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COMMERCIAL AGRICULTURAL PRODUCTION AND MARKETING PROJECT

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END OF TOUR REPORT

SUBMITTED TO :
MINISTRY OF AGRICULTURE AND COOPERATIVES
MBABANE, SWAZILAND

AND

THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
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SECTION 1
INTRODUCTION

In compiling this end of tour report, I have tried to present information that will be of use to the incoming consultant as a working or position document rather than present a historic overview of the past 28 months of activity. This type of historic information is available in other reports including the semi-annual PIR reviews, work plans and in the institutional memory of the remaining CAPM staff.

There is no attempt therefore to give a summary of events, or to detail marketing performance in terms of volume, price or quality. This information is available in summarised form as well as in the raw data form should this information be required.

I have served as marketing specialist with the CAPM project from August 1991 until November 1993. This period covers 2 winter crops and one small summer crop.

SECTION 1
OVERVIEW OF MARKETING DEVELOPMENTS AUG 91 - NOV 93

The original project objectives were to develop a marketing strategy which enabled an expanding number of small scale farmers to contribute to an export lead production and marketing program. The rationale was that local market was limited, and that an oversupply position for any single product could be easily reached and result in unsalable surpluses. Marketing plans developed by the project over the past 2 winter seasons have reflected this direction.

A. Market assessment - an overview

After initial as well as ongoing market assessments, market windows were determined for a range of crops, influenced largely by the frost free status of most of the targeted production areas. Crops selected by the project were determined on the basis of market requirements in terms of volume and seasonal price trends, based on 3 year averages as well as screening for profitability based on likely farm gate returns and resulting enterprise gross margins. Also considered were transport costs (in and out) as well as likely agents fees and commissions.

The major direction of the project as a result of this is an emphasis on winter market production. Only one summer cropping season has been developed resulting in small volume sales of a selected range of crops.

It has been determined by market survey as well as by practical experience over the past 2 seasons that there exists a large market for winter grown Swazi fresh produce. This market is made up of 6 main areas as follows :

1. PWV (Pretoria/Johannesburg) wholesale and retail outlets
2. Natal wholesale and retail outlets
3. Cape wholesale and retail outlets
4. Eastern Cape wholesale markets
5. Local markets
6. European destinations for specialty vegetables

A brief discussion of each of these markets, their potential and possible problems follows :

B. Specific Market Targets - potential and risks

1. PWV MARKETS

The Pretoria and Johannesburg markets provide the largest potential for Swazi produce in terms of volume supplies. This is due largely to the high population density served by the market as well as the fact that it serves as a major distribution centre for the whole region. In addition, transport, both refrigerated and open is readily available between Swaziland and these reef markets. (at least 100 MT per week of available space) It is therefore important that the project continue to develop this market and build up a good reputation with targeted consumers.

To date, the project has been targeting the wholesale system as an outlet for its production. This has been due to the fact that production volumes have not been reliable enough to make a concerted marketing effort through anything but commission sales agents. This is obviously detrimental to farm gate returns, and considerable effort must be made to stabilise a core "guaranteed" production volume. This will enable CAPM marketing personnel to penetrate markets such as regional supermarket chains (Pick and Pay having expressed interest already through Swazi Fresh and Golden harvest having expressed interest through Fresh Pak) The OK bazaars have potential and have currently expressed support through their supplier PWV subsidiary Gastaldi Swaziland (Pty) Ltd.

It cannot be overemphasised, that the volume and quality projections must be reliable to make penetration of these markets worth while. Any attempt to gain support from these consumers without confident output will result in disappointment for both parties, and even more importantly, make reentry into this market even more difficult. It must be remembered that the fruit and vegetable business at this level is a very close knit community, and failures are not easily forgotten. Enter this level of the market with small promises and make sure that you deliver.

An additional problem at this level of consumer is that, although it is a means of bypassing the fee/commission structure of the wholesale system, payment terms are usually extended. This means that producers must either be prepared to wait (a characteristic of true commercial producers), or involve a mediator with the financial ability to pay out on delivery and take the risk as well as incur the cost of this delayed payout.

A recommendation for this market, is to focus on a target volume for certain products (possibly tomatoes, peppers and sweet corn) - arrange to market these through a predetermined regional operator, and sell the balance - off grades and excess volumes, through the wholesale system.

This will give the producer access to high profile regional outlets, whilst still ensuring that all his production is sold. Packaging will be necessary in most cases to present the product in a standard format. The added value is important, but should producers not be able to cope with the financial demands of packaging finance, it is possible to negotiate either local packaging (Fresh Pak has expressed interest in buying at farm gate and packing for this market - specifically Golden harvest), or bulk sales into regional prepackers (Gastaldis have indicated interest in bulk purchases which can be packaged in Pretoria - again with farm gate purchases)

Choice of which of the above options to go for must be made by the producer group - the projects primary client. All the pros and cons must be placed before them and decisions made on these. The project should not influence this decision, as any failures would be seen as project failures, and not as a result of real time business decisions.

2. Natal markets

has been a winter market

Another region of high population density which is willing to source from Swazi producers. Durban is basically a consumer and not a redistribution centre as far as the region is concerned. This makes it more sensitive to local supply levels. The population served, however ensures that offtake is high during the periods of Swazi production. Again, the winter market window - May through October/November, is ideal for local production/sales into this region.

Up until now, the Asian market has been serviced by bulk sales of both tomato and green pepper. This market is large, and sales should be maintained. Sales at this level however result in lower farm gate values than other outlets, but again the trade off of price vs. delay in payment is the consideration. In order to maintain rapid payment turnaround, especially for fledgling associations and new producers, this market is ideal. It is tolerant of volume fluctuations and is not as quality conscious as the higher end markets. Attempts should be made to ensure that the "agents" chosen are not merely middlemen to the wholesale system who will pack and take the risk onto the wholesale floor. This method of sale does not obviate the wholesale commission system and this obviously affects the nett farm gate return. Local producer groups should be able to handle the packing end, and could consign themselves.

It is also possible to arrange fixed price sales through this channel - a system that results in lowered farm gate revenues but is ideal for producers with little ability or desire to take market risk. It is assumed that most CAPM producers will be of this type for the duration of any proposed extension.

It is clear again, that grower objectives must be clearly stated before any decision can be made as far as marketing into the Natal market is concerned.

There does also appear to be some possible competition emerging for this market. Initially, with production increasing in the south of Swaziland, the NRDA will certainly suffer. Steps must be taken to diversify the markets of the northern producers over the extension period. In addition, there is evidence that the Makatini Flats will come into production over the next winter season. This area is 1.5 hours south of Swaziland, at an altitude of 70-90 m above sea level and is therefore ideally placed to capitalise on the Natal winter market. Indications are that the Kwazulu government has given the go ahead to a parastatal company to institute production from February 1994. Production potential is huge, centrally planned and administered with packhouse facilities and water from the Jozini dam basically not limiting. This is going to be a serious competitor for all producers in Swaziland over the life of the project. There has already been consumer group interest in this area. ~

An additional area of competition which has already been felt by the Swazi market, is the potential of Moçambique production. As the peace accord takes effect, the lowveld area of the country will increase its output. This will no doubt affect produce exports into that country as well as being a direct competitor in South African markets for Swazi produce. During the 1993 winter season, cabbage, onions and peppers were produced and their pepper production specifically impacted on the project. An important task early in 1994, will be to assess the projected seasonal output in Moçambique to enable a proper production program to be designed for winter 1994.

Attention must be given to early (before end January 94) negotiations with potential clients to secure market share for the 94 winter season.

3. Cape Wholesale and retail markets

No attempt has been made to move produce directly into this area during the preceding 2 winter seasons. It is known however that there is considerable demand for off season winter vegetables. Prices are generally firmer and more reliable than those of the Transvaal and Natal markets. Given that there is considerable transport movement between Swaziland and the Cape involved in deciduous fruit movement (mainly apples), it is conceivable that this transport could be utilised in moving winter production into the Cape. Contacts within this market are few. A relationship has been developed with two apple suppliers in Grabou and Oceanic Fruits head office is in Cape Town. Fresh Pak (Swaziland) also has its head office in the Cape area as, so is a useful route for either introductions or direct sales. There is of course an effective wholesale market in the city.

Products into this market during the winter period will be the range already selected for closer consumer groups, but in addition such items as gem squash, cucumber and butternut squash should be considered.

Should volume projections warrant opening this market to winter grown Swazi produce, an exploratory visit early in 1994 will be essential. It must be remembered that transport is very expensive into this area from Swaziland. Normally 22-24 pallet-position trucks enter the country, so it is essential to have similar volumes south-bound to capitalise on this resource. Anything less than full truck loads will be too expensive, and operators would rather fill up in the PWV area through truck brokers.

4. Eastern cape Wholesale markets

Some shipments of butternuts, green peppers and carrots were made this past winter season into this market. (East London Wholesale - Simpsons agency) Wholesale prices are generally higher than other regional centers due to the fact that there is a lower transport frequency between the PWV and this area than other regions. Ideally, a certain programmed volume should be targeted here and fixed transport agreements entered into. This will bring down the otherwise high cost of moving produce. Again Fresh Pak could be helpful in introductions in this case. GORDON GOBEY of Fresh Pak has personal experience in this market. No attempt has been made to look for or negotiate with retail outlets or chains in the area.

5. Local Markets

The local market is influenced strongly by two groups - the hawker/vendors and the agents at the Nokwane Fresh Produce market.

The project has encouraged winter production and it has been seen that this increased production, in the absence of export markets generally cannot be completely absorbed by the local market. This has been clearly demonstrated by the local sales performance of the tomato crop over the past 3 seasons. Prior to CAPM intervention, winter supply levels quickly reached saturation and wholesale prices dropped as a result. Following the introduction of sustained export marketing, local prices remained firm. This has effectively confirmed the rationale of the marketing strategy namely - A large scale impact on the Swazi horticultural sector cannot take place in the absence of an export lead program.

This has been true to a greater or lesser extent of the other targeted crops. Of interest is the introduction of green peppers to the market. Prior to intervention, few if any green peppers were consumed outside the local high-end supermarket chain stores. By the second winter season however, green pepper had become a significant hawker/vendor crop, and this influenced the market significantly. Price competition between export and local sales ensured that farmers constantly received the best possible price. Despite the fact that this makes sales projections difficult (if not impossible), and since the farmer is the primary client of the project, this competition must be managed effectively.

Farmers have been told that sales to vendors reduce the reliability of the marketing efforts of the project (read association, marketing firm). This is true, but the "vendor pressure" will always be there. It is in this field that much effort needs to be made. Harry Manion did compile a survey of this market but this requires significant additional work. I believe that *more "formal" ties with the vendor groups* particularly through the associations in Mbabane and Manzini would bear fruit in the form of closer working relationships between the farmers/farmer groups and these consumers. Perhaps *marketing programs* could be worked out and this group of consumers could become a more formal outlet rather than a hinderance to production projections.

It is still true however that vendors never take the whole crop; nor do they ever take all the grades available at the field. With this in mind, *a strategy must be formulated* to ensure that the project initiated export markets do not simply become efficient and dedicated residual buyers. This will never result in sustainable market development in the very important export sector.

Over the past few seasons, efforts have been made to supply, through the project marketing firms, the hotel and supermarket chains. These attempts have met with limited success. This has been due primarily to the inefficiencies of the companies concerned as well as some interference from head offices in South Africa. This type of customer probably comprises up to 40 % of total local fruit and vegetable trade. Efforts should be made through the emerging associations to improve market share in this sector. It is unlikely that this will be possible directly from the farmer group, and so some relationship between grower and middleman will have to be cultivated.

This brings up the point that *to disregard the use of agents - local or external in the hope of some marketing miracle at the farm gate is short sighted*. For example, Gastaldis (Swaziland) is very active in local sourcing at this time. The company has made significant attempts outside the project to develop relationships with farmers. The project must not view a direct link between proposed associations and companies such as Gastaldi as detrimental. Farmer associations will not be strong enough to do their own marketing direct to end user for some considerable time.

This type of company has considerable market share internally and externally; are professionally run and have access to financial resources necessary to take the risk away from the commercially immature producer targeted by the project. Use *this*. Fresh Pak (Pty) Ltd which has external market linkages is also interested in developing local sources. It is now talking of developing its own packhouse concept outside the realms of "politics". It is indeed unfortunate that this company was refused participation in the Northern tomato operation in 1993. The project had a superb opportunity to see the benefits of involving such an operation at the farmer organisation level.

6. European destinations for specialty vegetables

There is a well documented market for exotic and off-season type products in Europe. This market is highly sophisticated, and requires sustained production during the programmed period of uniform quality. It is not the market for scattered individual growers, but farmer groups, possibly lead by a "mother farm" who may be a medium-large scale commercial producer, could penetrate and succeed in this sector.

Obviously, access to transport, refrigeration, packing and grading facilities is essential. Efforts have been made - slightly aside from major project objectives, to stimulate this type of production in the Malkerns valley. Limited success has been achieved, with a small packing operation being established at Bellamy Farm. Other growers are interested and it will be a natural progression to include suitably located groups of small scale growers in the program. The established commercial operators will guarantee the core production in terms of quality and volume, and small growers can benefit from the expertise and markets already gained. Crop choice is important, but experience to date in Malkerns can be drawn upon when making such a decision.

PART 3
SPECIFIC DEVELOPMENTS AT THE PRODUCER LEVEL

In addition to the market development that has taken place over the past 2 seasons, efforts have been made to improve the performance of the producer, in order that he can participate at a higher level in the market. Traditionally, the grower has had little or no choice in his marketing outlet. By enhancing his quality of presentation, this gives greater opportunity to target various markets and therefore enhance returns.

Development along these lines has involved taking farmers from very crude field packing operations through more sophisticated in field operations, and finally to a centralised packing station type operation. A brief discussion of each type of operation follows :

A. Field packing and grading operations :

Initially, (1991 season - minimal project input) northern area farmers were individually grading tomato into bulk field crates. Even within the same scheme area, presentation varied tremendously. With sales based on a per crate price, the lowest common denominator tended to set the grade. This meant that those farmers doing a better job were being penalised by those producers performing poorly.

During the 1992 season, training was provided as to grade standards and the benefits to producers was outlined. Output was considerably improved, with fewer marketing problems. The on farm packing was extended to green beans and green peppers. Packing material was distributed to the growers who individually managed the packing of their product. No attempt was made at this time to identify growers right up to the point of sale. Uniformity of output was dependant on marketing field staff intervention and monitoring. It was seen that even with increased training, there was still insufficient control to ensure uniform output which would make the markets take serious note of swazi product. The system of field packing also resulted in tremendous logistical constraints in terms of packaging distribution and collections to and from individual farmers. This was clearly not sustainable. In addition, the labour requirement to grade and pack is high. This left farmers spending unbudgeted time at the expense of continued planting and other field operations. In addition, the skill required by the farmer to manage this intensity of labour utilisation was generally lacking. Collections of graded produce, already packed to market standard, along rough roads resulted in poor final appearance, and marketing problems.

The 1993 season therefore saw the establishment of a central grading option in the northern RDA at Mkhovu. It is this type of operation that is seen to be the future for small scale producers and is discussed below.

B. Central packing and grading operations - (Mkhovu Packhouse)

The site of the old Chinese mission field station at Mkhovu was chosen to be the site of the NRDA central packhouse. It was chosen for its approximately central site as well as the fact that it had a public telephone, and that the old building provided a concrete foundation and roofing material. Permission was obtained from GOS to use the building site and the roofing material. This saved considerably on total cost of erection.

A simple size grading machine was selected which could cope with up to 10MT per day packed product. This was assumed to be peak production for both programmed and unprogramed farmers together.

The machine functioned well and output was as expected. On two occasions, the packhouse performed at the peak projection without a problem. Grading labour was selected from local farmers and were trained on the job. The market was satisfied with the standards put out, and only one load caused some concern. This was in fact a load which had some field run product in it (delayed truck and tight turnaround deadline).

Technically then, the packhouse did its job. We were no longer faced with sales problems on each load. The market was confident and packhouse output was in demand.

Problems associated with the packhouse can be divided into the following :

1. Farmer concerns
2. Market concerns

1. Farmer Concerns

Prior to packhouse initiation, a series of farmer meetings were held to determine interest in the facility. During this time, three main issues were discussed.

- a) Sales with the market or at fixed price
- b) Rejects
- c) Sales to other traders

It is clear that these points were not adequately covered during these meetings since all farmers concerns emanated from these points.

a) Sales with the market or at fixed price

Since traditionally, farmers had sold at fixed or at best dictated prices, it was felt that to go with the market would result in better farm gate returns. Risks were of course, low markets for those growing only one crop during the season since an average return would not protect them from short term market depression. Farm gate returns on average during the 1993 season were similar to those received during the 1992 season. This however does not highlight the periods where returns were lower than previously experienced. This has lead to comments such as : "we have never got prices less than E6.00 per lug". This refers to a period when the market was very low and sales went out at E6 and E7 gross. *Clearly this must be resolved prior to the 94 winter marketing season.* It may be that fixed price sales are the only answer.

b) Rejects

Farmers were made aware that the new system would result in a grade out percentage. Being aware and seeing actual rejects of course are two different things. Farmers at the end of the season are still claiming for their gross deliveries to the packhouse. *This too must be clarified prior to the new season.*

c) Sales to other traders

It was discussed in detail, what the objectives of the farmers should be - to promote the packhouse as a central source of product for all buyers. The project was approached by the main "opposition buyer" - Jay Sookoo, who offered to purchase all his product through the packhouse at a fixed price of E10 per lug. This was turned down. It was an unfortunate decision - E10 per lug throughout the season would have resulted in farm gate returns of E8.50. Despite modifications to the payment system, the packhouse could not cope with the competition of cash payments from other Indian traders during market highs, and therefore throughput was severely affected. This had run on consequences to the efficiency of the operation - transport, labour costs and other overheads. *This is another area which clearly must be resolved prior to the season.*

2. Market Concerns

Initially, all produce was being channeled through Philani produce at the Nokwane Market. This resulted in poor distribution at the local market level. Agents were becoming frustrated at the lack of product becoming available from local sources - despite a border restriction on imports.

Once Philani was no longer the only trader, access by local traders was improved. It is important that this be improved for the new season. each agent, or the market itself must place regular orders to the packhouse to ensure adequate local sales distribution.

An additional consumer, not effectively dealt with during the opening phase of the packhouse was the vendor trade. A decision had been made not to handle cash at the packhouse (still valid). This meant that those vendors who were willing to buy graded produce (most of them) were prohibited from doing so. Ultimately, the Ngonini Estate fruit kiosk was approached to provide a cash handling facility and market point for small sales as well as vendor sales. This worked well but was only instituted right at the end of the season, so total volumes moved were low. *This must be reinstated at the outset, with the vendor trade being notified well in advance of the system.*

C. Packhouse - Farmer control and Management

Experience with the NRDA packhouse has shown that a strong organisational structure at the farmer level can be very effective in administering such a system. The Mkhovu Packhouse association (MPA) has been effective in resolving farmer problems and addressing concerns of individuals. This has effectively distanced the project to a degree from the affects of decisions made - since the committee had "bought into the decisions". It is clear that the more decisions that can be made by and not for the association AT SET UP, the better.

The association must employ a manager to operate the packhouse within clear business guidelines. It is at this level the project can assist - by ensuring that the operation runs as a commercial entity. In my opinion, no other mode of operation can succeed initially and after project completion.

As outlined above, the association must not be drawn away from dealing with agents where available. These, *if well selected* can be of tremendous assistance to emerging farmer groups. By bringing in such assistance, the new packhouse management can learn quickly and at low risk, about the market they intend to become involved with.

Packhouse Running Costs ??
managing

PART 4
SUMMARY AND CLOSING COMMENTS

The project has come a long way over the past 2 seasons. Initially, export orientation was considered impossible by the GOS. The project has proved the export lead assumption correct. In addition, local producers have grown high quality crops which have made the export markets sit up and take note. Marketing firms, previously not convinced of the potential of small scale growers, have seen profits. There appears to be an element of "sustainability" in that Nokwane Market agents are going out for themselves to farmers to coordinate production.

It remains for the marketing aspect of the project to capitalise on this progress made and to work on the areas of concern highlighted in this report.

It has been a privilege to have been involved with the project through its redirection. I wish all the team well in the future, and would like to express my thanks to all for their cooperation assistance and friendship over the past 2 and a half years. My sincere thanks also go to Chemonics home office staff who have provided tremendous support over the difficult times.