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The comparison in terms of trust of modern and traditional supply chains in fresh fruit and vegetable

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53rd Congress of the European Regional Science Association International

August 27- 31, 2013, Palermo, Italy

**Regional Integration:
Europe, the Mediterranean and the World Economy**

**THE COMPARISON IN TERMS OF TRUST OF MODERN AND TRADITIONAL
SUPPLY CHAINS IN FRESH FRUIT AND VEGETABLE**

Abstract

There is increasing recognition that firms, who engage in co-operative long-term partnerships, improve the operation of the supply chain as a whole for the mutual benefit of all parties involved. However researchers have suggested that the degree of partnership that develops between a buyer and a supplier, and the performance outcomes achieved, are likely to be moderated by firm, market or product characteristics.

Fewer and more cooperative buyer-supplier relationships emerged in the Turkey food industry as retailers especially supermarkets have attempted to gain more control over food supply chain. This has been done to ensure the integrity of their own label products, in terms of quality and safety issues, and to reduce supply chain costs in an effort to increase their competitiveness in a highly competitive retailing environment (Fearne and Hughes 1999). Therefore there are a number of factors that are suggested to influence or have a moderating affect on the extent to which buyer-supplier partnerships might develop in the food industry.

The purpose of this paper is to put forward to some clues to reinforce the relationship between buyer and supplier for fresh fruit and vegetable supply chain in Turkey. Also, assessments related to the impact on the supply chain performance of trust will take place. The study intends to propose a complementary relationship between contracts and relational aspects, such as trust in Turkey context. Conceptual framework is based on contractual a relational relationship between buyer and supplier. Research results were revealed based on interviews with small scale farmers, cooperatives, supermarkets in fresh fruit and vegetables supply chain

Keywords: Fresh fruit and vegetable supply chains, buyer-seller relationships, trust

INTRODUCTION

The effects of globalization, trade liberalization, the entrance of transnational supermarket chains in the domestic market, new regulations in the distribution of FFV as well as stricter governmental requirements for food safety place increasing pressure on small producers of FFV. There is a growing tendency in the retail market towards establishing shorter supply chains and regulating the inflow of larger amounts of standardized FFV. This tendency may

be expected to trigger some structural changes in agriculture, specifically in the FFV production where smallholders constitute the main body of farmers. Over the past decade there has been a 'supermarket revolution' in developing countries. The supermarket share in total food retail is roughly one-third to one-half. The supply chain not only includes the manufacturer and its suppliers but also, depending on the logistics flows, transporters, warehouses, retailers, service organizations and consumers themselves. Entry of organized retail into fresh food distribution systems has impacted the whole spectrum of supply chain practices. This development allows the linkage of traditional agricultural productions with modern, niche markets, such as export markets or domestic supermarkets. One of the institutional innovations during the process is the so-called contract farming (Zhang, Aramyan, 2009).

Firms must establish collaborative and customized partnerships with their key suppliers. Producers guarantee an adequate and timely procurement of raw materials. SCM is capable of creating value for the company, from the first business steps, and allows the development of important competitive advantages. The firm may develop relationships with suppliers based not only on the reduction of costs but also on relational factors (trust, commitment, or share values, among other elements), on operational tasks (e.g. just-in-time links, cross investments), and on global flexibility to understand and adapt relationships to the specific characteristics of both the firm and the key partnerships (i.e. suppliers). The development of long-term relationships between firms and their suppliers is a great challenge for improving the firm's supply chain competitiveness.

The agribusiness supply chain may involve various actors and cover long stages from input suppliers to final consumers. Turkey agri-food chains consist of the millions of small scale farmers (suppliers), which are not well structured and organized in the supply chain. Over the three decades of market liberalization, it has been suggested that the most challenging part along these agri-food chains in Turkey is how to link these small holders into the modern chains. Therefore, it is most important that both policy makers and the private sector understand the condition of the relationship between buyer and supplier in supply chain and its past and consequences.

There are two main problems in marketing of fresh fruit and vegetables in terms of small scale farmers.

- **Financial problems**

Smallholders have not financial resources which is necessary for production. In this situation they have to borrow money from bank during production process. Producers could have to sell their products low price in sales phase, for paying their dept. This products may be sold the customer high price by retailer. In this case it is possible to say that winner is either the middleman or retailer. As result of, customer has to buy fresh product with high price and farmers cannot obtain the high-income

- **Organizational problems**

If smallholder enters to the market as a single, products cannot be sold real value in the market. Because, they do not have sufficient information related with sales and marketing. Producer should be organized to cope with of this situation. This can be achieved by cooperatives.

The Turkey fresh fruit and vegetable retailing is dominating by open-air market. On the other hand, supermarkets have become to dominate vegetables and fruits retailing after the 2000s. According to the research which has been done in 2007, 80% of Turkey retail fresh fruit and vegetable sales take place in open-air market. The rest are sold in supermarkets and grocery stores. The share of fresh fruits and vegetables of the total turnover of hypermarkets is approximately 3-5% is estimated. This figure is at the level of 10-15% in supermarkets. As seen, sale of fresh fruit and vegetables in supermarket is lower than in open-air market¹.

The purpose of this paper is to put forward to some clues to reinforce the relationship between buyer and supplier for fresh fruit and vegetable supply chain in Turkey. This research is one of the first attempts to investigate the outcomes of different types of buyer-supplier relationships in the fresh fruit and vegetable industry in Turkey context. In other words, how farmers are linked in the chain, why they are linked in certain ways, what are the external influencing factors for their choices and what are the consequences of their choices?

Specifically, this research aims to examine the following set of questions:

- Do external environments impact on buyer-supplier relationship? If so, in what kind of relationships? Does higher environmental uncertainty encourage closer cooperation between small scale producers and their buyers?

¹ <http://www.regoverningmarkets.org/en/filemanager/active?fid=590> [the access date: 27.06.2013]

- How does the two dimensional (contractual and relational) relationship affects the final chain performance? Is relationship established upon trust between buyer and supplier to generate better chain performance? Is relationship established upon contract between buyer and supplier to generate better chain performance?

Future research is needed to empirically investigate impacts of relational and contractual relationships on supply chain performance definition. Thus it will be possible to examine the performance differences, if any, between varieties of buyer-supplier relationship types and to describe any discernible patterns that might emerge for each of the structures included in the research.

2. THEORETICAL AND CONCEPTUAL FRAMEWORK

Most buyer-supplier relationship studies focus mainly on the transactional aspects of the relationships between farmers on the one hand and modern agribusiness on the other hand. Within the framework of transaction cost economics (TCE), the supplier-buyer relationships should be organized itself in such a way to minimize the transaction costs (Williamson, 1975, 1993a, b). However, TCE has been criticized since it ignores the informal, socially embedded relationships in producing stable contract conditions (Demsetz, 1988; Ring and van den Ven, 1992, 1994). In articles related this buyer-supplier relationship, the subject is discussed in three ways. First is focused on contracts (Macneil, 1978; Frank and Henderson, 1992; Williamson, 1996). Second perspective touches upon the issues of trust and relations (Berney and Hansem, 1994; Anderson and Narus, 1990; Fritz and Fischer, 2007; Lu at.al., 2007; Geyskens et al., 1998; Jap, 2001; Claro et al., 2003) A combination of both contracting and relationships are addressed in third perspective (Zhang, Aramyan, 2009). Nevertheless, the social relationships, such as network and trust, are such important concepts in Turkish culture that they should not be excluded in this study in analyzing relationship exchanges.

2.1. Supply chain based on relational norms

2.1.1. Trust

Trust is the critical determinant of a good buyer-seller relationship (Han, Wilson and Dant 1993; Ganeson 1994; Morgan and Hunt 1994; Achrol 1997). A buyer's trust in their supplier reduces the perception of risk associated with opportunistic behaviour; it increases the buyer's

confidence that short-term inequities will be resolved; and, it reduces transaction costs in an exchange relationship. Buyers who trust their suppliers are less likely to use alternative sources of supply and are more likely to accept any short-term inequities arising in the exchange relationship.

Trust is defined by the inter-personal reliance gained from past experience which requires a previous engagement on a person's account, recognising and accepting that risk exists in the widest sense (Luhmann, 2000). Anderson and Narus (1990) describe trust as the belief that the partner will perform actions that will result in positive outcomes for the firm and not to take unexpected actions that may result in negative outcomes. Moorman, Deshpande and Zaltman (1993) define trust as the willingness to rely upon an exchange partner in whom one has confidence. Since both definitions view trust as a behavioural intention that reflects reliance on the other partner, trust evolves from many favourable transactions with a channel partner. Without vulnerability, trust is unnecessary because the outcomes are inconsequential for the trustor. Similarly, in the absence of uncertainty, trust is unnecessary. According to Parke (1993), however, both achieving and maintaining trust requires a deliberate strategy of forbearance and accumulated evidence of non-renegeing behaviour. With trust, there is an increasing willingness to put oneself at risk. Swan, Trawick and Silva (1985) indicate how competence, customer orientation, honesty, dependability and likeability are the key dimensions in developing trust between sales representatives and their customers. Moorman, Deshpande and Zaltman (1993) argue that the interpersonal factors that most affect trust include perceived expertise, sincerity, integrity, tactfulness, timeliness and confidentiality. (Batt, 2000; Batt, 2001).

In the business context, trust can be an important prerequisite for commercial exchange. When goods are not traded on spot markets trust in business partners is necessary as to whether they keep their promises. During the last decades trust has become increasingly important given that commercial transactions nowadays take place in global context. Because of business parties may not know each other personally and products have become increasingly complex. These factors have highlighted the concept of trust (Fischer, 2009).

In Collaborative inter-relationships, trust is therefore considered as a powerful commercial asset. If business partners can trust each other, contractual arrangements may be reduced or avoided, thereby implying lower costs and thus securing competitive advantage (Morgan and Hunt, 1994; Fischer, 2009).

2.1.2. Relevance of Trust in Food Chains

The food sector is a complex network of companies involved in the production of food on different stages of the food production value chain from commodity production, processing and retailing to the consumer. In recent years worldwide, the issue of food quality and safety has become one of the major factors impacting the stability of the food sector. As certain quality characteristics of food products cannot be scrutinized, any exchange of food products across the value chain induces perceived uncertainty and risks regarding potential opportunistic behavior of suppliers. To overcome uncertainties and perceived risks across food chains, mechanisms for the communication of food quality are in place. Various control mechanisms have emerged as communication device. An important supplement and sometimes substitute for control in the exchange of food across the chain is trust between companies (Fritz and Fischer, 2007).

Control and trust in business relations are highly interlinked (Das, Teng, 1998). For chain management, the level of trust between companies is of interest as it is less costly than control (Zak, Knack, 2001, Chiles, McMackin, 1996) as it lowers transaction costs by reducing, e.g., the efforts for contracting or control and monitoring (Dyer, Chu, 2000, Wilson, Kennedy, 1999). For food networks, for instance, the impact of trust and social networks on the business performance has been compared by Sodano and Verneau (2006) for two tomato production networks in different Italian regions. In general, the significance of trust, relational and social capital for competitive advantages is underlined by the emergence of concepts such as relationship marketing (see Shet, Parvativar, 1995) and the relational view of the firm with the notion of “relational capital” (Dyer, Singh, 1998, Gulati et al., 2000). (Fritz, 2001).

2.1.3. Building Trust in Long-Term Relationship

Quality, price and the ability to deliver are regarded as the most important criteria by which organizational buyers evaluate potential suppliers. All buyers emphasize the importance of the reliability of delivery. However, a farmer’s decision to purchase seed may also be expressed in rational economic terms as value-for-money.

Fischer et al. (2008), categorise two relationship types, formal and non-formal:

Non-Formal relationship types:

- Spot, or 'open', markets (immediate at actual prices)
- Repeated market transactions with the same buyer/supplier with non-formal, non-written contracts

Formal relationship types:

- Formal (written) bilateral contracts (contract terms and obligations are legally enforceable)
- Financial participation arrangements (both parties stay legally independent entities)

Relationship quality represents the static component of a relationship and comprises interpersonal factors, such as trust, commitment or satisfaction with a business partner. Relationship stability covers dynamic aspects (i.e., the evolution of repeated interactions and transactions over time) and considers non-coercive and coercive behavior and past chain experiences. It may, indirectly, be measured by the existence of mutual dependence, the existing degree of conflict-resolution capacity and, more generally, a positive collaboration history with a business partner. Relationship quality and stability are interrelated and together form sustainable relationships. The socio-economic and regulatory environment in which agribusinesses are embedded exerts a significant influence on chain relationships. In addition, the structure of the markets and competitive forces may affect both chain relationships and performance. Requirements on agribusinesses to produce goods with a specific quality level often originates from consumers demanding quality or sector-specific regulations protecting the public by establishing food-safety standards and traceability assurance systems. Agribusinesses must create a reputation of high product quality which requires long-term investments in product development, closer collaboration in labeling and creating contracts with suppliers to guarantee resources with a specific quality level. Ranyaud et al. (2005) review food-quality enforcement measures and its influence on the design of chain relationships. They conclude that quality labels and enforcements lead to closer, more formal and collaborative relationships (Fischer, et.al. 2008).

With regard to governance and trust in food chains, Claro and Claro (2004) put emphasis on informal safeguard mechanisms in the chain relationships such as mutual trust, long-term orientation and joint actions in addition to formal contracts. According to the Fritz and Fischer (2007), the level of trust in European food chains is influenced by the governance form, the stage of the food value chain, and the type of product with its requirements for trust. Cultural differences occur in business relations in food chains in different European countries

as well. The level of trust in European food chains is influenced by the cultural background of the country, the type of product with its requirements for trust in the relation and the stage of the food value chain involved (Fritz and Fischer, 2007).

2.2. Supply chain based on contractual arrangements

According to Williamson (1985), TCE emphasizes contract incompleteness, which hinders the possibility of crafting optimal incentive contracts. The major proposition of TCE is the presence of specific investments shifts organization away from markets to “hybrids” or, in the limit, vertical integration to mitigate potential hold-up problems. Therefore, supply chain organization is a source of value when transactions are governed by efficient structures, from markets to hierarchies, aligned with attributes of the transactions along the chain (Lazzarini et al., 2001).

Macneil (1978, 2000) classified three types of contract laws: classical contract law, neoclassical contract law and relational contract law. Classical contract law supports the autonomous market form of organization and is based on a set of legal rules with formal documents and self-liquidating transactions. Neoclassical contracts allow flexibility in longer-term economic relations by including additional governance structures (e.g. arbitration). Relational contracts are agreements in principle, which circumscribe the contracting parties' relationship, including tacit as well as explicit arrangements (Frank and Henderson, 1992). The neoclassical contract is more elastic than classical one but more legalistic than the relational one. In relation to Macneil's three-way classification of contracts, Williamson (1996) proposes a schema which matches governance structures with commercial transactions. Classical contracting applies to market governance, the main structure for nonspecific transaction. Neoclassical contracting applies to trilateral governance, where occasional transactions of the mixed and highly idiosyncratic kinds take place. Relational contracting is relevant to transaction-specific governance, where two types of structures can be distinguished: bilateral governance (obligational contracting) and unified governance (internal organization) (Zhang, Aramyan, 2009).

Contractual transaction (neo-classical contracting) is defined as the occasional transactions conducted under written agreement between buyers and sellers with mixed or idiosyncratic specific investments. Relational transaction (bilateral and/or unified governance) is defined as recurrent transactions that are completed based on long-term relationships between two parties with mixed or idiosyncratic specific investments. Therefore, contractual and relational

governance are two major business relationship governance forms. Contracts and trust have been found to be important within long-term relationships operating in uncertain environments, and/or when asset specificity is high. Macneil's work brought to light the importance of considering relational contracts – extensive, long-term relationships – as a distinctive form of contracting'. The emphasis for relational contracting is upon social, embedded, exchange between the parties. '... to the process of projecting exchange into the future'. In Macneil's relational contracting theory, the concept of contract is expanded to refer to relationships between people who share norms and values. Trust is a key feature in this relational governance. Relational governance mechanisms (such as trust) are regarded as a means to enhance TSI associated with less monitoring and bargaining (Zhang, Aramyan, 2009; Harrison, 2004).

2.3. Two dimensional approaches

Zhang and Aramyan (2009), propose to study the buyer-supplier relationship from two dimensions: contractual and relational relationships. They define contractual relationship as any agreements reached by parties to reduce risk and uncertainty in exchange relationships. Relational relationship refers to parties' informal embedded relationships and social norms. They approach the relational relationship from two facets: trust and cooperative norms. Cooperative norms are the shared belief and expectation of two parties that they must work together to achieve mutual goals (Zhang, Aramyan, 2009)

3. RESULTS OF RESEARCH

3.1. Objective

This study is concern with the relationship of farmers and the buyers in the fresh fruit and vegetable supply chain in Turkey. It attempts to observe the different supply chains in the fresh fruit and vegetable and to comprehend the geography of the network from farm to consumer in these supply chains. After the typologies of the different supply chain in fresh fruit and vegetable (restructuring of the sectors and procurement system modernization by companies in the restructured sectors) are determined. And then, how differences, in terms of size, type of product supplied, type of customers supplied, influences the trust level and buyer-supplier relationship in fresh fruit and vegetable in Turkey will be investigated. The study focuses on the role of trust on the performance of the exchange relationship of farmers and buyer in the fresh fruit and vegetable supply chain in Turkey.

3.2. Findings

The study is based on interviews with both supplier (smallholder farmers, cooperatives), and buyers (supermarkets, wholesale hall, cooperatives).

3.2.1. Different types of buyer-supplier relationships

Buyer-supplier relationship in the traditional supply chain

Farmers deliver their products to market through middleman. Then, sales of products to wholesalers and retailers are carried out by this middleman. Agri-food firm size in Turkey is small. Average firm size is approximately is 6 ha. For example this figure is 60 ha in the Netherlands. So, farmers cannot carry to sale their product without intermediary to market. Some wholesale hall and middleman has become main supplier for supermarkets, food service sector (hotels, restaurants). However, neither middleman nor wholesale hall makes investment to the farmers to improve food quality and safety. They just provide the shipping and credit to the producers.

Buyer-supplier relationship in the modern supply chain

During the 1990s transition period in developed countries, the retail sector was privatized and some domestic-capital supermarket chains gradually emerged. Supermarkets have restructured their procurement strategies through the introduction of private standards, centralized procurement systems and distribution centres. Recent studies have shown a meteoric rise of supermarkets in Latin America in the past two decade (Neven and Reardon, 2003), with profound effects on agri-food systems via important changes in organization and institutions, including centralization of procurement from farmers, decline of traditional wholesale systems, and demanding private standards on product quality and safety. Supermarket makes investment to the farmers to improve food quality and safety to meet customer demand.

Supermarket prefers buying from large scale farmers to reduce the cost of transport. In addition it is also difficult to organize small farmers scattered in different places. There have been little or no opportunities for smallholder farmers. The restructuring process is likely to exclude farmers from food markets in two ways; firstly through displacement of traditional markets by formal food chains; and secondly, the restructuring process will exclude farmers through the introduction of private standards (Dries, Reardon, Swinnen, 2004).

Supermarket supply chains are carried out through contractual arrangements in the context of exacting safety, quality and/or logistical requirements that are increasingly being codified through private standards. The procurement systems are characterised by contractual relationship between buyers and sellers. There is formal relationship between large scale producer and supermarket. All conditions have been determined already by sides. But continuity is important for this kind of relationship. Supermarket does not tend to change producers constantly. So trust and satisfaction are main components for supermarket.

The first supermarket was established in 1954 is MİGROS. The ranks of the top 250 global powers in 2009, MİGROS became the 4th largest retailer in Africa/MiddleEast Region by opening 432 new stores in 2009. Migros Türk also became 190 th largest retailer in the world by sales approaching \$3,5 billion in 2007. In 2008, Migros spread its network even wider with the opening of an average of 5 new stores per week. Expanding rapidly, the company was now operating in 63 provinces in Turkey. By the end of 2008, Migros Ticaret A.Ş., with a store network across Turkey's 7 geographical regions consisting of 93 M, 101 MM, 44 MMM Migros stores, 271 Tansaş stores, 652 Şok stores, 6 5M and 8 Macrocenter stores. Foreign subsidiaries accounted for an additional 16 stores; 10 stores in Kazakhstan, 3 stores in Azerbaijan, 2 stores in Macedonia and 1 store in Kyrgyzstan

Migros buys fresh fruit and vegetables from farmer cooperative instead of wholesale market hall. This system provides many farmers with the opportunity to sell their produce at a fair price. Contracts between Migros and cooperatives can be profitable provided quality produce is supplied according to specification and timely delivery

Cooperatives in buyer-supplier relationships

The Central Union of Turkish Agricultural Credit Cooperatives is an organization which meets all sorts of agricultural input needs and credit requirements of members. Along with the Central Union located in Ankara, the Agricultural Credit Cooperatives renders services to approximately 1.1 million of its members in nearly 31,000 settlements with the help of its Regional Union Directorates. There are a total of 16 regional unions with 1659 primary cooperatives. Tasks of the Agricultural Credit Cooperatives; to meet short and medium term credit demands, to assist them in turning their crops into profit, to provide for common use the machinery, equipment and facilities that are needed. Cooperative makes investment to the farmers to improve food quality and safety. Farmers deliver their products to market through primary cooperatives. Then, sales of products to wholesalers or supermarkets are carried out by this cooperative. In this situation, cooperative have replaced the middleman in supply

chain. Fresh fruit and vegetable sales through the cooperative have much more advantage than sales through the middleman for farmers.

Middleman does not pay in cash for purchased product to farmer. Sales occur in relationship based on trust. However, middleman does not make a payment just in time or payment can be less than stated by middleman. The main reason for this, there is no contract between middleman and farmers. There is a formal relationship between smallholder and cooperative. A cooperation of this kind is important because of offering mutual benefits to both retailers and suppliers. Thus, both the supplier knows that how much money will be earned, and the buyer knows that how product will be purchased.

Product sales through cooperatives provide an opportunity to smallholder farmers to deliver to the supermarket. Supermarket makes a contract with the cooperative. Supermarket states the demands related product in terms of amount, diversity, and size in this contract. Besides of these there are obligations about payment time and amount. When cooperative sales its members product to supermarket, supermarket, supermarket controls farmers during production.

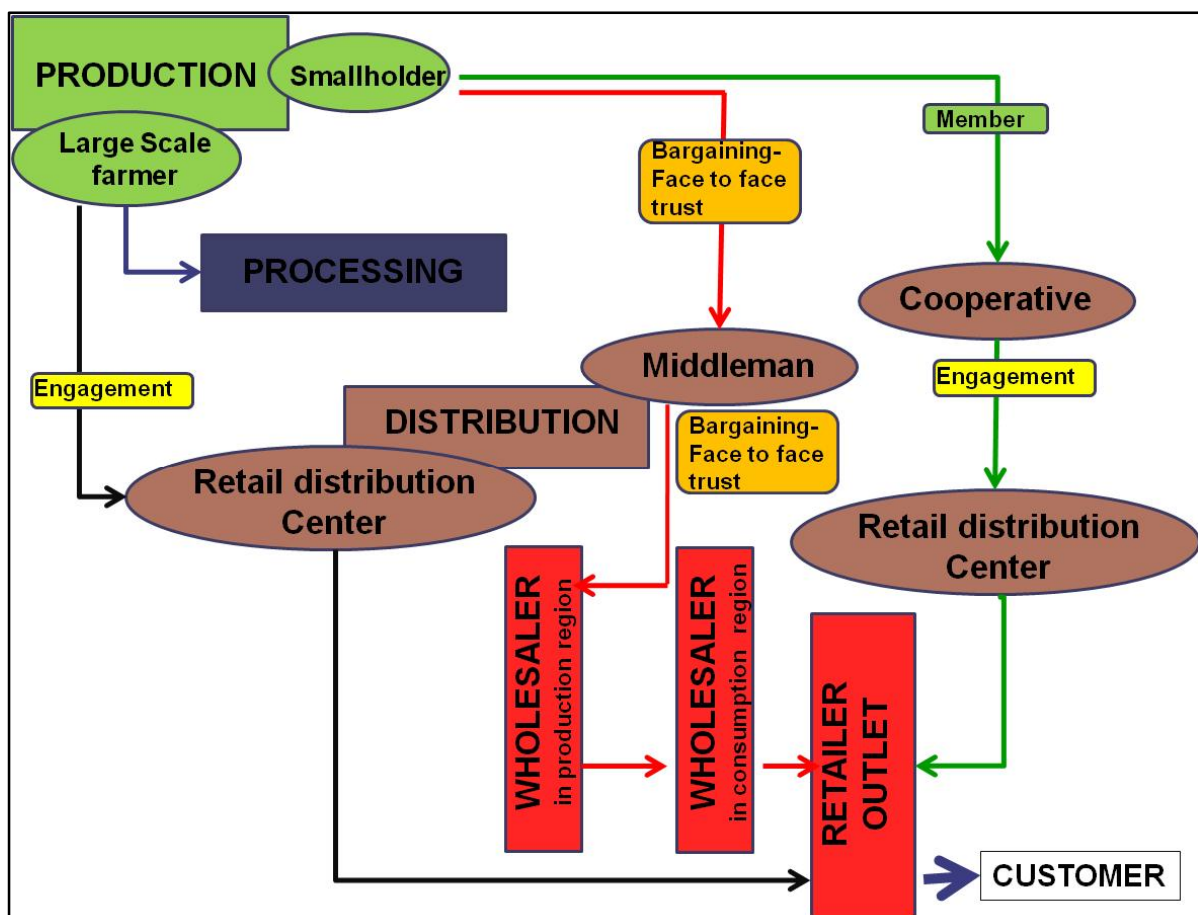


Figure 1: Fresh fruit and vegetable supply chain in Turkey (It was prepared by author using interviews)

3.2.2. The impact of external environments on buyer-supplier relationship

Do external environments impact on buyer-supplier relationship? If so, in what kind of relationships? Does higher environmental uncertainty encourage closer cooperation between small scale producers and their buyers?

Environmental uncertainty in terms of suppliers and buyers in fresh fruits and vegetables sector, is the most important issue. Particular, environmental factors such as changing demand, climate, natural disasters, and political decisions affect diversity, amount of product. In other words, environmental uncertainty and risk in agri-food is higher. When supermarket deals with a large-scale supplier, it does not take account of environmental uncertainty for a year. Supplier who made a contract with supermarket may not deliver necessary amount, diversity and quality ,due to changing climatic conditions. In this case, supermarket supply product from small-scale producers in the market. Nevertheless, there must be trust between both parties. Because of, reputation and customer satisfaction is the most important for supermarket. This relationship should not destroy them.

3.3.3. Buyer- supplier relationship and chain performance

Aramyan et al. (2007) summarised performance indicators used in literature and proposed the following categories of performance indicators applicable for agri-food supply chains: efficiency, flexibility, responsiveness and food quality. **Efficiency** measures how well the resources are utilized and includes several measures such as production costs, profit/profitability, return on investment and inventory. **Flexibility** indicates the degree to which the supply chain can respond to a changing environment and extraordinary customer service requests. It may include customer satisfaction, volume flexibility, delivery flexibility, reduction in the number of backorders and lost sales. **Responsiveness** aims at providing the requested products with a short lead time. It may include fill rate, product lateness, customer response time, lead time, shipping errors, and customer complaints. The specific characteristics of agri-food supply chains are captured in the measurement framework in the category food **quality**.

Is relationship established upon trust between buyer and supplier to generate better chain performance?

Is relationship established upon contract between buyer and supplier to generate better chain performance?

Flexibility: Volume flexibility, delivery flexibility

Formal contracts are mechanisms that attempt to mitigate risk and uncertainty in exchange relationships. Exchange performance can suffer when detailed contracts are used without a well developed social relationship. When social relationships are well developed and partners trust each other, a higher level of flexibility and tolerance is found than in relationships with lower trust. The buyers that trust their partners will be more willing to react flexibly to changing environments or demands of the partner. If the level of trust between suppliers and their buyers is higher, the level of flexibility is higher.

Responsiveness: Fill rate, lead time, shipping errors, customer complaints

Contracts vary in intensity depending in part on the perishability and quality requirements of the product. So supermarkets do not prefer the contractual relationship supermarkets for this kind of products. It can be mentioned that there is a buyer-supplier relationship based on trust for this type of products.

Efficiency: Final product price, profitability, sales growth

Product purchase price is determined by contract, before sale in the contractual relationship. This price is determined according to a year earlier. Price fixing for the products which affect easily from uncertainty with the highest risk can be disadvantageous for both supplier and buyer. In relationships based on trust, negotiation costs are decreased, and the exchange takes place according to the conditions of the day. So, if the level of trust is higher, the level of efficiency is higher.

Quality: Customer satisfaction with product quality

Contracts may have the items related to the quality obligations of the product such as size, good agriculture. Therefore, the supplier has to provide in product in these conditions not to lose the buyer. Trusting partners have a strong desire to continue the relationship. However, the duration of the relationship is related to the fulfillments of mutual requirements regarding quality arrangements. Non-compliance with the requirements will harm trust and future relationship.

So, if the level of contractual relationship is higher, product quality is higher the level due to high compliance with quality requirements. If the level of trust is high, the level of product is quality.

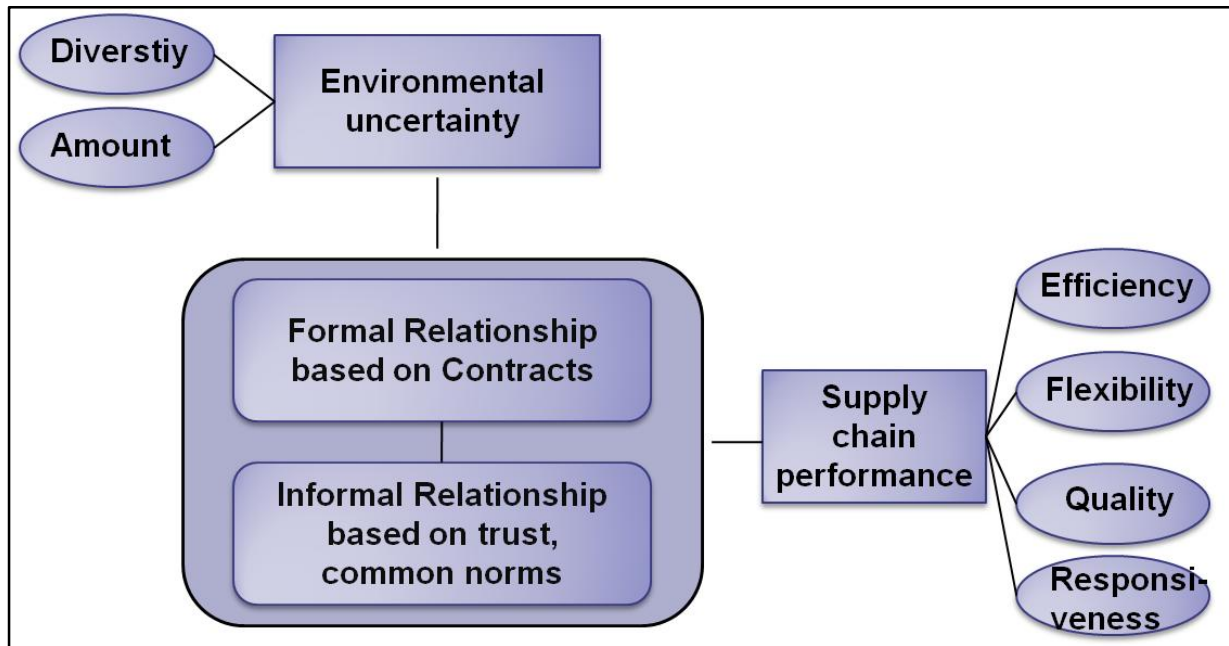


Figure 2: Conceptual framework (It was prepared by author using Zhang, Aramyan, 2009)

4. CONCLUSION

In the relevant literature on agri-food supply chain especially with the participation of the chain of supermarkets, the most important problem has become how to integrate small scale farmers in the supply chain. On the one side there are small scale farmers excluded from the process, on the other side there are large farmers benefited from the emerging of supermarkets (Herna'ndez et al., 2007; Herna'ndez, 2009; Weatherspoon and Reardon, 2003; Reardon and Barrett, 2000). Small scale producers don't have capability for demand of supermarket. So, they may be excluded supply chain based on contractual relationship. On the other hand, they are opportunity for buyers to respond to the flexible demands.

Supermarkets' sourcing decisions from small-scale or large-scale farms is largely influenced by factors such as the price, and quality of the produce, volume and consistency of supply, and trust relationships. Based on these factors, large-scale farmers are often better placed to sell to supermarkets as they can fulfill the volume and quality requirements of supermarkets more easily than small-scale farmers. This trend is called the modern supply chain in which was purchased fresh fruit and vegetables by supermarket from the producer directly. There is no an agent in this model.

Effects of these new trends are observed as differentiation of producers and their markets in food supply chain in Turkey. This problem is important in terms of the rural development.

Marketing is a major challenge for smallholder farmers. If they have not to compete with the large scale farmers, they are excluded from modern supply chain.

However, the research results show that in the fruit and vegetable supply chain as well as the contractual relationship based on trust relationship is also important. Hence, to provide the necessary conditions for trust is important rather than the scale of producer. Therefore, when there is a high level of trust and satisfaction, small-scale producers can participate in the modern supply chain. In addition, the performance of the supply chain is higher.

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