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THE ROLE OF REGIONAL CLUSTER APPROACH IN THE SUPPORT OF SME - S IN *SUSTAINABLE* FOOD VALUE CHAINS AND MARKET STRUCTURES (BULGARIAN CASE)

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Abstract: *This report contains the background and extracted highlights of the main research survey, which focused on assessment of the potential and practical implementation of the food marketing system during the economic transition period in Bulgaria.*

The food sector of the economy of Bulgaria is a core segment now. Effective socially oriented development of the agro food sector of the economy has to be based on progressive forms of the integration relations in the conditions of neoliberal globalization and transition of the national economy to the model of decentralization and self-organization. At the same time, we need more perfect tools based on the analysis of value chains creation for adoption of the relevant strategic decisions.

The subject of study is the theoretical and methodological and also scientific and practical aspects of public management organization of the agrarian sector of the economy of Bulgaria based on the analysis and synthesis.

Keywords*: Economic transition, strategic management, food marketing system, value chains.*

1. Introduction

Until recently, the development of physical infrastructure for fresh food logistics has been prioritized in the direction of quantitative indicators such as: size of retail space, volume of investments, etc. Modern trends in digital marketing reflect the growth of online sales as an additional channel for sales, including food. The production and marketing of fruit, vegetables, fish and other fresh food is an extremely conservative sector, which requires serious investments for production, storage and final realization.

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A major component of competitiveness in agricultural value chains is access to affordable physical infrastructure. This includes infrastructure that supports on-farm production, ensures efficient trading and exchange, adds value to the domestic economy, and enables produce to move rapidly an efficiently from farmgate to processing facilities, and on to wholesalers and consumers.

The proper storage of fruits, vegetables and other fresh foods is not only necessity for preserving of their consumer qualities but also a prerequisite for the formation of durable food reserves aiming at providing the supplies for feeding of the consumers whose number is significantly increasing at the expense of the self-sufficient population.

The development of market structures for wholesale realization is a continuous process that depends strongly on the general status of the economy and is related to the modernization and adaptation not only of the physical infrastructure but of the trade technology that includes the stock and market place activity as a whole.

In most countries wholesale markets remain an essential link between production and consumption. There is an enormous difference between the village squares or road intersections where weekly markets took place and the purpose-built wholesale markets which began to appear at the end of the last century in London, Paris and Barcelona. Marking even greater change has been the establishment of modern food supply centres where wholesaling activities for a range of food commodities, together with associated prepackaging, assembly and other food distribution activities, are concentrated in one complex.

Wholesale markets have for a long time been considered an essential component of any agricultural marketing system and FAO has been addressing wholesale market development issues throughout the world for the past forty years. In many countries we are witnessing rapid changes in food marketing systems, involving an expansion in direct marketing between increasingly large farmers, either in groups or as individuals, and the integrated food marketing chains represented by hypermarkets, supermarkets and chain stores.

The present decade saw the emergency of a situation in many of the countries of the world, where domestic food production had fallen increasingly behind the demand due to fast growing populations that had become proportionately more heavily concentrated into urban areas.

Along with changes in market roles, product mix and the type of wholesaling, there has often been a change in location. The traditional location of wholesale markets in inner-city areas in many cities is no longer appropriate. The need for larger facilities able to accommodate large transport vehicles and to avoid problems of traffic congestion, sanitation and noise pollution have forced many markets to shift to areas on the outskirts of cities.

The development considers the structures for wholesale trade with fruit and vegetables in Bulgaria in the period from their establishment in the 1930s, in the stage of plan economy and in the period of transition towards market-oriented economy. This historical approach is imposed by the need to adopt the best of the national and world economical history combined with assessment of the modern conditions and implementation of the positive international experience adapted to our conditions.

The system for wholesale trade depends strongly on the market infrastructure within which the system is developing as a whole as well as its different subsystems. The infrastructure comprises the objectively acting market conditions and factors that determine the functions of the system, establishes favorable conditions and imposes restrictions.

Besides the need for establishment of modern market infrastructure in different production regions the actions must be activated for development of information system at local level that has to reflect the status of the production and supply of products in a form accessible for the local producers.

An important stage is the overcoming of the territorial disproportion of the market structures into direction of stimulating the establishment and development of local bases at the very production places and development of network structures and clusters.

The regulatory framework in the field of investment design in commerce in Bulgaria is extremely old and does not meet the modern requirements and the dynamics of the competitive and innovative environment. In Bulgaria the norms for designing general purpose warehouses have been in force since 1984, and the latest amendments to the norms and rules for commercial network design have been published in 1996. The Regional Cluster Northeast has prepared criteria and draft standards for the assessment of modern market infrastructure marketing of fresh foods that are derived from the experience of the World Union of Wholesale Markets and the FAO and are applicable in the countries of Southeast Europe, and in Bulgaria.

In our part of Europe, where the market relations are underdeveloped, particularly important become mutual relations between modern wholesale markets and huge chain stores. In the countries with developed market economy the expansion of chain stores reduces the role of markets in the distribution channels. The position of wholesale markets is also getting worse as a result of some practices of certain chain stores as regards dumping prices for selected agricultural and horticultural products or excessive exploitation of their spending power to dictate low prices to suppliers which, in consequence, enables them to be competitive with other market offers.

It should be emphasized, that due to the specific nature of development in our region, the role of wholesale markets is much more important that in Western Europe. The above applies particularly to the tasks connected with organizational concentration of dispersed production sector and implementing logistic systems as well as organizing logistics and distribution centers as a system complimentary to the market infrastructure elements existing I the countries with developed market economy. Very important aspect of activity of the markets within this region should be creating own or regional brands as a counterbalance to global products.

The wholesale and assembly markets represent a structure for wholesale trade with fruit, vegetables and foodstuffs, which has proved effective and planting the crops and ends with product delivery to consumers. The wholesale markets supply to urban areas a wide variety of quality products with guaranteed origin, and the assembly markets provide access of the farmers to the marketplace and give opportunity to transform the tasty Bulgarian fruit and vegetable into competitive products in compliance with European standards. That's why it is very important to be implement a programme that targets the realization of vertical infrastructure and short value chains for perishable goods, which shall provide environment for free competition.

The Institute "Balkan and Black Sea Fresh Foods Marketing Initiative" had some succesful experiences in the last years, created a network of producers' and wholesale markets for fruit, vegetable, fish and other perishable goods in the Northeast part of Bulgaria. Summing up this experience we have developed a system of methods and indicators to assess the status and future development of market infrastructure. (Doychinov. B., 2012).

It is very important to analyze the channels and institutions involved in moving agricultural products from farm to consumers, emphasizing the specific marketing functions provided by assembly and wholesale distribution facilities.

Together with these changes in distribution methods have come changes in procurement methods and it is these that present the greatest threats to the region's wholesale markets. The types of changes taking place are:

- ✓ chains are shifting from traditional wholesalers to "specialized/dedicated wholesalers" that are specialized in a product category;
- ✓ the new wholesalers move from mainly buying at wholesale markets or from a list of customary suppliers, to contracting production that meets the specific grades and standards of the retail chain. This is done in order to select producers capable of meeting quality and safety standards of the supermarkets and thus to lower transaction costs for the chain both through lower search costs and by reducing the number of suppliers per unit sold. Additionally, such linkages permit more rapid movement of produce from farm to store;
- ✓ in some cases, it has been noted that the retail chain eventually acquires or enters into a joint venture with the wholesale firm.
- ✓ These, and other approaches, include:
- ✓ <u>being pro-active.</u> Wholesale markets need to look to their strengths. In many cases, for example, they should be able to supply locally produced produce more freshly than supermarkets that operate just one distribution centre per country. Exchange of ideas and experiences between markets in the region will be beneficial and much can be learnt from the experiences of wholesale markets in Western Europe;
- ✓ <u>identifying new services.</u> Markets need to be aware of their real potential for capturing business from supermarket chains. If such potential is limited

than they need to explore ways of maximizing business from non-supermarket customers;

- ✓ serving non-supermarket retailers and caterers. Small retailers will continue to play an important role in Central and Eastern Europe and increasing affluence will mean that, as in the West, people will eat out more. Many retailers, but particularly larger stores and independent chains that are not large enough to justify having their own distribution centres, could benefit from the one-stop-shop concept, i.e. by being able to buy fruits and vegetables, fish, meat and dairy products and dry goods at one wholesale market location;
- ✓ improving procurement arrangements. Wholesalers in markets will therefore need to strengthen linkages with farmers in the same way as supermarkets are doing; this will probably lead to reduced opportunities for small farmers and much consolidation of farms, as it is virtually impossible for supermarkets or wholesalers to work with individual small farms. Farmers will be increasingly called upon to specialize. Small wholesalers are unlikely to be able to take such initiatives without support, and this seems to be a role for the market management;
- ✓ promoting increased fruit and vegetable consumption. Faced by a declining share of the market, wholesale markets can try to increase their share again.
- ✓ Short supply chains can represent traditional and/or alternative ways of producing, distributing, retailing food and other agricultural products. They are of particular interest to small farms and family farms, interested consumers, local communities and civil society organizations. Short supply chains exist as a market mechanism anywhere in the world in a variety of forms, both for the purpose of generating profits and for purely non-profit purposes. The Facility functionally involves joint efforts of ordinary producer and consumer organizations and efforts by the governments of the countries concerned.

2. Short supply chains

Short supply chains are considered to be the most suitable channels for organic and local specific products of small and medium-sized farmers who have limited opportunities to participate in conventional retail chains but can be very effective in direct sales.

According to the European Network for Rural Development, short supply chains focus on three key principles that apply to most short supply chains:

1) The distance between the producer and the consumer is as short as possible;
2) The number of intermediaries in the supply chain is as small as possible;
3) Communication and understanding between the producer and the consumer.

The two basic criteria needed to define short supply chains are physical and social proximity. Physical proximity is determined by the transport distance of a product from the place of production to the point of sale. Social proximity is expressed in the number of intermediaries between the manufacturer and the consumer. In the short chain of delivery this number is zero or very small (often one but not more than two).

Some countries with developed short supply chains have precisely defined the maximum physical distances that products can travel along the way from the place of production to the point of sale of the final buyer: USA: in 2008, Congress assumed that a product could be transported no more than 400 miles from its origin or must remain within the state in which it is produced. UK: The Small Farmers Association has developed a definition according to which products must be grown within 30 miles from the store they are offering or up to 50 miles for large cities. The Netherlands: The products must be manufactured 40 km from the supermarket they are offering, this distance depending on the availability of the product in the locality.

In analyzing the different schemes and studies at European level, the European Network for Rural Development team reaches the following classification:

- Direct sales by individual producers is the most direct form of sale that also lasts for the longest time. The different types of individual direct sales include: sales on the farm, in farmers' markets, on a stand on busy roads, in a shop, in a hotel or restaurant to the farm, in delivery to the homes of consumers, especially in areas close to urban centers. The advantage of this type of direct sales is the ability of users to communicate personally with the producers.
- Collective direct sales are carried out when a producer group cooperates and organizes a common food delivery scheme to consumer groups, Internet supplies, local festivals, etc. In this form of direct sales, it is possible to involve an intermediary who collects the products from different producers and delivers it to the end-user - most often in schools, kindergartens and hospitals. The advantage of this type of direct sales is reaching the potentially larger markets for manufacturers as well as offering a wider range of food products to end-users.
- Producer-to-consumer partnerships enable consumers to play a greater role in assisting local farms and agricultural production systems. The most common form of partnership is when consumers share a portion of the cost of production on the farm, in return for an agreed quantity of production.

Food supply chains have been extensively researched on a European scale in the framework of various programs (IMPACT, SUPPLIERS, FAAN), with the aim of defining the main mechanism in practice to meet market needs. Theoretically, short supply chains could generally be divided into two types - 'local delivery systems' and 'short supply chains'. In the first place, the factor is "distance", as it is informally accepted that the range in which local producers have to offer their output is between 20km and 100km. The second criterion is the number of intermediaries between the farmer and the end user.

The role of regional cluster approach in the support of SME - s in *sustainable* food value chains and market structures (Bulgarian case)

According to a study of the European Commission conducted in seven countries (the Netherlands, Ireland, Germany, England, Spain, Italy and France), it is concluded that farmers who offer products through short supply chains (including direct deliveries) are 1.4 million. The short chain mechanism in the Mediterranean Member States is best developed. The study shows that Germany, Italy and France, for the 2005 period. - 2010 have reached the highest level of added value increase of products offered through short supply chains, namely 7% to 10% of the total value added of agricultural products.

On a pan-European level, the Commission's findings reveal a link between short supply chains and rural tourism. It also seriously reduces manufacturers' costs of transport and storage of manufactured goods due to the availability of a fast, easy and efficient local market. Combinations of short and long supply chains are noticed in order to eliminate the risk of bankruptcy by manufacturers. Last but not least, the EC report draws attention to the fact that the direct supply of food by the manufacturer increases the buyer's confidence and his willingness to pay up to 20% higher price for the product concerned.

Although, at first glance it sounds almost equal between the supply of local food and the short chain mechanism, there are significant differences. The supply of locally sourced food shall apply to products which can be found at the place where they are produced and which are distinguished by their characteristic quality or properties, without taking account of intermediaries on the way to the final purchaser, of other quality characteristics of products or economic benefits.

In contrast to the above, the short supply chain mechanism takes into account the specificities of the particular farm where the products are produced and how they are grown, the way they have gone to the buyer, the quality and the freshness. In the case of short chains, the detailed information on the characteristics of the product, which is available to the final purchaser, is important.

After all, on a proposal to the European Commission of the French Government, where short supply chains mechanisms are developed at a fairly high level, a fairly precise practical definition could be given, namely: "Short supply chains are those where the product is traceable to the grower and to the farm where it is produced. The number of intermediaries between the manufacturer and the end user must be kept to a minimum or, in the best case, to zero. "

The 2014-2020 Rural Development Regulation also gives a legal definition of the term "short chains" in Art. 2, namely: "A supply chain involving a limited number of economic operators interested in cooperation, local economic development and close territorial and social relations between producers and consumers."

As can be seen from the above, the mechanism of short supply chains of food is applied by the producers with "small farms". The EU agricultural sector is characterized by a very large number of small farms (more than 70% of farms are smaller than 5 ha). These farms are heterogeneous in terms of the socio-economic characteristics of farm owners, the main assets of farms, the presence of non-agricultural income, and hence their ability to remain or to become viable and prosperous. Many small farms cannot be cost-effective and economically competitive. According to the census of the agricultural holdings in Bulgaria in 2010, the total number of small farms is 370 222, taking into account the size of the utilized agricultural area.

3. Examples of short supply chains in Europe

Types of direct supply and distribution chains in Italy

- Direct sales - The products are directly sold by producers to the buyer in the farms. In most cases, however, it is difficult to reach the farm, which makes it a practice for producers to export their produce to markets in nearby neighborhoods, usually locating these markets near large food chains by conventional manufacturers. Typically, all products are offered by a single seller on a rotating basis and such markets are organized weekly or monthly.
- Consumer groups: groups of consumers who may have merged informally or under a dedicated legal form whose business is the supply of environmentally friendly products directly from the producer or a group of producers who are themselves organized in small producer groups. User groups do not generate profits and do not have to pay taxes.
- Vendor groups: Small co-operatives or companies. The merger aims to sell larger quantities of products - own production with as few intermediaries as possible on the way to the buyer.
- Short supply of organic products: A widespread method has recently been the internet sale of organic food, as a compulsory element is to provide detailed information on how to produce food, farming technology, etc.

"Oregional" - Netherlands

"Oregional" is an association of 22 producers whose farms are located at a distance of 50km. from t Nijmegen. The association offers production produced by its members directly to restaurants, medical institutions, institutions in the region. In 2012, they create an online store for the sale of fruit and natural juices and various local products, and delivery to the end customer takes place within the day the product is supplied by the manufacturer to keep the food fresh (slogan: From farm to plate in less than 24 hours ").

Direct sale of meat in Alava, Spain

Livestock farmers in the Alava region are selling meat directly in chilled vacuum packages. Farmers are usually contacted customers to declare the next date of slaughter of animals and respectively delivery. The animals are transported to a slaughterhouse where the meat is packaged in special packages and returned to the farmers in the refrigeration chambers. Due to the nature of the product and the fact that the latter is supplied refrigerated, deliveries are made at a distance of no more than 80-100 km.

Market of rural goods, Straupe, Latvia

An open market is organized twice a month by local producers. The market was initiated by local producers and consumers in order to buy the goods and food directly from one another and to stop traveling to the nearby town. The market is located close to the main road, making it accessible even for occasional passers-by.

Internet platform Chil, Spain

An interesting example is the Chil internet platform, which has been successfully operating in Spain. It brings together all actors involved in agriculture and the food processing sector. The main benefit of creating the platform is the exchange of information, knowledge transfer and the ability to share documents.

4. Examples of Good Practices in Bulgaria

Market facility for fish storage and sale, Byala, Varna

In 2014 the team of Regional Cluster "Northeast" together with the municipality of Byala and FLAG "Byala-Dolni chiflik-Avren" developed a project proposal for the construction of a market facility for fish storage and sale in the town of Byala, which received funding under the Operational Program for Development of the Fisheries Sector. In 2015, the process of building the facility was launched, and it is now open and functional.

At the moment, the first stage of the planned project is completed and the team already working on the second one, which includes a training center, attractions and fish auction.

Online Wholesale Fruits and Vegetables Market - "Gradinaria"

In 2015, the online platform for fruit and vegetable trading "Gradinaria" is officially launched. The project is funded by the America for Bulgaria Foundation.

Electronic fresh food auction

Currently, our team is developing a project to create an electronic fresh food auction, covering the countries of the Balkan region and the Black Sea basin.

5. Conclusion

The main conclusions are based on good and bad experiences of the Institute “Balkan and Black Sea Fresh Foods Marketing Initiative”, which can be successfully applied in the countries of the Balkans and the Black Sea regions, where the organization is already developing joint projects.

The structures for marketing of fresh foods are categories that are not constant in practice, but their dynamics and interconnection are determined by a number of specific factors. Sometimes favoring some of them, such as commodity exchanges in the early 90s of the last century, which even functioned in garage cells, led to a deformation of the overall system and unjustified priorities such as, for example, the farmer's markets, whose work is expected to be over-productive. Our approach is related to an optimal process of research and introduction of real market structures tailored to specific needs and long-term strategies.

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ULOGA PRISTUPA REGIONALNIH KLASTERA U PODRŠCI MSP-A U ODRZIVOM LANCU VREDNOSTI HRANE I STRUKTURE TRŽIŠTA (BUGARSKI SLUČAJ)

Sažetak: *Ovaj izveštaj sadrži osnovne i izvučene zaključke istraživanja, koje se fokusira na procenu potencijala i praktičnu primenu sistema za promet hrane tokom perioda ekonomske tranzicije u Bugarskoj.*

Prehrambeni sektor privrede Bugarske je sada glavni segment. Efektivan društveno orijentisan razvoj agro-prehrambenog sektora privrede mora se zasnivati na progresivnim oblicima integralnih odnosa u uslovima neoliberalne globalizacije i tranzicije nacionalne ekonomije na model decentralizacije i samoorganizacije. Istovremeno, potrebni su savršeni alati zasnovani na analizi stvaranja vriednosnih lanaca za usvajanje relevantnih strateških odluka.

Predmet studije je teoretski i metodološki, a takođe i naučni i praktični aspekti organizacije upravljanja javnim agrarnim sektorom privrede Bugarske na osnovu analize i sinteze.

Ključne reči: *ekonomska tranzicija, strateško upravljanje, sistem marketinga hrane, lanci vriednosti.*