

# Potato SA Congress

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“Market power in the food industry  
and what farmers can do about it’

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# Contents

- Market power and economic concentration-an overview
- Farmer controlled business and a case study

# Market power....

- World wide trend that farmers share in consumer rand/\$ decline (USDA/ERS)

**Table 8—Farm-Retail Price Spreads**

	Annual			2008	2009					
	2006	2007	2008	Sept	Oct	Nov	Dec	Jan	Feb	Mar
<b>Fresh vegetables</b>										
Retail cost (1982-84=100)	283.0	293.5	309.8	311.3	314.5	319.3	315.8	320.2	311.8	305.7
Farm value (1982-84=100)	156.7	169.0	170.8	170.4	180.4	187.8	166.4	165.6	158.9	165.2
Farm-retail spread (1982-84=100)	347.9	357.4	381.3	383.8	383.4	386.9	392.6	399.7	390.4	378.0
Farm value-retail cost (%)	18.8	19.6	18.7	18.6	19.5	20.0	17.9	17.6	17.3	18.3
<b>Processed fruits and vegetables</b>										
Retail cost (1982-84=100)	201.2	208.7	228.5	238.1	240.4	238.7	239.2	243.3	243.5	244.4
Farm value (1982-84=100)	140.1	151.0	164.8	165.8	165.1	164.1	161.7	161.0	160.3	160.5
Farm-retail spread (1982-84=100)	220.3	226.7	248.3	260.7	263.9	262.0	263.4	269.0	269.5	270.5
Farm value-retail cost (%)	16.6	17.2	17.1	16.6	16.3	16.4	16.1	15.7	15.6	15.6

- Share in Consumer rand  $\neq$  farm profit

# Factors driving market power/concentration

- Urbanization

## Projected Population Growth

Region	2008	2050	Change	Percent
World	6,705	9,352	+2,647	+ 40
High Income	1,227	1,294	+ 67	+ 6
Low Income	5,479	8,058	+2,579	+ 47
East & S.E. Asia	2,144	2,459	+ 315	+ 11
South Central Asia	1,683	2,605	+ 922	+ 55
Sub-Saharan Africa	809	1,698	+ 889	+110
Lat. America/Carib	577	778	+ 201	+ 35
N. Africa & W. Asia	422	670	+ 248	+ 59

Source: Population Reference Bureau. 2008 World Population Data Sheet, based on U.N. Population Office and U.S. Census Bureau analyses.

• Value adding/pre cooked/ready to eat/take out

SA ?

USA: Components of the marketing bill for domestically produced farm food

Year	Total consumer expenditures	Labor <sup>1</sup>	Packaging materials	Intercity rail and truck transportation	Fuels and electricity	Corporate profits before taxes	Misc. <sup>2</sup>	Total marketing bill <sup>3</sup>
<i>Billion dollars</i>								
1970	110.6	32.2	8.2	5.2	2.2	3.6	23.7	75.1
								78.5
1980	264.4	81.5	21.0	13.0	9.0	9.9	48.3	182.7
								206.0
1990	449.8	154.0	36.5	19.8	15.2	13.2	104.9	343.6
								363.5
2000	661.1	252.9	53.5	26.4	23.1	31.1	150.8	537.8
2005	830.7	319.8	66.5	33.2	31.6	37.4	184.4	557.5
2006	880.7	341.0	70.5	35.2	33.5	39.7	197.6	717.5

Source: USDA/ERS

- Growth in supermarket power-worldwide trend

## 5. The food retailing landscape in South Africa

The South African retail food sector is extremely concentrated. It is dominated by 4 main retail chains: Pick 'n Pay, Shoprite/Checkers, Woolworths and Spar jointly control a total of 94.5% of the retail food market in South Africa.

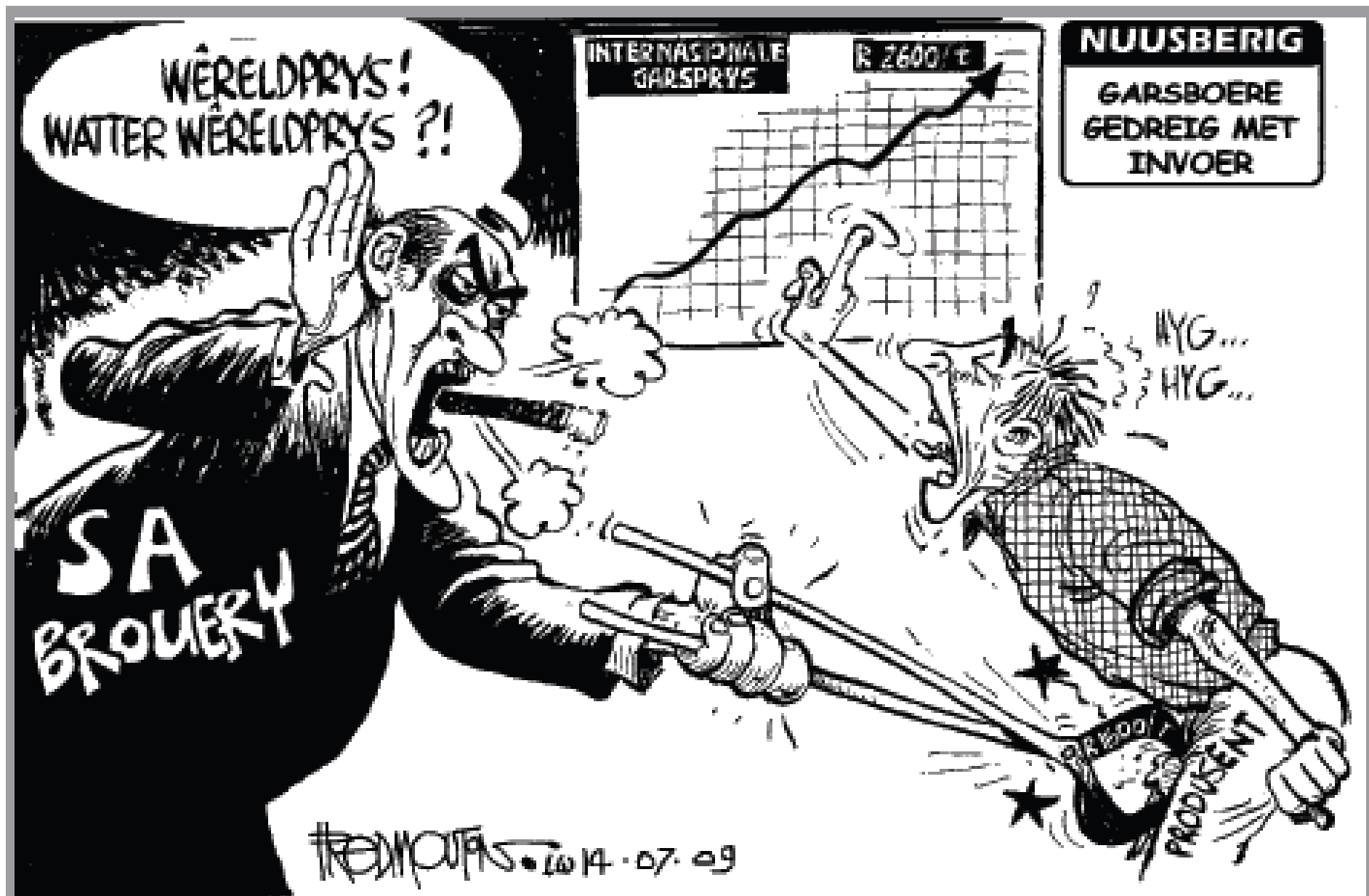
**Table 2: National market share of major retail chains in South Africa**

Retailer	Market Share (%)	
	2006	2007
Pick 'n Pay	40	36
SPAR	26	28
Shoprite/Checkers	26	27
Woolworths	7	9

*Source: GAIN report, 2007*

- Supply chain management
- Free trade and globalization

Market power .....who is in charge?



•Commodity vs niche/contract market

**Table 1: The South African potato supply chain 2006: Structure and volume shares of different marketing channels (raw equivalents)\***

<b>Total Crop</b>	⇒	Table Crop 88% <sup>1</sup>	⇒	National Fresh Produce Markets 51% <sup>1</sup> (58% <sup>2</sup> )	⇒	Fresh – informal market 26% <sup>1</sup> (51% <sup>3</sup> )			
					⇒	Fresh – formal market 19% <sup>1</sup> (37% <sup>3</sup> )			
					⇒	Processing 2% <sup>1</sup> (5% <sup>3</sup> )			
					⇒	Exports 4% <sup>1</sup> (8% <sup>3</sup> )			
				⇒	Seed crop 12% <sup>1</sup>	⇒	Direct marketing channels 37% <sup>1</sup> (42% <sup>2</sup> )	⇒	Processing 15% <sup>1</sup> (41% <sup>4</sup> )
								⇒	Fresh – informal market (direct from rural areas) 2% <sup>1</sup> (4% <sup>4</sup> )
								⇒	Trade (formal retail) 17% <sup>1</sup> (46% <sup>4</sup> )
								⇒	Exports 3% <sup>1</sup> (8% <sup>4</sup> )
								⇒	Seed certified 9% <sup>1</sup> (76% <sup>5</sup> )
								⇒	Seed uncertified 3% <sup>1</sup> (24% <sup>5</sup> )

<sup>1</sup> Share of total crop. <sup>2</sup> Share of table crop. <sup>3</sup> Share of sales volumes on National Fresh Produce Markets

<sup>4</sup> Share of volumes procured through direct channels (i.e. not through National Fresh Produce Markets)

<sup>5</sup> Share of seed crop

- Processors –relatively concentrated.

High barriers to entry.....contracts with farmers....etc

The five most prominent issues processors have to deal with are:

- 1) Cost of raw material
- 2) Oil flavour and packaging
- 3) Utility costs, coal, electricity and gas
- 4) Labour
- 5) Low Profit margins with high sales volumes.
- 6) Access and maintenance of Retail/shelf space

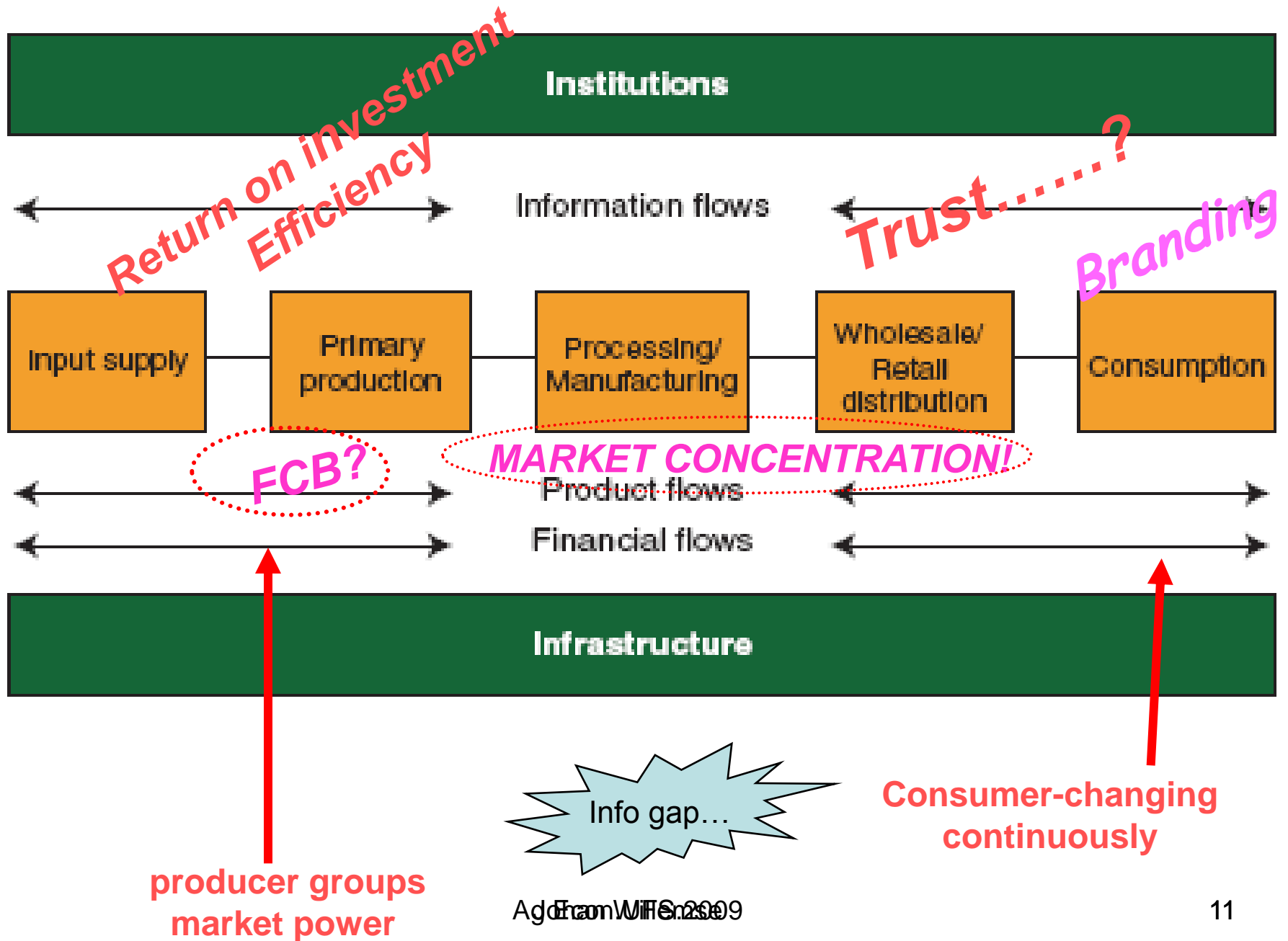
**Table 2: Illustrates the breakdown of Processors within the South African Potato :**

<b>Processed Potato Products</b>	<b>Crisps</b>	<b>Frozen Fries</b>	<b>French Fries</b>	<b>Canned Potatoes</b>	<b>Mixed Vegetables</b>
<b>Number of Prominent Firms</b>	7	3	5	2	3

# Potato industry - inputs

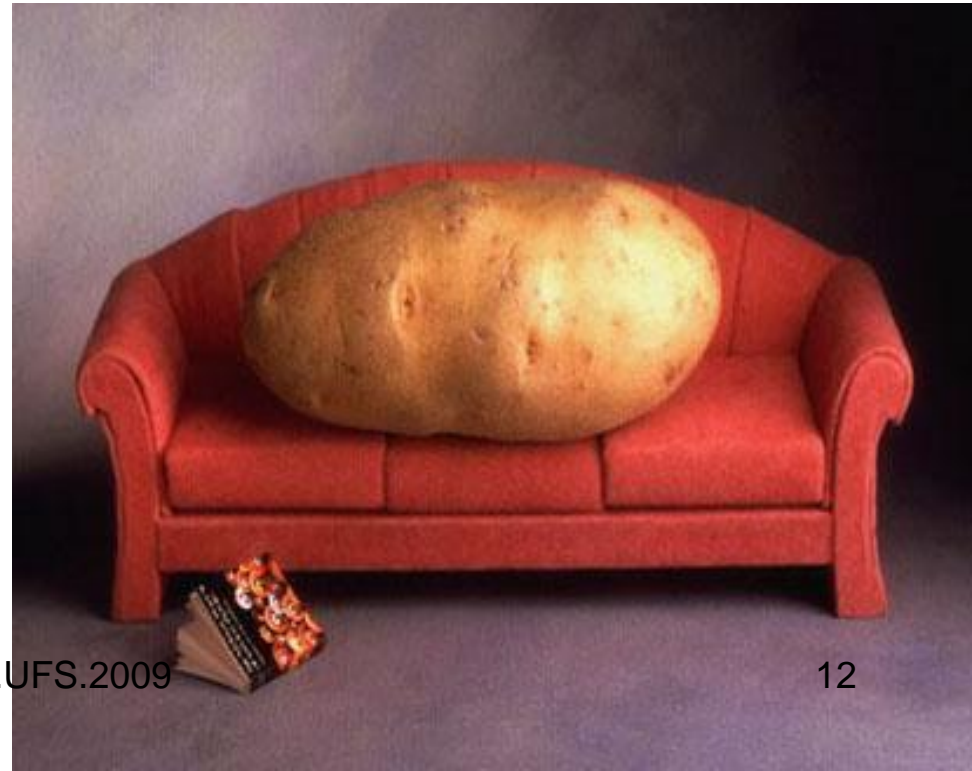
- Fertilizer; 3 dominant companies
- Packaging; 2-3 suppliers
- Fuel; 4 dominant companies and government control
- Transport..Rail vs road

# Key elements of a high-value food supply chain



# Challenges

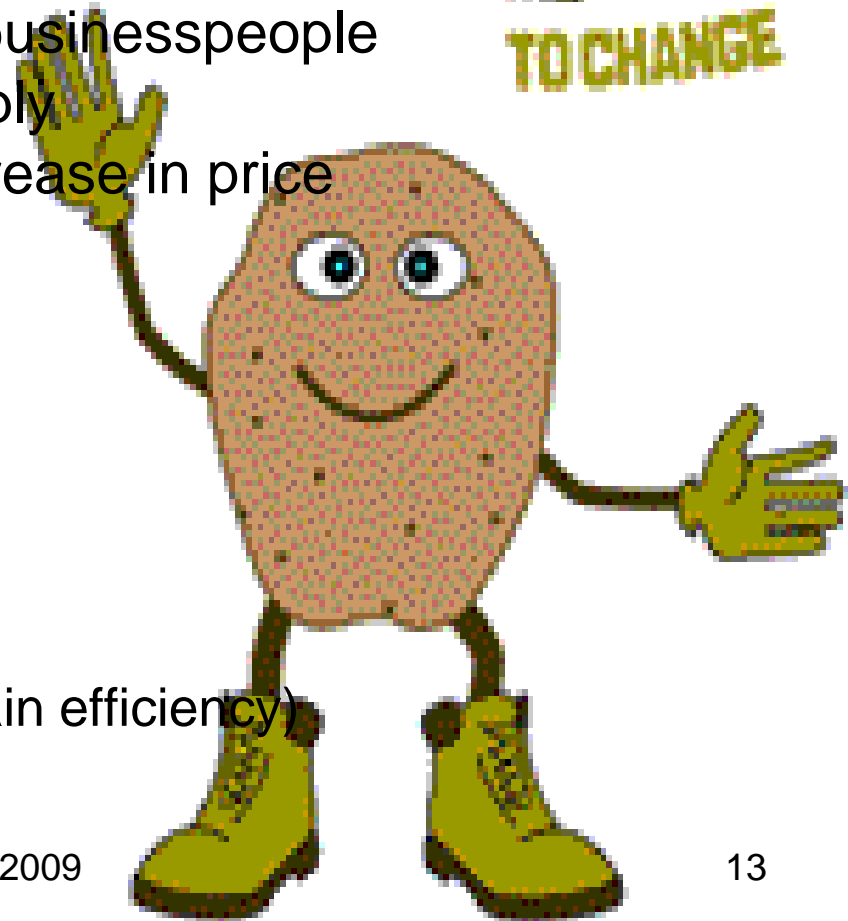
- Challenges for farmers in the industry
  - Growing power of retailers & processors
  - Changing consumer characteristics
  - Food security
  - Quality of food
  - Production costs
  - Infrastructure
  - Economy



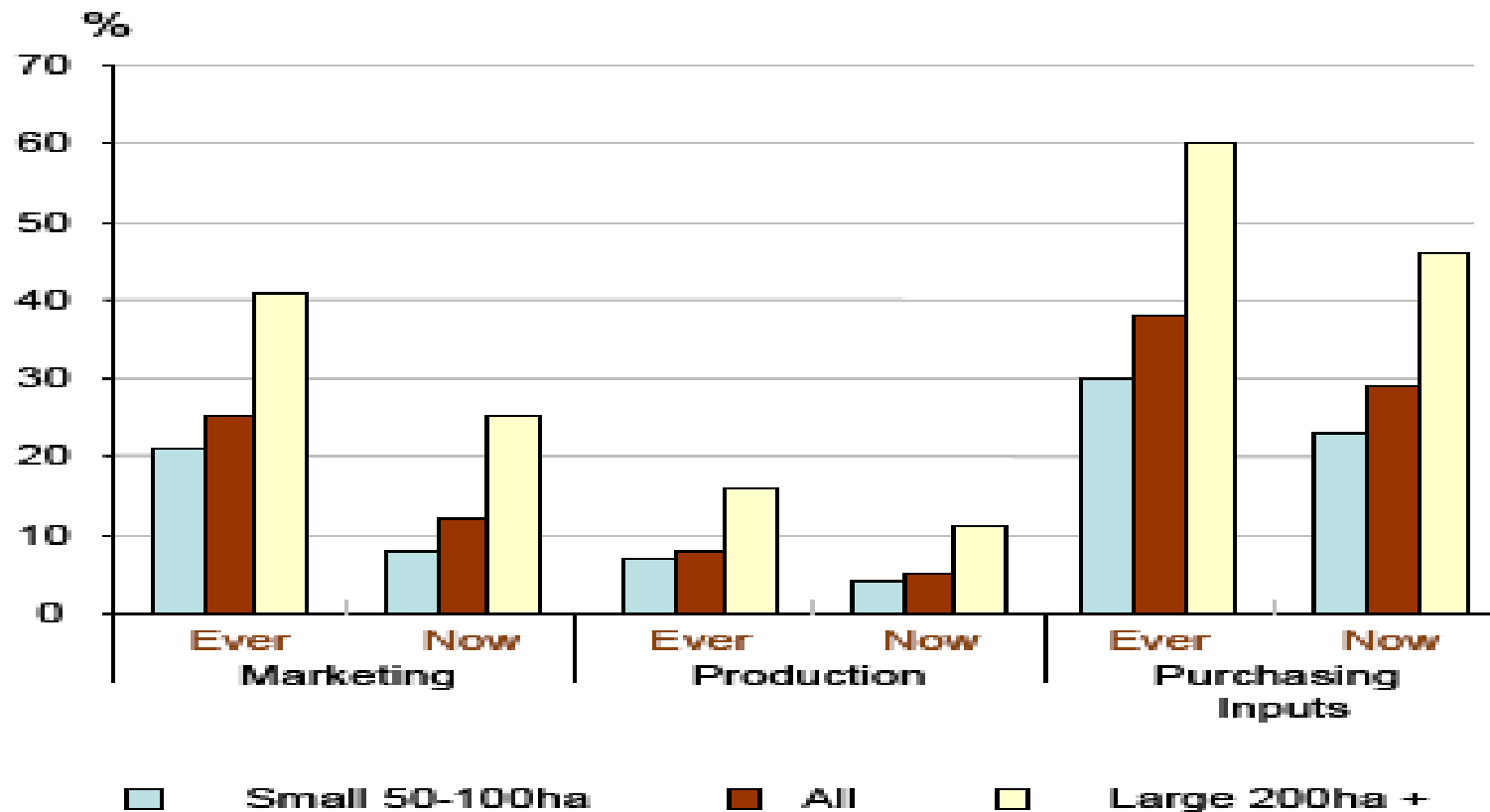
# International solutions

- Processors and retailers are businesspeople
- Access to information
- Producers should also become businesspeople
- Key: Understand demand & supply
- 1% decrease in supply = 6% increase in price
- Farmers started to form FCB's
- What is a FCB?
- Functions:
  - Gathering information
  - Buying inputs
  - Production
  - Marketing
  - Logistics (transport & supply chain efficiency)
- Different models of FCB's?

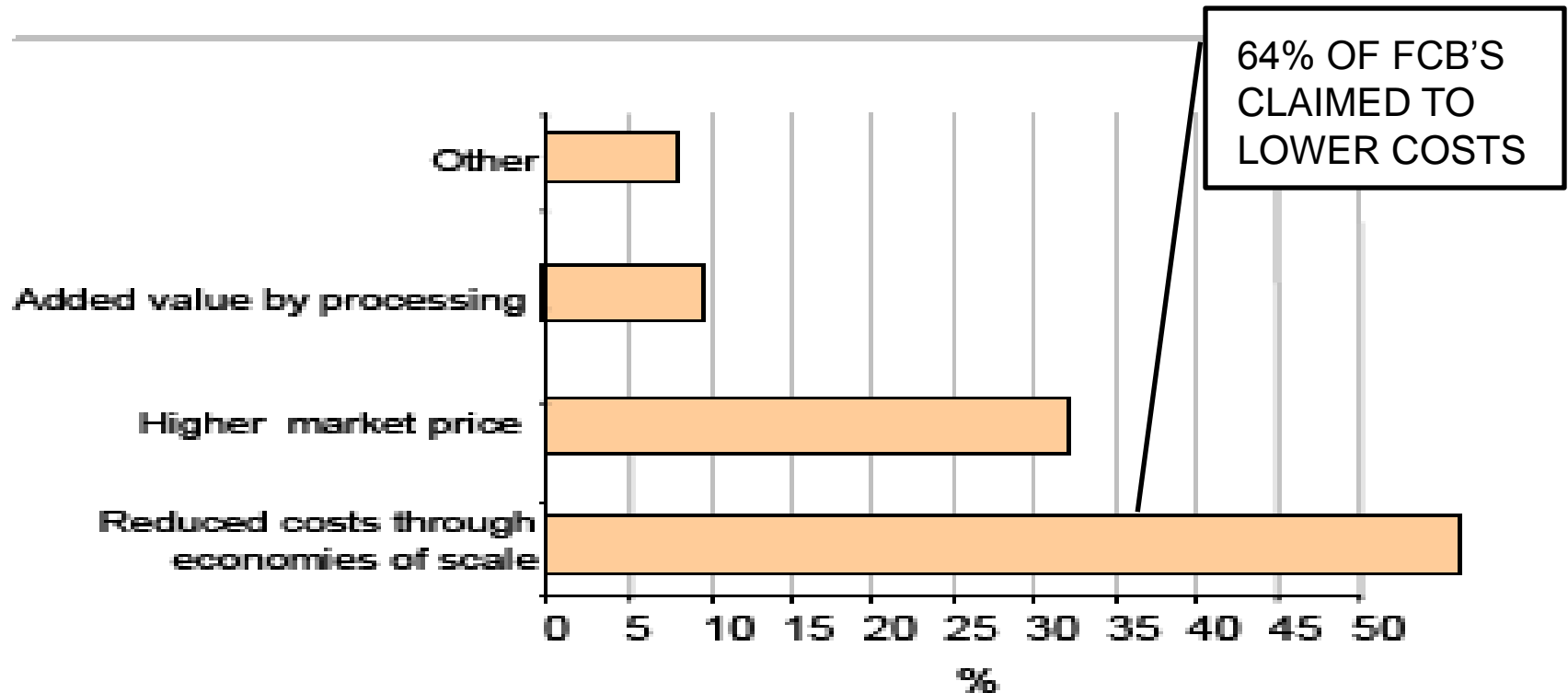
IT'S TIME  
TO CHANGE



# Collaboration at present vs future



# How do FCB's add value for their members?



Source: EFP Research 2003

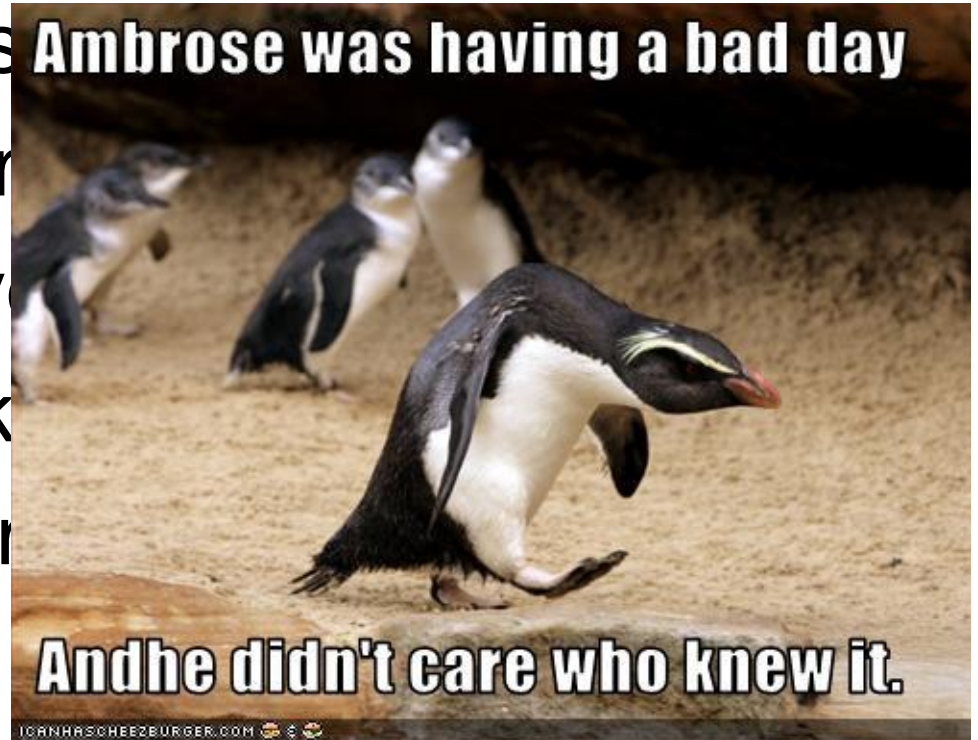
# FCB is not for everyone

Reasons why producers would not want to collaborate

- Trust
- Satisfied
- Don't want to share skills etc.
- Already have good relations with their traders
- Live too far to make collective activity possible
- Production technique/technology

# Characteristics of a potential member

- Like-minded and s
- Involved in the cor
- Driven and positiv



# 5 Phases of FCB development

## 1. Identify the opportunity

- Identify the opportunity in the market
- Proper research of new markets
- How can it be used to your advantage
- *Agree on the objective/vision of the group.*

## 2. Consensus amongst the group

- Have a meeting to discuss possible ways of collaborating
- Review the different business forms
- Discuss capital requirements and use
- Discuss the business plan

### 3. Develop trust amongst members

- Identify and appoint the management
- Responsibilities
- Good communication
- Recordkeeping of the group
- Formal meetings
- *Ineffective management*
- *Communication*

### 4. Member loyalty

- Member loyalty is important
- Members should know what is expected from them
- Communication and decision making – transparent
- The group should be disciplined
- Members should not have unrealistic expectations
- *The members should know that if the group is successful, the individual will be successful*

5.

Ask experts  
and form  
partnerships

- Ask the opinions of other groups
- Form partnerships with universities and other businesses
- The group must be able to manage itself
- Send out the message that they are here to stay

# Challenges

- Takes time
- Agreeing on the vision of the group
- Member loyalty and trust
- Competition
- Higher prices cannot be guaranteed
- Business structures in place
- Once successful – road ahead

# International strategies

- Internationally farmers are using a number of strategies;
  - Pooling volume
    - Pooling the goods bought/produced by farmers
    - Advantages in minimizing transport cost, logistics and improved position in negotiating prices
    - Markets and policy do have an influence
    - Challenges: member involvement = effective marketing
    - Advantages: strengthen their bargaining power all along supply chain
  - Focus on a high-quality differentiated product
    - Produce a product to earn a premium
    - Examples: labels, guaranteed standards, good reputation
    - Challenge: co-ordinate actions of all chain partners in the supply chain.

# International strategies cont..

- Linking the product to a specific region
  - Strengthen the link between the food product and provenance
  - Emphasise the quality/characteristics of product
  - Challenge: creating product identity & loyalty
- Direct producer-consumer relations
  - Avoid middlemen & increase communication
  - Usually social coalitions at local/regional level
  - Challenge: producer focused on farming

# International strategies cont...

- Establishing a regional brand
  - Market different products and services in the same region
  - Include: fresh produce and processed goods
  - These goods should all carry the same regional connotation
  - Marketed to add value & build reputation for a basket of goods
  - Challenges: to reach an agreement between the different stakeholders, who mostly already have their own marketing networks
  - These marketing initiatives can go beyond traditional boundaries

# Advantages of FCB's

- Farmers need to collaborate vertically:
  - Economies of scale
  - Increase capacity
  - Quality control
  - Sharing of skills and expertise
- Horizontally:
  - Efficiency & consistency of delivery
  - Lowering transaction costs
  - Improve relationships and flow of information



# FCB inline with what retailers want?

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# Case Study

- Reason for forming
- Initial steps taken
- First meeting
- Business model
  - Capital
  - Ownership
  - Commodity
  - Management
  - Buyer



# Case Study cont....

- Discipline in the group
- Way ahead
  - Size the group
  - Technology
  - Linear supply chain – remove inefficiencies
  - Buyer
  - Niche markets

# Conclusion

- Producers no longer isolated
- Internationally collaboration – important
- Emphasised by organisations
- Producers convinced of advantages
- Takes time
- There are successful groups in SA

# Critical elements to take note of

- It is not about the individual but about the group.
- The objective of the group should be clearly stated!
- The group should be driven to increase their profit margins by:
  - Cutting costs
  - Entering new markets
  - Supplying current markets more effectively
- Competitive
- Group must be able to manage themselves
- Critical to the success of the group:
  - Trust
  - Transparency
  - Commitment
  - Business rules



# TEAMWORK

A FEW HARMLESS FLAKES WORKING TOGETHER CAN  
UNLEASH AN AVALANCHE OF DESTRUCTION.