



# Challenges for the New Rurality

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In a changing world

Proceedings from the  
7th International Conference on  
Localized Agri-Food Systems

Editors  
Paulina Rytönen & Ursula Hård

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Editors: Paulina Rytönen & Ursula Hård

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**Inclusive and Dynamic Economic Growth in Rural Areas:**

Alternatives from Localized Agri-Food Systems and Short Chains  
*François Boucher, Raúl Antonio Riveros-Cañas & Angélica Espinoza-Ortega*

## Economic Sustainability of Short Food Chains:

### The Case of the Solidarity Purchasing Groups in Italy

Silvia Novelli<sup>1</sup> & Alessandro Corsi<sup>2</sup>

**Abstract – Solidarity Purchasing Groups (SPGs) are Italian formal or informal non-profit associations constituted with the aim to perform collective purchase and distribution to their members, without any mark-up. Motivated by ethical and solidarity principles, their running is based on the voluntary work of their members. The aim of the study is to estimate total costs of SPGs in order to assess the economic sustainability of these distribution channels over time. First results based on four case studies in Torino and other neighbouring towns, show that the value of volunteers' labour is sizable and represents the main implicit cost element. Accounting for implicit costs results in a remarkable budget deficit for all Groups. Moreover, diseconomies of scale seem to occur since larger Groups bear higher implicit costs.**

Keywords: Solidarity Purchasing Groups, economic sustainability, implicit costs, voluntary labour.

#### INTRODUCTION<sup>3</sup>

Though still a small niche, it is common to find in many towns in Italy a number of so-called Solidarity Purchasing Groups (SPGs, in Italian *Gruppi di Acquisto Solidale*, GAS) who buy goods collectively. Such Groups are set up by consumers who cooperate in order to buy food and other commonly used goods directly from producers, at a price that is fair to both parties. Typically SPGs are aimed to foster short food chains, quality and environmentally friendly food consumption, and farmers' right to fair prices. The main motivation of members for participating in SPGs is not utilitarian, i.e., it is not lower prices nor is convenience, but it is rather related with ethical and solidarity issues (Schifani and Migliore, 2011; Brunori et al., 2012; Hankins and Grasseni, 2014).

The same motivations define the organisational form of the Groups. Typically, SPGs

are run as formal or informal non-profit organisations, and rely on occasional or regular volunteers for their operations (i.e. administration, management of the participatory process, identification of products and producers, gathering and placing orders, accounting). Members' voluntary work allows distribution costs to be cut down, so higher prices can be paid to producers than in conventional distribution chains, and to achieve balanced budgets without any mark-up. Hence, the economic sustainability of SPGs is arguably based on labour costs that are not borne directly (implicit costs). It is therefore interesting to analyse SPGs' total costs, taking into account the replacement cost of voluntary labour as well.

The aim of the study is to analyse both explicit and implicit costs of SPGs in order to assess the economic sustainability of these distribution channels over time.

#### METHODS AND SOURCES

The analysis was conducted through individual in-depth interviews with the representatives of four SPGs in Torino (Italy) and other neighbouring towns. The main information gathered concerned the general organisation of the group (number of members, annual membership fees, administration etc.), the number and type of products and producers, the annual value of the distributed products, the organisation and division of labour within the group, the time devoted to each operation and the explicit costs (e.g. rents for private or public places used to stock and distribute the food products, transportation and packaging costs etc.). The reference year was 2014. To estimate the monetary value of the volunteer time (implicit cost) we adopted the replacement wage approach, i.e. we assumed the value of the volunteer's time equals the amount that it would cost the organization to pay someone to complete the same task. For the imputation of the costs of labour, we considered the mean hourly wage from the Italian National Institute of Statistics (ISTAT, 2010) for the North West area and the market services sector.

#### THEORETICAL FRAMEWORK AND ORGANISING CONCEPTS

The existence of SPGs relies upon the voluntary work of their members. So the value of voluntary work (implicit cost) can be considered a key factor for the long run sustainability of these organisations.

For the estimation we referred to the economic theory of production cost. Estimating both explicit and implicit costs, we evaluate the SPGs' economic profit, while accounting profit - equal to zero for non-profit organisations - only considers explicit costs. An input-based valuation based on declared (time) and observed (replacement wage) parameters was used for the estimation of the monetary value of voluntary work. For a conceptual framework of the

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monetization approaches of voluntary work see Orłowski and Wicker, 2015.

## RESULTS

Tables 1, 2 and 3 show the main facts about the four case studies: A) Avigliana, B) "La Cavagnetta" (Torino), C) Condove, D) Trana.

Three out of four Groups are rather large SPGs, both in terms of number of member families and value of the distributed products. For all Groups voluntary labour represents the main implicit cost (IC) item. Preliminary results suggest that the SPGs' implicit costs (replacement wages, rents when waived or borne by the members, transportation when borne by the members etc.) are mainly related to the number of suppliers rather than to the number of members (Table 1).

Table 1.

SPGs	Member families (n)	Producers (n)	Products' value (€/year)	IC (€/year)
A	156	82	164,862	47,226
B	96	52	151,000	24,406
C	120	29	171,440	17,830
D	30	15	27,838	5,044

Table 2.

SPGs	Balance without IC (€/year)	Balance with IC (€/year)	IC (%)	IC per 1,000 € of distributed goods (€)
A	212	-47,014	22	286
B	130	-24,276	14	162
C	896	-16,934	9	104
D	214	-4,830	15	181

Table 3.

SPGs	Membership fee (€/year)	Balance with IC	
		Membership fee (€/year)	Annual expenditure (%)
A	10	311	+ 29,5
B	10	263	+ 16,7
C	5	146	+ 10,2
D	10	171	+ 18,4

Due to the large variability among the organisational forms of the Groups, the implicit costs vary between 9% (Group C) and 22% (Group A) of the total costs. If implicit costs were accounted for, in all Groups the costs would largely exceed the revenue. Moreover, diseconomies of scale seem occur since larger Groups bear higher implicit costs per 1,000 € of distributed goods (Table 2).

The membership fees currently paid are rather low, but more than enough to cover explicit costs. To balance the budget when implicit costs as well as explicit costs are accounted for, the annual membership fees should be from 17 (Group D) to

31 times (Group A) higher than the present ones. Alternatively, total costs could be covered raising the prices paid by the Groups' members. The average annual expenditure for the member families vary between 928 € (Group D) and 1,573 € (Group B). In order to balance the budget the annual expenditure should be from 10% (Group C) to 29% (Group A) higher (Table 3). Of course, balancing the budget through membership fees and total expenditure, assumes that the implicit costs are equally borne by all members.

Unlike the other Groups, all members of Group A are appointed on a rotation basis for the distribution task at the point of collection. This sort of free-riding control system seems to be paid in terms of economic efficiency of the Group (much higher implicit costs).

## CONCLUSIONS

Estimating the implicit costs of SPGs reveals the sizable value of the voluntary work behind this distribution channels. These results raise some concern, especially because all the representatives complain about the difficult turnover of regular volunteers (the ones with formal and administrative roles and the co-ordinators) and the increasing difficulties in motivating the occasional ones. Usually, when there are insufficient volunteers and no one is willing to be co-ordinator these Groups disband.

Due to the nature of these initiatives, alternative estimation methods should be tested in order to quantify the social benefit of volunteers' work or the benefit that the volunteers receive in exchange for their work.

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