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THE APPROACH OF PRODUCERS ORGANISATIONS TO THEIR SMALLEST MEMBERS – AN EVIDENCE FROM HUNGARIAN FRUIT AND VEGETABLE SECTOR

*PODEJŚCIE ORGANIZACJI PRODUCENCKICH DO NAJMNIĘJ LICZNYCH CZŁONKÓW
– NA PRZYKŁADZIE WĘGIERSKIEGO SEKTORA OWOCÓW I WARZYW*

Key words: producer organisation, small-sized agricultural producers, food-markets

Slowa kluczowe: organizacja producentów, drobni producenci rolni, rynki żywności

JEL codes: Q13

Abstract. In today's food-retail industry, it is very hard for small-sized agricultural producers to become suppliers of large chain stores, as these require products in large volumes and with consistent quality. Participating in producer organisations (PO-s) and selling collectively is an alternate solution for them. Producer organisations receive support from the EU. On the other hand, very small producers are even unable to successfully join PO-s. The present Hungarian case-study examines the attitudes of PO-s to the membership of small producers. We were looking for the answer that how it is worth for small-sized producers to sell through PO-s. Without the organisations, mostly the conventional sales channels (i.e. markets, small shops) or short supply chains remain for them as sale opportunities. According to the most general and comprehensive opinion of our survey, rather the reliability and keeping of the rules are important for the PO-s, and not the plant size. Specific costs of PO-s are higher in the case of small producers, but discrimination was fundamentally atypical.

Introduction

Nowadays, the food trade is a concentrated and overstocked market in both developed and many developing countries. According to János Kartali et al. [2009], supplying to large chain-stores by a small-sized producer is possible mainly by way of cooperation, innovative strategic behaviour, and selling niche-market products. The European Union continuously supports cooperation between producers and producer organisations (PO-s)¹. The Community has set the aim of increasing the market share and distributed product volumes of PO-s. This would greatly contribute to decreasing their risk and vulnerability as well as to increasing food-security and transparency of the sector.

According to the research of Antal Seres et al. [2012], the common opinion of PO leaders was that management has more problems with small-sized producers than with large ones. Possible reasons include the fact that in the case of small producers, it is difficult to guarantee consistent quality of products and quality assurance can be expensive due to technical reasons. The classification, selection, packaging, and equipping of their products with identification is expensive. What is more, the nominal cost of consultations is higher and the transfer of information is more difficult. According to the research results of Anna Hamar [2017], membership of small producers poses a risk for organisations as uncertainty in cultivation technologies is more frequent, their production requires pre-financing, and breaches of contract are most frequent.

¹ The Hungarian term for “producer organisation (PO)” is “termelői értékesítő szervezet” (TÉSZ) [Pádisák 2018], and its possible verbatim English translation is “producers’ selling organisation”. Since 2008, there have been fruit and vegetable producer organisations and producers’ groups in Hungary, but the term “TÉSZ” is still in use.

Research material and methodology

The main objectives of our research was to determine the approach of the PO-s' leaders to the membership of small producers. Then, we can come to conclusion that in what cases is it worth for small producers, to become PO-members. Furthermore, we made an attempt to quantify the "small-producer's plant sizes. During primary research, interviews with seven leaders of fruit-and-vegetable producer organisations were conducted. The interviews took place in person, over the phone, and by electronic, written questionnaires. The interview sheets contained 16 open-ended questions, but not all of the results are presented in this study. Six of the visited organisations functioned as cooperatives and one as an limited liability company (Ltd.). In this respect, differences between them have not been distinguished. A total of 62 fruit-and-vegetable producer organisations were registered with licences, in 2017, in Hungary [Hungarian Government 2017]. Sampling was conducted on a voluntary basis and based on recommendations. One of the organisations also offered the opportunity to lead conversations with four producers.

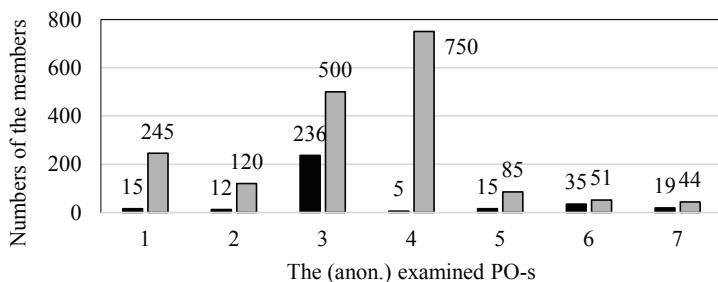
Before presenting the results, we would like to point out that interview surveys (generally) have some limitations. The various respondents gave answers according to their own discretion and to the time available to them. Although the questions were the same in all cases, a great deal of subjectivity and digression from the subject could be observed. For this reason, unified analysis met with some difficulties, though this was not the basic aim of the research. The results can only be interpreted for Hungary. It is very hard to describe what is meant by the term "small-sized agricultural producer," whose characteristics are being focusing on. According to the 1995 Hungarian Act on personal income tax, "small-sized producers" are agricultural producers whose annual revenues do not exceed HUF 8 million (~EUR 25,000). According to the opinion of our respondents, HUF 8 million yearly is not even enough to realise a monthly (net) income of HUF 150 thousand (~EUR 470). One of the most frequently used farm-size comparing data is the size of agricultural area. Its explanation is closely connected with the farm-structure of the examined country. Within a given sector, the (cultivated) culture and used cultivation-technology greatly distort the comparative plant-size-determination based on land size. Using ESU (European Size Unit) and SO (Standard Output) as measures was an option, but plant sizes were finally measured on the basis of annual supplied values. The values presented in the results are in Hungarian forints (HUF). Amounts were converted to Euro at an exchange rate of HUF – EUR 320.43.

Research results

The examined PO-s differed with regard to sold produce and used cultivation technology. For this reason, PO comparison is a difficult task and fails to provide clear results. Of the basic data, only those providing a comprehensive picture are presented. The organisations were founded between 1999 and 2004, which was the preliminary period of EU-accession. Their numbers of members were different both in the time of foundation, and of the survey. Since the time of their foundation, the increase of their membership is more than fivefold in total (fig. 1). The most important aim of the organisations was the concentration of producers – or more explicitly local producers – to help reach markets and coordinate sales. A further aim was to obtain EU support, help producers (for example by form of consultations or by purchasing input-material), and satisfy consumer needs (at a high level and securely). The sales channel used most frequently by the organisation was through retail chain-stores and the processing industry. On the basis of the interviews, inland wholesale was a goal in one case and selling to consumers and the catering industry was a goal for three respondents. The export numbers of the organisations were very different. In the case of the 7 organisations, its average was 37%. In the sample, there were export rates of 90% and 0%.

Figure 1. Membership of the examined organisations
Source: own study

- Membership at the time of the fundation
- Membership at the time of the survey (in 2018)



The classification of the PO membership on the basis of size – to determine which can be determined as small, medium or large-sized producers – is dependent on the used culture and cultivation-technology. For example, in the case of horseradish, production on 5-10 hectares can be considered large-sized, however in the case of fruit producers, it occurs that sour cherry production takes place on 700 hectares. In the case of a PO with a fruit profile, the areas cultivated by various producers varied from 0.3 to 100 hectares. At another organisation, in the case of vegetables, the smallest production area was 0.5 hectares, and in the case of fruit – 4 hectares. These great differences provided the basis of the use of annual supplied value to determine plant sizes. The “sizes” of member producers – determined in this way – moved on a very broad scale. There was a PO, where member sizes (supplied values) were between HUF 100 thousand (EUR 312) and HUF 110 million (~EUR 343,400).

Our respondents were asked to form an opinion as to what values the various producers-supply to PO-s on average. With this question in mind, the aim was to determine what “small”, “medium” and “large” producers are in this respect. However, we could not query this uniformly, because of the different characteristics of the PO-s. The average supplied values were different amongst the PO-s (as well as their numbers of members). We have information only in three cases about the distribution of the membership on the basis of their supplied values. In one from this three organisations, greater producers appeared in greater proportion. The main ware of this organisation were the elder. In this PO, 54,9% of the members supplied between HUF 10 and 100 million (EUR 31,200-312,000) product-values. Compared to the other two organisations, this rate is considered high, because in their cases, the 62,5% and 66,6% of the producers supplied below HUF 5 million (EUR 15,600). Their main products were apricots, cherries and plums. We have no information about the distribution of the other four PO-s’ membership, but the responders were determined (roughly) that who can be considered as small, medium and large-sized producers, in the cases of their organisations. Two responders mentioned a lower (starting) limit of HUF 500 thousand (EUR 1,560), for the supply of the small sized producers, but this was not a requirement in a strict sense. However, on the other hand, in the case of horseradish, supply sizes below HUF 600 thousand (EUR 1,870) were dominant at one of the organisations. The determination of medium, and large-sized producers was different, starting from HUF 5 million (EUR 15,600), as the lower limit, to hundreds of million HUF, in order of magnitude.

Answers received from five leaders point to the fact that PO-s do not basically discriminate against small-sized producers as members. Related to the criteria of membership participation, all the respondents referred to statutory principles, e.g. the producers must supply all of their produced quantity of given products to PO-s. With the permission of PO-s, it is possible to sell products locally, maximum up to 25% of volume but this is almost impossible to track. Furthermore, a producer can be a member of more than one PO (in the case of different products). The responders had varied opinions about the small producers (tab. 1).

Table 1. Individual opinions of the responders about the small producers, according to different topics

Topics	Individual opinions
(Local) cooperation, integration	“It is a positive practice that “larger” members have their own place to receive and handle products, and small ones are integrated into these according to their geographical location. This allows all kinds of producers to find what they are looking for”
Cost-effectiveness	“Dealing with small producers is not cost-efficient because there is the same (administrative and preparation) work with a quantity of 500 kilograms as with 120,000 kilograms. This PO tries to urge the small members to grow. Those who supply below the quantity of 500 thousand HUF (1,560 EUR) are not eligible for significant support, for example for purchasing input-materials”. “It is more worth to place machines out to large producers than to smaller ones”. “The establishment or maintenance of quality assurance-systems cost averagely 100,000 HUF (312 EUR) per member, and the examination of plant protection chemical residues costs 60,000 HUF (187 EUR). These costs are independent from supplied volumes. They are the same for 5 or 30 tons of produce”.
Cost-effectiveness, consultation	“In the case of small producers, the consultations are also nominally more expensive. In their cases, it is necessary to “hold their hand” more often and to a greater extent. But in the case of large producers, they do not necessary need consultation and sometimes even provide such services to the PO”
Members’ contribution	“For small producers, PO-s are often too expensive; they do not pay the members’ contribution”
Size-differences of producers	“The size-differences generally do not cause disagreements among the producers”
“Shirker” members”	“Shirkers” do occur among the members. They do not want to become committed, real suppliers, but they apply only for the plus-points they get for being members, for example in the case of “Young farmer tenders” The PO-s try to sift out this kind of motivation during the membership application. At this PO, (as generally) it wasn’t the size that was important, but the keeping of the rules.

Source: own survey

Summary and Conclusion

The main objective of our research was to determine the relation of PO-s to small producers. The findings of the present study was that the examined Producer Organisations do not discriminate against members on the basis of their sizes. It was hard to determine objectively that who can be considered small producers, in the case of the different PO-s. It is because the various culture and technology. Two of our respondents determined a possible lower (starting) limit of HUF 500 thousand (EUR 1,560). Above that it is better to supply (for them), but it is not an obligation. This kind of determinations can be different per culture (for example in the case of horseradish) and per technology. This cannot be interpreted as an obligation. A further point of reference is that membership is advantageous to producers where supplying is profitable despite member contribution costs and the offered prices of buyin. The stipulation of membership and good relations with PO-s was not primarily supplied volume or plant size, but reliability and loyalty. According to our experiences, it is worth for the organisations to deal with the smaller producers (also), and to accept them as members, in order to obtain larger product base. Nominal costs spent on small producers are higher, and for this reason membership involves difficulties. On the other hand, there were smaller producers (supplying less than HUF 5 million/EUR 15,600 per year) in larger proportions in the membership of a larger number of organisations.

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Streszczenie

Obecna sytuacja w sektorze handlu i dystrybucji żywności powoduje, że drobnym producentom rolnym trudno stać się dostawcami towarów do wielkich sieci handlowych, gdyż wymagaloby to prowadzenia produkcji na dużą skalę oraz utrzymania spójnej jakości. Przynależność do organizacji producentów oraz sprzedaż zbiorowa jest dla takich podmiotów rozwiązaniem alternatywnym, bowiem organizacje producentów otrzymują wsparcie od UE. Z drugiej strony, najmniejsi producenci rolni mają problem z przystąpieniem do organizacji producenckich. Skupiono się na podejściu organizacji producentów do członkostwa drobnych wytwarzów w tych organizacjach na Węgrzech. Podjęto próbę odpowiedzi na pytanie, czy możliwe jest określenie minimalnej wielkości zakładu produkcyjnego, powyżej której długoterminowa współpraca jest korzystna zarówno dla organizacji producentów, jak i dla samego producenta. Z badań wynika, że nie można określić takiej wielkości, z powodu różnic występujących w sektorze (np. w zakresie kultur i technologii upraw). Jednak można określić pewne cechy dotyczące wielkości podmiotów. W przypadku drobnych wytwarzów wyższe są w szczególności koszty ponoszone przez organizacje producentów.

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