

Collaborative commerce or just common sense? Insights from vegetable supply chains in Ho Chi Minh City

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Abstract

Purpose – To demonstrate that collaborative commerce is not restricted to trade in branded products between large, multi-national organisations.

Design/methodology/approach – Insights from extensive field research in Viet Nam.

Findings – The benefits from collaborative commerce are plain for all to see yet very little of it is being practiced in retail food chains at present, due primarily to incompatible organisational cultures and a competitive market environment that drives large corporations towards transactional relationships based on price competition. The insights from the Vietnamese vegetable supply chain demonstrate the simplicity of the principles of collaborative commerce and the ease with which they are adopted when the culture is conducive to collaboration and a partnership approach to trading relationships.

Research limitations/implications – Findings are based on research conducted in and around Ho Chi Minh city and on a narrow product range, but anecdotal evidence suggests the principles apply across all commodities and extend beyond the South of the country.

Practical implications – Demonstrates the importance of organisational culture in collaborative commerce, so businesses who wish to benefit from collaboration in the supply chain need to look at ways of developing an organisational culture that is conducive to collaboration.

Originality/value – This paper sheds new light on the application of the principles of collaborative commerce in a developing country context and in a low value-high risk food category, without major investment in IT systems.

Keywords Cooperative marketing, Vietnam, Vegetables, Supply chain management

Paper type Case study

Introduction

Collaborative planning, forecasting and replenishment (CPFR) is often portrayed as a new management philosophy whereby suppliers and customers in a supply

chain work together to organise jointly their activities and sales. Co-operative planning between trading partners leads to a better matching of supply and demand, the elimination of waste, a reduction in inventories and out-of-stocks, and an increase in on-shelf availability.

However, the fact is that CPFR is only being implemented by some supermarkets and with only the largest branded manufacturers, who have the systems capability, the know-how and the resources to adopt, implement and exploit CPFR to its full potential. Too expensive, too complex, not enough trust between partners, a lack of strategic vision and incompatible organisational structure/culture are the most common reasons advanced for the failure of retail organisations and their suppliers to adopt CPFR and embrace the principles of collaborative commerce. So, you

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can imagine our surprise (and delight!) when during our research conducted in 2003–2004 on vegetable supply chains in Ho Chi Minh City, Viet Nam, we stumbled upon a classic example of CPFR in practice, only not with Dell, Toyota or Tesco but ...

Vegetable supply chains into Ho Chi Minh City

Ho Chi Minh City (HCMC) is a metropolis of 8 million inhabitants in the South of Viet Nam. With the strong economic growth of the last decade, many HCMC consumers have diversified their diets to incorporate more fresh produce and meat in their meals. The demand for fresh vegetables in HCMC has been estimated at 1,200 tonnes per day. Tomatoes and lettuces are two of the most frequently consumed vegetables in the city, with respectively 70 tonnes and 58 tonnes distributed daily by traditional city wholesalers. These traders enjoy 98 per cent of market share of fresh produce distribution in the city, where the modern sector – wholesaler Metro Cash & Carry and supermarkets such as Big C and Saigon Co-op Mart – only accounts for just 2 per cent of the vegetable market, but is growing rapidly as consumers show increasing awareness of, and demand, for “safe” vegetables of known provenance.

These city wholesalers are supplied by rural collectors who assemble produce from numerous small farmers, mainly in Lam Dong Province located in a high plateau area 250km northeast of HCMC. There may be several collectors successively involved in assembling produce from farmers after the harvest. Likewise, there are also primary and secondary wholesalers in the city markets. The level of education of most trading stakeholders is basic as the majority of traders will only have completed primary school. Moreover, transport conditions from production to the consumption area are difficult: the bulk of the produce is distributed in un-refrigerated 10tonne trucks overfilled with 100kg bamboo baskets filled to the rim with produce, stacked on top of each other.

On the other hand, supply chains to modern distributors are shorter, usually involving direct links with farmers’ associations and a handful of intermediaries. They source high quality produce for the new organisational buyers at Metro, Big C or one of the other supermarket chains setting up shop in HCMC. The transport in these chains is better but still un-refrigerated, so quality and waste remain significant issues. Good communication between retailers, collectors and growers – most notably sharing information on market supply and demand, and in the form of supplier training on safe agricultural practices – is key to making consistently available high quality, “safe” vegetables[1] to the growing number of supermarket and cash-and-carry shoppers.

The majority of vegetable supply chains to HCMC are supply-driven with farmers sending their produce via collectors to one of the three wholesale markets located on the fringe of the city and “discovering” the price when the collector calls the next day. You would expect such a system to leave the producers – small-scale farmers with limited education and little access to market information – vulnerable to opportunistic collectors and wholesalers.

Opportunistic behaviour undoubtedly happens, but from interviews conducted with dozens of wholesalers, retailers, collectors and farmers, it appears that most of these traditional supply chains are forged around long-standing

relationships. Traders express a preference for dealing with people they know and trust rather than switching opportunistically from one source of supply to another. So, opportunistic behaviour is the exception rather than the rule, which creates a trading environment conducive to collaborative commerce.

Collaboration in the Big C vegetable supply chain

Big C supermarket is a French/Vietnamese joint venture, operating as a large-scale supermarket since 1998, currently with three outlets in HCMC and more stores planned in other city locations throughout the country. Fresh food represents 30 per cent of total food sales, and fruit and vegetables account for 16 per cent of fresh food. Fresh produce is not a major revenue generator for Big C but it has the potential to become a significant generator of footfall, as fresh vegetables are important items in the shopping baskets of all Vietnamese consumers, regardless of income. Big C’s market share of fresh produce may be small but overall, Big C’s turnover is growing rapidly (circa 20 per cent per annum), so their impact on trading practices and supply chain management is likely to become more important in the future.

In discussing the development of the fresh produce supply chain to Big C, we discovered the adoption of collaborative commerce in the management of promotional activities with one regular vegetable supplier: a farmers’ co-operative. Fresh produce within Big C is priced competitively in relation to traditional retail markets. However, there is a perception that supermarket prices in general are higher than average market prices, so Big C is working hard to change this perception in the minds of consumers. Consequently, they use promotions on fresh produce to attract new shoppers into their stores, but they do not make their suppliers foot the bill.

Before a promotion is launched on vegetables supplied by the co-operative, the Big C buyer will choose the products to be included in the promotion 15 days before the start of the campaign. He will discuss this choice with the co-operative’s marketing director in order to make sure that the co-operative will be able to satisfy the increased demand during the duration of the promotion. The supermarket buyer will usually choose the products to promote because their price stays stable during the whole year or during a certain season. It is thus easier for supplier and supermarket to agree on a promotion price when the product price stays relatively stable throughout the promotion period. Seven days before the start of the promotion, the price for the discounted produce will be decided by the Big C buyer according to retail market prices in the city. If the co-operative agrees with that price for the duration of the promotion, the advertising leaflets are printed in order to inform consumers.

The use of discounted retail prices by Big C benefits the growers because, even at discounted levels, the returns from the supermarket are significantly better than from the traditional channels and the volumes required are tiny compared to the wholesale market; but at least Big C have the foresight to discuss the nature and scope of the promotion with the suppliers before implementation, to avoid the empty shelves that so often result from compliance-based promotional activities in the developed markets of Western Europe and North America. However, this kind of collaborative practice is not exclusive to Big C: we found

elements of it in the traditional supply chains also, like the lettuce supply chain of which Mr Van is the key player.

Collaboration in traditional vegetable supply chains

Mr Van is a HCMC lettuce wholesaler with an impressive 5 tonnes of nightly sales to a large number of retail customers. Mr Van supplies his lettuces from several regular collectors in Lam Dong Province. He carefully co-ordinates his activity with his suppliers because of the very volatile rural and city prices for fresh vegetables, the extremely short shelf-life and the high risk of crop damage due to rainy weather in the production area.

Information sharing and joint planning

Mr Van shares information daily with his suppliers to help plan their joint activities: he asks Lam Dong suppliers about the local weather forecast so as to plan his forward-ordering. In exchange, Mr Van will give information about city market conditions to his suppliers.

Unlike the daily orders made by wholesalers in the traditional supply chains, Mr Van orders lettuce from his regular collectors five days in advance of the expected delivery. This advance-ordering enables his suppliers to take their time in finding the appropriate farmer plots to satisfy Mr Van's high quality orders. This advance-ordering nonetheless means that the wholesaler takes a high risk of not planning his orders right, especially if there is an unexpected storm in the production area that might damage the produce. On the other hand, if the weather stays good, Mr Van will make very good profits thanks to the good quality of his produce.

Supplier development reduces risk of non-compliance

In tune with the high level of co-ordination between stakeholders in this supply chain, relationship-specific investments have also been made by Mr Van as a means of managing the risk of poor quality. Mr Van has invested in the businesses of his regular suppliers in order to help him find higher priced outlets for discernibly higher quality produce. Mr Van lent money to his longest-serving regular supplier without any interest when the latter needed to buy a new motorbike that would enable him to look for vegetable plots that were ready for harvest, and also when he wanted to build a new house – all part of building a good supply relationship.

However, the most visible example of relationship investment is the training that Mr Van offers suppliers in lettuce harvesting, processing and packing to ensure that produce arrives in HCMC in prime condition and with an extended shelf-life. Lettuces are packed neatly, upside down in wicker baskets to protect them from transit damage. Moreover, packers are instructed not to overfill baskets so that they can be stacked one on top of another without causing damage to the contents. As a result, not only are Mr Van's prices consistently higher than the market average, his level of waste at the wholesale level is 7 per cent lower than that achieved by his competitors. This attention to detail would

not be possible without the collaborative ethos that Mr Van has engendered in his (traditional) supply chain of high repute.

Conclusion

CPFR remains the Holy Grail for many supermarkets and suppliers, struggling with inefficient practices with respect to promotional planning, demand management, production scheduling and inventory control. In part, this is due to the void that exists between technical capability and existing trading practices that continue to be dominated by adversarial relationships, power struggles and a distinct lack of trust between trading partners.

The insights that we have had into the management and development of food supply chains, old and new, in Viet Nam, in a sector (fresh produce) that is generally regarded as low value, are both interesting and refreshing. Not only do they illustrate what many of us believe to be true – that collaborative commerce is nothing more than common sense – they also highlight the fact that adoption of collaborative trading practices is not the exclusive domain of business school graduates or account managers in branded manufacturers and does not require the services of expensive consultants to implement. However, what it clearly needs is a strong collaborative culture and trading environment that are conducive to information sharing and supply chain co-ordination. It is in this respect that the experience of Viet Nam (or perhaps that part of the world that extends from Southeast Asia to Japan) departs from the experience of Western Europe and North America, where CPFR is currently making its mark.

In the Confucian world of Ho Chi Minh City, the individual (business and/or person) is worth nothing without a sense of community, so opportunism is frowned upon and social mechanisms exist to redress the balance of power in embedded communities. In the motor industry we continually make reference to the Toyota “model” and Japanese thinking about supply chain integration, commitment and trust. In the food sector, we tend to look to the large, predominantly North American and Western European, food retailers for examples of best practices in supply chain management. Perhaps these giants of the global food economy have something to learn from Mr Van, who regards his relationships with his core suppliers and key customers as nothing more than good business common sense. What makes him different from many of his competitors is his focus on quality and the investment he has made upstream to ensure that he can deliver consistently higher quality to his customers, from which everyone in his supply chain benefits.

Note

- 1 “Safe” vegetables are produced with less pesticide than their conventional equivalent and are the focus of a special government incentive to promote food safety standards.