries and the impact of the large retailing on small producers, are in the hearth of numerous research in the field of economic development in a number of South countries (Latin America, South-East Asia...). Indeed there is an increasing demand to deepen the research on implications and opportunities of large-scale retailing for small-scale producers, to understand what is the best practice in connecting small-scale producers to dynamic markets, and to bring these findings into the wider policy arena.

An intensive two-year program (2005-2007) entitled *Regoverning Markets* of collaborative research and policy support has been planned, built around a global consortium of Southern and Northern institutions. Within this project, Turkey was selected amid the countries that will be covered by the research work. Characterized by a long history of State intervention, the Turkish case could bring other understanding on the role of public authorities in market regulation, and its impact on producers' organizations and urban food security.

### 1. TURKISH BACKGROUND

#### 1.1. Evolution of the Turkish retail sector in favour of large retailers

Turkey, with 65% of its total population settled in urban areas and several metropolises (Istanbul, Ankara, Izmir...), illustrates quite well the agri-food restructuring phenomenon.

The development of supermarkets started quiet early in Turkey, by State initiatives. At the beginning of the 1950s, Turkish State created "self-service" retailer chains, first under the brand of Sumerbank, a State-owned establishment. Then in 1954 the first large-modern store was set up in Istanbul on the joint initiatives of the Swiss Migros Cooperatives Union and Istanbul municipality. It then became fully domestic in 1975, when its majority shares were transferred to Koç, a major Turkish conglomerate. In 1956, *Gima A.S.* was established in Ankara, as a Turkish para-public initiative serving as a multistore and including food products and beverages. During the 1960s, State continued to regulate the food retailing by insisting on the creation and development of consumer cooperatives by city municipalities, or public administration (the army

had a large chain of self-service outlets, *Ordu Pazari* and Izmir Municipality founded a consumer cooperative under the name of *Tansaş*).

However, the true take-off of supermarkets in Turkey took place only in the 1980's, as local investors developed small and medium stores, aiming at high income consumers in large urban centers. During the 1990s, the liberalization of foreign direct investments (FDI) encouraged the arrival of large European retailers to Turkish domestic market (Metro in 1991, Carrefour in 1993), and simultaneously stimulated growth and extension of domestic chains. Today, large retailers target all income classes and are spread to medium and small-sized cities. Recently, the arrival of hypermarket formats as well as the Hard Discounters emerged as key investments within the Turkish retailing sector.

Thus, while supermarket concept developed very early in the country, the consolidation and multinationalisation process inherent in large-scale distribution expansion started just recently in Turkey (Reardon and Berdegue, 2002). For example, the cumulated market shares of the three leaders represented only 8 % of the Turkish food retail market until recently (ME & SIMSEK, 2003). Nonetheless, an important concentration process during summer 2005 restructured deeply the Turkish retailing : while *Carrefour* that entered the Turkish market in 1993 and that formed a joint venture with Sabancı in 1995, bought-in *Gima* supermarket chains, *Migros* acquired *Tansaş* supermarkets. (Kobifinans, 2005). So, by fall 2005, Migros remains the lead group of the Turkish retailing sector with an estimated turnover of more than 2 billion US dollars while Carrefour, with a cumulated turnover of 1,5 billion US dollars becomes the challenger before the hard discounter BIM and cash & carry leader Metro (Kobifinans, 2005).

## **1.2. Fresh Fruits and Vegetables Procurement Patterns of Large Retailers**

Today, supermarkets account for 45% of total market shares in Turkey (ME & SIMSEK, 2003). However Fresh Fruit and Vegetables (thereafter FFV) which are at the basis of Turkish food consumption (respectfully 100 kg and 230 kg per person per year (Saunier-Nebioglu, 2000) marketed through supermarket chains is estimated about only 10 % of the total FFV marketed volume (Coudel, 2003). In fact, FFV are mostly marketed through open street markets as price sensitive Turkish consumer continues to purchase his fresh produce marketed through shorter marketing channels.

There is still a large potential to increase FFV sales in supermarkets since their market share is low. Therefore modern retailers place high priority on the FFV sections and try to increase FFV sales by introduction larger volumes of standardized products with high quality and by packaging differentiation.

## **1.3. New oportunities for local small-scale producers**

Sourcing patterns of large retailers could provide new marketing opportunities (sustainable markets with high volume requirements) for local producers. This is especially true because of the perishability of these products for which proximity may be an important factor of quality by source of better freshness (Dries, Reardon and Swinnen, 2004).

It is evidence that large retailers prefer to procure their fresh produce from large-scale producers who have the necessary capacity to offer regularly big volumes of high quality produce (Weatherspoon and Reardon, 2003). However, in Turkey like in many emerging economies, large producers are export-oriented because of better value that they procure in international markets, mainly in Eastern European markets as well as in EU. Therefore, the main suppliers in domestic

markets happen to be a great number of small-scale producers possessing less than 0,1 hectare for which concerns the horticultural production under protected cover and about 10 hectares for open field production.

Large retailers' procurement systems could thus provide new marketing opportunities for these small-scale producers. On the one hand, horticulture as a high value production underlines the diversification strategies of farmers. On the other hand, FFV growing could increase significantly farmers' income with intensive production systems applied to very small farms. This issue is particularly important in the context of Turkish agriculture where the largest constraint is linked to the atomized land tenure system because of the inheritance rules prevailing in the country.

Hence, it must be reminded that large retailers, in order to identify and to gather this highly atomized supply structure, prefer to appeal to intermediary agents like wholesalers, brokers or producers' organisations.

#### **1.4. Turkish Marketing Regulations**

The FFV marketing in Turkey is highly regulated. Indeed, since 1995, a new law on wholesale markets obliges all FFV to pass through wholesale market halls, under commissioners' control. In fact, farmers deliver their fresh produce to commissioners registered at the wholesale market hall, who endorse the charge of selling it to wholesalers or retailers, after fixing the minimum selling price and the level of the commissioner fee. According to the law, this commissioner fee can not exceed 8% of the selling price. Hence, the commission level is often established at 8% because of a lack of competition amid the commissioners. The main reason of this situation lays in the fact that the city municipalities, according to the law, determine those commissioners who rent the City Hall offices as soon as the Hall construction is achieved, and that there is actually no room for new entries. This situation leads to a kind of latent agreement amid the already established commissioners and block any loyal competition.

In this marketing system, the State and City municipalities deduct taxes and fees that, when added up with commissioner fees represent about 14 % of the total value of the marketed produce.

Commissioner fee	8 % (15 % for income taxes and 0,1 % for retirement funds)
Municipality tax	2 %
Excise tax (stoppage tax on benefits)	2 %
Social insurance fund	0,1 %
VAT	2 %
TOTAL	14,1 %

Retailers have the obligation to show to controlling officers the invoices for each item that they purchase indicating these different taxes and fees. The State as well as City Municipalities, aside the fact of collecting additional revenues for their functioning, aim to control and regulate selling prices and to protect the farmers' rights as the commissioners' fees are supposed to ensure better selling conditions for producers.

#### **1.5. Producers' Unions as an alternative to existing system**

Beyond export-oriented or industry-oriented produce that are exempt of the wholesale market regulation, the Wholesale Market Law bring about some other exceptions. First of all, it allows direct procurement from individual producers as far as buyers accept to pay a municipality tax representing 13 % of the total value of the marketed produce.

Otherwise, in order to encourage the foundation and functioning of producers' cooperatives, the law stipulates, in its article 6, that growers who are organized in "Producers' Union" comprising at least 50 members and "taxable retailers" (thus, including the supermarket chains) can contract directly without passing through wholesale markets. So, they benefit from tax-free transactions, as they pay neither municipality taxes nor the commissioners' fees. In this manner, producers' unions act as intermediating agents that can be an alternative to commissioners.

A comparison between the figures of presented in the afore table and the figures of the here-by table presenting the total taxes and fees that the buyers pay in case they contract the farmers via producers' unions, there is a two-fold difference between appealing to commissioners' services or getting in touch directly with Producers' Unions.

Cooperative's fees	3-6 %*
Commissioner's fees	-
Municipality tax	(2 %)**
Excise tax (stoppage tax on benefits)	2 %
Social insurance fund	0,1 %
VAT	2 %
TOTAL	7,1 to 12,1 %

\* Each cooperative is free to fix this commission fee that helps the cooperative to cover its running costs. Generally, it is fixed between 3 and 6 % of the total value of the marketed produce.

\*\* For agricultural cooperatives, there is no legal obligation to pay this tax, but actually they pay it if they rent an office within the Wholesale Market Hall

## 2. PRESENTATION OF THE FIELD STUDY

### 2.1. Working hypothesis

In our research work, our main assumption is that ***both supermarkets and producers in Turkey have interest in contracting with each other through Producers' Unions, because doing so, they reduce their marketing costs related to transaction fees.***

Moreover, Producers' Unions can play a significant role in helping small FFV growers who can not otherwise afford the investments necessary for the standardization process required by supermarket chains.

Otherwise, collective organisation should be a relevant structure for technical diffusion, quality improvement, production planning and achievement of scale economies. Supermarkets should gain at contracting with producers' unions, since the law supports the emergence of collective initiatives.

### 2.2. Methodology

The methodology is based on secondary data, literature review, and a large number of surveys to identify and to get a better understanding of conditions that drive Producers' union to successful linkages with supermarket chains; to analyse why and how large retailers seek to establish business relationships with Producers' union and to determine the role of the public sector in promoting small-scale producers in dynamic supply markets. The survey was realised during the period from October to December, 2005.

Semi-structured interviews were conducted with a large number of stakeholders in the FFV marketing channels : top managers of large retailers; managers working in regional supplying units of these large retailers; wholesalers (dedicated or not); directors of Wholesale Market Halls; farmers and producers' cooperatives, as well as officers working at governmental institutions at national and local levels.

This methodology provides qualitative information, necessary before implementing quantitative tools as a next step of our research project.

### **2.3. Results : a win-win relationship between a cooperative and a supermarket supply unit**

There is no remarkable change in the global behaviour of the stakeholders of the Turkish agri-food system. According to E. Coudel (Coudel, 2003; Codron and al., 2004) and under the light of our recent data, the direct sourcing of fresh produce from Producers' Unions is not an important issue for supermarkets. "Success stories" concerning the direct linkages between supermarket chains and Producers' unions are quite scarce. While supermarket chains seem looking for this kind of direct linkages, they meet considerable constraints stemming from the difficulties of small producers to organise themselves around Producers' unions (coordination problems, lack of skill, financial problems, interlinked transactions with commissioners...).

We present in this paper, one of the "success stories" focusing on a Village Development Cooperative that became a "Producers' Union" since 1995. that has direct contractual linkages with supermarkets. It furnishes us a good example to illustrate the rise of a new "win-win" relationship between producers and buyers but also to highlight the failures of the institutional environment to upgrade and to extent this kind of innovative institutional arrangements.

## **3. CASE STUDY : NARLIDERE AGRICULTURAL DEVELOPMENT COOPERATIVE**

Before analyzing the precise reasons which contributed to the rise of this successful contractual arrangement, we first would like to present the Narlıdere Village Development Cooperative, its history and functioning.

### **3.1. Historical background and objectives**

The Narlıdere « Village Development Cooperative» established according to the law 1163, is located in Bursa region. It was registered in 1967 by Ministry of Agriculture and Ministry of Forests. It fits quite well to the general trend of the cooperative development during the 1970s where 5811 Village Development Cooperatives were founded between 1967 and 1976 following the promulgation of the law 1163 regulating the establishment of agricultural cooperatives and coordinating their functioning. At the beginning of 1980s there were 7626 Village Development Cooperatives (F. Akyar, 1984) of which the total number decreased to 5200 (*data communicated by the high officers of the Ministry of Agriculture and Rural Affairs during*

*the interviews (November 2005)* by the beginning of the 2000s. With regard to their total numbers, Village Development Cooperatives form, by far the most important organisational structure at the village level. The reason of this proliferation in spite of the severe lacking of State funding, must be searched in the fact that these cooperatives facilitated the passage of Turkish peasants to European countries as migrant workers (F. Akyar, 1984). As this activity slowed down suddenly after 1973 oil crisis, the tremendous increase in their number also stagnated and then fell down.

The main activity of the Narlıdere Village Development Cooperative was to provide modern inputs to its their members that continued more or less regularly until 1995. At this time, the total number of the members of the Cooperative did not exceeded hundred farmers.

According to the cooperative law 1163, only farmers living in the village or at its close neighbourhood can subscribe to the Cooperative. Members must participate to the annual general assembly and vote according to the democratic rule of “one member/one vote”. The general assembly needs a corium of at least 2/3 of the total number of members and a decision is reached when more than 51% of votes agree. There is no proxy system. The Members elect a Board of Directors and a Board of Supervisors that coordinate the Cooperative’s activities and supervise different stakeholders. Any Member who is absent from 3 consecutive general assembly can be excluded from the Cooperative. Beyond these rules, entry to and exit from the Cooperative are free.

### **3.2. Interactions between public and private initiatives and the structure of the Agricultural Cooperative of Narlıdere**

The big change in the Cooperative’s activities took place in 1995 further to FFV market regulation law. Initiative came from a downstream player, the regional supplying unit of Migros situated in Bursa.

In fact this supermarket chain coordinates various regional units for FFV sourcing, established mainly in production pools of the country. Thus, MIGROS is installed in Bursa region since 1969 because of the significant fruit production of this area, and in particular in Narlıdere. Open field vegetables of Bursa region are also highly demanded during summer season while Antalya region, situated at the Southern coasts of Turkey supplies greenhouse produce during fall and winter seasons. The Bursa unit accounts for 10% of Migros’s total FFV supply at national level. Up to 1995, the Migros-Bursa unit was had direct procurement from producers. But as a result of the promulgation of the 1995 market regulation law on FFV, this sourcing pattern became fee and tax expensive. The Bursa unit manager, a native of the region and working at Migros Bursa unit since 1969, saw that there was a possibility, according to the Article 6 of the 1995 law, to contract directly with Producers’ unions without paying commissioner fees. His origins helped him to contact easily various cooperatives of the Bursa region and finally he chose the one that offered highest production volume potential, i.e. Narlıdere Village Development Cooperative comprising some hundred producers with holding sizes between 30-50 decars. This holding sizes reflects quite well the general land tenure system of Bursa region as 42 % of the farmers have holding ranging from 20 to 49 decars and 28 % of them have less than 20 decars (DIE, 2005).

Narlıdere distinguishes itself from the rest of the villages of Bursa region with its high specialisation in the production of fruits like peaches, cherries, strawberries, apples and pears and in the production of some vegetables like open field tomatoes (around 700 tons per year) and cucumbers (around 500-600 tons per year). As winter vegetables, the production design comprises red cabbages, cabbages, eggplants and spinach.

After 1995, Narlıdere cooperative refocused its activities on FFV marketing, and particularly for a regular supply for its main client, Migros as well as for other clients. The fact that it bypasses the commissioner intermediating helped to raise the value that the producers got for their fresh produce.

There is no written contract between the Narlıdere cooperative and MIGROS but their oral agreement is based on mutual benefits arising from their transaction. Moreover, Migros-Bursa unit helps the Cooperative to fill in different administrative forms. In order to enforce and improve this specific linkage, the Cooperative obtained a "Producers' Union" certificate of from the Ministry of Industry and Trade Ministry and also hired an office in the Bursa Wholesale Market City Hall.

Ten years later, this tacit agreement is still valid and the absence of written contract on FFV transactions is now resolved by the signature of a ten-year formal renting contract by MIGROS to share the new platform of the Cooperative.

These developments appealed for newcomers and today, the Cooperative counts 241 farmer members.

### **3.3. Contractual arrangement**

#### ***a) Product attributes***

Initially, the marketing agreement between MIGROS and the Cooperative did not imply radical changes in the production pattern : quality standards were not yet well developed in the domestic market and post-harvest activities like sorting, grading and packing remained at the charge of Migros-Bursa unit. It is only after the fulfillment of successive transactions and the settlement of trust among the Cooperative and MIGROS that the producers improved gradually the quality of their products. More recently, Migros-Bursa unit demanded to the Cooperative to integrate gradually these post-harvest activities. Consequently, the Cooperative obtained governmental credit funding to build up a warehouse including a packing platform of 11 000 m<sup>2</sup> and a cold storage room of with a stocking capacity of about 2 400 tons. The whole project costs some 2,3 million YTL and calls for members' financial contribution.

#### ***b) Transaction attributes***

Transaction attributes of the marketing activities of the Cooperative with regard to this specific agreement brought along some radical changes in the Cooperative's organisation as to ship regularly normalized volumes of fresh produce to the Migros-Bursa unit. So, the manager of the Bursa unit got directly involved in the production schedule of the Cooperative's members. He leads the individual farmers, member of the Cooperative, according to the needs of the supermarket as MIGROS realises product forecasts at national level.

Concerning the terms of payment, contractual agreements with supermarkets include normally a delay of 45 days after delivery.

#### ***c) Enforcement***

The fact that MIGROS changes daily its sourcing order with regard to the volumes demands and that there are great fluctuations concerning the FFV markets prices require highly flexible relationships between the contracting parties. This is the main reason explaining the



absence of written contract concerning the agreement between the Narlıdere Cooperative and Migros-Bursa unit.

Each contracting party gets information about the wholesale and retail prices of the fresh produce in Bursa in order to fix their own prices, which avoids long bargaining hours. Further, Migros pays higher prices than the prices set on the regional market. Firstly, the fact that the two partners share the commissions fees of which they are exempted increases the price paid to member farmers of the Cooperative. On the other hand, Migros pays extra value for a homogenized and high quality fresh produce. Indeed, the free choice system that benefits the Turkish consumers in supermarkets calls for homogenized produce so as to avoid losses and wastes of unsold goods. The manager of the Bursa unit claims that he is “*not rich enough to buy bad quality products!*”. Finally, as there is no exclusivity clause concerning both parties and no specific assets engaged by the Cooperative, Migros-Bursa unit is obliged to offer better prices in order to keep a continuous relationship with the farmer members of the Cooperative.

#### 4. SPILLOVER EFFECTS OF THE RELATIONSHIP BETWEEN MIGROS-BURSA UNIT AND NARLIDERE COOPERATIVE

##### 4.1. Changes in the Cooperative’s organisation induced by the contractual arrangement with MIGROS : towards a better coordination of activities

###### *a) Activities of the Narlıdere Cooperative*

Collective marketing and endorsing post-harvest activities brought along organizational changes within the structure of the Cooperative.

Firstly, farmer members are informed about the procurement planning of Migros at the beginning of the production cycle. Of course, the final decisions depend on the willingness of the farmer members but advices from Migros are rather welcome because of the guarantees that they bring about concerning the outlets and price levels of the marketed produce.

Otherwise, the Cooperative ceased to furnish modern inputs on credit to its members because of the important refunding problems that these advances raised. However, the Cooperative continued to advance money on credit to its members in need of cash. A written engagement from the borrower, but there is no interest rate. In fact, few producers who have punctual financial problems, have recourse to this kind of services (approximately 15 to 20 members). Producers pay back in kind according to a fixed payment plan.

Producers bring their fresh produce to the warehouse immediately after the harvest time. Vegetables are shipped on a daily base because of their high perishability while fruits can be stored in the cooling room by the growers before being sold to the Cooperative for a low rent. This rent which is about 4 000 YTL per year is registered as a part of the total incomes of the Cooperative.

For the moment, it is still Migros that takes in charge the sorting and packing activities and pays the producers for these services. It also takes in charge the transportation costs from the warehouse to its own national platform. With regard to other customers of the Cooperative, this latter transports the sold produce by its own van for high negotiated prices.

###### *b) Internal functioning and arrangements with members*

According to the Cooperative's rules, there is no exclusive contract among the farmer members and the Cooperative. Thus, each member is free to sell its produce where he wants and the Cooperative has no obligation to buy the produce of its members.

The Cooperative accepts only those deliveries which meet a certain quality and does not base its procurements on a price range. Otherwise, it sometimes happens that the Cooperative buys produce from non-member producers. In general, the Cooperative advantages its members but nobody protests if the Cooperative prefers to buy outside because the farmer members know that the benefit of the Cooperative will return to them thereafter.

In the same way, members are not obliged to sell their produce exclusively to the Cooperative. Therefore, the Cooperative must create additional incentives to secure its sourcing, for example by higher prices, or by advancing money on credit or still by renting its cooling room. Mostly in vegetables marketing, producers are quickly captured by the higher prices offered by middlemen or wholesalers. Nonetheless, a long-term relationship with the Cooperative offers a higher guarantee to the producers of the village. In our days, 70 % of the total production of farmer members are shipped through the Cooperative

Finally, Since the village platform is built, the Cooperative use more scarcely its office in the Wholesale Market Hall even if all the transaction are carried out within this Hall.

#### *c) Cooperative's earnings*

The cooperative takes a commission fee of 3% of the total sales in order to afford different running costs and wages. The profits of the Cooperative are solely based on this gain. 15 to 20% of this profit compose the social capital of the Cooperative. According to a decision of the General Assembly this profit is not yet distributed. Earnings are distributed among the farmer members only according to their deliveries to the Cooperative.

## **4.2. Arrival of new rules**

Changes in the Cooperative's organisation are accompanied by some modifications in the Cooperative's rules.

#### *a) Closed membership*

In 1995, the Cooperative opened its ownership to "Member-Non-Users". These latter must be the village's inhabitants. These Member Non-Users, who are civil servants or work in non-agricultural sectors are, of 7 persons . They have a share in the Cooperative's capital that allow them to take part in Cooperative's decisions. However, they can not currently benefit from any financial profit-sharing. are involved in the growth of the Cooperative and therefore in the development of their village.

Beyond these few Member Non-Users, the farmer members have quite homogeneous production patterns, a characteristic that is largely maintained by the Board of Directors of the Cooperative. This is the main reason that drove the Cooperative to function in a closed membership. In this manner it protects its current members and can keep a collective cohesion within the cooperative structure.

#### *b) Exclusion of a member*

Among new operation rules, it was established that the members who would refuse to contribute financially to any new project proposed by the Cooperative Board of Directors and voted in one of the General Assembly, could be excluded from the Cooperative and be replaced by a new member. For example, some producers had to leave the Cooperative, before the construction of the warehouse, because they refused to contribute financially for the achievement of this project. The Cooperative manager thinks that they were afraid of a too high investment.

Thanks to member homogeneity, this kind of situation is not so common in the Cooperative. Moreover, there is little interest discrepancy between young and old producers in term of investments, because there is a smooth transition of the farm from the elder to the younger.

#### **4.3. Figures and facts : the Cooperative's current agreements**

Cooperative's total sales is approximately 6,5 million YTL per year It works with MIGROS for ten years now, and sell 2/3 of its produce (4,5 million YTL) to Migros which represents 60-70 % of its total sales in volume. It sells also its produce to ÖZDILEK, a regional supermarket chain, since these last 4 years and to METRO, the Cash & Carry leader, since these last 2 years. Otherwise, it works with wholesalers, in particular from Antalya region and who purchase produce for exports as well as for mini-markets.

So forth, the Cooperative advantages Migros with respect to its other customers, as it works with Migros for a long time. Even in the absence of a written contract, they developed a loyal relationship with Migros throughout the years.

#### **4.4. Cooperative's projects**

Currently, the cooperative tries to export peaches to Russia by its own means and it plans to found its own supermarket in the city of Bursa.

Since these last two years, the cooperative makes part of a new regional union of cooperatives. This latter covers 32 cooperatives that operate in a large range of agricultural activities. Some of them have gasoline stations, others have mini markets, that they run as a service for their farmer members. Some others occupy offices in the Wholesale Market Hall. The Narlıdere Cooperative is the only one that acts as direct supplier of Migros while some other supply fresh produce to Metro or Özdilek. This union but some of the others work also with METRO and ÖZDILEK. This regional union of cooperatives is still young and develops gradually its direct trade with buyers.

### **5. SCOPE AND ADVANTAGES OF THE WIN-WIN RELATIONSHIP**

#### **5.1. Advantages for small producers of Narlıdere village**

This continuous relationship with Migros is a considerable source of income for villagers who think that the incomes have increased 30 % since the beginning of this direct marketing pattern. For some of the villagers, it means a return to employment. It must also be reminded that in Turkey, the subsistence agriculture is considered as an "unemployment buffer". Furthermore, this relationship enhanced village development as in this ten years time, villagers constructed a new school, a mosque, a gas-oil station for farmers, a mini-market and a warehouse.

Beyond this income increase and improvement in village welfare, partnership with Migros also brought along a technical assistance, particularly for the improvement of tomato production techniques as well as for the extension of the culture of some varieties of cabbage. It became by now, usual that farmers ask to Migros-Bursa for technical advice.

## 5.2. Advantages for Migros

35% of the FFV procurement of the Migros-Bursa unit is supplied by 2 or 3 cooperatives. However, it is only with Narlıdere Cooperative that the relation is established on a regular basis. Other cooperatives are smaller in size with more or less 50 farmer members and bring their produce to the platform of Narlıdere.

According to the manager of the Migros-Bursa unit, there are great advantages of working with the cooperatives of the region :

- to have only one bargainer to whom to address for its sourcing, especially in a context of small-scale farming,
- to get regular deliveries of produce of sufficient volume and homogenized quality,
- to have one fixed place for the deliveries as other cooperatives deliver their produce to the Narlıdere platform.

Nonetheless, the other 65% of its procurement come from wholesalers, other tradesmen or private companies because of several reasons :

- Cooperatives can not supply the necessary volume needed for the entire sourcing of Migros-Bursa, because the number of farmer members of the cooperatives are not sufficient enough and/or they do not have appropriate agronomic conditions to realise considerable yield increases.
- Only few private companies have sophisticated conditioning material for processed food and for packaging. Migros-Bursa would like that its partner cooperatives integrate these conditioning activities within their own activities during the next two or three years.

## 6. LESSONS TO DRAW

This cooperative gathers different advantages which have led to its success :

First, it offers a good *territorial anchoring* case, as Turkey's first producers' organization dating from 1967. In 1995, where there was an important institutional change, it already had around 100 farmer members with a potential to supply homogenized quality and volumes.

The Cooperative displays a *financial independency*. In fact, transactions with supermarkets induce long terms of payments which are around 45 days of delay after delivery. This delay represents often the most important constraint concerning the inclusion of small landholders in the supply chain of large retailers. Producers of Narlıdere Village seems to bypass this cash constraint thanks to their diversified production pattern that helps them to diversify and increase their sources and level of income. Furthermore, fruit production is also a high value creating activity and the village has considerable comparable advantages in the Bursa region concerning the fruit production. Cash availability permits the village people to deal with supermarkets that never offer advance to producers.

Today, the Cooperative try to preserve its financial independency by deducting 3 % of commission on the volumes of the fresh produce marketed by its members, in order to have the

funding necessary for its own functioning. It must be reminded that this ratio is much lesser than the fees charged by wholesale markets.

*Market demand adjustment* : The cooperative generates income and gains profits by renting its cold storage capacity to its members, as well as to other non-member farmers or/and to other cooperatives. Besides, this cold storage facility allows the Cooperative to satisfy the supermarket requirements (*i.e.*, procurement regularity, facility to supply minimum volumes required, homogeneity in quality of the shipped produce, respect of terms of payments). Simultaneously, it wins a certain bargaining power face to supermarkets. “In our days where the government credits for such investments are severely cut, the Cooperative’s collaboration with Migros since these last ten years is a priceless advantage with regard to obtaining such investments”, says the accounting agent of the Narlıdere Cooperative.

*Organisational adjustment* : the Cooperative, in order to protect its current members and to prevent interest discrepancy among them, established new rules like closed membership or exclusion of members who do not invest in collective projects.

Finally, this is a real supermarket/cooperative collaboration that has emerged thanks to the advanced organization and permanent adaptability of the Cooperative to the specific demand of Migros-Bursa unit.

## 7. DISSEMINATION AND CONCLUSION

Given the difficulties faced by producers to organize themselves, the few cases revealing direct relations between supermarkets and Producers’ unions that can be observed, are largely implemented and promoted by supermarkets. Migros invests in capacity building of its local staff and production management by acting inside the cooperatives, going thus far beyond the mere incentives comprised by formal contracts.

It can be assumed that, as these kind of investments are quite costly for private players who would try to fill up the gap of public intervention failures, only few supermarkets involved in FFV business, will take these kind of initiatives. In fact, Migros could realise this kind of direct sourcing because of its historical background and its anchoring within the Turkish agri-food chain. For example, the manager of the Antalya procurement unit of Metro told that it was much more difficult for them to realise such agreements with producers’ cooperatives or unions.

Otherwise, Migros wanted to extend this kind of arrangement between Migros supplying units and Producers' Unions in different production areas all over Turkey. However, it is evidence that the number of dynamic and proactive cooperatives is very small. In the case of Narlıdere, the personal implication of manager of Migros-Bursa unit was the most important driver for the achievement of the agreement with this Producers’ Union. Hence, it is a heavy engagement for the Bursa unit.

However, this case remains scarce in Turkey for which concerns Village Development Cooperatives. It is not sure that the dissemination of this kind of win-win relationship can be applied rapidly and massively in a near future. Also there is a number of questions that arise :

- Will small farmers lose out on their direct dealing with large retailers, once they get organised within Producers’ union, because they will gradually take in charge most (or all) of the post-harvest activities ?
- Can collective actions of small holdings provide necessary investments for the implementation of post-harvest activities (grading, sorting, transportation)? Can these investments bring about a competitive advantage over other players of the sector?

- Can these unions provide necessary financial strength in order to meet the long delays concerning the terms of payment that the supermarkets apply ?

According to the recent law promulgated in 2004, Agricultural Credit Cooperatives appear as entrants to develop direct linkages between small producers and supermarket chains. Indeed, according to this new legislation, Agricultural Credit Cooperatives gain the right to market the produce of their farmer members. Yet, administrated for a long time by the State, Agricultural Credit Cooperatives bypass a number of organisational problems because of the inclusion of an agricultural engineer in the structure of each cooperative. They bypass equally problems related to advance payments because of their capacity to obtain cash credits from banks. Thus, it seems that almost 300 credit cooperatives are already certified as “Producers’ Union” during 2005, and can, in this way, market their products outside wholesale markets, even if only few of them actually started to do so.

In this paper, we observed how Turkish public intervention has impact on cooperative strategies and, therefore, supports inclusion of small farmers into the growing modern market.

However difficulties to extend innovative arrangement between cooperatives and supermarkets, highlight various limits of actual cooperatives in Turkey.

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