

***Integrating Small-Scale Fresh Produce Producers into the Mainstream
Agri-Food Systems in South Africa:
The Case of a Retailer in Venda and Local Farmers***

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Abstract

The forces of globalisation and economic liberalisation have exposed small-scale farmers in South Africa to new market prospects as well as new challenges. The market changes in South Africa have brought about market concentration in the agro-food sector. The dominant market players tend to favour suppliers who can ensure high volumes, consistent quality and can do so in the long run. These criteria have tended to favour the more capitalised commercial sector over the emerging sector.

However, despite the hurdles faced by small-scale farmers in South Africa, the case study presented in this paper illustrates the potential for successful, mutually beneficial engagement between the commercial sector and small-scale farmers, based on the case of small-scale vegetable farmers supplying the SPAR supermarket in Thohoyandou, Venda.

The supermarket provides a market for the vegetables of the small-scale farmers, as well as a number of support services. In return the supermarket receives a regular supply of fresh produce, rapport and patronage for its investments in community development. The supermarket's pro-poor policies, among other things, have catapulted its market share from zero when it opened in 2002 to a dominant 66% only two years later and remaining at that level to date. This model has also since been taken to five other SPAR outlets.

This case study illustrates that private entities can serve as important facilitators of market entry for the emergent sector. However, addressing the success factors will be critical to ensure sustainability.

Introduction

The forces of globalisation and economic liberalisation have had a dual effect on small-scale farmers and small to medium agribusinesses by exposing them to new prospects and challenges. Changes at the global level are destabilising markets for agricultural products even in remote rural areas. For instance, there is a reported increase in consumers' preference for supermarkets over local stores in rural areas such as in the Transkei in South Africa (D'Haese et al, 2005). The benefits that have accrued due to the changes include the breaking of monopolies held by traditional middlemen, connecting small farmers with lucrative distant markets, linking producers with the changing demands of expanding urban populations, increasing consumer choice and improving quality and lowering costs through competition.

Conventional thinking has been that the position of smallholders, processors and agribusinesses in their national markets is stable and that the key issue is therefore how to gain access to the more profitable niches, such as exports. Yet a growing body of evidence is showing that the local, regional and national markets are themselves experiencing large transformations driven by a variety of factors. For instance domestic markets in liberalised economies increasingly have more in common with the export markets in terms of grades, standards, business practices, prices and ownership (IIED, 2004). The emerging sector therefore has to fight for market share domestically and in export markets.

The South African agro-food markets have not been spared the flux in the international arena. The nation's agricultural sector is in the process of transition from a regulated to a deregulated environment, since democracy in 1994 and the country's re-entry into the international markets. Deregulation in the agricultural has since seen the dismantling of control boards under the auspices of the National Agricultural Marketing Council (NAMC) and the enactment of the Marketing of Agricultural Products Acts of 1996. In the transition process, market concentration has become a reality in the food processing and retail sectors. For instance, supermarkets currently account for 50-60% of food sales; Tiger Brands performs 75% of the tomato processing in the country; and four dairy processing and manufacturing companies handle 62% of commercial milk. This increasing incidence of market concentration has been attributed to increased urbanisation, expansion of middle-income groups, trade liberalisation, information and technological change and the introduction of product grades and standards (Louw et al, 2004).

Emerging farmers have found themselves excluded from the mainstream of the agricultural economy. The dominant supermarkets and processors have tended to favour suppliers who can ensure high volumes, consistent quality and engaged in long-term contracts to that effect. These criteria have tended to favour the more capitalised commercial producers and processors over the emerging sector. However, the emerging agricultural sector in South Africa is slowly being given the opportunity to re-enter the mainstream market. This is partially spurred on by the national government's economic empowerment policies as articulated in sector plans such as AgriBEE (Agricultural Black Economic Empowerment) which are in the formulation and review stages. There is also an increasing consensus in business circles regarding the strategic importance of adopting pro-poor policies. This has prompted agro-food chain members to process and market products from small farmers and

to collaborate with development programmes helping small farmers to improve their businesses and ultimately supply to commercial market outlets such as the large retailers. Weatherspoon and Reardon (2003) cited as a case in point of a farmers association in Montagu, South Africa that provided development support to emerging farmers to sell butternut squash to Pick'n Pay.

The objective of the research presented in this paper was to investigate a relevant case in Thohoyandou, Limpopo Province, where a local SPAR supermarket had implemented an innovative approach to granting and maintaining market access for small-scale fresh produce farmers. In essence this investigation sought to evaluate the potential of using this SPAR to farmer association as a model for the integration of small-scale producers in the mainstream agro-food economy.

Research Process

The case study presented in this paper is based on a three-tire investigation process conducted in August 2004 and January 2006 including:

- A face to face interview with the manager and proprietor of the SPAR supermarket in Thohoyandou, Mr. Philip Snyman.
- Two focus group discussions with the small-scale farmers delivering fresh product to the Thohoyandou SPAR
- Follow up telephonic interviews in 2006 to determine progress, level of success, duplicability and if the project had achieved continuity.

The interview and focus group discussions were guided by semi-structured questionnaires. The questionnaires addressed the following aspects:

- The background of the supermarket and the farmers' businesses.
- The history of the interaction between SPAR and the farmers in order to extract the motives of both parties, their expectations at inception of the program, roles and responsibilities of the parties involved, what actually materialised and an evaluation of the advantages and disadvantages of the association accruing to each of the parties involved.
- The respondents' perceptions regarding what could be done to improve the model and
- A situation (SWOT) analysis of the program from the small-scale farmers' point of view.

In order to address the study objective, a set of key success factors and recommendations were identified in order to ensure the successful and sustainable implementation of the model presented in a subsequent section of the report.

Case Study: Thohoyandou SPAR & the local emerging vegetable sector

Thohoyandou SPAR: Background

The SPAR retailer in Thohoyandou first opened for business in June 2002 with a floor space of $\pm 1100 \text{ m}^2$, and with plans for expansion to 7 000 m². The target market was the large purchasing power present in the corridor area to the east of the N1 highway in the Limpopo Province of South Africa. The store is located near a key transport node between a taxi (minibus) rank and a bus rank in the city business complex, which is a very strategic location since up to 95% of the local Venda people utilise these forms of public transport.

When the store initially opened in June 2002, the retailers market in Thohoyandou was dominated by Shoprite, as indicated in Figure 1. The Thohoyandou SPAR caused a dramatic shift in these market shares to a position of dominance at 66%, followed by Shoprite at 28% and Score (a Pick'n Pay brand) with a 6% market share.

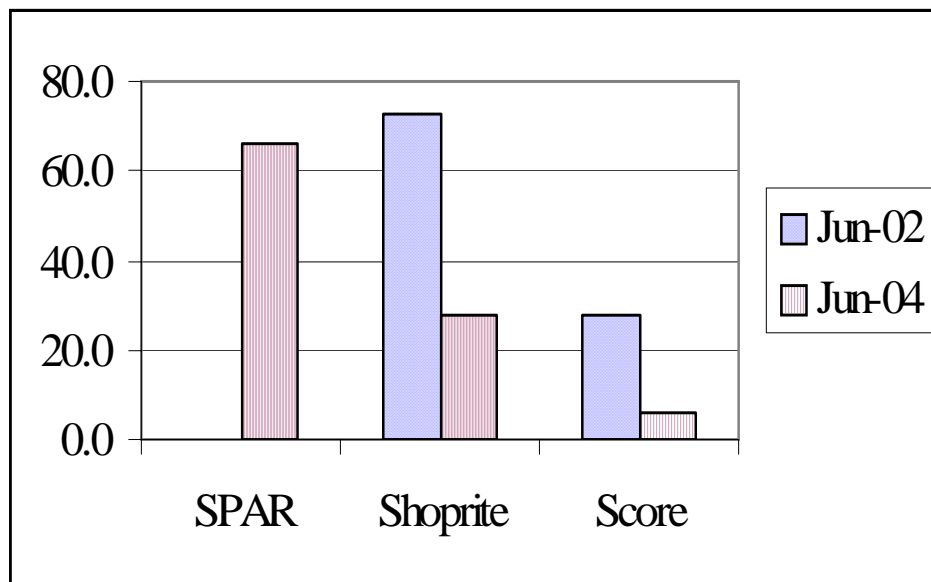


Figure 1: Thohoyandou retail market share in June 2002 compared to June 2004

A number of factors can be recounted to explain the phenomenal success of the SPAR supermarket. The main theme of these success factors is a commitment to addressing the needs of the local emerging market and a high level of community involvement. An important component of this strategy was to fulfil the fresh produce requirements of the store's customers. This tactic was selected after a competition survey revealed that the other supermarkets did not offer high quality fresh produce. The payoff was that typical daily fresh produce sales at the SPAR supermarket reached 3700 cabbages (important component of the local diet), 1500 spinach bunches, 1500 beetroot bunches, 2700 carrot bunches and 4000 apple pre-packs. The supermarket also invested on the biggest in-store bakery in South Africa with an output of 33 000 loaves (33 tonnes) of bread per day.

Other aspects attracting customers to the SPAR store include:

- Loose serve meat offered, allowing customers to choose their cuts as opposed to pre-packaged meats.
- A take-away department that opens at 06:00 in the morning and serves among other products 3 tonnes maize porridge and 2 tonnes fried chips per day.
- Low prices on the known value items and a wide selection of big brand products.
- 24 hour merchandising operations.
- 55 cashier-packer points, leading to decreased queuing times for customers.

A prominent reminder of the retailer's dominance in Thohoyandou can be seen in the impressive average patronage of 22 500 customers per day.

Procurement policy of Thohoyandou SPAR

The procurement policy of the Thohoyandou SPAR involves the procurement of fresh produce from the surrounding area, as far as possible. This is in contrast to the centralised fresh product procurement and distributions systems of local competitors and other major retailer groups in South Africa.

The most important criteria influencing the fresh produce sourcing decisions of the Thohoyandou SPAR were:

- Location where produced (as close as possible to the store), combined with fresh produce availability and continuity of supply. This is in line with the store's commitment to empowering the local (Limpopo) community.
- Fair and market related prices.
- Building long-term trust relationships with fresh produce suppliers. Therefore favouring regular suppliers.

Commercial farmers from the surrounding area currently supply most (approximately 70%) of the store's needs for fresh produce. They supply fresh produce such as potatoes, onions, butternuts, peppers and tropical fruit. Emerging farmers account for the remaining 30% of supplies. These farmers mainly supply cabbages and spinach but also supply some of the butternuts, onions, potatoes, sweet potatoes, tomatoes, carrots, beetroot, and chillies. Despite the highly perishable nature of the vegetable produce and the fact that emerging farmers do not have any cold chain facilities, the store found that this did not cause a major problem. This is because the small-scale farmers made deliveries in frequent small volumes and fresh produce was sold at an extremely fast rate in the store.

Co-existence of Thohoyandou SPAR and Informal Traders

Venda and surrounding areas are major production zones for fresh produce such as mangoes and tomatoes. Due to the large supply and demand for these produce in Venda, mangoes and tomatoes are some of the most important goods sold by the informal traders (hawkers) in Thohoyandou. Therefore, in keeping with the store policy of promoting community development, the Thohoyandou SPAR has refrained from trading in mangoes and tomatoes.

This was in an effort not to compete directly with the informal traders and therefore not to threaten their livelihoods and income generation opportunities. This has served to further elevate the rapport SPAR enjoys with the local community.

Vegetable procurement from emerging farmers

Vegetable procurement from emerging farmers commenced soon after the store first opened in 2002 with an initial 27 emerging farmers involved. This figure temporarily dropped to 23 farmers in 2004 but has since been returned to 27. The interviewed emerging vegetable farmers stated that their main products were cabbage, spinach, sweet potatoes, tomatoes, carrots, beetroot, butternuts and chillies. Of these, Thohoyandou SPAR procures mainly cabbages, spinach, carrots and beetroot from emerging farmers.

The farmers acquire production inputs from the local co-operative and seedlings from a nursery in Tzaneen. They hire production equipment such as tractors from local contractors. The minimal processing activities of these emerging farmers include sorting, washing and bundling. The interviewed emerging vegetable farmers indicated that they sold their fresh produce to three markets, namely the Thohoyandou SPAR, to hawkers and also directly to end consumers at the farm gate.

An interesting feature of the Thohoyandou SPAR case is that the retailer not only provided a market for emerging farmers' fresh produce, but it also provided a number of supporting services. These services were aimed at assisting production by the supplying emerging farmers and to ensure that produce was delivered without interruption. These measures include:

- Provision of interest-free production loans of R2 500 per supplying vegetable farmer upon presentation and approval of a business plan.
- Frequent farm visits by SPAR personnel.
- A requirement of progress reports from the farmers to enable SPAR personnel to provide management support
- Providing training and assistance regarding product quality standards.
- Providing a virtually unlimited and stable market for the farmers' fresh produce based on a verbal contract and involving a very strong trust component.

When writing up plans the loan applicants were instructed to address the production plan, marketing, income and cash flow. A simple list of conditions of credit was applied when approved. These included that the loans were interest free, given for production loans of up to three months and deducted on delivery of the arranged produce. There were few instances of bad debt experienced within an acceptable level.

Advantages and disadvantages of the association

The management of the Thohoyandou SPAR supermarket indicated that an advantage of dealing with emerging farmers included the delivery of smaller quantities of produce to the supermarket, more often, thus ensuring produce freshness. The policy implies that the store was investing in the community and hence building rapport. In addition to this, the supplying

farmers often spent part of their earnings in the supermarket. Disadvantages of the arrangement included an increased administration load (transaction costs), seasonal discontinuity in supply and incidences of insect damage related quality problem.

Produce pricing is a potentially contentious issue. In this case it was determined through negotiations that are based on market prices, quality delivered and the supply and demand prevailing in the supermarket at that stage. The contention was raised because farmers did not coordinate their supply schedules. This periodically resulted in the farmers delivering at the same time and causing an oversupply on a specific day. The resulting glut forced the store to buy produce at reduced prices to ensure the stock will clear. These lower prices did not please the farmers. Another problem was that the store only makes payment for supplies on a weekly basis on Friday afternoons irrespective of which day the delivery were made. This posed a problem for the often-illiquid emergent farmers and contributed to a preference for all deliveries to be made on Fridays and the resultant oversupply. The retailer also secured loan repayment on these Fridays by subtracting the amounts owed from the farmers' earnings.

Within this interaction, both parties received benefits in return for their participation. The SPAR received reliable fresh produce supplies from the emerging farmers while it provided community development opportunities by supporting these suppliers, which lead to improved rapport and patronage. On the other hand when the farmers deliver their fresh produce of satisfactory quality and in return trust the SPAR to pay fair market related prices and to engage with them in long-term business relationships leading to the improvement of the farmers' livelihoods and wealth creation. According to Thohoyandou SPAR's management even though the vegetable quality standards required by SPAR are equal for all farmers supplying fresh produce, the standards are attainable for the emerging farmers. However, there were periodic incidences of quality problems as a result of insect related damage.

SWOT Analysis

The following situation analysis (SWOT analysis) results were from the perspective of the emerging vegetable farmers, delivering produce to the Thohoyandou SPAR. As part of the semi-structured focus group discussions, the farmers were asked to evaluate their current business relationship with the supermarket in terms of strengths, weaknesses, opportunities and threats.

Strengths:

- Strong well established relationships with SPAR based on trust and transparency.
- Provision of production and marketing advice by SPAR.
- Financing through soft loans from SPAR.
- An aptitude for farming among the Venda people.
- Positive attitudes and motivation towards successful farming enterprises.

Weaknesses:

- Lack of technical farming skills.
- Poor communication and uncoordinated delivery between farmers.

- Product quality problems.
- Transportation problems in terms of availability and high cost.
- Lack of adequate on farm infrastructure hampering production.

Opportunities:

- Diversification in terms of product offering and more targeted marketing.
- Tapping into the demand from national fresh produce markets and other markets.
- An opportunity to improve product prices received through better delivery coordination.
- Improved production quantity, quality and sales through better technical and business skills obtained after receiving training.

Threats:

- The threat of oversupply since most farmers in the area are producing the same products
- Basic survival is a struggle for many emerging farmers hence tendency to become risk averse and to focus on subsistence farming
- High cost of hired production equipment
- High cost of hired transport from farms to SPAR and other markets.
- Water might become an expensive input in the near future.

Critical success factors

In order to utilise the case study presented in this paper as a model for engagement between retailers and small-scale farmers, the following critical success factors were identified:

- Provision of training and extension in production, quality, marketing, business planning, financial, administration and other management concepts.
- Co-ordination amongst farmers to work towards better delivery schedules hence preventing oversupply and ensuring better prices. A tool with potential to solve this problem is the SMS (Short Message Service) facility on cellular phones.
- Resolution of logistical (transport) problems, for instance through collective marketing.
- Development of coping mechanisms to deal with periods of adverse climatic conditions (e.g. irrigation).
- Access to low cost inputs for instance through input subsidies or collective input procurement.
- Continued access to credit and expansion of the program through other institutions such as banks.
- Diversification to other markets such as the national fresh produce markets, other retailers and food processors.
- Capital investment requirements such as:
 - Market intelligence capital (e.g. investing in ICT- information and communication technology via SPAR).
 - Market organisational capital (small producer organisation which also add significant value, can start packaging, adding different value).

- Specific technologies (capital mixed with market linkages).
- Financial capital (to improve their creditworthiness).
- Strong and continued trust relationship between commercial sector role-players and small-scale producers, in order to ensure continued sustainability, despite human resources changes within the commercial role-players.

Public sector input may also be sought to solve some of these concerns. For instance technical and management training and advice may be sourced from the extension services directorate of the Department of Agriculture and additional credit may be acquired from commercial banks, as well as the Land Bank. There was some concern however among the respondents that they would not like government to interfere because private sector driven initiatives seemed to be more successful than those that involved the Government. This could be a function of the bureaucracy that normally ensues within government operations.

Case update: Further developments

A second interview was conducted telephonically on January 2006 with the now former manager of the SPAR Thohoyandou and founder of the project under review, Mr. Philip Snyman. This was to obtain an update of the program as well as insights from his new position.

The founder of the program (Mr Snyman) had now expanded his ventures from the ownership of the one Thohoyandou outlet to 50-50 partnerships in five other outlets while concurrently reducing his ownership share in Thohoyandou to 50%. Thus the question whether the program can achieve continuity without him has not been tested outright. However the program has survived with considerably less of his involvement since he has understandably been concentrating on the five new stores.

Since its inception the program had been replicated at the five new SPAR outlets mentioned. These ventures are in Louis Trichardt, Hammanskraal, Turfloop, Luvubu and Tshaukuma. The last three outlets plus the original Thohoyandou store are located in Venda. The new outlets were comparatively smaller than Thohoyandou. There is also an anticipated movement to locate in smaller villages, such as Tshaukuma. They therefore had 5 to 7 supplying farmers as compared to Thohoyandou SPAR whose small suppliers had moved from 27 to 23 and back to 27 farmers. Overall this brought the number of small suppliers to at least 55 supplying at the six participating outlets.

Among the lessons learnt when applying the model to the new areas was that it is not enough to merely transfer or duplicate it as a whole. One needed to acknowledge the dynamics of the community and region and adapt the model accordingly. The produce lines consumed and farmed varied by region. For example, there was little demand for beetroot in Hammanskraal yet it was a top seller in Thohoyandou. An element that assisted in understanding the local dynamics was aiming to employ locals as far as possible. In fact the other parties in all the five 50-50 partnerships with Mr Snyman at the five new SPAR outlets were local business people. This approach was instrumental to the success of the project and of the store as a whole. Interactions with co-owners were found to be more efficient and productive than

when dealing with professional management and employees as the partners tend to take ownership of the process.

Similar to entrepreneurship in general, it was observed that not all small scale farmers can be successfully coaxed out of the familiar practice of subsistence farming. The selection of the best prospects becomes an important tool ameliorating this problem. This process involves building of individual track records of the farmers as well as rewarding supplier consistency and reliability.

No significant changes were recorded in terms of relative market shares in Thohoyandou with SPAR's share at 68% in November 2005. However the size of the market as a whole had grown significantly. This meant that the turnovers of all retailers in the area had also grown significantly. Competitors appeared to have been unable to replicate the successes of SPAR due to a number of factors. Firstly other chain stores have more centralised management approaches. Unlike the ownership structure at SPAR, local management at other chains outlets did not have the same sort of authority even to alter the stores layout despite some being franchises. Thus they continued to use their centralised sourcing systems. In most cases these establishments also tended to recruit staff outside the local pool especially among the managers. This made it all the more challenging for these outsiders to relate to the local environment and community and thus they relied on central management for guidance.

Conclusion

The most important finding of this study is that private entities could serve as important facilitators of market entry for the emerging agricultural sector in South Africa. As evident from the Thohoyandou SPAR example, this does not require a purely philanthropic act, since market access could be provided within a mutually beneficial business relationship. Undoubtedly though, success is dependent on commitment and effort from both the farmers and supermarkets. In this case the supermarket provided not only a market for fresh produce from small-scale farmers, but also interest-free loans (upon approval of a business plan), motivation through farm visits, as well as management support and training regarding required quality standards.

There are also opportunities for financial institutions to assist in bringing emerging farmers to the mainstream economy. Initially banks were reluctant to back the SPAR initiative, with its success however one of the large financial institutions became interested. They now recognised a potential growth market where sound finance to small farmers can be provided through agribusinesses that provide support services and market access. This highlights the need for commercial banks to rethink their model regarding "bankable" customers especially under pressure from BEE (Black Economic Empowerment) legislation, to follow a dualistic approach involving both profit and development outcomes.

This concept also applies to the South African agribusiness sector in general, as this case study illustrated that it is possible to adapt company norms without compromising profits, thus creating opportunities to develop products and services suited to new markets such as

emerging farmers. Mentoring within the agricultural sector itself is an under-utilised tool towards integrating the emerging sector potential

Access to information on production and marketing aspects, as well as coordination was identified as major problems to the integration process. A potential but relatively untapped resource to solving this problem is the SMS (Short Message Service) facility on cellular phones. Delivery schedules, prevailing prices and other matters of coordination can be relayed through this facility. The Johannesburg Fresh Produce Market is in the process of developing a service providing SMS updates (to its subscribers) of prices and volumes traded of the selected produce at the market (Holtzkampf, interview, 2004). This technology is cheaply accessible to role-players in the emerging agricultural sector and provides up to date market intelligence, a useful decision making tool. As compared to other African countries South Africa also has extensive cellular network coverage.

Fresh produce marketing by means of product branding can be another potential tool to enhance the success of the emerging sector in South Africa. Branding can give consumers the opportunity to choose products from the emerging agricultural sector in order to assist the development of the sector.

In essence, it can be seen that private-private (PP) partnerships, without the public (government) element, has potential. Commentators lamented the need to cultivate a culture of sharing of successes and a focus on nation building. This will prevent the building of an undercurrent of suspicion between the currently disadvantaged (the poor, unemployed and the landless) as experienced in Zimbabwe. Above all, one of the largest problems to be overcome by emerging agriculture in South and Southern Africa is its culture of subsistence. Once these farmers are able to look beyond survival and realign this sector to a commercial focus they would be able to unlock their productive potential. Future research should therefore focus on ways to achieve this paradigm shift.

The case study presented in this paper could be used as a model of an innovative approach to grant and maintain market access for small-scale fresh produce producers. Expansion of the project to the five other outlets demonstrated that it is replicable and that its success was not reliant on the participation of a single personality. However, addressing the success factors mentioned in this paper will be critical to ensure sustainability.

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