

Session 4.2 Market channels and intermediaries

Key learning points



- Agri-marketing channels
- Field agents
- Contract farming and out-grower programmes
- Collection points and assembly markets
- Wholesale and auction markets
- Managing markets and marketing regulations
- Farm sales
- Processors and food manufacturers
- Retailers and retail markets
- The food service industry

Main objectives of the session

By the end of this session participants will be better able to:



- Understand the main intermediaries between the grower and the consumer and their activities
- Understand different types of buyers and their needs
- Prepare grower/buyer contracts
- Organise and manage, collection and assembly points, wholesale and auction markets
- Understand market regulations, operational procedures and ownership options

4.2.1 Agri-marketing channels

Over 80% of persons involved in agribusiness are involved in marketing rather than production. Historically growers took the products that were not consumed by themselves to the local town and sold them for whatever price a buyer was prepared to pay and try to bargain for a higher price. This is not marketing and it is not normally feasible to deliver products to everyone who potentially could buy them.

Nowadays many intermediary steps are involved in agri-marketing, such as buying, assembling, storing, packing, warehousing, communicating, advertising, financing, transporting, grading, sorting, processing, conditioning, packaging, selling, retailing, risk taking, insuring, standardising, regulating, inspecting and gathering market information.

In Europe market demand for fresh produce is largely driven by the northern European supermarkets, the Dutch auctioning system, large marketing cooperatives and wholesalers. The advantages and problems of dealing directly with the final consumer should be compared to alternative possibilities of working through these and other intermediaries. This session should assist participants to recognise the role of intermediaries and the value they add in the marketing process and to consider the ways by which.

Historically most farmers produced food and fibre for home consumption. They even grew or fabricated most of the inputs needed to produce these products. They processed farm products into a form that they could consume (grain into flour, flour into bread, fibres into cloth, hides into leather). They cured and processed meat and dried and pickled fruits and vegetables so they could be stored. They also took products to the villages and towns and sought buyers as well as organising their own financial and legal matters. All of these activities added value to a basic farm commodity.

As growers, markets and technologies have developed, increasingly too has specialisation and it became physically impossible for growers to perform some of these functions and economically unfeasible to perform others. As specialists have evolved they have become not only more efficient at carrying out intermediary tasks but they also capitalise on the economics of large-scale operations. At the same time many growers have become better at producing the raw materials since they did not have to divide their skills between farming and a host of other activities.

To reduce losses and for highly perishable fresh fruit and vegetables to retain their quality it is important that freshly harvested produce is transferred from the grower to the consumer as rapidly as possible. Although growers today capture only a quarter of the consumers money collectively the market is much more efficient than it would otherwise be. In the end everyone gains. Consumers have access to a greater quantity and variety of products at a lower unit cost, growers can sell more produce at a higher unit price and the agri-marketing sector can employ more people, because the demand for food and fibre and related services requires more people.

The agri-marketing system involves the interactions between producers and consumers and also among the people, processes and jobs in between. Agri-marketing channels are the paths that an agricultural commodity follows from the farmers “gate” to the consumers “plate”. Numerous intermediaries can be found between the grower and the

consumer, but the length of this path will depend on the product and the target market. For example pick your own strawberries have a very short path, producer to consumer. However for processed products it may include; producer – assembler - food processor - food wholesaler - food retailer - consumer. In some cases the channel may be so long and complex that up to ten intermediaries are required in order to get the product from the producer to the final consumer. This network of middlemen, wholesalers and retailers works reasonably efficiently in maintaining a continuum of supply to consumers.

Understanding the many different kinds of intermediaries and how their choices affect the marketing process is essential. Some intermediaries do not change the form of the product. They simply put small lots of a commodity together to provide a larger more economical product (eg agents, wholesalers and retailers). Others add value to the product through carrying out an intermediary function to the commodity (eg drying, cleaning, packing). Other change totally the form or nature of the product (processors and manufacturers).

You will need to ask yourself:

- ❑ Which intermediaries are between you and the final consumer in the marketing process?
- ❑ What roles are they expected to perform?
- ❑ How much influence do they have over the purchase?
- ❑ What are the needs and wants of these intermediaries?
- ❑ How do they decide which supplier to support?
- ❑ What are your major points of leverage?

4.2.2 Field agents

There are a number of different types of field agents. These buyers will either pay directly for produce during the harvest period using “on the spot” pricing techniques or will prepare a sales contract with the grower some period in advance. There are a number of different types of field agents including;

Resident buyer – Individuals who either own or operate local facilities and through which they buy products. These buyers may be representatives of other firms or may be representing themselves.

Order buyers – serving as buyers for large processors, exporters, supermarkets, or wholesale firms. The buyer may be employed for a firm or work on a commission basis and purchase to prior orders and specifications

Travelling buyers – travelling from region to region as crops mature. They buy product directly from the grower and transport. They may be representatives of companies or operate independently.

Many of these buyers provide a useful service to producers. They provide feedback on market demands, they will often provide advance credit and pay in cash for product. Many also collect and subsequently grade and clean product and provide harvesting and transport boxes and technical advice on which varieties to grow, how to harvest and how to obtain higher yields.

However they will take a margin on produce sold if they are acting as an intermediary for product delivered to a processor or trader. Normally this will be in the region of 10% above the price paid to the producer. Some intermediaries will specialise in particular crops while others will deal with a wide range of produce.

While agents provide a useful and rapid service particularly for collecting and distributing fresh produce the producer has little extra income from adding value to their own production.

4.2.3 Contract farming and out-grower programmes

Contract farming is a feature of more developed horticulture. It has the advantage of reducing price fluctuations and therefore risk, both for the grower and the buyer. Contracts generally operate between grower and buyers (processors/exporters) that needs to be assured of supplies. Problems generally arise when there is a great difference between the contract price and the price in the open market. Growers are tempted to make a short-term profit but this is generally a short sighted view because it discourages the buyer from working with the grower again. Similarly when there is an oversupply of product buyers will sometimes unfairly reject produce, normally on the basis of quality. It is important that prior to the growing season clear contracts are signed between both parties.

Some examples of different types of contract	
<p>Firm purchase</p> <p>The price is agreed on in advance. Volumes are also agreed on.</p> <p>Minimum guarantee</p> <p>A minimum price is agreed on and a bonus paid after the buyer has sold the produce, depending on the profit made</p>	<p>Joint account</p> <p>The risks are jointly shared between the buyer and the grower. Profits or losses are equally divided between the two parties.</p> <p>Commission</p> <p>The buyer sells on behalf of the grower and deducts an agreed commission</p>

Contracts exist at all levels of the marketing system. In negotiating and evaluating a contract several points will need to be settled to the mutual satisfaction of both parties:

- ❑ How the price will be determined
- ❑ The quality required and its assessment
- ❑ The quantity required
- ❑ The terms of trade (date of delivery and payment, weights etc)
- ❑ Fairness to both parties and sustainability

Some processors, or other buyers, will sometimes work with selected growers and assist them in controlling all aspects of the production. They will inform them of which crop to grow, provide the seed, chemicals and fertilisers and support them with technical advice

and training. Contracts are drawn up between the producer and the buyer in advance and the grower agrees to deliver part, or all, of the crop to the buyer. The buyer agrees a fixed price in advance for the crop or else it is calculated as a margin of the total costs.

Out-grower programmes are particularly popular for exported fruit and vegetables where specific standards and specifications are imposed by the overseas buyer and the local agent is required to monitor all production. They are also popular for growing of new varieties or crop types where the producer may have very little previous experience.

Out-grower programmes offer producers a guaranteed buyer for a product that is often destined for high value export markets and provides them with the opportunity to diversify production and develop their own skills. Much of their production costs are already met through the provision of seed, chemicals, fertilisers and technical assistance. However the grower is largely tied to one buyer and will be unable to negotiate higher prices for product with other buyers during harvest.

By maintaining close control of the production operation out-grower schemes enable buyers to consistently supply a quality product. They are also better able to plan their own production and calculate incomes and expenditures. However there is a risk that growers will not keep to contract and once trained and experienced out-growers may become an established competitor in the market.

4.2.4 Collection points and assembly markets

Sometimes buyers will collect produce directly from the field during harvest. However this requires considerable coordination and high transport costs on behalf of the buyer. Often to make collection easier and more efficient for the buyer, growers will agree to deliver to a collection point or assembly market.

Temporary facilities may be established during harvest time close to the main areas of production either by the buyer or a group of growers. When buyers organise these markets growers are simply informed of the collection point by telephone, e-mail or advertising in newspapers and produce is transported to this point by the producers and from where it may be simply assembled into larger loads and then transported to the buyer or wholesale market.

When growers organise themselves it also enables produce to be assembled in volume which, in turn, attracts buyers and creates competition between buyers. Better prices are realised and economies can be achieved in transport.

The advantage for buyers is that more produce is assembled at one point. A major disadvantage is that other buyers are often at the same point. For both buyers and sellers there is a possibility for higher losses unless produce is properly handled and transported to and from the collection point.

In some cases preliminary added value activity may be carried out at the collection/assembly market, such as cleaning, grading or chilling of received product. These markets are more permanent fixtures and may have lockable premises, equipment for handling of loads as well as amenities for site services (water supply,

electrical and telephone connections) and for environmental mitigation measures (such as for waste management)

When considering setting up a collection point or assembly market it is important to:

- ❑ Identify a suitable market location, i.e. accessible to producers and roads
- ❑ Agree with local growers synchronisation of harvesting and to deliver produce to the assembly points on a specific day of the week
- ❑ Inform buyers, agents, wholesalers and truckers of the time and location of the assembly market
- ❑ Encourage growers not to undercut one another by agreeing on a minimum sales price

Provided the market is a success it will become self-sustaining, but at a later date it can be used as a springboard for group transport and marketing into the high price and more distant markets.

4.2.5 Wholesale and auction markets

Wholesale markets for fresh fruit and vegetables are regional markets where producers or traders bring fresh product (either packed or unpacked) for either direct sale or auctioning and subsequent collection by, or delivery to, retailers or other outlets that are primarily in urban areas. Most markets deal with both domestic and imported production. Supplies of horticultural produce to markets varies from shortages to oversupply, hourly, daily and seasonally.

Markets may be simple operations or may provide a number of services for traders including loading, unloading and weighing equipment, packing, short term storage and ripening facilities and displays. They also often provide auctioning or sales areas and office facilities for traders. Each trader normally rent their own sales area within the market from the market authority. Some traders often specialise in particular products, or from particular groups of growers, regions or countries.

Customer flow in markets is extremely important and a high proportion of efficient markets are used for roads and parking (50/70%). To aid traffic circulation entrance to the market is normally through one gate and sales through another. Fresh fruit and vegetable sales are normally at their busiest in wholesale markets very early in the morning when air temperatures are at their lowest. Traders will charge a commission fee to the seller and the buyer (around 10%) in order to cover their costs and will either sell product directly or by auction.

Any market should be carefully located in the right place in order to ensure success. When markets are wrongly situated traders move to different locations. The following points are important to consider when a new market is planned.

- ❑ *The views of buyers.* Buyers are the most important users of the market. If buyers find it difficult or expensive to visit the market they will seek other sources for produce. Their average travelling time should be reasonable
- ❑ *Traffic movements* likely into and out of the market. Proper exits and entrances are important

- ❑ *Equipment requirements*, particularly for handling and protection of produce. The amount of equipment will depend upon the type and quality of produce to be handled and the average time it stays at the market.

Auction selling is a strong feature of many fresh fruit and vegetable wholesale markets, particularly for loads of palletted and standardised produce. However if produce can be clearly specified by its description it can be argued that there is no need even for a physical venue. Auction through computer is becoming increasingly popular and has a particular advantage of overcoming the remote location of many growers and markets. Even so uptake remains low as buyers and growers still often prefer face to face contact and to see produce before it is bought.

4.2.6 Managing markets and marketing regulations

It is important that the communities in which markets are situated feel some sort of “ownership” of the facilities and work to keep them operating in an efficient way. This can best be achieved by, firstly, maximising the participation of all interested parties in the planning stage and, secondly, ensuring the involvement of those parties in the management and operation of the facilities.

The role of a markets management and the functions it carries out will clearly vary according to the size and type of market. In general, a management committee would be expected to:

- ❑ Set and control trading hours and hours for producer, retailer and transport access
- ❑ Define and control produce that is traded in the market. A common problem with markets is that fresh produce traders find themselves being pushed out of the market by retailers of dry goods
- ❑ Develop rules for space allocation and on the basis of these rules decide on fees. Fees can be collected on a daily basis or over a longer period. Where daily fees are collected this is likely to correspond to the allocation of space on a "first-come-first-served" basis. Where a specific space or stall is allocated this will normally be done by contract and fees may be collected weekly or monthly
- ❑ Ensure that traders operate only within their allocated spaces and that roads and passageways do not become blocked and ensure that access to the market is not blocked by parked vehicles, or by "free rider" traders who wish to take advantage of the market's location and customers without paying fees
- ❑ Arrange for the cleaning of the market and toilets and disposal of the garbage and take all necessary steps to ensure market hygiene
- ❑ Provide for security in the market. This particularly applies when there are permanent stalls and the traders leave produce in the market overnight
- ❑ In extreme cases, evict traders or others who fail to abide by the rules of the market

There are several options for management of markets.

- a. **Leasing of facilities to the private sector:** This model removes the onus of management from the local authority. A long-term lease, or rental agreement is given to a private company, which is free to manage the market.
- b. **Contracting management to the private sector:** In this model, the owner of the market employs a company on an annual basis to operate the market for a fixed fee. The market revenues then go back to the owner based on a pre-agreed schedule of market fees.
- c. **A public board:** If such a board is adopted, it is vital that issues relating to management are clear.
- d. **A market authority:** Some countries use autonomous authorities to manage all markets in a particular area. These are usually established by a mixture of interested parties, including national marketing bodies and local authorities.
- e. **Local authority ownership:** This is a conventional model for market ownership and operation. Its advantage is that the market remains a public facility that can be operated in the public interest. However, local authorities often look on markets solely as taxation instrument and little attention is given to providing the range of facilities and services that are needed by the users (growers and traders).
- f. **A market management committee:** This is a model frequently used for the management of collection centres. Such a model requires a clear directive, specifying in some detail those who should be appointed to the Committee and the means by which they should be elected or chosen. It would also need to sets out the duties and responsibilities of the Committee.
- g. **Private ownership:** Completely private ownership of rural market facilities is comparatively rare although there is often a strong interest on the part of existing traders to invest in market development.

Within the seven broad models outlined above there are many options regarding exactly how the market will be operated, for example, provision of services such as cleaning and security could be contracted out to the private sector. Management can also be organised to involve co-operatives or associations representing traders or producers in the management of part or all of the market.

Revenues from the market need to be sufficient to cover all operating costs, including putting-aside a sinking fund for infrastructure and equipment maintenance. A provision for using part of the market revenues for future expansion adds sustainability of the activities. A proportion of the market income is also often retained for funding the provision of a market information system.

4.2.7 Farm sales

Growers sometimes prefer to sell direct to consumers by and establish a roadside facility that will sell fresh fruits and vegetables. The advantage of this approach for a grower is the increased price they are able to obtain by dealing direct with the final consumer. The grower establishes a retail outlet normally close to the farm or else encourages people to harvest their own fruit directly from the field. Once picked the fruit is subsequently weighed and priced.

This form of selling is best on farms that are easily accessed by the general public, normally either at the side of major roads or close to urban areas. Additional investment costs will be incurred by the grower in order to both attract customers through promotion as well as for installing suitable facilities for retailing products and dealing with clients.

4.2.8 Processors and food manufacturers

An agricultural commodity is an agricultural crop, livestock, milk etc. that comes off a farm in the raw state. Once the raw commodity has had its initial form altered by a processor or other intermediary it becomes a food product. For example lettuce is a commodity, while packed mixed vegetable salads are products.

The processor is normally the first in the marketing chain to alter the basic form of the agricultural commodity. Processors include canned and frozen food in all commodity area and drinks as well as for non-food items such as paper or cotton. Canning and freezing fruits and vegetable involves a number of processes including, cleaning, peeling, cutting, shelling, breaking, blanching, cooking, canning, freezing and secondary processing, depending upon the commodity. Most fruits and vegetables can be processed in some way for example:

Potato processing – Some potatoes may be simply bagged for sale through supermarkets as whole potatoes. Others undergo considerable processing, such as into chips or instant mashed potato.

Tomato processing – like most fruits and vegetable can be modified in a number of ways and can be canned or prepared as pastes, ketchups and juices as well as mixed with other products into pre-prepared ready meals.

The processing and food manufacturing industries owe their existence to advancements in technology. New technologies permit better utilisation of existing food supplies by extending the useful life of perishable food items. Many of the advances in technology came as a result of efforts to develop low cost, high volume commodity processing and food manufacturing procedures. The result has been the development of a separate processing-manufacturing sector in agribusiness.

The 50 largest food processors control 47% of total sales in Western Europe and competition between them is intense. Even in periods of slow economic growth food processors use price and non-price competition to gain both consumer acceptance and space on retail shelves.

Food manufacturers continue the job started by the processor by adding further value to crops by increasing the level of preservation, convenience and quality. They tend to use the semi-processed product already prepared by the processor. Food manufacturing includes businesses such as; breakfast cereals, ice cream etc. In this process the raw agricultural commodity completely loses its identity and emerges from the food manufacturing process as part of the food product. The commodities no longer exist but are now part of the ingredients.

4.2.9 Retailers and retail markets

Retailers are the marketing systems specialist salespeople so it is not unreasonable to assume that they are likely to have a major influence in determining product and market specifications. They are in direct contact with the consumer and this gives them unrivalled information about consumer requirements. Agri-business retailers include those businesses selling groceries, prepared foods, drinks and products derived from agriculture directly to the consumer.

There are a number of different types of retailers, including:

Supermarkets and chain stores – In Western Europe these outlets may offer between 10,000 – 15,000 food items plus non-food items. Even larger hypermarkets are now under development in many countries. A chain store is defined as a single operation of 11 or more stores under a single owner and have revolutionised the way food is sold to consumers. Some stores operate more than 5,000 branches.

Local stores – Local stores often are able to compete for convenience sales and normally offer a narrower range of products. Consumers tend to buy one or two products from these stores.

Speciality food stores – Growing in popularity in Western Europe and presently accounting for around 6% of total food sales. They normally specialise in a single food category, such as health foods, organic foods, ice cream etc.

In Western Europe supermarkets and speciality food stores have grown in importance over the past decade while the numbers of small local stores has declined. This has largely reflected the demand from consumers for “one stop” shopping convenience while at the same time demanding a wider range of novelty food options and value for money.

Urban retail and growers markets - Many urban areas have street markets and/or partially covered markets and from where fresh fruit and vegetable produce is sold from a stall or barrow. These markets carry out the same functions as shops selling fresh fruits and vegetables and occasionally other food items. Market stallholders tend to sell produce at a lower price compared to retail shops although prices tend to drop through the day. Stallholders purchase their produce on a daily basis from the nearest wholesale market and may share transport for collection.

A new trend in recent years has been the growth in growers markets whereby a number of growers establish a retail market for selling directly to consumers. The aim is to raise prices received by producers from selling directly to the final consumer and also to exploit a growing consumer demand for fruits and vegetables that are seen to be wholesome, healthy and fresh.

4.2.10 The food service industry

One of the fastest growing segments of the food industry in Western Europe is catering through hotels, restaurants, fast food outlets, schools, hospitals, prisons, military installations and other away from home locations. Sales at these outlets represent

almost 30% of all the money spent on food at retail level and has increased its share relative to the supermarket and other retailers.

Everyday approximately 100 million western Europeans, including more than 40% of the adult population eat out at least once. Over the course of the year more than 80 billion snacks are served in the food service industry across the region and using up (amongst other products) 55% of the lettuce and 65% of potatoes produced in the EU.

Commercial food establishments open to the general public include, fast food, restaurants, lodging places, recreation centres, cafeterias, drinking places and social caterers served and sold for a profit. These establishments account for 75% of all sales. The remainder are non commercial establishments include; meals and snacks served as a supportive rather than primary service, including educational establishments, care and health centres, offices, military installations etc.

CASE STUDY

Electronic Auction, Union of Agricultural Cooperatives Corinth

In April 2003 the Union of Agricultural Cooperatives Corinth (EASK) held an electronic auction for the purchase of a selection of agricultural chemicals for their members. CosmoOne were the hosts and firstly the following conditions were established:

1. The exact composition of the specifications for chemicals to be bought, including brands, quantities and packaging
2. The conditions governing the auction
3. The names and contacts of the potential bidders
4. The date and time of the auction

Seven potential bidders were informed of the auction. CosmoOne:

1. Drew up detailed terms and conditions for the auction
2. Contacted the potential bidders
3. Explained to the potential bidder the use of the auction website
4. Issued bidders an access code

By the time of the auction date, four of the potential seven bidders showed an interest in the auction and had received information and access codes. The auction opened at 11:00 am. At 11:01 the first of the bidders submitted a bid. At 11:22 the second bidder entered the auction. At 11:26 the third bidder entered. One of the four bidders decided not to participate.

Between the time the third bidder entered the auction and the end of the auction a total of 28 bids were submitted, mainly in reduced increments of 100 Euro but sometimes in bids reduced by 400 Euro. The terms and conditions of the auction specified a duration of 30 minutes; however, if a bid was submitted within one minute of the end time, the auction was extended by a further three minutes and so on. In the event the auction lasted nearly one hour, and the price offered descended from the opening price of €14,000 (set by EASK), to € 8,400, or a discount of 40%. EASK had expected to pay in the region of €9,300 for the chemicals; so the auction resulted in a real gain to EASK of around 10%.

The auction was projected onto a screen at the premises of EASK so that they were able to follow the entire process and see each bid as submitted by individual bidders. However the bidders themselves were only able to see the most recent bid (without knowing who submitted it) and the time remaining.

This trial auction generated considerable interest within the cooperative and will become a regular programme in the future for purchase of major supplies.

EXERCISES

Market channels and intermediaries:

For your country or region, draw the main channels by which fruit and vegetable products are produced and distributed to the final consumer. Prepare your estimate of average percentages delivered through each market. Then make a similar diagram as to how you expect to see the distribution system in 10 years time.

Go to a local supermarket or wholesale market. Look at the range of fresh fruit and vegetables on sale. Write down which ones are imported and give as many reasons you can as to why these import products are available rather than domestic production.

Divide an A4 piece of paper into two parts. On one side write all the things consumers would expect from buying fresh fruit and vegetables in an ideal world. On the other side write all the things producers might expect from selling fresh fruit and vegetables in the real world. Discuss the ideas and the role of intermediaries in resolving these two extremes.

Brainstorm possibilities within a group as to how you feel electronic commerce systems might further aid linkages between operators in the production and marketing chain. Draft your ideas and contact an E-commerce specialist company for their views on how it may be implemented.