



Food and Agriculture
Organization of the
United Nations



European Bank
for Reconstruction and Development

STRENGTHENING BUYER/SUPPLIER RELATIONSHIPS

PRACTICAL GUIDANCE FOR MONTENEGRIN RETAILERS



FAO
INVESTMENT
CENTRE

INVESTMENT
TOOLKITS



**STRENGTHENING BUYER/SUPPLIER
RELATIONSHIPS**
PRACTICAL GUIDANCE FOR
MONTENEGRIN RETAILERS

Nina Coates
Lisa Paglietti
Giulio Benvenuti
Ben Toric

Required citation:

Coates, N., Paglietti, L., Benvenuti, G., Toric, B. 2022. *Strengthening buyer/supplier relationships – Practical guidance for Montenegrin retailers*. Rome, FAO. <https://doi.org/10.4060/cc0260en>

The designations employed and the presentation of material in this information product do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations (FAO) concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The mention of specific companies or products of manufacturers, whether or not these have been patented, does not imply that these have been endorsed or recommended by FAO in preference to others of a similar nature that are not mentioned.

The views expressed in this information product are those of the author(s) and do not necessarily reflect the views or policies of FAO.

ISBN 978-92-5-136287-7

© FAO, 2022



Some rights reserved. This work is made available under the Creative Commons Attribution-NonCommercial-ShareAlike 3.0 IGO licence (CC BY-NC-SA 3.0 IGO; <https://creativecommons.org/licenses/by-nc-sa/3.0/igo/legalcode>).

Under the terms of this licence, this work may be copied, redistributed and adapted for non-commercial purposes, provided that the work is appropriately cited. In any use of this work, there should be no suggestion that FAO endorses any specific organization, products or services. The use of the FAO logo is not permitted. If the work is adapted, then it must be licensed under the same or equivalent Creative Commons licence. If a translation of this work is created, it must include the following disclaimer along with the required citation: "This translation was not created by the Food and Agriculture Organization of the United Nations (FAO). FAO is not responsible for the content or accuracy of this translation. The original [Language] edition shall be the authoritative edition."

Disputes arising under the licence that cannot be settled amicably will be resolved by mediation and arbitration as described in Article 8 of the licence except as otherwise provided herein. The applicable mediation rules will be the mediation rules of the World Intellectual Property Organization <http://www.wipo.int/amc/en/mediation/rules> and any arbitration will be conducted in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL).

Third-party materials. Users wishing to reuse material from this work that is attributed to a third party, such as tables, figures or images, are responsible for determining whether permission is needed for that reuse and for obtaining permission from the copyright holder. The risk of claims resulting from infringement of any third-party-owned component in the work rests solely with the user.

Sales, rights and licensing. FAO information products are available on the FAO website (www.fao.org/publications) and can be purchased through publications-sales@fao.org. Requests for commercial use should be submitted via: www.fao.org/contact-us/licence-request. Queries regarding rights and licensing should be submitted to: copyright@fao.org.

Cover photograph:

©UnSplash/Mariah Hewines

CONTENTS

	Acknowledgements	V
	Abbreviations and acronyms	VI
	Introduction	1
CHAPTER 1	The shift is happening	7
	European policy direction	7
	Trends that demand increased linkages between retailers and local suppliers	9
	Ways to confront this change: new perspectives to link with local suppliers	11
CHAPTER 2	Guidance for retailers' engagement with local suppliers	21
	The enabling environment as the foundation of success	22
	Suppliers consideration	24
	Product considerations	30
	Market considerations and requirements	38
	References	46
Annex I	Voluntary quality schemes in montenegro	48

Tables, boxes and figures

Tables

1.	EU consumer preferences towards sustainable and local sourcing	11
2.	Shared value business and social results	12
3.	GI products in Montenegro	31
4.	Act for Food Programme	43

Boxes

1.	Goals of the EU Farm to Fork Strategy	8
2.	Shared value strategy in practice: Whole Foods Markets	13
3.	In action: Shorter supply chain for product differentiation	15
4.	Sharing good practices on aggregation in Italy	25
5.	Examples of values that communicate differentiation	32
6.	Innovation in Traceability: Blockchain technology	40

Figures

1.	Importance of factors in decision to buy food products (% EU-27)	10
2.	Mountain Bounty logo, Mountain Bounty pickled vegetables and apple juice	33
3.	Specifications on the receiving dock	34
4.	Environmentally friendly and cost-effective packaging with organic label	34
5.	Local squash labelled with supplier photo	35

Acknowledgements

This guidance document was developed in the context of the Food and Agriculture Organization of the United Nations (FAO) and the European Bank of Reconstruction and Development (EBRD) project “*Supporting sustainable agrifood value chain integration in Montenegro's fruit and vegetable sector*” in collaboration with the Montenegrin Ministry of Agriculture and Rural Development.

The aim of the project is to improve linkages between fruit and vegetable producers with buyers (e.g. processors, retailers, wholesalers, importers/exporters and other aggregators/off-takers) through consolidation of supply and upgrading of quality standards. It also aims to support increased integration and sustainability of the value chain and support the adoption of international best practices to increase food quality standards and ensure supply reliability.

The main authors of this document were: Nina Coates, Agricultural Economist, Consultant; Lisa Paglietti, Economist; Giulio Benvenuti, Quality Manager, Legacoop; with contributions from Ben Toric, Value Chain Specialist.

This guidance document builds on the work carried out during 2018–2020 including the FAO/EBRD publication “Review of market perspectives in Montenegro’s fruit and vegetable sector” (forthcoming), the findings of consultative stakeholder discussions, two technical knowledge exchanges (Bosnia and Herzegovina and Italy), two national workshops, and a training of trainers on aggregation and management in the fruit and vegetable sector.

The authors would like to thank the following people and organizations for providing significant support in farmer surveys and other related activities:

- Vukota Stanisic, Extension Service of the Ministry of Agriculture and Rural Development
- Amra Terzic, Extension Service of the Ministry of Agriculture

The authors would also like to thank all the farmers who dedicated their time to inform our project activities, as well as representatives of Franca, Voli and IDEA, for providing detailed insights on the procurement and sale of domestically produced horticulture-related products. This document was reviewed by Nemanja Grgic, Principal Manager, Agribusiness Advisory, EBRD, and the main retailers in the country, including Voli, Franca and Merkator IDEA. The authors would like to acknowledge the support and availability of Ms Gordana Vulic, Merkator IDEA, in the development of this document, especially in the turbulent onset of the COVID-19 crisis.

The FAO team would like to thank all of the Montenegrin officials and other stakeholders for their time and insights during the field visits, with special thanks for their continued commitment through virtual meetings during the COVID-19 crisis.

Finally, the authors would like to acknowledge support from Wafaa El Khoury, Chief, FAO Investment Centre and Clare O’Farrell, Communications Officer, for overseeing the publication process, and the expertise of both Brett Shapiro for editing and Reem Azzu for the publication design work.

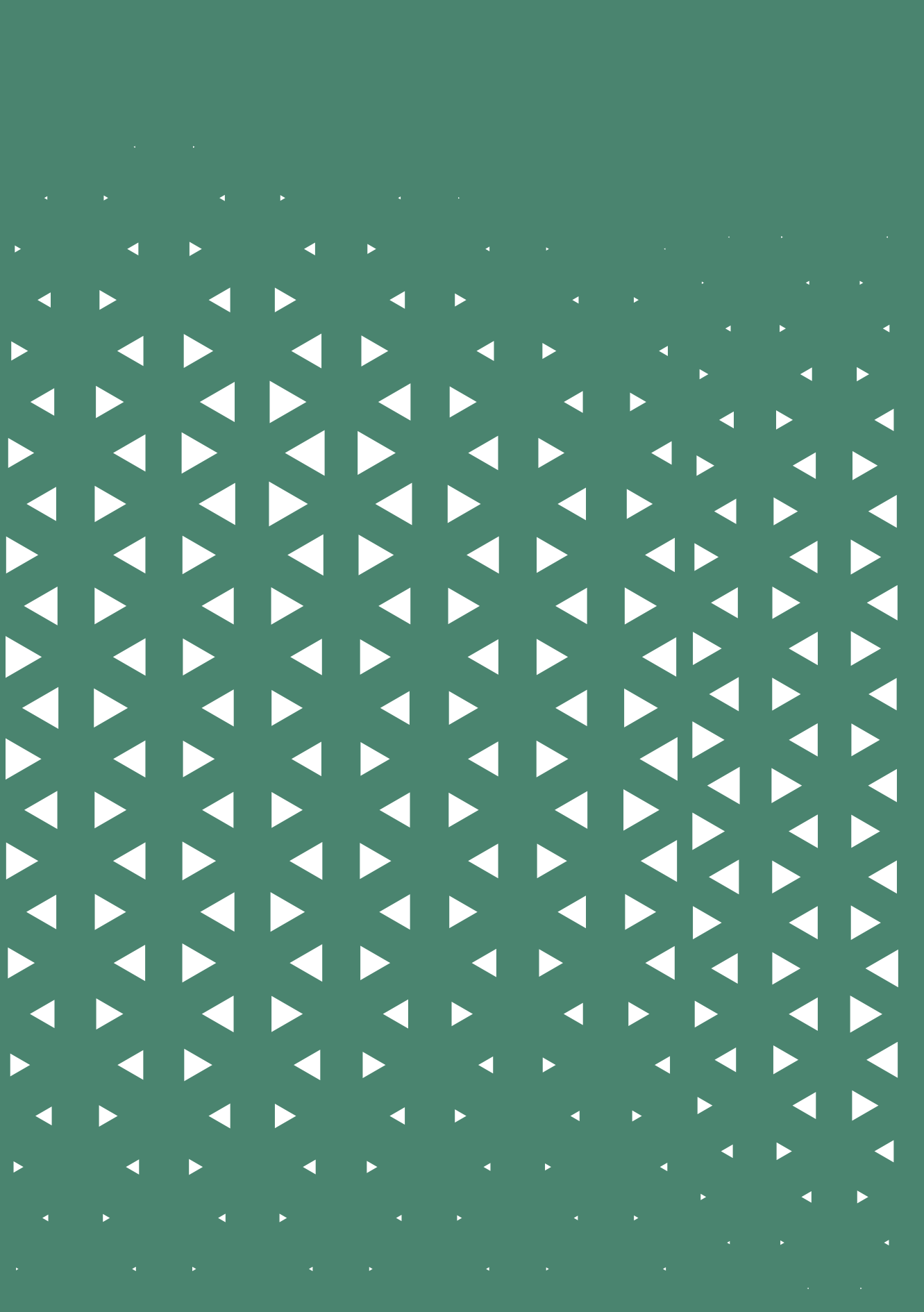
Abbreviations and acronyms

CAP	Common Agricultural Policy
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EUR	Euro (currency)
FAO	Food and Agriculture Organization of the United Nations
GAP	good agriculture practices
GI	Geographical Indication
HACCP	Hazard Analysis Critical Control Points
PDO	protected designation of origin
PGI	protected geographical indication
SDG	Sustainable Development Goals
SME	small and medium-sized enterprises
USDA	United States Department of Agriculture
WRAP	Waste and Resources Action Programme









Introduction

Long before the COVID-19 crisis, it was clear that globalization has had a major impact on food systems around the world. It has brought additional pressures through climate change, increasingly scarce resources, population growth and price pressure throughout the supply chain, as well as changing consumption patterns and nutritional status, that vary with the socio-economic strata. While some positive impacts have been greater availability and diversity of food, this does not mean access to the benefits that accrue from the global food supply is universal.

Changes in food systems have affected availability of and access to food through changes to food production, procurement and distribution systems and the agrifood trade environment (FAO, 2008). According to a special regional study conducted by the EBRD (2016), the following changes have occurred in the agrifood sector, some to the detriment of local suppliers:

1. Centralization of food procurement and distribution;
2. Large-scale (cross-border) regionalization of procurement for certain food categories;
3. Increased competition for a country's retail market share as large multinational retailers have greater purchasing power and better systems and infrastructure for distribution and sale points.
The supermarkets bring with them significant improvements in standards of food quality and safety at competitive prices and convenience, factors that are attractive to a more sophisticated consumer;
4. Shift from the use of traditional (general) wholesalers to specialized wholesalers;
5. Shift from the use of spot markets to the use of preferred supplier systems.

These changes have accelerated the industrialization of retail and led to a general price squeeze, as the breadth of offerings, convenience of purchase and competitive prices are the main elements that underlie this growing success.

For the suppliers of modern distributors and retailers, market globalization has brought several consequences, including, but not limited to:

- raising the level of access requirements (quality standards, certifications, services);
- strong commercial competition;
- price reduction of commodities.

These changes have left small and medium-sized enterprise suppliers (SMEs) struggling to engage with retailers, as the limited size of a company creates difficulties in competitiveness, achieving economies of scale, and making investments in logistic and distribution optimization. This has led to a gradual shift towards a more universal food culture but also a growing awareness of a need for a more environmentally, socially and economically sustainable food system.

Furthermore, the COVID-19 pandemic has disrupted trade and global food supply chains, creating a shift in preferences, access and attitudes towards recognizing the importance of a resilient and robust food system that functions in all circumstances and is able to ensure a sufficient supply of affordable quality food for all citizens (European Commission, n.d.)

Openness towards strengthening backwards linkages and local sourcing are key factors in retailer product development and offerings in order to meet the new challenges in the next normal. The only certainty in these times is that retailers must anticipate and respond to demands and expectations. New policies, health and lifestyle changes, competitive market conditions, increasing scrutiny of environmental sustainability and ethical and social values in business practices are influential in shaping the products that retailers are carrying on their shelves.

Global leading retailers and their investors take sustainability and environmental social and governance (ESG) performance very seriously. ESG analysis and reporting can significantly impact the financial metrics of a company and inform investment and business practices, including shortening the supply chain and local sourcing.

In Montenegro, agricultural production is dominated by small-scale farmers; out of a total number of 43 791 agricultural holdings about 43 748 are family agricultural holdings. There is a low level of competitiveness, due to the high number of subsistence and semi-subsistence farmers, limited commercial production, low productivity, poor packaging and product standardization, and low level of group organization. The volume of Montenegrin production is small when compared to global markets and major competitors, making price formation highly exposed, even to limited variations of supply. However, even with these constraints, there are opportunities to engage local suppliers and source locally.

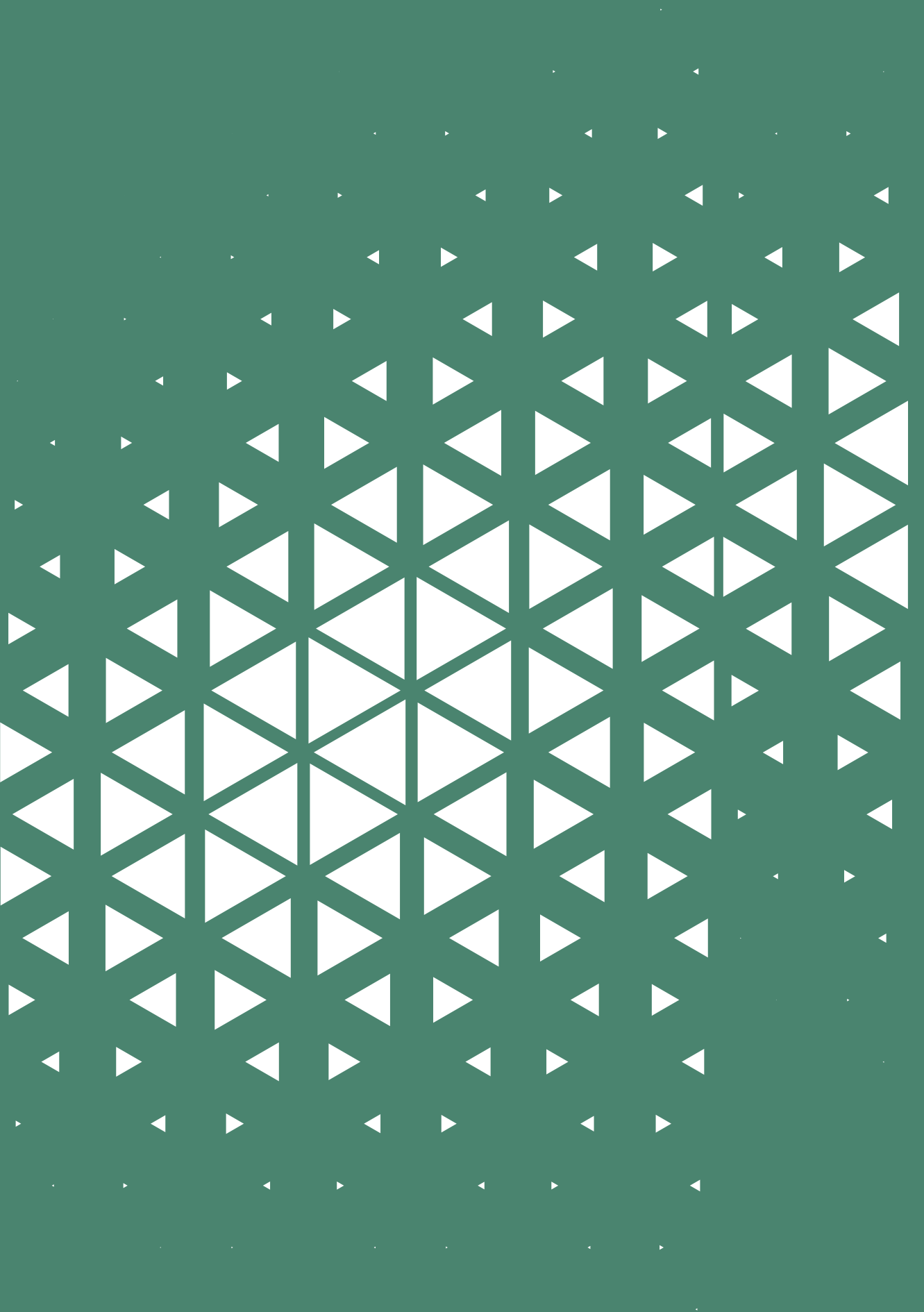
This document is intended to support Montenegrin retailers to engage in local sourcing, which can also strengthen their contribution to the achievement of the Sustainable Development Goals (SDGs) by 2030, support country commitments to the Paris Agreement, and prepare for the challenges and opportunities of modern food retail. Retailers also need to be ready for change, especially in view of the country's pending accession to the European Union, and increasing demands for corporate governance. The document provides an overview of the policy directions, consumer trends, local context and influencing factors that will shape the engagement of Montenegrin retailers with local suppliers. The document also highlights good international practices, as well as the priorities and actions for Montenegrin retailers to consider when planning their development and market strategies.

While developed specifically for Montenegrin retailers, the impact of globalization and COVID-19 on the food supply chain and many of the identified priorities and actions can be adapted for retailers in other countries looking to strengthen the relationships between suppliers and buyers.









Chapter 1

The shift is happening

EUROPEAN POLICY DIRECTIONS

Montenegro's agricultural sector plays a key role in the national economy and is a part of the country's heritage and social fabric. With successful harmonization to the EU Acquis in progress, Montenegro is on track for EU accession in just a matter of years. The policy directions of the European Union are vital to any planning or strategy in Montenegro, especially for agrifood buyers and suppliers in terms of the EU vision for food system transformation.

The Farm to Fork strategy will tap into new opportunities to reduce the environmental and climate footprint of the EU food system. It is at the heart of the "Green Deal", which aims to make Europe climate-neutral by 2050 (European Commission, 2019; 2020; n.d.). The Farm to Fork comprehensively addresses the challenges of sustainable food systems and recognizes the inextricable links between healthy people, healthy societies and a healthy planet (see Box 1). The strategy is also central to the European Commission's agenda to achieve the United Nations' SDGs by 2030.

The strategy emphasizes the linkages between food producers, food processors, food service operators and retailers as they shape the market and influence consumers' dietary choices through the types and nutritional composition of the food they produce, their choice of suppliers, production methods and packaging, transport, merchandising and marketing practices.

In 2021, the European Union launched the game-changing EU Code of Conduct on Responsible Food Business and Marketing Practices. Stakeholder-driven and with an inaugural 65 signatories, the Code will play a crucial part in increasing the availability and affordability of healthy and sustainable food options, including local sourcing, that will help reduce the overall environmental footprint. The Code sets out actions 'between the farm and the fork' that food processors, food service operators and retailers to improve and communicate sustainability performance. The Code offers a framework for voluntary commitments with measurable outcomes across a wide range of areas and actions across full product ranges from animal welfare to sugar reduction and cutting greenhouse gas emissions. The relevant actions can be implementable within their own operations and can encourage working together with their industry peers and other food system stakeholders (such as associations, farmers and consumers) to make similar changes. Companies will report progress by submitting a summary of their sustainability report on an annual basis (European Commission, 2021).

Box 1

Goals of the EU Farm to Fork Strategy

The EU Farm to Fork Strategy seeks to:

- ensure that the food chain, covering food production, transport, distribution, marketing and consumption, has a neutral or positive environmental impact: preserving and restoring the land on which the food system depends; helping to mitigate climate change and adapting to its impacts; protecting land, soil, water, air, plant and animal health and welfare; and reversing the loss of biodiversity;
- ensure food security, nutrition and public health – making sure that everyone has access to sufficient, nutritious, sustainable food that upholds high standards of safety and quality, plant health, and animal health and welfare, while meeting dietary needs and food preferences; and
- preserve the affordability of food, while generating fairer economic returns in the supply chain, fostering the competitiveness of the EU supply sector, creating new business opportunities, and occupational health and safety.

The European Commission has developed several actions through Farm to Fork to stimulate sustainable food processing, wholesale, retail, hospitality and food services' practices. This policy dimension will concretely guide the short- to medium-term shift to sustainability in the European Union and region, and as a result, create opportunities for local sourcing through the following Farm to Fork actions:

- Improve the corporate governance framework, including a requirement for the food industry to integrate sustainability into corporate strategies.
- Develop an EU code for responsible business and marketing conduct in the food supply chain.
- Revise the EU marketing standards for agricultural, fishery and aquaculture products to ensure the uptake and supply of sustainable products.

Source: European Commission. 2020a. For a fair, healthy and environmentally-friendly food system: Farm to Fork Strategy.

Sustainability actions and an effective environmental, social and governance strategy pay off: agrifood products marketed as sustainable consumer products show a growth rate of almost *four times* higher than the market average (McKinsey, 2021). In many cases, sustainability is a strategic differentiating element for retailers and an untapped source of growth and value in challenging markets.

People and planet-friendly companies have also been more resilient to shocks in uncertain times such as the COVID-19 pandemic due to their operations model combined with consumer preferences shifting towards sustainability.

TRENDS THAT DEMAND INCREASED LINKAGES BETWEEN RETAILERS AND LOCAL SUPPLIERS

Sustainability as a strategy

According to a recent McKinsey report, consumer goods marketed for sustainability have a growth rate of almost four times higher than the market average (McKinsey, 2021). Sustainable procurement/local sourcing can open access to new markets and enhance a company's competitive advantage through strategic partnerships and risk-mitigation of supply chain and operation disruptions, as well as enhance the value proposition, reduce costs, and increase revenues. Retailers in Montenegro are likely to face competition from the biggest European retailers, as has already happened in other Balkan countries (e.g. Croatia, Serbia). German discount retailers (e.g. ALDI, Lidl, Penny) aggressively pursue opportunities in new markets, on the basis of a strong international purchasing power and competitiveness of the distribution model, and shared value and sustainability are engrained in their corporate vision and marketing strategy. Added to this is the importance of tourism in Montenegro, composed of tourists from countries (EU and non-EU) where the consumer culture is already oriented towards more advanced sales models. Changing preferences and attitudes regarding corporate responsibility and social consciousness have already affected how retail brands present and position themselves (Wertz, 2019). The trend has resulted in retailers having to match their internal culture with their exterior identity. While many Montenegrin retailers cannot compete with the scale and buying power of the main European retailers and discount operations, they can compete in terms of commitment to sustainability, which includes promotion of local sourcing.

In Serbia, for example, Lidl actively communicates its commitments to the principles of responsible corporate governance, having been a member of the United Nations Global Compact for responsible business practices since the beginning of 2018. Thus, the company's local sustainability strategy supports the UN Global Compact principles and contributes to the SDGs. Lidl is constantly taking various steps and measures to improve, in accordance with the SDGs, the processes of the four strategic areas in which the company has an impact: i) resources and agriculture; ii) supply chains and processing; iii) operations and processes; and iv) customers and society (Lidl, 2020).

Retailers in Montenegro will need to prepare for and take advantage of a reasonably long period before the inevitable impact of accessing the global market, which will presumably occur within the next five years. Sustainable procurement, including local sourcing, will need to be holistically embedded in their company culture. It is important to keep in mind that the rationale for sustainable procurement strategies and its contribution to the SDGs is business-driven, not philanthropic.

Consumer demand

Consumers' expectations are changing and driving significant evolution in the food market towards sustainability. The sheer amount of taxpayer money that citizens have endorsed towards a more sustainable and climate-sensitive food system vis a vis the Common Agricultural Policy (CAP) with support of EUR 58.82 billion in 2018¹ and the national Agrobudget with EUR 61 million in 2020 validated this shift. This transition to sustainability is also an economic opportunity, as sustainability and affordability can add a competitive advantage and open new business and

1 The new CAP, in development at the time of this writing, is anticipated to be transformational in terms of sustainable food systems.

investment opportunities. For retailers and local suppliers, there is a first-mover opportunity to make sustainability their trademark and increase competitiveness.

It is important to note the difference between "local" sourcing and domestic sourcing. The latter simply confers that the product was made within geographical confines, while local differentiates not only spatial proximity, but from a marketing perspective, "local" signals certain "closer to home" qualities or attributes of local production or processing system, or even a farm/ farmer. In a special Eurobarometer survey enumerated on the topic of Europeans, Agriculture and the CAP, in August September 2020, almost 90 percent of respondents in the EU-27 felt that "being part of a short supply chain – i.e. when distances are short or there are few intermediaries between food producers and consumers" – is an important factor, with just about half (47%) answering that it is "very important" (EC, 2020). About 80 percent of respondents considered the factors linked to local products in Figure 1 to be important in their decision to buy food products, with the following considered "very important":

- Coming from a geographical area they know is "very important" for 41 percent of respondents, which is a 10 percent increase from 2017.
- Having a specific label that ensures the quality of the product is "very important" for 41 percent of respondents, which is an 8 percent increase from 2017.
- Finding food products that respect local tradition and knowledge is "very important" for 40 percent of respondents, which is a 9 percent increase from 2017 (European Commission, 2020).

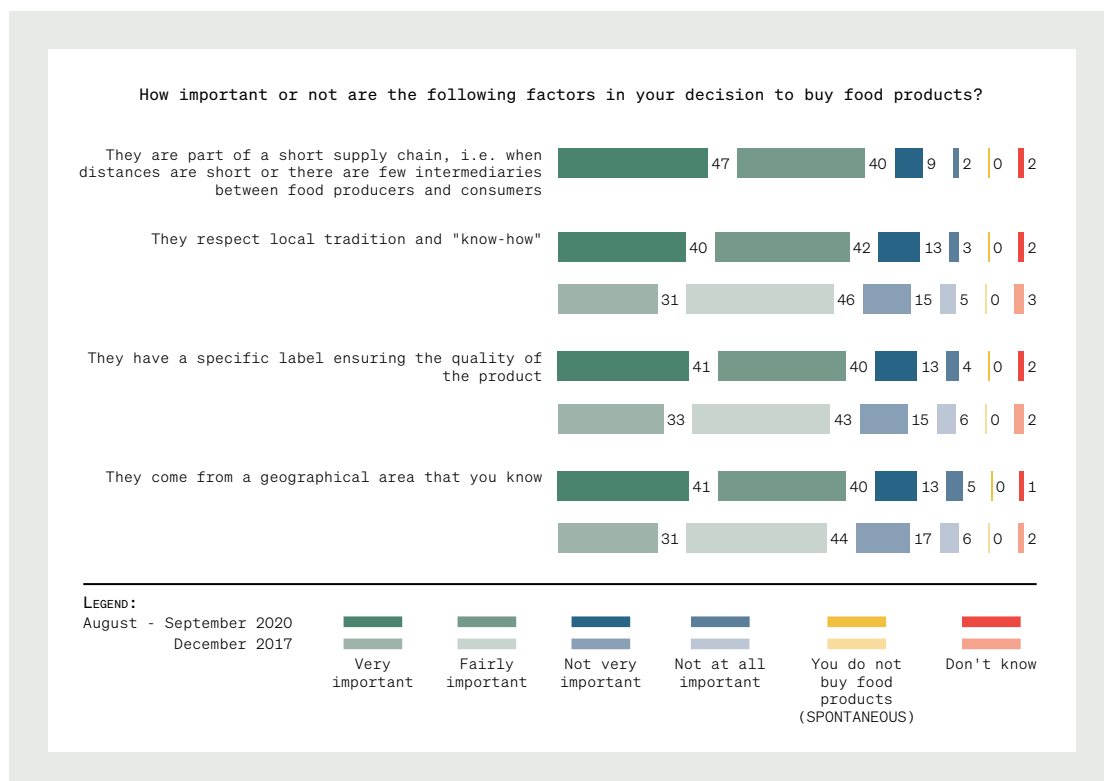


Figure 1
Importance of factors in decision to buy food products (% EU-27)

Source: European Commission. 2020b. Special Eurobarometer 504. Brussels. European Commission.

The consumer sentiment was similar with respect to organic products, with 74 percent agreeing that organic products are of better quality, 71 percent agreeing that organic products are safer than other food products, and 81 percent agreeing that organic agriculture is produced using better environmental practices.

Additional data demonstrate the strong preference among end consumers for more innovative, environmentally and socially responsible retailers, and a willingness to pay a premium for these qualities. These data correspond to the consumer sentiment towards local sourcing and willingness to pay in the Balkans, with 59 percent of interviewees in a 2018 survey willing to pay more at retailers for labels that guarantee quality, and more than half willing to pay prices up to 15 percent higher.² At a continental level, results of an IRI European Shopper Survey (IRI, 2018) in Table 1 confirm these data:

Table 1

EU consumer preferences towards sustainable and local sourcing

IN PERCENTAGES	71%	Prefer to buy from retailers who demonstrate fairness, transparency and integrity
	72%	Prefer products that have environmentally friendly packaging
	72%	Prefer products from companies that respect the environment and the local resources
	67%	Are attracted by new and innovative products
	67%	Prefer to buy products from companies that use alternative and renewable energies in industrial plants
	60%	Inform themselves about the origin and production method of what they eat
	63%	Are willing to pay more for healthy foods
	55%	Are willing to pay more for 'Km 0' foods (food coming from the territory of purchase)
	52%	Are willing to pay more for organic foods

Source: IRI. 2018b. The “why” at regional level on geocentric purchase and the attitudes of millennials. IRI European Shopper Insights Survey.

We can see that change is already happening, and the trends towards better corporate governance and responsible business practices will create a first-mover opportunity for Montenegrin retailers that develop more sustainable, shorter supply chain strategies in collaboration with their suppliers and primary producers, in order to meet this demand for local, safe, quality products that satisfy their consumers.

WAYS TO CONFRONT THIS CHANGE: NEW PERSPECTIVES TO LINK WITH LOCAL SUPPLIERS

Shared value and the food value chain

Today’s business environment warrants a greater level of awareness and responsibility in seeing that products and services maintain a high level of integrity, quality and reliability. Products need to be produced and moved throughout the supply chain in a manner that does not cause unacceptable environmental or social burdens, but that also allows for acceptable profits. A shared value strategy that includes local sourcing as part of, but not replacing, corporate social responsibility, builds on the idea of making positive actions an integral part of a business’ everyday operations, adding value for both society and investors.

2 Project document, FAO/EBRD cooperation in Serbia, (2019) available upon request.

There are three levels where companies can pursue shared value and create measurable business and social results: reconceiving products and markets; redefining productivity in the value chain; and enabling cluster development (see Table 2). Companies can create shared value by improving the supporting institutions, supplier base and available skills in the communities in which the company operates (Porter and Kramer, 2011).

Within these levels, and depending on the business or strategy, these changes can increase productivity, support innovation and foster growth. Companies with successful sustainability strategies have a view towards strong commitment from top management, experiment and innovate with different modalities of sustainable procurement, and leverage the synergies and opportunities of their enabling organizational environment with the support provided by the wider, country-level enabling environment.

Retailers like Whole Foods (see Box 2) have incorporated the social dimension of local sourcing into their value proposition, and are constantly measuring social and business performance, resulting in potential for a competitive advantage that is more sustainable, as well as metrics that will improve their internal processes (Harvard Business School, n.d.).

Table 2
Shared value business and social results

LEVELS OF SHARED VALUE	BUSINESS RESULTS	SOCIAL RESULTS
Reconceiving products and markets focuses on revenue growth, market share and profitability that arise from the environmental, social, or economic development benefits delivered by a company's products and services.	<ul style="list-style-type: none"> · Increased revenue · Increased market share · Increased market growth · Improved profitability 	<ul style="list-style-type: none"> · Reduced carbon footprint · Improved nutrition · Improved education
Redefining productivity and creating shared value in the value chain focuses on improvements in internal operations that improve cost, input access, quality and productivity, achieved through environmental improvements, better resource utilization, investment in employees, supplier capability and other areas.	<ul style="list-style-type: none"> · Improved productivity · Reduced logistical and operating costs · Secured supply · Improved quality · Improved profitability 	<ul style="list-style-type: none"> · Reduced energy use · Reduced water use · Reduced raw materials · Improved job skills · Improved incomes and rural livelihoods
Enabling local cluster development to create shared value comes from improving the external environment for the company through community investments and strengthening local suppliers, local institutions and local infrastructure in ways that also enhance business productivity.	<ul style="list-style-type: none"> · Reduced costs · Secured supply · Improved distribution infrastructure · Improved workforce access · Improved profitability 	<ul style="list-style-type: none"> · Improved education · Increased job creation · Improved health · Improved incomes · Strengthened rural communities

Source: Porter, M., Hills, G., Pfitzer, M., Patscheke, S. & Hawkins, E. 2012. Measuring shared value: How to unlock value by linking social and business results.

Shortening the supply chain

In complementarity to a shared value strategy, enhancing local sourcing and more reliance on less geographically dispersed shorter supply chains enable achievement of a company's social and business objectives. Businesses orient their core operations to simultaneously produce business success (decreased costs/increased revenues) and social benefit, thus sharing value, rather than seeing "social responsibility" as something they do for public relations purposes (USDA, 2014).

Box 2

Shared value strategy in practice: Whole Foods Markets

Whole Foods, the most economically successful food retailer in North America, built a social dimension directly into its core business strategy—and identified a set of customers who were willing to pay a premium for healthy, environmentally friendly food.

- Natural, fresh, organic, and freshly prepared foods and health items with excellent service at premium prices
- Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
- Serve educated customers who are passionate about food and a healthy lifestyle
- Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods sections
- Produce section as “theater”
- Café-style seating areas with wireless Internet for meals and meetings
- Each store carries local produce and has the authority to contract with local farmers. Company provides low-interest loans if needed
- Nutrition information and education provided to shoppers along with products
- High touch in-store customer service via knowledgeable, flexible, and highly motivated personnel
- Flat compensation structure
- Heavy emphasis on environmental sustainability in all activities
- Emphasis on supporting community development

Source: Harvard Business School. n.d. Adding a social dimension to strategy. Institute for Strategy and Competitiveness, Harvard Business School. Cited June 2021. <https://www.isc.hbs.edu/creating-shared-value/csv-explained/Pages/adding-a-social-dimension-to-strategy.aspx>



According to a report by the United States Department of Agriculture (USDA) Agricultural Marketing Service (USDA, 2014), the best food value chain collaborators are those that have similar values, different competencies, and compatible business structures and scale. They also need to be willing and able to participate fully in information-sharing, decision-making and investment, and willing to be forthcoming and engage with questions, conflict and new perspectives. Retailers building local sourcing relationships should determine if potential collaborators have these characteristics, also typical of shorter food supply chains:

- Commonalities and mutual interests
- Compatible values
- An understanding of the rights and benefits of each partner
- An appreciation of the obligations and responsibilities of each partner
- The capacity to interact and consult extensively with others in the chain
- A willingness to consider new collaborators and perspectives
- Equal risk exposure
- A willingness to share brand identity or allow for a separate identity

In the context of shared value, shorter supply chains typically have shared operational and mission values as part of a strategic collaboration.

Shortening the supply chain represents a new way for farmers to produce and sell, but also an opportunity for retailers. These methods are not a return to the past, but an efficient way to communicate shared value. In most cases, retailers source directly from the local suppliers, which are small and medium-sized farms that are often located near stores or distribution centres. The farms vary in size and capacity, and aggregation into groups such as cooperatives or through digital platforms should be strongly encouraged. A shorter supply chain, with few if any intermediaries, can present positive elements both for the supplier, who can find a sufficiently profitable margin, and for the buyer/consumer, who can re-establish or strengthen relationships with the agricultural producers and their own community, and has the possibility of buying a fresh product of known origin at a price that is still affordable.

The goal is not to eliminate the intermediary, as many smaller suppliers typically cannot access a dynamic market without support from an intermediary or third-party service provider. The goal instead is to work with the local suppliers to cultivate mutually beneficial arrangements with the intermediary or third-party service provider, to fill the coordination gaps where necessary as the retailer seeks to bring the farm closer to the fork.

The actors in a shorter chain should be seen as strategic collaborators in the chain, where each needs the others to thrive in business so that the whole group can succeed while maintaining their values and delivering the product attributes that customers want. According to consumers, the main advantages of buying local agricultural products lie in the freshness of the food, the certainty of the origin of the product, the opportunity to consume seasonal products, and the contribution to a more sustainable food system. The main perceived disadvantages are due to "inconvenience" in supply (e.g. schedules, reduced assortment, market accessibility). Aggregation is likely to be necessary for most producers to ensure market access, particularly access to retailers. Greater resources will need to be allocated towards innovation to improve production quality, obtain the required certifications, and improve the technical, management and marketing capacity, including the need to differentiate by focusing on organic agriculture, origin-linked labels, special packaging and labelling, as well as marketing.

Trusting and transparent relationships between supply chain partners can produce positive, win-win outcomes for all parties where the value-added is shared and can be more equitably distributed. This is central to the notion of more sustainable and shorter supply chains. Suppliers do not gain at the expense of distributors or retailers, or vice versa, because the structure of transactions facilitates the sale of a broader range of well-differentiated food products, priced to reflect the incorporation of both social and private benefits, which are tailored to the preferences of specific consumer segments (Box 3).

Defining what brand and marketing strategies to adopt

Retailers will have to consider the image their brand conveys to the world, and work to create cultures that match consumers' values and world views. One of the interesting dichotomies of the current retail model is that, despite their alarming closure rates, physical stores still play a key role in the sales process and anchor the online/digital presence. As opposed to a single touchpoint for consumers, the trend in retail over the past few years has been to widen the net that brands use to attract customers, retain their loyalty, enforce company identity, differentiate offerings, improve food safety and create the basis for future marketing strategies and online offerings.

Different brand and marketing strategies can be used in linking to local suppliers; however, these depend on the retailer's identity/vision and enabling organizational environment, the willingness to work in new ways to build relationships with suppliers, and the ability to support market differentiation strategies based on sustainability, product quality, food safety and reputation.

Box 3.

In action: shorter supply chain for product differentiation

Working together with an association of 100 growers/suppliers producing 500 tonnes of Serbia's famous Arilje raspberries, Serbia's family-owned fruit juice company, Nectar, has realized the value of these specific raspberries to rural communities, to their social objectives and, of course, to their bottom line. Nectar has developed a new juice product range together with local suppliers and launched a new line of "Life" fruit juices. The Arilje raspberry is protected by a geographical indication and gets its sweet and tangy flavour from the area's rich and fertile soil as well as a particular method of hand-picking developed by the area's producers.

Together, they are able to offer Serbian retailers a safe, high-quality differentiated product that is in high demand for supermarket shelves. Retailers are now in negotiations with Nectar for a dedicated area for quality labelled products so that consumers know they are purchasing a top-quality traditional product produced in a certain area.



© FAO/Igor Pavicevic

There are three product marketing strategies that can be used. Note that these may influence the branding strategy (discussed in the next section). For illustrative purposes, we will use the example of a non-existent retailer "Good Food" and their offer. "Good Food" has various store sizes and uses different marketing strategies depending on the product.

1

Limited/basic basket of goods

- The retailer creates its own **fantasy brand** or shares an umbrella logo with suppliers.
- It establishes agreements with producers/suppliers to recognize outsourcing package with brand.
- It **promotes the brand in the shops** (advertising, promotional campaigns, etc.).

An example of this is the Old Mill bakery/pasta brand from "Good Food".

- a. Old Mill logo
- b. Old Mill bread
- c. Old Mill pasta



2

Wide basket of goods

- The retailer creates its own **private brand** (which clearly recalls the company logo) in order to signal quality and price. The private brand with Geographical Indications is also possible.
- It establishes **contracts with producers/suppliers** to fix technical requirements necessary to **outsource packaging with brand**.
- It **promotes the brand in the shops** (advertising, promotional campaigns, etc.).

"Good Food" signals quality and price with their use of a private brand known for quality across a wide basket of goods and product lines. This private brand includes organic, products linked to origin such as Geographical Indications, wines, beverages, perishable and non-perishable food, and other consumer packaged goods.

3

Limited but high-quality basket of goods

- The retailer promotes collective **public-territory logos** shared with authorities and/or producers.
- It establishes **agreements with producers/suppliers** to recognize **outsourcing package with logo**.
- It **promotes the logo in the stores** (advertising, promotional capaigns, etc. and may be financially shared with partners).

"Good Food" offers a good example of an umbrella brand that features high-quality basket of goods, some with collective logos linked to territory.

The umbrella brand "Local Goodness" was developed with the aim of tracing food products along the entire production chain, supporting their territorial identity, and the preservation/promotion of biodiversity. It features a high quality basket of goods including liquor/wine, processed meats, cheese, fruit and vegetable preserves, sweets and pastas, all linked to territory, many benefiting from collective public/private labels such as geographical indications.

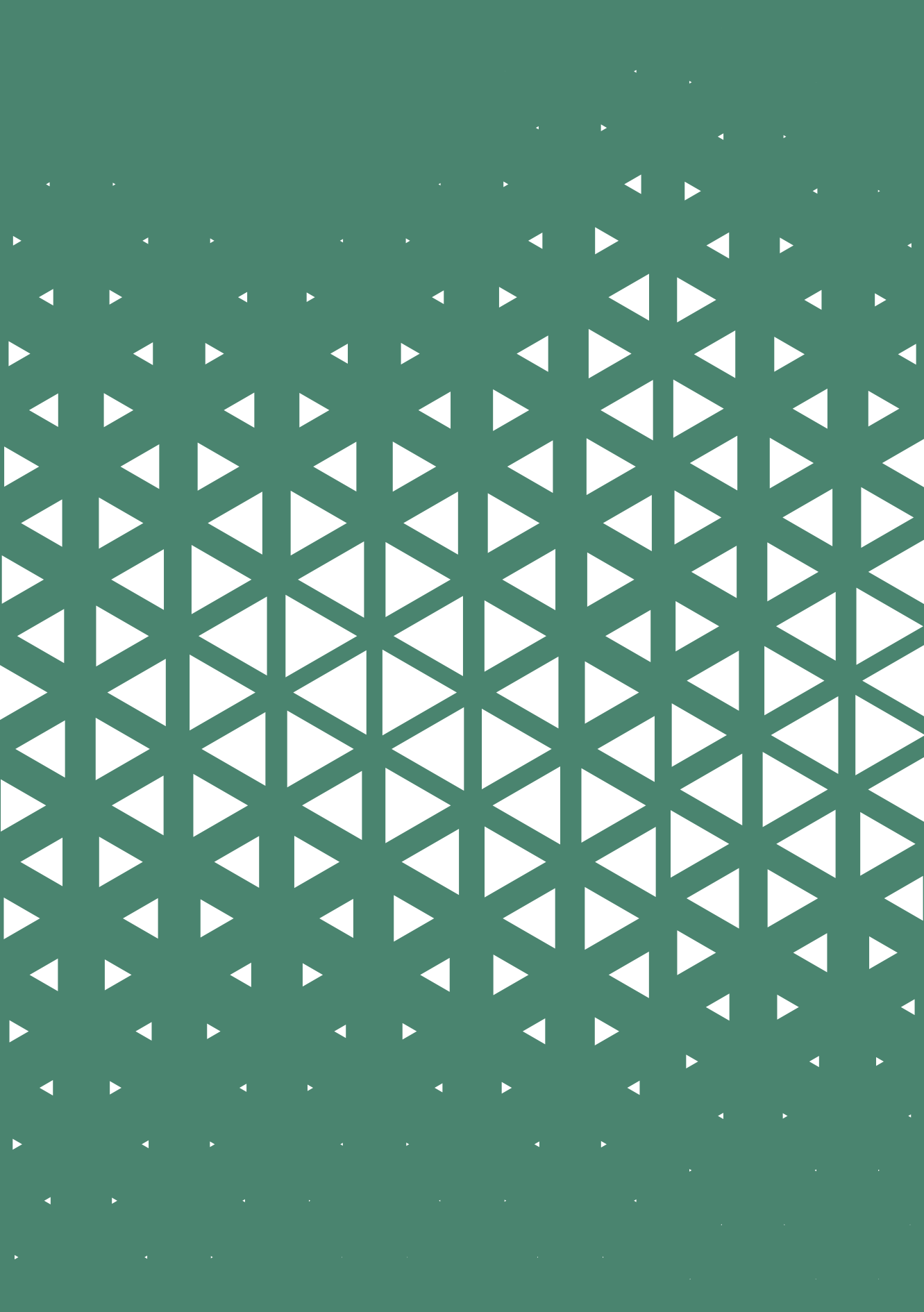
BRAND STRATEGY OPTIONS FOR RETAILERS



Recommended	Possible	Not recommended
SOFT DISCOUNTS (small to medium sized stores)	HYPERSTORES - SUPERMARKETS (medium and large sized stores)	SUPERMARKETS - SUPERSTORES (small and medium sized stores)
↓	↓	↓
COMPANY OWN BRAND	COMPANY OWN BRAND	COMPANY OWN BRAND
FANTASY OWN BRAND	FANTASY OWN BRAND	FANTASY OWN BRAND
UMBRELLA BRAND (own or shared with producers)	UMBRELLA BRAND (own or shared with producers)	UMBRELLA BRAND (own or shared with producers)
COLLECTIVE PUBLIC-TERRITORY BRAND (shared with authorities and/or producers)	COLLECTIVE PUBLIC-TERRITORY BRAND (shared with authorities and/or producers)	COLLECTIVE PUBLIC-TERRITORY BRAND (shared with authorities and/or producers)







Chapter 2

Guidance for retailers' engagement with local suppliers

In Europe and elsewhere, today's modern retail faces a highly competitive environment in which the lowest-price strategy (often the least sustainable option) is the first element on which competition is played out. The face of the market is evolving quickly, and retailers must adapt to shifts in demographics, attitudes and consumer preferences, especially in view of demands for better quality and more sustainable purchasing options and commitment to responsibility. Any intervention to move towards modern markets and retailing requires a careful examination of the enabling environment, as well as product, supplier and marketing requirements across the supply chain.

The real challenge for retailers is now focused on these key elements: organizational environment; connection with the suppliers; sharing value; product quality specialization; and incorporating innovative technologies. These will serve to manage disruptions to the supply chain, as well as ensure attention to environmental and social sustainability, traceability, transparency and product safety.

Against this backdrop, large retailers have felt a growing need to communicate their values to the consumers. Leading discounters such as ALDI and LIDL have already made strong commitments to sustainability in procurements. Montenegro's retail sector now must commit greater resources to strengthening its own enabling organizational environment, such as by developing corporate social responsibility strategies, and finding new ways to source, distribute and market. The sector also needs to communicate these values.

The rest of this chapter is devoted to providing a list of priorities and actions for retailers in Montenegro to increase local sourcing as part of a corporate sustainability strategy. These priorities and actions depend on the commitment to shared value as part of corporate social responsibility and sustainability strategies. They will serve as the building blocks for developing a sustainable local sourcing strategy.

The considerations for a successful local sourcing strategy are broken down into four categories: the enabling environment (institutional and organizational); suppliers; products; and market considerations. Within these four categories, the context is described to inform retailers' priorities and actions that could enhance the engagement and relationship between suppliers and retailers.

PRIORITIES AND ACTIONS TO SUPPORT AN ENABLING ORGANIZATIONAL ENVIRONMENT

THE ENABLING ENVIRONMENT AS THE FOUNDATION OF SUCCESS

An enabling institutional and policy environment play a fundamental role in creating and maintaining successful retailer linkages to local suppliers. An enabling environment promotes supply chain initiatives supporting research and innovation activities in collaboration with companies and, particularly in Montenegro, favours aggregation and initiatives that can enhance local products through the promotion of the territory and tourism.

The policy and institutional environment can impact infrastructure development – roads, water, electrification and digital infrastructure for Internet/mobile connectivity – which can facilitate greater supply chain participation and coordination among small suppliers. Maintaining small supplier access to credit and land, especially for women suppliers, is important to ensure market access.

Recent national policies and strategies, as well as ongoing large-scale international financial institution (IFI) projects³ in the agriculture sector, are based on achieving sustainable agricultural and rural development, taking into consideration the social, economic and environmental aspects of such development. Emphasis is also being placed on enhancing the competitiveness of the agriculture sector and food-processing industry. In 2020, total EU and national support to Montenegrin agricultural development increased by EUR 8.3 million, to EUR 61 million. Compounded with private investment, this is intended to result in a total investment of EUR 100 million in the sector.

SUPPORTING AN ENABLING ORGANIZATIONAL ENVIRONMENT

PRIORITY	ACTION
Commitment to sustainability and local sourcing	<ul style="list-style-type: none"> • As part of a shared value strategy within your corporate social responsibility strategy, develop a sustainable local sourcing strategy driven by internal (i.e. shared operational and mission values) and external factors (i.e. availability of support services and physical assets, access to capital and the policy environment). • Commit to the welfare of all participants in the value chain, including providing adequate profit margins to support the business and its owners, fair wages, and business agreements of appropriate and mutually acceptable duration. • Keep abreast of national agriculture policies as well as EU and international policies. • Invest towards sustainability in your retail points of sale. This includes investment in: <ul style="list-style-type: none"> • energy-efficient refrigeration; • adoption of solar power; • eco-packaging and displays; and • food loss and waste control systems • Use cooperative strategies to achieve competitive advantages and the capacity to adapt quickly to market changes • Promote a competitive environment by raising consumer awareness in your store and with promotional materials about sustainability issues, including voluntary quality schemes and organic certification • Work with the public authorities and extension services to support capacity development of smallholders • Participate in NGO and IFI project initiatives on these topics that can provide technical support if necessary

SOURCE: Author's compilation.

³ Notable projects in addition to the FAO/EBRD cooperation in Montenegro include the IFAD Rural Clustering and Transformation Project, World Bank MIDAS I and II Project.

LIDL Serbia

Both within its own company and in its relations with business partners, LIDL takes care of the implementation of minimum social standards. LIDL is a member of the Business Social Compliance Initiative within the European External Trade Association. Based on this initiative, LIDL has developed its own Code of Conduct with which LIDL aims to improve minimum standards for business partners. These minimum standards are an essential basis for LIDL's business relations with its contractual partners (LIDL, 2020)



For more information, please use this QR code or visit:
<https://kompanija.lidl.rs/nasa-odgovornost>

REWE Group

REWE Group's sustainability strategy focuses on all business activities in order to establish more sustainable consumption and tourism across the market. The core of the strategy is the promotion of more sustainable product ranges and fair dealings with partners and suppliers. REWE companies act in an environmentally and climate-conscious manner, assume responsibility for their employees and are committed to a viable society. Sustainability is anchored at the highest level of corporate management – overall responsibility lies with the Chairman of the Executive Board. In addition, each sales line has its own sustainability division, which further develops the sales line's sustainability strategy (REWE, 2020).



For more information, please use this QR code or visit:
www.rewe-group.com

Waitrose

The Waitrose Small Producers' Charter sets out the company policy towards developing working relationships with potential suppliers. The charter sets out the approach to the supply chain for the benefit of small-scale and regional producers. Customers want to know that their food is as local as possible and Waitrose aims to source produce from the areas near to branches (Waitrose, 2020).



For more information, please use this QR code or visit:
https://www.waitrose.com/content/waitrose/en/home/inspiration/about_waitrose/the_waitrose_way/small_producers_charter.html.html

SUPPLIERS CONSIDERATION

The term “supplier” encompasses one or more smaller actors in the food value chain – i.e. farmer/producer, processor, intermediary or a combination of these. By sourcing directly from farmers or local aggregators, both online and offline, another value proposition is that the retailer and suppliers can plan production together. Retailers are assured predictable supply and pricing, and avoid being subject to fluctuations in availability and price on the spot market. The retailer also gains visibility into how the products are grown, and can therefore provide additional traceability assurances to customers, with respect to their quality and origin.

Fragmentation of farms, small farm sizes, and a lack of vertical and horizontal linkages make it challenging for Montenegrin suppliers to compete with imports on quantity and price. The poor buyer-supplier relationship is due to high transaction costs of engaging small farmers, which is cited as one of the reasons for importing and moving away from small farmers. This is further exacerbated by the lack of communication and inefficient flow of information.

The main priorities to focus on in working with suppliers as partners are the following:

- Production capabilities and demand predictability
- Contractual arrangements
- Logistics and distribution
- Business capabilities, including payment terms and access to working capital and finance

There is a gap between the potential and the actual production of fruit and vegetables in the country. Expansion of available land for fruit and vegetable production is limited, due to the mountainous terrain. However, the gap can be minimized by strong extension services, training and demonstration in production, market-oriented production planning, post-harvest management, and quality control. Improvement in productivity can be achieved by replacing traditional varieties with high-yield varieties and adopting semi-intensive and intensive systems and good agronomic practices.

Retailers can play an important role in helping farmers to aggregate. It is important to identify and support ways to reduce transaction costs. Procurement practices that encourage the consolidation of supply through formation of farmers’ groups (producers’ organizations, cooperatives and/or associations) and contractual arrangements can lead to improved production planning, product aggregation, reduced logistics costs and improved marketing. The business incentives to work with such groups are having the option to be the buyer of choice, adding shared value, ensuring continued access to better quality and preferred supply, as well as social license.

Planning and forecasting can be done yearly to incorporate the local suppliers into sourcing and decision-making, with updates several weeks ahead of harvest depending on procurement practices. In all cases, because of the seasonal nature of agriculture, two-way communication is key.

Demand predictability can be strengthened by strongly encouraging aggregation and organizing the crop and harvest planning together with the suppliers. Having a guaranteed market for suppliers also reduces the risk of side-selling.⁴

4 Side-selling refers to a situation where a producer or cooperative does not comply with a contract and chooses to sell their products to someone else. This can happen in markets with rising commodities prices, when the local price for that particular product exceeds the price agreed upon in a contract.

Box 4.

Sharing good practices on aggregation in Italy

Given the economic crisis of the last decade, SMEs have often found themselves excluded from the market and many succumbed or were bought by larger groups. In Italy, for example, this problem was severe, as most national production (76%) is composed of SMEs, most of which (86%) are small. The Italian response was for producers to organize themselves differently. The market situation makes it necessary to aggregate producers and SMEs, especially at the level of primary production. The Italian experience demonstrated that successful aggregations, irrespective of their form (cooperative, producers' organization, consortium or network of companies) presented the following two key outcomes:

1. There was a clear development and market strategy;
2. There were elements of sharing of collective infrastructure and/or services

SOURCE: Author's elaboration.



Long-term planning and predictability also promote mutually beneficial investment in developing the supplier's business. If the product is new – organic fruit juice, for example – some investment by the retailer in the design of the product, as well as improved production and processing for test runs, may be necessary. Produce that has a stable demand or smaller test runs of new products are good opportunities for forecasting and forward planning, which can help suppliers overcome labour availability and input constraints, and may even support access to working capital if the order can be used as collateral.

To improve product suitability for retail, there is a need to establish modern small and medium-sized distribution/consolidation centres with adequate storage and modern technology for grading, sorting and packing fresh produce, as well as small facilities for storage and processing. Few suppliers can establish such fulfilment and distribution centres on an individual basis, which highlights the importance of establishing cooperatives or aggregations of farmers to overcome these distribution and market constraints. In Montenegro, there is space for innovative solutions for distribution and logistics support to shorten supply chains and engage with smaller suppliers; however, this can only be achieved through aggregation. Innovative solutions to consider would serve the consolidation function and network-shaping agents found in urban markets, such as a physical or digital (or hybrid) food hub where suppliers can actively coordinate to aggregate and distribute their produce, or even a food hub within an existing wholesale produce market which can benefit from the permanent facilities as well as logistics, marketing and communication/information services.

In Montenegro, purchasing inputs of the right quality and quantity required by formal retail as well as the payment terms from formal agreements are often challenging for smaller suppliers. Scaling up also requires more labour or higher volume ordering of inputs, which require access to working capital to meet order deadlines—which could influence delivery delays. Retailers have more liquidity than local suppliers do, and identifying cash issues outside their own company is critical to avoid supply chain interruptions. Working with local suppliers is an advantage in this sense, as it is easier to know what is happening. Access to capital through forward contracts and a payment system tailored to smaller suppliers, such as shorter payment terms, could help overcome some challenges.

Suppliers should also be able to manage the business side of the enterprise. As with any new venture, this may take some time and technical support to meet the requirements of retail management systems. Retailers must clearly communicate invoicing and auditing requirements to suppliers, and support them in their implementation. This could be through tiered or progressive audits to meet standards, or investments in solutions for ordering, monitoring and record-keeping for compliance through standardized forms or digital platform solutions. A consistent information flow and two-way communication is always required. This may seem like an extra step, but local suppliers are the only ones producing the local product that customers demand.



SUPPLIER CONSIDERATIONS

PRIORITY	ACTION
Production capabilities and demand predictability	<ul style="list-style-type: none"> • Systematically evaluate new relationships – i.e. using indicators that measure satisfaction: quality, service and price. • Support planning efforts and keep suppliers informed about market prices. • Work with producers to plan production cycles to ensure predictable delivery. • Invest in supply chain and production infrastructure to meet these goals. • Identify opportunities to support the sustainability of the local supplier, including investments in diversification or processing infrastructure – i.e. promoting high-yield varieties, adopting semi-intensive and intensive systems. • Scale up production, which may require support for inputs. This could be through supporting risk-mitigation strategies such as crop insurance or financing. • Build a strong collaboration with local suppliers. Your quality manager should be responsible for transmitting skills and teaching in the areas of production methods and new technologies. • Invest in test runs so that the local suppliers can manage new inputs, new processes and technologies, as well as new input suppliers. • Encourage aggregation through the formation of associations and cooperative to meet the scale required, build trust and reduce side-selling. • Work with producers to develop an annual production plan and weekly availability calendars. • Encourage communication to signal issues and problems. • Allow sufficient time to gradually scale up so that the producers' association can build steady relationships for new sources of inputs. • Consider pooling procurement of inputs for volume discounts.
Contractual arrangements	<ul style="list-style-type: none"> • Develop a pre-season arrangement, and consider forward contracts which can protect from price fluctuations and allow suppliers to plan investments and keep cash flow moving. • Explore the possibility to develop a pilot with a producer association. Pilot periods integrated into outgrower schemes build up the confidence of small farmers to engage with formal buyers. • Develop trust and confidence with the local suppliers to ensure a long-term and sustainable contractual relationship.
Logistics and distribution	<ul style="list-style-type: none"> • Transfer skills by working together with producers' associations to strengthen logistics and distribution through capacity development. Producers often lack organizational capacity and necessary infrastructure for packing and post-harvest handling to increase shelf-life, storage and transport according to retailer requirements. • Integrate the existing infrastructure to maintain cold-chain logistics – often a supplier constraint – which insure that the product is kept in optimum storage conditions to maximize shelf-life, and therefore commercial potential. • Innovate and explore new networks to assist with logistics and transportation – i.e. working with digital (wholesale) platforms, local food hubs and third party organizations to increase the efficiency of the last food mile.
Business capabilities, including payment terms and access to working capital	<ul style="list-style-type: none"> • Be flexible, consistent and upfront with suppliers concerning payment terms and understand working capital requirements. • Be aware of supplier cash flow constraints. Facilitate access to working capital through forward contracts and a payment system tailored to farmers, such as shorter payment terms. Clearly communicate administrative requirements, including invoicing and auditing. • Invest in solutions for monitoring and record-keeping for compliance through standardized forms or digital platforms. • Consider tiered or progressive audits to meet standards.

Morrisons

According to the Waste and Resources Action Programme (WRAP), in 2017, the United Kingdom of Great Britain and Northern Ireland retailer Morrisons launched its “Nation’s Local Foodmaker’s Scheme” to seek out more than 200 new local suppliers in the first year. To achieve this, Morrisons set up 12 regional pitching events across the United Kingdom for businesses to express their interest. Successful applicants were then invited to meet buyers, store colleagues and customers. Information on Morrisons local sourcing initiatives was drawn from a presentation made by Morrisons’ Local Solutions Manager. Morrisons has made local sourcing an important part of their overall sourcing strategy. These are some of the key areas they are addressing to achieve their local sourcing aims:

- Range – ensuring that regional ranges are added, as they are currently underrepresented across stores.
- Merchandising of local lines – ensuring that local displays are relevant to each store.
- Food-to-go and café areas – ensuring that these are locally relevant.
- Directing customers to local ranges – improving point of sale and merchandising activities.
- Local community activities – supporting local initiatives, charities and regional agricultural societies.
- Events – hosting more events, including non-food events; there are opportunities throughout the year to host events in tourist areas.
- Market Street – highlighting Morrisons regional product offerings across all product areas (with both in-store and online focus).
- Own brand – developing regional products within own brand ranges.

Morrisons buyers, in reviewing whether to take on a new local supplier, have a checklist of points to consider. This includes whether the product would replace another product, whether it is high-quality and good value for the money, timing for when the new product would be launched, which stores it would be offered in and what would be the preferred distribution method – e.g. direct or via one of Morrison’s collection depots. Morrisons expects that products will pass the SALSA standard (Small and Local Supplier Accreditation Scheme), which assures product safety and legal compliance.

Morrisons local sourcing drive has been successful in recruiting more than 200 farmers and local food producers. In July 2018 they reported that sales of local suppliers’ foods had risen by 30 percent. Morrisons believes that their efforts to tailor stores to reflect regional tastes have contributed to this increase. Through 2018, Morrisons has been continuing to tour the United Kingdom in search of additional local suppliers (WRAP, 2018).

PRODUCT CONSIDERATIONS

Montenegro's fruit and vegetable sector produces about 290 000 tonnes per year, including 130 000 tonnes/year of potatoes alone (Jovovic, 2013). The sector also benefits from diverse climatic features and good natural resources to support a growing and more diversified horticulture production, from growing olive and citrus fruits in the coastal region, to early-season vegetables in the central areas and continental fruits in the northern area.

With the production profile in mind, the main priorities to focus on in working with product considerations are the following:

- Perishability and seasonality
- Raising competitiveness through differentiation of quality products (including private label, higher quality, quality certification linked to origin, organic certification)
- Post-harvest, packaging and labelling

The perishable and seasonal nature of fruits and vegetable make planning a critical point. In general, retailers sell imported products out of season and sell some (but not all) domestic products, supplemented with imports, during the height of the season (as very few Montenegrin producers have early- or late-season production). To enable suppliers to tap into the import markets, retailers could help suppliers in identifying and producing new products demanded by the market – for example, cherry tomatoes – which are currently imported. Retailers could also support producers/suppliers in adopting new product varieties (e.g. plums for the fresh market) and increase fresh availability of fresh products (especially to meet tourist demand) by carrying out early- and late-season production of tomatoes, peppers and other vegetables. Together with suppliers, retailers can also design new local products that increase the store's service offerings and meet the demand for convenience and for healthy, nutritious food, such as pre-cut salads and fruit, and even organic purees and juices. In this way, perishability and seasonality can provide a competitive advantage in service, where the store produce department is a farmers market every day.

As a result of the country size and consequently the size of its agriculture and subsectors, product differentiation linked to quality is key to being competitive and a greater focus on value-added can lead to improved suitability of products for local sourcing. In Montenegro, products can benefit from differentiation through organic and quality labelling, as well as private initiatives. Retailers can also communicate their commitment to sustainability through marketable social, environmental and economic values of quality products that can serve as points of differentiation. Consumers appreciate the choice to purchase an affordable product with shared value attributes (see Box 5).



WHY PRODUCT DIFFERENTIATION AND WAYS TO DIFFERENTIATE

Organic Products

Marketing a range of organic products is another way to signal the company commitment to environmental issues and better food.

Following the requirements of the first Law on Organic Production⁵, products of plant (cultivated and wild) or animal origin as well as processed products can be certified and are also eligible for additional support measures from the national Agrobudget. According to Monteorganica, there are almost 200 certified organic producers, mostly primary producers in the fruit and vegetable sector, which also provides ample space and opportunity for processing.

Geographical Indications

The benefits of quality policies through product protection are well established in the European Union. Quality labelling is designed to protect the rights of both producers and consumers and to promote local development. A Geographical Indication (GI) is a sign to differentiate and protect products with specific characteristics, qualities or reputations resulting from their geographic origin. These products are linked to the territory and are often the result of traditional knowledge and processes passed from generation to generation. Furthermore, with the geographical indications process, Montenegro has made significant advances in producer organization, product protection, food safety, quality improvement and traceability. Steps are also being taken to add products from the fruit and vegetable sector to the list of GI protected products. At the time of writing there are seven GIs in Montenegro that could anchor a basket of local goods through reputation and strong links to territory, but work remains to be done on product positioning and better marketing as part of a shared value strategy, like retailers offering the Nektar GI Arlije raspberry juice mentioned in the previous section. For more information on quality schemes in Montenegro, please see Annex 1 and for more information on Montenegro's traditional agrifood products linked to origin can be found in the Atlas of Typical Montenegrin Food.

Table 3.

GI products in Montenegro

PRODUCT	TYPE OF PROTECTION	NUMBER OF PRODUCERS IN ASSOCIATION	AREA
Njeguški pršut	PGI meat product	30	Central Montenegro- Njeguši
Pljevaljski sir	PDO cheese	70	Pljevlja Municipality
Crnogorska Stelja	PDO meat product	60	Northern Montenegro
Crnogorska govedja prsuta	PDO meat product	60	Northern Montenegro
Crnogorski pršut	PGI meat product	20	Cetinje municipality
Kolasinski sir	PDO cheese	100	Kolašin municipality
Durmitorski skorup	PDO dairy	20	Durmitor mountain

SOURCE: Author's compilation, 2020.

Private Labels

Private label products are those manufactured by one company for sale under another company's brand. Originally, they were positioned as lower-cost alternatives to regional, national or international brands.

Private labels have evolved into innovative, consumer-focused ranges with a finely balanced price to quality ratio intended to drive differentiation and loyalty. The "imitators" have now become disruptors, as some private label brands have been positioned as "premium" brands to compete with existing "name" brands (IRI, 2018).

5 Official Gazette of Montenegro, No 56/13

Box 5.

Examples of values that communicate differentiation

In addition to the values conveyed by public and private certifications, below are some examples of marketable environmental, social and economic values of quality products that can serve as points of differentiation.

- Supports investment in the local economy and rural development
- Grown or raised locally
- Specific characteristics linked to origin or territory and tradition (know-how)
- Supports family farms
- Supports fair wages and working conditions
- Provides better animal welfare
- Demonstrates environmental stewardship
- Promotes community self-empowerment
- Ensures more equitable distribution of value added

SOURCE: USDA. 2014. Food value chains: Creating shared value to enhance marketing success. Agricultural Marketing Service. Cited June 2021. <https://www.ams.usda.gov/reports/food-value-chains-creating-shared-value-enhance-marketing-success>





PRODUCER-DRIVEN LOCAL BRANDS THAT PROMOTE AGGREGATION AND DIFFERENTIATION

A private local brand initiative from the mountains of northern Montenegro features 75 quality products manufactured in line with food safety requirements by smallholder family farms under the brand “Gorska Trpeza”, or Mountain Bounty. The products are marketed mostly to hotels, restaurants, cafés and the tourism sector and feature flours, organic and conventional juices, jams, fruit and vegetable preserves, honey, cheese and processed meats. Some of the products, such as the cheeses and processed meats, also benefit from organic certification and geographical indication registration. A catalogue of the Gorska Trpeza products can be found here:



For more information, please use this QR code or visit:
<http://montegastro.me>

There are opportunities to improve grading practices and standards in product procurement. Few suppliers follow ideal post-harvest processing and handling practices and most rarely sort their products, which are often placed in used cardboard boxes without adequate labelling, which could pose food safety risks. Improvements are needed, from cleaning, sorting, grading, labelling and packing to distribution, including the placement of produce in retail rather than bulk packaging. To do this, suppliers need exact specifications from the retailer for each product. Communication throughout the process is important to the relationship. Even when specifications are provided that clearly spell out the requirements, if there are mistakes or unacceptable produce, retailers should also give the supplier a chance to fix the problem.



Figure 2.
Mountain Bounty logo and various Mountain Bounty products



© FAO/Lisa Paglietti

Figure 3.
Specifications on the receiving dock



© FAO/Nina Coates

Figure 4.
Environmentally friendly and cost-effective packaging



PACKAGING WITH THE ENVIRONMENT IN MIND AND LABELLING FOR CONSUMER INFORMATION

While pre-packaged fresh fruit and vegetable products have become increasingly popular, there is now a push to utilize less plastic, and there is a willingness to pay more for products that communicate sustainability through their products packaging and labelling. Attention is now being given to different types of attractive and environmentally friendly packaging – e.g. biodegradable. Recent trends should be considered, which ensure higher food safety standards, freshness, environmental sustainability and best presentation of the product. Modern produce packaging can be developed for each commodity/product to extend shelf-life, reduce waste and reduce costs. Many brands are beginning to use environmentally friendly, biodegradable packaging. Although this type of packaging is more expensive than conventional plastic (.06 cents each compared to .02 cents), the overall packaging costs are now lower because previously salads were packaged with both plastic and cardboard. There is space for collaboration in packaging – including investment in packaging machinery, bulk procurement of packaging materials and developing specifications for product packaging. It is very important that this is a transparent process and the costs and assignment thereof are clearly communicated.

Labelling is also an interesting area for collaboration among retailers and suppliers, as consumers are looking for more detailed information on the label to make informed choices, and retailers are looking to signal their store's values through these products. This could be as simple as noting the biodegradability of the packaging and the organic certification, both are appeal to many consumers, as Melinda has done in Figure 4. However, high-quality graphics are increasingly being used to boost sales appeal, and multicolour printing, distinctive lettering and logos are now common practice. For example, in Figure 5, the label design conveys authenticity and local provenance of packaged zucchini from Agribologna. The primary supplier's name and photo tell the consumer more of the story, and communicate the commitment of Agribologna to support local farms.



© Ben Toric

Figure 5.
Local squash labelled with supplier photo

PRODUCT CONSIDERATIONS

PRIORITY	ACTION
Perishability and seasonality	<ul style="list-style-type: none"> • Consider products with higher tolerance for supply chain delays, to extend the viable distance from producer to distribution centre/point of sale. In Italy, CONAD has chosen to have open spaces where the customer can identify immediately the area of interest more easily and quickly. There are two frontal areas where the most important products of the season are placed. • Turn seasonability and perishability into an asset. Emphasize the convenience of local offerings in stores and the health benefits of eating fresh, seasonal food. For example, retailers could emphasize that their store offers a farmers' market all day, every day.
Raising competitiveness through quality products (including private label, higher quality, quality certification linked to origin, organic certifications)	<ul style="list-style-type: none"> • Identify opportunities/investments for product diversification to meet consumer demand – e.g. processing organic production, which is untapped. • Differentiate through a line of products with a strong identifying brand (private labels). • Clearly label the specificity/characteristics of the product as well as creating signage that communicates the link to your brand, such as “remember to look for local labels” or informative signage about what quality means and how it is linked to the territory. • Highlight domestically produced, unique products, especially targeting tourists, through store positioning, shelf marketing, and/or private labels. Tourists want to taste and bring home domestically produced products. • Communicate the marketable social, environmental and economic value of purchasing higher quality local food. • Develop products with local suppliers in order to meet specific needs of end-consumers who are increasingly attentive to their health and well-being, such as more consumption of fresh fruits and vegetables, or low-calorie and low-sugar drinks, enriched with vitamins, fibres, salts, minerals, and without added sugars. • Consider sourcing high-quality products complementary to fruit and vegetables, to complete your basket of goods, such as honey and GI meats and cheeses from local producers.
Post-harvest, packaging and labelling	<ul style="list-style-type: none"> • Develop and communicate clear specifications for your products, including handling, grading, packing and packaging requirements. • Provide packaging support and consider using eco-sustainable “green” packaging and less plastic. • Package based on your context. Always bear in mind the suppliers' needs (e.g. odd shapes, clamshells vs boxes for pallets). • Consider packaging with pictures of domestic farmers, which can assist in recognition and connection between local consumers and producers. • Consider assortment and diversification of product – offer consumers not just one kind of carrot (for example) but two or three options (different size, different packaging, different quality or weight or origin). • Be flexible, and allow time for the local suppliers to meet your specifications. • Give the local supplier feedback and a chance to fix the problem, if the quality of product does not meet your standards. • Establish a “trial period” with new products where buyer and local supplier both provide feedback on the process relationship. • Let suppliers know if customers are particularly pleased with a product. • Encourage efforts to meet the quality requirements, such as tiers of discounting or non-acceptance.

SOURCE: Author's compilation.

COOP AND CONAD IN ITALY

In both companies, domestic products play a major role in the consumer offerings.

COOP is the largest Italian supermarket chain (15% of total Italian retail market). It has the distinction of being a Consumer Cooperative, and as such it is naturally focused on providing quality to consumers. The supermarket developed its private label, and has a higher level of consumer retention compared to its competitors.

Today, COOP offers the widest range of products under its own brand, food and non-food, and with the greatest differentiation of offerings. In the food products sector, all the major niche products are sold under a specific COOP brand, according to a clear consumer guarantee policy (main brand, organic, high-quality, healthy, fair-trade, etc.) The goal is to respond to the emerging needs of consumer members. In the new stores, COOP aims to widen product assortment (by almost 40 000 products, an increase of 20%, of which 19 000 are packaged foods). Space is increasingly allocated to accommodate new trends (healthy eating, organic, vegan, dedicated area for local products “Territoricoop”) in addition to fruits and vegetables. New spaces are dedicated to wines, cooking demonstrations, and shelves with regional selections of Italian cheeses, gastronomy, meats, fish, bread and pastries, and take-away food, with the possibility to eat in-store.

CONAD is a retailers' cooperative and is now the second largest Italian retailer, with the largest national coverage – partly as large-scale retail trade, with supermarkets and hypermarkets, and partly as organized distribution, with its own circuit of small associated and affiliated retailers (the “Margherita” store network).

CONAD also has a strong private brand policy that covers a wide range of products, both food and non-food. Among the niche products, the CONAD brand covers domestic organic products and GI products (“Sapori e Dintorni”). During 2018, the CONAD brand reached 29.6 percent of sales, against the national 20.2 percent (a gain of 9%). All the formats are growing in both turnover and presence, so the average sale is increasing. The best performances are in superstores and supermarkets, but ministores and hypermarkets are also positive.

MARKET CONSIDERATIONS AND REQUIREMENTS

There is limited domestic market size considering the country has a population of 650 000, though this number increases with tourists in the warmer months.

Priorities in market considerations and requirements are:

- Market differentiation strategy
- Food safety, quality management and traceability
- E-commerce presence

As described above regarding product quality differentiation, the keyword of modern retailing strategies is "differentiation": increasing competitiveness by marketing and promoting quality. Particularly in view of the EU accession, promoting quality differentiation is an important element to be competitive. Promoting quality means communicating to the consumer about the quality management in the various phases of the food supply chain – production, processing, distribution, preparation and consumption – as well as operating procedures that guarantee the wholesomeness of food and systems capable of monitoring correct procedures.

Supermarkets will need to develop strategies that will include a line of differentiated quality products with a strongly identified corporate brand and values. Where there is strong competition with foreign distribution chains and hard discounters capable of lowering market prices, retailers should undertake supply chain strategies, in collaboration with suppliers, to promote and meet the market requirements that their customers want. The communication to the consumers through visual merchandising will become more and more advanced, following new trends and new lifestyles.

An important aspect of quality control is food safety management. Over the years, food industries and regulators have developed food safety management systems (FSMS) typically using Hazard Analysis Critical Control Point (HACCP) principles, which are widely accepted and recognized around the world. **HACCP** is a system used by food businesses to ensure the safety of food. It is a preventative, risk-based system which enables food businesses to identify critical control points for physical (e.g. glass), chemical (e.g. pesticides) and/or microbiological (e.g. food poisoning bacteria) hazards before they compromise the safety of food. HACCP and national regulations related to food safety, which are mostly harmonized with the EU Acquis, are enforced in the country. Still, HACCP compliance is a key barrier for small suppliers in linking to retailers. In the interest of protecting the large number of smaller farms, the Government of Montenegro has enacted specific sets of food safety regulations⁶ and standards of quality for smaller suppliers.

However, many unregistered farmers are still unaware of market requirements i.e. existence of HACCPs, food safety regulations, including frequency of analysis and declaration/labelling of the product (FAO, 2018). These regulations are of utmost importance for the farmers to adopt, as precondition for their products to be accepted at the market.

In addition to the regulatory food safety standards, there are also private sector-driven voluntary standards such as good agriculture practices (GAP), GlobalGAP, good management practices (GMP) and certifications. There is a low adoption of these standards in Montenegro because consumers right now are not demanding product certification (and do not necessarily understand or have

⁶ In the period of pre-accession to the European Union, Montenegro as a candidate country is required to adopt a strategy for implementation of the EU food hygiene rules covering all stages of the production, processing, distribution and placing on the market of food intended for human consumption.

trust in them) although they are interested in purchasing healthy products (which are believed to be guaranteed through enforcement of food safety laws).

Based on the experience from other countries, it is safe to say that the absence of private sector standards in Montenegro is only temporary and that change will occur. The arrival of foreign competitors that do market differentiation and require some of these standards, will create the need for local supermarkets to also adopt such standards to keep up with competition and to implement certifications for the producers and farmers. This change will also engage the local consumers, particularly the new generation, which is increasingly concerned about food safety and health. Retailers should start to become familiar with the standards, such as GlobalGAP, and plan for implementing them at the inevitable time when such standards become mandatory.

Retailers can play a significant role in introducing and enforcing food safety and quality standards, which also support coordination of supply chains by standardizing product requirements from many suppliers in different regions (and countries). Standards can specify and harmonize the product and delivery attributes, which increases efficiency. Retailer and supplier relationships can also be strengthened through audits – both HACCP and, eventually, private standards – as occasions to identify concrete gaps in the suppliers' practices in relation to food safety and quality and to make recommendations for improvement, leading to gradual improvements in the quality and safety of the products.

However, certifications/private standards may be too cumbersome for some suppliers, as compliance costs are not a function of the production volume, but per farm costs, which are prohibitive for many smaller farms. Some innovation in certification and supplier access comes from the USDA and the GROUPGAP initiative, to help farmers of all sizes meet federal regulations and wholesale food safety requirements.⁷

Traceability is also an important part of food safety and supply chain visibility. More consumers appreciate this level of data, and it is an invaluable marketing tool to highlight a company's commitment to a shorter and more sustainable supply chain. Note that a critical feature of GI labelling is based on traceability – managed by the GI association – which also guarantees the link to origin.⁸ Including GIs in your product offer is a straightforward way to promote your commitment to safe, high-quality food for your customers.

⁷ For more information, please see <https://producesafetyalliance.cornell.edu/sites/producesafetyalliance.cornell.edu/files/shared/documents/GroupGAP.pdf>

⁸ <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32002R0178>

Box 6.

Innovation in Traceability: Blockchain technology

Building trust and transparency between consumers, retailers and producers.

Carrefour Italia is the first big retail chain to apply blockchain technology to food traceability. It was first used for the poultry supply chain and Carrefour quality chicken. In 2019, the system was expanded for the Tarocco orange variety and Carrefour quality Sicilian lemons.

Customers in the supermarket can trace the origin and the supply chain of a given product by using their phones to scan a QR code which is applied to the product's labels. The customer is taken to a web page, which provides information about each step of the process that brings the produce from farm to fork. Blockchain technology prevents information from being changed; therefore it guarantees trusted data on a given supply chain product.





E-COMMERCE OPPORTUNITIES - A GROWING AND POWERFUL TOOL

E-commerce continues its march towards becoming the most popular shopping medium across the board and offers another opportunity to incorporate smaller suppliers into new markets. In markets where E-commerce has developed more slowly, online retail has nevertheless accounted for a significant slice of the growth of business.

The profound impact of the COVID-19 pandemic on consumer shopping habits has increased the urgency for retailers to expand their digital presence quickly. COVID-19 has dramatically and suddenly shifted even more customer traffic to digital channels. In April 2020, one digital platform in Montenegro saw a 10 percent increase in users and 20 percent increase in online sessions. In Montenegro, online grocery shopping and food delivery, as well as digital hubs like Seljak.me, are quickly leading the digital way forward and could feature elements such as blockchain for traceability and smart contracts. Though concrete data are not available, more farmers are interested in adopting digital solutions in their production and marketing, especially through online platforms. This means that online platforms that act as business-to-business and business-to-consumer hubs, intermediaries, consolidation and distribution units can support retailers in integrating larger local buys into their procurement practices.

Furthermore, multichannel marketing is vital for captivating consumers and keeping them engaged from their first impressions to the eventual point of sale. This calls for deep integration across all channels, including websites, marketplaces, social media and physical locations. The latest trends in retail are driven by a combination of an evolving technological landscape and the shifting preferences of consumers (Wertz, 2019).

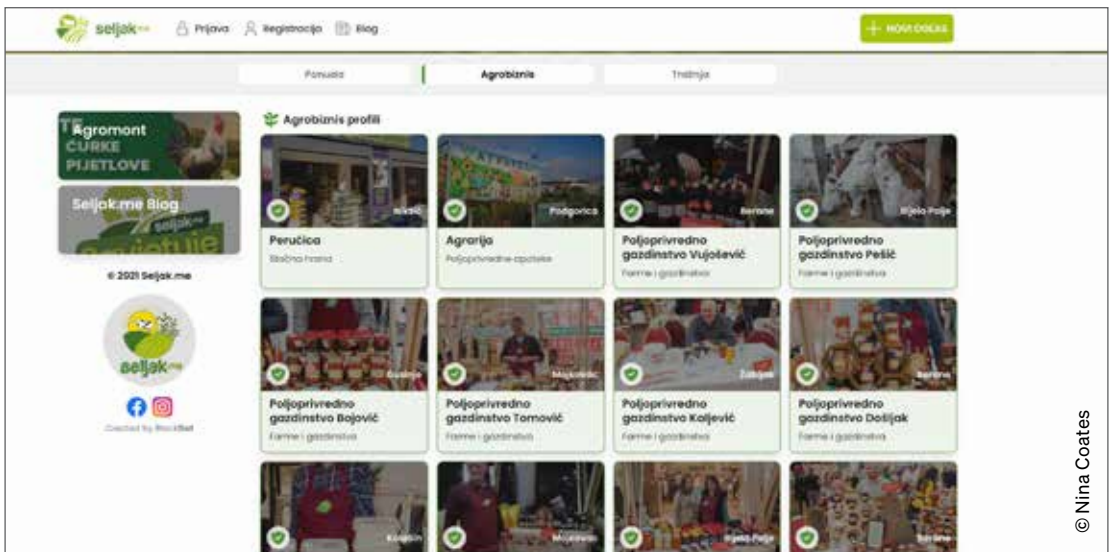


Figure 5. Fruit and vegetable e-commerce platform

SOURCE: Authors compilation based on the local digital marketplace Seljak, Montenegro.

MARKET CONSIDERATIONS AND REQUIREMENTS

PRIORITY	ACTION
Increasing competitiveness through market differentiation strategies	<ul style="list-style-type: none"> • Support and promote organic certification and quality schemes together with Chamber of Economy and Ministry of Agriculture initiatives. • Increase the availability of origin-linked foods in your stores. The reputation and guarantee conferred by the GI label can also enhance the reputation of your brand's values and commitment to the territory. • Develop a private label with producers and associations or cooperatives – moving from imitator to disruptor, to build store loyalty based on quality. • Prioritize visual marketing by using the best positioning for quality products to increase sales. • Promote domestic production by attractively delineating local vs imported products. • Host in-store “meet the farmer” and other local food events.
Food safety, certifications and traceability expectations	<ul style="list-style-type: none"> • Highlight the traceability and safety of the local products, including GI products. Consumers are savvy and interested in who, what, where and why in relation to their purchases. • Improve documented transparency on local suppliers' food safety certification (HACCP) and traceability. Smaller producers and associations may need support in capturing and reporting information on the product and its processing. • Voluntarily monitor and conduct periodic audits to identify concrete gaps in the suppliers' practices in relation to food safety and quality and make recommendations for improvement. • Consider developing a hybrid GAP certification adapted to suppliers' context in order to meet market expectations for safe agricultural practices.
E-commerce and digital solutions	<ul style="list-style-type: none"> • Promote sustainability and local sourcing as part of your online presence and brand. • Design your online storefront or digital solutions to feature traceability and transparency along the supply chain; customers appreciate this level of data. This can be done through online information on where the product came from and who produced it, as well as in-store innovative solutions such as QR codes or blockchain technologies like IBM Food Trust as part of your digitalization strategy. • Consider digital aggregation platforms as an alternative to secure required quantities and support to distribution/logistics. Using digital platforms also can reduce transaction costs and allow for consistent levels of supply across multiple suppliers.

SOURCE: Authors' compilation.



IN PRACTICE

CARREFOUR

The Carrefour Group has launched Act for Food, a global programme with country and context-specific concrete initiatives to help its customers eat better at affordable prices. The programme is in line with group's aim of becoming the world leader in the food transition for all. At a time when food safety, product origin and relationships with the agriculture sector have all become key issues, Carrefour has embarked on a series of initiatives to transform its model at a global level so as to tackle these new food challenges and meet consumers' new expectations. With the launch of Act for Food, Carrefour is stepping up the pace on the food transition. This global programme is concrete evidence of the retailer's short- and medium-term commitment to improving food quality throughout the world (Carrefour, 2019a). According to the Carrefour corporate site, the priorities and ongoing actions under the Act for Food programme in Italy are as follows.

Table 4.
Act for Food Programme

PRIORITY	ACTION
Commit to the quality of food	<p>STRENGTHEN TIES WITH LOCAL PRODUCERS</p> <ul style="list-style-type: none"> • Commit to development of agroecology, reducing and/or eliminating pesticides by promoting biodiversity • Promote national and local productions. In Italy, over 84% of Carrefour brand food products come from national producers. There are over 1 000 local producers. • Democratize organic production with the launch of the Carrefour BIO product line in Italy, now with over 200 products. <p>QUALITY THROUGH SPECIFICATIONS</p> <ul style="list-style-type: none"> • Abolish all controversial substances • Verify that branded products adhere to Carrefour's commitment • Reduce quantity of packaging for Carrefour branded products • Engage vegetable supply chains without post-harvest chemical treatments <p>FOOD SAFETY AND TRACEABILITY</p> <ul style="list-style-type: none"> • Use blockchain technology • Verify/certify all production sites
Make quality accessible at a fair price	<ul style="list-style-type: none"> • Deliver to over 700 postal codes from 14 Italian regions • Offer over 230 Carrefour Bio and 300 Terre d'Italia regional speciality products • Carry products (currently 44%) that represent emerging consumer trends and/or lifestyles
Strengthen partnerships between producers, employees and consumers	<ul style="list-style-type: none"> • Train employees on fresh products and knowledge of new food trends and raise awareness among customers • Organize and prepare local events related to the theme of food • Fight against waste, with a goal of 100% recyclable and reusable or 100% compostable packaging for Carrefour products worldwide by 2025 • Organize and prepare local events related to local food (Carrefour, 2019b).

SOURCE: Carrefour. 2019a. Act for Food, a world program of concrete initiatives for better eating. Cited June 2021. <https://actforfood.carrefour.it/I-nostri-impegni>





Key references

- Carrefour.** 2019a. *Act for Food, a world program of concrete initiatives for better eating.* Carrefour Group. <https://www.carrefour.com/en/news-room/act-food-world-program-concrete-initiatives-better-eating>
- Carrefour.** 2019b. *I nostri impegni - Carrefour Act For Food.* actforfood.carrefour.it. <https://actforfood.carrefour.it/i-nostri-impegni>
- EBRD Evaluation Department.** 2016. *Special study: Supply chains and backward linkages.* London: EBRD. <http://www.ebrd.com/documents/evaluation/special-study-supply-chains-and-backward-linkages.pdf>
- European Commission.** 2019. *A European Green Deal.* European Commission. https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en.
- European Commission.** 2020a. *For a fair, healthy and environmentally-friendly food system: Farm to Fork Strategy.* https://ec.europa.eu/food/sites/food/files/safety/docs/f2f_action-plan_2020_strategy-info_en.pdf.
- European Commission.** 2020b. Special Eurobarometer 504. Brussels: European Commission. <https://ec.europa.eu/comfrontoffice/publicopinion/index.cfm/survey/getsurveydetail/instruments/special/surveyky/2229>.
- European Commission.** (2021). *EU Code of conduct on responsible food business and marketing practices: A common aspirational path towards sustainable food systems.* Available at: https://ec.europa.eu/food/system/files/2021-06/f2f_sfpd_coc_final_en.pdf.
- European Commission.** n.d. *EUR-Lex - 52020DC0381 - EN - EUR-Lex.* <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0381>.
- FAO.** 2008. *The transformation of agrifood systems.* http://www.fao.org/tempref/GI/Reserved/EPD-Group-FileExchange/COPUBLISHING/EARTHSCAN.Transformation%20of%20Agri-FoodSystems/ES_TAFS_print.pdf [Accessed 9 Dec. 2019].
- FAO.** 2020. *COVID-19 and the risk to agrifood value chains: How to respond.* <http://www.fao.org/documents/card/en/c/ca8388en>
- FAO.** n.d. *Review of market perspectives in Montenegro's fruit and vegetable sector.* [forthcoming].
- Government of Montenegro.** 2020. *2019 is best tourist year in Montenegro's history.* <http://www.gov.me/en/News/219379/2019-is-best-tourist-year-in-Montenegro-s-history.html>
- Harvard Business School.** n.d. *Adding a social dimension to strategy.* Institute for Strategy and Competitiveness, Harvard Business School. <https://www.isc.hbs.edu/creating-shared-value/csv-explained/Pages/adding-a-social-dimension-to-strategy.aspx>.
- IFC.** 2019. *Working with smallholders: A handbook for firms building sustainable supply chains.*
- IRI.** 2018a. *Private label in western economies - IRI.* <https://www.iriworldwide.com/en-gb/insights/publications/private-label-in-western-economies-2018>.

- IRI.** 2018b. *The “why” at regional level on geocentric purchase and the attitudes of millennials.* IRI European Shopper Insights Survey. <https://www.iriworldwide.com/IRI/media/IRI-Clients/International/Regional-Shopper-Survey.pdf>.
- Jovovic, R.** 2013. Competitiveness of the Montenegrin fruit and vegetables sector and recommendations for improvement. *Applied Studies in Agribusiness and Commerce*, 6(1 2): 69–75.
- LIDL** (n.d.) *Naša Odgovornost, Lidl Srbija. CSR, društveno odgovorno poslovanje.* <https://kompanija.lidl.rs/nasa-odgovornost>
- London, T.** 2016. *Incorporating Small Producers into Formal Retail Supply Chains.*
- McKinsey & Company.** *Disruption and Uncertainty -the State of Grocery Retail 2021: Europe.,* 2021. <https://www.mckinsey.com/industries/retail/our-insights/the-path-forward-for-sustainability-in-european-grocery-retail>
- Paglietti, L. & Sabrie, R.** 2013. *Review of smallholder linkages for inclusive agribusiness development.* <http://www.fao.org/3/i3404e/i3404e.pdf>
- Politecnico di Milano School of Management.** 2020. *Covid-19: the impact on B2C eCommerce.* <https://www.som.polimi.it/en/covid-19-the-impact-on-b2c-ecommerce/>
- Porter, M. & Kramer, M.** 2011. *Creating shared value.* *Harvard Business Review* 89(1-2): 62–77 (Jan).
- Porter, M., Hills, G., Pfitzer, M., Patscheke, S. & Hawkins, E.** 2012. *Measuring shared value: How to unlock value by linking social and business results.*
- REWE-Zentral-Aktiengesellschaft** (2019). *REWE Group's Sustainability Strategy.* <https://www.rewe-group.com/en/sustainability>.
- USDA.** 2012. *Moving food along the value chain: Innovations in regional food distribution.* Agricultural Marketing Service, United States Department of Agriculture.
- USDA.** 2014. *Food value chains: Creating shared value to enhance marketing success.* Agricultural Marketing Service. <https://www.ams.usda.gov/reports/food-value-chains-creating-shared-value-enhance-marketing-success>.
- USDA.** 2019. *GroupGAP Food safety programme.* Agricultural Marketing Service. <https://www.ams.usda.gov/services/auditing/groupgap>.
- Waitrose.** 2019. *The small producers charter at Waitrose.* https://www.waitrose.com/content/waitrose/en/home/inspiration/about_waitrose/the_waitrose_way/small_producers_charter.html.html
- Wertz, J.** 2019. *5 Trends that will redefine retail in 2019.* Forbes. <https://www.forbes.com/sites/jiawertz/2018/11/28/5-trends-that-will-redefine-retail-in-2019/#6ae68be16526>.
- Wilson, L.** 2016. *Wholesale and retail product specifications: Guidance and best practices for fresh produce.* <https://www.cefs.ncsu.edu/ncgt/wholesale-and-retail-product-specs-slide-set.pdf?x47549>.
- WRAP.** 2018. *Barriers and opportunities to increasing local sourcing: Research looking at the barriers and opportunities to increasing local sourcing by convenience retailers and food manufacturers in the UK.*

Annex 1

Voluntary quality schemes in Montenegro

PROTECTED DESIGNATION OF ORIGIN (PDO)



PDO⁹ identifies products that are produced, processed and prepared in a specific geographical area, using the recognized knowledge of local producers and ingredients from the region concerned. These are products whose characteristics are linked to their geographical origin.

PROTECTED GEOGRAPHICAL INDICATION (PGI)



PGI¹⁰ identifies products whose quality or reputation is linked to the place or region where they are produced, processed or prepared, although the ingredients used do not necessarily need to come from that geographical area. For example, the production and ripening process occur in a climatically unique area and the product is prepared according to generational experience and knowledge.

TRADITIONAL SPECIALITY GUARANTEED (TSG)



TSG highlights traditional character, either in the composition or in means of production, without a specific link to a particular geographical area. Montenegro has a rich food heritage, characterized by a great diversity resulting from the pristine environment and cultural influences over centuries. Rural communities from coastal and mountain regions create agriculture and food products with strong character that together represent a highly valuable food heritage. Traditional products have specific characteristics because of the local natural conditions or the producers' knowledge passed down through several generations.

9 Law on designations of origin, geographical indications and designations of guaranteed traditional speciality agricultural products and foodstuffs (Official Gazette of Montenegro, No. 18/11) and Law on Quality Schemes of Agricultural and Food Products (Official Gazette of Montenegro, No 22/17). See Annex 2.

10 As in many countries, geographical or non-geographical traditional names used to designate an agricultural or food product fulfilling the conditions referred to in Article 3 paragraphs 1 and 2 of this Law shall be considered as designation of origin or geographical indication.





The COVID-19 crisis has underlined the shortcomings of the current system, and has also intensified the demand for shorter supply chains, traceability, transparency and food that is sustainably sourced. ***Strengthening buyer/supplier relationships: practical guidance for Montenegrin retailers*** was developed by the FAO Investment Centre and the European Bank for Reconstruction and Development with the intent to support Montenegrin retailers to engage in local sourcing. This more sustainable approach to sourcing can strengthen their contribution to the achievement of the Sustainable Development Goals by 2030, support country commitments to the Paris Agreement, and prepare for the challenges and opportunities of modern food retail. Retailers also need to be ready for change, especially in view of the country's pending accession to the European Union, and increasing demands for corporate governance. The document provides an overview of the policy directions, consumer trends, local context and influencing factors that will shape a more sustainable engagement between Montenegrin retailers and local suppliers. The document also highlights good international practices, as well as the priorities and actions for Montenegrin retailers to consider when planning their development and market strategies. This publication is part of the Investment Toolkits series under the FAO Investment Centre's Knowledge for Investment (K4I) programme.

ISBN 978-92-5-136287-7



9 789251 362877

CC0260EN/1/06.22