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Urban Produce Markets

A Comparison of their set-up in South Africa with that in certain foreign countries

by

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Urban produce markets have been in existence since the earliest times. Until the beginning of the twentieth century almost any type of agricultural product could be bought and sold on urban markets. However, circumstances gradually changed and in the course of time specialised sales channels have been developed for grain, wool, skins and a variety of other products which no longer appear on the urban markets. The present-day urban market therefore specialises to a great extent in the sale of fresh vegetables and fruit. Over the years the production of fresh produce has been stimulated by an increasing demand consequent on the increase of the population, particularly the growth of the urban population, and the changes in consumer patterns brought about by development and higher living standards.

In spite, therefore, of the fact that various products have vanished from the urban markets and that even fresh produce is being diverted from these markets and reach canning factories, manufacturers of frozen foods, pre-packers, etc., direct in increasing quantities, the volume of fresh produce flowing through the most important urban markets in the majority of Western countries, is growing. This is happening to such an extent that many new urban markets have been erected in recent years and that several others are being planned for the near future, in order to handle the increasing volume of produce and to provide improved and more efficient facilities.

However, in the marketing and distribution of fresh vegetables and fruit, changes have also taken place. Ever in-

creasing quantities of vegetables especially, are today reaching the consumer in a frozen or in some other processed or even prepared form. Although isolated cases occur where frozen-food companies are established at urban markets, these and other processing concerns are, usually established away from the market so that the greater portion of the fresh vegetables and fruit which they process does not reach them via the markets. It does, however, frequently happen that certain wholesalers operating on urban markets handle processed and frozen food. A certain proportion of the vegetables and fruit is therefore returned to the market after these have been processed or frozen. This is in accordance with the modern concept of an urban market, namely, "a food-distribution centre".

As far as the distribution of unprocessed fresh vegetables and fruit is concerned the phenomenal growth, since World War II, of chain stores specialising in the retail distribution of food has had an important influence on the growth, composition and functioning of urban markets in certain overseas countries. These stores, run on modern business and sales lines, impose strict requirements in regard to quantity, uniformity, quality and packaging of products, and have to be assured of regular supplies. The existing urban markets could not comply with these requirements and, besides, the sales procedures followed on markets took too much time and were too expensive for the chain stores. Consequently, they proceeded to buy the major portion of their requirements direct in the production areas, at auctions

or by private negotiation. In the course of time wholesalers on the markets were forced to compete with chain stores and other direct buyers in the production areas. As a result, the urban markets in certain overseas countries lost their prominent position as primary assembling points to which producers brought or sent their products and where price formation took place in the first instance and they became, for the most part, secondary assembling points to which wholesalers brought supplies for re-sale to the retail trade, hotels, hospitals etc.

In South Africa the urban produce markets are at present still the most important sales channel for fresh vegetables and fruit. However, selling costs on the markets are relatively high; in some cases facilities and services are inadequate; sales procedures are time-consuming and market hours are inflexible and do not suit all types of buyers. In consequence there is a tendency amongst some producers, producer organisations, control boards and buyers, who are not satisfied with the present situation, to investigate alternative possibilities.

In order to ensure that they offer the highest efficiency and the best service, and thus maintain their position, it is essential that urban produce markets in South Africa should keep up with present-day requirements and developments.

Since developments in the field of marketing and distribution of fresh produce have progressed further in certain overseas countries than in South Africa, it may be of value to take note of certain marketing principles applied in some countries and the set-up of their urban markets. Despite the fact that the marketing systems in Italy, Western Germany, Holland, France, England and the U.S.A. differ widely, there is a notable similarity in the design and the principles according to which the urban fresh-produce markets are constructed. Although the majority of these markets make separate facilities available for producers and, in some cases, for retail traders, to sell products to consumers, the urban fresh-

produce markets are pre-eminently centres where wholesalers trade in fresh produce as well as other foodstuffs. The market buildings, especially the new ones constructed during the past decade and those being planned consist of long, narrow and relatively inexpensive buildings in which floor space is leased to wholesalers. Indeed, rentals constitute the greater part of the income of the market authorities - not market commission on turnover, as is generally the case in South Africa.

Since the market authorities, under the overseas systems, obtain an income from the leasing of facilities they are not so much concerned with the volume of produce passing through the market. The responsibility for utilising floor space efficiently is transferred to the tenants who must ensure that the unit rent is kept as low as possible in relation to their turnover. However, this means that the facilities made available by the market authorities must be such as to meet the needs of the traders while not burdening them with unnecessarily high rentals. We find, therefore, that in some cases the market authorities only make roofed-in space available and that the traders then fit out their stands in the way which suits them best. Cases have also occurred where the local authorities have been too slow in providing for the needs of the trade, so that traders have collaborated in building their own market. The disadvantage of this development is that such markets are closed concerns, which makes matters difficult for new entrants to the trade.

Taking into account the methods of financing new markets built during the past few years and planned for construction in the near future, it would seem as if the larger urban markets in overseas countries are no longer regarded as institutions of purely local concern. Although both local and central authorities make important contributions to the establishment of market facilities, the capital required is, for the most part, borrowed from financial institutions on a strictly commercial basis. In such cases the policy of the market is deter-

mined by a central management consisting of representatives of the organisations which have supplied the necessary land and capital, and this policy is executed by a separate market-management committee.

Auctioning as a method selling fresh produce on urban produce markets must, for all practical purposes, be regarded as outdated. With few exceptions, transactions between producer and wholesaler, as well as between wholesaler and retailer, take place by private agreement. This eliminates the relatively expensive system of collecting and selling, with control over sales transactions, on a central market floor, since the products move direct from the producer to the wholesaler's stand and from there into the retail trade. In cases where the wholesale trade handles products on behalf of producers on a commission basis, the producer merely pays a commission varying between markets, from seven to ten per cent on the selling price; this is considerably less than the approximately 10 to 12½ per cent market plus commission fees paid by producers in South Africa at present. Moreover, in the case of commission transactions in overseas countries, where the commission agent is also the wholesaler, the producer pays commission on a price equal to the wholesale selling price, while the producer in South Africa, where the commission agent and the wholesaler operate as two separate concerns, pays commission on a price equal to the wholesale buying price which is normally less than the wholesale selling price. Even if the rate of commission should be the same in both cases, the producer overseas will receive a higher net realisation in spite of the fact that he pays a larger amount in commission. Savings on costs are achieved not only by means of more economical sales methods, but also because the trading premises are proportionately less expensive than the relatively expensive central market-floor space in South Africa and because the traders utilise their premises more efficiently. For instance, produce is stacked higher; there is no need to keep con-

signments separate; and business is done throughout the day, which ensures a larger turnover per unit of floor area.

The wholesaler operating on overseas markets is a businessman in the true sense of the word. He obtains his supplies direct from producers and producer organisations, importers and other wholesalers, and in some cases produces some himself. The wholesaler obtains supplies from producers by purchasing, either outright or under contract, or by handling the produce on a commission basis. On close examination it is clear that this system has important cost-saving and other advantages for the trade which will also benefit the producer. In the first place, the marketing chain is shortened and sales costs are reduced. The organisation handling the producer's products is firmly established in the wholesale trade, so that it competes with fellow-wholesalers on a purely commercial basis. The commission agent operating on the markets in South Africa today is in a weak position to compete with a true wholesaler. The uncontrolled flow of products to the market and lack of storage facilities place the agent in South Africa in the unenviable position of having practically no choice other than to sell the products which he receives daily without delay at the best price which the trade is prepared to offer. This contributes greatly to the hold which the wholesaler has at present on the marketing system for perishable agricultural products in South Africa.

The system applied overseas makes it possible to create a better balance between demand and supply from day to day. Wholesalers have at their disposal storage facilities, in most cases refrigerated, so that they can hold products over for a day or more when necessary. In addition, consultation takes place between the producer and the wholesaler before the products are forwarded. Produce is therefore drawn to the markets, in overseas countries, according to the judgment of persons in the trade and familiar with fluctuations in demand instead of, as in South Africa, being sent to the

market, practically at random, by producers who usually have no intimate knowledge of the conditions prevailing on the market from day to day. Because the wholesalers compete with each other, chiefly on the basis of quality of products and services, to the producer and the retail trade, the wholesaler is more particular about the quality of the products he purchases or handles on a commission basis. This improves the general quality of products in the trade. Moreover, where quality standards are laid down, as in some overseas countries, inspections are carried out at the wholesale level and the wholesaler carries full responsibility for the quality of the produce which he offers.

The set-up of urban markets abroad makes for a sharp dividing line between the wholesale and retail trade. This promotes competition amongst retailers. As a rule the retailer does not mind what he pays for products, as long as he is assured that he is not paying more than his competitors - something which often occurs in South Africa because of the price fluctuations under the auction system. Since the wholesale trade is organised to serve retailers, the receipt of supplies by wholesalers takes place quite independently of supplying the retail trade. In these countries the retailers visit the markets early in the morning. In South Africa, the conflicting interests of both retailers and wholesalers within the limits of a specific marketing system and fixed marketing hours remain a problem.

The facts set out above make it clear that, under the overseas systems, the responsibilities of the market authorities are lightened considerably and that healthy competition is created in both the wholesale and the retail trade. The system also benefits the producer. In passing certain advantages have already been mentioned. So, for instance, it was shown that a producer overseas finds it relatively less expensive than the South African producer to dispose of his products through an urban market on a commission basis. In addition the producer has a

wider choice of methods for the disposal of his products. He can either sell them outright to a wholesaler, or sell them under contract or supply a wholesaler on a commission basis. Moreover, the producer has the choice of various wholesalers or, if he prefers, he can sell his products on the market through his own wholesale organisation. In the present circumstances in South Africa the producer does have the choice of various market agents, but as far as the method of sale of his products is concerned, he must resign himself to the sales procedures prescribed by the local authority.

In overseas countries price formation determination is a matter between the producer and the buyer. The producer himself has to decide which method of sale is most advantageous for him and choose the trader with whom he wishes to do business. In this connection the authorities assist producers by maintaining comprehensive crop forecasting and price reporting services. In this way producers are kept informed of prevailing and expected demand and supply as well as prices, and a criterion is provided for price negotiations or for the judging of prices obtained for products consigned on a commission basis. In the U.S.A. a report is published annually, classifying wholesalers according to their financial status, integrity, number of years in business, turnover, etc. This gives the producer an indication of the type of businessman with whom he is negotiating when business is conducted over distances. Reliable grading and a high degree of standardisation of products, supported by efficient inspection services; standardised and generally accepted trade terms; and standard, binding purchasing contracts have resulted in the development into normal business practice of buying and selling fresh produce over distances by telephone or other means of communication. The Federal Grading System and the inspection service in the U.S.A. are pre-eminently orientated to promote and facilitate transactions of this type. In South Africa a relatively small quantity of fresh produce

is purchased without first having been seen.

As in South Africa, there are special laws in the U.S.A. as well as in England to protect the producer from irregular practices by commission agents and brokers especially. These laws stipulate that the trader must give certain guarantees and that payment to the producer must be prompt. However, in England, where producers sell about 75 per cent of their fresh produce on a commission basis through wholesalers, they hardly ever have recourse to this law. This is a striking example of the relationship and mutual trust existing between producers and wholesalers not only in England, but in other countries as well.

In South Africa local authorities keep a complete record of transactions taking place on their markets and, in the case of out-of-hand sales, endeavour, at considerable expense, to exercise control over these transactions. These measures ensure that the producer receives the prices which the market agent obtained for his products. It does not, however, ensure that the producer will indeed receive a reasonable price for his product. It is therefore an open question whether this expensive service provided by local authorities under the South African system is fully justified.

In overseas countries the fresh-produce markets continue to play an important role as assembling points for supplies. Wholesalers are drawn together on these markets because doing business in such a common meeting place holds important advantages for them. It must therefore not be overlooked that, although direct purchases in the production areas are continually assuming greater proportions overseas, the greater part of the volume of products purchased in this way still flows through an urban fresh-produce market. The companies owning the chain stores in the U.S.A. are the most important direct buyers of products which do not pass through a central market. These companies and wholesalers trading through the markets compete with each other in the production areas to obtain supplies from the producers. The initiative to buy direct therefore comes from the buyer and the reverse does not occur, as is so often the case in South Africa, where the initiative to sell direct comes from the producer or producer organisations. In the latter case the producer's bargaining power is reduced rather than increased since he usually sells direct to a buyer who normally also trades through the market. When it comes to price negotiations the buyer therefore has the opportunity of playing off one source of supplies against the others.