

QUALITY LINE CARREFOUR

The “*Filière Qualité*” (Quality Line) concept was developed, based on the accreditation of suppliers who agreed to follow more rigorous quality standards than those prevalent in the food industry at the time.

Three aspects proved particularly relevant: adequately managing a select network of farmers and producers through a highly credible accreditation system; motivating Carrefour employees to support the new range of products, which would be marketed alongside traditional brands; and provide consumers with information about the project’s quality seal, which, in Brazil, was named “*Garantia de Origem*” (Origin Guarantee).

The model was adopted in France to great success, which motivated its implementation in other countries where Carrefour is present. The program was brought to Brazil in 1999 through the initiative of the agronomist Arnaldo Eijsink. The range initially consisted of three products, and was gradually expanded to 86 (in 2008). A specialized organizational framework was established to manage the model.

The Foundations of the *Garantia de Origem* (GO) Program

The GO program was born of the modern role played by supermarkets, which involves coordinating and providing information about the supply process from end-to-end – from the farm to the storefront.

A survey of consumers was conducted and selected the five most important attributes that would make up the foundation of the *Garantia de Origem Carrefour*. They should be: (1) safe and healthy; (2) authentic-tasting; (3); (4) environmentally correct; and (5) socially correct.

Carrefour believes all economic progress must be based on environmentally sustainable practices, that is, agricultural production should respect the original environmental characteristics of the region it is carried out in. Social responsibility is also a concern; adequate working conditions are a prerequisite for the quality of life of associates involved in production. In short, the *Garantia de Origem* seal is a commitment to society.

Seals and certificates are a response to the need consumers feel for more stringent monitoring of food quality and safety. Several types of seals are available; some are specific indicators of origin, and others certify intrinsic and extrinsic characteristics.

The Carrefour product range includes products carrying the *Garantia de Origem Carrefour* (GO) seal, which is characterized as a seal that makes consumers aware of extra quality-ensuring practices that are not employed in the production of traditional products.

Analysis of the evolution of the GO share of total sales in several countries shows that meat is the most prominent category, particularly in Brazil and France, accounting for more than 30% of total sales in the category. The second highest-earning category of GO products was Fish and Seafood, with a 12% share of earnings in Brazil and France (2007). The Produce category also features prominently, with over 6% share. The GO system also has certified products in other categories, such as processed meats and self-service display products such as eggs.

The main differences in GO program management between Brazil and France concern consumer profiles and the geographical extent of the project. Creating partnerships and distributing products throughout a country as large as Brazil is a considerable challenge, as is informing Brazilian consumers and motivating them to value attributes that have historically been esteemed and understood in other nations.

The GO certification process begins by contacting producers believed to have the potential to meet project requirements and inviting them to pursue accreditation. An initial auditing visit is conducted, in which auditors present the basics of the GO program and its workings and provide suggestions and guidance after a field inspection. Demands vary according to the product. As well as physical requirements such as size and surface, GO products must meet a variety of other standards, including proper application of pesticides, good manufacturing practices, worker welfare, environmental sustainability, and others. Fish and seafood are transported live, and slaughtered and tagged with the GO mark in Carrefour's Distribution Centers.

Periodic inspections are carried out by an external auditor employed exclusively by Carrefour. The audit examines nine aspects: (a) location, history, and management of the farming area; (b) culture handling; (c) plant protection measures (use of pesticides, herbicides etc.); (d) packing house; (e) traceability; (f) environment; (g) social aspects; (h) collection of lab samples and (i) other comments. Each sub-item of each aspect is graded on a scale of 1 to 5.

Internal Management of GO Products in the Carrefour System

When a product arrives at a Carrefour Distribution Center (DC), it is examined against contractually-determined criteria.

After delivery and inspection at the DC, products are distributed to Carrefour stores. The Store Director and section manager (produce, meats, etc.) are responsible for displaying GO products prominently and making customers aware of them. Stores take certain measures to improve product display and increase consumer perception and awareness. On the training front, Carrefour employs a concept of "training stores", that is specializes in training employees for a specific sector.

Product display, pricing, and consumer awareness actions are carried out by store managers, which accounts for a certain variation of GO product positioning among Carrefour stores. The chain also offers a special program for consumers known as *Portas Abertas* ("Open Doors"), which allows store to interact directly with farmers and growers, when clients are introduced to the GO concept and the benefits of GO products, take part in taste testing, and are free to ask questions about the program.

GO Product Performance

GO product earnings have been on the rise. From January 2004 to May 2008, most GO sales were in one of two categories: meats and produce, which together accounted for over 90% of the period's total sales.

A program that involves several agents along a production chain must create value and distribute it. The stability of the model will depend on the costs incurred and benefits reaped by these agents.

Therefore, from the supermarket's point of view, the earnings margin created by these product categories, whether regular or GO, must be weighed against program management costs. The Meats category featured the greatest difference in margins between regular products and GO ones, both in 2006 and in 2007.

Farmers' cost-benefit ratio is key to the success of the program. Benefits of taking part in the program may be associated to two elements. Firstly, the price premium paid by Carrefour varies according to current prices on the wholesale market. Carrefour also provides a purchasing guarantee, which is helpful during market slumps. Finally, farmers have mentioned that displaying a certification seal improves their reputation, that is, GO certification also improves sales of products to channels other than Carrefour.

The costs incurred by farmers are associated with changes made towards complying with GO program requirements, which are often associated with compliance with current legislation and, sometimes, are more stringent than legislation.

The costs incurred by Carrefour are different from those associated with implementing formal certification programs, since the GO program is an in-house, educational program that uses the Carrefour brand itself as an incentive to certification.

The Carrefour–supplier relationship is based on a formal contract, openness in disclosing information, transparency, and mutual trust. In order to illustrate the GO operation and difficulties faced in its implementation, we will report five cases of GO suppliers (Nova America Citrus; Mr. Valdir’s Lime; Association of Beef producer of South Matogrosso; Caliman Agrícola’s Papayas and *Free-Range Chicken from Frigorífico Nho Bento*)

Nova America Citrus

Nova América Citrus, a citrus farming operation in Santa Cruz do Rio Pardo (upstate São Paulo), began supplying GO-labeled fruit to Carrefour on April 8, 2002, when the company signed a GO contract with Mr. Arnaldo Eijsink. Prior to GO certification, Nova América had been under contract with Carrefour as a supplier of store-brand orange juice.

Mr. Valdir’s Lime

Unlike Nova América, Mr. Valdir Scucato’s citrus farm is a small family operation, run by Mr. Scucato himself, his wife, and their two children. Their first contact with the GO program came when a GO Team visited the family farm in Mogi Mirim (São Paulo state).

Association of Beef producer of South Matogrosso

In 1998, a group of ranchers from the state of South Matogrosso, seeing that the domestic and international markets sought higher meat quality and a guarantee of safe provenance, founded the *Associação Sul Matogrossense dos Produtores de Novilho Precoce*. Arnaldo Eijsink knowing this initiative, contacted the association, and found their goals to be quite similar to those of Carrefour’s GO program. After an initial inspection visit, the ASPNP was invited to pursue *Garantia de Origem* status; it has been a supplier of GO beef since 2003.

Caliman Agrícola’s Papayas

Caliman Agrícola was founded in 1977, with the mission of “seeking quality to meet the demands of special consumers”. The company takes part in several programs to maintain the excellent quality of its fruit at every step of the production and supply chain. Among other initiatives, it has adopted the Euro-Retailer Producer Working Group Good Agricultural Practices (EurepGAP), a set of management practices developed by a major English supermarket, in addition to the Brazilian government’s Fruits Integrated Production (PIF) program and the adoption of HACCP practices.

Free-Range Chicken from Frigorífico Nho Bento

Unlike most suppliers, Nho Bento had already been raising free-range chickens before entering into a supply partnership with Carrefour in 1996. The GO-labeled free-range chickens raised and processed by Nho Bento, near Uberaba in the state of Minas Gerais, were already quite distinct from conventional chickens.

The Origin Guarantee and Agricultural subsystem coordination

The five cases presented above had several aspects in common. Introduction of the GO concept required structuring of a specialized management function within Carrefour. An auditing system was developed, which is not, however, a certification in the strict sense of the term. The scripts that guide field interviews are actually based on the original French model, adapted to the Brazilian reality and influenced by the EurepGAP standard.

Due to its strategic position in the agricultural subsystem, the food retail sector has great potential to be a coordinating agent. Its proximity to consumer enables it to carry their demands and preferences to suppliers. Although social and environmental aspects are gaining prominence in the media and in consumers' perceptions, the challenges of change and attitude toward all-out consumption of socially- and environmentally-aware products are uncertain.

Although stores make an effort to keep customers aware of the nature of the product, it is not uncommon for GO products to be displayed in low-visibility locations and with no distinguishing signage.

Future Challenges

Several internal factors may motivate a company to adopt quality certifications or seals, including difficult-to-measure quality attributes – that is, those that are not visible to consumers at the time of purchase. Justifications for the implementation of quality certification models are as follows: (a) increased efficiency; (b) improved management of controls; (c) improved customer service; (d) easy introduction of new suppliers; (e) easy identification of problems and issues; (f) the possibility of increased sales; (g) builds brand loyalty; and, finally, (h) use of the quality standard or seal as a promotional tool.

External motivations include: (a) legal requirements; (b) extent of involvement in the international market; (c) consumer demands; (d) technical requirements; (e) ease of monitoring; and (f) ease of identification by consumers.

The GO model is an example of a new phase in agricultural extension, an activity once carried out solely by the state. Technology reaches farmers through new pathways led by supermarket chains; whether by taking technology to farmers or making information available to consumers, modern distribution systems have the potential to play a new role in society, and the *Garantia de Origem Carrefour* points in that direction.

Teaching Notes

This case study may be employed as course material in strategy, agro-industrial governance, and marketing programs whose curriculum include content on sustainability structures (Chandler, 1969) and property rights (Barzel, 1971). It may also be used in organizational economics and marketing classes on information asymmetry (Akerlof, 1970), product differentiation (Aaker, 1997), and consumer perception (Grunert, 2002).

This case study may be used as an example of the new role of agricultural extension and the potential supermarkets have as agents of change to introduce sustainable agricultural practices.