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Turkey who has been taking steps to enter the European Union since 1963, is usually now considered in policy discussions in the same package as the candidates from Central/Eastern Europe (such as Romania and Bulgaria) for integration with the European Union; Morocco is in a somewhat similar situation because of the impending free trade arrangement with the Euro-European market; in both cases, these countries had economies that were very strongly controlled (with similarities to the pre-transition economies) and policies, that were suddenly subjected to opening, liberalization, and strong influx of foreign capital in the late 1990s, in the retail sector. The supermarket development is starting to have profound impacts on fruit and vegetable supply chains.
This article first describes the rise of the supermarket sector in Turkey and Morocco and discusses the determinants of such an evolution, in particular the late entry of FDI in the retail sector of both countries. It then examines the retailer FFV procurement systems by comparing some key macro-economic determinants of these procurement systems and by proposing a typology based on two main criteria : the level of backward integration by the retailers into the supply chain and the type of retailer-supplier governance structure (market or contract).

While the rise of supermarkets has been very spectacular in many developing countries, in particular in Latin America or South-Eastern Asia, it is still in its infancy in Low Income Mediterrannean countries (LIM) : in most LIM countries, supermarket shares are still very low (less than 5% of total retail) while in the few countries where market shares are higher (Turkey and Libanon), the rise of supermarkets may be considered as not very advanced because of the late entry of foreign direct investments (FDI). Such a statement is somewhat unexpected for two reasons : i) both Western and Eastern low income Mediterranean countries are considered as a strategic area for the European Union politically as well as economically; and both have entered specific EU trade agreements and are heading ftowards a closer political and economic integration into the EU; ii) given their proximity and the consistency of their historical and cultural links, one would have expected LIM countries to have been a priority target for international European retailers like Carrefour, Auchan, Tesco, Ahold or Metro who currently play global roles in retail modernization. Below we show that

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key determinants such as cultural traditions, or political and administrative constraints derived from the pre-liberalization era, have constrained global retail's FDI into the region until quite recently and expected to increase sharply in the near future, with large European retailers as the key players.

As in more advanced countries, the rise of supermarkets has important implications for local agriculture and in particular on the FFV sector. A preliminary step to understand those implications is to study the FFV procurement systems of the supermarket/hypermarket chains. (For simplicity we will henceforth simplify by saying "supermarkets" for any large format, super- or hyper-market, and distinguish the latter two only when necessary.) LIM countries being among the largest producers, exporters, and consumers of FFV in the world, hence it is quite interesting to understand what impacts this specificity has on the way that foreign or domestic supermarkets define their marketing strategies and implement their procurement systems.

There has been relatively little international and local research on the development of supermarkets in LIM countries and their role in the country's agrifood system. The present paper aims to contribute to addressing that gap in the literature by exploring both the paradox of the late rise of supermarkets and of the late entry of foreign capital in the local retail industry, and the different modes of FFV procurement systems in LIM countries, given the high specificity of those countries.

We focus on Morocco and Turkey as cases. Morocco and Turkey rank among the LIM countries with the largest populations, and are representative of the two subgroups of income defined for the LIM countries, the southern and eastern LIM, relatively low and relatively high within the LIM set. Turkey has been taking steps to enter the European Union since 1963, and is usually now considered in European policy discussions in the same package as the candidates from Central/Eastern Europe (such as Romania and Bulgaria) for integration with the European Union. Morocco is in a somewhat similar situation because of the impending free trade arrangement with the European market. In both cases, these countries had economies that were strongly controlled (with sharp similarities to the pre-transition economies in Central/Eastern Europe) and that were suddenly subjected to opening, liberalization, and strong influx of foreign capital in the late 1990s, including in the retail sector.

The paper proceeds as follows. Section 2 describes the patterns and determinants of the diffusion of supermarkets in the LIM countries, comparing Morocco and Turkey as cases, as two poles in the relative income spectrum in LIM, and also because the spread of supermarkets is advanced in Turkey and only incipient in Morocco. Section 3 analyzes the procurement systems of supermarket chains in Morocco and Turkey. The final section posits implications for small farms and firms of a most likely rapid increase of FDI in a near future, and discusses development policy issues and implications of the challenges and opportunities represented by such a qualitative change.

The analysis is based on: (1) a review of secondary data (mainly from reports by USDA and the French Directorate of Foreign Economic Relations (the DREE); (2) authors' interviews undertaken April-June 2003 with the procurement agents of the main supermarket chains (in Turkey, with Migros, Metro, Carrefour, Tansas, Kipa, and Özdilek, and in Morocco, with Marjane, Metro, Asima, Label Vie, and Aswak Assalan), with a selection of their FFV suppliers, with the managers of the auctions (in Turkey, in Istanbul, Ismir, Antalya, and Fethiye, and in Morocco, in Agadir and Casablanca), and in observation of terminal markets.

II –The rapid –albeit late- rise of supermarkets in low income mediterranean countries

To explain why the local retail of LIM countries has been so little attractive to the big international retail players and why supermarket shares are quite different within the group of LIM countries, we first give a broad overview of modern retail expansion in some of the main LIM countries with greater focus on Morocco and Turkey. We will then review the demand side and supply side variables that are explain the rise of supermarkets and the patterns of diffusion.

Among the LIM countries, it is necessary to distinguish two groups: the group of southern LIM (Morocco, Algeria, Tunisia, Libya, and Egypt) and the group of north-eastern LIM (Turkey, Lebanon).

Countries of the first group feature supermarkets have seen supermarkets emerge only in the past decade (Morocco, Tunisia, Egypt) or have none yet (Algeria). In the group in general, the share of supermarkets in overall food retail is still minor (at most 5%). In those countries however, investments by foreign retailers in the hyper/supermarket segment have recently been made (Auchan in Morocco, Carrefour in Tunisia, Shoprite and Carrefour in Egypt) or are expected in the near future (Carrefour in Algeria). Those investments are expected to give a high impetus to the rise of modern retailing.

In the two countries of the eastern LIM group, the supermarket story is older: the "take-off" occurred in the early 1990's almost at the same time as in Latin America or Eastern Asia but with a much lower contribution of FDI than in the latter countries. Supermarkets in the eastern LIM are mainly owned by local investors, have grown into a major retail outlet with more than 35% market share.

II.1 - *Overview of the retail sector in Morocco and Turkey*

The **Moroccan** retail food sector developed significantly over the past ten years. The first hypermarket dates back to 1991 and was created by Marjane, one of the five chains existing in Morocco. With the exception of the cash and carry wholesale sector, for which the first warehouse was built by Makro (NL) in 1991 and then taken over by Metro (Germany) in 1997, the first foreign investment was made in 2001 by Auchan who took control of 49% of the hypermarket chain Marjane, by entering a joint-venture with ONA (Omnium Nord African), Morocco's largest consortium of private companies. In 2002, Auchan took control of Acima, a supermarket chain owned by the same ONA. The two other chains (Label'Vie and Aswak Assalam) are smaller and owned by national investors. By adding independent hyper or supermarkets like Lina or Hyper Romandie that are not yet organized as chains, there is currently a total of 5 cash and carry, 16 hypermarkets (12-35 registers), 40 supermarkets (3-12 registers) and 170 small supermarkets (1-2 registers).

Although traditional small grocery stores, because of their proximity and convenience, will continue to play a major role in most parts of the large cities and in rural areas where 45 percent of Moroccans live, the number of supermarkets in Morocco is likely to increase considerably in the near future as some supermarket chain owners expressed their intentions to increase the number of outlets. By the next five years, according to local media (DREE, 2002 b), the five major chains are expected to open respectively one hypermarket (Marjane), twenty-five supermarkets (Acima), two cash and carry (Makro), sixteen supermarkets (Label'Vie) and three hypermarkets (Aswak Assalam).

In **Turkey**, the first modern stores date back to 1954 when, by the joint initiatives of the Swiss Migros Cooperatives Union and Istanbul Municipality, Migros Türk was founded with the mission of obtaining food supplies and consumables from producers under the supervision of the municipal authorities and to serve these products to Istanbul inhabitants in hygienic conditions and at economic prices. It is noteworthy that Migros, although its name did not change, is not any more a joint venture with participation of the swiss retailer. It turned into a 100% national capital in 1975, when Swiss Migros sold its equity to Koc, a major Turkish conglomerate.

The true take-off of supermarkets in Turkey took place only in the 1980's. The retailing sector in Turkey developed rapidly in two waves, first through a rapid increase of the small supermarket segment (100-1000m2), and then from the mid 90's, through a sharp increase of the large supermarket (more than 1000 m2) and hard discount segments. The share of modern retail (large and small supermarkets) is estimated at around 37 percent in 2000, up from 21 percent in 1994, and is expected to reach 48 percent by the end of 2004 (similar for example to Chile, see Faiguenbaum & al (2002)).

Although the share of traditional stores called bakkals (less than 50 m2) or markets (less than 100 m2) decreased from 76 percent to 53 percent between 1994 and 2000, this segment still boasts more than $12 billion in sales. But the growth in larger outlets is having an impact on the bakkals, with increasing numbers of them closing. Over the coming five years, it is expected that the market share of bakkals will fall below 35 percent.

Hypermarkets (more than 3.500 m2) have recently become fashionable investments within the retailing sector in Turkey. Sabanci, Koc and Dogus -- three major conglomerates in Turkey -- are heavily involved in this sector. The number of hypermarkets increased more than three fold between 1995 and 2000, from 41 units to 129 and is expected to reach 202 units at the end 2004. The first discount stores showed up in the mid 90's and have multiplied throughout the country. The share of hypermarkets in the overall retail market is still low but rapidly increasing, estimated at around 12.1 percent in 2000, up from 3.6 percent in 1996, and expected to reach 17 percent by the end of 2004.

The hard discount format has been for the last few years one of the most attractive investments in the retail sector, as showed by the rapid rise of BIM, a Turkish company founded in 1995, with US and Saoudian banks as other main shareholders. BIM has specialized on the hard discount format and has grown into one of the largest retailers of Turkey, all formats included. With more than 800 stores scattered throughout the country, BIM is sometimes called the "Turkish Aldi".

There are about 50 chains operating in the Turkish retail business, sharing a total turnover of about 8.5 $billion in 2000 (USDA, 2001). Leader actors in the retail food sector are Migros, BIM, Metro and Tansas with the first two ones having a turnover superior to 1 billion US$ and the latter two, a turnover not far from half billion US$. Migros and Tansas focus on the supermarket/hypermarket segment (Migros has both hypermarkets and supermarkets, and Tansas has supermarkets) segment while BIM and Metro are respectively the dominant players on the hard discount and on the cash and carry wholesale segments. Aside from Metro who has been a leader on the wholesale cash and carry segment since the early 90's, European major foreign direct investors (Carrefour and Tesco) have not been until recently among the largest retailers. Tesco (UK) who recently took over the Izmir-based medium-size regional chain Kipa (turnover in 2002 has been 173 million US$), while Carrefour who first entered the turkish market in 1993 and formed two years later a joint venture with Sabanci JV, has long been a medium size player (with only 2 hypermarkets and 9 discount stores in 1998). It has only been since the last two years that Carrefour has ranked among the local leaders. In 2001, with a total of 10 hypermarkets, 86 discount stores and 9 supermarkets, Carrefour's turnover was roughly half billion US$ (447 million Euros) up from 120 million US$ in 1998.

A significant number of distributors offer a nationwide service. Nearly 50 percent of total food is distributed by companies who are located nationwide or at least have expanded into the wealthier Turkish regions, namely Marmara (Istanbul), Aegean (Izmir), Mediterrannean (Antalya) and Central Anatolian (Ankara). The pattern of geographic diffusion of Migros, the biggest player on the hyper/supermarket segment in Turkey is of some interest to illustrate this expansion. First located in the municipality of Istanbul, Migros kept investing and consolidating in this province until the late 80's when it decided to expand into the province of Izmir by opening 4 large stores in this city. In 1989, Migros had already 37 stores in the two main provinces. In 1994, Migros was elected as the most successful company in Turkey and was also shown as one of the most successful companies in Europe by Euromoney magazine. Since 1995, there has been a rapid growth of Migros: the company speeds up its infrastructure and store modernization investments until a quasi nationwide coverage (17 provinces in 5 geographical regions). It has also expanded abroad under the name of Ramstore by investing from 1997 in Azerbaijan, Kazakhstan, Russia and Bulgaria.

In sum, the Turkish and the Moroccan modern retail sectors significantly differ in several points: i) Turkish hyper/supermarket shares are much bigger relatively (45% vs 5-6%) as well as in absolute terms; ii) major retailers on the Turkish market are approximately five times bigger than major retailers on the Moroccan market; iii) leaders on the Turkish market are owned by national investors while they are owned by foreign investors on the Moroccan market; iv) format diversification and the rise of hard discount is much more advanced on the Turkish market than on the Moroccan market, where supermarkets are still in the first stage of targeting high income population. However, the countries are similar in several ways: i) in both, foreign retail investors have been late to enter or have not played a major role until recently; ii) in both, most foreign investors are European; iii) in both, most foreign investors have preferred to form joint ventures with local companies., as seen with Carrefour SA (France) and Sabanci JV or Bookers (UK) and Sezginler JV in the Turkish market, or with Auchan and ONA in the Moroccan market; exceptions are Metro in Turkey and Morocco and Tesco in Turkey (Tesco who currently owns 50 % of the capital, plans to buy the other 50% within the next three years); iii) on the cash and carry wholesale market of both countries, the first foreign direct investors have entered the market in the early 90's and Metro (Germany) is currently the dominant player on this segment. In the next section, we try to examine some possible determinants of those similarities/differences.

II.2 - *Determinants of the diffusion of supermarkets in Morocco and Turkey*

The determinants of the diffusion of supermarkets can be conceptualised as a system of demand by consumers for supermarkets services and supply of supermarket services, either through private actors or institutions (Reardon and al, 2003). On the demand side, rising income levels together with a running demography, a high urbanization rate, an increase in the number of working women, the influence of Western life style– are among the major forces that are usually hypothesized to have caused a radical change in attitudes and consumption patterns supporting the development of the retail sector. On the supply side, the dominant hypothesis is that local investments have been too weak to drive the rise of supermarkets in developing countries and hence, FDI have been crucial to the take-off of supermarkets. Literature has thus focused on the two types of forces that have induced the rise of FDI in the retail sector of the developing countries : i) the economic or institutional conditions in the home countries leading the retailers to invest in new countries with higher profits, ii) the liberalisation policies in the targeted countries, whether specific or not to FDI. In this section, we present and discuss those classical determinants and their role in shaping the rise of supermarkets in the LIM countries, in particular in Morocco and Turkey.

On the demand side, several variables are modelling the patterns of diffusion. Income per capita is undoubtedly the most important. As a discriminant variable of the two LIM country subgroups (income in Southern countries being two or three times lower than income in Eastern countries, see table 1), it seems to be a key determinant of the take-off date of supermarkets : the take-off in the South LIM countries (late 90's) occurred ten years after the one in the East LIM countries. Considering the three waves of investments identified for developing countries by Reardon and al (2003), East LIM countries would be part of the first wave, together with Latin America, while South LIM countries would be part of the third wave, together with Eastern or Southern Africa. A test would be needed to confirm the likely correlation between the take-off date and income per capita.

Income also determines the expansion of supermarkets. While in Morocco, experts consider that potential customers of supermarkets do not exceed 20 or 25% of total population, in Turkey, where supermarket share is already more than 45%, expansion keeps on going thanks to hard discount which has recently developed as a mean to face economic crisis and to capture urban low income classes.

The patterns of spread of supermarkets also depend on the distribution of the national income, and in particular on the existence or the weight of the middle class. This is true in particular in the lowest income countries like Morocco where the rise of supermarket is incipient and still relies on high income customers. In Morocco where the distribution is not so uneven (Gini coefficient is 40), experts say that supermarket future expansion highly depends on the emergence of a true middle class.

Table 1 : Population and Income in the Mediterranean countries

	Population 1999 (10^6 hab)	*Population 2025 (10^6 hab)*	*GDP/per capita 1995? (10^3 USD)*
***North Mediterranean countries**:*	*269*	*292*	
Western Mediterranean countries (high income countries)	*176*	*171*	*10-25*
Eastern LIM	*93*	*121*	*< 5.0*
Turkey	*66*	*91*	*3.2*
***South Medit countries (SouthLIM)**:*	*240*	*400*	*<2.0*
Morocco	*28*	*41*	*1.2*

* Source : Population: World population prospects. The 1994 Revision. United Nations, NY, 1995
GDP/per capita: UNDP

A second key determinant of the expansion is the rate of urbanisation and consequent entry of women into the workforce outside the home. Like most Mediterranean countries, Morocco and Turkey have most of their population living in urban areas. Their rates of urbanization(1) (55 percent in Morocco, 65 percent in Turkey) are higher than in Asia (30-35) and Africa (34), but lower than in Eastern European countries (66) or Latin America (75).

In Morocco, the rise of hyper/supermarkets is still limited to the rich or middle class neighbourhood of Casablanca where the population is estimated to 4.5 million, and of the other large cities, Rabat, Marrakech, Fez, Agadir and Tanger. Here consumers are more aware of international trends, have higher disposable incomes, and have automobiles to reach large warehouse-sized stores. Middle and upper-middle income shoppers are drawn to these larger stores, especially if they provide imported and specialty items, previously only available at small specialty shops or acquired when travelling abroad.

In Turkey, supermarkets have first developed in the largest cities where the population exceeds 3 million inhabitants (Istanbul, Izmir and Ankara). Recent investments have targeted medium-sized cities like Adana, Gaziantep, Bursa, Kocaeli, Konya, Mersin and Antalya, where the population is more than 600,000 or where tourism is intensive. Traditional small grocery stores, because of their proximity and convenience, will continue to play a major role in most parts of the large cities, but especially in rural areas where 45 percent of Moroccans and 35 percent of Turkish still live. In Turkey, income is very unevenly distributed among the regions and provinces. In the Eastern part of the country (South-East Anatolia and Eastern Anatolia) where some provinces receive less than 0.1 percent of the national gross income, supermarkets are still the exception.

Gender discrimination in most LIM countries is not such a burning issue as in Middle East countries, where the women participation in the workforce outside the home is very low as testified by the UNDP women economic activity ratio (calculated as a percentage of the men economic activity). In Morocco and Turkey those ratios are respectively 52 and 60 percent while they amount to 30 percent in the Middle East countries. In Latin America, those ratios are similar (45-50 percent) while they are much higher in East Asia and European East countries. Although women participation in the workforce is significant in Morocco and Turkey, much progress still has to be done on the education side in Morocco where women illiteracy is as important as in less advanced countries (65 percent vs 58). Turkey reports better education score in that field although there are still 24 percent of total women illiterate, a high score compared to East Asia (21 percent), Latin America (13 percent) and above all European Eastern countries (2 percent).

On the supply side, as already shown by Reardon and al (2003), there have been high incentives for the global European or other developed country retailers to undertake FDI in developing countries from the mid 80's. This was mainly due to saturation and intense competition in home markets (France, Germany, UK) and much higher margins to be made by investing in developing countries. The question addressed here is why European chains have been so late to enter Mediterranean markets, in particular Morocco or Turkey, which are both considered as EU strategic partners, and why they have preferred to concentrate their investments on more attractive areas like Latin America and East Asia. Controlling for demand-side variables such as income or illiteracy, we will focus on the national liberalization policies and their attractiveness for FDI or local investments.

As in many developing countries, globalisation policies in Morocco and Turkey were initiated under IMF pressure at the beginning of the 80's. However in both cases, the path to full liberalisation was likely to be a long way since the economy had long been under tight control of the government and was driven by the principles of endogeneous development or self-centered economy: high investments had been realized in the capital goods sector, large national production or distribution firms were owned and managed by the state, goods imports were hindered by high trade barriers, foreign direct investments were discouraged, consumer prices for staple or basic service were administered, agriculture was largely subsidized, strategic exports were under government control, bureaucracy was pervasive.

The retailing sector in Turkey has developed rapidly since the 1980s with significant changes both in economic and social structures. Two decades of liberalization of the Turkish economy, further stimulated by its Customs Union with the European Union (1996) and more recently the start of a EU

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(1) UNDP, Human Development World Report, year 1999.

membership procedure (2001), have progressively freed Turkish entrepreneurial dynamism. Trade barriers have been significantly reduced, inflation has been cut down, consumer prices support has been almost removed, FDI have been stimulated, etc. A similar evolution has taken place in Morocco from the mid 80's (Femise 2002) with the set of a structural adjustment policies along IMF requirements (privatisation, public expenditure reduction), followed in the mid 90's by the signature of a free trade agreement with the European Union that should be achieved by 2010. In both countries, these measures have had significant impact, as shown by the tariffs in table 2.

Table 2: Tariffs in Morocco and Turkey over the last two decades

	80/82	*83/85*	*88/90*	*93/96*	*97/99*
Maroc	**54**	**27**	**24**	**25,7**	**22,1**
Turquie		**24,7**	**22,7**	**26,7**	**8,2**

Source: Femise, 2002

Table 3: FDI in developing countries in 1997

Year 1997	*E&S Mediterranean*	*European Eastern*	*Latin America*	*Asia*	*Units*
FDI net flow	1	3,9	2,5	1,4	percentage of GDP

Source: J.L Reiffers, 2000
East and South Mediterranean countries: Algeria, Cyprus, Egypt, Israël, Jordan, Lebanon, Malte, Morocco, Syria, Tunisia, Turkey
European Eastern countries: Poland, Hungria
Latin America: Argentina, Brasil, Mexico
Asia: Indonesia, Corea, Thaïlandia

Table 4: FDI net flow in Morocco and Turkey over the 1997-2001 period (10^6 US$)

	1997	*1998*	*1999*	*2000*	*2001*
Maroc	**1,079**	**333**	**850**	**201**	**2,658**
Turquie	**805**	**940**	**783**	**982**	**3,266**

Source: UNCTAD World Investment Report 2002.

However, the impact on FDI fell short of what was expected. FDI which are crucial to the take-off of supermarkets are still weak relatively to Latin America or European Eastern countries (see table 3). Experts acknowledge that Mediterranean countries have so far been little attractive to FDI, and have hardly benefited from the globalisation movement that took place in the 90's (DREE, 2002 a), in particular, through the diverse EU trade agreements. Can we predict from the FDI sharp increase in year 2001 (table 4), the start of a large wave of foreign investments? Recently improved political risk indicators – ICRG (International Country Risk Guide) has increased from 60 percent during the 90-94 period up to 65 percent over the 95-99 period – tend to support the hypothesis of a favourable change. However, FEMISE and DREE (2002) experts have a more mitigated opinion about the future; they think there is still much progress to be done on the way of liberalisation, through more effective reforms of the institutional and regulatory framework (Femise, 2002) and more transparency and partnership in the government services (DREE, 2002).

In short, Morocco and Turkey feature the classical arguments that shape the rise of supermarkets all over the developing world, namely on the demand side, the income level and the rate of urbanisation with some specificity in Morocco where illiteracy is still a burning issue, and on the supply side, the effectiveness of liberalization policies and the attractiveness to FDI. In both countries, the supply side factors are still critical factors of the entry of FDI in the retail sector, although the figures for the near future are rather good on either market: in Morocco, the number of supermarkets should increase within the five next years, by 47 more stores (of which 25 new ACIMA/Auchan supermarkets) up from less than thirty to-day; in Turkey, modern retail market shares will keep climbing, in particular in the hyper and hard discount segments (for instance BIM is planning 50%

more hard discount within the next five years); FDI should be more intensive, for instance with the expected entry of Walmart; consolidation and multi-nationalisation are also due to develop during this decade: following the example of Migros, BIM has planned investments in the neighbouring countries whereas, local chains with weak capital base will be a target for international retailers. Of course, bazaars and soukhs will keep being a major outlet for a long time, in particular for fresh produce distribution because quality and homogeneity are far from being mastered by modern retailers.

III – **Supermarket FFV procurement systems in Morocco and Turkey**

III.1- *Objectives of Supermarkets*

The Mediterranean diet features low calorie intake and a high ratio of plant food (cereals, fruit and vegetables, olive oil) and is strongly recommended all over high income western countries because of its healthy properties. In the Mediterranean diet, fruit and vegetables are considered as basic food and are thus highly and frequently consumed : vegetable and fruit consumption per capita respectively amounts to 90 kgs and 50 kgs (140 total) in Morocco and 230 kgs and 100 kgs (330 total) in Turkey – compared with roughly a total of 180 kgs in France or the US (the latter two have similar totals but with a different mix of fresh/processed between them). According to experts, those figures, although very high, underestimate the importance of self-consumption, as most households still having their own garden (Sauner-Nebioglu in Padilla, 2000). Turkish consumers spend on average 20 % of their food budget on fruits and vegetables (Sauner-Nebioglu).

Because of high consumption and cultural proximity with FFV growers (most households still have their own production, or have family involved in domestic or economic production), Moroccan and Turkish households are very demanding with respect to FFV experience attributes and in particular with flavor and freshness. But, as Reardon points out for many other developpping countries, safety and hygiene are not yet a high concern expressed by LIM consumers.

The majority of Turkish and Moroccan consumers still prefer to buy perishables such as FFV in the traditional retailing sector, in particular in open air markets (soukhs in Morocco, bazaars in Turkey). In Turkey, open air bazaars which concentrate on fresh vegetables and fruits, still represent 9.5 percent of Turkish total retail market (Gain Report, 2001), i.e. about 50% FFV market share since 20% of household food budget is spent on FFV.

Figures of the FFV share of total food supermarket sales are not available. In the case of Morocco, those figures are well below the 5% market share for total food since total sales of fresh products (FFV + meat + bakery) only represent 3 percent of an hypermarket turnover (DREE, 2002). In Turkey, the FFV share is much higher since according to our interviews of Carrefour, Migros and Ozdilek it ranks between 3 and 5 percent of total hypermarket sales.

There is still a big increase potential for FFV sales in supermarkets since market share is low, and therefore modern retailers place high priority on the FFV department store and have as key objective the rapid increase of FFV sales . Traditional outlets provide the basic low price and freshness attributes, but there are measuring cost for the consumer and high losses for the retailer.

Therefore supermarkets in these two countries try to differentiate by focusing on additional attributes such as cleanliness, convenience, security, consistency, product-diversity, appearance and size-homogeneity. Of course, there may be some variation in marketing strategies, depending on the type of customers (income level, production or consumption area) that are targeted by supermarkets : for instance, our interviews report a variation of 1 to 3 in the number of SKUs (shop keeping units, of different products) in a hypermarket FFV department with for instance 150 SKUs in a Carrefour hypermarket of Izmir and only 50 references in a Migros hyper of Antalya (production area). Most retailers have not yet emphasized consumer packaging and safety issues when they define quality standards. Reasons are that i) bulk sales are preferred because of the wide variation in size and freshness and the consequent consumer desire for inspection of individual units of FFV, ii) safety standards are not clearly defined or efficiently enforced by the public authorities and there is no sufficient consumer awareness to pay for a premium. The exception for the latter is Kipa-Tesco, a

Turkish regional chain in the area of Izmir who recently started to sell organic food and plans to source produce from IPM or Eurep-certified growers.

Our interviews report that although current FFV marketing strategies are quite attractive to western-minded consumers, they are still short of meeting consumer expectations with respect to taste, freshness and even size of the fruit. Moreover, they often fail in narrowing the price gap with traditional markets, which keeps away middle income consumers. By and large, objectives targeted by modern retailers with respect to the FFV department store are highly challenging and need to be backed up by an efficient procurement system.

III.2 - *Determinants of the FFV procurement systems in Morocco and Turkey*

To meet the dual objective of providing high and consistent quality with prices equivalent to those of souks and bazaars, supermarkets have been shifting over the past few years from the old procurement system based on terminal wholesale markets toward the use of more integrated channels. However they have to face a number of structural constraints, the impact of which may widely differ between Morocco and Turkey. Country-specific determinants of the retailer FFV procurement systems are as follow:

i) ***consumer geography***, which may be represented by the location of the urban population, has a decisive impact in terms of logistic organisation. In Turkey, where most largest cities are scattered throughout the country and separated by long distances (Istanbul, Ankara, Izmir are about 500 km far from each other), costs of coordination on this procurement centralisation are high. Conversely, in Morocco, where most urban population is concentrated in a small area, procurement centralisation is easier and economies of scale may be gained more rapidly.

ii) ***production geography***: concentration of most growers of a given commodity in one or two specialized areas at the national level is observed when there are advantages of better natural resources allocation (climate, soil, water, absence of disease, etc.) or organizational effects. Such a concentration usually starts with improved productivity of transport through the development of road or train infrastructure or with the rise of export demand. Otherwise, cities are supplied at a local level in a more limited way, since not all FFV can be grown anywhere, at any time of the year or at the lowest cost. The advantage of that local pattern is a better supply of the freshness attribute. Morocco and Turkey both feature many large areas with high natural potential. However, only the Turkish production has grown into a national highly specialized FFV industry with Antalya, Izmir and Bursa as the main producing areas. In Morocco, Agadir has turned into the dominant production area with France and EU as main customers. However, most largest cities still have their own production area within a short distance.

iii) ***export industry and high quality standards***: Turkey and Morocco both have significant FFV export with respectively 5.1% and 9.7% of the vegetable production and 23.6 % and 24.3 % of the fruit production exported. However, Morocco (whose main customers are France and other countries of the European Union) must achieve much higher standards of quality and hence benefits from higher prices than Turkey whose main customers are Middle East countries and Eastern European countries. Adding to the price difference between host countries, the price difference between home countries (resulting from Turkish higher wages and income per capita than Moroccan ones), makes the Moroccan price gap (between the home price and the export price) wider than the Turkish one. As a result of this difference, i) most Moroccan exporters ignore the domestic market and do not try to value the discarded produce (that did not make the grade for the export market) while Turkish shippers target both the export outlet and the domestic market, ii) the Turkish domestic market is more concerned or influenced than that of Morocco by the higher quality standards that are required by some foreign customers, in particular by the European Union. This is illustrated by the impact on the Turkish FFV industry, which resulted in 2001 from the rejection by the European customs of a Turkish shipment of peppers with excess pesticides. Although the economic impact was small, the event made all the private and public actors acutely aware of safety issues and led to a national movement towards an upgrade of the safety standards.

iv) ***high price of imported produce***: the consumer price gap between LIM countries and EU countries has a second impact on the supply of local modern retailing since most consumers cannot afford the high prices of imported produce. As a result, there is little import of fruit into Turkey, other than tropicals such as bananas, kiwis, pineapples, mangos, and papayas. Imported bananas and kiwis are also available at traditional markets whereas mangos and papayas are still for luxury consumption, and are only available at big supermarkets and specialty retail outlets. Recently, Turkey has imported foreign apples as a luxury item (Gain Report, 2001).

*v) **wholesale markets regulation***: traditional channels go from the producer to the wholesaler and from the wholesaler to the retailer, most often through terminal markets (buyer auction). In countries where specialized areas of production have developed, most produce first go through a producer auction to be sold to local shippers or city wholesalers. In large countries, producer and buyer auctions often coordinate through a central market whose function is to provide higher quality and service (larger volumes, wider diversity, access to imported produce) at a lower cost (economies of scale and scope). Usually created and monitored by public authorities, producer and buyer wholesale markets strongly influence trade efficiency and in particular the development of quality standards and specialized wholesalers. Literature usually considers wholesale markets as costly governance structures which fail in implementing the basic useful quality standards, oppose the extension of the most efficient wholesalers and extract high taxes without creating any added value. In the high income countries (EU, USA), where high production, transport and trade productivity and diverse and complex consumer expectations have led to more integrated channels, wholesale markets may be considered as obsolete although well-known central markets like Rungis or Verona still have good prospects (Cadilhon, 2003). In developing countries, where productivity and standards are still at a low stage, wholesale markets still have a role to play as regards to standard development, economic transparency or market institutional efficiency.

In Morocco, wholesale markets were created from the 50's and are being modernized through large investments (modern buildings for Inezgane, the main wholesale market in Agadir) and efficient institutional reforms, implemented through decentralized procedures. In Turkey, the wholesale market system which only dates back to the 70's, is considered by our interviewees as too rigid and under excessive state-control. According to a law passed in 1994, all transactions to retailers, that exceed one ton of produce, must be declared in the buyer auction system through registered wholesalers and are charged a 6% tax by the local authorities. Moreover, unlike Morocco where the Casablanca central market serves as a true national distribution platform, Turkey does not have a good central market: Istanbul although it concentrates 14 million inhabitants and 40% GDP, does not perform this central function because of its peripheral localisation which is not optimal from a logistic point of view.

The above comparison between Morocco and Turkey gives some insights on how macroeconomic variables such as consumer geography or consumer income power for buying imported produce, or sectorial characteristics like FFV production geography, export activities or wholesale market regulations determine the development of retailer procurement systems, in particular the four pillars of modernization identified by Reardon and al (2003), namely distribution centers, specialized wholesalers, preferred suppliers and quality standards. For instance, one can easily derives from the above description, the complex and sometimes unexpected influence of FFV export activities in shaping the future domestic quality standards. Other interaction to further elucidate would be the role of wholesale market regulation in the promotion of specialized wholesalers. The question would be whether the latter emerge in case of wholesale market failure or as a by-product of an efficient institutional framework of the FFV industry.

III.3 - *A typology of specific practices across chains in procurement systems*

Aside from macro or sectorial variables, FFV procurement systems also depend upon firm-specific variables such as size, degree of national coverage, format, path-dependency, general or FFV-specific marketing strategy (price vs quality marketing strategies). The interplay of those capacity and incentive firm-specific variables jointly with the country specific variables will determine how supermarkets choose their partners, backward integrate into the FFV channel, design contractual arrangements with various partners to provide a higher quality or service to their customers.

To account adequately for vertical integration or contracting involves many economic and non economic motives. A listing of incentives might include gaining bargaining power, reducing costs, reducing risk, assuring adequate inputs, improving management, improving market position, developing new quality standards, etc. As a first step toward this analysis, we present hereafter a short description of those procurement systems by proposing a typology, positioning the retailers we have interviewed in the typology and pointing out some noteworthy examples of contractual arrangements.

Berdegue and al (2003) propose a typology based on four main pillars (preferred suppliers, specialized wholesalers, distribution centers and quality standards) with the different types arranged in ascending order of development, from the traditional procurement system to the more elaborated system. Drawing on this typology, we would like to better position both the retailer and its partners in the FFV industry by considering the level of backward integration of the retailer. Based on our observations in Morocco and Turkey, a sequence of backward integration could be the following : 1) centralisation of purchases at the retail level, 2) integration of the wholesaler sourcing and assortment supply function, 3) integration of the shipper grouping function, 4) integration of the sorting/packing function of the shipper. We have no observation of a backward integration into the farmer production function although, as shown later, there are some cases of contractual relationships with producers or growers. Five types of procurement systems emerge from our backward integration based typology. They are ranged in ascending order of backward integration :

- Type 0 is the basic type with no purchase centralisation. Chains with a small number of stores (less than 5 hyper) or with stores opened far from the others, in remote areas, give total leeway to their stores managers to procure FFV.

- Types 1 and 2: Centralization of the purchasing decision is usually the first significant step of organisation taken by retailers in developing countries. By grouping the demand of a number of stores, retailers increase their bargaining power and manage to get lower prices from their suppliers. Centralization can be performed with or without backward integrating into the assortment function of the wholesaler. Retailers of type 1 buy the majority of their produce from one or two specialized wholesalers (as defined by Reardon and al) while retailers of type 2 backward integrate into the wholesaler assortment function and buy on the central wholesale market from numerous mono-product wholesalers.

- Types 3 and 4: While in steps 1 and 2, buyers operate in the largest cities, within a short distance from the central wholesale market (Casablanca in Morocco, Istanbul, Izmir and Ankara in Turkey), from step 3, there are also "field buyers" located in the major production areas. Retailers thus backward integrate into the shipper functions as well. Step 3 is defined when backward integration is limited to the grouping function while step 4 is a more advanced level of backward integration, including both grouping and packing functions. Step 3 and 4 only are manifest in Turkey -with Migros, Metro and Kipa. Integration of shipper functions only occurs when it allows for creating more added value than the market. Kipa-Tesco has established contractual relationships with many local efficient shippers who deliver the requested produce to the different retailer stores, on short notice and using their own frigorific trucks. The marketing strategy of Migros and Metro has focused on providing consumers with size-differentiated produce; they have backward integrated into the sorting function because there is almost no size-sorting activity in the Turkish FFV industry. While Migros manages its own packing firm and recruits its own employees to sort what has been bought on the producer auction, Metro delegates the sorting function to an inside contractor who hires his own employees, supervises the sorting process of the produce bought by the retailer and receives a piece rate from the retailer company.

Table 5 : Positioning of Moroccan and Turkish supermarket FFV procurement systems

Stage number	S 0	S 1	S 2	S 3	S 4
Level of integration	Retailer		Wholesaler	Shipper	
Type of function integrated by the retailer			Assortment	Grouping	Sorting
Centralization of purchases	No	Yes	Yes	Yes	Yes
Localization of supermarket buyers	Consumption Areas			Production Areas	
Market as the dominant form	Ozdilek (T) Carrrefour (T) Marjane hors Casa(M)		Carrefour (T) Tansas (T) Marjane Casa (M) LabelVie (M)		Migros (T) Metro (T)
Contract as the dominant form		Aswak (M) Acima (M) Metro (M)		Kipa (T)	

Another dimension of our typology is the retailer-supplier type of governance structure. Whatever the level of backward integration, the question is which of the two governance structures, market or contract, is the more efficient (whether there is some opportunity to engage in a contractual relationship with the supplier).

Our observations show that at the levels 0, 2 and 4 (table 5), market is the dominant governance structure : retailers of types 0, 2 and 4 are respectively used to buying every day in the terminal market (step 0), in the central market (step 2) or in the production market (step 4). In those markets, quality standards are very low and errors of measurement of basic attributes such as freshness, size, appearance can be very high. In those transactions, the buyer does not care so much about the seller's identity and relies mostly on his expertise to minimize the errors of measurement and select the best produce at the cheapest price.

At the levels 1 and 3, contract is the dominant governance structure : retailers of types 1 and 3 source their produce from selected suppliers who commit to deliver a higher quality; retailers of type 1 contract with "specialized wholesalers" (as defined in Reardon, 2003) while retailers of type 3 contract with "preferred suppliers" (as defined in Reardon, 2003). Contract allows for reducing the asymetries of information faced by the retailer in an arm's length market transaction and for complying with the private standards or requirements imposed by the retailer on his suppliers. Of course, retailers sourcing most of their produce through contractual relationships, do not keep from going to the central market (type 1) or to the production market (type 3). As shown by Brousseau and Codron (1998), the market allows for more flexibility and more transparency than the contractual form : for instance, retailers go to the market to get price information and compare with what they have been charged by their partner or to make adjustments and procure volumes on short notice. Retailers also maintain competitive pressure on their suppliers by sharing the stores to supply in two subgroups, giving each supplier the exclusivity of supply and comparing prices between the two subgroups.

Conversely, when the market is the dominant form (types 2 and 4), the retailer is led, through repeated purchase, to identify some good suppliers and give them its preference. When the quality of the product or the service provided by the supplier is significant and consistent, it may lead to the establishment of a contractual relationship. In most cases, the added value is not very high nor consistent and retailer commitments remain superficial.

A third dimension of our typology could be the nature or the type of "preferred supplier". Such a criteria is important to evaluate the balance of power in a contractual relationship and the risk of contract failure for the retailer. For instance, we could discriminate between a private shipper (or grower-shipper) and a group of growers.

In Morocco and Turkey, preferred suppliers of the first type (individual firm) are not many. Most of them have more bargaining power than the retailer, for two reasons i) as modern retailing of FFV is still in its infancy, modern and large shippers or grower-shippers, with local supermarkets as a dominant target, are still very few; ii) due to a high price gap between exported produce and local produce, shippers have low cost of termination of contract and high price incentive to behave opportunistically with local retailers.

An example of the difficulty of contracting with modern large shippers is given by Metro in Morocco. Metro caters for hotels in tourist areas and other demanding food service establishments, and Metro thus places high priority on product quality and adequate packaging to satisfy its customers. To implement such a marketing strategy, Metro has contracted (informally) with "Domaine Douiet", one of the very few Moroccan FFV exporters working with local modern retailers. Douiet has committed to provide Metro with fixed volumes of highly specified FFV such as cherry tomatoes sold in a transparent plastic box. However Metro has not been successful in enforcing full compliance with the terms of contract and had to face several shortages of produce, in particular in periods of high export prices. The reasons for such a breach of contract are two: i) Metro has not yet developed as a major customer of Douiet, ii) Metro has no other sourcing alternative to procure such differentiated produce.

Due to the paucity of large private firms dedicated to the domestic market, supermarket buyers have been led to contract with groups of growers and in some cases, when those groups did not exist, to stimulate their creation. Contracting with a large number of growers is more costly than contracting with a private firm and usually involves the participation of individuals or institutional intermediaries. Several examples can be given of such a cooperation with growers in Turkey. Two types of contracts can be identified : i) contracts that aim at developing the production of a given crop at a period of the year where shortages are frequent, ii) contracts that aim at stimulating the rise of private standards (for instance, Integrated Pest Management standards) or the development of new technologies in the FFV industry (for instance, cooling systems for truck transportation).

Examples of the first type of contract are those of Carrefour and Migros. Carrefour’s objective is to control the production level all through the year. The buyer in Istanbul has started contracting 35 producers of tomatoes, cucumbers, melons, carrots and potatoes, and has planned out with them a program to be supplied regularly throughout the year. Contracts are market specification ones and do not involve direct participation by the retailer in production/shipping management. Producers are responsible for the transportation to the stores as well. Migros who backward integrated into the shipper sorting function has its own packing units in the main production areas. The tomato packing unit is in Antalya where the tomato season spreads from September to June with a gap during the summer period. Until recently, summer-harvested tomatoes were bought farther North, in Bursa. No sorting facility being available in Bursa, the Migros packing manager of Antalya has contracted last year with a whole village in the mountains nearby Antalya to grow 1000 tons of tomatoes during the summer period. Migros organized the sorting and packing operations directly in the village, as well as the transport.

Retailers also implement contracts with growers to procure higher quality produce. Contracts are designed to incite the growers to make the specific investments required by such a transaction and to protect them from any opportunist decision of termination of the contract by the retailer. Producers themselves can be eager to enter such a contractual arrangement with a retailer. For instance, Kipa-Tesco was contacted by a pesticide merchant who had just started an IPM program with a producer group. This merchant was looking for a commercial outlet which would encourage the producers to continue. Kipa, who bases its marketing strategy on high quality produce, looks forward to such a program. Higher quality produce can be procured by investing at the transportation level as well. Migros recently encouraged the truckers that he had been working with for a long time, to form a cooperative and thus create the framework for a collective contract. Contracts have been designed by Migros to offer the working guaranties the truckers need to make the specific investments in frigorific equipment.

Conclusion and Policy Implications

Although playing a strategic role for the European Union, Turkey and Morocco have not been attractive to FDI in the retail sector until recently. While demand-side variables such as income or illiteracy discriminate Turkey from Morocco and determine the earlier development of the retail sector in the former country, such variables do not account for the late entry of foreign capital in the LIM countries, in particular in the retail sector. Reasons for weak attractive power of LIM countries during the last two decades are to be found on the supply/institutional side. In both countries, the supply side factors are still critical factors to the entry of FDI in the retail sector, although the figures for the near future are rather good on either market.

Morocco and Turkey are similar to developing countries like Chile (Faiguenbaum, 2003) and Mexico (Schwentesius and Gomez,2003) featuring important production and consumption of fruit and vegetables and traditional channels highly valued by local consumers. As a consequence, supermarkets place high priority on increasing their FFV sales and define marketing strategies to differentiate from traditional channels and build consumer loyalty. Procurement systems implemented to that purpose vary according to country and firm specificities.

Based on the level of backward integration by the retailer into the supply chain and the nature of governance structure established with the partner, our typology allows for a better analysis of the role of preferred suppliers and specialized wholesalers, two of the four pillars identified by Reardon and al (2003) that support the development of modern supermarkets. We could draw further on this typology and discuss how effective are those different types of procurement systems in implementing the two other pillars of modern retailers, namely private quality standards and distribution centers (DC). The discussion about the latter is not a simple question of production costs (minimizing the logistic costs) but also a question of transaction costs (reallocating the purchasing decision from the store FFV buyer to the central buyer). While there is no doubt that economies of scale can be gained from building a DC from a minimum number of stores(2), it's more complex to answer the second question and decide in particular whether the store buyer must buy or not from the DC and how much he is allowed to buy from alternative wholesalers.

The discussion about quality standards is still emergent in Morocco and Turkey. It reflects the quasi-absence of standards either at the public level or at the private level : commercial standards (size and appearance) are implemented by a small number of private retailers or wholesalers, as illustrated by the above examples while safety standards are still in the process of definition by public authorities and are not yet enforced. However, there are some perspectives of development of safety standards as shown by the large echoes produced on the Turkish FFV industry by the pepper affair in 2001. Regarding theses safety matters, it appears like supermarkets have not yet taken steps to implement their own standards, but are waiting for the institutional environment to change. With the planned integration into Europe, the Turkish government is working hard on adopting the European legislation. Supermarkets seem to consider this public standard as sufficient for their needs, and don’t find necessary to invest in their own private standards.

Even though standards are not yet much developed, marketing to supermarkets is a big challenge for small farmers. One of the major limiting aspects for small farmers is the volume commercialized, no supermarket wanting to negociate small volumes with a multitude of small farmers.

The following illustrates, through Turkey examples of marketing cooperatives, safety standards, the efforts that have been taken at the government level to support small farmers. Although Turkey must submit to IMF conditions and abandon interventionist policies in the agricultural sector, it still tries to influence the market, by stimulating the creation of marketing cooperatives. Cooperatives benefit from a series of advantages, like the authorization to market their produce directly to supermarkets without passing through the auction, or like the attribution of low rate credit for collective marketing investments, such as packing equipment. An example of successful cooperative project is a cooperative of small cucumber growers (2000 m_ each) in a village near Izmir who now sells 10 % as export to Bulgaria, 20 % to Migros, and the rest to Istanbul and Ankara auctions, where they can get a better price than in the Izmir auction. Despite a limited number of successful marketing cooperatives directly supplying supermarkets and recent budgetary restrictions

(2) In Turkey, only the three largest chains we have interviewed (Migros,Metro and Tansas) have built DC; in Morocco, there is no yet any DC.

for such programs, government is continuing to encourage such initiatives, through its governmental offices.

The Turkish Government is also anticipating market demand for safer and more environment friendly produce by implementing an Integrated Pest Management program, involving research centers and agricultural offices. The IPM program was funded during 5 years by the World Bank, but must now be self-funded by the Turkish government. However, perspectives of successful diffusion are not very good. First, the impact has been so far very limited (no more than 20 farmers per district), although the project was highly supported by the World Bank. Second, to be applied at the farmer level, IPM programs require costly technical assistance; governmental support being likely to decrease in a near future, Turkish farmers will be more dependent on pesticides sellers' technical support.

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Morocco Major Supermarket Chains' Profile

Company Name	*Ownership*	*FDI introduction Date*	*Turn over (mil USD)*	*Number of outlets*	*Localisation*
MARJANE	COFARMA (joint venture 51% ONA - 49% Auchan)	2001	260 (2001)	8 Hyper	Casa (2) Rabat (2) Marrak (1) Agadir (1) Tanger (1) Fès (1)
ACIMA	COFARMA (joint venture 51% ONA - 49% Auchan)	2002		8 Super	Casa (6) Rabat (1) Fès (1)
MAKRO	METRO Group (D) Take over of Makro (NL) by Metro (D) in 1997	1991	300 (2002)	6 Cash & carry	Casa (2) Rabat (1) Agadir (1) Fes (1) Marrakech (1)
LABEL VIE	National Take over of Supersol Ahold by Label Vie in 2002			5 Super	Rabat (4) Casa (1; supersol) Rabat (1; supersol))
ASSWAK ASSALAM	National Chaabi Group			2 Hyper	Rabat (1) Marrakech (1)

Source: MAE, MINEFI-DREE/TRESOR/ october 2002 and USDA-Gain Report, 2002

Turkey Major Supermarket Chains' Profile

Company Name	*Ownership*	*FDI Introduction Date*	*Turn over (10^6 USD)*	*Format*	*Localisation*
MIGROS	National Until 1970, JV Migros (CH)/ Istanbul municipality	1956	1,075 (2000)	168 Hyper 407 Super 271 HardD	International coverage (Russia and Caucasian countries; 30 hyper)
METRO	Germany	1991	400 (1998)	9 Cash &carry	National coverage
BIM	National with US and Saoudian shareholders		1500 (2001)	Over 800 Hard-Discount	Mostly Istanboul
TANSAS	National		590 (2000)	181 Super <4500 m^2	National coverage
GIMA	National		270 (2000)	61 Super 73 Hard-D	National coverage
CARREFOUR	Joint venture with Sabanci (national)	1993	447 (10^6Euros) (2001)	10 Hyper 9 Super 86 Hard-D	National coverage
KIPA	Will be fully owned by Tesco within the next three years	2003	173 (2002)	9 Hyper	Regional (Izmir)

Source :MAE, MINEFI-DREE/TRESOR/ april 2003 and USDA-Gain Report, 2001