

Alternative marketing options for small-scale farmers in the wake of changing agri-food supply chains in South Africa

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Abstract

With South Africa's urban population approaching 60%, supermarkets and fast food chains have become important players in the South African food system. These large players in the food sector have systematically modified their procurement practices especially with regard to fresh fruit and vegetables and are now circumventing spot markets in favour of sourcing via in-house sourcing companies who mainly procure from preferred supplier producers. This paper draws extensively from a global research programme which seeks to highlight the market changes that potentially contribute to continued exclusion of the small producers from mass consumer markets. This paper illustrates, through a series of case studies, how integration of small-scale farmers into the urban retail market can be facilitated and how the challenges posed by the changing food system could possibly be overcome. The case studies illustrate various initiatives through which small-scale farmers and agribusinesses can be integrated into mainstream agri-food systems and may be used as models for an innovative approach to include small-scale farmers while still maintaining profitable business operations. They highlight the need for a multi actor approach for the successful participation of smallholder farmers in order to allow them to join the supply chain at any point within the channel.

Keywords: Agri-food supply chains; small-scale farmers; alternative marketing channels

1. Introduction

The population in developing countries is in a phase of rapid urbanisation which is set to continue during the next two to three decades due to the increase in global disposable income (Haldenwang, 2004:2). According to the World Urbanisation Prospectus (United Nations, 2004), population growth will be particularly rapid in the urban areas of developing countries, averaging about 2.3% per year from 2000 to 2030. Africa is also experiencing rapid urbanisation. In South Africa about 59.8% of the population resides in urban areas (World Bank, 2008:321). This could rise to 62.2% by 2030 (UN-Habitat, 2005).

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With urbanisation, new consumption patterns and preferences for high quality and easy to cook foods are emerging. It is against this background of large concentrated urban market demand and a growing middle class with high per capita disposable income that supermarkets find an ideal setting to prosper and grow. It is therefore not surprising that large supermarket retail chains, agro-processors and increasingly fast food chains have become important players in the food sector. The restructuring process is driven by factors such as income growth, increasing disposable incomes, population growth, urbanisation, and changes in consumer tastes and preferences. The increased participation of supermarket chains and restaurants in the food system has resulted in increased vertical integration and consolidation in the sector. This process entailed the emergence and disappearance of some supply chain actors. There has been partial displacement of the wholesale function and the informal markets specifically by the retail function.

The main changes to the food system and the impact of the growth of supermarkets in food retailing on farmers come as a result of supermarkets' changing sourcing and procurement practices and policies. These are dominated by large central procurement systems that are used to procure fresh produce from a limited number of preferred suppliers. The procurement decisions and practices of supermarkets are complex in nature and may be influenced by many factors both economic such as reducing transaction costs, determining the appropriate payment period and increasing efficiency in the supply chain and non-economic factors such as forming long term trust based relationships with suppliers and ethical trade requirements (Louw *et al.*, 2006). Emongor (2007:216) reiterated the need for trust and added that supermarkets' procurement practices for both fresh and processed foods were also influenced by price and continuous supply of consistent quality and volume.

Supermarkets and wholesalers' strict requirements relating to volumes, quality, food safety systems, consistency and year round supply make it difficult for just any producer and especially small-scale producers to supply them. There is an increasing likelihood that small-scale producers (especially emerging black farmers), that are now entering commercial agriculture after years of social, political and economic exclusion, can once again be excluded and marginalised as supermarket chains tend to favour established and larger producers that can comply with their requirements.

The results from numerous studies in South Africa (D'Haese & Van Huylenbroeck, 2005), Africa (Freidberg, 2003; Giovannucci *et al.*, 2001; Haantuba, 2003), Latin America (Ghezan *et al.*, 2002; Reardon & Berdegue, 2002) and the world in general (Bienabe *et al.*, 2004; Reardon *et al.*, 2003a; Reardon *et al.*, 2003b) illustrate how small-scale producers have been included,

in some cases, and excluded, in other cases, from formal food systems. D'Haese and Van Huylenbroeck (2005) explored the effect of supermarkets on expenditure patterns in two villages in Transkei area of South Africa and found that the communities patronise local supermarkets more than farmers' markets since the opening of the former in the nearby town. The supermarkets provide lower priced food which the local shops and local growers are unable to compete with. Reardon and Hopkins (2006) confirmed these findings when they established that the spread of supermarkets led to a decline in the traditional retail sector.

The increased expansion of supermarkets in developing countries has led to transformations in the agri-food system as the supermarkets' increased involvement in food retailing has far-reaching consequences within the agri-food supply chain. As supermarkets increase their food market share they have greatly influenced the marketing opportunities for small-scale farmers producing fresh fruits and vegetables. Through vertical coordination, supermarkets increase efficiency by sourcing from small-scale farmers and food processors. Small-scale farmers may also supply either directly to the supermarkets or to food processors that supply to the supermarkets. Both alternatives allow for the inclusion of small-scale producers into mainstream agri-food systems (Emongor, 2007:3-4).

Dynamic food markets (supermarkets and processors) in South Africa are still in their infancy with regard to growth and expansion. The demand for food in urban areas is limited by low purchasing power, and most consumers have a strong preference for traditional foods that are suited to their diverse social and ethnic backgrounds. Despite this, the demand for processed and quality fresh food is growing, especially due to the recent increase in the middle class across the subcontinent. Both formal and informal food markets are changing constantly, driven by lifestyle changes brought about by urbanisation, income growth, and democracy and changing family structures. The transformation of agri-food markets in South Africa has been characterised by different extents of 'supermarketisation', especially in the urban areas.

This paper draws from work completed as part of a global study on the restructured agricultural and food markets which analysed the increasing market concentration in the processing and retail sectors with a focus on the implications of these changes for livelihoods of small-scale producers, small and medium processors and agribusinesses (Louw *et al.*, 2006). The paper focuses specifically on the South African agricultural and food system and documents, through case study illustrations, the role of large retailer groups and agro-processors in food supply chains and how small producers are being affected by this dominance.

The next section discusses the current state of food retailing in South Africa and describes the factors that determine this trend, as well as reviewing other literature on similar studies. The paper then discusses alternative market options and uses case studies to illustrate the value of mechanisms that various stakeholders (farmer organisations, governments and retail businesses) have and can put in place to encourage small-scale producers' participation in these transformed markets. These case studies may be used as innovative models and establish guidelines for their successful replication in similar environments.

2. Food retailing in South Africa

Contrary to assertions made by Weatherspoon and Reardon (2003) regarding food retailing in South Africa, supermarkets are not a new phenomenon in South Africa. OK Bazaars opened its first supermarket in South Africa in 1948 (Strydom, 1989) and by the end of 2007, six South African supermarket chains had a total of 4 219 stores and a 93.8%² market share of retail sales. South Africa is a "first wave" country regarding supermarket development, especially in the Africa context. Concurrently, since 1994 these chains have expanded aggressively into Botswana, Namibia, Zimbabwe, Zambia, Mozambique and countries in Eastern Africa. While the other chains have limited their expansion to Southern Africa, Pick 'n Pay and Shoprite also have a respective presence in Australia and the Middle East (Planet Retail, 2008). The trends in market shares among the four largest supermarkets in South Africa are shown in Table 1.

Table 1: Trend in market share of major RSA supermarkets

Supermarket chain	1993	2003	2004	2007
	Market share (%)	Market share (%)	Market share (%)	Market share (%)
Shoprite Checkers	43.4	29.4	27.8	25.1
Pick 'n Pay	22.5	35.4	35.2	24.1
Spar	18.3	26.1	26.3	13.0
Woolworths	4.2	6.9	7.1	11.4
Others	11.6	2.2	3.6	26.4
Total	100	100	100	100

Source: Planet Retail (2008)

The six major chains in South Africa are: Pick 'n Pay, Shoprite, Spar, Woolworths, Massmart and Metro Cash and Carry (Metcash). These companies perform both the retail and wholesale functions. Planet Retail's

² According to Planet Retail figures, supermarkets have a 93.8% market share of food retail sales. This figure does not include the food catering sector (restaurants, fast food and institutions).

2007 figures (Table 2) show that these chains have a combined market share of over 90% (Planet Retail, 2008).

Table 2: Share of modern grocery distribution in South Africa, 2007

Company	No of Stores	Sales area (sq.m)	Average sales area (sq.m)	Retail banner sales 2008 (USD mil)	Market share (%)
Shoprite	1 078	1 927 800	1 788	5 454	25.1
Pick 'n Pay	696	649 550	933	5 230	24.1
Spar (RSA)	1 300	1 226 400	943	2 817	13.0
Woolworths	258	717 000	2 891	2 045	11.4
Massmart	249	1 133 641	4 553	2 287	10.5
Metcash (RSA)	638	703 800	1 103	2 105	9.7
Sub Total	4 219	6 358 191		19 938	93.8
Other				1803	6.2
Total				21 741	100.0

Source: Planet Retail (2008)

Market concentration may not be apparent because these large retailers trade under numerous names, subsidiaries and franchise stores and target different markets. They differentiate between the stores in each market, as illustrated by Pick 'n Pay and Spar which have created Pick 'n Pay Hypermarket and SuperSpar respectively, for their higher income markets, i.e. upper middle class (Botha & Van Schalkwyk, 2006; Weatherspoon & Reardon, 2003).

Although the level of competition among top retailers is described as high, each chain targets a specific niche market or socio-economic group. Woolworths targets the high-income market, whereas Shoprite usually targets the lower end of the market. Pick 'n Pay and Spar focus largely on the middle class, with Spar being associated with smaller stores whereas Pick 'n Pay has larger super/hypermarkets. Some of the retail groups have sought to create their own competing brands (Planet Retail, 2008). For instance Metcash runs five franchise brands which it calls 'symbol groups' (Metcash Trading Africa, 2005). In this way these chains ensure that they are operating in all markets.

Large retailers are normally located in shopping malls and at city outskirts. The urban residential areas have a wide range of smaller suppliers, including spaza or tuck shops located in the lower income areas. Recognising a current and future growth market, big retailer brands are also slowly entering the low-income urban areas (Madevu, 2006).

3. Agro-processors in South Africa

Although supermarkets are playing an increasingly dominant role in food retail due to the increased demand for quality and food safety set by an expanding middle class, agro-processors have also expanded in a similar

fashion to that of supermarkets and the wholesale function and the informal sector are also experiencing some levels of expansion and transformation. The agro-processing sector in South Africa has increased in dominance, propelled by similar drivers to those driving the expansion of the retail sector. These drivers include an increased demand for processed goods, which has largely resulted from urbanisation, changes in consumption patterns, and population growth. With urbanisation came the liberalisation of women, which has meant less food preparation time, as women have joined the workforce, now have greater control over household expenditure, and have developed preferences for high quality and easy to cook convenience foods. The advent of agro-processors has had a significant impact on the way in which food markets function in South Africa. Most large agro-processing companies shifted their procurement channels from wholesalers to preferred suppliers who are part of their growing programs (Louw *et al.*, 2004).

There are various forms of growing contracts that are used by processors; often formal written contracts are used. The use of contracts has changed the governance of agricultural supply chains in South Africa from spot transactions to hierarchies. It has brought about a number of challenges regarding supply chain relationships, especially between smallholder farmers and agro-processors. These include the withholding of supplies by farmers and late payments by processors. Several studies show that these supply contracts are better suited to large-scale farmers than small-scale farmers. Despite this, there are intermediaries who have been developed to act as conduits between smallholder farmers and agro-processors (Louw *et al.*, 2008).

4. The evolution of fresh produce procurement strategies

There have been drastic changes in agricultural policy, practices and markets due to market deregulation and increased dominance of multinational supermarkets, new technologies, climatic changes and food scares. This has created the need for restructuring of the internal environment to adapt the food and processing sector to the new environment if it is to prosper. The restructuring of the South African food markets is observed through consolidation, trans-nationalisation and the emergence and disappearance of supply chain actors. Advanced stages of consolidation are observable in most sectors of the South African food supply chain. They are evident from relatively high levels of concentration observable in production, processing, wholesaling and retailing of food. A key effect of these changes has been the increase in vertical integration and the vertical coordination within the agri-food channel and particularly the changes discussed below.

4.1 Fresh produce procurement

Supermarket chains have significantly modified their procurement practices of fresh produce since their inception years. They have shifted from sourcing for individual stores off the spot markets such as the municipal fresh produce markets (FPM) to procurement via specialised sourcing and procurement companies and contractors. Some retailers procure fresh fruit and vegetables only from a few preferred producers (Woolworths), while some procure the bulk fresh fruit and vegetables from a few preferred producers and supplement their supplies from the fresh produce market (Pick 'n Pay) or a larger number of preferred suppliers via a category manager (Shoprite through FreshMark) with the necessary supplements (Louw *et al.*, 2006:32).

These procurement specialists are increasingly procuring directly from farmers using growing programs (Louw *et al.*, 2006) but despite this trend supermarkets are still the leading buyers off FPM floors. Produce on these municipal markets is predominantly (about 90%) sourced from commercial farmers (Dodds, 2005). Supermarket procurement directly from producers is especially prevalent with regard to the more sensitive product lines such as lettuce, tomatoes, spinach, etc. This is because an intimate knowledge of post harvest treatment (cold chain management, traceability etc) is critical to lengthen their short shelf life and reducing wastage (Du Toit, 2005).

4.2 Market coordination mechanisms

In the highly competitive environment in which supermarkets operate, firms have to continuously innovate and develop their supply chains in order to compete. To maintain their position in the market, supermarkets strive to achieve sustainable competitive advantage by reducing the transaction costs in the supply chain. In this study, transaction costs refer to search and information costs of finding the right farmers, negotiating and contracting these producers, and enforcement costs for ensuring that all parties adhere to their part of the agreement.

One of the strategies supermarkets use is to select and deal with only a limited number of approved suppliers. These suppliers are mostly larger companies with the necessary capital and subsequent capacity to meet procurement requirements of supermarkets. Supermarkets are increasingly moving away from spot market coordination to more tightly coordinated, vertically linked supply chains with increased use of market contracts, strategic alliances and franchises in the exchange process (Madedu, 2006).

In open market transactions, price serves as the primary coordinating mechanism whereas in vertically integrated supermarket supply chains, various forms of contracts, which specify volumes, grades and standards, are used as means of coordination. In some cases, the procurement and sourcing of specific product lines is transferred (outsourced) to a contracted firm or a wholly owned firm. In South Africa, supermarket chains such as Shoprite and Pick 'n Pay use their own fresh produce sourcing companies such as Freshmark (Shoprite) or special wholesale companies such as Freshco and distribution centres (Spar, Shoprite, Pick 'n Pay) to centrally source and internally distribute fresh produce and other merchandise from contracted farmers and or suppliers.

4.3 Contracts

The distribution companies sourcing for the supermarkets and processors establish agreements with producers. These agreements or growing programmes contain details on volumes, varieties and quality standards that producers are required to deliver. This type of coordination mechanism is used by processors and retailers that require farmers to produce high quality commodities. These processors and retailers often provide production inputs such as seeds and or advice regarding varieties and planting times, to farmers because the volume and quality as well as infrastructure requirement necessary to qualify as a supermarket fresh produce supplier effectively excludes many of the smaller producers (Louw *et al.*, 2006).

South African supermarkets follow the same trends as their counterparts internationally as they increasingly enter into contractual relationships with their suppliers. The main driver of this type of coordination mechanism is transaction costs, consistency of supply and quality, relationships, etc including improved cost efficiencies. Apart from minimising these transaction costs, the control of quality and inventories by the supermarket chains is of utmost importance as it ultimately translates into some form of competitive advantage. Control of inventory is closely linked to the type of procurement strategies of the firm. Efficient and effective management of inventory throughout the supply chain significantly improves the ultimate service provided to customers (Lee & Billington, 1992).

4.4 Quality control

The growing importance of food quality and safety standards and innovation in the food sector necessitate food supply chain systems that can deliver these qualities reliably and cost effectively to consumers. South African supermarkets have developed and implemented systems which to a large

extent borrow from the EureGAP system of the European retailer consortium and guarantee these qualities in food cost effectively through countrywide networks. Examples of the in-house brands in South Africa include Pick 'n Pay's 'No Name'; Shoprite's 'Ritebrand'; as well as Woolworth and Spar, who simply use the store brand for this purpose (Planet Retail, 2008).

Customer satisfaction is of paramount importance to supermarkets. Supermarkets such as Shoprite and Pick 'n Pay tend to procure from established farmers who already export produce. By sourcing from these large farms, supermarkets automatically ensure that the products they sell meet local and international standards. The grades and standards are therefore an important gateway to the formal agri-food system but act as a major entry barrier to most smallholder producers as they are ill equipped to meet them.

5. Alternative market options for small-scale farmers excluded from changing agri-food markets

As has been illustrated above, small-scale farmers find it increasingly difficult to penetrate the restructuring market channels and have therefore had to develop and explore other market strategies. The inclusion of small-scale producers and their sustained participation in changing agri-food markets is of utmost importance for the development of the industry. For this link to occur, these small-scale producers should be able to adapt in terms of the operations involved as well as the financial resources required and continuous changes in the supply chains (Berdegué *et al.*, 2005). There is need for small-scale producers across the agri-food supply chain to find a point of inception into the supply chain. This could be in terms of fresh produce, processing, wholesaling or retailing. The various strategies are illustrated in Figure 1. This section explores literature on efforts to create and reinforce the link between the dynamic mainstream agri-food supply chain and small-scale producers and small agribusinesses.

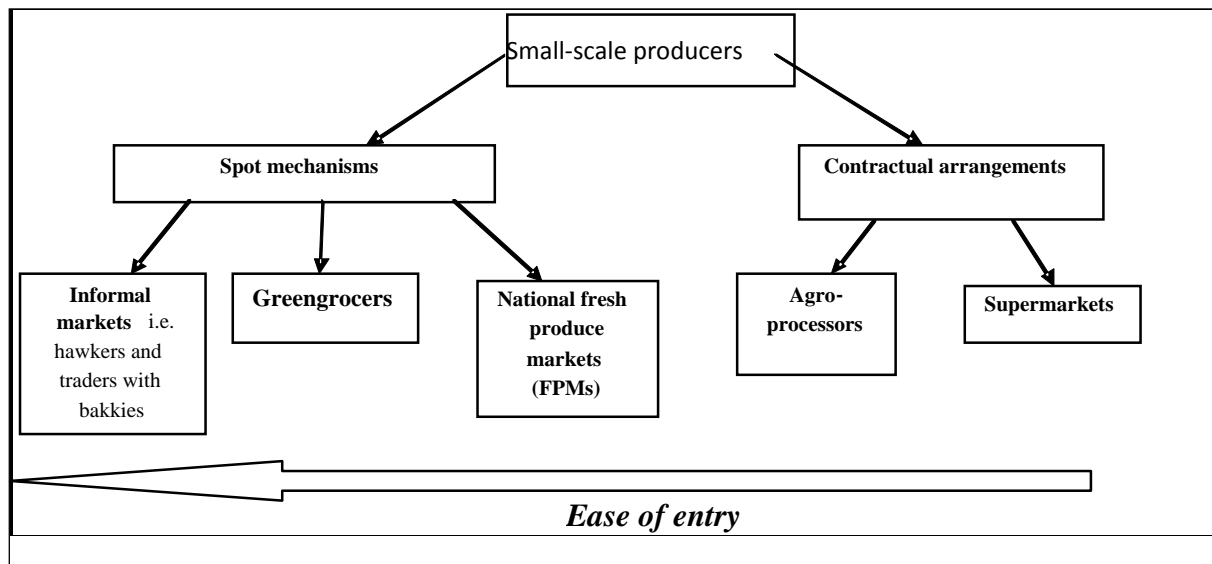


Figure 1: Marketing options for small-scale producers

Figure 1 illustrates five market channels that small-scale farmers may explore as well as the fact that ease of entry into these channels increases as the option moves from contractual arrangements to spot market strategies. This ease of entry associated with traditional markets explains why small-scale farmers are often restricted only to these market options. Small-scale farmers can better access the restructuring market channels where contracting and vertical integration and coordination are rife only if they work together to reduce transaction costs. The study by Bienabe *et al.* (2004) documents various initiatives taken to better connect small-scale farmers to markets. Foremost among this study's findings was that producer organisations have a central role to play in strengthening farmers' position in traditional and new markets (such as fair trade) as well as in building their capacities (improved access to services, to training etc.). They also played an important advocacy role with authorities to foster the development of policies that are favourable to smallholder farmers. All of these are especially important to meet the quality and quantity barriers that are associated with a lack of infrastructure and resources.

The study by Louw *et al.* (2006) found that targeted approaches on specific sectors were seen to be more efficient where farmers have low market orientation and where goods and service markets are weakly developed. It highlighted the importance of multi-actor approaches which should remove bottlenecks in the supply chain while encouraging collective action to promote equity and competitiveness. The case studies illustrated the benefits of strategic alliances, horizontal coordination to form cooperatives, as well as the benefits of creating public-private partnerships (PPP) between government, the private sector and small-scale producers. To succeed, these coalitions

require improved coordination, and the most effective mediation tools to achieve this are participatory research, information dissemination and capacity building. The studies illustrate how multiple types of interventions can be structured and implemented over time and on different scales to improve farmers' market linkage in the long run. Moreover, when the institutional environment is poorly developed, support to collective action was most effective in reaching targeted supply chains.

In the study, differentiated markets (niches) were seen to be a promising means of market entry for small-scale farmers as this is where they benefit from comparative advantages such as local expertise or environmentally friendly ways of producing. It is this paper's conclusion that broader intervention at policy level such as the promotion of laws on competition is more likely to benefit small farmers. Support to the relevant institutions and producers organisations' advocacy functions can help to define satisfactory priorities in the institutional setting. In situations where agriculture is more commercial, support that enhances competitiveness and addresses economic and institutional weaknesses of small farmers proved superior.

Other findings of interest were that correcting marketing constraints alone was not effective in linking the small farmers to modern markets. It was found that the marketing strategies of small producers were more strongly dependent on access to land, labour and the ability to mitigate risk, than on the characteristics of the markets. Risks for family farming (e.g. illness, pest, diseases, drought), were managed by systems based on farmers' social networks. These were not adequate to face additional marketing risks (shift in supply and demand, perishability, length of supply chain, process complexity, and institutional risks). An FAO review also showed that most formal market prices (especially for primary goods) are low, volatile and in a general decline. Under such conditions, the entry of small-scale farmers was often untenable because risk management systems are not adapted (FAO, 2004).

Weatherspoon and Reardon (2003) subscribe to the wisdom of collective marketing as a means to help meet the required grades and standards as well as to access new retailers by reducing transaction costs associated with dealing with several small suppliers. While they acknowledge the need for small producers to gain a foothold in the supermarkets market in order to secure their future or risk extinction as supermarkets favour other suppliers, these authors suggest that in order to compete, small farmers need to expand productive capacity, ensure consistent supply and quality as well as striving to adhere to supermarket and international grades and standards.

Small-scale farmers will do well to work with development programmes as Weatherspoon and Reardon (2003) predicted that supermarket chains in Africa would find that it is increasingly advantageous for them to market products from small farmers, and to collaborate with these development programmes. The latter assist small farmers to improve their supply chains to sell to large retailers because these investments could lead to infrastructural developments and subsequent community development and ensure a reduction in transaction costs. The case studies contained in this paper will further illustrate this point.

These studies provide sufficient context and background to discuss the case studies of the South African agri-food chain providing market opportunities for small farmers through a combination of both vertical and horizontal coordination mechanisms.

6. Case studies of small-scale farmers linked to mainstream agri-food systems in South Africa

Three diverse case studies³ are discussed in the paper in order to fully understand fresh produce supply chains at a local level, focusing on evaluating whether these chains have restructured and to determine the extent to which smallholder farmers are participating in these chains. The cases illustrate that while large supermarket supply channels may be difficult to penetrate there are alternative options for small-scale farmers which include agro-processing, local supermarkets or greengrocers, contract growing and cooperatives. The cases illustrate vertical coordination, in the case of tomato processing, and horizontal coordination, in the Thandi case; and multi-actor approaches in all the cases.

6.1 Tomato processing

Tomato is the main fresh produce crop grown by smallholder farmers in Limpopo and Mpumalanga provinces. These provinces have the highest concentration of tomato processors in the country. Tiger Brands and Giant Foods are the two largest processors in the region. Other processors like Indemex and Miami are smaller companies and do not operate at a scale close to the two large processors. In the specific region hawkers are in direct competition with the processors, because are often able to offer higher prices to smallholder farmers, who have contracts with the processors. Although it would be cheaper for the processors to import frozen tomatoes from countries,

³ All three case studies form part of the *Regoverning Markets* studies. The tomato processing case studies are drawn from Louw et al. (2006); the Spar supermarkets from Vermeulen and Bienabe (2006); and the Thandi case is drawn from Bienabe et al. (2004).

such as China, which have economies of scale, they choose to procure from local farmers.

6.1.1 *Giant Foods*

Giant Foods are located in Makhadho north east of Polokwane. They process various vegetables, but mainly tomatoes into sauces and paste. The processor supplies to its own distribution centre in Johannesburg and has contracts with other established channels, to supply about 60-70% of their products as no name brands to several major retail chains such as Woolworths, Pick 'n Pay and Spar. The processor is supplied by farmers in a 300 km radius from the processing plant. An estimated 60% of the company's supply base is small farmers and the remaining 40% is supplied by two or three big commercial farmers. Giant Foods do not buy from the FPMs in Johannesburg as the distance is too far. In 2005, Giant Foods processed around 15 000 tons of tomatoes, of which 9 000 tons was supplied by emerging smallholder farmers.

The farmers do not have contracts and prices usually depend on competing Chinese tomato prices and if the exchange rate is in favour of South Africa, and it costs less South African rand to buy Chinese yuan, they procure from China. In recent years, there has been an influx of cheap tomatoes from China because importing tomatoes from China costs R250⁴ per ton whilst the average local price is around R750 per ton. If the processor has contracts with farmers, these are mostly growing contracts based on a certain tonnage. There is no input provision, because in the past few years there has been unsteady supply to local factories due to the opportunistic sale of contracted tomatoes to hawkers. Giant Foods applies the quality accreditation system, often samples are sent to a laboratory to be tested for the pesticides residual levels. Although the farmers have to comply with mandatory standards, their system was already in place before the establishment of Giant Foods and it is mainly self-enforced. Furthermore the products are checked visually on entrance.

6.1.2 *Tiger Brands*

Tiger Brands is the biggest processing company of tomatoes in South Africa and has processing plants in Musina and Tzaneen. Since 2004, Tiger Brands and ECI-Africa, another South African company, have been managing the PAL (Promoting Agribusiness Linkages) project funded by USAID. They work with small-scale producers in the Nwanedi area of Musina. These farmers are supplied with finance and inputs to enable effective tomato production. Tiger

⁴ The average exchange rate for the Chinese yuan to the US dollar in 2006 was 7.7735 yuan/US\$1 and the rand to the dollar was ZAR6.76/US\$1. Therefore the exchange rate of the rand to the Chinese yuan is 0.871633 yuan/ZAR1 and R250 is 217.9083 yuan (Ying, 2007; G-NEXID, 2008).

Foods manages the cultivars planted by farmers in order to secure the flow of tomatoes to the factory.

Currently there are 121 producers that supply approximately 25 000 tonnes of fresh tomatoes (about R15 Million) a year to Tiger Brand's processing facility in Musina. Farmers enter into growing contracts with Tiger Brands and use the contracts to obtain production credit for inputs, other than seedlings, via commercial banks. The growing contracts offered by the factory offers several advantages to the small producers including a pre-season contract with fixed prices, access to finance and anchor for cash flow and planning⁵. Farmers in this initiative have been able to improve the quality of their production and can now compete on even terms with established large-scale farmers.

6.2 Spar supermarkets

This case explores innovative efforts by two Spar retail stores, located in Thohoyandou and Giyani in the Limpopo Province of South Africa, to integrate small-scale vegetable farmers into their supplier base. The two cases share certain similarities in terms of the characteristics of the innovation, but vary in terms of the degree of success.

The target markets of the Spar stores in Thohoyandou and Giyani are mainly low income rural consumers from the local areas. Food sales from these stores contribute about 80% to 85% of total retail sales in these stores.

Although Spar has centralised distribution centres across South Africa, all SPAR stores are allowed to procure fresh produce locally through alternative channels other than through the distribution centres. Local procurement for the stores in noted in this case study results from a local initiative from the retail stores due to the remoteness of these stores from distribution centres and FPMs. It also serves as a broader community involvement program. Local procurement with small farmers triggers benefits in terms of freshness of vegetable produce with an acceptable quality level and low transportation cost.

The high level of involvement by Spar stores in their local communities is also related to the adherence to the Spar group corporate strategy. Through these and other strategies, such as a focus to address the specific needs of emerging consumers, both stores attain a very high formal retail market share in the specific communities.

⁵ These contracts ensure that the farmers have a guaranteed source of finance which allows for better budgeting, as they know the exact amount of money they will receive.

The Spar stores in Thohoyandou and Giyani have similar requirements in terms of fresh produce quality. The vegetable quality requirements of these Spar retailers are based on the official quality standards of the Spar group, but are still relatively informal. Quality assessment is based only on the visual inspection of produce when the produce arrives at the goods receiving division of the retailers.

6.2.1 Thohoyandou Spar

In July 2006, the Thohoyandou Spar had a 70% market share of the formal retail market in Thohoyandou. The store's supplier base is characterised by a high number of small-scale farmers involved in the beginning and a subsequent decline in the size of the small-scale core supplier base. Furthermore, procurement from small-scale farmers in Thohoyandou only represents between 10 and 20% of the store's fresh produce requirements and is restricted to spinach and cabbage on a consistent basis.

There are currently 14 small-scale farmers delivering to the Thohoyandou Spar with different levels of regularity, because farmers in Thohoyandou simply deliver when they are ready to, with only some regularity in the quantity and timing of supply. The Spar can decide not to accept their production in cases of oversupply. The Thohoyandou Spar does not provide loans and technical assistance to producers.

6.2.2 Giyani Spar

In terms of the number of small-scale farmers supplying the stores, in Giyani there was a gradual process of integration of farmers, with the development of a stable core supplier base. At the Giyani Spar, six of the current small-scale suppliers have been involved from the beginning.

The Giyani stores' consistent procurement from small-scale farmers involves mainly spinach, cabbage and tomatoes, but also butternuts, carrots, beetroot and green onions. Currently about 12 small-scale farmers are engaged with the Giyani Spar as preferred suppliers and mainly fulfil the store requirement for the above mentioned produce.

It appears that the good understanding of farming and good technical knowledge base of the owner and the fresh produce manager of the stores in Giyani, which is lacking in the Thohoyandou case, was the key in building and sustaining a stable basis of small-scale suppliers. Coordination in the case of Giyani is organised by the store manager, and is based on long term and trust

relationship with a number of small-scale farmers with which he places order and from which he can anticipate risks of shortage.

The Giyani Spar has numerous initiatives to support small-scale vegetable farmers to attain the required product quality standards. Complementary to a personalised technical assistance, the store manager in Giyani has put in place a flexible interest-free production loan system for technological investment and input purchase whereby farmers decide upon the time frame for repayment.

6.3 Thandi Fruit and Wine

Thandi Fruit and Wine has been built on a new business model which hinges on partnerships between workers, growers, wine and fruit (export) business, retailers and the state. The Thandi project is an immense success as it has been able to grow and sustain itself for more than ten years in a domestic and international environment with a skewed trade regime and unforgiving competition. However, the Thandi project's success is also its weakness as the partnerships and overlapping shareholding arrangements are complex and not easy to grasp, especially not for sparsely educated workers and communities who often lack the confidence to participate in decision-making even when offered the opportunity. The difficulty to see through the complex business arrangements and the kind of returns they produce, seriously questioned the whole legitimacy of the project at one stage.

In both fruit and wine important new 'players' have come on board and joined the Thandi stable. In fruit Capespan, South Africa's biggest fruit exporter, took over the Thandi brand in 2002. Since then seven more fruit producing farms have joined Lebanon as suppliers of Thandi fruit. These are: 'Misgund', 'Keboes', 'Erfdeel', 'Sun Orange', 'Luthando', 'Rakopane', and 'Peperlaan'. Capespan markets all Thandi fruit. Although fruit sold under the Thandi label is on the decline, fruit originating from Thandi producers is on the increase and as a result, the workers/shareholders on these farms continue to benefit. Likewise in wine, one of the major private cellars in the Cape wine industry, Omnia (formerly 'Stellenbosch Vineyards' and subsequently 'The company of wine people'), acquired a 34% share in the newly-formed Thandi Wine Company in 2005. In the same year three additional grape farms joined Lebanon as suppliers ('Nietbegin', 'Lutouw' and 'Paardekloof') and acquired minor shares in the Thandi wine business. Together they supply grapes to three cellars where Thandi wine is made, one being Paul Clüver's own cellar on De Rust, while the other two are in Stellenbosch owned by The Company Of Wine People (TCOWP).

Workers and their families included in the equity share arrangements on Lebanon and other Thandi affiliated farms have benefited significantly over the last ten years. All have acquired shares in a fruit and/or wine business which, by normal business standards, is doing well. The Thandi case illustrates what it takes for ordinary South African farm workers to become co-owners of a successful commercial agri-business. It shows that such a process of innovation and inclusion is complicated and time consuming. It requires political will, partnerships, capital, know-how and patience. However, if based on sound business principles it is likely to be more viable and sustainable in the long term – unlike many land reform projects in the past. The advantage of partnerships, such as that of Capespan includes an established supply and marketing network. This was the case with Capespan, especially in the UK. However, deregulation and the fragmentation of supply have weakened its position vis-à-vis retailers.

Increasingly retailers carry both fair trade and ethical trade labels, including empowerment brands like Thandi. Representatives of supermarkets visit suppliers, assessing production and labour standards. All Thandi wine is sold as Fairtrade wine, thereby earning the so-called ‘social premium’ which is invested at the farm level in social development projects for the worker communities. In its efforts to grow the brand, Thandi is aided by a partnership between TCOWP and Ehrmanns who jointly market Thandi wine in the UK. At the time of Capespan’s coming on board no fruit had ever been marketed as Fairtrade fruit. After several years of talks, this world first was achieved in 2003. In 2005 both TCOWP, plus three other growers bought into Thandi. This step not only secured a bigger supply of grapes and more equity capital, but also the production sites of TCOWP and Vinfruco’s considerable marketing experience and network in the UK. Both the Capespan Foundation and TCOWP provide mentorship, legal support and technical services to growers who are already in the Thandi stable or are considering joining.

Under the government's AgriBEE legislation 25% of the industry must be black-owned by 2010, and 35% by 2014. This has led to an escalation of *political pressure* on farmers and agribusiness to get involved in empowerment initiatives is increasing. The AgriBEE scorecard gives credence to preferential procurement and its role in enhancing transformation. In this regard, government recognises that agribusinesses can play a critical role in assisting the establishment of black commercial farmers and black entrepreneurs at all levels in the value chain. In this context the Thandi project may have a ‘replication’ effect. However, instead of opting for a 100% black owned empowerment project, employers may rather pursue the partnership model exemplified by Thandi because while the former might look good, experience has shown that it can be too much responsibility too soon for workers with no business experience whatsoever. In the case of Thandi,

the UK government's Department for International Development (DFID) also became a partner in the Thandi wine project. It was agreed that DFID would match every (South African) cent that TCOWP would spend on the marketing of Thandi wine (as a Fairtrade product). In total, DFID support amounts to £ 400 000 over three years.

Thandi would not be where it is today without a complex network of partnerships, carefully woven and expanded over more than ten years. Once there was a vision, every step was taken to ensure that the project would take off and be sustainable. In the careful construction of the project, business experience, marketing knowledge and existing supply chains played a crucial part. Partnerships and equity share arrangements between workers and experienced farmers/businessmen are the appropriate route to inclusion, rather than simplistic notions of land reform or the idea that everything except 100% black ownership falls short of 'empowerment'. A simple transfer of land, unaccompanied by a sound business plan or technical and business know-how is bound to fail. This is true for 'new farmers' who want to compete in local markets, and even more so for those who want to get onto global agro-food chains and compete in international markets.

In addition to partnerships, the issues of (1) sustainability, (2) continuous innovation, and (3) quality are crucial. They are intertwined, and the successful replication project will have to conceptualise and implement decisions related to these principles from the pre-planning stages right through to production, marketing and distribution. As current competition occurs within continually changing micro-, meso- and macro-contexts (of policy, consumer behaviour, etc.), it is clear that non-imaginative participants following some recipe are doomed to failure or non-sustainability.

7. Conclusion

The case studies have illustrated various initiatives through which small-scale farmers and agribusinesses can be integrated into mainstream agri-food systems. A multi-actor approach is necessary for the successful participation of smallholder farmers to allow them to join the supply chain at any point within the channel. The case studies highlighted a need for the formation and strengthening of producers' associations that jointly market and process outputs and hence reduce transaction costs and increase negotiating power. Farmers should be encouraged to take advantage of collective action, either as cooperatives, producer organisations or other forms of associations. Collective action enables individual poor farmers to attain economies of scale in terms of size of supply and scope of produce, which will allow them to engage on a level negotiation platform.

The most important issue identified by this study is that while private entities such as supermarkets and agri-food processors, for example tomato canneries, can serve as important facilitators of market entry for the emerging agricultural sector; there are still alternative market options open to, and easier to access for small-scale farmers. The cases, especially Thandi fruit and wine, highlight the need for South African agribusinesses to rethink their business model, especially under pressure from black economic empowerment (BEE) legislation, to follow a dualistic approach involving both profit and development outcomes. The establishment of mutually beneficial partnerships, such as mentorships and contracting with commercial farmers, other agribusinesses and government, forms an important ingredient of a successful model, which can be replicated with success.

There are a number of theoretically possible fruit and vegetable supply channels that small-scale farmers can access but as this paper has already established, much transformation and development is needed from all the stakeholders if small-scale farmers are to successfully participate in these changing agri-food supply chains. This paper has identified farmer training, market coordination, logistical support, policy reform and access to credit and inputs as critical success factors for smallholder participation. It should be noted that success is dependant on trust, commitment and effort from all industry stakeholders. To redress the negative effects of the restructuring process, there is a need for all the stakeholders – the public and private sectors, NGOs, and farmers – to work in unison to address the issues of exclusion and inclusion.

The challenging issue is that smallholder farmers are not as efficient in their production systems, thus their average cost of production due to *inter alia* product rejections are a main barrier to competitive entry into the formal markets. Therefore there is need for sustained capacity building for farmers to improve their competitiveness. The importance of developing small-scale farmers' resilience was noted. Whilst the inclusion of smallholders in dynamic markets may matter, their adaptability to dynamic change may be as, or even more, important.

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