

Modeling the Trade Effects of Retailer-Led Proprietary Standards

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IATRC Annual Meeting
December 12, 2009

Contents

Talk a little;

Show a couple of neat pictures;

Present a few insightful equations; and

Then, talk a little bit more

Why are standards?

Standards are an outcome! They are not causal agents. They do not have a life of their own!

Standards are individually or collectively designed to solve a problem!

Standards are conditioned on national and international environments and conditions of which:

Legal due diligence defense of product failure is very important. Explains European preoccupation with standards, such as GlobalGAP or EuroGAP, while they are simply not relevant in North American and Japan, for example.

North American and Japan: warranty or guarantee from supplier is a due diligence defense (remedies are found in tort law and legal action)

Europe: guarantee is not sufficient, and auditing suppliers or their certification to a quality scheme is sufficient.

What is a proprietary standard?

A formal statement/contract by a multiple retailer of required production processes and product characteristics for primary producers and processors participating in the production of an own label/branded product.

The proprietary standard may include: public quality standards that are:

- laid down by a producer group or association (such as Scottish Quality Beef),
- sanctioned by a government body (such as animal welfare through the Four Freedoms)
- or by a private body (such as organic certification by the Soil Association, Fair Trade products by an NGO, such as OXFAM).

Will specify production processes and product characteristics

The *aim* of a proprietary standard is to provide/insure provision of a bundle of extrinsic and intrinsic product characteristics to be marketed to its customers.

Extrinsic (ϵ): must be verified by a label or other product cue, such as an organic label, or other quality cue.

Intrinsic (ζ): usually thought of as attributes that can be detected by consuming the product, such as taste, smell, etc.

President's Choice. 
 Worth switching supermarkets for.™





Sainsbury Traditional Beef Partnership

Carcass Specification: 280-380kg, Specified carcass requirements

Target Animals: Steers, heifers. Under 30 months

Breeds Accepted: Sire: recognized beef breed; No restriction on dam.

Banned Feeds: Fishmeal; Growth promoters; Growth enhancers

Farm Assurance: FABBL approved

Traceability: Cattle born on finishing farms; Farm of birth.

$$\pi_r = P_r(q_r, \varepsilon_{QAS_p}, \varepsilon_{QAS_f}, \xi_i) \cdot q_r$$

$$- C_r(q_r, \varepsilon_{QAS_p}, \varepsilon_{QAS_f}, \xi_i)$$

$$- T_{r,p}(q_p, \varepsilon_{QAS_p}, \varepsilon_{QAS_f})$$

Transaction costs:

With processor;

Varies with quantity

Determined by a bundle
of attributes,.

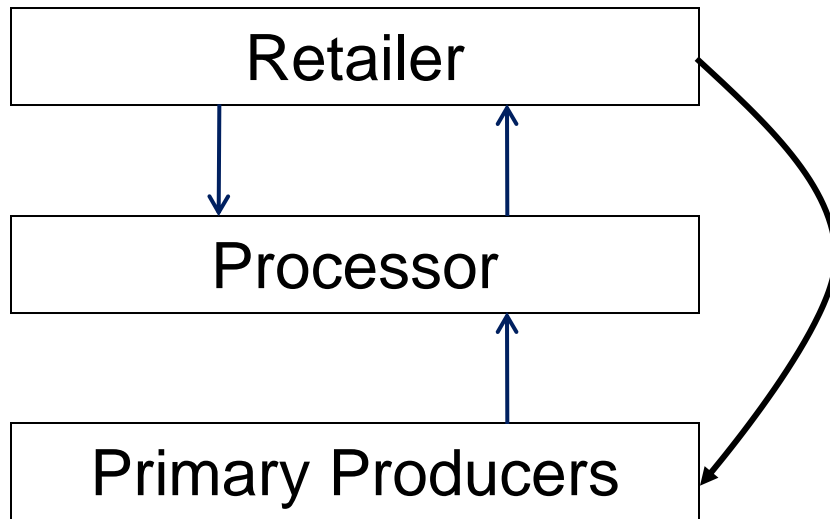
Revenue:

Determined by a bundle
of attributes;

Slopes downward.

Cost:

Determined by a bundle
of attributes; And
quantity



$$d\Pi_r = \left(\frac{\partial P_r}{\partial \varepsilon_{QAS_f}} \cdot q_r + \frac{\partial C_r}{\partial \varepsilon_{QAS_f}} + \frac{\partial T_{r,p}}{\partial \varepsilon_{QAS_f}} \right) \cdot dQAS_f + \left(\frac{\partial P_r}{\partial \varepsilon_{QAS_p}} \cdot q_r + \frac{\partial C_r}{\partial \varepsilon_{QAS_p}} + \frac{\partial T_{r,p}}{\partial \varepsilon_{QAS_p}} \right) \cdot dQAS_p$$

Conclusions:

Essential to combine 'cost of quality' literature, transaction cost (North) and traditional microeconomic framework;

Standards, of most types, reduce either production or transactions costs or both. Often related to legal environment.

Community standards, such British Retail Consortium Hygiene Standard, often transfer costs of quality from one stage in the value chain to a second.

Government sponsored standards such as FABBL often transfer costs to the producer level.