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SUS-CHAIN

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Tegut

Case study report

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1 Introduction

1.1 Significance of this case study in the overall project

The term “sustainability” (Nachhaltigkeit) was, in Germany, first applied to forest economy in the 18th century. Today, it is applied to very many and various aspects of society and economy. For that reason the use of the word sustainability is as well associated with new food supply chains. Weather their might occur a convergence of the meaning of sustainable production and quality at different levels of different food supply chains in various European regions, is not known. In Germany the ministry of consumers´ protection, nutrition and agriculture supports the organic farming, specific processors and the marketing of organic food. But there are still many factors inhibiting the enhancement of sustainable food production. At the moment it is not yet very well known why some initiatives are very successful and others never achieve.

The international project marketing sustainable agriculture - an analysis of the potential role of new food supply chains in sustainable rural development, called SUS-CHAIN, aims a comparison of different initiatives in the European Community. For that reason the singular analyzes in the countries should be based on a uniform methodology (Brunori, Wiskerke, 2004). The objectives of SUS-CHAIN are defined as follows:

The purpose of the project is to assess the potential role of food supply chains in the enhancement of sustainable food production and rural development by identifying critical points in food supply chains which currently constrain the further dissemination of sustainable production, and recommend actions that are likely to enhance the prospects for sustainable food markets. Specific attention will be given to factors related to the organisational structure of food supply chains and interactions between different stages of the chain. The study examines in detail the ability of the food chain as a whole to convey consumers’ expectations and civic values related to sustainability and food quality to farmers. The international comparison of different case studies on the retailer level will point out the needed structure of networks, regional identity and consumers´ opinion. This knowledge can be the background for future policy programs and financial supports (Technical Annex of SUS-CHAIN, P.2).

1.2 Why “Tegut” and what characterizes Tegut as a ‘FSC’

A medium-sized retailer was chosen as the German case-study in the SUS-CHAIN project. The foundation of this food retailer leads back into the year 1947. The story of the successful family-business will be analyzed in this study. It is called “Tegut…” and has two main particularities: at first, its strong quality-orientated policy, secondly, its strong position in a specific region in the very middle of Germany.

The Tegut - philosophy is based on high quality food, reflected in the slogan “Tegut … gute Lebensmittel (Tegut – good food). This commitment to quality was put up by the founder of Tegut and is continued by his son, who runs the company since 1973 as well as by his grandson, who already is working within the strategic marketing management of Tegut and who will take over the business from his father in the future. The clear focusing on quality in the company’s management and in its external communication is somewhat contrasting to the German retail sector, where, since the 1950ies, prices are always in the centre of strategic and operational action.

As a coherent consequence of its quality commitment, Tegut emphasises on ecological and social values. It has a relatively high percentage of organic products in the assortment.

Another consequence of the seeking for optimal quality is the company's engagement into own processing facilities. Tegut put up own meat processing in the 1970 (organic meat processing since 1986) and engages into the production of organic bread since 1992, when it launched one of Germany's biggest organic bakeries. With regard to organic offer, Tegut created an own trading and packaging company, Alnatura, as well as a chain of specialised organic food stores under the same name (Alnatura). Meanwhile, this company is (at least formally) independent from Tegut, but business relations are still very close. Alnatura is keeping place 41 among Germany's biggest food retailers.

The most recent example of this quality-orientated integrating policy was the development of the brand Rhöngut and the creation of a new production site, where the products of this brand, special meat and sausage products, are processed. Rhöngut links organic produce with a special, innovative and typical processing (dry cured hams ans sausages from beef and meat). The brand is exclusively available in Tegut Supermarkets and in Alnatura Organic Food Stores.

Tegut, which is on place 22 of Germany's biggest food retailers, is a strong regional player in the middle of Germany. This region, mainly in the "Land" Hesse, with some extension towards Bavaria and Nordrhein-Westfalen, was, after World War II and until the reunification of Germany relatively unattractive (low density of population, strong and persisting role of agriculture, few urban areas) and from a logistic point of view difficult to cover (dispersed small towns, closeness to the inner-German boarder). Tegut was, in this region, and at least for some time, relatively protected from the concentration process in the retail sector, the competition being concentrated around more attractive regions. It used this advantage well and built up a sound regional competence, that could be used efficiently as a stepping tone when the inner German boarder fell: Tegut expanded its activity to the new eastern regions and tripled its outlets.

The regional competence of Tegut is still important 15 years after the reunification. In the "Tegut region" hard discount is advancing much more slowly than in the rest of Germany.

There are, today, two medium-sized supermarket-chains in Germany that are thoroughly engaged into sustainable (organic & regional) food marketing, Tegut and Feneberg (about the same size as Tegut, n° 29 of the biggest supermarket chains). Feneberg being concentrated in a very particular region and thus much less comparable to standard food retail, we chose to work on Tegut.

As the Tegut company as a whole would be to complex to analyse, we did a "case study within the case study" – while regarding Tegut as the mother initiative, we consider Rhöngut as a recent offspring of the sustainable dynamics initiated by Tegut and concentrate on Rhöngut when it comes to more detailed questions (situation of producers, regional implication, way of the products, prices, etc.).

1.3 Data basis

The study is based on

- Context analysis and analysis of secondary statistics
- Analysis of company documents / material / data (few)
- Interviews with key actors (within company; in external networks, with partners of the company)
- Focus group with consumers
- Store checks

2 The Context

The following passage begins with a short characterisation of the food system and its market's development. After that it gives an overview about the current German market situation in which Tegut has to operate is given. This will include both the food market in the retail sector and the consumer's buying behaviour. After that a description of the chain follows as indicated in work package 1. The aspects the initiative is aiming to address and the sustainable potential emerging from it (chapter 2.1). Following the region where the case study is situated in will be described. This chapter 2.2 contains the natural and geographical characters of the region as well as the social structure and the environmental problems.

2.1 Characteristics of the retail sector in Germany

From the 1950s to the 1970s the agro-food system was marked by the rising importance of supermarkets. The following aspects were obvious: There was a strong concentration and a price-centred competition, mainly on retail level. The market power of big retailers and processors was increasing. At the same time a constant decline of small and medium scale farms or companies could be observed. Most of the small corner shops disappeared in rural as well as in urban areas.

The fast spreading of self-service supermarkets in towns and bigger villages changed deeply the buying and consumption habits of consumers. Food handicraft (bakeries, butchers) lost its importance in towns and largely disappeared in rural areas. Some supply chains disappeared entirely; examples are milk shops, where fresh bulk milk was served to consumers and that completely lost their market, when supermarkets started to sell cheaper milk in bottles or packs. The changing of the importance of different market channels has, as well, an impact on the image of food. One of the supermarket chains predominant strategies to attract consumers is low price food. Especially beef and pork is sold at extremely low prices, and while these products had an almost luxury image in the 1950s, they rapidly became an object of everyday and ordinary consumption in the 1960s and 1970s.

2.1.1 Concentration in the German food retail

The later 1980s and early 1990s are characterised by a toughened competition between the less than ten big supermarket chains in a stagnant grocery market. The food retail market showed more and more signs of a narrow oligopoly: sinking margins, price-centred competition and a fastening concentration. The gain in power of the big supermarket chains is reflected in the rising number of retail-owned trade marks and the relative decline of producer-owned brands.

In Germany, as in many other countries, the enormous process of concentration can be observed at all levels. On the retail level, concentration is particularly pronounced. Almost two thirds of Germanys grocery turnover is now realised by only five enterprises (2001 data). The ten biggest grocery retailers hold 84% of the market, and the 30 biggest retailers a quasi-totality of 98% (Anonymous, 2003a).

In 1995, there were still 50 enterprises to share 98% of the market (Praast, 1997, S.52). Within the last years, discounters grew by approx. 10% p.a., while other retail forms lost substantial market shares. Discounters' market share, which is in Germany bigger than anywhere else in Europe, is expected to grow further (from 35% in 2002 to 40% in 2007; anonymous, 2003b).

2.1.2 Industrialisation of the food chain

Agricultural production and its typical processors in rural areas were more and more replaced by the chain of food industries. By doing so, the production and marketing of food followed the same principles as commercial policy of branded non-food products. Consumers lost their emotional relation to the origin of their daily meals. The heritage of food became anonymous. Furthermore food lost transparency: where does it come from, what are the ingredients, how was the specific treatment etc.?

The trend of becoming anonymous food and loss of transparency is a negative side-effect of this development for the consumer (Schümer, 1997). Another side-effect is the decreasing influence of agricultural producers on the functioning of mainstream food supply chains and in particular on the distribution of value added along the chain. The loss of small and medium size processing enterprises in rural areas leads to less labour alternatives for rural populations, to higher marketing costs for farmers and to less flexibility in their marketing decisions. An obvious example is the closing of many small-scaled abattoirs due to concentration processes, new technical standards and a market structures policy that actively supported - and still supports - scale enlargement and concentration. Without regional abattoirs, however, farmers have higher transport costs and less direct marketing possibilities (Schmeh, 1997). Another typical example in this respect is the limited possibilities to process and market milk from organic farms as such, i.e. as organic milk. Rupalla (1998) found that in Germany as little as 50% of organic milk is actually sold as 'organic'.

2.1.3 Aspects of image and differentiation by "sustainable" action

While the main differentiation strategy is the 'cheapest price', retailers search for other cues to profile their image and start to take up, at first reluctantly since the early 1980s, then more significantly since the 1990s, elements from alternative food chains. 'Environmentally or ethically incorrect' products, for example - turtle soup, were eliminated from the assortments.

Later, organic products were integrated in the supermarkets assortments, and most supermarket chains created their own organic food trade marks (Füllhorn by Rewe). Retailers´ engagement into the selling of organic food has, since its beginnings, a strong communication and image-profiling aspect and, in most cases, no direct profitability objectives. Most organic trade marks were, in the past, often not cost-covering and the retailers´ management regarded the losses as part of the communication costs. Though this has changed, organic offer in conventional retail still lacks the commercial professionalism (with regard to product, price, place and communication policy) that is the standard when dealing with conventional products.

The 1990s have led to important changes in the grocery retail. Due to several food-scandals consumers´ confidence in food suffered remarkably and supermarkets where the first to suffer from the consumers´ reluctance. At least in the beef and meat sector, some shifting of buying habits back to handicraft outlets (butchers) who are accorded more confidence than the anonymous points-of-sale could be observed.

2.1.4 Importance of the price level

The big retail chains like Metro, Rewe, Edeka or Aldi had a strong competition which was basically price-centred. Food industries as well as farmers noticed the price dumping on the retail level.

In spite of a high level of wealth the consumers are not willing to spend a lot of money on food (v. Alvensleben, 2000). While in 1970 some 25% of the income was spent on foodstuffs, in 2001 this has dropped to only 12,5 % (Knickel, 2002). Food is – in relation to the household income – as cheap as in the 1960s. An inquiry run by the GfK (Institute for Consumption Research) indicates that the trend of product-pricing as a deciding influence has continued. In the year 2002 62% (2001: 54%) agreed with the statement “Regarding food I pay more attention to the price than to the brand” (GfK, 2003; Figure 1).

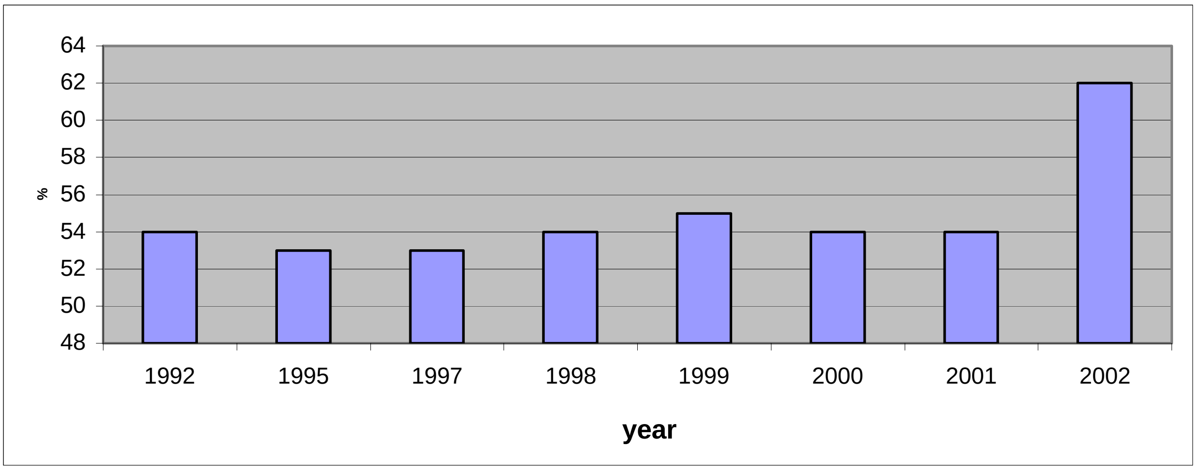

Figure 1: Consumers’ price orientation

“Regarding food I pay more attention to the price than to the brand” - agreement.
Source: GfK Consumer Scan (2003)

With regard to the accepted additional charge for sustainable food products the same development can be identified. While in 1989 on average the consumers accepted an additional charge of 21%, this has sunk to 13% in 2001 (Figure 2).

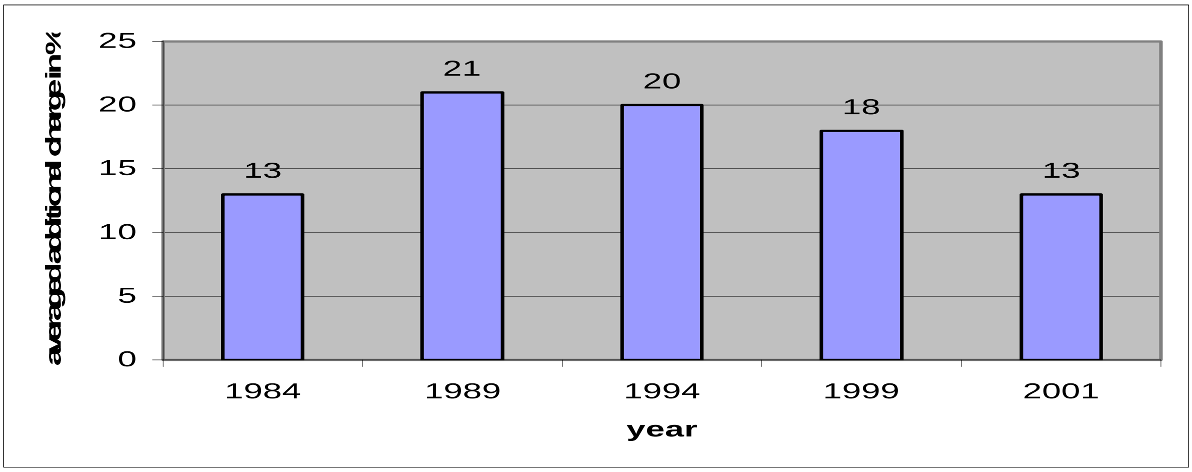

Figure 2: Average price premium accepted by consumers (in %)

Source: Bruhn, 2001

Committed consumers are far less sensitive to price differentials and more likely to adapt to the inconvenience of making special trips to farms, farmers markets or specialist shops. Occasional organic consumers are far less likely to change their shopping habits in order to merely buy organic. They are inclined to buy organic products if they are available in their supermarket but the price differential is not too great.

Many consumers associate a higher price with higher quality or rather expect a high quality when they buy more expensive products. So they are willing to pay a premium of, on average, 20 - 25% for organic products. If products are sold directly to the consumer they are considered to be of high quality even if they are not organic (Wirthgen, 1999, 2000).

2.1.5 Convenience food

The trend towards convenience has become a long-term trend. An increasing number of people try to save time in everyday life, resulting in food trends favouring convenience products. They provide the opportunity to manage time and work more efficiently. Traditionally prepared meals are successively being replaced by fast food and ready to eat products. Every fifth German is strongly convenience orientated (GfK, 2001). Especially young singles up to an age of 35 years purchase convenience food (60%) followed by the singles up to 60 years of age (55%) (Knickel, 2002).

The demand for convenience organic food is steadily growing. More than half of the young consumers wish a larger supply of products like frozen pizza with eco-quality offered in the supermarket. But fresh convenience organic food is also in demand (Öko-Institut, 2002; Knickel 2002).

2.1.6 Health trend

The demand for healthy products is also increasing (v. Alvensleben, 2000). Because of a high number of diseases caused by an unhealthy diet people have become aware of the need for "correct" nutrition. The market responds by offering functional food. Functional foods are products which promise an added health benefit. These products contain supposedly healthy additives like special bacterial cultures. In 1998 some 60% of the Germans interpret this relatively new procedure as helpful and reasonable (Knickel, 2002). The increasing demand for healthy products also goes hand in hand with the insight that a healthy lifestyle is the main motivation for purchasing sustainable food products. Halk (1993) found in a study on consumers' distrust towards conventional food a rising interest for organic/alternative food products. There is a clear correlation between worries about food safety and the readiness to pay more for organic food (ZMP, 2002).

2.1.7 Low involvement and over-segmentation

The German population was very close related to the agriculture during the years of shortage (1930s, 1940s). The close relationship to farming relatives or farmers helped to survive during the war and short after. The urban population started again an independent food supply in the towns and for that reason people lost the close relation to the agriculture. The direct links between agriculture and food consumption declined rapidly. Consequently the lack of understanding of food and food production was growing.

In a complex consumption world, consumers´ capacity to take up information about each product that is object of more or less frequent buying decisions is very limited. Food is, in general, regarded as being part of the “low-involvement-products”: consumers´ readiness to absorb information on food is very limited. These products, object of everyday consumption, are mostly chosen according to habits or spontaneous, situational decisions. At the same time, many segments of the food market tend to “over-segmentation”: too many products, to many brands put the consumers in an embarrassing choice-situation, where simple signals and codes are finally more relevant than the actual products characteristics.

2.1.8 Polarisation and multi-optional consumption

On the food market, as on other markets, a polarisation can be observed, that opposes more and more rather cheap, „bulk“ products and expensive, luxury goods.

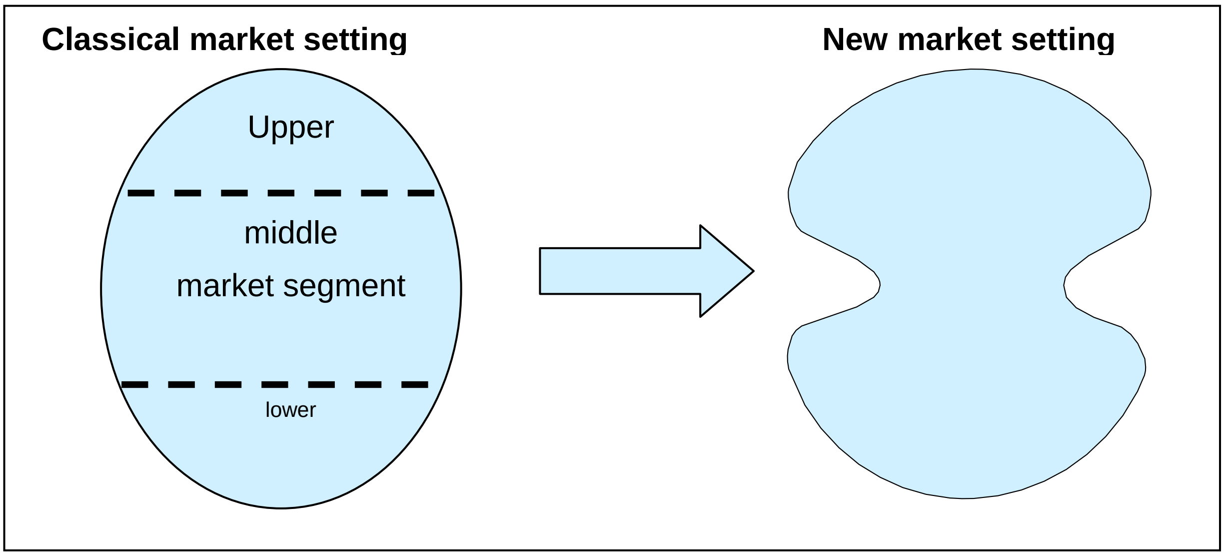

Figure 3: Market polarisation. Source: Stern (1992)

Consumption habits do significantly change: the „multi-optional" consumer is buying at the discounters as well and even as regularly as he is frequenting delicatessen shops or farmers' markets.

2.1.9 Trend toward regional and organic food

During the last decades, a steady growth of niche markets for alternative food (Organic, regional, fair trade) has been observed. The nature and strength of this trend is still not free from contradictions. Regional food is mainly bought for freshness and quality reasons (Wirthgen et al., 1999). A growing interest for regional development and the micro-economic situation of rural areas is, as well, a mobile for buying regionally (Ziemann, 1999). The main motivation to buy "fairly produced and traded food" is the wish to support small producers in so-called developing countries (Krier, 2001; Valio, 1997).

Looking at the different benefits consumers expect, the quality of the product (freshness, taste, content of vitamins and minerals) and its practical use are much more important than the process quality or immaterial, social benefits. Process quality like regional or traditional production is a second class criteria, social benefits like increased value added, landscape preservation or job creation are described as hardly motivating (Ganzert/Burdick 2002).

For most organic customers health has become the prime motivating force in more recent years. In Germany, the question whether consumers buy sustainable products for altruistic or egoistic reasons has been covered by several researches. In 1994 Prummer found the "egoistic" motivation "health concern" being the consumers' most important reason for choosing an organically grown product. The second most important reason was the "altruistic" mobile "environment", the third mobile "better taste" was again "egoistic": Several years later, Schaer (2001) could confirm these findings.

In 2001 Bruhn identifies customers' motivation for buying sustainable food. The study is based on five consumer surveys (1984, 1989, 1994, 1999, 2001) concerning the demand for organic food. The motivation was analysed for the first time in 1989. The consumers' main motivation is not to protect the environment or animals. In all the surveys almost 60% of the 2000 interviewed people explained that their main reason for buying sustainable products is that they are healthier than others. In 1999 more than 60% named health as the primary reason (Bruhn, 2001). From 1989 to 1999 more than 10% named "eco friendliness" as the deciding factor. Up until 1999 it was the second most frequent reason for buying eco-products, but in 2001 this place was taken by the motive "better taste" (ca 11%), only 5% named "eco friendliness" as the reason for consuming sustainable food products. The motives "better taste" and "less residues" almost rank on the same level slightly over 10%. Bruhn includes the motivation "healthier" and "few residues" in the new aspect "security motivations", with the conclusion that the desire to feel safe is the primary reason for purchasing sustainable food products. Furthermore the surveys indicate that protection of the environment has lost its relevance in this context. Altruistic values are not the deciding factor in buying ecological products (Bruhn, 2001).

This change in consumer orientation is also reflected by the association with the term „Bioprodukt“[1], discussed in the same study. In the year 2001 the most frequent answer was the association "healthy", which was named by 25% of the interviewed people. In 1999 this association was only the 5th highest (11%) behind "without chemicals" (29%), "natural food/artless" (19%), "without chemical fertiliser" (18%) and "biological cultivation" (13%). The adjustment can partly be explained in the light of the "mad cow disease" that organic food is seen to be less risky than conventionally produced food.

Another interesting point the statistic shows is that in 2001 the association "expensive" was named three times as often as in 1999. This development is in accordance with the lower accepted price for sustainable food products.

In sum people connect positive associations with the item "Bioprodukt". Especially components of the proceeding quality like biological cultivation or without chemicals were named. Negative answers were rarely given with 3,2%, whereas here the association expensive needs to be added. It is important to remark that terms like "pleasure" or "taste nice" do not occur. From German consumers point of view taste does not seem to be a deciding factor with regard to ecologically sustainable products (v. Alvensleben, Bruhn, 2001).

2.1.10 International food market

As in many other European countries companies like Tegut undergoes a high competitive pressure, general consumption trends and outcomes of globalisation. Like in the Netherlands or Great Britain the German food market is highly saturated (Kirsch et al., 1998; www.iatge.de). This situation tightens the competition between all actors of the food chain. In many countries there has been a market shift of power away from producers and processors to retailers. So particularly in the retail end of the chain, but to a degree in processing as well, there has been a marked

[1] The German term „Bioprodukt“ is usually used to describe ecologically sustainable products and not solely those products which are labelled with the logo "Bio" and thus subject to EG regulations.

concentration of ownership, creating firms with very substantial buying power. In most European countries large retailers dominate the market and therefore the supply chain caused principally by downward pressure on prices (Kirwan et al., 2004; Chappuis et al., 2003). Discount supermarkets, in particular in Germany and Belgium, are bringing increased pressure on producer prices. These processes of consolidation and concentration are evident from Italy to Latvia (Kirwan et al., 2004).

Globalisation affords an enormous product variety, increasing convenience and apparent low prices. On European level there is a remarkable willingness of the average consumer to use the large-scale sector and to embrace conveniences of supermarkets. In general an increasing part of the population is spending a much greater proportion of expenditure on other goods than on food and people are not willing to spend a lot of money for food anymore. Reasons are for example the economic situation, oversupply of low priced food or losing of food appreciation. They want to buy cheap food but with high quality standards (Kirwan et al., 2004; Abend, J.-M. et al., 2001). Besides, with increased affluence, changing family and working patterns, the influence of technology, the media and travel, consumers are spending less time on food preparation and formal meals in the home. The market is becoming increasingly segmented, with important new market sectors developed in the last twenty years, including cook-chill and other convenience foods, ethnic, vegetarian and organic foods, and a steady increase in meals eaten or prepared away from the home (Kirwan et al., 2003).

2.1.11 Sustainable food supply in the international retail sector

In many European countries there is also observed a widespread evidence of consumer distrust which has arisen from different food scares. In almost all cases the large-scale food sector is implicated (Kirwan et al., 2004). Consumers buying behaviour reacted in refusing products for example like beef and in demanding more organic products. Then big retailers like Metro (Germany), Dansk Supermarked (Denmark) or SOK (Finland) orientated their offer of organic products according current trends in demand or just as a reaction to the strategy of main competitors (Richter, 2002). In fact they sell organic products but without strong active engagement or effort. The organic assortment is no important part of the communication and organic products often are not clearly pointed out at the PoS. They are quite passive in the organic market development and adopt their marketing strategy to the market environment (Richter, 2002).

Medium scale companies like Tegut… (Germany), Coop (CH), Migros (CH), Monoprix (France) or Waitrose (Great Britain) have to adapt to actual consumption trends in order to be able to resist the difficult competition situation and to keep pace with consumption trends.

Also the swiss retailers Coop and Migros cut prices regarding the market entry of Aldi which will open 60 new discount outlets in Switzerland (lz-net, 2004). Nevertheless above mentioned medium scale companies still try to distinguish through a consequent quality orientation and an enlargement of sustainable assortments like regional and organic products. In striving towards that niche segments and achieving high quality standards they intend to stand out from concentrating and low-price processes and to save social, environmental, sustainable and cultural values (Richter, 2002; Rausch, 2004; lz-net, 2004; Chappuis et al., 2003; www.net-design.de/ftp/grenzland/mahlzeit_2_2003/24.pdf). Often the strategic alignments are clearly fixed in the companies' mission statements.

2.2 Position of Tegut in the retail sector (mapping)

As indicated above, Tegut supermarket chain as a whole with its some 19.000 product items would be to difficult to analyse. For a description of the chain, we focus on what is particular with Tegut: own processing, direct links to regional farmers, the initiative "Rhöngut".

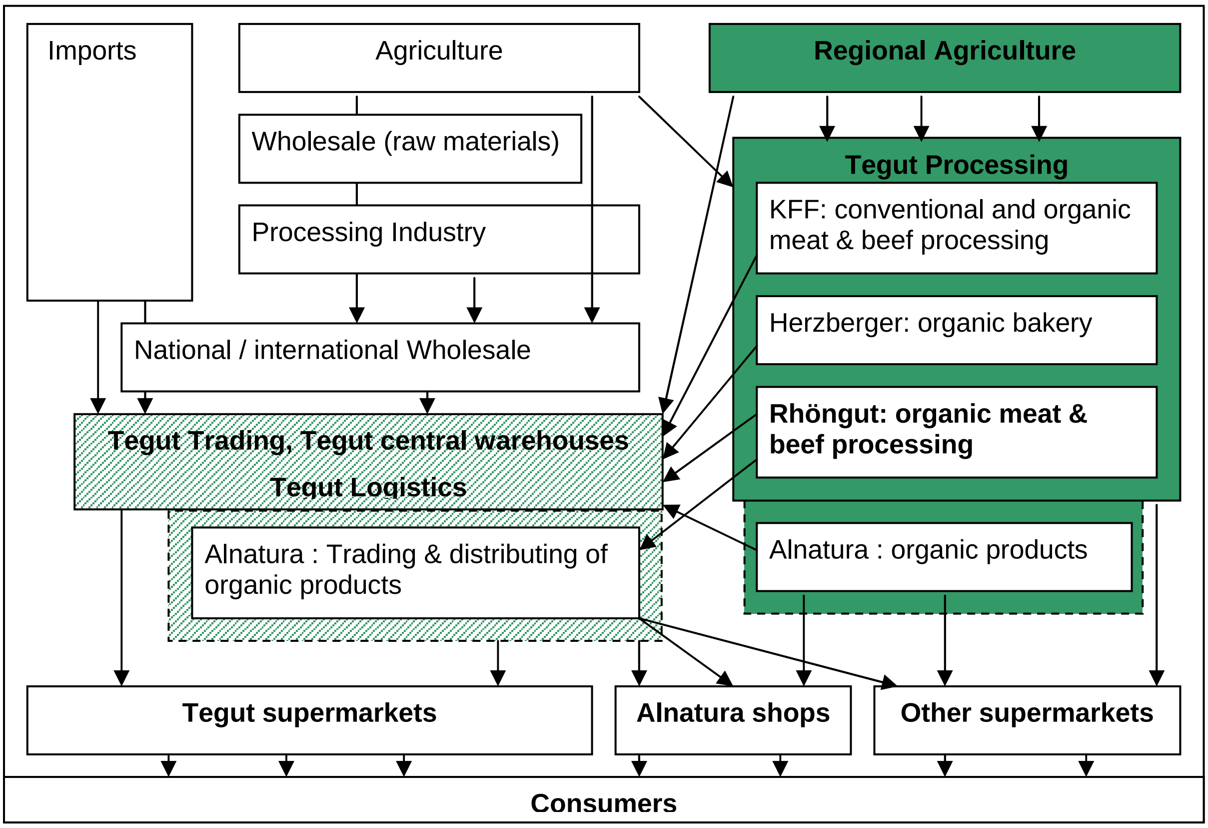

Figure 4: Description of the chain

2.3 Characterisation of the regional context

The Tegut supermarket chain covers a region in the middle of Germany, mainly in the Laender" Hesse, Thuringia and Bavaria (see Figure 5).

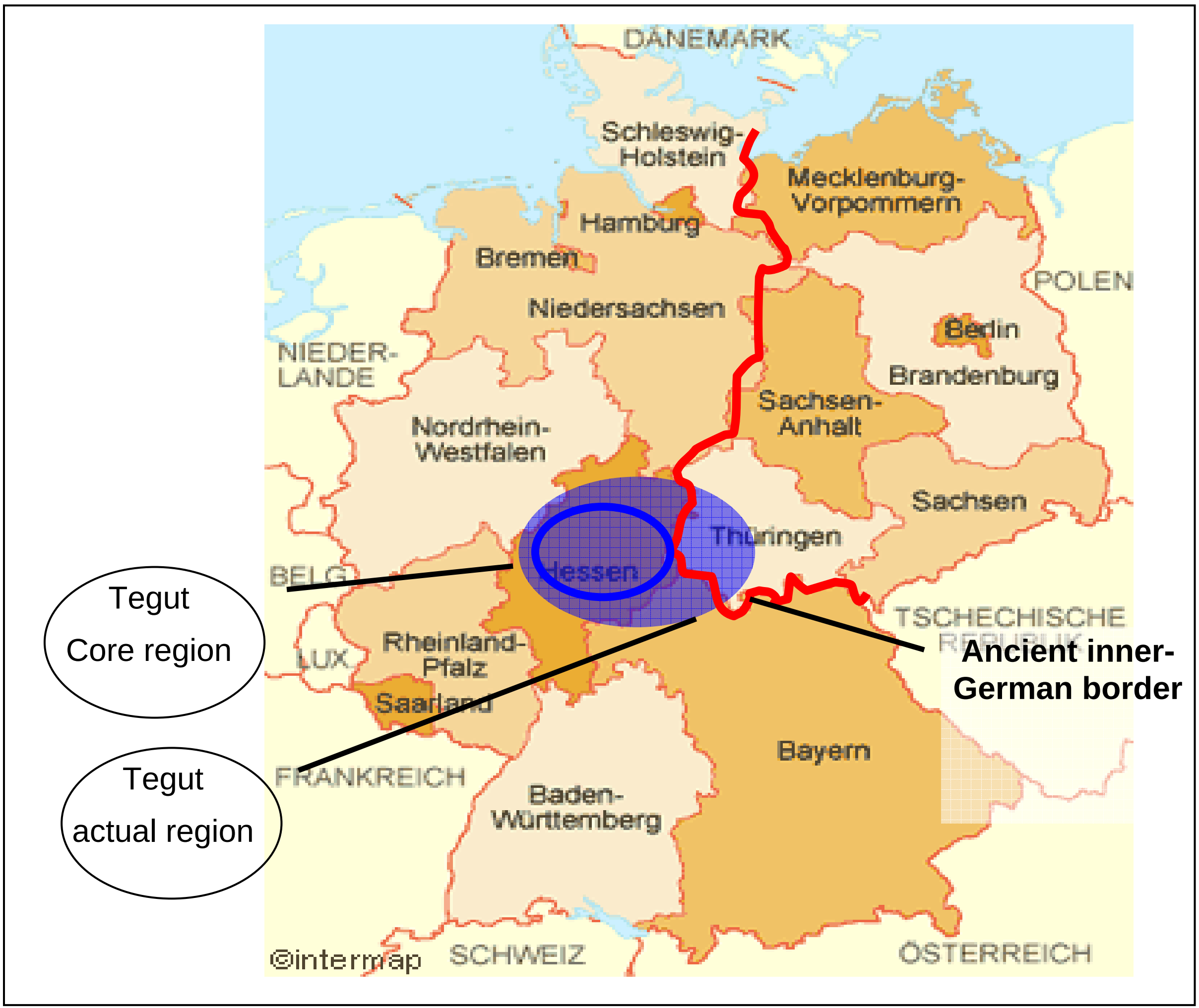

Figure 5: The tegut region

The case study "Rhöngut" (within the study on Tegut) is situated in a specific, much smaller region called "Rhön". The uplands of the Rhön Mountains cross the boarders of Hessen, western Thuringia, Bavaria and southern part of Lower Saxony. It always has been a rural area with low density of industrial or service activities, traditionally the population lived from agriculture, small rural industries and mining. The soil is relatively poor within a rough climate. Small, extensive farming on the basis of sheep and cattle crazing formed the typical landscape of hilly pastures.

While ecological problems are less important in the region, the Rhön is facing social and socio-structural challenges.

There is an important decline in agricultural activity, income and employment, and consequently, in all activities linked to agriculture (technical services, trading and stocking of agriculture products). As there are no or little employment alternatives, foremost young people are leaving the region.

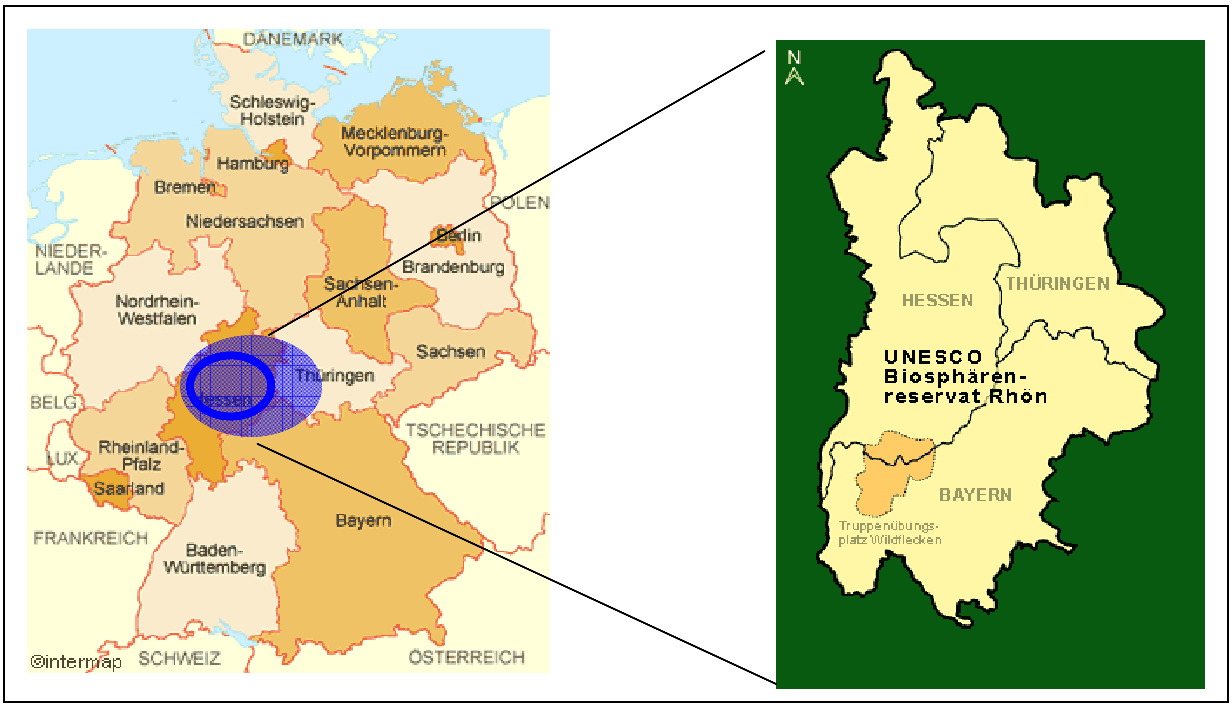

Figure 6: The Rhön region in the "heart" of the tegut region

Organic farming has a relatively high importance among the remaining farming activities, but faces difficult conditions. Far away from the cities, beef and milk products are difficult to market and the gathering of milk, for example, is expensive. An organic dairy situated in the region had to close down recently.

Positive impact comes from the tourism sector. The rich landscapes with rare animal and plant species favour all "green" tourism activities. The Rhön is classified as a UNESCO Biosphere Reserve and within this scheme rural tourism is enhanced by several initiatives.

The main contribution of Tegut / Rhöngut to cope with the sustainability problem of the abandon of agricultural areas is to offer an attractive market for products of extensive beef and sheep farming.

The "relationship" between Tegut as a company, the "Tegut region" and the Rhön region changed considerably during the last decades and can be summed up under the following points:

- In the early years, the regional linkage or orientation was not very relevant. The Tegut region was relatively unattractive for competitors on a retail level up to 1990. The enterprise Tegut developed a strong position as a "regional player".
- Using its traditional region as a spring board, Tegut was able to expand very rapidly to the east (Land Thuringia) after the German reunification. The "Tegut

region" was now not longer a marginal area at the closed frontier to Eastern Germany.

- In this very heart of Germany Tegut is facing, since the reunification, a tougher competition and is becoming aware of an important disadvantage of its strategy to concentrate upon a rural area. In these less densely populated areas, logistics are relatively expensive and frequentation of outlets is relatively low. Tegut is trying to cope with this challenge by expanding towards urban and suburban regions (the Rhine /Main valley with Frankfurt, Mainz) and northern Bavaria (Bamberg, Würzburg).
- Looking for a clearer profile and a more visible regional linkage, Tegut chose the "Rhön" as an identifying communication cue. Products from the Röhn (at first Apple Juice, lamb) were integrated into Tegut assortments , accompanied by intensive communication towards consumers.
- The decisive step in its linkage to the region was taken in 2000, when Teguts meet processing department KFF launched a new brand "Rhöngut" for organic beef and meat specialities. The success of this brand lead rapidly to the creation of a new production site, situated in the very centre of the Rhön region.
- The Rhöngut brands core promise, "organic products from the Rhön" links Tegut further and stronger to the region. In a way, the company is becoming dependent on the –limited- regional offer. Tegut has to engage into assuring agricultural offer by enlarging the number of supplying farms and by giving production advice. Implicitly, farmers have a stronger negotiating position.

From, at first, a loose regional linkage Tegut anchored more and more deeply in his operational base, gaining, thus, competitive advantages. The company has finally engaged into a strong relation to the most significant part of its region (Rhön) by naming one of the company's strategic brands after it. In a way, a compliance between the operating region and the objectives of Tegut can be observed: The Rhön being the core region, while the brand "Rhöngut" represents best Teguts philosophy of high quality, ethically correct and sustainable products.

3 Objectives and state-of-the-art of the initiative

First a short description of the case is given (chapter 3.1). Further in chapter 3.2 the retailers' image is analyzed by statements given by consumers.

3.1 Description of the studied FSC (Tegut, Rhöngut)

Tegut is a retail chain for food with a range of some 20.000 product items. The origin of the products is for its biggest part conventional but the rate of organic offer is relatively high (13 % of all food products sold). Tegut is a family-owned, regional company which has been founded in 1947. Since its founding Tegut has been increased continuously.

The company has a clear regional orientation. The main targets of the company are to satisfy consumers demands in terms of high quality products and to co-operate as good as possible within the company and with other organisations and to use resources sensible. Quality orientation was the reason to establish an organic assortment in the year 1980. Meanwhile Tegut strives for offering at least one organic article in each product group. Sustainable products from regional and organic production are of some importance. Tegut and its subsidiaries were involved in establishing farmer's co-operatives and built up a well-defined regional positioning. The company attends to fair prices and a fair distribution of value added.

In Germany Tegut is considered as one of the precursors regarding sustainable strategic alignments. In the beginning of the 1980s Tegut established an organic assortment. During this launch the company strengthened its high quality orientation which still plays an emphasized role – despite of actual market situation in which quality aspects basically suffer from the mainly price-centred competition. Tegut strives for enlarging the organic assortment as part of a high quality and ethically correct product policy.

3.1.1 Teguts brands and subdivisions

The corporate brand "Tegaut" is the umbrella retail brand for several product brands which comprise the main categories (KFF, Alnatura, Herzberger, and Rhöngut).

Tegut is foremost addressing to build up consumer involvement. It assumes capital resources and it supports sustainable activities. The enterprise brand stands for high quality and represents regional and organic assortments.

Rhöngut is foremost addressing to support the rural economy through defending and conserving employment and income. It improves the sustainability and the likeability of the rural areas. The slogan "Rhöngut – Naturgereift in Rhöner Höhenluft" (naturally ripened in the mountain air) embodies regional identification, natural production and the healthy environment. The brand Rhöngut uses territorial and local resources.

Rhöngut represents particularly well the main values of Tegut with regard to regional commitment and sustainable development (compare page 1f).

The company doesn't intend to expand its sales territory into other regions Germany. It built up a noticeable regional alignment in order to preserve the company's independency and regional "affiliation" (Rausch, 2004). Within this region the company supported the formation of farmer's co-operations that deliver a part of raw materials. So the company built up a network of regional located farmers for fruit and vegetable supply. Most of them are members of German organic associations because, according to Tegut animal-friendly husbandry and an ecological reasonable production of feeding stuff can more easily be assured this way (www.Tegut.com, 2004). The origin of regional produced food is clearly communicated to the consumers. There are also lots of efforts in marketing the organic assortment. For that reason the company sets value on a continued consumer's information f. e. about product quality, origin and transparency.

3.1.2 Tegut among the competitors

A strong process of concentration that can be observed at all levels of the food market (see chapter 2.1.1, page 1): almost two thirds of Germanys grocery turnover is in 2001, realised by only five enterprises. The ten biggest grocery retailers hold 84 % of the market, and the 30 biggest retailers a quasi-totality of 98% (m+m eurodata, 2004). In 1995, there were still 50 enterprises to share 98% of the market (Praast, 1997, S.52).

Market shares only can be gained or kept by the take-over of competitors (www.netzeitung.de). Therefore many small and medium scale retailers had become a bankrupt or tried and still try to be bought in by a big future-proofed retail groups in order to survive within the concentrating process (lz-net, 2004). The number of insolvencies will rise from 7.500 in 2002 to 10.200 in 2005 (KPMG, 2004). Fast changing structures, reorganisations and take-overs became an attribute of the German food market which every company – especially medium scale companies – has to struggle with. Tegut is an extraordinary example in bearing up against that extreme difficult competition situation. In 2002 Tegut had a total turnover of 980 Mio Euro (m+m Eurodata, 2004) and takes in the 23rd place in the ranking of German retail chains as seen in Figure 7 (m+m EUROdATA, 2004).

During the last years, discounters grew by approx. 10 % p.a., while other retail forms lost substantial market shares. Discounters' market share, which is in Germany bigger than anywhere else in Europe, is expected to grow further (from 35% in 2002 to 40% in 2007; Anonymous, 2003b).

The concentration process further accelerated during the research work on SUSCHAIN, as a latest example the EDEKA group (former N° 3 of the biggest German food retailers) took over the SPAR group (former N° 7) in April 2005 and became, thus, the biggest food company in Germany. The top five companies hold now two thirds of the market.

The "critical" company's size, above which benefits are sufficient to avoid (unfriendly or friendly) take-overs is continuously increasing. The size of the company influences the cost efficiency through scale effects in logistics and trough market power when negotiating byung conditions with the food processing industry. The "vicious" downward price spiral, accelerated by hard discounters, reinforces this phenomenon.

The bigger retail companies are regularly taking over smaller or medium scale retailers (lz-net, 2001). Several regional-concentrated and family-owned German companies like Kupsch, Famila or Kriegbaum (all medium scale retailers like Tegut) were taken over by three of the five biggest grocery retailers in Germany (lz-net, 1999; lz-net, 2003; lz-net, 2004).

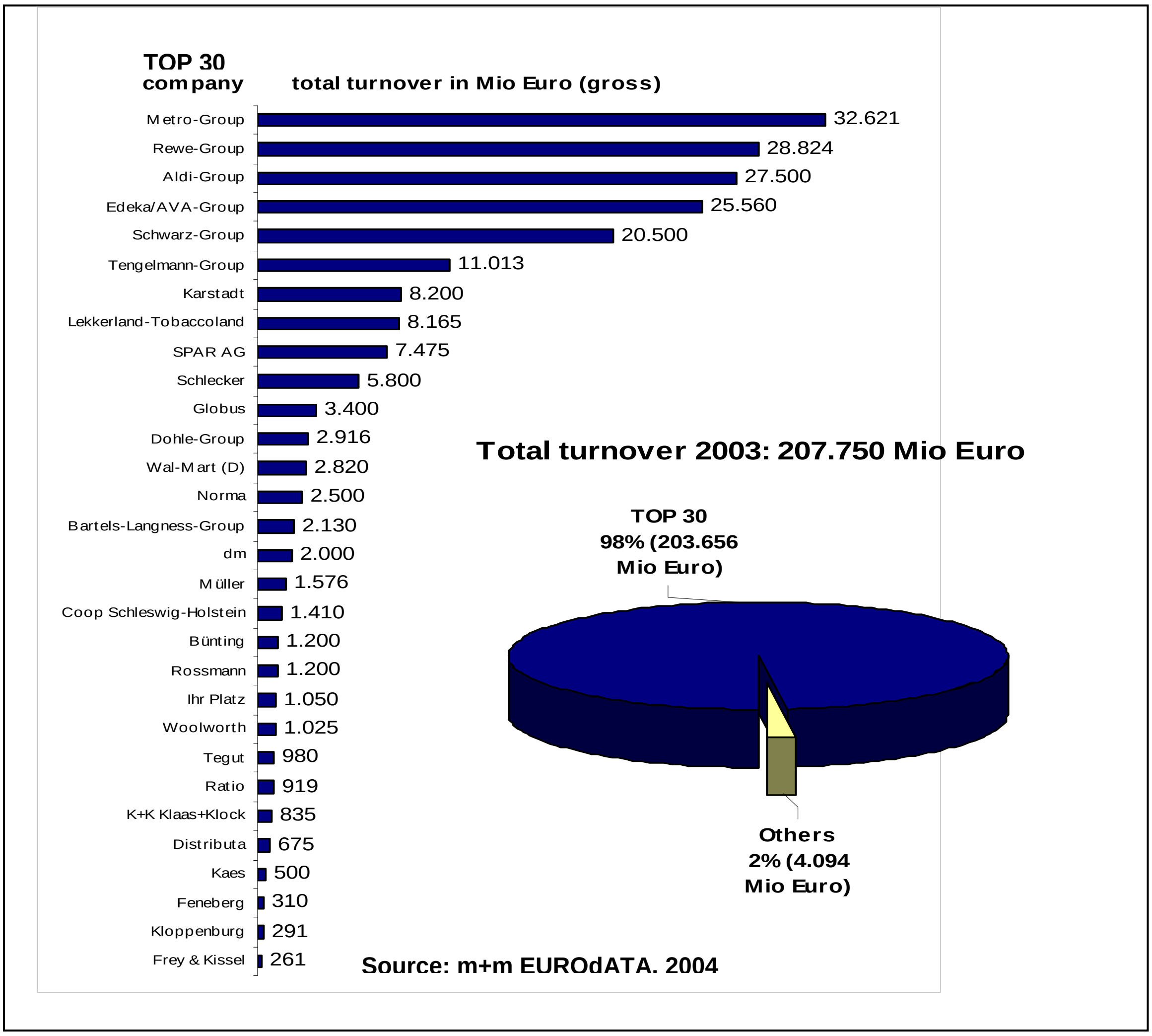

Figure 7: TOP 30 of German grocery retailers (total turnovers)

The "aggressive" or expanding companies chose their objects according to geographic or logistic criteria: they try to cover "white spots" on their emplacement maps, foremost when they're fitting into existing logistic structure and try to optimise capacities of central warehouses and transport systems. It's not unusual that the name of the newly integrated company is kept in order not to tangle consumers. But the assortments are newly arranged and the companies trade marks are implemented.

Curiously, the three supermarket chains cited above (Kupsch, Kriegbaum, Famila) put up ambitious programs to enhance organic products within their assortments. These attempts, to sharpen the own profile and to create extra value und preference in the consumers' perception were to short-handed and failed. In each case, own organic brands were created, often on the basis of contracts with regional farmers and organic food processors. After the take-overs, these programs and brand systems where not continued but replaced by the buying company's own organic brand. This led usually to the breaking off of commercial links with regional suppliers.

Meanwhile 310 outlets belong to Tegut (m+m EUROdATA, 2004). A take over or investment by other retail company is not taken in consideration by the family-governed management.

Tegut aims to act independently in order to follow its own strategy which is well defined and clearly communicated in- and outwards the company. According an in-house information (Rausch, 2004) Tegut basically strengthened this strategy in the beginning of the 1980ies when the company established an organic assortment and started to built up regional initiatives (farmer's cooperation, regional meat production). This effort follows a high quality orientation which is fixed in the firm's philosophy as an important principle. Tegut regards the "quality" positioning in the long run, which is validated by a customer's survey, as one of the main advantages compared to other medium scale retailers which have to struggle with losses of confidence and credibility gaps. Also from the very beginning onward Tegut built up a noticeable regional alignment in order to preserve the company's independency and regional "affiliation" (Rausch, 2004). Another advantage compared to other medium scale retailers are seen in acting as retailer and as producer at the same time: Tegut is able to influence product development according to market trends and participate in strategic product alignments (Rausch, 2004).

Nevertheless, in order to stay financially sound, Tegut was forced, in 1999/2000 until 2003, to restructure its organisation (closing and selling of inefficient outlets, staff savings). An efficiency gain in logistics, information technology and purchasing was realised by co-operating with a retail company (Dohle-Group) (lz-net, 2003). Meanwhile Dohle cancelled the co-operation because of internal reorganisations (lz-net, 09/2004). Tegut is now allied to the logistic group "markant".

Despite the actual price-centred competition and a fastening concentration Tegut still follows its strategic alignment. The reasons, why the company Tegut can afford to do so, why it is economically stable and why is not threatened by take-overs are explained as follows:

- In its particular region Tegut has built up, during the last decades, quite efficient logistic structures that can not easily be taken over or copied by other companies (regional competence),
- Teguts capital is family-owned and not open to speculation or short-sighted profit seeking (like it is often the case with incorporated companies where decisions are made in order to maximise shareholder values),
- Tegut fixed a long term orientated philosophy, based on quality, on ethical values, organic products and on regional commitment,
- Tegut built up consumer confidence and trust and is linking up closely to its consumers (successfully achieved customer loyalty),
- Consequently, Tegut is such able to realise higher prizes at least on parts of his assortments,
- Tegut is innovative in management as well as in assortments and in product development

- Through his own processing, Tegut is able to implement innovations rapidly and economically, by controlling the entire supply chain
- Teguts region does not easily “fit” into other big retailers concepts (less densily populated, rural areas).

Of course, these features can not protect, in the future, from economic decline, loss of competitive strength or aggressions from other retail groups. The actual trend towards low prices and hard discount in Germany clearly poses problems. But, at least in a mid-term perspective and even under the difficult conditions of the last two years, Tegut is (according to experts) doing quite well.

3.1.3 Tegut – regarding the international food market

The processes of consolidation and concentration are evident from Italy to Latvia (Kirwan et al., 2004, see page 1).

Medium scale companies like Tegut… (Germany), Coop (CH), Migros (CH), Monoprix (France) or Waitrose (Great Britain) have to adapt themselves rapidly in order to be able to resist the difficult competition situation and to keep pace with consumption trends.

For example Tegut offers discount products as well as high quality products. This strategy implicates the intention to offer both and to give the consumers the possibility to choose between low and high price segments. It intends, as well, to keep consumers from switching entirely to hard discounters.

Also the swiss retailers Coop and Migros cut prices regarding the market entry of Aldi which will open 60 new discount outlets in Switzerland (lz-net, 2004). Nevertheless above mentioned medium scale companies still try to distinguish through a consequent quality orientation and an enlargement of sustainable assortments like regional and organic products. In striving towards that niche segments and achieving high quality standards they intend to stand out from concentrating and low-price processes and to save social, environmental, sustainable and cultural values (Richter, 2002; Rausch, 2004; lz-net, 2004; Chappuis et al., 2003; www.net-design.de/ftp/grenzland/mahlzeit_2_2003/24.pdf). Often the strategic alignments are clearly fixed in the companies’ mission statements.

Given the similarity of central problems, Tegut initiated, several years ago, an international association of conventional retailers dealing with organic food, the World Organic Supermarket Council (WOSC, regrouping, among others, Esselunga (Italy), Sainsbury / Tesco (GB) and Coop (CH). It seems, though, as if this association is a very loose and informal one, and no concrete hints of collective action could be found.

4 The story of Tegut / Rhöngut

The following passage contains the problems of the initiative at the very beginning of the development. In this stage the personalities of the starters are important. The sections 4.2 and 4.3 tell the story of the initiative subdivided into four stages of the translation cycles is described. The stages are: “problematisation”, “interessement”, “enrolment” and “mobilisation” (Brunori, Wiskerke, 2004).

4.1 Identification of the starters: the key actors

Tegut was founded in 1947 by Theo Gutberlet. Since that time the food retail chain Tegut… belonged to the family and was run by a family member. The founders´ view on food distribution was centred around quality since the very beginning. Already in the early days a relatively modern style of management was practised, ethical values were accented and much weight was put on modern human resources management.

In 1973, at the age of 29, his son Wolfgang took over the management of Tegut. To aspects of his social and cultural background will strongly influence the further policy of Tegut. His anthroposophic education influenced his general business approach as well as the impressions made by the thinking of the late 60s.

Important impulses towards an engagement towards sustainable products, came, in the 1980ies, from Tegut collaborator Götz Rehn, who has the same educational background as Mr Gutberlets and is sharing his ethical values. The foundation of Alnatura was the result of the common action of Mr Gutberlet and Mr Rehn, the latter becoming CEO of Alnatura.

Another important reinforcement of Teguts sustainable policy came from its meat and sausages production unit Kff. Wolfgang Gutberlet und Erich Michel, the CEO of Kff, searched for high quality beef and meat products. They initiated an innovative, high quality production and took up organic products in 1986. KFF became a well known brand in the Tegut region which is significant for premium and organic beef and meat.

In 2000 a further step was taken by creating the Tegut/ Kff-brand “Rhöngut” and by investing in a new production site for this range. This processing business fits well with the Biosphere reserve Rhön because of the regional background of the production. The Rhön Region has a very positive image, the status “Biosphere reserve” pulling additional attention on the area. Consumers associate the agricultural potential of the landscape with a high ecological value.

Even though Tegut acts in the regional territory of the Biosphere reserve Rhön, there is no formal collaboration between Tegut and the Biosphere reserve and the numerous NGO active in the area. There are no formal links or contracts with farmers who supply Tegut / Rhöngut.

Beside the strategic business decisions on retail and production level and complementary to it, W. Gutberlet established, in 1989, two foundations.

One foundation guarantees continued long-term orientated management of Tegut. The supervisory board controls the management decisions and the long-term philosophy of the enterprise.

The second foundation awards a certain part of the enterprises income for non-profit use. The foundation focuses on research of food quality and sustainable food supply, by funding initiatives and action within and outside of the Tegut company.

Charismatic persons within Tegut are at the origin of the main initiatives (kff and its organic offer, Rhöngut, as well as Alnatura and Herzberger). This innovative and courageous projects were launched in a region marked by disengagement and lacking infrastructure. Tegut did, in all these cases, the first step and searched, trained and guided farmers to co-operation.

4.1.1 Tegut – a "single actor" or part of an (informal) network?

It seems like Tegut works as a single actor, as it does not formally rely on a palpable network. The multitude of regional initiatives Tegut – punctually - collaborates with (the farmers co-operatives, marketing organisations, NGOs etc.) are not directly implemented. There are no formal collaborations or long term contracts.

But there are a lot of hints that the success of Tegut is at least partly due to particular regional dynamics and tightly woven social and informal fabrics. Examples of elements of these "fabrics" are:

- A relatively strong alternative movement, born in the late 60ies and early 70ies, that is particularly strong in the region and that expresses itself by alternative forms of trading food (organic food stores) and by neo-ruralism.
- Significant NGO action on the topics of agriculture, land-use, rural areas, nature reserves, resource protection. This action was in favour of of the recognition of the Rhön region as a UNESCO biosphere reserve, on the other hand the "biosphere reserve" gave new importance and drive to further NGO action.
- A certain "rural awakening", induced by the ideas of the late 1960ies and implemented, earlier than elsewhere, in form of direct selling and organic farming. One of Germany's alternative farmers' association (AbL, Arbeitsgemeinschaft bäuerliche Landiwrtschaft = "working committee for peasant farming") is particularly strong in the region.
- Anthroposophic institutions are important and quite active in the region (schools, training centres, biodynamic farms, Anthroposophic communities).

Through expert interviewing among Teguts "underlying fabric" we got the impression, that the policy and action of Tegut is somehow ambivalent:

- On the one hand, Tegut offers unique and fair chances to farmers to market their products and to develop their business in a region of marginal production conditions and poor market infrastructures. Tegut, by its marketing and communication efforts, is enhancing consumers awareness and demand for organic and regional products.
- On the other hand, Tegut is seen as an actual or possible danger for small structured alternative food marketing. Some direct sellers gave up their

businesses because they could compete with the attractive organic and regional products offered by Tegut.

In brief, it can be assumed that Tegut and a network of regional (rural and other) actors are working together in a intuitive, informal way and in a reciprocal but undefined interdependency.

4.1.2 Tegut creates his own "network" with spin offs and consolidation

Important for the understanding of the Tegut case is the network which has been build up by the enterprise itself and which is continuously strengthened (and expanded; see also section 4.4).

During the last decades, Tegut created a series of "spin offs" or subsidiary companies. At first "kff" (1972) for high quality meat processing (and later, in 1986, for organic meat processing), than Alnatura for organic retail (1986), Herzberger for organic bakery and finally, as a subdivision of kff, Rhöngut (2000) for producing organic meat specialities (see Figure 8).

Kff (and Rhöngut) as well as Herzberger Bakery are integral parts of the enterprise. Though Alnatura became formally independent, the commercial links to Tegut are still very important and it can be assumed that without Tegut as a commercial partner Alnatura would have to change (reduce) importantly. But Alnatura has its own chain of organic food stores and it sells its products as well to other supermarket chains (for example to the drug store chain dm, rank 15 in German food retail).

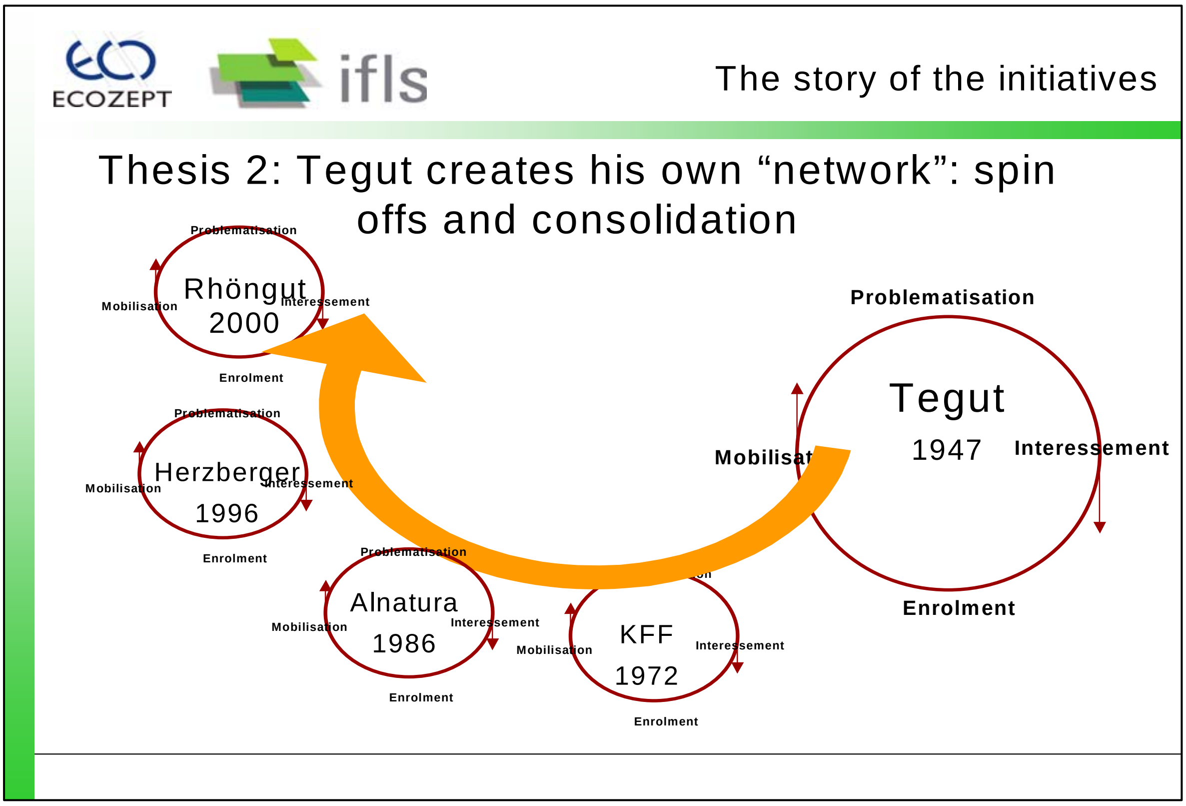

Figure 8: Tegut "creates his own network"

4.2 Genesis of the problem and formulation of the initial project (Problematisation).

The emergence of the problem, or its precipitation into actors' awareness, identifies the 'starting point' of the case.

The prevailing external pressure, on the relatively small retailer Tegut was the reinforced competition in food retail from the 1970ies onward. As a regional, family – owned enterprise Tegut was challenged to preserve and to stabilise its strong position in the region. Management action was taken with two main objectives: raising efficiency and strengthen the company's profile.

The strongest internal motivation driving towards change was the high quality commitment that had always marked the company. Strong ethical motivations, like "sustainable" criteria (regional origin, environment-friendly production) were added to the quality paradigm. Anthroposophic education and a societal background characterised by distinctive ethical (social, sustainable) commitment had influence on key actors.

Consequently, Tegut, under the new formula "Tegut – good food" regrouped, step by step all its retail outlet lines (which before were organised under different names) under the same name "Tegut".

Much emphasis was put, since the mid-1980ies, on the organic assortment that became, in a way, the flagship of the company's offer, underlining both its quality engagement as well as its commitment with regard to ethical values and sustainable development.

In order to further profiling and clearer segmentation in consumers' eyes the organic assortment was continually enlarged. Thus, Tegut succeeded in differentiating from other retailers like Edeka, Tengelmann or the Rewe-Supermarkets, who, as well offer organic products. Tegut has created an image of being the most committed and the most innovative supermarket chain with regard to organic produce.

It is in line with this profiling strategy that Tegut links ever closer to the region, a process that cumulated in the creation of the brand Rhöngut and in the investment into the Rhönut processing site (see text and maps on pages 1 and 1).

4.3 Development of the initiative (Interessement - enrolment - mobilisation) - with a focus on Rhöngut

This chapter describes the development of the initiative by tree stages of the translation cycles. The first stage after the "problematisation" is called "interessement". The entire translation cycle is described with regard to the project "Rhöngut".

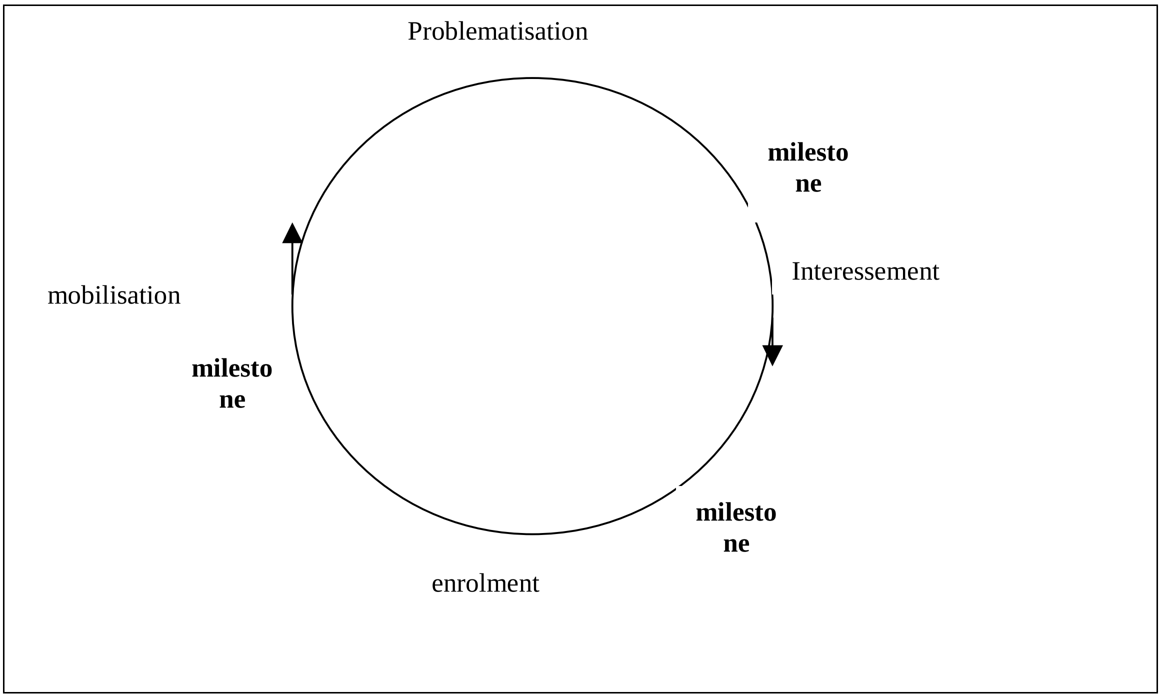

Figure 9: General model of the translation cycle

4.3.1 Interessement

When the actors at kff /Tegut looked for a way to realise their idea of a high quality beef, meat and sausages range, they had already experience in processing and marketing organic meat and beef, from the Röhn region as well as from elsewhere. Particularly lambs from the Rhön, sold around Easter, were a frank commercial success.

The initiative started up in a “highly active” rural area. This background was due to a high concentration of organic farmers. Low intensive grassland is used as sheep and cattle pasture since generations. For that reason the changing on organic farming came relatively early by reduced cost on farm level. Many farms build up a network of direct selling. Some production systems are based on alternative land use concepts. Social and ecological initiatives developed in the region.

This background prepared good general conditions for sustainable innovations. It might be said that the “soil was prepared” by several initiatives. For that reason the circumstances favoured an enterprise on retail level based on a sustainable philosophy. The public concern and consumer awareness was sharpened before the initiative started. For that reason the Tegut… management developed a clear strategy based on:

- regional concentration,
- high food quality,
- modern management,

- ethical and social aspects (commitment) and
- environmental aspects.

The decision to concentrate on the Rhön region was partly due to its high publicity potential but as well to the particularity of the extensive grazing-based husbandry. The innovative idea of Kff/Tegut to create a range of dry-cured, air-dried products (like ham and sausage specialities from southern European countries, Parma ham or salumi from Italy, Serrano ham from spain) also spoke for the mountainous area of the Rhön with its dry windy climate.

A test production was organised in abandoned military barracks with meat bought from farmers already known by Kff / Tegut. The tests being satisfying, a difficult accreditation process started: German administration did, at first, not accept the dry-curing as a suitable way of processing, as it is not a traditional practice in Germany. Kff/ Tegut put considerable effort in analyses and legal advice in order to overcome the administrative obstacles. One Tegut manager travelled to southern European countries in order to gather product samples and information from dry-curing practised there. This information and the application of European law were finally conclusive.

As a next step, Tegut invested into a processing plant, situated within the Rhön.

It can be assumed that Tegut profited indirectly from initiatives in the region that enhance sustainable rural development, organic farming and extensive husbandry. NGOs and farmers' associations may have influenced administrative decisions (food security board, building permits etc) but no new formal links were established.

A "partnership" with the association "Biosphere reserve Rhön" was concluded. It obliges kff/Tegut to stick to certain guidelines, which are quite general and do not restrict the policy of kff/Tegut. The advantage Tegut gets from the partnership is publicity support.

Induced by the activities of Kff/Tegut a new association was formed by 30 farmers, that engage into preservation of extensive cattle breads and traditional grazing practices. They produce mainly for Kff/ Tegut, but there are no contracts or formal collaboration.

As a matter of fact, until now, all of the more than 40 farmers who produce for Kff/ Tegut are contacted individually in order to coordinate production volumes, quality, delivery dates, conditions and payments.

With the rapid success of the brand "Rhöngut" production volumes rose rapidly and Tegut has to face supply problems, not only because of lacking regional production but as well because of a growing effort in information, communication and coordination along the supply chain.

The objectives, around which the main actors align (even so they don't it in a formally concerted way), are:

- Providing economic perspectives for local farmers and enhance rural development
- Creating new rural employment in a region marked by migration into cities
- Preserving a particular landscape, shaped by extensive agriculture
- Preserving natural resources by low-input production methods.

4.3.2 Enrolment

<u>Enrolment and outcomes with regard to Tegut in general:</u>

The creation of the organic range of Tegut, Alnatura, in 1984, was on the long run, a remarkable success. Alnatura became a national brand for high quality organic food. It is distributed in organic food stores and in supermarket chains. The shops belong to Tegut… as well as to other chains. Alnatura is further developing into an organic supermarket chain from 1994 onwards (15 outlets).

Tegut is today Europe's most successful supermarket chain when it comes to market organic produce. Compared to other European retail chains Tegut realises, within his outlets, the highest market share of organic products (8 % in 2002 with 1.200 products, some 13 % in 2004 with 2000 product items, the objective being 15 % in 2005).

Teguts organic bakery "Herzberger" is Europe's biggest organic bakery.

A more general and partly indirect outcome of Teguts sustainable initiatives is, that the company is holding, after having tripled its size in the early nineties, a very strong position in the heart of Germany. In the same region several other medium-sized food retailers have merged.

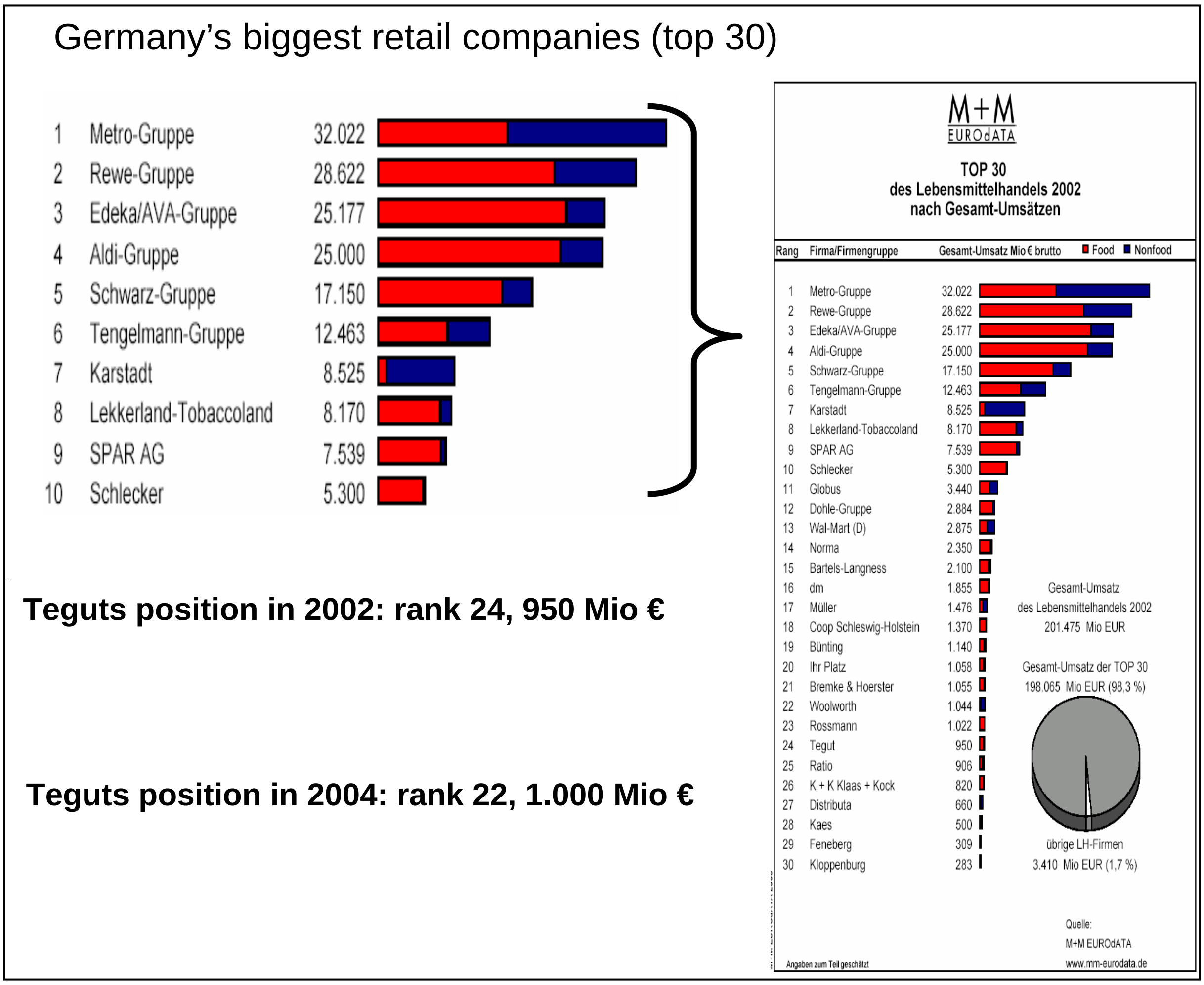

Figure 10: Tegut keeps (slightly improves) his position in the retailer ranking

Enrolment and outcomes with regard to Rhöngut

There is no evident negotiation or reshaping of the initial concept that Kff/Tegut formulates in his sustainability policy within the project “Rhöngut”.

It has to be pointed that “Rhöngut” is, contrary to most other SUSCHAIN case studies, first and foremost a commercial project of the retail chain Tegut and its meat processing unit Kff. Thus, the perspective of economic success was a precondition when the initiative started and its actual economic success is absolutely required for the continuation of the project.

Rhönguts main objectives are, consequently, defined as volumes to sell, benefits to realise, turnover to achieve, return on investment to be assured.

Even though Rhöngut represents very well the non-commercial objectives of Tegut and the enterprises overall philosophy, under-achievement under economic aspects will finally prevail over full or over-achievement with regard to ethical goals when it comes to decide whether the project will be continued or not.

Tegut has proven, in the past, a certain perseverance with regard to its organic / sustainable projects (Alnatura was not profitable during the first years, but the management patiently stuck to it). But Rhöngut will never be continued thanks to volunteer action, sponsorship or foundation funding like it can be observed in other alternative FSC.

Consequently, Rhöngut shows certain patterns typical for action taken by conventional food retail chains:

Little information on commercial practices and prices (as we had to learn in our expert interviews)

- Avoiding of any dependency on the supply side (no contracts with farmers)
- Full use of negotiating power (pressure on prices, high restrictions with regard to production rules and quality)
- No price supplements for regional products, just average prices for organic produce are being granted
- Potential threat of existing small market structures (thrusting aside of direct sellers)
- Scale-orientated logistic concepts (animals from the Rhön are transported to abattoirs, than the meat and beef is brought back into the Rhön for processing, than the final products goes back to central warehouses).

Despite of this, expert and actor interviewing in the Rhön region provided evidence, that, generally spoken, Teguts action in the region is highly appreciated. Food chain actors as well as NGOs confirm that

- Without Teguts activity, the region would lack an important market channel
- negotiations are tough, but fair and reliable
- regional actors are much better off with Tegut than they would be with other supermarkets
- even when the prices offered by Tegut are low, the marketed quantities give important chances to farmers and create considerable value added

- Tegut extension service is a valuable help for farmers
- Tegut is committed to the region and continually initiating
- by its communicative action, Tegut is enhancing consumers' interest in and knowledge about organic and regional products, and all market actors do profit by this.

Furthermore, are large understanding of Teguts difficult situation in the fierce food retail competition could be observed. Interviewed actors often showed solidarity.

Among the formalised outcomes of the initiative Rhöngut the investment of 5 Million Euro in a new specific production site, operating since 2002, has to be mentioned first.

Over 40 organic farmers are integrated into the production for "Rhöngut", with a rising tendency. The demand of Rhöngut is so high that almost all organic meat, beef and lamb in the Rhön is commercialised via Rhöngut. There are no or little (direct selling) marketing alternatives for organic meat in the region.

It can be assumed that without Teguts action much less organic meat and beef would be produced (what might have a negative impact on landscape shaped by grazing) or, if produced, not marketed on the organic market (at considerably lower, conventional prices). There is an oversupply of organic beef and lamb in Germany and on the average, only some 70 % of these organic products can be sold as organic.

The "Rhöngut" products opened, through the innovative ripening process a new market segment (dry cured specialities) for organic meat and beef. Furthermore, Rhöngut is distributed in all Tegut markets and in other conventional retail chains and in organic food stores. During the first two years Rhöngut had a growth of 40%.

The product range of Rhöngut is continually enlarged. Meat, beef and lamb is offered under this brand.

Through his marketing and communication activities, Tegut succeeds in realising high prizes for organic products. According to our store checks, Teguts prices for organic meat and beef products are 22 % above the average of organic products in other supermarkets (and 90 % above Teguts own conventional products!).

Rhöngut employs in 2004 and within the Rhön Region, 16 skilled employees in the domains of meet-cutting, dry-curing and processing. Another 16 are working at KFF especially on Rhöngut products (packaging, facilitating, quality control, distribution).

In 2005, as the success of Rhöngut continues, the production site in the Rhön will be doubled in volume (new investment of some 10 million Euro). This will result in a rising demand for skilled labour, in the Rhön region.

The processed volumes, in terms of processed animals, were, in 2004:

- 2.000 pigs (for the production of dry cured products, pigs have to be relatively old and heavy)
- 280 cows
- 380 oxen and bulls

- 150 heifers

Of course, these animals originate from organic production. While the pigs partly come from neighbouring regions, most bovines come from the Rhön region.

4.3.3 Mobilisation

On the Level of Tegut

The Tegut chain has built up an own network-like system of production branches, affiliated companies and brands, that seems to stabilise the main initiative (see preceding chapters). There is almost no evidence of formal linkage to other actors and, thus, no palpable external network. Still, there seems to be an informal network or societal fabric, that favours Teguts action.

Tegut seems to act like a single actor, using its considerable economic strength, its outstanding know-how and experience and its regional basis.

With regard to competitors Tegut sets “sustainable benchmarks” in the food business. Its quality-based strategy is successful and regularly awarded prices for quality, presentation and innovation. Moreover Tegut’s organic assortment model is followed by other chains.

With regard to communication towards consumers the retailer tries to strengthen consumers’ involvement by explicitly centring his communication on quality, and not on prices. Tegut managers confirm that the company’s strategy is rather to “pull” consumers towards a more sustainable buying behaviour than to follow the trends of food consumption.

Teguts active role of a “market former” is reflected by the contents of all the company’s media. Teguts weekly product information, distributed to all households in the region, looks only at the first sight like any other supermarkets advertising. At least one page of the mailing is reserved for organic and regional products, accompanied by additional information on sustainability subjects. Equally, a second Tegut medium, “Marktplatz”, distributed in the outlets, gives large space to information on organic farmers, sustainability topics, artisan food production and the regional origin.

The results and success of Teguts engagement for more involvement of the customers was analyzed , within the SUSCHAIN project by means of a discussion group. The main results were:

- Most statements show that Teguts advertising is received as pleasantly, unostentatious and interesting. Consumers appreciate that information on fresh products is adapted to the season.
- All the media, Tegut and its subdivisions are using for communication are well known.
- The central messages and statements (“tegut – good food”, “learning is a lifelong process”, “our mission is to offer you good products”) are largely agreed upon.
- Tegut consumers wer well informed about sustainability topics.

- The personal statements of the Mr Gutberlet and other high Tegut managers are received as particularly credible, “we have confidence in the truthfulness of Teguts offer” was a frequent statement.
- The answers suggest that Tegut achieved an image of realising a sustainable marketing concept based on regional products. The consumers are aware of the ecological and social engagement of Mr. Gutberlet, the manager of the chain. Further the customers know well the different brands and can distinguish them from other retailers.
- Conduct and answers of the participants make clear that the organic assortment became a normal and continuous part of the large offer. Most participants describe the organic assortment as very extensive, they do not miss any products.
- The participants of the discussion group wish to buy more organic and regional food. But they admit, that the higher prices for these products influence their purchases. Not only sustainability seems to be important for the consumer but, as well, the transparency and traceability. It is appreciated that Tegut indicates the farm were organic meat products come from.
- The motivations to buy at Teguts where mainly the high quality and freshness, the wide range of products, the large organic offer, the confidence in the truthfulness of the offer and the clear signalisation system for different price and quality classes, which makes shopping fast & easy.
- Regional origin is most important with beef and meat.
- Tegut was often referred to as being close to a farmers’ market, as far as quality, trust and nice atmosphere are considered.
- Most consumers by as well at hard discounters as in Tegut stores. The purchases in hard discounters are limited to non-food products and basic food products (sugar, flour, noodles).
- The main disadvantages of hard discounters are poor or varying quality, limited offer, insufficient range and quality of fresh food, lacking transparency and traceability, lacking organic offer.
- Consumers expressed their awareness of the problems that local and regional farmers are facing and see the necessity to support them by means of higher product prices.
- Participating consumers expressed their feeling, that they actually influence agricultural production and the processing industry within their region by choosing certain products.

<u>On the level of Rhöngut</u>

The fact that Tegut opted for a closer linkage to the “Rhön” region by establishing the Rhöngut range, changes the functioning of the “network”.

The Rhöngut brand is based on locally limited husbandry, and depends at least implicitly on this production basis. Tegut has to further reinforce the farming systems in the Rhön in order to avoid the risk of undersupply. Even if it can be imagined, that Rhöngut products are partly being made from meat and beef produced elsewhere, it would pose an important credibility problem and a communication challenge when a significant part of “Rhöngut” comes from outside of the region.

It is not clear whether Tegut, when launching Rhöngut, anticipated and consciously accepted this risk of higher dependency from a limited region and, thus, a limited number of farmers.

In any way, the rapid success of Rhöngut strains the actual functioning of the supply chain. The coordination of farmers is getting more and more laborious for Tegut. The principles of individual contacts and negotiations, the absence of contracts and mid- or long term accords is time consuming and might lead to higher costs and quality problems.

Consequently, as well the Tegut management as the farmers involved start to think about a more cooperative and concerted action on farm level. The tasks of an eventual farmers association could be, according to regional actors, in the future:

- planning of production volumes
- assessment of quality and quality management
- extension service, technical advice
- coordination of production and supply.

Of course, such an organisation would facilitate the daily work of Tegut in the region. On the other hand, Tegut is running the risk that price negotiations with a “farmers union” will be much harder than with individual farmers before and that the “balance of power” will be influenced in favour of farmers.

In the past it was always up to tegut to bring new solutions und impulses. Thus, it is likely that the new “network” will be created in a “top-down” approach. Tegut will carefully accompany and, at least partly, rule the upcoming of new organisations in “its backyard”.

Willingly or not, in linking its business to the region, Tegut is likely to experience sensible change in the -until now purely informal – network towards more compulsive and reciprocal engagement. This strengthening of the network is a consequence of scaling up (and seems to be a pre-condition for further growth).

5 Comparative analyses of principal case and satellite cases

5.1.1 Germany: The supermarket chain Globus

The history of Globus can be ascribed to the year 1828, when it started with a small grocery in the “Saarland”, St. Wendel; in 1966 the first self-service store opened in Homburg, 40 km away from St. Wendel. Globus is one of the biggest German retail chains. In the domestic ranking of the top enterprises Globus is placed on position 11 (cf. chapter 3.1.2). The sales volume achieved in 2004 approx. 3.5 billion Euro. The only foreign market where Globus is present, is the Czech Republic. Most of the shops are situated in the middle part of Germany. In the “New Laender” the retail chain is also successfully established. In total there are about 35 stores. The shops belong to the category “SB-Warenhäuser”, which can be described as following: SB-Warenhäuser are stores with a sales area of at least 5000 m^2 that presents a broad range of food and non-food-assortments (also durable goods), predominantly in self-service.

There are some characteristics that distinguish Globus from other top players in Germany’s food market. This concerns on the one hand the organisation:

Globus is a family-owned enterprise. The grown management structures are typical for Globus, so that the window of opportunity of one shop is rather large in comparison to the totally central managed companies. The advantage is that every store can act much more flexible regarding the listing of regional specialities, the fulfilment of the consumers’ needs and wants and the ability to present the goods respective the atmosphere in the store. The greater responsibility of the staff demands a high motivation. The de-central organisation is based on a lean management structure. This strategy will be retained also in the future. In contrast the supply of the products is increasingly dependent of the head quarters that gain in importance.

The consumer satisfaction is clearly manifested as an objective in Globus’ philosophy; the tolerant system regarding warranties and reclamation is very famous all over the industry sector. The special services are also an important part of the concept (e.g. child care, consumer seminars). In the German „Kundenmonitor“, a study that indicates the satisfaction of consumers, Globus always ranks among the first places (www.globus.net). Furthermore Globus employs only permanent full-time- and part-time-staff, less than 5 % work as temporary employees. This value is far below the German average in the sector of trade companies. The employees are involved in the strategy and participate on workshops and seminars. Furthermore there is the opportunity to share the success of the company via profit participation. A declared aim of Globus is to enable an outstanding motivation of the staff.

One of the most important advantages in competition is the very wide range of goods in which the fresh assortment is a key success factor. The own bakeries and butcheries, that every integrated store is equipped with, manufacture their products several times a day. Because of the size of the stores this concept can be estimated as relatively cost efficient. Regarding meat, a consistent traceability management marks out the quality philosophy. Since 1994 the enterprise guarantees the complete traceability of each piece of meat - from the counter to the farmer. The basis is a system of product specifications that regulates the process explicitly and that renders every step of the value-added food chain transparent and controllable. For example the premium label Charoluxe stands for high quality meat from France. Furthermore regional products belong to the assortment of the meat shops. In the German “Land” Bavaria they are branded as „Meistersiegel“.

Independent of the assortment own brands play a very important role in the company’s strategy (e.g. “Excellent” for food; “Grandius” for textiles and household articles). The total assortment of own labels counts about 1000 articles.

To compete with other retail chains Globus decided to supply the consumers with an ecological range. The Globus brand “Terra Pura”, launched in 1998, offers solely products of the organic assortment. Globus offers an organic assortment containing 200 to 500 commodities that are attended to specially trained personnel. The customers can find these products integrated in the conventional assortment but also blocked separately. On average, the price level is 20-30 % higher comparing with conventional products. The share, generated by organic food, amounts to 1-3% regarding the complete assortment. Globus plans to further extend its ecological range.

It is obvious that Globus has to face tightening market conditions (e.g. increasing concentration regarding food chains, growing importance of discount shops, accelerating internationalisation). So a fierce pricing policy is also an important element of the strategy with the aim to get the price leadership in the core region. But Globus is differentiated by emphasising on ecological and social aspects that contribute to the image of the company.

Finally a short comparison to the case study Tegut should be carried out. It is obvious that the two companies have some aspects in common: Regarding the organisation both can be described as family-owned and medium-sized. Furthermore both firms have a high quality orientation as market philosophy. A common competency lies in the offer of high quality meat products. Tegut as well as Globus have their own butcheries supplying exclusively the chain stores. The offered products have thereby a direct link to regional farmers. Tegut’s trade brand Rhöngut stands for a high quality meat process in which the products are solely of an organic origin. At Globus the traceability of every piece of meat is emphasised.

But concerning some other core competencies they differ in the following aspects: Concerning the organic assortment Tegut has a very long tradition. Already in the year 1980 the first organic product line was launched and regional initiatives started. Still nowadays Tegut has a relatively high percentage of organic products in the assortment (13 % of all products), comparing to Globus with only 1-3 % depending on the product category. At Globus the organic assortment was first launched in 1998 and represents one benefit for the consumers of many. At Tegut the organic orientation represents the enterprise’s overall philosophy.

Globus achieves with a small amount of stores a comparable high turnover. A special characteristic is based on the wide sales area connected with a high share of non-food articles. The results of the above cited study confirm the success in the customer orientation mainly based on the broad assortment. What counts - in the consumers’ opinion - is the overall concept of Globus (e.g. the family-friendliness), in which the single image components are difficult to estimate. Also the attractive price policy has a high value in the buying decision of the consumers.

At Tegut low prices aren't emphasised as core competence, quite the contrary: the company follows to get the quality leadership. The average consumer is convinced and well informed about the topic "sustainability" and "organic farming". This is the merit of Tegut's communication strategy that gives the consumers a deep understanding of regional and organic produced food (cf. http://www.globus.net/sbw; http://www.lz-net.de; http://orgprints.org/825/01/klaffke-k-oekolebensmittel-einzelhandel-2001.pdf).

5.1.2 Germany: The regional organic distribution of Tagwerk

A transparent relationship between producers and consumers is a declared aim of a sustainable supply chain. Producer-consumer-co-operatives realise this close connection of production, marketing and consumption within a regional network.

Tagwerk is such a co-operative that was founded in the year 1984 in collaboration of - at the beginning - four organic farmers and their customers. The financial contributions of the members formed the initial capital.

The philosophy is clearly communicated to the customers: The consistent protection of the environment, the promotion of organic farming as well as regional and solid acting support the sales on short and direct ways. The initial purely informal co-operation between farmers and consumers expanded rapidly to an ecologically orientated company, that still is characterised by its non-profit-orientation.

With the increasing discussions concerning the protection of nature, the environmental damage and healthy food the success of the "most famous producer-consumer-organisation all over Germany" was growing - especially after the catastrophe of Tschernobyl in 1986. The Tagwerk area was expanding in its core region that is situated in the north-east of Munich (cf. figure 11).

The participating farmers are controlled according to the regulations for organic agriculture. They are organised in different organic producers' associations (e.g. demeter, bioland). Most farmers sell at least a part of their products directly (e.g. on weekly markets, yard sale). They profit by the co-operation using the label and image of Tagwerk. Besides the products are sold in licence shops (seven stores), of which the three biggest ones are organic supermarkets. The shops were from the beginning open for every consumer in order to reach as many people as possible within the Tagwerk region.

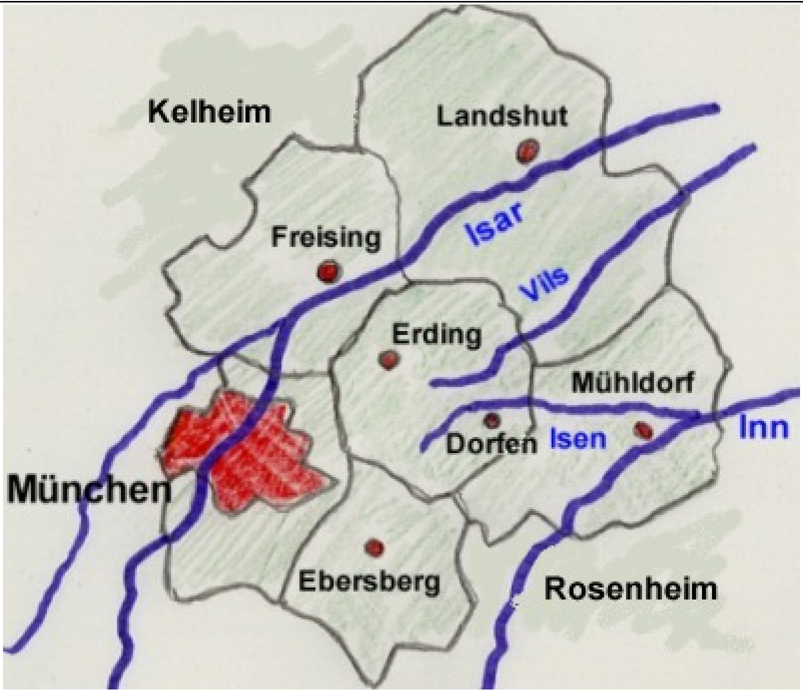

Figure 11: The Tagwerk region near Munich (München)

The points of sales belonged first to the co-operative and later on they were autonomously managed (franchise-system). The so-called “Ökokiste” names a home-delivery service that delivers some 1500 boxes per week primarily filled with fresh vegetables. In total 30 people work in the centre of distribution and on the markets, further 50 persons are employed in the shops. The products labelled with the Tagwerk-sign have to come from a defined region - only 50 km around the headquarters in Dorfen.

The producers supply their products directly to the shops; alternatively there is a central of distribution where the products are first be collected. Up to now there are 670 members (year 2003), among 100 farmers and 20 processors (e.g. bakers, butchers). According to the generated turnover via the co-operative, the farmer has to apply for shares (financial shareholding). The main part of the members represents consumers.

The management is formed by at least three persons who are yearly elected by the general assembly. Every member has only one vote, independent of the financial shareholding. Besides a supervisory board, consisting of the members’ representatives, is part of the management. The subsidies of governmental and regional initiatives as well as the support of volunteer work are also important factors of the co-operative’s success.

The sales volume reaches about 8.5 million Euro (in 2002). One has to be aware that neither the producers are obliged to deliver nor the co-operation is committed to accept the products. But the economic and social network between all Tagwerk members (farmers, consumers and owners of the shops) regulates the steady flow of goods. Via a licence agreement the shops contract formally for example to the shareholding on the co-operative and the selling of the products.

The foundation of the company was based on the idea to provide the consumers in the region with healthy, ecologically food. The ideology exemplified by all members generated the demand that finally pushed the turnover of Tagwerk. Among the important target groups of Tagwerk are young families and ecologically orientated students. The credibility and the consequent following of the company's ecological and social principles rank among the most important success factors.

The characteristics of the products are their organic, regional and handicraft origin. Meat products, wine, cheese and milk products, bread and cereals, cleaning agents, cosmetics and vegetables are offered in the assortment of Tagwerk. In the licence shops regional products represent 30 % of the total sales - a value above the average in comparison to other ecological point of sales.

Emphasising on the meat sector the co-operative is named as a pioneer, these products were from the beginning an instrument of differentiation: nearly 15 % of the sales are achieved with organic meat - exclusively of the region. The regional Tagwerk butchers don't use phosphates, flavour enhancer and antioxidants in their production processes.

In spite of these products related added values the company's structures often don't allow offering competitive prices and product concepts. On the one hand the farmers are paid attractive prices. Furthermore only two shops are allowed to offer open meat at the counter, the bigger part is sold packaged. Frequently the products are in competition to cheaper conventional but as well organic offers.

The clear concept of Tagwerk wants to contrast against the anonymous structures of food mass markets. But the current market situation requires from all companies, including Tagwerk, to develop also a solid economic and marketing-orientated strategy. So it is not reasonable to close to the needs of consumers relating a broad and innovative offer, attractive prices included. For that reason Tagwerk had to respond by offering an increasing variety in the assortment, by listing, for example, trading goods (e.g. bananas). But a lot of members saw in the new focusing a conflict of interest. Concerning the imports one tries to find compromises: Tagwerk assures that the production abroad also fulfils the social and ecological aspects which the company stands for. Furthermore the main focus still concentrates on fresh products of the region.

For Tagwerk it was also necessary to react to the increasing political work and the public relation by creating an own association. Furthermore educational tasks are fulfilled, among the organisation of discussion forums and the conception of an own journal (print run: 5000). In this context the marketing aspect is of growing importance, because Tagwerk as a brand - the name and the concept - has to become a key criterion in the buying decision process of the consumers.

On the other hand the association is giving advice to the farmers. Tagwerk has also own regulations concerning different landscape conservation measurements, that farmers are obliged to apply. For example the plantation of hedges and the creation of biotopes contribute to the biodiversity, to the reduction of the erosion and to the regulation of the water balance. Many producers are in a double membership of the association and the co-operative.

To sum it up, Tagwerk is not only a company, but a lived concept with an ambivalent and sometimes difficult undertaking: In spite of the clear mission, Tagwerk has to handle simultaneously its social and ecological interests with an economic promising perspective (cf. Asendorf, J., Heissenhuber, A. (2003); Asendorf, J. (2002); http://www.tagwerk.net/)

5.1.3 <u>Switzerland:</u> The retailer Coop

In 2003 Switzerland's second largest retailer Coop reached a total sales volume of about 15 billion CHF (10 billion Euro) and thus a market share of 23 % in food regarding the domestic retail trade (2003). More than 50.000 employees work at Coop making it Switzerland's third largest employer.

Coop is a co-operative society with about 2.2 million member households, which can take influence on the decisions of the Board of directors by voting. The main volume of sales is generated in the food sector (64 %) next to non-food-articles (36 %). Thereby also innovative store concepts are realised: The aim of the so-called Pronto Shops is to service last-minute purchasers, furthermore an online shop provides home deliveries.

Coop company's philosophy focuses on a product range based on sustainability: With its four flagship labels (cf. figure 12) Naturaplan (food), Naturaline and Oecoplan (non-food) as well as Max Havelaar, a subsidiary company of "Transfair", Coop demonstrates its commitment to environmentally sound and socially compatible products for more than ten years with success (cf. figure 13). These competence brands generate together 14 % of the total turnover. Furthermore products of regional farmers are especially promoted. The "Suisse Guarantee", a certificate of origin and quality, was launched in 2004. The aim of the "Regional Organic Specialities"- line is to preserve the local production in the mountainous regions and to offer traditional specialities.

Naturaplan (launched in 1993) stands for products from the organic farming (green line) as well as meat and eggs of animal friendly housing (blue line). Currently, 1700 commodities are offered in the Naturaplan's range of which 1100 are of organic quality. In Switzerland it is the most famous label for alternative products and thus the market leader in the organic sector. The intensive partnership with extern institutions, among Bio-Suisse, the Union of Swiss Organic Farmers, helped to establish the Coop's Naturaplan guidelines. The introduction of Coop-Naturaplan marks an important step to bring the organic products out of the niche market. The launch of this product range had a strong influence on the Swiss rural sector increasing the number of 1000 organic farmers in the beginning up to nowadays 6500.

Figure 12: The labels of the competence brands Naturaplan, Naturaline, Oecoplan and Max Havelaar (<u>http://naturaplan.coop.ch/pages/naturaplan.cfm</u>)

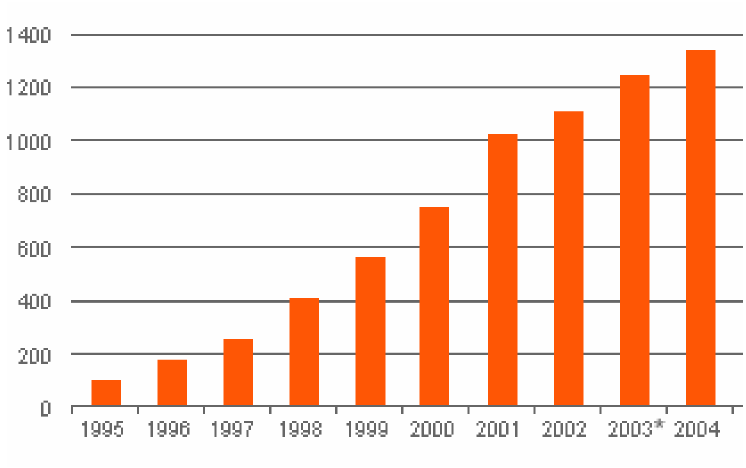

Figure 13: The development of the turnover concerning the competence brands Naturaplan, Naturaline, Oecoplan and Max Havelaar (in million CHF; http://naturaplan.coop.ch/pages/naturaplan.cfm)

Furthermore the Coop Naturaplan Fund was established in 2003, ten years after the launch of the Naturaplan label. This fund is used to support numerous sustainable projects based on a budget of more than 6 million Euro per year. The expenses are used for four strategic areas: “sustainable agriculture and nutrition”, “biodiversity and nature conservation”, renewable resources” and “fair trade and the third world”.

Due to the market power Coop can take advantage of economies of scale. For example a professional laboratory was built up where the whole product range is quality tested by 50 employees. In order to enforce the environmental and social standards, a specialised unit named “Quality Assurance Sustainability” guarantees the adherence to the prescribed guidelines and assures that the food products don’t contain antibiotics, pesticides and traces of genetically modified organisms.

Also the communication budget is remarkably high: In 2003 Coop invested 230 million Euro in classical advertising and thus represents the second largest advertiser in Switzerland. The most important medium is the weekly “Coop Press” that is read by more than 3.2 million people. Furthermore a special consumer-service, certified according ISO 9001, was established as communication portal with an open dialog.

The structures of Tegut and Coop are obviously different. Coop, as second largest retailer in Switzerland (number 1: Migros), offers the products in approx. 1000 stores. In contrary, Tegut is a medium-sized and family-owned retailer with about 300 stores and thus represents just number 22 in the German retail-ranking (turnover in 2002: 980 million Euro). The activities of Tegut are limited to a specific region in the very middle of Germany, whereas Coop has its strong position all over Switzerland.

Nevertheless there are some related success factors: Both retailers have influenced the rural economy by providing a sustainable perspective for the farmers, often based on contracts with organic food processors. The regional farming plays thereby an important role. The support of short and direct delivery ways is a declared aim of both companies.

The sustainable range is the core competence of both retailers that emphasises the strong quality-oriented policy. The offered brands are very deep anchored in the consumers mind and clearly pointed out at the Point of Sale. Tegut is owner of the strong labels Alnatura and Rhöngut, whereas Coop sells exclusively the four above mentioned competence brands in the own shops. With their alike broad assortment of approximately 1800 commodities a similarly high rate of the organic offer is reached (13-14 % of all food products sold). The certifications that the companies are obligated to are controlled by independent institutes and provide the basis for the companies' credibility.

The communication in- and outwards the company is of high importance. Both enterprises follow the aim to offer the organic assortment on a grand scale of customers. The aim is to give the consumers a deep understanding of sustainable production. In addition the high identification of the staff with the organic- and social-oriented philosophy is an important characteristic of both enterprises. This is achieved by special training programmes and a high integration of the employees in the company's decision-making process.

In order to follow successfully market trends (e.g. wellness, health), the continuos enlargement of the assortment by developing new products and by implementing process innovations is an integral part of both company strategies.

Finally one has to be aware that the business environment of the two retailers is really quite different (e.g. seize of the countries, competition). It is a fact that the German food market is already highly saturated, that tightens the competition between all actors of the food chain. Despite the strong tendency towards concentration, the Swiss food market is currently still attractive. Up to now it is not assessable to what extend the foreign trade-chains, especially the German retailers with their aggressive and price-based sales policies, will gain ground in Switzerland. Nevertheless Coop as well as Tegut follow consistently the strategy of differentiation offering an enlarge assortment of sustainable products and emphasising on social, environmental and cultural values (cf. http://www.coop.ch; http://www.coop.ch/ueber/-zahlen_fakten/nachhaltigkeitsbericht-de.html).

6 Discussion and conclusions

The content of the case study will be resumed according the most relevant hypotheses.

6.1.1 Sub-Hypothesis 1: Scaling up depends on commercial performance and appropriate public support.

The Tegut chain was continually expanding and is, today, a well managed supermarket chain of high commercial performance and sufficient competitive strength to persist in a tough concentration process of Germany's food retail.

Tegut is especially successful with organic products, were it sets a benchmark on European level.

Rhönguts success is illustrated by 40% growth rates, a new production plant and a rising number of farmers that produce for the initiative. Rhöngut is a commercial project of Tegut and relies upon the commercial performance and professionalism of the company.

There is no public support whatsoever. On the contrary, public administration hindered the development of Rhöngut because of difficult and lengthy accreditation processes with regard to processing and building permits.

6.2 Sub – Hypothesis 2: the nature of organisation changes with scaling up as an effect of growth in market power and of the increased pressure of economic constraints and logistics.

Tegut seems to produce regularly "spin offs", that change the character of the entire company. All these "spin offs" are in line with the company's overall philosophy (high quality food + ethical commitment + sustainable development).

The scaling up of Rhöngut will lead, most likely and in the near future, to more formal and reciprocal linkage with farmers. This might strengthen farmers position and render Teguts engagement in the region more compulsive.

6.3 Sub – Hypothesis 3: NFSCs have a positive effect on rural sustainable development

The initiative Rhöngut supports the rural economy because it ensures and creates new jobs and increases farmers' income, foremost of organic farms. Additional value added is created within the region.

The initiative Rhöngut indirectly strengthens local and regional capacity to self organization and self governance by investing in a local meat processing plant and by forming farmers in quality production. Furthermore, through the special extension service, Tegut/ Rhöngut contributes to strengthen farmers' competence in production, resource management and marketing.

Rhöngut incites farmers to take up organic farming and animal friendly husbandry. It varies the production by the introduction of new breeds or by the compulsory use of traditional breeds. By rendering more attractive traditional grazing practices, the initiative contributes to the maintenance of typical landscape by adapted husbandry systems.

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