LEARNER GUIDE

Marketing

Level 3

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Title:		**Explain Application of Marketing Principles within an Alternative and Dynamic Agricultural Marketing Environment**					
Applied Title:		**Explain Application of Marketing Principles within an Alternative and Dynamic Agricultural Citrus Marketing Environment**					
Field:		Agriculture and Nature Conservation					
Sub-Field:		Primary Agriculture					
SETA (SGB):		AgriSETA					
Skills Area:		Marketing					
Context:		Citrus Production					
US No:	116259	**Level:**	3	**Credits:**	3	**Notional Hours:**	30
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Based on the Production Guidelines of:

Supported by:

Unit standard alignment and assessment tool development:
Cabeton Training and Development

Project coordinator:
Jacomien de Klerk

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Directions

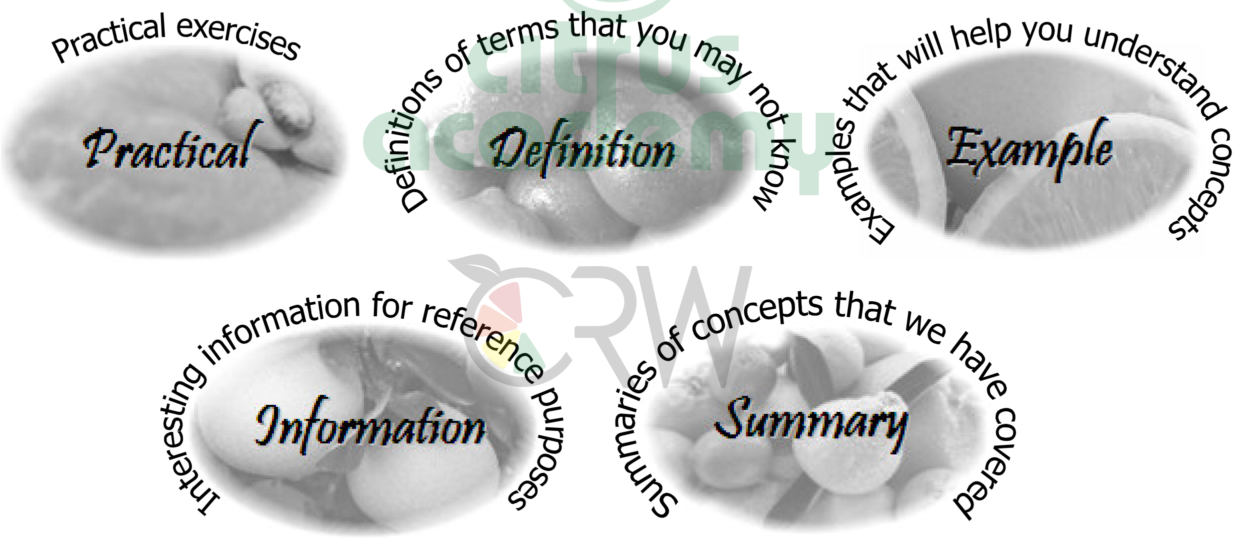
This learning material has been developed to assist the learner wishing to complete this unit standard. The guide contains all necessary learning to ensure that the learner will attain the competencies required by the unit standard.

The learner guide is accompanied by a Learner Assessment Guide. Please ensure that you have access to this guide as well.

The learner guide was designed to be used by a learner during the presentation of a skills program based on the unit standard, and to be kept afterwards by the learner for reference purposes. The learner assessment guide was designed to be completed during and after the presentation of the skills program, and forms part of the assessment process.

Although this learner guide contains all the information required for attaining competency in this unit standard, references to additional resources, both printed and electronic, are provided for further study by the learner.

Information in boxes is indicated by tags that show:



Introduction

1. Purpose

A learner achieving this unit standard will be able to apply the components of the marketing cycle in alternative agricultural marketing environments.

Learners will understand the importance of the application of business principles in agricultural production with specific reference to agricultural marketing.

They will be able to operate farming practices as businesses and will gain the knowledge and skills to move from a subsistence orientation to an economic orientation in agriculture. Learners will gain the knowledge and skills to access mainstream agriculture through a business-orientated approach to agriculture.

In addition, the learner will be exposed to the dynamic and demanding nature of bigger markets, thereby extending the learning process to dynamic economic environments. The profession will benefit from this in that more practical inputs into managerial decision-making will be made.

2. Learning Assumed to Be in Place

It is assumed that the learner has successfully completed the unit standards listed below:

NQF Level	***Unit Standard Number***	***Unit Standard Description***
NQF2	Literacy and Numeracy	
2	116126	Apply marketing principles in agriculture

Revision of Level 2

1. Market Research

- Marketing objectives that are in line with broader company objectives, realistic, and flexible should be in place and known to all company employees to assist with decision-making.
- Market research is about establishing what the market wants and whether there is a market for the products that can be produced on the farm.
- Market research involves consumer analysis, market analysis, and assessment of competition, an assessment of distribution channels, the development of a marketing mix (product, place, price, promotion and people), and the development of a financial analysis.
- Market research is expensive and is normally conducted together with export agents or is conducted only in part.
- Managing market research requires careful planning, scheduling, budgeting and implementation.

2. The Marketing Mix

- The marketing mix is the controllable part of a marketing plan.
- The marketing mix refers to the five Ps of marketing, being:
  - Product
  - Place
  - Price
  - Promotion
  - People
- **Product:** What is the product that my target market wants?
- Product is differentiated not only by the characteristics of the product itself, such as external and internal quality, shelf-life, seediness, size and maturity time, but also by factors such as production practices and packaging.
- **Place:** Where does my target market want this product? / How am I going to get my product to the target market?
- **Price:** At what price can I sell my citrus product to the customer to ensure the optimum sales but also the best possible profit margin?
- The price at which a product is sold is the most essential factor in profitability.
- Price is generally determined by the market, except where the specific product is in short supply and high demand.
- **Promotion:** How can I promote my product so that my target market knows what a wonderful product I have available?
- Promotion is in essence communication with the customer.
- There are five categories of promotional effort, being advertising, personal selling, sales promotion, public relations, publicity, and direct selling.

- **People:** Who do I need and how do I need to manage my workforce to achieve the requirements of the market?

3. Marketing Budget

- Once the marketing plan has been developed, the marketing budget for promotional activities can be developed.
- The marketing budget indicates the impact that promotional activities will have on the monthly cash-flow, and whether the promotional plan can be implemented as it is or whether it needs to be changed because it is too expensive.
- The marketing budget is a cost centre, meaning that it does not generate income.
- Above-the-line marketing techniques refer to the use of conventional mass-media tools.
- Below-the-line marketing techniques refer to more direct, personal marketing, such as in-store promotions and sponsorships.
- Above-the-line and below-the-line marketing forms the integral part of the marketing budget, which also includes the cost of market research, communication, travel, and personnel.
- The marketing budget includes short-, medium- and long-term costs that allow for the ongoing promotion of the product.
- Budgeted marketing expenditure must be compared to actual expenditure on an ongoing basis.
- Changes in the preferences and buying patterns of consumers must be monitored on an ongoing basis.

4. Distribution Channels

- For citrus, distribution channels refer to how citrus is moved from packhouse to market.
- The choice of distribution channel depends on the market location and the requirements of the market, particularly with regard to packaging.
- Logistics service providers and shipping agents are used to distribute export fruit. The choice of service and service provider depends on the ability to deliver the desired service, the reputation of the service and provider, and the cost of the service.
- The choice of transport mode is made mainly on the grounds of cost, but also on the grounds of practicality, reliability, reputation, and the general standard of service delivery.
- Various modes of transport such as road transport, rail transport and shipping, are used for different legs of the distribution channel.
- A cooperative is an organisation that comprises a number of individual growers.
- The advantages of cooperative marketing and distribution include increased bargaining power because of larger volumes and the ability to supply the market with a wider range of cultivars over an extended period.
- A factor that makes cooperatives unattractive to certain growers is the loss of individual branding, while the variability in quality from different growers may weaken the cooperative’s quality image.
- Growers and packhouses can exercise control over distribution costs.
- A distribution budget is useful for comparing the costs of various distribution options.

- The performance of service providers is measured against service-level agreements.
- The efficiency of transport and distribution contractors can be measured against the condition of the product on arrival at its destination, and whether the product was delivered within the agreed timeframe.
- Losses that are incurred as a result of protocol deviations may be claimed back from the contractor.

Market Research

Market research is the process of gathering, analysing and interpreting information about a market, or about a product or service to be offered for sale in that market, and about the past, present and potential customers for the product or service.

Chapter 1

After completing this chapter, the learner will be able to: **Demonstrate an awareness of the managerial vision of the agribusiness with specific relation to the dynamic environment in which it operates**

1. Introduction

Citrus is a long term crop and the production and marketing environment within which it operates is dynamic and subject to significant and unpredictable seasonal variation. To ensure the sustainability and growth of a citrus production business, a vision of what the business should look like sometime in the future must be developed and shared with all relevant stakeholders.

2. The Management Process

The **vision** of any enterprise describes its over-arching, long-term objective. To formulate the vision, we need to decide where we would like to be and what it will look like.

Establishing the vision is the first step in a series of important management decisions. Typically, managers of the various divisions, such as production, operations, packing, and finance, are asked to put forward their ideas regarding the vision of the enterprise. These ideas are integrated into a consolidated vision statement that is approved by the general manager.

The next step is for a set of **goals** or **objectives** to be set by each division, goals that are in line with achieving the vision. In this way, marketing goals are determined and agreed. The practical implementation of these goals requires detailed **planning**, which includes an implementation plan and a budget to fund the implementation. The financial expression of the agreed plans is the **budget**. Each division in the enterprise develops its own budget on the basis of the amount of money (financial resources) available and allocated to them. This is called budget allocation.

During the planning phase, the **resources** that are required for implementation are identified. One of the important required resources is knowledge and skills, otherwise known as expertise. Individuals with the required expertise have to be identified and their services obtained, either on a contract or consultation basis or as full time employees.

It is also important that the marketing division determine the kind of **information** needed for effective decision-making and where to obtain such information. For example, information on the activities of competitors, the levels of supply into markets and feedback on the location and movement of already-shipped consignments is critical.

3. Planning

As mentioned above, marketing objectives are based on the vision for the business. Planting and production plans aimed at meeting the marketing objectives are conceptualised and the financial implications of the various marketing and production alternatives have to be evaluated.

A business plan is required that demonstrates the sensitivities and financial merits of various marketing and production alternatives. An implementation plan and schedule is required which defines what has to be done, how it must be done, and by whom and by when it must be done. Progress towards achieving the objectives has to be measured and the results constantly fed back and used to redirect the overarching plan.

Following this process requires the setting of the vision, and then the formulation, implementation and the ongoing fine-tuning of the long-term plan to attain this vision. This business plan is used as a basis for raising finance from banks or venture capitalists and serves as the beacon for navigating the business through the dynamic environment it will encounter from season to season.

4. The Marketing Budget

Seen in isolation, a plan is no more than the development of an approach to achieve the goals that have been set. A budget is the financial expression of that plan and indicates the financial implications of implementing the plan. A budget is time related.

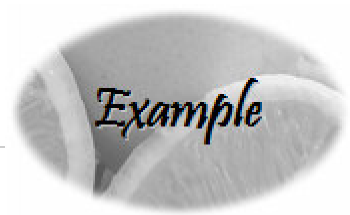
Just as the overall plan comprises, amongst others, a marketing plan and a production plan, so the overall budget will comprise the marketing budget, the production budget, and budgets for all the other divisions on the operation. These budgets are usually generated by the separate divisions and then consolidated into the single budget for the enterprise as a whole.

The marketing budget includes costs associated with creating general market awareness of the product on the one hand, and of the direct in-store costs related to promotions, discounts, exhibits, and so on, on the other.

It is important that there is the right balance between these activities, and that such costs are shared with other producers when this is warranted. Typical headline marketing budget items would include the following items, which would typically be subdivided into their respective line items:

- Media advertising, advertorials, and so on
- In-store promotions, price discounts
- Outsourced contracts
- Communication
- Administration
- Salaries and wages
- Special packaging and labelling items

As these cost headings suggest, it will seldom make financial sense for an individual grower to implement such marketing activities. Instead groups of growers may decide to work together or with their export agents to muster the required resources.



Joint Marketing

An example of such a joint market promotional effort is provided by Golden Delicious apple producers and exporters of South Africa. In 2005 they jointly agreed to fund a five-year professional market promotions program aimed at increasing the selling price of this cultivar in UK supermarkets.

In the citrus industry there are many examples where growers and exporters work together in opening and developing markets. The USA Alliance coordinates and facilitates joint efforts for the development of the USA market for citrus producers who have access to the USA. Access to the Chinese market has also been achieved through joint technical and marketing efforts by growers, exporters and regulatory authorities.

For local market sales, the marketing budget would be far simpler and less costly. Here the marketing budget may consist of nothing more than stationary, printing of labels, transport, and discounts.

5. Information Sources for Market Research

The type and source of information used as a basis for market research and development will largely be determined by the size and scale of the envisaged marketing and promotional effort.

At one end of the scale an individual grower may wish to promote a single cultivar of his on one of the local markets that he serves. This is clearly a low budget undertaking and the required market information may be no more than the price and volumes of competitive products sold historically on that single market during the relevant period. This information could be easily and cheaply obtained from market reports available directly from the market or on the Internet.

At the other end of the scale, the South African fruit industry as a whole, incorporating the full range of fruit types, could embark on a generic marketing strategy. Here the fruit industry could be promoted to the trade at large using, for example, the Fruit South Africa logo as the vehicle. Such generic marketing of a fruit industry could also be achieved through using country of origin activities in overseas supermarkets. Alternatively, or in addition to this, a promotional effort may aimed at building awareness of the attributes of a particular fruit type or range of branded products over the period of several years in an overseas country, for the purpose of selling larger volumes or increasing prices.

In such cases it may be advisable to enlist the services of a professional market promotions company. This company would be briefed on the objectives of the promotional exercise and their proposals called for and evaluated. The marketing and promotions strategy would then be agreed to and implemented.

The market information that is required for such a strategic marketing plan would proportionally increase. Information such as the attributes and qualities of the specific cultivar, the likes and dislikes of consumers in terms of taste, size, colour, quality, and volumes, the sales volumes and prices of similar products in various markets and various market segments, and the volumes that must be produced for the product to succeed are only some of the information that will have to be gathered and incorporated into the marketing plan.

Between the two extremes lie many other possibilities. Each will have its specific circumstances and rely on the most suitable source of market information to serve its purposes. There are many public and private organisations that specialise in the compilation and distribution of such information.

Chapter 1

- The vision of any enterprise describes its over-arching, long-term objective.
- Goals are set that are in line with achieving the vision of the enterprise.
- Implementation plans describe what will be done, how by whom, and by when.
- During the planning phase, the resources that are required for implementation are identified, including expertise that may have to be obtained.
- The budget shows the financial implications of implementing a plan. The marketing budget includes costs associated with creating general market awareness of the product and of direct in-store costs.
- The types and sources of information used as a basis for market research and development are largely determined by the size and scale of the planned marketing and promotional effort.

Complete activities 1 and 2 in the **Learner Workbook**.

Chapter 2

After completing this chapter, the learner will be able to:

Monitor the alternative marketing environment and determine variables in marketing cycle for a specific agricultural commodity

1. Introduction

'The market decides' is a universally accepted saying in the fruit industries of the world. The market **makes** the price. Everyone else in the value chain, from producer to importer **takes** the price.

This means that growers need to:

- Produce the right product efficiently and consistently
- Understand the factors that determine the market price

In this section, we consider some of the factors relating to the second of these two points, namely some of the external environmental factors that influence the market. This puts into perspective certain risks and uncertainties faced by citrus producers whose livelihoods are so dependent on the whims of the market.

2. External Environmental Factors

External environmental factors are the issues and circumstances over which growers have little or no control. These factors, individually or in combination, impact to varying degrees on the sales volumes and prices yielded by the market at any particular time.

External factors are mainly global factors, but can also be local. What distinguishes internal from external factors is the degree of control the producer can exercise over the factor. External market factors include:

- The worldwide supply of fruit
- The performance of the South African Rand relative to the value of the currencies of its trading partners
- New entrants in global fruit supply and the supply volumes and prices of competitive products
- The disposable income of consumers in the markets in which we operate
- Government subsidies in countries producing competitive products
- Unexpected weather conditions
- Forever changing consumer patterns and preferences
- Unexpected world events, such as 9/11, the Iraqi war, and Aids, that influence fresh produce sales
- Local and international political stability
- Market access considerations based on political relationships

- Market access as dictated by phytosanitary and food safety considerations

- New laws affecting factors such as farm ownership, transport, labour, and environmental management

Looking at these factors it is clear that there is little the grower can do to change them. No amount of planning can prevent these forces from taking their toll. It is however important that they be factored into the risk associated with a decision to produce citrus. They can be viewed as 'what ifs' when long-term market planning exercises and sensitivity analyses are done.

3. Internal Environmental Factors

Internal environmental factors are more within the control of the producer and impact on the acceptability of products in the market and thus on the overall success of the citrus venture. Internal environmental factors include:

- Choice of cultivar
- Production practices used to achieve high quality citrus cost effectively
- Choice of distribution channel
- Cost and productivity of labour
- Choice of export agent
- Selection of packaging type
- Quality management systems
- Production and packing technologies
- Brand strategy

4. The Impact of External and Internal Environmental Factors

From the environmental influences discussed above it is possible to analyse the present and the possible future impact that these factors may have on the success of citrus farming.

Favourable external environmental factors will seldom all be present during the same season. Consider however for example a combination of the following external factors:

- Stable local economic conditions coupled with low interest rates giving rise to high levels of consumer spending.

- Poor fruit shelf-life in northern hemisphere-produced citrus leading to little overlap between northern and southern hemisphere citrus crops.

- Government actions taken in export markets to promote the consumption of fresh fruit.

- Unseasonably cool temperatures leading to the consumption of more citrus.

- Southern Africa favoured as a source due to its Fair Trade status.

- High level of verified compliance by South African producers with food safety requirements.

- Under-supply of fruit from southern hemisphere competitors due to adverse climatic conditions.

Favourable internal environmental factors include:

- Excellent internal and external fruit quality due to long sunshine hours
- Climatic conditions conducive to long shelf-life
- Labour resources productive and stable
- New legislation introduced to subsidise fruit exports
- South Africa gains market access to China

Assumptions regarding other possible combinations of favourable and unfavourable external and internal environmental factors can be made to see how these could impact on volumes and prices. Such exercises are useful in bringing about a good understanding of their role and relative importance.

Chapter 2

- Growers must be able to produce the right product efficiently and consistently, and understand the factors that determine the market price.
- External environmental factors are the issues and circumstances over which growers have little or no control, but that must be factored in when long-term planning is done.
- Internal environmental factors are more within the control of the producer and impact on the acceptability of products in the market and thus on the overall success of the citrus venture.
- The impact of external environmental factors depends on the combinations in which they are present.

Complete activity 3 in the **Learner Workbook**.

Chapter 3

After completing this chapter, the learner will be able to:

Distinguish the characteristics and critical success factors of alternative markets for a specific agricultural commodity

1. Market Characteristics

Commercial producers of citrus in South Africa derive more than 85% of their total revenue from 67% of the total crop that is exported. Under-grade fruit sent to factories for processing constitute 18% of the volume produced, but earn only 4% of the revenue, while locally marketed fresh fruit make up 15% of the total crop and realise 11% of the revenue. (Key Industry Statistics, 2004, Citrus Growers Association)

Prior to 1997, when single channel citrus exports were controlled through the Marketing Act, the volumes of citrus directed into export markets were controlled in an attempt to attain and sustain targeted revenue levels on export markets. The local market absorbed that portion of fruit that could not be exported, either because the required export volumes had already been reached, or fruit quality did not reach the required export standards. As a result, the differences in the revenue earned from export and local market prices remained significant.

After deregulation, the proportion and therefore volumes of exported fruit increased, because many new agents entered the business and found outlets for their products. This has probably had the effect of reducing the difference between export and local market prices. Furthermore, under recent conditions of a relatively strong Rand, declining export market prices and increased local consumer spending, local market prospects have probably improved, although it is necessary to qualify this statement.

The local market is not a homogeneous market. It is highly differentiated, and prices differ widely depending on the market sector, location and other factors. For example, at the upper end, fruit is packed for specific retailers such as Fruit & Veg City and Woolworths. At the lower end, local grade fruit is purchased loose on-farm by hawkers for sale in the informal market. Between these extremes lie the roadside sales in the production areas and the town and city wholesale markets. The location of the grower or packhouse in relation to these potential markets tends to determine the channel that will be used for local marketing.

Nevertheless, given the large volume of citrus produced in the country relative to local market demand, and the relationships built up over many years with fruit importers around the world, South African citrus producers are likely to remain reliant on export markets for by far the greater proportion of their income generation for the foreseeable future.

2. Comparing Critical Success Factors of Alternative Markets

In a discussion about alternative markets for citrus, more emphasis is placed on the relative merits of the various export markets than on a comparison between local and export market options. The channelling of fruit into processing will continue to be the least attractive price option.

2.1. Comparing Export and Local Markets

With a few exceptions, citrus is not produced specifically for sale on the local market. Fruit sold on the local market is mainly that which has not met the minimum standards for export. This is likely to remain the case as long as non-exportable fruit is available in sufficient volume.

The critical success factors to use as the basis for comparing the export and local citrus markets are the following:

- **Production cost** – no difference since all trees are treated as if for export production
- **Packing and packaging material costs** – packing costs would be virtually the same but packaging for the local market would be cheaper
- **Distribution costs** – significantly lower for local fruit
- **Quality standards** – lower for local fruit
- **Losses due to quality and condition deterioration** – significantly higher for export fruit
- **Market price** – significantly higher for export fruit

It is clear from the above that it is indeed cheaper, easier and less risky to sell fruit in the local market. However, market price is and will remain the most important factor. The difference in prices between the local and export market is so high that the bulk of South African citrus will continue to be exported.

2.2. Comparing Different Local Markets Sectors

The local market is divided into two major sectors, being the formal and informal markets. The formal sector sources its fruit mainly from wholesale fruit markets located in urban areas. Produce is then sold on by grocery stores, fruit and vegetable outlets and supermarkets in a range of packaging forms, ranging from pockets to trays.

Fruit is also supplied within the formal sector directly from packhouses to retail markets on a contract basis. Stores, such as Woolworths, enter into contracts with suppliers to deliver a product of specific quality standards in prescribed packaging.

At the other end of the spectrum is the informal market, where inferior grade fruit is usually collected in bulk directly from packhouses, and sold at roadsides and other informal locations with little value being added to the product. This fruit is normally packaged in pockets or plastic bags.

Between these two extremes are various options and alternatives, from loose fruit sales in remote areas, to the creation of attractive displays of fruit in townships spaza shops and in the semi-permanent structures of urban street vendors.

2.3. Comparing Different Export Markets

- **Specific market access requirements –**phytosanitary and food safety restrictions imposed by the various importing countries vary widely
- **Distribution costs** – distances and therefore freight costs from South Africa vary to the different markets of the world
- Stability of importing country's currency
- **Method of selling –** consignment versus fixed price
- **Volumes** – volumes required to service various export markets vary widely
- **Quality standards** – quality standards vary depending on consumer expectations
- Conditions relating to quality non-conformance
- **Market structure –** wholesale versus supermarkets

2.4. "Non-Profit" Markets

Citrus is mostly exported to traditional commercial markets, but there is a growing alternative market in this market sector. This is the so-called non-profit market, where food products are supplied to the United Nations or World Food Program for their humanitarian programs all over the world. These programs are closely linked with food security and nutrition in countries where the population is unable to produce sufficient food themselves.

Some commodities, such as grains and pulses, have large alternative markets related to food security. These commodities are produced in vast quantities under contract specifically for the "non-profit" markets, such as for the World Food Program and World Health Organisation. Production for "non-profit" markets is normally supported financially by organisations such as the United Nations, and the produce is delivered to the relevant food program.

This does not mean that selling to the "non-profit" market is not financially viable for the grower. The grower does however need to adapt and explore alternative production standards and marketing strategies to meet the requirements of the market.

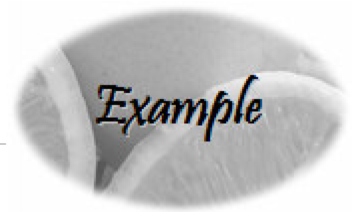
Citrus is at the moment not commonly sold into these markets, but it meets many of the nutritional requirements for being a viable "non-profit" crop. It is very nutritious, has high vitamin C content, can be transported easily, and has a naturally protective outer skin that makes it less susceptible to decay than many other fruit types.

Producing for specific "non-profit" markets might be a viable alternative for some of South Africa's emerging commercial growers. This would entail research and specific production alignment to meet the standards required by such organisations.

3. Influences on Consumer Behaviour

There are various factors that influence consumer behaviour and preferences for citrus. These factors vary in importance from market to market.

For the citrus producer to be a successful supplier into a specific market, it is unlikely that he will be able to change consumer preferences in that market unless a collaborative large-scale promotional campaign is launched. He should therefore rather focus on understanding and being able to meet or exploit existing consumer preferences.



Consumer Behaviour

This point is best illustrated by way of an example taken from a paper presented by C.M. Brown at the BCPC International Congress in 2005 entitled ***Retail Perspectives on Crop Production***.

ASDA is a large multiple retailer which operates some 280 stores in England. Food is their business driver and they can be considered experts in the food market and its trends. ASDA maintains very close links with their consumers through regular surveys and customer focus group sessions. As a result, information has been accumulated regarding the different types of consumers and the issues that these groups consider important in the agricultural products they purchase.

One such consumer grouping was mothers with children at home. This group represents ASDA's main shoppers and has the next generation's interest foremost in mind. Hence they have a key role in forming personal and family views on food.

When surveyed, this group listed as the most important issues relating to the produce they purchase the following:

- Freshness
- Back to Nature
- Reputation of the source

The question is what action does ASDA have to take to ensure that these consumer concerns and preferences are met? And how does ASDA ensure that this message reaches its suppliers and that its suppliers respond positively to these requirements?

As far as the supplier or citrus producer is concerned, it is critical to understand in the first place what a majority of the consumer body considers important. If he then wishes to supply this market, he must equip himself to deliver to the required specification.

The link between retailer and producer is important but not always easy to secure or maintain. Retailers have many suppliers. They cannot deal individually with each supplier, and exporters and importers therefore act as important intermediaries in bulking supplies of similar specification for retailers.

Given this, it is important to appreciate that the space between consumer and producer is filled by various intermediaries whose role it is to communicate the consumers' preferences back along the supply chain. The producer needs to understand the importance of having his strategic and operational decisions driven by the market. In order to achieve this, good lines of communication have to be established between the producer and the intermediaries and, if possible, with the market itself.

4. Factual and Behavioural Aspects of Alternative Markets

When evaluating various market alternatives, it is important to be able to distinguish between factual and behavioural aspects of the markets in question.

4.1. Behavioural Aspects

The behavioural aspects of a market are those related to:

- Relationships between customers and suppliers
- The steadiness of its performance under different circumstances of supply and demand
- The manner in which the market reacts to new products and methods of operating

4.2. Factual Aspects

Factual aspects are those that describe the market in terms of its physical characteristics and its historical performance. Typical factual aspects include:

- ***Market Location*** – Market location is by definition fixed. It would have been located at this position for good reason historically and the advantages of having it located there may still be valid. However, it is also possible for demographic and zoning changes to have taken place in the interim resulting in its location no longer being ideal. Location is important in terms of the profile of customers and consumers that frequent the market. In choosing a market to supply your produce to, its location in relation to target customers and distance from the site of production are important factors to take into consideration.

- ***Market Size*** – This has to match the volume of product intended to be supplied. Oversupplying a market is a sure way of reducing prices

- ***Past Performance*** – All markets carry detailed sales records of past volumes and prices by product type and specification. Such records are useful as a guide in evaluating the suitability of the market for your range and volume of product types.

- Others, including the stability of the market, transport costs to the market, packaging forms required, tax considerations, its payment terms and its communication and administration systems.

4.3. Interaction between Behavioural and Factual Aspects

There is no line separating factual and behavioural aspects of a market. There is in fact interplay between the two. Since the primary objective of any citrus production enterprise is to optimise and sustain good returns over the long term, the choice of markets should be reviewed on an annual basis taking factual and behavioural aspects into consideration.

For example, if a grower with non-exportable fruit is required to choose between supplying his product to Woolworths, selling it on a roadside stall, sending it to the nearest wholesale market or selling loose fruit to hawkers on the farm, he may decide on one or a combination of these. His decision will take into account the factual and behavioural aspects of each market.

Chapter 3

- ➢ Commercial citrus production in South Africa is export oriented and fruit is generally not produced specifically for the local market.
- ➢ Export versus local market: production costs, packing costs, distribution costs, quality standards, fruit losses and market prices are the critical control factors; much higher prices for export fruit remains the most important factor.
- ➢ Formal versus informal market: prices higher in formal market than in informal market, but costs also increase, especially packing and distribution.
- ➢ Different export markets: market access requirements, distribution costs, currency stability, method of selling, volumes, quality standards, and market structure are critical success factors.
- ➢ "Non-profit" markets refer to where food products are supplied to the World Food Program or World Health Organisation for humanitarian efforts.
- ➢ Consumer preference is influenced by a number of factors, and the grower must understand the preferences and priorities of the majority of the consumer body that he is targeting.
- ➢ The behavioural aspects of markets relate to how they perform under varying conditions.
- ➢ Factual aspects are those that describe the market in terms of its physical characteristics and its historical performance.
- ➢ There is an interaction between the factual and behavioural aspects of a market.

Complete activities 4, 5 and 6 in the **Learner Workbook**.

Chapter 4

After completing this chapter, the learner will be able to: **Modify the marketing supply chain cycle for alternative markets of a specific agricultural commodity**

1. Supply Chains

Supply chains exist in production, manufacturing and service organisations, and they are principally concerned with the flow of products and information between supply chain member organisations. Supply chains are concerned with processes such as the procurement of products (sourcing), their transformation into finished product (production and packing), and distribution of that product to consumers.

The citrus supply chain is a series of distinct activities that take place in order to take the product from orchard to market.

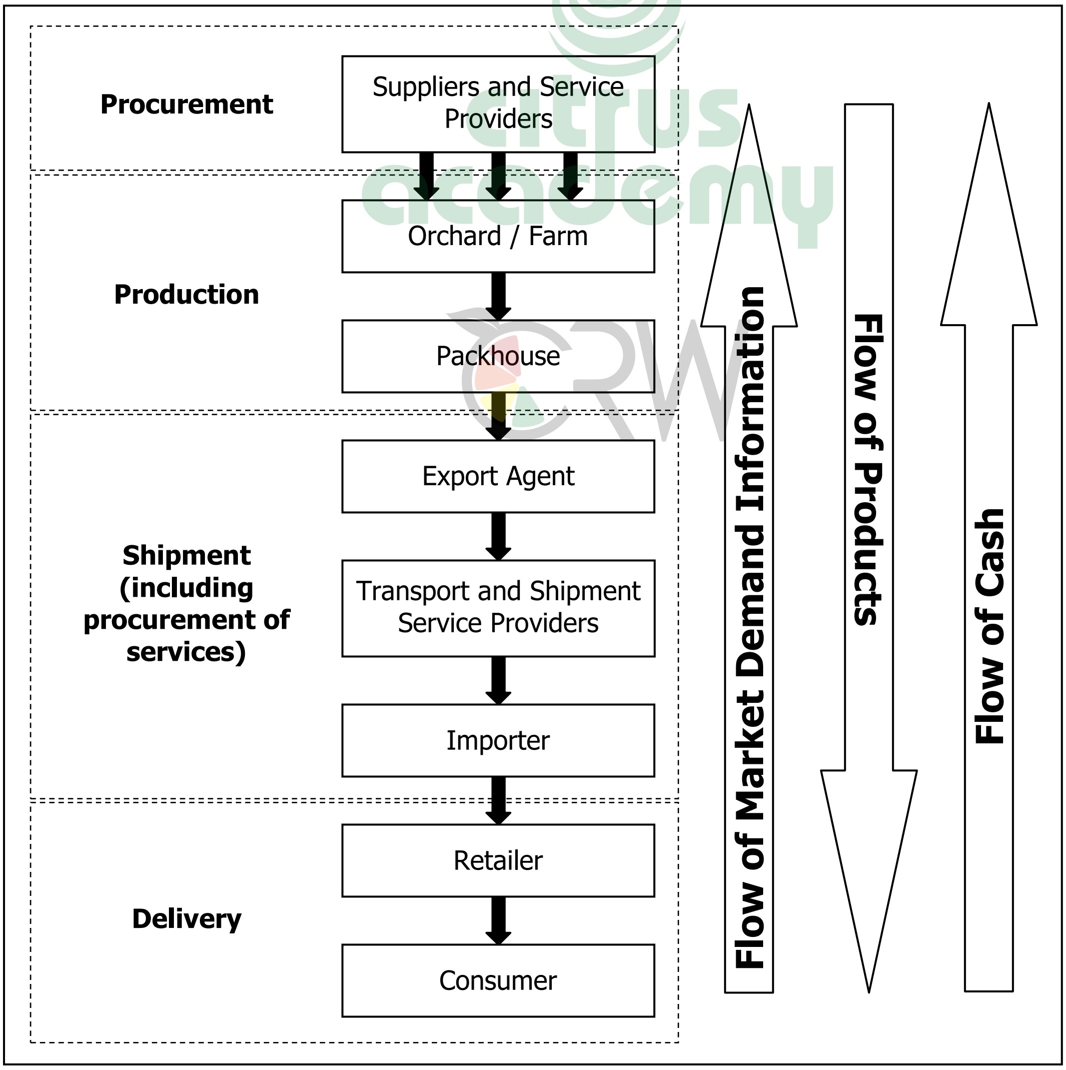


Figure 4.1: Supply Chain in Citrus Production

Supply chain management is a proven business strategy that has gained wide acceptance in recent years due to increasing customer demands for quality, delivery, and speed. Increased speeds of communication coupled with cost reduction and more interdependent supplier, provider, and customer relationships, have accelerated the integration of supply chains on a widespread basis.

Today's information-driven, integrated supply chains are enabling fruit producers to reduce costs, add product value, extend resources, accelerate time to market, and retain customers.

In summary, citrus producers need to be aware of the options available and to select those supply chain service providers that best suit their specific needs. In this chapter we look at the marketing supply chain and how it may have to be modified depending on the markets used.

2. The Citrus Supply Chain

The citrus supply chain comprises the following key processes:

- ***Orchard to Packhouse*** – Production, transport from orchard to packhouse; packing; product inspection; inspection of transport vehicles
- ***Packhouse to Depot or Port*** – Rail or road transport contractor; monitoring during loading of container, truck or rail wagon; monitoring during off-loading; documentation; cold store; depot registration
- ***Vessel Loading and Shipment*** – Vessel and container inspection; calibration and carrying instruction; monitoring during loading; temperature and time protocol management during shipment
- ***Distribution to Market*** – Discharge (offloading); processing of protocol data; inspection; loading into cold stores at port terminal; loading out of port terminal into inland transport; re-inspection on arrival at retailer or depot; positioning for sale

In citrus the most critical function of the marketing supply chain is to ensure that the quality and safety of the product is maintained at all times, of which maintaining time and temperature protocols applicable to a particular cultivar is amongst the most important.

This means that whatever the process in the supply chain, whether it be the transport of product from packhouse to railhead or the delivery of small units of product from depot to retailer, each step must be conducted reliably and cost effectively.

3. Critical Success Factors for the Supply Chain

To ensure that fruit quality and safety is maintained, there are a number of critical success factors that are relevant to the citrus marketing supply chain. These factors are applicable regardless of the markets to which the fruit is sent, although it must be understood that the risk attached to inefficiencies in the supply chain are greater in the case of higher paying quality conscious markets.

The critical success factors in the marketing supply chain are:

- Appointment of appropriate fruit inspection service providers, in-land transporters, logistics service providers, container suppliers, and shipping agents;
- Fruit quality records as monitored in packhouse and on arrival at the port if necessary
- Reliable employees, both in-house and contracted in
- Appropriate handling of product during loading and off-loading
- Adherence to time and temperature protocols
- Supply of reliable, relevant information on time

Different export markets have different protocol requirements. For example fruit shipped to Japan, the USA and Korea has to undergo on-board cold sterilisation at below zero temperatures for several weeks, while other markets impose no such restrictions.

Accordingly, it must be understood that the critical success factors for accessing different markets may differ to some extent. The basic protocol requirements as determined through research and experience over many years however apply to all export markets and the grower remains accountable for ensuring that his product reaches his market of choice in good condition.

4. Selecting the Most Appropriate Supply Chain and Distribution Channel

The key success factors of the supply chain as applicable to different markets have been discussed above. But are you in a position to decide which distribution channel and supply chain service provider to use? Is this determined by the intended market destination or by the quality of the available service providers?

The choice of market destination is determined by such factors as ability to comply with market access requirements, cultivar, fruit quality specifications and expected price. The choice of supply chain or distribution channel service provider will be determined by certain criteria, some of which are given below.

In trying to decide which supply chain or distribution channel to use, citrus growers must bear in mind that they do not operate in isolation. There is information available on all relevant issues from fellow producers, the local citrus cooperative where applicable, and from industry advisers and private consultants.

Furthermore, supply chain service providers deal with large volumes of fruit supplied by many different growers. The producer should however know how to evaluate the information given so that the best decisions can be made.

For fruit inspection service providers the following factors will for instance be taken into account:

- Technical qualifications and product knowledge
- Applicable experience and thorough knowledge of export standards
- Availability at the critical times
- Competency and relationship record with other parties
- References of good performance
- Effective data collection and processing capabilities
- Good communication and advisory capabilities

For transport contractors the following factors will be taken into account:

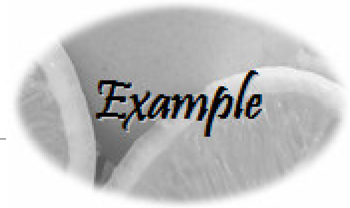
- Professional conduct and impeccable safety record
- References reflecting reliability of delivery times
- Competitive rates
- Fair contract terms

Certain regulatory aspects of the supply chain are assigned by the Department of Agriculture, Forestry and Fisheries to the Perishable Products Export Control Board (PPECB). These include fruit quality inspections to ensure compliance with the importing country's minimum standards and certification of vessels prior to shipment. For these mandatory services the PPECB has to be used by law.

5. Improving Profits through Integrating Supply and Demand Chains

The citrus marketing chain usually consists of a series of distinct actions that result in the product being moved from orchard to store. Management of this total supply chain is usually divided between various service providers, each one managing a particular part of the chain.

Integrated supply chain management strives to align demand and supply within the resource constraints of the organisation and enable a single, seamless interactive process to service demand cost-effectively and to contribute to competitive advantage. It includes all elements related to supply / procurement, operations, stock management, logistics and transport, but more importantly the integrated management of these operational and business functions.



Integrated Supply Chain Management

Let us pick up the supply chain at the point where a 70 carton pallet load of citrus has been packed and is standing on the packhouse floor ready for delivery to the market. The market is the ASDA multiple retailer in England. This pallet will have an identity reflected in the bar code attached to it. It is this unique identity that will enable the movement of the pallet to be tracked through the transport chain and ultimately enable the revenue earned from the sale of that fruit to be reconciled to the packhouse that packed it.

The packhouse in turn has its own integrated system that shows which orchard the fruit is from, who physically packed it and when. The retailer will have a system that records all relevant details of the movement and sale of the fruit in the store. In the ideal world all relevant information pertaining to the movement of the pallet from packhouse floor to retailer shelf will be captured and be available to the grower and packer. This will enable him to determine if the time and temperature protocol has been followed and if the pallet has taken the shortest and most cost-effective route to the market. As the pallet moves from one section of the chain to the next, the information on its passage has to be captured, processed and made available to the integrated supply chain management system. If the grower wishes to know where his pallet is and how it is faring, he needs to be able to access such a system.

There are companies, such as Capespan's Freshchain, that provide an integrated supply chain service. The grower will be quoted on a full range of logistical services offered by the company and can decide which of these to use.

The demand chain starts at the market and looks at the progress of product being supplied to that market. As mentioned, retailers have more than one source of supply. Sometimes retailers will use the services of a fresh fruit importing company to source their fruit and keep their shelves stocked. This importing company would in turn use the services of a logistics service provider, such as Freshchain, to handle all aspects of the logistics involved in moving the product from the selected growers to the market. In this way, the retailer would be constantly fed with accurate, real-time, high quality information, thereby enabling an optimum match of fruit supplies with sales plans.

Ideally, the retailers' demand chain and the growers' supply chain must be integrated so that the pallet load can be tracked by both parties all the way along its route. After all, both parties have similar objectives, namely to ensure that the pallet of fruit reaches its destination on time, in good condition and at the lowest cost. In practice this seldom happens because of the overwhelming complexity of the business and the inability of individual growers or retailers to coordinate their demand/supply chains effectively.

It is important to note, however, that companies specialising in the provision of integrated logistics services are becoming increasingly effective in giving both suppliers (growers) and markets (retailers) the ability to cost-effectively provide the shortest route to market.

Summary

Chapter 4

- The supply chain consists of procurement (suppliers and service providers), production (farm and packhouse), shipment (export agent, transport and shipment service providers, and importer) and delivery (retailer and supermarket).
- In citrus the most critical function of the supply chain is to ensure that the quality and safety of the product is maintained at all times.
- The general critical success factors in the supply chain are the appointment of appropriate service providers, fruit quality records, reliable employees, appropriate handling of product, adherence to time and temperature protocols, and reliable, relevant information.
- The choice of distribution channel will depend on the market. Reliability and cost-effectiveness are the most important factors when selecting service providers.
- Integrated supply chain management strives to align demand and supply within the resource constraints of the organisation.
- Ideally, the retailers' demand chain and the growers' supply chain must be integrated so that a pallet load can be tracked by both parties all the way along its route.

Practical

Complete activities 7, 8 and 9 in the **Learner Workbook**.

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