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JUDGEMENT OF DIRECT SALES IN THE AGRICULTURE

OCENA SPRZEDAŻY BEZPOŚREDNIEJ W ROLNICTWIE

Key words: direct sales, market, distribution channel

Słowa kluczowe: sprzedaż bezpośrednia, rynek, kanały dystrybucji

Abstract. Since the concentration in the sector of agricultural products processing and sales is high, there is an increased pressure on the agriculture sector resulting that farmers have to find new income sources. Amongst others, direct sales is regarded as an activity that is possible to run in parallel with farming and means an extra source of income for producers at the same time.

Farms that deal with direct sales possess special production and work organization characteristics in their agricultural business. Their choice of sales channel is influenced by diverse factors and each producer is driven by different motivators in choosing their sales method. However, farms with direct sales show similarities in terms of production and work organization as well as in their approach to the state of the industry and direct sales.

Introduction

There is no standard definition of direct sales in the literature. According to Wirthgen and Maurer [2000] direct sales is direct between farmers and final consumers and includes sales directly from the farm business (direct sales from the farmer or from the field/'Pick Your Own', farm shops, or hospitality services of hospitality units in direct contact with the farm) or sales organized close to consumers among institutional frameworks such as markets, market halls, home delivery or roadside stands. Kuhnert [1998] also adds the sales of finished food products to retail units to this circle. According to Fehér [2007] direct sale is a distribution or commercial activity made by local farmers who dispose of communication skills that make the purchasing experience of the consumers enjoyable and memorable.

The key to direct sale is "mutual advantage," in which both the producer and customer are winners. The producer has work and experiences gains in income, while the customer is provided with healthy food. Hence, the customer no longer has to worry about products beyond the expiration date that have been repackaged or re-dated. Local recipes do not change because quality is more constant [www.ars.usda.gov].

Farmers who will benefit the most from direct sales are primarily those who possess the necessary labour force, capacity and knowledge. Further, direct sales are more conducive to an environment in which consumers are welcome, and also where the producers are located near the targeted consumers. In these cases, it is important for agricultural and rural development advisers to get acquainted with farmers with related subsidy opportunities, as well as to help them combine their labor forces and take part in continuing training. Primarily small and medium farmers prefer direct sale techniques. By taking on the role of direct seller, they must compete with an increasing number of supermarkets, hypermarkets and wholesale markets [Fehér 2007].

The study is based on results of semi-structured interviews conducted in summer 2010 among fruit and vegetable growers who sell their products at the Hungarian farmers' markets. It also discusses those factors that motivate producers to sell their products directly to the consumers as well as the advantages and disadvantages of this sales method.

Material and methods

In the study 21 vegetable and fruit growers who practice direct sales were interviewed either personally or over the phone.

Snowball sampling was employed as the selection method of interviewees. Managers of farmers' markets chosen by accidental sampling were asked to choose sellers who deal with farming themselves and are not traders.

Semi-structured questionnaires were employed in the interview process: in order to find out characteristics of the farm businesses (the legal form and size of the farm, number of employees, etc.) closed questions, while to identify factors that influence the choice of sales channel and to gain information on direct sales practice, open questions were applied.

Results

The role of sales channels. Direct sales was the most important sales channel among respondents. The most commonly used further channels were wholesale markets, wholesalers/purchasers and producer organisations. Those farms that deal with direct sales as a main activity developed a product range for selling their all produced quantity at farmers' markets. Other sales channels are rather chosen by those farmers who deal with direct sales only as a side activity for selling extra quantities they produced. Examining different forms of direct sales, the conclusion is that the most common form is sales at farmers' markets. Given the selection method of respondents, all respondents performed direct sales activity.

A part of farmers sell at markets the whole year – several times per week. Other farmers sell from spring to late autumn and cease this activity through the winters since they do not have products at this time of the year. And there are farmers who sell at the market only occasionally, because direct sales is not their main sales channel and the proportion of direct sales in their all sales activities is low. Other forms of direct sales, such as home delivery, roadside stands, online sales or sales at hospitality units, play a marginal role among the agricultural producers interviewed.

Characteristics of farms with direct sales at markets. In terms of production strategy there are three main conceptions based on the answers of respondents.

1. Growing of several fruit and vegetable types at a small area: The main sales channels of these farms are farmers' markets. Their purpose is to continuously provide a wide product range and to be present at the market all the time. This type of business employs (almost) exclusively family members, they hire casual labourers very rarely. They aim to produce a quantity that is saleable at the market. They only go to wholesale markets when there is excess product quantity they cannot sale at smaller markets. Generally they are present at the market the whole year, thus, their product range is adjusted to this habit. In most farmer families direct market sales is a traditional activity and family members are involved from their childhood.
2. Growing less type of fruits and vegetables at a small area, but with as wide product range as possible: These farms regularly grow 3-4 types of plants but they try to develop a wide product range within these types in order to satisfy the biggest possible consumer group. Their main sales channel is the farmers' market. They (almost) exclusively employ family members, they hardly hire casual labourers.
3. Growing a few types of fruits and vegetables at a large area: At this type of business the role of direct sales is regularly small. Since they grow fruits and vegetables at a relatively large area, their main sales channel are purchasers/wholesalers and producer organizations. In their case, the role of wholesale markets is insignificant, because after farmers arrange all work organization tasks connected to the production, no time remains to arrange sales issues at wholesale markets. Family members regularly have manager functions, the number of assistant employees are high. They rarely sell at farmers' market and they rather search for markets that are not open daily but only weekly or fortnightly. They are not regular attendants to these markets, and they choose this form of sales because although the saleable quantity is low, the possible sales price is higher than it would be through other sales channels.

In terms of farming methods, producers prefer extensive farming (usage of organic fertilizers, low amount of pesticides), and for them it is important to produce high-quality and healthy products, because they think this is the way of maintaining clients.

As for the farming area, the area is regularly in the farmer's ownership and they generally use relatively small areas. The average size of the farming area is 14 hectare. Farms that grow vegetables often grow in greenhouses. The reason is that outdoor plants are suitable for selling at markets later, and the aim of farmers is to appear at the market as early as possible to receive a higher price before the main season starts. Only a small proportion of respondents uses heaters in greenhouses because of high heating costs, most of them grow in unheated greenhouses. The reason is that with high heating bills to pay, producers are not able to compete with vegetables imported from abroad.

As for work organization, these farms relatively rarely employ casual/assistant workers, the main part of their work is supported by family members.

Motivations of direct sales. There are 4 possible, clearly different groups of farmers who deal with direct sales based on their motivations of sales channel choices.

1. Research for new sales channels: a motivation mainly for those farms where the production area is large. They find that direct sales is a technique to reduce the exposure to purchasers. Generally, for them, direct sales is secondary, a secure form of providing more than one income source. The main motivator is the possibility to reach significantly higher price than through purchasers.
2. This is the only possible sales channel given the size of the farming area and potential quantity of production with the applied farming method: generally, farmers in this group grow at a small area and apply traditional farming methods. They do not have enough capital to invest in greenhouses for intensive farming. However, lack of capital is often not the only reason for traditional farming, the reason is rather aversion to intensive farming. Several farmers mentioned that earlier they had used larger farming areas, but because of low purchasing prices and high labour costs of assistant workers the revenue had not been higher using a large area than through direct sales. The workers are regularly family members and they employ casual workers rarely and at a low number.
3. To keep family traditions alive: a high number of farmers apply the method of direct sales because they want to maintain family traditions. They sold products already in their childhood at the same market with their parents and grandparents. For them, this is a lifestyle and they cannot even imagine to engage themselves in something else.
4. Forced “entrepreneurs”: some farmers among the respondents had no other choice but to engage themselves in direct sales. This necessity regularly emerges from the loss of a workplace or too low pension. Nevertheless, in most of the cases the reason why they are forced to sell their products at markets is the lack of purchasers in the neighbourhood.

Advantages of direct sales. Advantages of direct sales are divided into two groups: economic and „social” advantages presented in Table 1.

Table 1. Advantages of direct sales
Tabela 1. Korzyści sprzedaży bezpośredniej

| |
|--|
| Economic advantages/Korzyści ekonomiczne: |
| Advantages in connection with income/Korzyści w odniesieniu do dochodów: |
| – immediate income/natychmiastowy dochód |
| – higher possible price/wyższa możliwa cena |
| – relatively flexible pricing/relatywnie zmienna cena |
| „Social” advantages/Korzyści społeczne: |
| – close relationships, trust/blizsze relacje, zaufanie |
| – deeper knowledge of consumer needs/większa wiedza na temat konsumentów |
| – sales of healthy food/sprzedaż zdrowej żywności |
| – promotion of traditional food/promocja żywności tradycyjnej |
| Other economic advantages/Inne korzyści ekonomiczne: |
| – privileged customers mean stable demand/uprzywilejowani kleinci oznaczają stabilny popyt |
| – reducing exposure to purchasers/zmniejszenie narażenia na nabywców |

Source: own study

Źródło: opracowanie własne

Economic advantages. Respondents highlighted advantages of direct sales in connection with price and income the most. According to them the possible maximum price through direct sales can reach 2-300% higher price than through purchasers or producer organizations. However, the necessary amount of work to invest is also higher in turn.

Another advantage is immediate income opposite to week- or month-long payment due dates of producer organizations or purchasers. It is substantial also in terms of financing the production process. And one further advantage is that these farmers are not subject to the prices that purchasers dictate, they enjoy a great autonomy in pricing: they are able to choose lower or higher prices than the market price. The last important aspect is that most farmers have a stable circle of consumers (privileged consumers) meaning a stable demand.

„Social” advantages. Several respondents mentioned close relationship between the consumer and the farmer as an advantage. The relationship is strengthened by giving useful advices to the consumer for example about the preparation possibilities and methods of the product. Furthermore, a number of consumers, especially elder ones visit markets as a social place. A general opinion of farmers is that only those are suitable for working in direct sales in the long term who love people.

Due to the close connection between the farmer and the client, changes in consumer needs are easy to notice and the product range can follow these needs the year after. It mainly applies to vegetable growers, since fruit growers are not able to modify their product range from year to year.

To popularize traditional products and provide fresh and healthy food to the residents is a mission for farmers and this trend recently has become increasingly important.

Table 2. Difficulties in direct sales

Tabela 2. Problemy napotymane w sprzedaży bezpośredniej

| „External” difficulties/threats/ Problemy zewnętrzne | „Internal” difficulties/threats/ Problemy wewnętrzne |
|---|--|
| Obligatory receipt issuing/ <i>Obowiązkowe umieszczanie receptur</i> | Time and labour intensive activity/ <i>Aktywność wymagająca czasu i pracy</i> |
| Changes in consumer habits/ <i>Zmiany zachowań konsumentów</i> | Limited product to sell/ <i>Ograniczona liczba produktów na sprzedaż</i> |
| Exposure to weather conditions/ <i>Wystawienie na działanie czynników atmosferycznych</i> | Need for continuous presence/ <i>Potrzeba ciągłej obecności</i> |
| | Special work organization requirements according to market opening hours/ <i>Konieczność organizacji pracy zgodnie z godzinami pracy</i> |

Source: own study

Źródło: opracowanie własne

Difficulties in direct sales. There are two groups of difficulties in direct sales:

- external factors or factors independent from the producer,
- internal factors or factors depending on the method of production/farming.

External difficulties/threats. The most commonly mentioned difficulty by the respondents is the obligation to issue receipt. It is a problem mainly for elder age groups, since they do not know how to fill in a receipt. Moreover they feel that receipts require unnecessary administration tasks. On a frequented market they often lose consumers because they have to complete the receipts resulting slow purchasing processes and clients are too impatient to wait in the queue, so they rather choose another farmer with less waiting time. A number of farmers said that a system with measuring sold quantity and the income through opening and closing stocks would be favourable. This method would not disturb the sales process.

Changing consumer needs also set challenges to those who deal with direct sales. Today shopping is a leisure activity for consumers, and shopping in hypermarkets at the weekends are family programmes. It is more comfortable to buy fruits and vegetables from the hypermarkets, and having all their money and freetime spent in shopping chains, they do not have either time or money left to spend at the markets. Mainly elder age groups shop at markets, but a promising sign that a growing number of young mothers visits the markets.

Markets are more frequented if a food scandal appears in the media. The form of direct sales – unless the venue of the place is an indoor hall – is very exposed to weather conditions. On rainy days the number of visitors is obviously lower and products on the day after can be sold only at lower prices.

“Internal” difficulties/threats. Farmers interviewed agreed that sales at the markets is a lifestyle. Tasks both in connection with farming and sales have to be harmonized, which means that after harvesting at dawn or in the afternoon, farmers spend the most of the day at the market and they compile products for the next day only after arriving home. The work is regularly divided within the family: one or two members go to the market and the others are responsible for farming.

In order to obtain a reasonable amount of clients that provide a stable demand it is necessary to be present at the market continuously. It regularly means 3-4, but sometimes 7 days of presence per week.

The possible amount of sold products through direct sales is limited, since the quantity purchased by clients at the market is limited compared to the amount that can be sold to producer organizations or purchasers. Thus, farmers have to provide a product range that is wide enough through rather growing at a smaller area, but several types of plants resulting more complicated

work organization tasks (planting, spraying pesticides, harvesting). A number of farmers added that they try to grow plants (for instance spinach, asparagus) that require living labour intensively to increase the income per unit of the area.

Conclusions

Farms dealing with direct sales possess special characteristics of farming and work organization compared to all agricultural farms. Their choice of sales channel is influenced by diverse factors, different reasons drive them to choose this form of sales method. However, their work organization and farming characteristics are very similar to each other and their approach to this industry and direct sales also shows similarities.

Common characteristics of interviewed farms is that their main profile is direct sales to consumers. Their product range is developed according to their profile and the range is relatively wide. Since through direct sales the potential amount to sell is limited they regularly produce on small farms, their farming methods are traditional and the work is mainly delivered by family members.

Motivations of choosing the sales channel are also very similar. Above economic advantages of direct sales there are also several other advantages of this sales form such as popularization of domestic products, direct contact with consumer, etc.

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Streszczenie

Z uwagi na wysoką koncentrację produktów rolnych w sektorze przetwórstwa oraz wysoką konkurencję na rynku, rolnicy zmuszeni są do poszukiwania dodatkowych źródeł dochodów. Sprzedaż bezpośrednia jest uważana za działanie, które można wykonywać równoległe z pracą w rolnictwie i uzyskiwać z niego dodatkowe dochody. Gospodarstwa, które zajmują się sprzedażą bezpośrednią odznaczają się specyficznymi cechami, tj. rynkowym ukierunkowaniem produkcji i organizacją pracy. Celem artykułu była analiza gospodarstw rolnych prowadzących sprzedaż bezpośrednią.

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