

Investigation into Farmer Controlled Businesses in South Africa: Options and Lessons learnt

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Strategic positioning of South African Agriculture
in dynamic global markets



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Outline

- Background to the study
- Problem Statement
- Primary and secondary objectives
- Data and Methodology
- Results
- Recommendations



Background to the study

- Farmers are detached from their market (Gonzalez-Diaz *et al*, 2007)
- Retail food market is concentrated, 4 retailers have 95% market share (Botha & van Schalkwyk, 2006)
- Supermarkets have strict requirements in terms of delivery, quality and price. (Faure *et al*, 2007)
- By collaborating commercial farmers can increase their market power and meet these challenges set by supermarkets (Faure *et al*, 2007)



Background (Cont...)

- According to Kirsten & Sartorius (2002), there are a number of constraints when contracting emerging farmers;
 - Widely scattered
 - Volumes-need to deliver more frequently
 - Infrastructure
 - Experience
 - Input prices



Background (Cont...)

- Kirsten & Sartorius (2002) and Kaganzi *et al*, 2008 recommended that small scale farmers form partnerships to;
- Link them to markets
- Share skills
- Decrease costs
- Increase volumes



Background (Cont...)

- Internationally these partnerships are called Farmer Controlled Businesses
- Can be in the form of any legal entity
- The producers are the shareholders, members and managers of the FCB.
- FCBs are promoted in various African countries as well as in other parts of the world



Problem Statement

- Worldwide Farmer Controlled Businesses (FCBs) are seen as a means for farmers to gain economic power, decrease their transaction costs and bring them closer to the markets they are serving. (EFFP, 2004. COFAMI, . Faure et al, 2007. Gonzalez-Diaz et al, 2007. Kaganzi et al, 2008. Kirsten & Sartorius, 2002)
- Few studies have been done in SA on the origin of the established FCB's, how they function, or the challenges they face.
- Although it is known that FCB's can be seen as a means for farmers to collaborate, there is not much information available regarding the why the level of participation amongst SA farmer is so low and how FCBs can assist SA farmers to link to markets



Primary & Secondary objectives

- Primary
 - To investigate the factors that influence SA farmers' participation in FCBs
- Secondary
 - To select a sample of farmers to be interviewed in the dairy and grain industries.
 - To identify the factors that influences the farmers' decision to participate in an FCB and the reasons why they might not do so.
 - To gather the relevant information and investigate the farmers' experiences in this regard, can assist in deriving a feasible business model to help emerging farmers to collaborate in an entity that will enable them to market their products effectively.
 - To review other FCB's in other parts of the world.



Methodology and data used

- Semi-structured questionnaires were used.
- The questionnaires contained qualitative and quantitative questions
- The questionnaires consisted out of questions pertaining to the following;
 - Organisation
 - Management
 - Assets
 - Contract between the organisation and the buyer
 - Contract between the group and the buyer
 - Key success factors



Methodology used cont..

- Interviews with;
 - Managers of FCBs
 - Producers with knowledge of collaboration
 - Coordinators of projects involving emerging farmers
- Groups and coordinators in the following provinces where interviewed;
 - North West
 - Free State
 - KwaZulu-Natal
 - Eastern Cape



Results & Recommendations– Commercial farmers

Success factors

Technology

Financing

Discipline

Trust & loyalty

Management

Location

Contracts

Obstacles

Administration

Discipline

Government

Buyer requirements

Ensuring trust and loyalty

Access to updated
information

Marketing



Results & Recommendations – Emerging farmers

Obstacles faced by emerging farmers

Extension officers – not enough/training	GrainSA model
Training in marketing and economics	Universities
Technology/information	Farmers days
Credit	Simplify process/monitor
Identifying potential members	Criteria for ideal members

- Use AgriBEE more effectively in order to link emerging farmers with commercial farmers



Factors critical to the success of FCBs

Identify opportunity	Contracts
Agree on how to take advantage of the opportunity	Transparency in the group to enhance trust and loyalty
Invite producers who should be included (location etc)	Discipline
Agree on how to finance the FCB	Meetings
Agree on the mission and vision	Start small – go big



**THANK YOU FOR THE
OPPORTUNITY**

