Points to be discussed on Agriculture Products Marketing for small scale farmers

In the FVC Seminar on “Marketing of Agricultural Products for Small Scale Farmers in ASEAN“

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Yasunori ARAKI (Former MAFF-JPN Staff)
spd25939@samba.ocn.ne.jp
Roughly Marketing Channels are classified into two categories in every country.

- **Secret Trading** (Not through wholesale markets):
  - Middlemen
  - Contract Farming
  - Direct selling

- **Through wholesale markets**:
  - Transparency and fair pricing

Farmers → Secret Trading (Not through wholesale markets) → Consumers
Farmers → Through wholesale markets → Consumers
Direct Selling from Farmers to Consumers
(This cannot become majority of marketing)

Farmers Market (Far from consumers)

- Rare Purchases
  - A lot of transportation cost
  - Risk: Farmers have to withdraw unsold products by their own cost.

- Frequent Purchases
  - Near to Consumers
  - Expensive
  - Small lot transportation requires high cost even through Internet linkage

- Risk: Can farmers ensure payment from consumers?
- Through Delivery Service

- Risk: Can consumers receive same products as products explained in advance?
Contract Farming between Farmers and Buyers (Retailers, Processors) (Only this cannot solve all marketing problems)

- Only Contracted Amount
  - If over production occurs, farmers have to sell their surplus to other buyers or throw away them. If shortage occurs, farmers have to receive penalty.

Many Risks on implementing the contract for both sides

- Pole vaulting sell
- If higher price in market than the contracted price, farmers often sell the products to other buyers.

- We can identify many cases of failure contract farming. It is difficult to realize successful contract farming. Successful cases could be realized on strong mutual credibility and special commodities such as medicinal plants.

- It is not easy for small farmers to join this farming without groups.
Even Normal Contract Farming always requires surplus products to be sold outside the contracts

In order to ensure consistent supply to buyers (processors), farmers always have to produce more products than the contracted amount in order to avoid products shortage, because all kinds of products production fluctuate under changing weather condition.

If shortage of contracted products actually happens, big penalty will come to farmers.
As a result, farmers have to sell the surplus to other buyers or markets at lower price every time. This would add more cost to contract farming for farmers.
This cost could not be ignored in the management.

Primarily fluctuating fresh products are not suitable for contract farming.

We can identify many failed cases of contract farming due to the above risks and additional cost.
Summarized Current Situation on Agricultural Products Marketing in ASEAN

- **Individual Farmers (Small)**
  - Free Selling
  - Individual Agents

- **Ag Coop**

- **Farmers Groups**

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- **Individual Farmers (Big)**

- **Integrator Companies**

- **Wholesale Market with Limited Function (Collecting and Dividing Products) (Limited transparency)**

- **Retail Market**

- **Consumers**

- **Contract Farming**

- **High End Market with large flexibility**

- **Free Selling**

- **Contract Selling**

- **Frequent Stock Out**
Points to be discussed later

- Need to identify appropriate positions of Farmers Markets in agricultural products marketing (Not Lead Actors, but Supporting-Actors)

- Contract farming is one solution, but it cannot solve all marketing issues. (Most small farmers are outside contract farming)
  Under current large flexibility of supermarkets, frequent cases of stock-out can be accepted by them. But in future this flexibility will be minimized.
  Inconsistent supply by contract farming cannot be accepted by processors.

- Heavy reliance on FDI is difficult. They could cover export business mostly.
  Japanese Agricultural Corporations (JAC) activities could become models for high end value chain development, but only JACs cannot extend these models to wider areas covering small farmers.

- Most small farmers have to rely on wholesale markets with limited function.
  It is difficult for them to sell their products to high end markets and export.

  • How to strengthen collective marketing by small farmers groups (sale to domestic wholesale market or specific buyers)
  • How to establish consistent supply through networking among several groups (Uneven profit sharing between diligent farmers and lazy farmers)