

British Retail Consortium (BRC) Standard: a New Challenge for Firms Involved in the Food Chain. Analysis of Economic and Managerial Aspects

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Abstract

The spread of retailer brands and the progressive shift towards non-price competition policies are strictly correlated to the transformation of the distribution sector as a whole. The modern distribution company offers – by means of the private label - products that at least match the quality level expected by the consumer but, in order to do this, it must effectively be able to guarantee the promised level of quality by establishing a meticulous and strict supplier control system.

The paper evaluates the new strategies adopted by the retailers in order to improve non price competition and studies the economic and managerial consequences met by a processing firm that adopted the BRC food technical standard in order to meet with the retailer requirements. The case study shows that the adoption of the BRC food technical standard has had positive repercussions on both the management costs of company processes and the quality of customer relations in the modern distribution market.

On a large scale, the paper identifies two main consequences in the case of a more widespread adoption of the BRC food technical standard by the suppliers in the next future: the first relates to the organisational relations among the operators in the supply chain and the second the relation between the retailer and the consumer.

Keywords: BRC food technical standard, private label, non price competition

1. Introduction

The experience of the past few years has shown that the strategy adopted by the distribution companies, oriented to the development of the retailer brand, has led to the redefinition of the organisational approaches of the retail companies themselves. Among the other consequences, the retailer has subjected the suppliers to a growing number of inspections to check the compliance with contractual requirements; for this reason, towards the end of the 1990s, the largest distribution chains in the UK market defined a standard including hygiene and safety requirements, quality assurance and the respect for the working environment, which, if respected by the producers, can guarantee complete conformity for the activities involved.

The development of such a standard was initially driven by the need to meet legislative requirements but was quickly seen as having significant benefits to the suppliers of products to the UK retailers and there has been considerable interest internationally as this standard has been implemented. In fact, the objective of the Technical Standard and Protocol for Companies Supplying Retailer Branded Food Products (shortly, BRC food technical standard) is to specify food safety and quality criteria required to be in place within a manufacturers organisation to supply product to retailers. The format and content of the standard is designed to allow an assessment of the supplier's premises and operational systems and procedures by a competent third party, thus standardising food safety criteria and monitoring procedures.

The rationale behind the development of the BRC food technical standard was to eliminate multiple audit by technical retailer and third party technical representatives of food manufacturers supplying the retailer with own brand products.

The aim of the paper is to evaluate the new strategies adopted by the retailers in order to improve non price competition and to study the economic and managerial consequences met by a processing firm that adopted the BRC food technical standard in order to meet with the retailer requirements.

The paper will be divided into two parts. The first one will consider the origin, the contents of the standard together with the certification and accreditation system involving it. The second part will analyse the level of implementation of the BRC food technical standard in Italy and a study case will be considered. The analysis of the study case will include the managerial and economic consequences following the implementation of such a standard, both inside the firm and in relation to the modern distribution requirements.

Some final considerations will be made on the consequences of a wide spread adoption of the BRC food technical standard in the relationship between the retailer and the consumer.

2. The evolution of the retailer brand name

In order to understand the dynamics and motivations behind the decisions taken by the largest British distribution companies to join forces in the name of quality and the implications of such decisions on their suppliers, we need to examine the characteristics and strategies of the present distribution system.

Over time we have witnessed a decisive shift from competitive strategies based on elements such as price and the reputation of the brands offered in a sales network to strategies based on non-price competition.

Price can segment the market by attracting the consumer on the basis of greater economic advantage with respect to the competitor chains while, on the other hand, the brand of the products represents a symbol of quality and brand reputation is a key element in the level of quality of the individual products. We refer, of course, to products that use only industrial brands, where the distribution company does nothing to increase the brand reputation but rather takes advantage of it to conquer consumer groups who want that specific industrial brand and the quality it stands for.

A sales policy based on the dual “price-brand” concept offers many advantages for the distribution company but also one fundamental disadvantage. The advantages certainly include the establishment of supply relations in which the distribution company is not involved with the quality control of the supplier’s products and does not need to commit resources to product innovation or to bear the costs of advertising the products sold but rather sells distribution space inside its retail outlets to the supplier companies. A clear disadvantage, on the other hand, lies in the fact of being subjected to the industrial policies of the supplier companies in terms of the quality of the products sold.

This is a particularly serious disadvantage for distribution companies who work to a non-price competition sales strategy in which it supplies its customers with quality goods meaning by quality the satisfaction of requirements that take into consideration the product characteristics, hygiene and safety aspects, the level of services provided and its overall image.

The new strategic trends of distribution companies have led to the introduction of retailer brand names onto the market, which is the branding of the product with the distributor’s name rather than the producer’s, where products are processed by industrial companies on behalf of the distribution company.

In this context, the role of the brand name takes on a different, and more important, meaning, as it provides the consumer with a guarantee not only of the quality of the product but the quality of the whole distribution company who becomes responsible for satisfying specific consumer demands.

This greater commitment to the management of the goods supplied through the sales network is repaid by the great advantages of a distribution policy based on the use of a retailer brand name, as can be summarised below:

- ◆ progressive reduction in dependency on industrial companies with greater economic negotiating power;
- ◆ increased possibility to respond to consumer demands;
- ◆ differentiation from the competition, being able to offer “exclusive and differentiated” products;
- ◆ consumer and store loyalty;
- ◆ presence of products that can provide greater profit with respect to industrial brands.

In return for these advantages, the distribution company has to offer products that at least match the quality level expected by the consumer. To do this, however, the distribution company must effectively be able to guarantee the promised level of quality by establishing a meticulous and strict supplier control system.

The spread of retailer brands and the progressive shift towards non-price competition policies are therefore strictly correlated to the transformation of the distribution sector as a whole, which can be seen through the move from traditional distribution to a modern distribution system characterised by fierce horizontal competition.

The concept of the “private label” is not a very recent invention; in fact it is even older than the concept of industrial brands. The retailer brand was invented in the United States in the mid-1920s, as a retail defence policy against new forms of distribution that were being introduced on the market with aggressive price policies based mainly on industrial branded products.

The substantial consolidation of the private label did not take place until the early 1950s, with the economic development that saw the birth of the first large distribution chains that were able to establish independent sales policies based on the use of their own brand name.

One indication of this phenomenon can be seen from the study of the data relating to the spread, in terms of both value and volume, of the retailer brand name in Europe (Tab. 1) and between the British and French distribution chains (Tab. 2).

3. The origin of the Technical Standard and Protocol for Companies Supplying Retailer Branded Food Products

The experience of the past few years has shown that the strategy adopted by the modern distribution sector, oriented to the development of the retailer brand, has led to the redefinition of the organisational approaches of the retail companies. Among the responsibilities of this choice, the modern distribution sector has taken on board the translation of consumer demands into product requisites, establishing new company management rules to reach the defined standard and to satisfy the final customer. One of the activities involved in this process is the procurement phase, and in particular supplier relations, which represent a critical point for the retailer who has to act as guarantor for the demands expressed by the consumer. The pressing consumer demands for food hygiene, health, safety and freshness have been translated into contractual requirements included in supply specifications, which must be strictly respected by any supplier who wishes to work with the modern distribution chains. Over time, the producers have been subjected to a growing number of inspections to check the compliance with contractual requirements, by both the client and by certification bodies; progressively, these inspections have become so consistent that they are not limited to simply checking product conformity, which is by now almost taken for granted, but have been taken over by the verification of system traceability, conformity to the health and safety requirements and quality assurance.

This type of evolution has created management difficulties and additional financial costs for both the suppliers and the distribution company. On one hand, the supplier has to manage the documentation of many parallel systems created to satisfy the auditing requirements of the distribution companies which refer to different standards and, therefore, produce final reports that cannot be compared and in some cases conflicting opinions. On top of this is the burden of the costs of the third party controls, which often have to be borne by the supplier, as well as the constant presence of outsiders – the inspectors – in the working environment.

On the other hand, the retailer has also had to use its own staff or contract others on its behalf to carry out supplier inspections, and the establishment and management of the inspection activities has weighed down the organisation and increased company costs.

The complexity of the new supplier relations has been particularly evident in some Northern European countries, where the “private label” counts for a high percentage of the market share; for this reason towards the end of the 1990s the largest distribution chains in the UK market agreed to define a standard including hygiene and safety requirements, quality assurance and the respect for the working environment, which, if respected by the producers, can guarantee complete conformity for the activities involved.

4. The British Retail Consortium

The British Retail Consortium (BRC) is an association of UK distribution companies established to represent its members. The BRC members currently represent 90% of the total turnover of the British distribution market, and 50 % of the total turnover in the British retail brand market.

In October 1998, the BRC issued the Technical Standard and Protocol for Companies Supplying Retailer Branded Food Products with the collaboration of the distributors Asda Group, Tesco Stores Ltd, Boots The Chemist, Iceland Frozen Foods Plc, Cws Ltd, Somerfield Plc, Safeway Stores Plc, Waitrose Ltd, Spar (U.K.) Ltd, J Sainsbury Plc. Two further standards followed this one – the “BRC/IOP (Institute of Packaging) Technical Standard and Protocol for Companies Manufacturing and Supplying Food Packaging Materials for Retailer Branded Products” and the “BRC/FDF (Food and Drink Federation) Technical Standard for the Supply of Identity Preserved Non-Genetically Modified Food Ingredients and Products” (BRC/FDF IP Standard) – targeting respectively the suppliers of food packaging and food processing companies choosing to use only Non-GMO ingredients in their production.

5. The structure of the Technical Standard and Protocol for Companies Supplying Retailer Branded Food Products

The main elements of the Technical Standard and Protocol for Companies Supplying Retailer Branded Food Products (the last revision is dated April 2002) are:

- ◆ the use of a food hygiene and safety control system based on the HACCP method;
- ◆ the adoption of a documented quality management system, including the definition and establishment of a quality policy and a quality manual demonstrating the Organisation’s commitment to quality;
- ◆ the control of factory environments, the products and processes through a defined and documented organisational structure that clearly assures the functions, responsibilities and hierarchical staff relations for those whose activities have an impact of safety, the respect of standards and product quality;
- ◆ staff management.

For each part of the standard a general target is fixed (Statement of Intent) with the detailed requirements divided into three levels:

- ◆ foundation Level;
- ◆ higher Level;
- ◆ recommendations on good practice.

According to the status of system implementation, the organisation may choose to comply with the requirements of the corresponding standard level chosen. For the first two levels the certification body issues an inspection certificate confirming the conformity with the specified requirements, while the third level requirements (recommendations) are not subject to certification but act as a stimulus for continuous improvement.

6. Certification of the BRC food technical standard

The BRC food technical standard is certified by bodies whose accreditation, issued by special accreditation bodies, guarantees the independence and technical competency of the bodies themselves during the course of the evaluation of the company subjected to the inspection. Technically, accreditation is defined as formal recognition that an organisation (laboratory or certification institute) possesses the structures, material and human resources and the capacity to carry out certain tasks in compliance with a specific standard, which in this case is the EN 45011.

The BRC food technical standard certification system therefore uses the same bodies used to guarantee the quality management systems in compliance with the ISO 9001:00 standard and voluntary product certification, benefiting from the reputation gained by these bodies over the past years through the quality management systems evaluation activities.

There are currently 16 certification bodies accredited by UKAS (United Kingdom Accreditation Service), and although no statistics have yet been published to this regard, there are about 750 BRC food technical standard certified companies in the United Kingdom.

In Italy, the BRC food technical standard was introduced on the initiative of food processing companies that supply products to the UK distribution chains or operate in the UK. Today, there are only two bodies accredited (C.S.Q.A. and Certiquality) for BRC certification by SINCERT, the Italian National Accreditation body but other bodies – whether British or from other countries – also operate in Italy using the accreditations from British or Norwegian bodies. No official data is currently available to confirm the exact number of BRC food technical standard certified companies in Italy, although a survey carried out with the certification bodies puts the estimate at around 150-200 companies, mainly operating in the meat processing, frozen and canned food markets, with some also from the conserves, fruit and vegetable, wine and oil markets.

7. The case study: the Fiorucci Group

To better understand the implications of the adoption of the BRC food technical standard at company level, a case study was carried out using the data provided by the Fiorucci Group, through direct discussions and the use of a written questionnaire.

7.1 Company history

The industrial activities of the Fiorucci Group began in 1950 following a long tradition dating back to the 1700s in Umbria, when this area belonged to the Papal State, in which the members of the Fiorucci family were professional "norcini", specialist pork meat processors. In time the activities of the Fiorucci family grew and grew, thanks to the particular commitment at the turn of the last century, until the creation of a chain of directly-managed and third-party owned shops between the two World Wars. The sales activities and know how handed down through the generations led to the establishment of the modern industrial concern at the end of the Second

World War. Today the company owns six factories across the provinces of Rome, Parma, Udine and Sondrio which produce a range of raw prosciuttos and other processed pork products, one factory in the province of Modena producing Balsamic Vinegar and one factory in Richmond, Virginia (USA). The distribution network – comprising branches, directly owned offices and distributors – crosses 22 countries and the company’s annual turnover is approximately 320 million Euros, about 83% of which comes from the national market.

The continuous commitment of the Fiorucci Group to product and process quality has been certified against the ISO 9002 standard by the certification body DNV, the test laboratory has been accredited by SINAL (the Italian Laboratory Accreditation body), and four products have been voluntarily certified, by SGS, as well as a number of products that carry the European PDO and PGI marks.

7.2 The BRC certification

Today seven of the Group’s product classes are certified against the BRC food technical standard (Prosciutto di Parma, Balsamic Vinegar of Modena, Salame, Roast Meats, Sliced Raw and Cooked meats, Seasoned Specialities, Mortadella), involving three factories.

The steps taken to adopt the standard were very limited, given the fact that the Group has been ISO 9002 certified for several years, as well as complying with the mandatory laws in force in Italy regarding food hygiene (Italian law 155/97, which enforces the EC Directives 93/43 and 96/3 relating to food hygiene) and safety in the work place (Italian law 626/94).

The modifications made were mainly concerned with the review of the existing documentation. More specifically, the “Doctor Screening” procedure was introduced to satisfy the standard requirement for the formalisation of this activity, and the quality management system was widened to include a procedure for the management of glass and plastics.

The review of company processes also involved product recall and crisis management, establishing an annual programme involving three recall simulations, as well as the introduction of some new activities required for the implementation of this programme.

The changes introduced to comply with the BRC food technical standard required neither the assistance of a consulting company nor the employment of new staff, while the existing in-house training programme covered all new matters using internal staff. The only significant cost of the operation was therefore the inspections carried out by the certification body, at a cost of approximately 8,000 Euros per year.

The company therefore identified the advantages of adopting and being certified against the BRC food technical standard. The greatest advantage is the reduction in costs, made possible by using only one reference – the BRC food technical standard – to satisfy the mandatory legal requirements relative to both product safety, safety in the workplace and the ISO 9002 voluntary standard. The BRC food technical standard also plays a valuable role as it is the only reference guide for distribution groups that do not operate on the UK market and is also understood to be able to be integrated with the foreseen requirements of the PDO and PGI standards and other voluntary product certifications already owned by the company. The application of the BRC food technical standard has in this case provided an opportunity to rationalise the documentation created to satisfy the previously adopted standards and the management costs deriving from each one of these. Another of the main advantages the company has mentioned is the reduction in the number of yearly inspections, highlighting the importance of this issue not only in financial but also logistic and organisational terms.

7.3 The impact of the BRC food technical standard

As shown in the above case study, the adoption of the BRC food technical standard by the Fiorucci Group has had positive repercussions on both the management costs of company processes and the quality of customer relations in the large scale distribution market.

Generally speaking, although the experience of this standard only refers to a period of not more than five years, it allows us nonetheless to reflect on some issues that go beyond the relations between the processing and distribution companies, to examine new strategies used by the latter in relation to the consumer.

As stated above, the choice of widening the “private label” sector has as a main consequence caused the redefinition of supplier relations, with procurement regulations defined in unprecedented and strict supply specifications. We can imagine that a choice of this type and the consequent adoption of the BRC food technical standard by the processing companies may lead to even greater consequences. In fact, the application of the BRC food technical standard leads to a very high level of standardisation in the services offered by the suppliers, which in turn is reflected in the standardisation of some of the characteristics of the products supplied by the retailer. The pressing demands of the consumer for greater hygiene and food safety, freshness and correct preservation practices, for example, can all be satisfied by the BRC food technical standard, and the same can also be said for the demands for raw material and product traceability.

The adoption of the BRC food technical standard, which leads to the supply of products with a uniform quality – at least as far as the aspects covered by the standard itself are concerned – weakens the differences that exist between the current strategies of the distribution chains; in fact, these currently focus on the guarantee of specific characteristics that are already assured under the adoption of a BRC food technical standard-compliant company system. Envisaging, therefore, the further spreading of the BRC food technical standard, it will naturally follow that the supply of fresh, healthy food products will no longer be presented as marketing pitch, but as a quality basis upon which the distribution companies will have to develop new differentiation strategies.

The attention of the distribution companies will have to shift towards innovation and the improvement in the intrinsic characteristics of a product, as well as the improvement of services offered to face new competitive challenges; certainly, independently of the option or combination of options chosen, there are bound to be yet more modifications to the current supplier relations, as part of a dynamic process that, in terms of overall quality, aims at the continuous improvement in customer satisfaction, and therefore ultimately increases consumer well-being.

8. A few final considerations

Overall, we may identify two main consequences of the more widespread adoption of the BRC food technical standard: the first relates to the organisational relations among the operators in the supply chain, and the second the relation between the retailer and the consumer.

As stated earlier, the new strategies of the distribution companies will have repercussions for the producers, who will be required to offer more innovative products, with requirements that are constantly aiming to satisfy the specific needs of the consumer. In a production reality like that found in Italy, where a large number of exports to the markets of Northern Europe are made by producers of typical, local speciality products, the financial costs of BRC certification could be excessive. In fact, while it is true that the standard reduces production and management inefficiencies, it cannot be denied that the fixed costs for annual inspections may be too much to bear, above all for those companies that have not already adopted a quality management system, and where therefore there has not yet been any need to rationalise the existing documentation. For these companies in particular, and more generally for all parts of the production chain supplying to the modern distribution chain, a reorganisation of working methods will have to be imposed, aiming to rationalise costs and processing times, using forms of management that include, for example, the use of “partnership” relations among operators in the supply chain.

As far as the relations between the retailer and the consumer are concerned, the widespread adoption of the BRC food technical standard will lead to the growth of retailer branded products and the consolidation of the relationship between the retailer and the consumer.

The retail brand name will play an even greater role than in the past in interpreting consumer demand, acting as a guarantor for the products supplied. This evolution, which certainly represents a great opportunity for the modern retail industry, cannot however help but lead us to the reflection that the retailer, taking on such a great commitment, cannot limit its involvement to the reorganisation of the production chain but will have to become involved also in other functions that are more typical of the producers – such as for example advertising costs – and other more traditionally institutional functions such as consumer education and information.

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Table 1- Spread of the retailer brand name in Europe (Year 2000)

COUNTRY	SHARE IN VALUE (%)	SHARE IN VOLUME (%)
United Kingdom	43.5	45.4
Belgium	26.0	37.4
Germany	27.4	33.3
France	19.1	22.1
The Netherlands	18.4	20.6
Spain	12.8	20.5
Italy	11.0	12.3

Source: competition commission\ AC Nielsen (European Regional Review)

Table 2 – Sales share % of retailer brand name products in some chains (Year 2000)

UNITED KINGDOM		FRANCE	
Safeway	47	Carrefour	20
Tesco	51	Auchan	16
Sainsbury	54	Intermarche	29
ASDA	54	Leclerc	18
Somerfield	36	Casino	23
National average	45	National average	22

Source: competition commission\ AC Nielsen (European Regional Review)

