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**FEASIBILITY STUDY FOR VOLUNTARY CHAINS  
IN THE POLISH FOOD DISTRIBUTION SYSTEM**

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**GENESYS**

PN-ABN-445

**FEASIBILITY STUDY FOR VOLUNTARY CHAINS  
IN THE POLISH FOOD DISTRIBUTION SYSTEM**

The GENESYS Project

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## EXECUTIVE SUMMARY

A two week feasibility study was conducted in Poland in September of 1992 to explore the potential for establishing voluntary food chains. Voluntary chains are affiliations of independent retailers with an independent, sponsoring wholesaler. Their purpose is to improve vertical coordination and decrease food distribution costs. Affiliated groups enable independent wholesalers and retailers to compete with corporate chains, contributing to greater competition in the food marketing system and lower food costs for consumers. They have played an important role in the food distribution system in the U.S. as well as in Europe. Some of the more well known voluntary chains are Spar in Europe and I.G.A. and SuperValu in the United States.

The Polish food distribution system is undergoing a dynamic transition from central state control to private entrepreneurship. In the process the system is becoming quite fragmented and economies of scale in food distribution are largely unrealized. While consumers spent approximately 40 percent of their income on food prior to 1989, they now spend 50 to 60 percent. The Polish Government wants to encourage private sector entrepreneurs, but it is also increasingly concerned about the excessive number of intermediaries that have appeared with the fragmentation of the system.

Voluntary chains could potentially decrease this fragmentation, providing benefits to manufacturers, wholesalers, retailers and consumers. They entail wholesaler-retailer coordination and cooperation to achieve buying economies, joint merchandising and promotional programs, and other improvements. Closer wholesale-retail coordination helps both wholesalers and retailers to increase operational efficiency, thereby decreasing costs and retail prices. By reducing prices affiliated independents increase their competitiveness and sales volume, and purchase more from the voluntary wholesaler.

In order to determine the feasibility of voluntary chains in Poland, a preliminary descriptive-diagnostic study was carried out of the current dry grocery distribution system. Dry groceries (non-perishables) were focused on because they represent the largest single share of consumer food purchases, and voluntary chains have traditionally been organized around their distribution. Only later as voluntary chains become established are the more risky perishable products incorporated. This study examined the structure of the dry grocery subsector at the wholesale and retail levels in the capital city of Warsaw. Both opportunities and barriers to the creation of voluntary chains were explored.

Throughout the study emphasis was placed on understanding the roles and participation of women in the food marketing system. Consideration was given to how the potential introduction of voluntary chains would impact women's roles and authority.

The introduction of voluntary chains in the Polish dry grocery subsector was determined to be both feasible and desirable, despite certain obstacles. Strategies were proposed to reduce the obstacles and facilitate and support the establishment of voluntary chains.

The most important obstacles to the formation of voluntary chains are: 1) large numbers of narrow-line wholesalers; able to undercut the price of any individual item; 2) an insufficiently developed system of manufacturer volume discounts and promotional allowances; 3) undercapitalization of both wholesalers and retailers; 4) unstable leasing arrangements; 5) difficulty in obtaining clear title to purchase building sites or existing facilities; and 6) insufficient wholesaler and retailer knowledge of the fundamentals of operating their businesses efficiently. Of course, many of these obstacles are not specific to voluntary chains, but rather represent general obstacles that must be overcome, with or without voluntary chains, to insure modernization of the food distribution system.

Key strategies to facilitate the creation of voluntary chains include: 1) wholesaler and retailer meetings to serve as a forum for discussing their problems, highlighting their mutual dependency, and introducing the voluntary chain concept; 2) the introduction of wholesaler services to retailers to assist them to operate more efficiently and increase sales--thereby benefitting the voluntary wholesaler as well; 3) wholesale and retail training programs to teach specific marketing practices and methods; 4) a targeted credit mechanism to support voluntary wholesaler and retailer investments, combining technical assistance with credit through a specialized program; 5) the creation of a food wholesaling and retailing trade association to represent their interests (lobby) and carry out training programs; 6) encouragement of the adoption of standardized manufacturer volume discount schedules; 7) development of a manual teaching retailers how to make economically viable bids for retail space; and 8) promotion of exchanges between Polish and American entrepreneurs, including visits of Poles to U.S. voluntary chains and visits of potential U.S. joint-venture candidates to Poland.

The study found that women play an important role at all levels of the Polish dry grocery subsector. While they are expected to continue to do so, as salaries in the subsector improve, more men will likely be attracted to employment there. It will be important to include women in training programs and insure equal access to credit if they are to maintain their important roles.

The introduction of voluntary chains should be gender-neutral per se, but if voluntary chains are successfully established, the individuals that are most aggressive in their formation will likely increase their authority within the distribution system. Interviews with both women and men at the wholesale and retail levels, indicate that women are probably just as likely as men to take advantage of the formation of these groups.

## **I. BACKGROUND/INTRODUCTION**

This trip report summarizes a feasibility study on the establishment of voluntary food chains in Poland. The field research was conducted in Warsaw from September 12 to September 26, 1992. The scope of work included five objectives: 1) to describe the food marketing system in the Warsaw metropolitan area, Poland, particularly the subsector concerned with dry groceries; 2) to identify barriers to improved performance and opportunities for improvement; 3) to assess the potential for the formation of voluntary food chains; 4) to design strategies to support the establishment of voluntary food chains; and 5) to determine how the introduction of voluntary chains will impact women and men involved in the food distribution system.

The potential for establishing successful voluntary food chains in Poland is of interest due to the rapid growth in the number of private sector dry grocery wholesale and retail firms. This assessment affords an opportunity to benefit from the prior evolution of dry grocery subsectors in the U.S. and Western Europe, by adapting proven strategies yielding improved subsector performance to the Polish reality.

The primary purpose of voluntary chains (groups of retailers affiliated to a central wholesaler) is to improve the competitive strength of independent retailers relative to supermarket chains by increasing efficiency and lowering operating costs. This is achieved by close coordination and a streamlining of operations at the wholesale-retail interface. Affiliated retailers obtain the advantages of group buying, group merchandising, and group advertising, increasing their competitiveness. Simultaneously, affiliated wholesalers are assured of a stable flow of orders from affiliates and capture the benefits of the services they offer to retailers through increased sales.

In the grocery trade, the essential advantage of voluntary chains is described as the creation of a wholesaler-retailer team that emulates the efficiency obtained by chain stores through vertical integration, while maintaining the independence of wholesalers and retailers. This improved efficiency results in lower food distribution costs and lower consumer food prices. This benefit is sustained over the long run, since voluntary chains contribute to maintaining greater competition in the food system than would exist if chains captured a majority market share.

The dynamic nature of the Polish food distribution system also creates a need to explore the effects of rapid change on the roles of men and women within the food marketing system. Traditionally, the food distribution system was dominated by women, both at the worker and manager levels. This study investigated how the radical transformation of the system from a state-controlled to a free enterprise system is affecting the roles of women and men.

In order to achieve the study objectives, personal interviews were conducted with people at all levels of the dry grocery system, as well as appropriate government officials. Seven government officials were interviewed, seven retailers, nine wholesalers, including three at the open air wholesale market, and three agribusiness consultants. The "mirror image" interviewing

technique was used, which involves questioning marketing firms on both sides of a vertical interface (e.g., wholesale-retail) about the same themes of inquiry. This technique is helpful in determining the consistency of responses and controlling for sources of error where personal interviews are conducted on a relatively small sample size.

## **II. OVERVIEW OF RECENT TRENDS IN THE POLISH FOOD MARKETING SYSTEM**

In December 1988, a law on economic activity legalized private enterprise on a broad and relatively unrestricted scale. As of 1989, a dramatic increase in new business formation occurred, with many of these businesses created in the agribusiness, food retailing and wholesaling industries. Hence, 1989 is the benchmark for measuring changes in the structure of the entire Polish food production and marketing system.

Early in the 1980s, food retailing was one of the first non-agricultural sectors of the Polish economy in which private sector activity emerged, primarily among small scale green grocers. Until 1989, the Polish food distribution system was centralized and controlled by the following groups. At the retail level: 1) SPOLEM stores dominated food retailing in urban areas; 2) gmina (municipal) cooperatives (GS stores) dominated food retailing in rural areas; and 3) specialized dairy and fish cooperatives existed, as well as other types of cooperatives selling specific product lines of perishable commodities. At the wholesale level, the distribution of dry groceries was monopolized by PHS, a state-owned enterprise (SOE).

As of the fall of 1992, PHS remains an SOE, but controls only an estimated 30 percent of dry grocery wholesaling. It continues to undergo restructuring, which may lead to privatization. The SPOLEM system still exists but is now in large part controlled by individual private investors. GS stores also still exist, but many have been turned over to private investors. The GS system was not examined in any detail since the scope of this study was limited to urban food distribution. Specialized cooperatives were excluded since they do not handle dry groceries.

The decline in state control in the dry grocery subsector and the resulting dramatic increase in private sector activity, have fragmented food distribution in Poland. The subsector is characterized by a large number of small firms, with the proliferation of competitors already squeezing margins and profits. In addition, the subsector is hampered by undercapitalization and an unstable investment climate. These factors are impeding future growth and efficiency gains.

The instability of the investment climate is not only due to high nominal interest rates (about 50 percent), but also due to the leasing system which currently dominates access to wholesale and retail space. Most leases include 90 day eviction clauses, discouraging investment to modernize the physical facilities. Furthermore, rental rates are often half of total costs, making new construction or the purchase of existing facilities highly desirable. But lack of capital, high interest rates and uncertain land tenure arrangements have kept most firms from achieving this goal.



Limited operating capital impedes growth in the size of firms, and contributes to fragmented procurement practices. Fragmented procurement practices increase operating costs and, hence, consumer food prices. It is the fragmentation, and resulting inefficiency, of the Polish food distribution system, that is currently contributing to higher consumer food prices--not excessive margins. Wholesale and retail gross margins seem to be surprisingly low relative to world standards for countries in a similar stage of development. But limited management expertise (these are new entrepreneurs) contributes to operating inefficiencies and impairs net profitability, further restricting cash flow and the ability to invest in expansion of the business. Consequently, economies of scale at both the wholesale and retail levels are often not captured.

While exorbitant profits may have been earned by some in 1989 and 1990, the subsector is now characterized by significant competition. However, the high bankruptcy rate may contribute to consolidation that could reduce competition in the future. The structure of the food retailing system is increasingly becoming bifurcated, with independent supermarket operators acquiring a small but rapidly growing market share, at the expense of smaller operators. This highlights the need for a strategy to assist small independents to survive, in order to preserve competition in the food system. Voluntary chains and retailer-owned cooperatives played this role in the U.S. and Western Europe.

### **III. DESCRIPTION OF THE POLISH FOOD MARKETING SYSTEM**

The first objective of the study was to describe the food marketing system in Poland. Due to the limited time frame of the study, the scope of the objective was limited to the dry grocery subsector and the Warsaw market area. Future research should broaden both the product lines and geographical scope considered.

#### **Structure of the Dry Grocery Retailing Industry in Warsaw**

The first point to be understood about the Polish food retailing industry is that it has not been privatized in a legal sense. Eighty to ninety percent of food retailing is in private hands, but it never underwent privatization due to the fact that the food retailing system was under state control but was not state-owned.

#### ***SPOLEM***

The food retailing industry was dominated by SPOLEM, a system of centrally controlled cooperatives. SPOLEM evolved from private consumer cooperatives, in some cases originating in the 1980s, each managed by its members, without any central structure or control. After WWII the Communist nomenclature system brought these co-ops under state control, by imposing Party members as managers. State control over individual SPOLEM cooperatives (co-ops) was then centralized via a "Centrala" or central union of SPOLEM co-ops. Significantly, while in practice SPOLEM was a state-run wholesale-retail network, technically SPOLEM co-ops never completely lost their "private" legal status. They were considered part of the

"socialized" sector and never owned by the State Treasury. Consequently, it was not necessary to undergo complicated bureaucratic procedures to privatize them.

This is a critical factor differentiating SPOLEM from the many SOE's, such as PHS and those operating at the food processing level. While very few SOE's have been privatized since 1989, the urban food retailing industry has become dominated by (true, rather than in name only) private sector firms. Since consumers had long since lost an active role in SPOLEM co-ops, most of them have been restructured, and are no longer consumer co-ops.

The procedure for eliminating state control of SPOLEM was as follows. Major legislation was passed in 1990 (the Privatization Act of January 26) which, among other things, provided for the liquidation of central organizations, such as unions of cooperatives, and the disposition of their assets. The new legislation compelled all SPOLEM cooperatives to hold new elections to allow for the election of non-Party managers. Due to the prohibition of state control via central cooperative unions, the SPOLEM Central management system was banned, and the Central is no longer able to engage in any economic activity. Once, SPOLEM cooperatives became individually controlled they could be sold off to private sector investors (including former employees) or be restructured as management/employee owned co-ops. In some cases, consumer share holders, still in reality dominated by employees and managers (but no longer state imposed managers), voted to continue operating their SPOLEM store. Most SPOLEM stores ceased to exist and the space was acquired by private investors on a bid basis.

#### *Structural Change in the Polish Retailing Industry: Before and After 1989*

Prior to 1990, an estimated 80 to 90 percent of retail food sales in Warsaw were through non-private outlets (mainly SPOLEM), vs. only 10-20 percent in September of 1992. Private trade prior to 1989 was concentrated in fruits and vegetables.

A government statistical agency, GOOS, provides national data on the total number of firms engaged in retailing. (Information on the wholesale level may be available as early as next year.) Although specific data on the number of dry grocery outlets in Warsaw are not available, the following trends in overall (food and non-food) national retail trade are revealing. By the end of 1989 there were 12,000 private businesses (structured as physical persons rather than corporations or LTD.) engaged in retailing, compared to relatively few at the beginning of the year. A precise baseline on the number of private businesses existing prior to the structural reform is unavailable, as GOOS did not collect data on this sector. By 1990 the number had risen to 346,294 and to 550,349 in 1991.

Most of these businesses are quite small. In 1991, 239,383 of the 550,349 retail businesses were street vendors or kiosks, often referred to as "points," as in points of sale. Hence, approximately half did not reach the "sklep" (shop) category, defined as having a door for customers to enter through. Nationally, half of total 1991 retail sales were accounted for by businesses with under five employees. In Warsaw, sales by retail businesses with under 5 employees accounted for 61 percent of total sales, implying that Warsaw has an even more fragmented retail structure than

the national average. Alternatively, data quality may be higher in Warsaw and more of the mobile vendors and kiosks may be counted there.

In 1991, of the 310,966 shops existing nationally, 73,768 (24 percent) sold primarily food/dry groceries; 6 percent sold mainly meat; 3 percent were green grocers; and about 3 percent sold primarily fish, dairy and other specialty food products. This means that food stores represent about 36 percent of all Polish retail shops.

In 1991 in Warsaw, the total number of shops reported by GOOS was 18,725. If we assume that the same proportion of food stores to total stores that exists nationally holds for Warsaw as well, there are about 6,741 food shops in Warsaw. It is likely that about 5000 of these handle primarily dry groceries. In addition to shops, GOOS reports 29,292 sales "points" in Warsaw in 1991, probably about 11,000 to 12,000 of these sell food.

Warsaw is divided into 7 districts and each of these had at least one large SPOLEM supermarket, usually located in a cooperatively-owned housing complex. There are approximately 10 "large" former SPOLEM stores--in the 2000 to 6000 square meter size range--in Warsaw. Some have been converted into management/employee-owned co-ops, the most well known example being a supermarket called SuperSam. Sezam is another well known former SPOLEM store that, according to the Ministry of Industry and Trade, is now structured as a management/employee co-op. MegaSam is the other very well known former SPOLEM supermarket, which is now owned by 3 investors. While MegaSam is the largest supermarket in Warsaw, SuperSam has the highest monthly sales, at 14 billion zlotys or US\$1 million. We are not aware of any-new stores of this size having been constructed by private entrepreneurs since 1989.

Hence, under 0.5 percent of the grocery retail outlets in Warsaw are large supermarkets. About 20 percent of the former SPOLEM outlets in Warsaw are in the 200 to 600 square meter size range, while over 50 percent are under 50 square meters. SPOLEM currently has 200 to 250 stores in Warsaw, structured into 12 to 13 cooperatives. Hence, SPOLEM has retained only about 5 percent of the dry grocery retail outlets in Warsaw.

The elimination of state control in the retailing sector stimulated much new investment from entrepreneurs not formerly engaged in retailing. This investment took two forms: private individuals bidding to acquire stores formerly under some form of state control, and private individuals opening retail outlets in new locations. Indeed, the number of retail outlets doubled after 1989. In other words, if we compare the total number of retail outlets (regardless of ownership arrangements) under the former economic system to today, consumers have twice as many outlets to choose from. Because many of the people managing retail outlets have no prior retail experience, however, the efficiency of these establishments varies considerably.

Many private self-service stores in the convenience store and superette size range (150 to 400 square meters of selling space) have opened since 1989 in Warsaw. Most of these are in former SPOLEM outlets. However, private supermarkets (400 square meters and above) and supermarket chains are just beginning to emerge. In the U.S. chains are now defined as having

11 stores or more, but years ago when our food system was still developing, chains were defined as 7 stores or more. If we use the latter definition, there are probably only 2 private chains operating in Warsaw, Interpegro and Marcpol. Interpegro was formerly partially state-owned and thus relatively well-capitalized, and had operated these stores for some time.

There are five other supermarket investment groups operating in Warsaw with 2 to 5 stores each. While none currently reaches the chain store category, they all plan expansion. We identified the following new private retailers operating supermarkets or in some cases superettes in Warsaw: Billa (1 supermarket plus another opening this fall), Euro Supermarkets (2), Pam (2 supermarkets), Luxus (2 or 3 supermarkets), Sobieski (3 supermarkets plus 2 opening this fall), W&W (unknown), Porto (2 superettes), Ogolnospozywczy (1 superette), Masny (1 superette) and Mix Market (unknown number of superettes--observed 2 outlets). We were unable to interview personnel at all of these firms due to lack of time.

There are undoubtedly numerous other private superettes in Warsaw since an estimated 200 to 500 of the former SPOLEM retail outlets in the Warsaw area are in the superette size range, and most of these are now private. However, we probably identified most of the private supermarkets. In addition, we interviewed forward-integrated wholesalers operating Cash & Carry's (C & C's) in Warsaw that are really closer to the U.S. retail format of warehouse stores: Marcpol (4 C & C's), Agros (1), and Konsbud-Interhurt (1).

This description highlights the overwhelmingly small scale of the Warsaw dry grocery retailing industry. Clearly, the majority of Warsaw's estimated 5000 dry grocery outlets are still primarily small, personal-service shops. However, the self-service store formats have very high sales per square meter, indicating a consumer preference for this type of outlet. Their market share is much higher than their physical numbers represent and rapidly growing. While there are no data on market shares by store format, one informed estimate put the share of the "modern," self-service segment as high as 20 percent, including the large, former SPOLEM stores. In five to ten years their market share will no doubt be quite significant.

Whether these stores are located in former SPOLEM locales or are completely new retail establishments, they are almost universally in rented space with short eviction clauses. It appears likely that the uncertain leasing arrangements prevalent in Poland deter foreign investment, which has been limited to date.

SPOLEM outlets had, in effect, a monopoly on the best retail locations, so access to these establishments will remain an important issue for new investors in the near future. Yet many SPOLEM stores were located in space belonging to housing co-ops, which the housing co-ops had been obliged to "turn over" to SPOLEM. As of 1990, housing co-ops have regained control over the space, and competition for this space gives them significant new negotiating power--reflected in the high rents they are charging.

Access to land to construct new retail establishments or to purchase (rather than rent) existing facilities, is severely hampered by the uncertain land tenure system. All land records except

those of the east bank of Warsaw were completely destroyed by Hitler in 1944. When the Russians gained control they nationalized the whole city. Consequently, sorting out land titles in Warsaw will take some time, making it difficult to purchase property with a clear title. Legislation is being developed to resolve private property rights, and wholesalers/retailers/investors are anxiously awaiting the outcome.

### **The Cash & Carry**

One of the most pronounced trends in Polish food retailing is a simplified version of the warehouse store format (without display racks), which in Poland is referred to as a Cash & Carry. Cash & Carry's were developed in the U.S. from the 1930s onward, as a self-service wholesale format for small retailers. The C & C is designed for fill-in purchases and for retailers too small to receive regular deliveries from wholesalers. Prior to the development of the C & C, wholesalers selected the orders for the retailers. By shifting to a self-service format costs were reduced and, in turn, prices to retailers were lowered.

Many voluntary chains used C & C's as a tool to convince retailers to accept only one delivery per week and to train them to plan weekly purchases. Retailers were reluctant to agree to limited deliveries but wholesalers needed them to reduce costs. The C & C option gave retailers a convenient recourse for making fill-in purchases, thereby making them less reluctant to change to a weekly delivery system. As the name implies, purchases are paid for in cash, eliminating any collection costs for wholesalers and further reducing costs. This format holds much potential for Poland, due to the small size of most retailers.

All the Polish wholesalers interviewed have established or are establishing "so-called" C & C's. "So-called" because they are designed more as warehouse stores to serve consumers rather than retailers. They are open to the general public (in the U.S. you need a sales license to purchase at C & C's), and volume discounts are generally not offered. The C & C in the Polish system appears to be a means for wholesalers to capture the retail margin at relatively little additional cost. They essentially put the products on pallets on the floor and open the doors (only one we visited had racks). In other words, the capital cost to set up a C & C is much less than for a supermarket. Further, they have a low price image, important given the downturn in the Polish economy.

Because the prices appear to be in-between supermarket and wholesale prices, C & Cs do not yet appear to be an attractive procurement option for most retailers, but there is no reason they cannot be re-designed to meet retailer needs.

Most importantly, the Polish Cash & Carry phenomenon is indicative of a deeper issue: most wholesalers appear to feel that the proliferation of small, narrow-line handlers makes it extremely difficult to be price competitive as wide-line wholesalers. Non-receivables are also a problem under the traditional system of store delivery with credit. Clearly, modernization of the wholesale industry represents a tremendous challenge when wholesalers are struggling to earn positive net margins. On the other hand, the rapid surge in C & C's indicates that Polish

firms are receptive to new approaches, and more than able to adapt those approaches to their own necessities in a short time frame.

### **Other Comments on Retailing in Poland**

The cooperative organizational structure is a declining but still important part of retailing in Poland. GOOS reports a total of 95,556 retail co-ops (of all types) in 1989, compared to 51,044 in 1991. A total of 9440 food and non-food publicly-owned stores existed nationally in 1991, compared to 27,354 in 1989. These state-owned stores include a chain of clothing stores called CENTRUM, and PEVEX, a chain of hard currency stores that sold to foreigners. Since 20 percent of PEVEX sales are food and it is now accessible to domestic consumers, it represents the principal state-owned factor in the grocery retail industry. PEVEX has been designated as a target for privatization.

While food retailing is largely private in urban areas, especially Warsaw, gmina co-ops are still important in rural areas. The gmina co-ops (GS stores) can be comprised of farmer, employee and consumer members. Farmers marketed their own products through these outlets, as well as food products provided by PHS, the SOE which monopolized food wholesaling. GS stores also handled farm input supplies and are similar to our old general merchandise stores. The GS stores were centralized under a central union (Centrala) of gminas. The GS stores did not represent the primary marketing outlet for most farmers. Instead, solely farmer-owned (self-help) co-ops assembled product which was then marketed through central marketing SOEs, organized on a commodity basis. For example, HORTEX was responsible for marketing and processing fruits and vegetables.

While the GS stores were the dominant type of dry grocery retailing available to consumers in rural areas, their retail space is increasingly being leased to family/individual investors. In general, it is difficult to dispose of the assets of cooperatives in Poland because over the years the government had also invested in them. Hence, in many cases it has been simpler for co-ops to rent space to private retailers than to liquidate. Many GS stores have simply closed since 1989, when subsidies were removed.

### **Structure of the Dry Grocery Wholesaling Industry**

#### *PHS*

In practice, SPOLEM was vertically integrated with both wholesale and retail outlets. In the 1980s, a state-owned wholesale network, PHS, took over the wholesaling functions of SPOLEM, as well as some SPOLEM retail outlets. Until 1989, PHS had a monopoly on dry grocery wholesaling in Poland. Even products that were not physically handled via the PHS system had to, by law, pay PHS a brokerage fee. Indeed, this represented half of its volume.

In 1989, PHS lost its monopoly on dry grocery wholesaling and now controls about 30 percent of dry grocery wholesale sales, but remains the largest single wholesaling entity in Poland. PHS

may represent an interesting takeover target for foreign investors because they own their warehouses, a major advantage in a system where both wholesalers and retailers must usually rent space on a tenuous basis.

PHS reports that its total warehouse space amounts to 600,000 square meters, fifty percent of which is currently empty. Reports vary on the number of PHS warehouses that are relatively modern facilities (from 5 to 20), but it is likely that there are 10 relatively well-managed facilities. PHS officials report that 70 percent of the warehouses are one-level with a height of 6-7 meters. Only 10 percent currently have racks. The product line varies from 500 in the smallest warehouses to 3000 in the largest. It is currently about 50 percent computerized.

Since 1989, PHS has been restructuring and has been broken up regionally. Formerly, PHS had 78 branches, compared to 45 today. These branches are structured on a vovoidship (state) level. There are 49 vovoidships in Poland. Apparently five PHS branches were liquidated and 28 branches separated, 20 of which are now experiencing financial difficulty. All but eight of the restructured branches are still state-owned but not centrally controlled. Only four of these branches were privatized. Currently there are two former PHS distribution centers in Warsaw. Like the other separated branches they operate autonomously as individual SOEs, since they are no longer part of the central system.

With the restructuring of PHS the joint buying function performed earlier by the central organization was eliminated. New management is attempting to introduce a system whereby PHS warehouses will be obliged to buy from headquarters unless they can demonstrate a better price from an independent supplier. In the meantime, PHS's price competitiveness has been impaired by not realizing economies of procurement. However, this policy is apparently a consequence of the Privatization Act of 1990, mentioned earlier, which restricted the economic functions of central organizations.

PHS is on a priority list for privatization and is seeking foreign investors. It is approved for the mass privatization plan which means, among other things, that a worker's agreement (consul) will not be required to approve the privatization plan developed by management and any outside investors. According to PHS management, its assets are valued at 1 trillion zlotys, about \$71.5 million.

Outside of Warsaw PHS is still operating and serving its own retail outlets. Prior to 1989 PHS had 10,000 retail shops in the 100 to 500 square meter size range, compared to only 1400 today. Since eighty percent of these shops are in their own rather than rented space, they also represent an interesting takeover target. If PHS were taken over and converted into a voluntary wholesaler, for example, these shops would help assure a large sales volume per month. However, PHS officials admit that even their own shop managers purchase only about 30 percent of their volume through the PHS system, due to significant price competition from independent, narrow-line wholesalers.

PHS is in the process of converting some of its warehouses into Cash & Carry's (C & C's). In other words, it is taking these warehouses out of the wholesale business into the retail business, since these C & C's will be consumer rather than retailer oriented. This represents an attempt to capture both the wholesale and retail margins, in an era when many assert that wholesaling is too competitive to be profitable. However, this may be a temporary strategy until competition forces many of the small wholesalers, discussed below, out of business. PHS currently has 10 C & C's and expects to open 30 in the future.

Another interesting point about PHS is that it has a 50 billion zlotys (\$3.6 million) investment fund to build new facilities, such as Cash & Carry's, in good locations. Since many of its warehouses are in non-residential areas and consumers shop primarily in their neighborhoods, PHS cannot always convert existing warehouses. Apparently, it also has the authority or right to build on certain municipal lands. If a foreign firm were to establish a joint venture with PHS it conceivably could gain access to this privilege. This possibility should be further explored and confirmed.

### *Private Sector Wholesalers*

If PHS has lost its monopoly since 1989, who has gained? According to the Institute of Domestic Marketing and Consumption, there are an estimated 40,000 wholesale "outlets" in Poland, including very small scale handlers operating out of their garages. In contrast, the Ministry of Industry and Trade estimates that there are 12,000 to 20,000 wholesale handlers. GOOS does not yet collect data on the food wholesaling industry and no official information on the number of wholesalers in Warsaw is available. However, most of the retailers we interviewed indicated that they receive sales calls from 40 to 300 vendors, including manufacturers. Large retailers buy primarily from manufacturers while small to medium retailers reported about 30 to 50 primary wholesale suppliers. Large retailers can be qualified as those with greater than two billion zlotys/month (about U.S.\$142,857) in monthly sales.

A large outdoor market exists near the Warsaw airport, with several hectares of jobbers selling out of trucks, with a minimum purchase volume of one case. They refer to this as "wholesaling," and for those familiar with Latin America it would be called "medio-mayoreo." There were hundreds of these jobbers selling just in this one location. A conservative estimate of the number of dry grocery wholesalers in the Warsaw area, including this type, would be 2,000 to 3000. However, relatively few large wholesalers exist, as described below.

### **Profiles of Major Private/Privatized Dry Grocery Wholesalers**

We identified four private sector and/or privatized dry grocery wholesalers that stand out in the Warsaw wholesaling industry, all of which operate in other areas of Poland as well. These are: Interpegro; Konsbud-Interhurt; Agros; and Marcpol. A fifth major Polish wholesaler, Elektromis, is described as the most modern, but was not visited because the company is located in Poznan. A sixth wholesaler just outside of Warsaw, Pikman, was visited but will not be described because it had exclusive distribution rights on several foreign products and would not



be a candidate for conversion to a voluntary wholesaler. Brief profiles of the first four firms are provided below, excluding confidential information, such as sales volume. These profiles may assist foreign investors in identifying potential joint venture opportunities.

#### Agros Market Co., LTD.

Agros Market is part of the Agros Holding group which includes food processing, international transportation and forwarding, trading companies and other interests. One of their more well known products is the Fortuna line of fruit juices. Agros Holding is a state-owned enterprise and Agros Market is currently being privatized, with privatization scheduled to be finished in October 1992. The state is expected to retain 20 percent of the shares, with 15 percent held in reserve and the remainder divided between workers, management and food processing interests. It has 12 warehouses, 11 of which are located outside of Warsaw. As usual in Poland, these are in rented space with short term leases. The average size of these warehouses is 4000 square meters and most are one level but without racks. Agros Market handles about 600 dry grocery items and no perishables. It has two new C & C's, and like most of the wholesalers interviewed is negative about the profitability of wholesaling in Poland, preferring to try to capture part of the retail margin. Agros Market has just introduced a computerized accounting and order taking system.

#### Konsbud-Interhurt.

Konsbud is structured as a diversified holding company which includes a food trade and marketing LTD called Interhurt. Interhurt is a major importer of rice and is currently restructuring its wholesale operations. Instead of continuing to focus on delivery and credit services to retailers, Interhurt is converting warehouses to Cash & Carry's. It currently has four C & C's, called supermarkets. These are located in Warsaw, Plock, Poznan and Zyrardow. While the C & C's have a consumer focus, they are the most retailer-oriented of all the C & C's we visited. They provide volume discounts to retailers (based on total purchase value, vs. case discounts), and are the only C & C we visited that had large trollies for order selection of the type used in U.S. C & C's. A new company has been established to develop the C & C's on a franchise basis, called Intermetro. Interhurt supplies Intermetro, as well as another subsidiary, AMA, which will continue to provide traditional wholesale services to retailers.

The C & C franchises are envisioned as turnkey operations, with the capital, technology and management systems provided by Intermetro. The C & C manager has two contracts, one with Intermetro which governs the logo and facility, and the other with Interhurt for supplies. The franchisees are obliged to purchase certain products exclusively from Interhurt, and only encouraged to concentrate purchases with Interhurt for the remainder. However, there are also a significant number of products which Interhurt does not carry, that franchisees must purchase independently. The Warsaw C & C handles 2500 items, 1500 of which it receives from Interhurt, while others may handle only 800. The size of the C & C's varies from 800 to 1200 square meters. Interhurt and Intermetro are both computerized and they are in the process of

linking the cash registers to Interhurt to facilitate computerized order taking. Each C & C has a warehouse that supplies it and the buying for all the C & C's is done jointly.

#### Marcpol.

Marcpol is a vertically-integrated wholesale-retail company. Its dry grocery wholesale-retail operations focus on the Warsaw market, but it has stores in other locations. It also has international trade interests and clothing stores. Marcpol is an important food importer and has significant export sales, to Russia in particular. It has a clothing factory and a chain of clothing stores. Dry grocery sales represent the majority of total sales and perishables are not handled through the central warehouse. Store managers obtain perishables independently. Marcpol has four Cash & Carry's in Warsaw, but they are managed more as consumer-oriented warehouse stores, than as wholesale outlets serving retailers. No volume/case discounts are offered to retailers for larger purchases. The C & C we saw, located at the Palace of Culture, is 3000 square meters with 700 to 1000 products. Marcpol also has regular self-service store formats in the Warsaw area. It has a central warehouse in Warsaw which handles imports and sells these to other wholesalers. The Marcpol warehouse also distributes to independent retailers, but the relative significance of these operations within the overall company appears to be minor.

#### Interprego.

Interprego began in 1982, as part of the first phase of Polish economic liberalization. It acquired 17 state-owned horticultural farms and began to trade domestically and internationally. Its first shares were owned by the state but it was structured as an LTD rather than an SOE. The director was elected, rather than nominated through the nomenclature system. In 1988, it was reorganized as a joint stock company and in 1990, it became 94 percent privately controlled. Former management acquired a significant portion of the company's shares when it was privatized. It is active in four major areas: agricultural production, food trade and distribution, transport and tourism. Its production activities center around 50 hectares of greenhouse vegetables and two dairy plants.

Interprego is vertically integrated from the agricultural production to the wholesale and retail levels. It sells its fruits and vegetables both through its own stores and through others, and has its own brand for the dairy products. Of course, most of the products it sells are manufactured by others; it handles about 500 products, mainly dry groceries, at the wholesale level. It has 100 shops throughout Poland, including seven in Warsaw. There are 13 wholesale depots serving primarily these stores, but also supplying independent retailers. This was the largest privatized wholesale-retail operation we encountered. It was heavily involved in food imports, to supply both its own stores and wholesalers, however, recently erected import barriers have dramatically reduced the relative importance of imports. This trend is affecting several other importer/wholesalers as well.

Another trend described by this as well as other wholesale-retail firms, is the difficulty in controlling pilferage by retail managers. Lack of tight financial control over retailers seriously

reduces, if not eliminates, retail profits. Interpegro also faces the common Polish problem of uncertain leases and high rents, adversely affecting profits and investment. Consequently, Interpegro is considering increasing their wholesale focus rather than expanding the number of retail outlets. It is considering converting some of the retail outlets into Cash & Carry's since they tend to have large storage areas. The storage areas could be converted into C & C's serving retailers, while the front part of the stores would remain consumer focused.

### **Profile of the Polish/Warsaw Consumer Market**

The population of Poland is 40 million and 40 percent live in rural areas, including 2.8 million Polish farmers. The population of the metropolitan Warsaw area is two million. Average 1992 monthly wages were estimated to be \$200 per person, making the Warsaw market equivalent to \$4.8 billion in total income. Today, the average consumer spends 50 to 60 percent of income on food, compared to 40 percent prior to 1989. Hence, 1992 food purchases in Warsaw are estimated to represent about a \$2.4 billion market. About 10 percent of consumers are estimated to be in the "high income" category, in other words, with incomes approximating middle income levels in Western Europe.

Unemployment is rising and is expected to continue to increase as more SOE's are liquidated or downsized. Estimates of unemployment ranged from 10 to 15 percent. An important current trend is referred to as the "pauperization" of Polish consumers, in other words, real purchasing power is declining. Consequently, a major decrease in consumer food demand has occurred, adversely affecting firms at all levels of the food marketing system. Data collected by Dr. Teresa Warsec at the University of Warsaw show that food intake has actually declined in Poland over the last year, relative to 1989.

Many wholesale and retail entrepreneurs made their investment decisions in 1989 and 1990 when Polish consumers were spending their savings on imported food products, and overall food demand appeared strong. According to some estimates, food imports may have reached 50 to 60 percent of all consumer food purchases in 1990/91. Predictably, the rapid growth rate in consumer expenditures on relatively more expensive imports could not be sustained.

The demand for imports was partly stimulated by a "novelty" effect. That is, Polish consumers had been denied access to world quality goods, and when access suddenly appeared, consumers were inclined to experiment with foreign products. It now seems that the import trend has at least stabilized, and likely has declined, with imports currently representing about 40 percent of consumption. Some entrepreneurs predict that over the long run imports will be comprised primarily of items not produced in Poland, such as tea, coffee, sweets, spices and alcoholic beverages.

Several factors have softened consumer demand for imports: 1) the sudden appearance of foreign competition caused Polish food processors to improve product quality and packaging; 2) consumers became suspicious of the long shelf-life of many imported products (perceiving this to be due to potentially harmful chemical preservatives); 3) declining consumer savings and

purchasing power; and 4) import barriers recently erected by the Polish government to stem imports.

Other important factors affecting shopping patterns include the high cost of gasoline and the concentration of consumer housing in high rise apartments. Most people shop locally, rather than making special trips to stores beyond their local store trading area. Like most Europeans, Poles have small refrigerators and tend to shop frequently, usually daily for perishable products.

Warsaw covers 174 square miles and is comprised of seven districts. The Praga district represents about 1/3 of the city and is located on the east bank of the Vistula River. A disproportionately high number of the SPOLEM stores remaining in Warsaw are located in Praga.

While consumer awareness of the quality of food products has increased markedly since 1989, as well as consumer interest in a greater diversity of products, severe constraints on consumer purchasing power will remain in the future. This complicates the modernization process for both retailers and wholesalers, as it contributes to the overall problem of fragmented purchases at all levels of the food system. If consumers can not realize economies of scale in food purchasing, this limitation is transferred backward vertically through the system.

### **Standard Operating Procedures**

Standard operating procedures (SOPs) are the standard practices used by firms in their day to day activities as they procure, merchandise and sell goods. SOPs serve as tangible units of analysis representing firm behavior, hence, the identification of current Polish SOPs provides a baseline from which to analyze the potential for voluntary chains.

### *Wholesalers*

First, the key standard operating procedures of wholesalers are reviewed. Wholesaler gross margins were almost universally in the 8 to 9 percent range. The largest wholesalers typically handle 500 to 700 products, with one handling 1500, while the bulk of wholesalers handle under 20. Wholesalers usually make one delivery per week/retailer, however, they often provide small volume fill-in deliveries. Some of the firms used pre-printed standardized order forms, but most did not. Orders are taken in person in the store by sales agents, or over the phone, with product names written in by hand. However, retailers frequently visit wholesaler warehouses themselves, "shopping around" among several before making the purchase decision, which is primarily price determined.

Wholesalers use pallet jacks in the warehouse, but no racks were seen anywhere and many warehouses are multi-level. Materials handling methods are rudimentary. Significant opportunities exist for improving operational efficiency and reducing operating costs. Given the high level of competition in the Polish dry grocery subsector, these cost savings will surely be

passed along to retailers and ultimately to consumers, just as they were in the U.S. and Western Europe.

### *Retailers*

Retailers generally operate with 15 to 20 percent gross margins. This is significantly lower than the margins charged in the U.S. in similar store sizes. Low margins relative to volume contribute to chronic cash flow problems in the Polish grocery retailing industry. Retailers operating superettes usually handle 700 to 2000 products.

Retailers of all sizes generally devote a significant portion of total space to product storage, if not at the store site, in another location. This commonly amounts to 40 to 55 percent of total space. This in part reflects the product scarcity and instability problems that existed under Communism, especially in the first half of the 1980s. Today it is still commonplace for the retailers who can either get credit or are sufficiently liquid, to buy in large volumes and store. This is in part due to inflationary pressures that create incentives to buy in advance, as well as to insufficiently developed inventory management practices, and the lack of reliable suppliers delivering appropriate volumes on a weekly basis to retailers. The latter creates a need to buy in larger volumes than expected weekly sales. This was also a problem in the U.S. when voluntaries emerged. One of the services provided by voluntary wholesalers to their new affiliates was to help them dispose of excess inventory, thereby releasing capital for expansion.

As noted above, retailers commonly visit several wholesalers on a daily/weekly basis to compare product availability and prices. This SOP is called "shopping around" and must be modified if voluntary chains are to succeed. Retailers spend significant time in the procurement process, rather than in the store focusing on improving sales. A full-service voluntary wholesaler helps retailers to concentrate on their real purpose--sales. Currently, retailers also are not compelled to plan purchases with any precision since most wholesalers will deliver very small fill-in orders, due to competitive pressure to "get the retailer's business." All of these conditions were true in the U.S. when voluntaries emerged, yet voluntary wholesalers provided economic incentives and educational programs that successfully modified retailer behavior.

Retailers with any volume at all can buy directly from manufacturers, and therefore tend to use wholesalers only for smaller and/or price related purchases. This is a competitive problem for wholesalers who often are relegated to being secondary suppliers for retailers, even when they are wider line and could serve a significant portion of retailer needs.

## **IV. BARRIERS AND OPPORTUNITIES TO IMPROVED PERFORMANCE**

There are several important barriers to improved performance of the food marketing system and the establishment of voluntary food chains. On the other hand, many of these same barriers were turned into opportunities by voluntary wholesalers in the U.S.

Where problems exist and an innovative wholesaler is able to offer a better alternative to retailers, both the wholesaler and retailer will gain competitive advantages.

The Polish food distribution system is full of opportunities for improvement. In the almost overnight transformation process from centralization to fragmentation, both wholesalers and retailers are struggling for more stable marketing arrangements. Precisely because most operators are new to the wholesale/retail trade, they are receptive to new approaches. Those SPOLEM stores acquired by former employees are anxious for more consolidated procurement arrangements because they were accustomed to one supplier. Those entrepreneurs with no prior retail experience report that they can only hope that product procurement can be simplified.

In general, the newness of Polish private sector food distribution represents an opportunity (despite the obstacles), because private operators do not have entrenched standard operating procedures. Some of the more significant barriers and opportunities in the dry grocery wholesaling and retailing industries are summarized below.

### **Wholesaling Barriers and Opportunities**

The wider-line wholesalers were all in agreement that the proliferation of small narrow-line handlers capable of undercutting the prices of wide-line wholesalers for individual items, acts as a major disincentive to retailers to concentrate their purchases with a primary wholesale supplier. This is an important obstacle to the establishment of a voluntary wholesaler.

At the same time, narrow-line handlers cannot offer services to retailers that will enable them to increase sales and improve operational efficiency. Furthermore, it is inefficient for retailers to procure product from many suppliers. Consequently, the introduction of ancillary services and a wide product line are the key to success of the Polish dry grocery wholesaler. Carefully designed incentive systems to encourage retailer concentration of purchases, and a gradual introduction of services to avoid inflating overhead costs are necessary to take advantage of this opportunity. Specific mechanisms for implementing this approach are already available, as U.S. wholesalers underwent a very similar process.

Another apparent obstacle is the lack of a well-developed system of published manufacturer volume discount schedules available to all handlers. The principal concessions buyers appear to be able to negotiate from manufacturers are longer credit terms. Two problems result from the absence of formalized, standardized volume discount tables. The first is that individually negotiated volume discounts vary depending on personal relationships and negotiating power, creating a less transparent market and adversely affecting the competitiveness of weaker or less well connected handlers.

Secondly, if discounts are not offered for large purchases there is no place for wholesalers within the food distribution system. In other words, if retailers can buy directly from manufacturers at the same price wholesalers receive when making large volume purchases, then there is no incentive for retailers to use wholesalers. Yet direct manufacturer deliveries to many retailers are not as efficient as large deliveries to a few wholesalers. Wholesalers provide the break bulk function and deliver the products of many manufacturers to retailers, in smaller quantities and on a timely basis. Since retailers may buy larger quantities than their immediate needs require

in order to receive manufacturer deliveries, and credit terms are relatively short, they have higher inventory carrying costs than necessary. Retailer concentration of purchases with a principal (voluntary) wholesaler would reduce their need to store products--a major advantage in the Polish situation where margins are very low and operating capital is quite limited.

Well-defined volume and promotional discount schemes will probably develop over time as the Polish system evolves. However, because of their importance in contributing to a transparent market, the Polish government may want to consider designing a specific policy or legislation to facilitate their development sooner rather than later.

Another obstacle to modernization of the system is that wholesalers are not accustomed to assisting retailers to merchandise and sell their products. The sales agents they send to stores are merely order takers rather than merchandisers and do not assist retailers to promote sales or improve store layout or operational efficiency. This obstacle simultaneously presents an opportunity for voluntary wholesalers to convert their sales agents into service agents, yielding a competitive advantage and enabling retailers, and in turn the wholesale supplier, to grow. This is precisely the scenario that took place in the United States.

Limited operating scale and undercapitalization are general obstacles to modernization of the system. There is competitive pressure to issue credit to retailers in order to "make the sale," yet undercapitalization and limited scale increase payment problems. Financially successful voluntary chains will need to impose strict credit terms and not make the next weekly delivery until the previous one is paid. This may put them at a competitive disadvantage relative to other wholesalers. On the other hand, most wholesalers are currently attempting to limit retailer credit, so in the relatively near future voluntary and traditional wholesalers will likely have comparable terms.

It should be kept in mind that in the current Polish dry grocery subsector, firms view vertical integration as the best road to profitability. Firms engaged in processing are often forward integrated into retailing and wholesale firms are forward integrated into retailing. Everyone seems to feel that dry grocery wholesale operations by themselves are economically unattractive. This is both an important warning to new wholesale investors and an attitude that must be dealt with if any current wholesalers are going to convert into voluntary wholesalers. Forward-integrated wholesalers view retail expansion as their most effective strategy. However, this approach is not inconsistent with the creation of voluntary chains.

Voluntaries in the U.S. usually own some of their own stores as well as serving independents. By serving independents, the total purchase volume increases and both owned and independent stores receive lower prices. (This of course only holds if volume discounts reward the larger purchases.) By selecting independent stores for service in non-competitive areas voluntaries will not hurt themselves competitively. Indeed, forward-integrated voluntary wholesalers would greatly benefit from the stable volume provided by their own stores while their affiliated retailers are learning to concentrate their purchases.

## **Retailing Barriers and Opportunities**

One of the most serious obstacles to modernization of the food retailing industry is tenuous leasing arrangements that constrain new operators from investing in capital improvements and limit their ability to expand operating scale. Every retailer we spoke with is subject to eviction with only 3 months notice. Furthermore, rents are very high relative to operating costs, commonly representing 40 to 60 percent of costs. However, due to uncertainty over private property rights, it is difficult to find appropriate retail space to buy. Even when a suitable building site is available, a paucity of capital and high interest rates are often obstacles to buying. These same obstacles hold for the wholesaling industry as well.

Undercapitalization is an important obstacle to modernization of the retailing industry, just as it was for the wholesaling industry. A description of the circumstances of one of the new, private superettes is highly instructive. This family-owned operation signed a lease with a housing cooperative at a cost equivalent to 70 percent of their operating costs. The locale was formerly a SPOLEM store and the current owner/manager (female) was a SPOLEM employee in this store. Its gross margin is 15 percent, less than half of what it would be for a store of similar size in the United States. Significant competition from nearby stores and limited purchasing power in the market area (dominated by pensioners), precludes charging a higher margin. The store was robbed and the owner had to invest in installing bars on the windows. She says that without the unforeseen expense the store would have been profitable or at least better able to survive. In other words, the owner has no concept of capital requirements and appropriate margins and viable rents for a grocery store of this size.

Without this knowledge, retailers have consistently overbid for access to retail outlets. For their part, the housing co-ops which now control much of the prime retail space, are faced with serious financial difficulties since subsidies are being removed. They are anxious to test the limits of the market and there are many untested entrepreneurs competing to gain access to the space. Hence, to date it has been possible for housing co-ops to obtain high rents. Of course, many of these firms are going out of business, such that over the long run this practice is not sustainable. In the meantime, an unregulated rental market is an important obstacle to the profitable expansion of retailers.

This situation should be taken quite seriously because most of these entrepreneurs have invested their life savings in their businesses. If they fail, they will not easily invest again, and alternative employment opportunities in the Polish economy are not abundant. It might be in the interest of the Polish government to consider supporting short retailer training programs that explain the basics of doing the financial analysis necessary for a financially viable bid for a grocery outlet. Better informed bidders would decrease rental rates and enable more firms to stay in business. A manual could be developed as a cost-effective means to gain wide diffusion of the information quickly. This would require a team to conduct financial analysis



of a few prototype Polish store types and to develop benchmark financial indicators and measures that would serve as guides.

## **V. ASSESSMENT OF THE POTENTIAL FOR THE FORMATION OF VOLUNTARY FOOD CHAINS**

First of all, it should be noted that retailers were asked about their interest in two types of affiliated groups: voluntary chains and retailer-owned cooperatives. Universally, retailers preferred the voluntary chain concept. The key advantage of a voluntary chain to retailers is the lack of financial contribution required of the retailer members. In a voluntary chain the wholesaler supplies the warehouse, delivery and other services, incurring the associated capital costs. In contrast, retailers must self-finance a cooperative, and most lack the capital. In fact, two of the retailers interviewed reported they were approached by a group of retailers attempting to establish a co-op, but neither had the capital required to join. Cooperatives also have a somewhat negative image in Poland, since they were previously dominated by the nomenclature system. However, retailer cooperatives were not rejected by any of those interviewed and could still be worth some additional attention, especially after the retailing industry begins to stabilize and surviving retailers have accumulated sufficient capital.

In the medium term, voluntary chains appear to have the most potential in the Polish food distribution system. Many of the conditions are met that contributed to their formation in the U.S. and Western Europe. These conditions include: growing competition from modern, larger scale operators; a compelling need for greater cooperation at the wholesale-retail interface due to low profitability and a high rate of business failure; significant time spent by retailers in the procurement activity, leading to insufficient attention placed on sales and merchandising; inadequate retailer accounting methods; a compelling need to reduce operating inefficiencies in order to improve cash flow; and the existence of wholesalers willing to modify their standard operating procedures and become wide-line and full-service.

A wholesaler forming a voluntary chain would likely face greater competitive risks in the Polish system than those faced by emerging U.S. voluntary wholesalers years ago, however. The existence of large numbers of narrow-line handlers that can undercut the price of any given item, seriously threatens retailer concentration of purchases with the voluntary wholesaler. Wholesalers are acutely aware of this phenomenon and are reluctant to provide additional services to retailers that in the short run may make them less cost competitive. While this problem also hindered the development of voluntary chains in the U.S., it is even more pronounced in Poland, and points to the need for intensive educational programs to inform both wholesalers and retailers about the benefits of wholesale-retail cooperation. This was necessary in the U.S. as well, and proved to be quite successful.

It is also interesting to compare Poland to Mexico where voluntary chains failed in the early 1980s. Some serious obstacles to the formation of voluntary chains witnessed in Mexico do not appear to be present in Poland. In Mexico, severe supply instability and product scarcity were created by the government's policy of price controls. This policy made it extremely difficult for

voluntary wholesalers to guarantee consistent supplies of most basic commodities, and consequently, retailers could not be expected to concentrate purchases. Wholesalers had to spend most of their time attempting to locate scarce products, such that even the most innovative could not place the necessary attention on the development of retailer services. Retailers, for their part, could not focus on modernization because they were also too busy searching for the scarce products.

In Poland, product supply does not meet U.S. standards for stability because of the dynamic nature of the dry grocery manufacturing industry (many new entrants and firms exiting) but relative to the supply problems prevalent under the Communist system, the Poles consider their system to be quite stable now, and they do not view it as a problem. (A recent sugar shortage appears to have been an exception.) The Polish government is not regulating most wholesale and retail prices and, in general, government policies do not appear to be contributing to scarcity and instability of supply.

Another obstacle to the formation of voluntary chains present in Mexico but not in Poland was the government's "anti-commerce" policy that involved oppressive regulation of wholesalers and retailers, severely restricted construction permits for supermarkets, and very restricted wholesale and retail liquor licenses. While official policy may not impede new construction in Poland, new construction of wholesale and retail facilities is still seriously constrained by the post-WWII absence of a functioning private real estate market, and, as noted earlier, lack of capital will remain an important constraint even if property titles are secured. These obstacles clearly were not present to the same extent in the U.S. or Mexico. In addition, tax rates on wholesale and retail firms appear to be extremely high in Poland, further restricting capital formation and ability to expand. Future tax policy will be an important factor to consider in assessing the viability of voluntary chains.

Overall, Poland has a much more compelling need to form voluntary chains than did Mexico in the early 1980s. While the efficiency gains would have been significant in Mexico, wholesalers were operating at a profit, providing little incentive for change. In Mexico the obstacles to the formation of voluntary chains were sufficient to impede their creation. Government policy was a major impediment to the free operation and development of these groups, an important lesson for Poland to keep in mind.

Poland's reality has strong similarities to the 1920s and 1930s when voluntaries developed in the U.S. Most importantly, a compelling need for wholesaler-retailer cooperation and coordination exists in order to compete with new, modern operators. In both countries, entry and exit of firms has been rapid. Furthermore, Poland is experiencing declining consumer demand, just as the U.S. did in the 1930s, threatening firm survival even more. Since a pre-condition for the formation of voluntary chains seems to be fear of going out of business, Poland represents a good candidate.

## **VI. STRATEGIES TO SUPPORT THE ESTABLISHMENT OF VOLUNTARY FOOD CHAINS**

The public sector can perform an important facilitory role to improve the performance of the food distribution system, by creating educational programs to support the establishment of voluntary food chains. Information must be emphasized as a key ingredient of the modernization process. Conversations with wholesalers and retailers indicate a keen interest in improving their businesses, but a lack of information on how they should go about it is a critical barrier.

A strategic plan to promote the establishment of voluntary food chains might consist of the following:

- 1) Joint wholesaler-retailer meetings to discuss their problems, highlight their mutual dependency, and explore the voluntary chain concept as a potential solution.
- 2) Identification of voluntary wholesaler candidates to be sent to the U.S. to spend time inside a voluntary chain.
- 3) Follow-up educational programs on the costs and benefits of voluntary chains and mechanisms for their formation.
- 4) Training programs for wholesalers and retailers to teach marketing practices and methods and to support the introduction of services to the retail affiliates of voluntary wholesalers.
- 5) Publicity to promote the voluntary chain concept via trade publications.
- 6) Support for the creation of local and national food wholesale/retail trade associations to lobby to protect food marketer interests, create training programs and facilitate international exchanges between Polish and American/W. European food industry investors.
- 7) Establish a targeted credit mechanism to support voluntary wholesaler and retailer investments, preferably combining technical assistance with credit through a specialized program.
- 8) Promote increased awareness of the voluntary chain concept among manufacturers to develop closer supply linkages and inclusion in special promotional offers.
- 9) The eventual development of "demonstration stores," to teach improved standard operating procedures to retailers and demonstrate their benefits.

It is recommended that special attention be given to the inclusion of women at all stages and levels of this process. It is especially important that women be among the leaders selected to visit the U.S. to observe a voluntary chain in action. The international experience with modernizing food marketing systems shows that the old refrain, "seeing is believing," most definitely holds true. Those included in these visits have the most potential to succeed, because they have the greatest opportunity to fully assimilate and gain a vision of the benefits of the voluntary chain concept.

Other general strategies include support for an improved policy environment, including favorable tax, commercial and legal policies. For example, the establishment of a tax structure that does not burden the wholesale sector or reduce capital gains needed to finance business growth and development. The creation of tax credits might be considered to encourage investment in facilities and human resource development for improved operational efficiencies and structural renovation.

Poland might also consider establishing a commercial policy that rewards efficiency and innovation in food distribution. For example, legislation to foment standardized volume discount schedules, and promotional and credit allowances. The establishment of commercial laws that protect the contractual rights of all parties is important as well, such as well defined land and property rights that ensure a stable real estate market, and guidelines for prompt dispute resolution.

Polish policy makers could examine the U.S. Robinson-Patman Act for applicability to their situation. The Robinson-Patman Act was passed in 1936 to prevent chain stores from exacting preferential buying terms from manufacturers and thereby injuring affiliated groups and independents. Among other things, this legislation required manufacturers to standardize and publish their promotional and volume discount terms, such that all buyers would have equal access--as long as they could meet the requirements. This type of legislation might be considered in Poland to counteract the market failure that appears to exist regarding manufacturer selling terms.

International donor organizations may want to consider financing the development of a manual to teach retailers what typical profit margin and cost structures are like for firms of representative sizes. This manual would include the basics of cash flow analysis, and could be extremely useful to retailers in their lease negotiations with housing co-ops and municipal authorities and significantly reduce the number of grocery retailer failures.

The key to success of voluntary chains is the conversion of traditional wholesalers into wide-line, full-service handlers. By offering services to retailers, wholesalers differentiate themselves from their competitors and obtain loyal clients. Since retailer members of voluntary chains are affiliated to the wholesaler, they have a moral obligation to concentrate their purchases through the group. Retailer services help retailers increase operational efficiency and grow, thereby increasing the sales and efficiency of the wholesaler. It is this process that must be supported via educational, credit and technical assistance programs.

## **VII. THE EXPECTED IMPACT OF VOLUNTARY CHAINS ON WOMEN AND MEN INVOLVED IN THE FOOD DISTRIBUTION SYSTEM**

### **Recent and Current Roles of Women and Men in Food Distribution**

Throughout the interview process in Poland we were alert to evidence on the current and future roles of women and men in the food distribution system. The recent and current status of women and men in the food distribution system will be addressed first.

Prior to 1989, the food distribution system was dominated by women. SPOLEM stores, GS stores (rural co-ops) and PHS warehouses were all managed primarily by women, and most non-management employees were women as well. The principal exceptions were the Centrala management structures of these organizations (top-level as opposed to store-level management), store-level management of the large stores (above 1000 square meters), and warehouse workers. While warehouse managers were generally women, those loading and unloading trucks were men, and truck drivers were also men.

The current situation in the firms we visited is as follows. Of the wholesale firms interviewed (a separated PHS branch-Wola, Pikman, Agros Market, Interpegro, Marcpol, Konsbud-Interhurt), all had women involved in responsible management positions, and in three out of six instances women were at the CEO or owner level. In addition, Agros, the holding company for Agros Market, has a female CEO. At the retail level, all of the firms had women in management positions, and in two of the operations women were partial owners of the businesses. In all of the firms, women remain the dominant non-management employees, with the exception of truck drivers and warehouse workers. Of the seven government officials interviewed, three were women.

Women are clearly still well represented in the Polish food distribution system but now that grocery retailing and wholesaling represent opportunities for entrepreneurs--vs. working for public entities--many men have suddenly entered the field. We did not meet any women who were sole investors in wholesale or retail businesses; they were always co-investors with men. In several family operations the men had left their former occupations to run the businesses with their spouses, the former SPOLEM employees. We noted that when men and women of equal rank were present in an interview (including management employees in non-family owned businesses), the women deferred to the men.

All women managers/owners interviewed were asked to comment on opportunities and obstacles for women in their fields. Unanimously, they felt that the opportunities were significant for those willing to work and take advantage of them, and they did not identify any systematic discrimination. They had high aspirations for the expansion of their businesses (whether employees or owners) and were not thinking about gender-related barriers. An often repeated comment was that the important problems in the Polish food distribution system are lack of capital and intense competition not gender discrimination. In other words, these business people

are experiencing enormous problems in establishing viable enterprises and gender-related impediments appear minor in comparison.

On the other hand, one male retailer felt that as retailing and wholesaling jobs become more economically attractive, men will displace women. His comment was that many former SPOLEM employees, primarily women, were not aggressive and customer service-oriented enough for free enterprise and were already being displaced by men. There were other indications that not all former SPOLEM employees have adapted to the new system, but it is still difficult to say to what extent they will be replaced by aggressive women entrepreneurs or by men. This issue should be explored further and verified. It may be necessary to make a concerted effort to retrain former SPOLEM employees so that they will be able to maintain their positions within the food retailing industry.

Another revealing observation is that in most of the offices we visited posters of nude women were the main wall "decor." This was true regardless of whether we were visiting private or public sector officials, and whether the offices belonged to male or female managers/officials. Our interpreters explained, with a shrug, that people do not think about these things in Poland, the consciousness level is low for both women and men. They did note that a consciousness is developing among female intellectuals, but currently it is described as latent in society as a whole.

Women entrepreneurs in Warsaw recently formed a professional association for business owners. No other professional women's association appears to exist in Warsaw. The feminist movement is largely undeveloped in Poland, and women are unaccustomed to forming groups for political and/or professional purposes. This paucity of an organized networking system for women has become especially evident in light of the Catholic Church's recent efforts to ban abortion in Poland. While apparently many professional women are concerned about losing this right, they have not been successful in mounting an opposition movement.

While no legal or structural impediments specific to women in business appear to exist, a 1991 Coopers & Lybrand study on gender issues in the Polish transition to a market economy, indicates that women have a disproportionately low participation in business education and training programs, business associations, and in the loan portfolios of banks. For women to remain competitive with men in the Polish private sector, their participation in these programs must be improved.

### **Potential Roles of Women and Men in the Presence of Voluntary Chains**

With regard to the potential effect of voluntary chains on gender roles in the food distribution system, the following thoughts are offered. There do not appear to be any clear reasons why voluntary chains would not be gender-neutral once initiated. Voluntary chains usually start with five or fewer retail affiliates and the wholesaler continues to serve other retailers as before. The wholesaler strives to demonstrate the benefits of affiliation to retailers by pointing out the advantages obtained by affiliates. Hence, the voluntary wholesaler has an overwhelming

economic incentive to both assist affiliates to grow, and convert existing retail clients to affiliates. Given this incentive it is unlikely that wholesalers would either attempt to discriminate against female affiliates or exclude female retailers from their affiliated groups.

The question remains of who will initiate the voluntary chains. They are usually started by strong leaders, wholesalers with a vision of what can be achieved through greater wholesale-retail cooperation. The leaders have to be able to convince retailers of the merits of the concept, and be willing to undergo financial difficulties in the short run to introduce services that will enable retail affiliates, and in turn the wholesaler, to grow in the long run. Clearly, equal access to credit from wholesalers is a principal factor in the ability of women to take on the voluntary chain concept.

It is difficult to speculate about the relative leadership among men and women in Polish society. The conventional wisdom is that women play traditional roles although the Prime Minister and the President of the Central Bank are women. Many of the women we encountered in our interviews appeared to be quite aggressive, with good leadership skills. While they may not be representative of women in Polish society, it is clearly possible for women to attain positions of influence.

All but one of the wholesale firms we interviewed with potential for conversion to a voluntary chain, were male-owned. However, at the outset it would be fortunate if just one of these firms actually adopted the voluntary chain philosophy ("but few are chosen"), and the female owned and managed company represents one of the best candidates. Even if men take the lead in establishing voluntaries, since there are more male wholesalers, women should still play an active role since all these firms have females in important management positions, and many of the retail affiliates would likely be at least partially female managed.

On the other hand, if joint-ventures with U.S./W. European wholesalers develop to stimulate the creation of voluntary chains, the foreign firms may have a preference for hiring male managers. In the U.S. and W. Europe, both wholesale and retail grocery management are dominated by men and it is unclear how foreign firms will respond to the female-dominated Polish grocery industry. One would hope that they will not make special efforts to locate male employees and will hire based on qualifications and experience. Again, this points out the importance of insuring that women engaged in food marketing activities have access to the types of management and business training programs currently being developed by international and other organizations.

Government policies regulating family leave and maternity benefits also might affect the ability of women to compete over the long run. These policies have been extremely generous and it is unclear if private firms can maintain them, especially small scale firms like grocery retailers. Already there is evidence from the former E. Germany that women are likely to be laid-off first and are less likely to be hired, as firms attempt to avoid the additional costs involved in hiring women. It is as yet unclear to what extent the Polish government will mandate leave policies for small businesses.

To reiterate, it will be most important to assure that women business owners and managers have equal access to credit, management and training programs. Impaired access to these services may make them less successful initiators and/or members of voluntary chains. If equal access exists voluntary chains should not adversely affect the participation of women in the wholesaling and retailing industries. If the voluntary chain concept is introduced and succeeds, the relative positions of men and women will depend on who best adopts the concept and philosophy of wholesaler-retailer mutual dependency and teamwork.

In conclusion, the most innovative and early adopters will gain the greatest advantages, regardless of their gender. If some of those innovators are women, their authority within the food distribution system will increase accordingly. If the women we interviewed are representative we would predict that women will fare well as the Polish food distribution system modernizes. Further, a policy supporting the development of voluntary chains should in general be very beneficial to women since they dominate the dry grocery subsector.



## APPENDIX

### List of Names and Addresses of Public and Private Sector Individuals Interviewed in Poland

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## **Private Sector**

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