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DEPARTMENT OF HORTICULTURE

BULLETIN 8

Economics and Management
of Vegetable Production

Editor : T. M. Morrison

1911

1912

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PROCEEDINGS OF A SHORT COURSE ON
ECONOMICS AND MANAGEMENT OF VEGETABLE GROWING

MAY 1969

Edited by Professor T.M. Morrison

Department of Horticulture
Lincoln College
Canterbury
New Zealand

Department of Horticulture
Bulletin No. 8 1969

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY
5800 S. UNIVERSITY AVENUE
CHICAGO, ILLINOIS 60637

MEMORANDUM

TO: [Name]

FROM: [Name]

DATE: [Date]

PREFACE

The Vegetable and Produce Growers Federation for a number of years has been encouraging collection of costs of production of process crops. While this is valuable in maintaining a watching brief on processor pay-outs, it is only one factor in assessing the relative profitability of competing crops. The full science or art, of management must be brought to bear on the problems before any solution can be suggested.

With farmers diversifying into vegetable production and others likely to follow as processing expands into export it is opportune that a course such as this was held at this time. Some of the discussions show the pertinence of papers to problems facing the industry right now. Others show the way to the future.

The course offered a new look in education to vegetable growers. We have maintained that our greatest contribution to the established grower is to bring recent information to his notice - preferably after he has been in the industry for some time. With a recession in fresh vegetable prices, "economic" management is probably the most serious omission from growers' education. Fortunately in this department and others in the College we can present an expertise in this modern subject.

The papers do not attempt to answer all specific questions but are designed to give a base on which the individual grower can build for himself from his own experience. They also may serve to demonstrate to the grower that in horticulture we have a long way to go to fill the gaps in our "management" knowledge. It behoves all growers to help us and consequently themselves to acquire this knowledge.

Finally I must thank all lecturers at this course for they provided a stimulating four days and all growers who attended, for without a receptive audience no course can succeed.

T.M. Morrison
Professor of Horticulture
Lincoln College

The first part of the report deals with the general situation in the country. It is noted that the economy is still in a state of depression and that the government is struggling to meet its obligations. The report also mentions the need for international assistance and the importance of maintaining law and order.

In the second part, the report discusses the progress of the government's policies. It is noted that the government has made some progress in the field of education and health, but that there is still a long way to go. The report also mentions the need for more funds to carry out these policies.

The third part of the report deals with the financial situation of the country. It is noted that the government is facing a severe financial crisis and that it is unable to meet its obligations. The report also mentions the need for more funds to carry out the government's policies.

In the fourth part, the report discusses the social situation in the country. It is noted that the population is still suffering from poverty and that there is a need for more social services. The report also mentions the need for more funds to carry out these services.

The fifth part of the report deals with the political situation in the country. It is noted that the government is still struggling to maintain law and order and that there is a need for more political stability. The report also mentions the need for more funds to carry out the government's policies.

The sixth part of the report discusses the international situation in the country. It is noted that the country is still facing international isolation and that there is a need for more international assistance. The report also mentions the need for more funds to carry out the government's policies.

The seventh part of the report deals with the future prospects of the country. It is noted that the country has a long way to go and that there is a need for more international assistance. The report also mentions the need for more funds to carry out the government's policies.

The report concludes by stating that the government is still struggling to meet its obligations and that there is a need for more international assistance. It also mentions the need for more funds to carry out the government's policies.

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The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. This ensures transparency and allows for easy verification of the data.

In the second section, the author outlines the various methods used to collect and analyze the data. These include direct observation, interviews with key personnel, and the use of specialized software tools. Each method is described in detail, highlighting its strengths and potential limitations.

The third part of the report presents the findings of the study. It shows a clear trend of increasing activity over the period observed, which is consistent with the initial hypothesis. The data also indicates that certain factors have a significant impact on the overall results, while others appear to have a minimal effect.

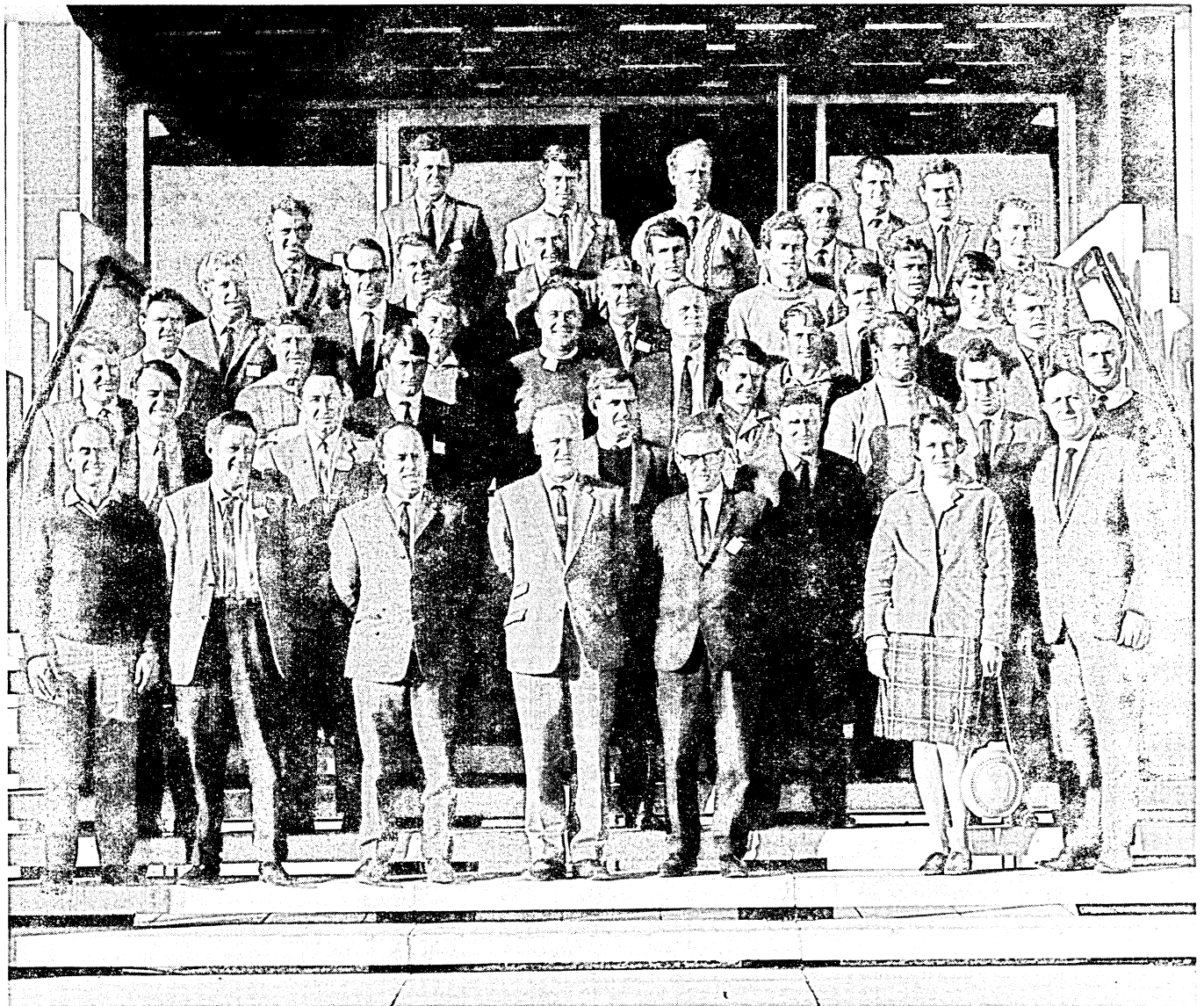
Finally, the document concludes with a series of recommendations based on the findings. These suggestions are aimed at improving the efficiency of the process and ensuring that the data remains accurate and reliable for future use.

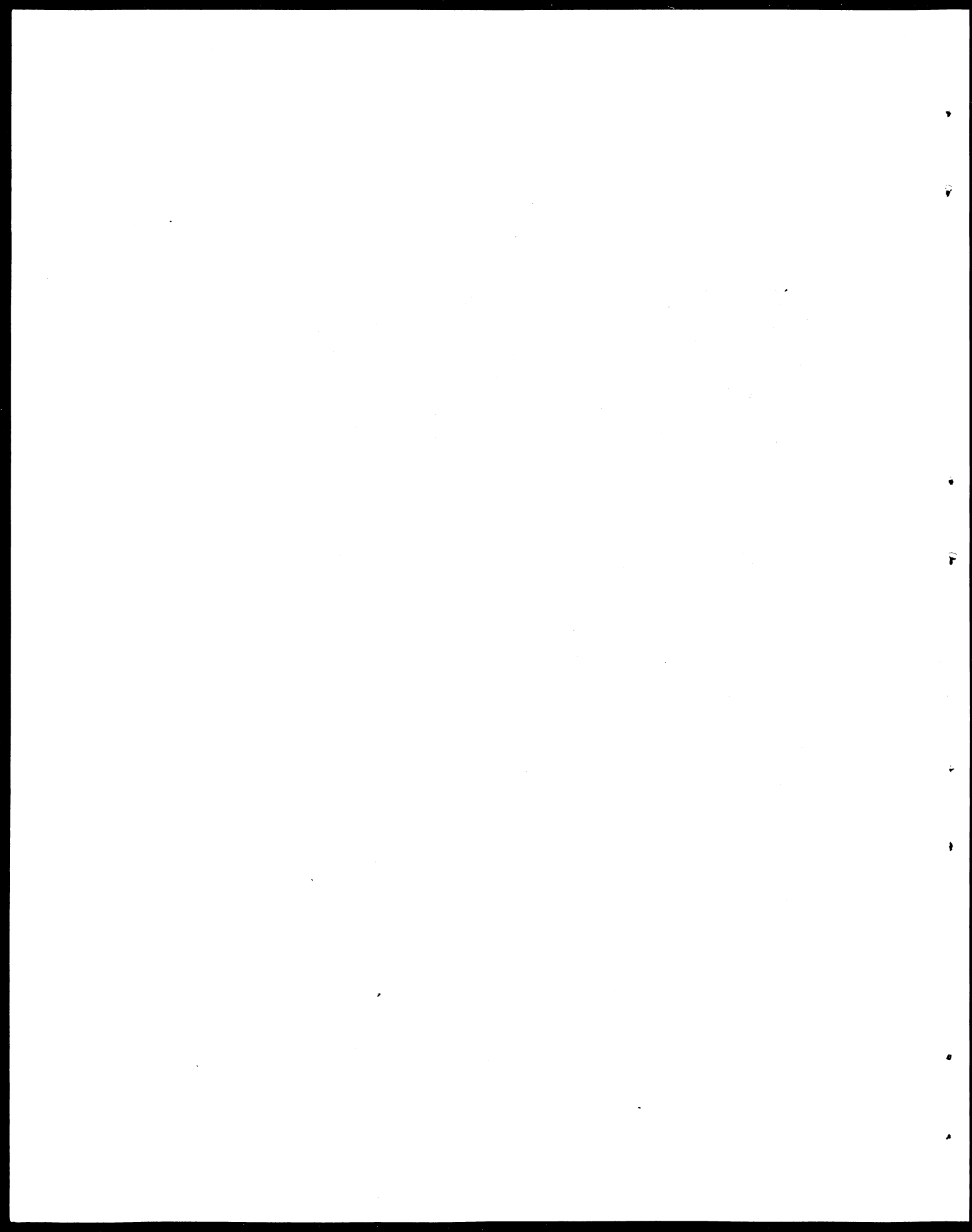
CONCLUSION

The study has successfully demonstrated the effectiveness of the proposed methodology in gathering and analyzing complex data sets. The results provide valuable insights into the underlying patterns and trends, which can be used to inform decision-making and strategic planning.

It is important to note that while the current findings are promising, there are still several areas that require further research. For example, the impact of external factors on the data has not been fully explored, and it would be beneficial to conduct a larger-scale study to confirm the results.

In summary, this report has provided a comprehensive overview of the research process, from the initial data collection to the final conclusions. The findings suggest that the proposed approach is a viable and effective way to handle similar data sets in the future.





LOCAL MARKETING - A SUMMARY OF PRESENT OUTLETS, THEIR
ADVANTAGES AND DISADVANTAGES TO THE GROWER

D.W. Goble
General Secretary
N.Z. Vegetable and Produce
Growers Federation (Inc.)

I am thankful that Professor Morrison and his team suggested a title that specifically refers to the advantages and disadvantages to the grower.

At times we all tend to overlook the obvious. The commercial growers of vegetables in New Zealand are a very important element in distribution. Nothing really happens until they plant and harvest and present their produce for sale. Though there are some who would not acknowledge the fact, it is imperative that the production sector does not under-rate the importance of the growers' part in distribution. In the "sophisticated" marketing situations which have developed in some Western countries, the channel between producer and consumer has become so complex that the producer has tended to become the residual claimant and his share of the consumer dollar spend on vegetables has declined accordingly. Similarly, in the United Kingdom the consumer pays 2.9 times what the producers of fruit and vegetables are paid. The same trends are evident in New Zealand and only by a clear understanding of the issues involved will New Zealand growers avoid the same fate. I will return to this point later.

By world standards New Zealand production of fresh vegetables is not large but the marketing of a commodity worth \$26 million (which excludes the value of main crop potatoes) is by no means devoid of problems. With the advent of specialised production both by district and individual growers the day has gone when localised production largely satisfied local demand. Marketing has become a matter of national distribution involving great dependence on intermediaries between the farm gate and the consumer.

The alternative marketing outlets for fresh vegetables other than main crop potatoes are shown on the diagram prepared by Mr Duncan Ridler for the "Economic Report on the Fresh Vegetable Industry in New Zealand" which I have taken the liberty to alter a little. The thickness of the lines represents the approximate use of various channels by individual growers.

In our sample survey of the industry in 1965 it was found the percentage of growers using various marketing channels was:

| | | |
|------------------------------|-----|------|
| Solely Commission Wholesaler | 68% | (80) |
| Other Wholesale | 2% | (5) |
| Stall and Gate Sales | 18% | (7) |
| Other Direct Sales | 9% | (2) |
| Direct to Retailer | 9% | (2) |

Unfortunately it has not been possible to accurately measure the volume of trade through each channel, but the figures in brackets are probably not too far wrong.

To compare the relative merits of one channel with another would be

pointless because there are so many factors which the individual grower will take into account in his decision as to the most appropriate outlet. A grower with a small unit capable of diverse production and located on a main highway will have quite a different idea about marketing to a grower producing two or three crops on an extensive scale who is distant from a large consumption centre.

In any marketing system however, fresh vegetables, as with any other product, must meet certain criteria. The system should reflect consumer requirements accurately without domination by any element in the distribution sector. The performance of marketing functions should be at minimum cost. The system should be so organised as to expose manipulation by buyers or sellers.

Let us first examine two of the minor channels.

Roadside Sales: Provided they are true farm sales and produce is not brought in, as is so often the case, the relatively few growers appropriately placed to sell direct to the public certainly meet the criteria of low cost distribution and consumer satisfaction particularly as regards freshness and weekend selling. There is a place for genuine roadside selling but too few roadside operators recognise that their days are numbered unless they take measures to up-grade their premises and present a frontage which is aesthetically acceptable. The most important factor is that the roadside seller must adopt responsible pricing methods. Prices must be sufficiently low to satisfy the public but not so low as to undermine the price structure in the main distribution outlets.

Merchants: Here I refer to firm sales in which ownership passes to the merchant. The incidence of this type of trading is not great. It serves a purpose in bulk purchasing of commodities which can be stored or exported. In countries where it predominates, this type of wholesaling reduces the growers' share of the consumer dollar and limits the flow of produce to what the merchant believes he can comfortably quit.

Now let us turn to the primary marketing channel.

Commission Selling: As our diagram indicates, by far the greatest proportion of fresh vegetables flow through the central marketing system which historically has derived the name "auction system" although many people consider this a misnomer. The Federation's economic advisory panel chose the name "commission wholesaler" and this is probably the most appropriate. Although the merits of the auction system are propounded regularly through "Fruit and Produce" it has always seemed to me of more than passing significance that an integral part of the system is the monopoly distribution of imported fruit which is seldom, if ever, sold by auction.

I do not propose to go into detail in describing the merits of central marketing as these are regularly paraded for you. The system brings together a majority of buyers who are able to judge the supply situation on the day and thereby precisely and quickly establish the true equilibrium of prices. Growers are not restricted to the amount of produce they consign and if the system is operated honestly they get prices as good as their competitors on

the market with negligible trouble to themselves.

Associated with the system are order companies owned by the auction firms which allegedly buy at auction to supply small urban and suburban stores who would possibly consider the profit from their limited trading in vegetables does not warrant attending sales. Commission buyers operating on the floor serve the same function.

These two influential buying groups have now been joined by the supermarket and chain store buyers. Because consumers are being attracted to supermarkets by the most modern merchandising techniques their share of the total retail trade in vegetables is rising rapidly and accordingly their buyers commend great respect on the auction floor. It has been claimed by the President of one group that supermarkets will be handling more than 70 per cent of fresh vegetables retailing in five years and the Federation's research puts the figure above 50 per cent.

Without doubt order companies, commission buyers and supermarket buyers have depleted the number of bidders on auction floors, and this factor together with the splitting of the buying force through the operation of too many auction floors in some of the main market centres, has tended to create a marketing situation which is inclined to seek buyer satisfaction at the expense of the sellers by whom the auctioneer is paid.

Apart from the prospects of retailer domination, some of the other disadvantages in the central marketing system which are frequently the subject of growers' complaints are:

1. Malpractices such as "fair-go", the alteration of sales dockets etc.
2. Advance price quotations.
3. Direct purchases at a fixed price for pre-packing.
4. Collusion between buyers.
5. Direct trading with supermarkets.
6. Activities of order companies.

The Federation is safeguarding the interests of its members in keeping a very close watch on this situation and follows up complaints from growers, with both the Auctioneers Federation and individual firms. Provided with substantiating evidence, we are prepared to invoke either the Trade Practices Act or the Auctioneers Act. Realising that their business depends on mutual trust the Auctioneers Federation has also agreed to take measures to discipline its own members.

There is one group however, which is endeavouring to break down the central marketing system by a process of fragmentation and under the guise of a better deal for the consumer. This has given the Market Division and its Economic and Marketing Research Committee cause for considerable concern.

This effort by the supermarket and chain store sector of retailing is fully verified in the Distribution Committee's report to the National Development Conference. The Committee with no less than four representatives from this sector is under the chairmanship of Mr J.N. Laurensen, Director of Woolworths (N.Z.) Ltd had this to say in its report to the recent Conference:

"However, except for bananas, import licensing restrictions govern the supply of these fruits and there are many times of short supply. There are some complaints about the distribution from wholesale to retail. The present system on the basis of retailers' purchases through produce merchants, is felt to be restrictive. In order to maintain their quota of tropical fruits (especially oranges and bananas which are essential to attract customers), retailers are forced to keep up their level of purchases through produce merchants and do not effectively have the option of negotiating direct contracts with growers if they so wish."

Imported fruit is an integral part of the central marketing structure and although it should be able to survive without a monopoly, the effect of allowing a substantial proportion of the retailing buying force direct access to imports would leave them free to contract directly with growers. We have seen what happened in the U.S.A. and in the United Kingdom where numerous small growers have to do business with big buyers. The production sector unless highly organised and willing to accept discipline and even controls, to which he is historically unaccustomed, is at their mercy. From the consumers point of view cost savings are mythical in that although "specials" are attractive, in the overall the margin claimed by the supermarket is higher. The same position applies in New Zealand already as can be seen from the A.E.R.U. report on "Fresh Vegetable Retailing" a survey commissioned by our Federation.

At the same time I believe the modern merchandising methods used by supermarkets can and must be used to the industry's advantage. Some means has to be found to cater for the special requirements of this group and at the same time keep them within the central marketing structure so that they are competing for the produce offering and helping to establish the true price for the day.

I feel the situation is admirably summed up in No. 4 of the Wye College Marketing Series following detailed investigations of produce marketing in the United Kingdom and Western Europe. Speaking of commission selling, the report concludes:

"This development is to be commended for several reasons, and not the least of these is the fact that it does something towards maintaining the validity of the market price as a source of references by exposing this non-market produce to the impact of supplies and demand on the markets, and in a sense, even adding to those supplies. Admirable as contract terms may be in many respects, contracts which embody a price fixed for a period ahead have the effect of segregating the produce to which they relate from the functioning of the market price mechanism. This does not matter so much when the segregated produce accounts for a smallish part of the total supply - up to say one-quarter. If there is a valid market price for at least three-quarters, both parties to the contract can refer to it, either before the contract is signed or during its currency, as a check on the contract prices. As we have seen, they customarily do so, but if the proportions were reversed, it would be difficult to see how the contract prices could be anything more than a series of horse deals, depending wholly on the bargaining strength and skill of the parties, and contributing little to achieving equilibrium between supply and demand."

With due respect to those who concern themselves with the production facets of the industry marketing is our biggest problem. This was highlighted at the National Development Conference and is the reason why for so long a substantial proportion of the Federation's resources have been directed toward economic and marketing research. A tremendous change is occurring in retailing and new demands are being placed on the production and wholesaling sectors which we will ignore at our peril. Factual information is essential and it would be fatal for the industry to even consider changes until all the alternatives have been examined critically and objectively.

As a Federation we are delighted that both Massey and Lincoln have established Chairs in Marketing for the vegetable industry is going to need a great deal of help in this direction. I sincerely hope that on the next occasion on which Lincoln College organises a growers' course that the marketing departments will be in a position to make a very big contribution.

