Meet Samantha . . .

Samantha is a woman in her late fifties living in the outer region of Vienna, the capital of Austria, which is well known for its cultural heritage in music, arts, and classical entertainment. The Mercer Survey 2010 has reported that Vienna is the ‘best city in the world’ with the highest quality of living. Mercer evaluates local living conditions in 420 major cities based on criteria such as political, social, and economic environment; health and sanitation; and schools and education (Mercer, 2010).

However, Samantha has little chance to enjoy the rich cultural and social offerings such as Mozart concerts, Klimt exhibitions, or glamorous Viennese balls. After finishing school, she got married to Tom who was a conductor in the public transport agency of Vienna. They brought up two children and decided that Samantha would stay home to dedicate herself to raising their children and taking care of their apartment with a small garden. After the sudden death of Tom at fifty-seven, Samantha now lives on a monthly pension of ca €800.

Samantha’s monthly income goes towards her fixed expenses of €300 for rent and €200 for utilities (electricity, gas, telephone) and thus leaves her with only €300 to cover all her remaining costs such as food, clothing, medicine, and public transport. Samantha has learned to manage her very tight budget and is able to satisfy her basic needs in usual circumstances. Only when she is confronted with unexpected expenses, for example, higher heating costs in cold winters or specific medical support, is her flexible budget used up before the end of the month. At times like this she asks herself how to survive the remaining days until she receives her next payments. She looks for the cheapest food to buy, saves money on various consumer products, and hardly goes out any more.

Poverty in Industrialized EU-Countries

Nearly 80 million people in the European Union, or 16 percent of its total population, live below the ‘poverty line’ (Eurobarometer, 2010). According to the survey Poverty and Social Exclusion in the EU, its citizens define poverty in different ways. For about 24 percent of citizens, people are in poverty when their resources are so limited that they cannot participate fully in the society they live in. A further 22 percent see being in poverty as not being able to afford the basic goods for living, and 21 percent view it as having to depend on charity or public subsidies. The smallest group (18%) believes that people are in poverty when they have less than the poverty threshold per month to live on (Eurobarometer, 2010).

Based on the criteria of the European Community Statistics on Income and Living Conditions (EU-SILC),
the Austrian government defines the national poverty threshold as a monthly net income of ca €850 for a one-person household. About 13 percent of the Austrian population belongs to this group (Statistics Austria, 2009). Further studies reveal that especially young people living in poverty have difficulties eating healthy food. (Kersting & Clausen, 2007).

The Development of Social Supermarkets

Social supermarkets (SSMs) are similar to traditional supermarkets in that they primarily sell food and consumer products and offer similar in-store services. However, the main differences between SSMs and traditional supermarkets are threefold.

First, SSMs provide a very limited assortment of food and household products such as cosmetics or cleaning products. Their merchandise is surplus product given for free by food producers, processors, and retailers. These products are still consumable but are no longer merchantable or saleable for reasons such as being too close to an expiration date, wrong labeling, or slightly damaged packaging. If these products were not consumed most of them would be turned into waste.

Second, access to an SSM is limited to people living at risk of poverty or who are already below the previously discussed poverty threshold. This access is controlled with the help of identification cards that are issued according to the official income status.

Third, shelf prices are significantly lower with approximately 50 percent to 70 percent off regular supermarket prices. The operation of an SSM with reference to ‘retail mix’ variables in the literature is shown in Figure 1.

The first Austrian SSM opened in 1999 in the city of Linz as private initiative of four families. The vision of the founders was to (1) prevent consumable food and household products from turning into waste, (2) help people who are financially at risk of poverty or in poverty, and (3) support the reintegration of unemployed people into society. It is important to note that these three points are listed in the founders’ order of priority. As a consequence, SSMs only sell surplus products they receive as contributions from their supporting companies. This leads to a very limited assortment and often causes half-empty shelves. The temptation to enrich the standard assortment by purchasing items that are rarely available (e.g., sugar, oil, or baby diapers) is rejected as it remains the credo of the founders to only sell what is available as surplus products. Figures 2 and 3 portray the shopping environment at one Austrian SSM.

The services within an SSM are provided by volunteers as well as employees who are part of specific employment programs; the key objective here is to reintegrate people who are long-term unemployed. The training and knowledge needed to run a supermarket operation is provided by suppliers and retailers, who later welcome employees of SSMs into their training programs.

In the beginning the founders of the first SSM were confronted with major resistance from several sides. Politicians were boycotting the initiative because it would confirm the existence of poverty in their local districts. The media were resistant to writing about a socially sensitive topic. And, the public was hesitant about to what extent a supermarket for ‘poor people’ might affect their neighborhood. Following a very difficult launch phase, high acceptance by consumers and
the broad support of suppliers has proved that the idea has potential. Ten years after the foundation of the first SSM, the number of markets has increased to a total of eighty located in every major city. About twenty markets are mobile supplying rural areas (Lienbacher & Holweg, 2010). These SSMs represent a 1.5-percent national share when compared to the 5,600 mainstream supermarkets in Austria (Nielsen, 2007).

Initial research on the acceptance of SSMs reveals that they are seen as highly positive: expert interviews among manufacturers and retailers show that a positive image effect, cost-reduction opportunities, and corporate and social responsibility (CSR) activities are main reasons to support SSMs. Table 1 lists the core results of this expert study (Lienbacher et al., 2009). Further, the results of a national survey among regular consumers of traditional supermarkets indicate that the existence of SSMs for people in poverty or at risk of poverty is welcome and that SSMs are not in competition with traditional supermarkets. However, all stakeholder groups stress that social accuracy and control of access for people financially in poverty needs to be ensured (Lienbacher et al., 2009).

About half of the SSMs are now operating under the umbrella organization Soma (Soma, 2010). This organization coordinates the majority of product supply and its distribution to outlets, provides cooling facilities for short-life food products, and assists in organizational matters. All SSMs are set-up as nonprofit and charitable organizations. Their sales revenue is used for rent, personnel, operational expenses, and charitable support. An example for the average yearly revenue of a SSM is listed in Table 2 and also provides an overview of the ratio of expenses. However, potential subsidies from public institutions or private sponsors can fundamentally change the stated cost structure. The high percentage of cost for rent stems from central locations where SSMs target to open stores. The average store space of a SSM is 89m² plus an average separate storage area of 59m² (Lienbacher & Holweg, 2010).

SSMs so far do not widely exist in other countries. Single initiatives are established in countries such as France or Germany but cannot be compared to the holistic concept and the well-established operational network of SSMs in Austria.

Samantha now often buys at an SSM, even when her budget is tight and she could receive food for free from so called ‘food banks’ in any of the places that serve hot meals for hungry people. This is because the majority of people who use the service of food banks are homeless or people living in accommodation provided by social welfare. Samantha, however, does not want to see herself at this end of the social spectrum where people are primarily dependent on social support. She wants to stand on her own feet and be in control of her own life—even though this often means living off the very basics for several days, for example, eating just plain bread, canned food, and mostly drinking water. Only recently has Samantha’s tight situation been relieved as there is an opportunity to buy food and consumer products at a significantly reduced price at the SSM compared to traditional stores.

Reverse Logistics as an Enabler of SSMs

From the point-of-view of supply chain management (SCM), the activity of SSMs takes place at the end of the supply chain process leading to the reuse of products and waste reduction and involves a complex logistical redistribution of goods. Product returns, source reduction, recycling, material substitution, reuse of materials, waste disposal and refurbishing, repair, and remanufacturing are activities described as reverse logistics (Stock, 1998).
Reverse logistics is a reasonably new research area within logistics and SCM and has enjoyed increased attention in recent years (Rubio et al., 2008). Reverse logistics is seen in the context of the entire backward flow of products and information and is reflected in this definition of reverse logistics as the process of planning, implementing, and controlling the efficient, cost effective flow of raw materials, in-process inventory, finished goods, and related information from the point of consumption to the point of origin for the purpose of recapturing value or proper disposal (Grant et al., 2006, p. 282).

This flow of product and information is illustrated in Figure 4, which compares forward logistics to reverse logistics (Tibben-Leembke & Rogers, 2002).
Figure 4: Comparison of Forward and Reverse Logistics

Figure A: Forward logistics information flow for retail

- Sales forecast
- Planned shipments to DC
- Shipment to DC
- ASN
- Shipment to store
- Put away at store
- Actual sales

→ Product Flow
----- Information Flow

Figure B: Reverse logistics information flow for retail

- Product disposition destination
- Sortation and disposition decision making
- “Milk run” collection to DC/ORC
- Collected at store
- Customer returns item
- Return information to DC

→ Product Flow
----- Information Flow

(Source: Tibben-Lembke & Rogers, 2002, p. 273)

Figure 5: Possible Pathways for Returned Products that Can Be Renewed

Key: Solid lines denote product to be salvaged for subsequent revenue. Dotted lines denote non-revenue-producing product flows.

(Source: Coughlan et al., 2006, p. 85)
A large number of publications on reverse logistics are predominantly focused on specific types of industrial products: durable goods such as consumer electronics (e.g., TVs, PCs, mobile phones), automotive parts, and household products (e.g., refrigerators, household appliances). Further, the reuse of transport and merchandising units as containers, pallets, and displays is considered a separate area within reverse logistics. The focus on reverse logistics for these industry products has been partly triggered by EU legislation, for example, the European Union’s directive on Waste Electrical and Electronic Equipment (WEEE), and its impact on manufacturing companies (Walther & Spengler, 2005). More recent work on reverse logistics has amplified its radius from industry products to fast-moving consumer goods as described in a study about single-use-cameras (Grant & Banomyong, 2009).

Products being returned within reverse logistics processes can follow different pathways as outlined in Figure 5 (Coughlan et al., 2006). Products are usually first returned to retailers or manufacturers. Next is a stage of inspection and if needed repair at the manufacturer, repair companies, or at third party firms. The respective products are then resold in secondary markets or donated to charities. It is important to note that this model focuses on durable goods and does not include SSMs as a possible point-of-sale. For food products that are no longer saleable the process would look slightly different because it requires no returns anywhere but an extension of the supply chain to food banks or SSMs; that is, there is still a forward flow.

A review of the academic literature on reverse logistics reveals there are several research issues to explore in this area. First, there is a need to implement the returns management process into the supply chain including the documentation of issues and how obstacles may be overcome (Rogers & Tibben-Lembke, 2001). This is important because reverse logistics processes are considerably different than forward logistics processes and are not simply ‘just driving trucks the opposite way’ (Tibben-Lembke & Rogers, 2002). Second, research areas should be extended from the aforementioned durable goods sector into other industries such as food and soft-line supply chains (Skinner et al., 2008). This reflects a critique that current approaches in reverse logistics are too operational and lack a theoretical framework that is valid for multiple industries. By that, discussions should be directed more towards strategic aspects including the development of organizational theories (Rubio et al., 2008).

The Potential of Surplus Food and Food Waste

Large amounts of food and consumer products are found in the public waste system in Austria. The Austrian Institute of Ecology has found that some 70 tonnes of food are thrown away in Vienna every second. This equals about 40 kg per capita annually (Austrian Institute of Ecology, 2009). Food waste stemming from private households comprises leftovers as a consequence of preparing meals. However, the majority of food waste is product in original packaging or broken-up packaging (Schneider, 2010). Food waste from food producers or supermarkets usually comes in very large quantities of one kind, for example, milk products, fruits, or vegetables (see Figures 6 and 7).

It has been estimated that between 3 percent and 8 percent of the value of food products along the entire food supply chain have the potential to be rescued for further consumption (Von Normann, 2009).

Traditionally, food banks have taken care of surplus food from society and business and they play a key role in the redistribution of that food: they receive food donated by producers, processors, and retailers as well as from appeals to the public and then pass it on to the most vulnerable people in society. The food bank network consists of organisations that are mostly outside the government, nonprofit, community-based, and charitable. The term food bank also includes food depots, food rescue centres, food pantries, and other community-based food distribution centres.
In Europe, the first food bank was founded in France in 1984 and the first Austrian food bank started its activities in 1999. European food banks are building on the successful examples in the United States where the first food bank, St. Mary’s, was established in 1967 in Phoenix, Arizona. Today, ‘Feeding America’ represents the largest network with more than 200 food banks in the United States (Feeding America, 2009).

Such food assistance programs are highly complex. The handling of food donations within the supply chain is labour intensive and involves the coordination of a large group of voluntary and unpaid workers (Tarasuk & Eakin, 2005). Several food banks have gone far beyond their core activity of collecting and redistributing food and also provide assistance for elderly or mentally ill people, support in re-employment and training, or offer information about the variety of social aid available (San Diego Food Bank, 2010). Many food banks that started out as small, private initiatives can be compared to professionally managed, profit-orientated enterprises. They have strong marketing activities aimed at the public (e.g., charity events, sponsorship programs, and marketing campaigns) and are noticeable through a highly contemporary Internet presence (e.g., Philabundance, 2010; Oxfam, 2010).

The Future of Social Supermarkets?

The rapid expansion of SSMs and their high acceptance in the population is also accompanied by several challenges that might affect their future. From an internal point of view, the major challenges of SSMs still remain in the area of logistics and distribution. This involves timely information sharing among partners, receipt of surplus products, and prompt distribution to SSMs. Ensuring the availability of enough products is also important for an adequate in-store presentation.

From an external point of view, SSMs face increasing competition from ‘copy cats’. Given the very positive response in the community, several organizations such as the Red Cross or Caritas have launched similar projects by taking advantage of their existing network to collect surplus food or other consumer products. These organizations give away products for free to people living in poverty. Several private initiatives have opened modifications of an SSM with less strict rules because they buy-in products and do not control the social accuracy of customers.

These initiatives represent significant threats to established SSMs because they all compete for the limited amount of surplus product available. Recently, some SSMs have shut down because they did not receive minimum volumes of merchandise on a regular basis to properly fill their shelves.

However, SSMs have merit from a socially responsible perspective: they allow Samantha and others like her a real alternative to eat healthy and maintain dignity while reducing the vast amount of perfectly consumable food that goes to waste due to operational considerations.

Academics and managers in logistics and SCM can help enable the efficient and effective flow of these products from traditional markets to SSMs and thereby contribute to a more environmentally friendly and just society.

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**About the authors**

**Christina Holweg** is Assistant Professor at the Vienna University of Economics and Business, Institute for Retailing and Marketing. Following 14-years with Procter & Gamble in management positions in various European countries, her academic activity covers cooperations between trade and industry (ECR), Category Management and new forms of Retailing linked to social activities.

**Eva Lienbacher** is Assistant pre-doc at the Vienna University of Economics and Business, Institute for Retailing and Marketing. Her research areas are in Marketing, Retailing and Logistics. She is finalizing her PhD with focus on Retailing in the context of Corporate Social Responsibility.

**COMMENTS ON THE CASE STUDY**

**Walter Zinn**
The Ohio State University, Columbus, Ohio, U.S.A.

This case provides a comprehensive description of the social supermarket (SSM) phenomenon in Austria. SSMs are retail institutions that cater to low-income consumers. Their main social functions are to reduce food waste, offer affordable food to low-income consumers, and provide a source of employment. The products they sell have been either donated or obtained at very low cost. The food is wholly fit for human consumption but no longer acceptable to for-profit retailers due to being close to the expiration date or slightly damaged. The assortment offered in SSMs can be quite limited because it depends on the on the availability of items for donation.

SSMs operate on a different business model than traditional food banks. Instead of offering free food as a charity, SSMs sell the food at substantially below market prices. SSMs also rely less on volunteer labor in their stores. They provide employment opportunities to low-income individuals as store workers. Access to SSMs is limited to consumers with an ID card proving their low-income status. In general, SSMs have more resemblance to traditional retail stores than to food banks.

The SSM concept is at an early stage of development as a business model. As the case suggests, they face important challenges in their progress as a social institution and as a viable business enterprise. In the remainder of this comment, a number of these challenges are raised as points of discussion. The key challenges are grouped into issues related to customers, operations, and competition.

One of the most intriguing aspects of the case is the customer perspective. Is it always true that some low-income customers prefer to buy low-cost food at an SSM store rather than accept a free handout? On the one hand, as the case suggests, shopping at a SSM represents a ‘more dignified’ experience because no hand-out is accepted. On the other hand is the...
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Identification issue. To be admitted into a SSM store, consumers have to present a card identifying them as low income, which might be awkward or embarrassing to some people. Finally, to what extent does the free food (food bank) versus low price (SSMs) really compete? Are customers willing to alternate formats depending on the assortment available or are they more likely to become 'loyal' to one of the formats?

The issues related to operations are, as the case mentions, in large part related to the management of reverse logistics. There are concerns about food safety, and inventory turnover is also an important issue because a significant share of the food supply is close to the expiration date. Product allocation to stores is likewise important. Products need to go to stores where the demand is highest because the expiration date might preclude reallocation. Demand forecasting is essential and especially difficult to do in the case of SSMs because supplies are dependent on donor availability, which fluctuates. Further, what are the liability issues associated with SSMs? To what extent is the seller of donated food responsible for ill consequences of damaged or expired food?

Still related to operations, reverse logistics usually includes more than one player in the supply chain. As a result, there is a need to coordinate activities and perhaps processes in the supply chain. For example, are there opportunities to consolidate transportation among different donors? Should inventory be immediately allocated to a store or is there enough volume for a warehousing link that enables consolidated shipments to stores? What should the role be of an umbrella organization such as the one mentioned in the case? These issues clearly matter if cost management is at all a factor in pricing and demand for products sold in SSMs.

A fundamental question related to the growth and future of an SSM is its competition (or not) with food banks or with other SSMs. Given their nonprofit mission, should they compete or cooperate? Such competition is dual in nature because retailers compete for both customers and for food supplies. Cooperation enables the benefits of consolidation in supply chain operations. Food stores are able to offer a better assortment of products if they come from sources that are more widespread. However, competition stimulates greater efficiency.

In summary, the case presents a fascinating set of challenges for discussion about a new retail format, its operations, and social function. Regardless of how these challenges are eventually decided, if SSMs are to prosper and fulfill their mission, it is important to acknowledge that social function does not preclude the need for good management.