

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

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Funded By  
**National Agricultural Marketing Council**

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**National Agricultural  
Marketing Council**

Strategic positioning of South African Agriculture  
in dynamic global markets

# Report

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Businesses in South Africa: Options and  
Lessons learned

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November 2009**

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## Executive Summary

Various studies have found that farmers are detached from the markets they are serving in terms of marketing their product (Gonzalez-Diaz, Alliston, 2007). Worldwide Farmer Controlled Businesses (FCB's) are seen as a means for farmers to gain marketing power and decrease their transaction costs by bringing them closer to the market they are serving (EFFP, 2004. COFAMI. Faure et al, 2007. Gonzalez-Diaz et al, 2007. Kaganzi et al, 2008. Kirsten & Sartorius, 2002). The retail food market is extremely concentrated as the four major retailers have a 95% market share (Botha and van Schalkwyk, 2006). This puts retailers in a position to enforce strict requirements onto their supplier in terms of price, quality, volume, delivery times and ultimately who they prefer to buy from. Studies have suggested that if producers collaborate, they will gain the marketing needed to increase their market power and meet those challenges set by retailers (Gonzalez-Diaz 2007, Faure et al, 2007 and Ortmann King 2002). In addition to these obstacles, small-scale farmers face other problems as well when marketing their product: they are widely scattered, they only produce small volumes which mean they will have to deliver more frequently, the infrastructure is bad and therefore testing and storage is hampered, they also have to contend with high input prices and lack of experience in farming (Kirsten and Sartorius (2002). Kirsten and Sartorius (2002) came to the conclusion that if these small-scale farmers should collaborate they would be able to share skills, decrease transport cost, deliver more volumes on a sustainable basis and in the long term invest in infrastructure to do their own testing and own transport.

Therefore, the aim of this study was to use semi-structured questionnaires to establish what are the obstacles and successes farmers involved in FCB's face and how these structures can assist South African farmers to gain marketing power and move closer to their markets. A sample of farmers in the dairy and grain industries were interviewed. The questionnaires contained both qualitative and quantitative questions which covered the following sections; organisation, management, assets, contracts between the FCB and the buyer, contracts between the FCB and their members and their key success factors. The interviews were held with managers of FCB's, producers with knowledge of collaboration and coordinators of projects involving emerging farmers within various provinces (North West, Free State, KwaZulu-Natal and Eastern Cape).

Questionnaires, interviews and literature were used in meeting the objectives of the study. The following part contains the results from the various sources.

**Part 1** will discuss the results obtained from commercial farmers, part of a FCB or with knowledge in producer groups and collaboration, were either interviewed or completed a questionnaire.

**Part 2** contains the questionnaires completed by commercial farmers involved in BEE ventures, as well as interviews held with employees of Government and private companies, involved in the training and mentorship of emerging farmers. This part will provide more insight into the problems faced by emerging farmers and the effect of policy and Government regulations on the success of these farmers.

**Part 3** will consist of the conclusions and recommendations.

**Part 4** the final part will consist of case studies of the successful FCB's interviewed, as well as international FCB's reviewed.

The following parts will summarize the four parts as indicated above.

### ***Part 1***

Commercial farmers had to rate various factors in order to determine which of the factors are factors critical to their success or are seen as obstacles. The following results were obtained:

#### Factors critical to their success:

- Technology – to the advantage of the FCB if the members have the same level of technology
- Financing – members should rather invest their own capital and not take out new loans to finance the FCB
- Discipline – the group should be disciplined and there should be measures in place to penalize those not abiding with the requirements.
- Trust and loyalty – these two factors are extremely important to the sustainability of the group. Producers should not undercut the price by selling individually when they are part of a FCB, they should stay loyal and trust the vision of the FCB.

- Management – management should be transparent and the members should believe and trust the capabilities of the manager.
- Location – it is to the advantage of the FCB if the members are situated along a transport route or within a reasonable distance from each other.
- Contracts – it is better to let members sign a contract which commits them to the FCB.

Obstacles:

- Administration – deciding who will be responsible for the admin of the group. It is not always a good decision to employ one of the producers, but due to capital constraints, the group may not have any other choice..
- Discipline/trust – trust is crucial within a structure like this because if the members don't believe in the business or trust fellow members or management the structure will fail.
- Government - Interviewees have indicated that the negative publicity about farmers and agriculture is a massive obstacle and leads to negative morale of the farmers.
- Buyer requirements – those involved in FCB's indicated that they were able to sign contracts, improve their quality, increase quantities delivered and have a better relationship with their buyer once they collaborated.
- Ensuring trust and loyalty - This obstacle is linked to trust; the members must believe in the mission and vision of the group and show loyalty towards the group. For this reason, many of the groups would initially start with 3 to 5 members and as they become more successful, they will allow more members to enter the group.
- Access to updated information - Access to market information, which includes producer prices, input prices, consumer prices, supply and demand and international market conditions, are seen as major obstacles for an individual.
- Marketing - marketing as a group is more affordable, more effective if they market in terms of volumes and provides the group with more power, as it gives them the opportunity to negotiate better prices. Many of the groups have indicated that they do not market in collaboration with their buyer. They market their produce as a group, to their buyer.

**Part 2** elaborates on the various studies done both internationally and locally which have motivated collaboration amongst farmers to establish linkages within the supply chain, decrease costs, share skills and expertise and market in larger quantities. The EFFF (2004) emphasised the importance of FCB's when they found that in Sweden and Denmark FCB output had grown to twice that of their primary agricultural output, while in the United Kingdom, the total FCB output was calculated at 30-35% of the country's gross agricultural output. Comparative figures are not available for South African agriculture, but the consensus amongst industry leaders is that it is below that of the United Kingdom.

Mrs Jane McPherson from GrainSA assists in the coordinating and establishment of emerging farmers. GrainSA provides these small scale farmers who are in study groups, with mentorships. GrainSA identifies farmers with the potential of becoming commercial farmers by means of an assessment. If they meet the criteria their data is saved and recorded over time to track their progress. GrainSA also broadcasts on the traditional black radio stations, with updates on training, crops and markets. The feedback they have received has been very positive and farmers find the broadcasts extremely helpful. The broadcast theme coincides with the theme of their newsletter, so that farmers not only hear it on the radio but can also read about it.

Some of the obstacles identified from the prospective of the emerging farmers include:

- That the projects were not properly aligned to meet the objectives
- The loans are paid out after planting season, which force the farmers to wait another year
- High costs of machinery
- Infrastructure which leads to increased expenses and loss of valuable time

These obstacles can be overcome if the emerging farmers are situated close to commercial farmers, as in many cases the commercial farmers will sell or even give their old machinery and equipment to emerging farmers. It is also easier for commercial farmers to act as mentors and fulfil their AgriBEE scores if they know what the needs of emerging farmers are and if they are in close proximity to assist them. The last obstacle is infrastructure in the rural areas; this makes it extremely difficult for the emerging farmers to get their produce to the market and sell it.

Miss Sejosengoe, who is actively busy with the training of emerging farmers, says that the lack of training in marketing and economics is evident. The result is that the producers don't

understand what supply and demand is and how prices are established. Basic training in these areas is needed.

Some of these obstacles were named in the study and possible solutions were given to assist South African emerging farmers to be sustainable farms and empower them to access markets.

- Extension education

High levels of illiteracy can inhibit the producers' use of new technologies and production methods, therefore extension officers should find innovative ways to transfer information to farmers. By training one group, the goal is to empower that group to train other farmers.

- Agricultural technology

New technologies should reduce the work on the farms and enhance production. At the moment, many agribusinesses, like GrainSA, are organizing farmers' days, to convey new information on production technology to the farmers. In most cases, input suppliers and other companies involved in production, attend these farmers' days and share their skills and expertise with the farmers.

- Agricultural credit

In order to reap the benefit of credit granted to emerging farmers, the farmers must have a basic knowledge of interest rates, loanable amounts and the mode of repayment. Like previously mentioned by Ms Sejosengoe, the farmers lack this knowledge and therefore a need exists for basic courses for emerging farmers.

- Marketing

The farmer requires market information in order to make rational and relevant decisions. Market information services need to collect information at regular intervals and update it regularly, subsequently this information needs to be published or dispersed to farmers. As previously established, training should be provided to emerging farmers regarding the marketing of their product. Some of this marketing should include:

- Information guiding the producer as to what crop he should produce
- Information on current prices

- Forecasting of market trends which can assist farmers with their planning when marketing their product.
- Information on sales timing: This is important, as it will prevent farmers of producing a surplus in the market, which can result in lower commodity prices.
- Information on improved marketing practice and improved harvesting methods
- Information on group marketing, which will enable emerging farmers to have organized sales of their produce.

**Part 3** summarizes the conclusions and recommendations derived from the study. From the side of the commercial farmers; they are struggling to compete individually against retailers and processors who are price setters. They need to increase their marketing power and gain economies of scale and to do that they will need to collaborate. The interviews with producers involved in FCB's proved that collaboration have improved their position within the market and have decreased their transaction costs. Trust and discipline within a group is critical to their success.

In the case of emerging farmers the study concluded that not every farmer, be that emerging or commercial, would join a FCB, there are some characteristics that an ideal member should have. A FCB member should be determined, hard-working, not afraid to take on risk and loyal. Entrepreneurial ability is also vital. Mentorships are important and farmers should receive the proper training and as previously mentioned, it is to the advantage of the trainees if the training is presented in their first language.

Recommendations made to government involve putting instruments in place or bringing about changes which can overcome the barriers mentioned in Part 2. The proper alignment of policies and initiatives, training of extension officers, using the resources and skills of the private sector and tertiary institutions, can assist government to provide assistance to firstly, emerging but also to commercial farmers.

**Part 4** is the case study section of the study and provides in-depth examples regarding collaboration between local producers and international producers.

# Project title: Investigation into Farmer Controlled Businesses in South Africa: Options and lessons learnt

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## **Background to the study**

One of the reasons why farmers have lost control over the marketing of their products is the fact that they have become detached from the markets they serve. Moreover, communication between producer, processor and consumer is minimal (Gonzalez-Diaz *et al.*, 2007). The market is concentrated with processors and retailers having the majority of the market power. The NAMC report (2009) found that retailers are squeezing the margins of milk processors, who in turn put pressure on dairy farmers to sell their milk at extremely low prices. This forces the smaller dairy farms out of the market. The larger dairy producers are in a better position to absorb the decline in their margins or to renegotiate better prices. This means that producers must be more vertically integrated in the supply chain. Taking the South African dairy industry as an example, the buyer's tanker collects the product from the producer, the buyer tests the samples, the buyer issues the invoice and the buyer decides on the price to be paid to the individual producer. It also happens that buyers set up producers against one another in order to maintain control over the purchasing of milk. In addition, according to Faure *et al.*, (2007), farmers face numerous challenges and need to comply with the demands of the food industry and supermarkets, while at the same time delivering a high-quality product in a timely manner. Faure *et al.* (2007) state that by collaborating in groups or FCB's, farmers could possibly regain their lost economic power. Small-scale farmers need to ensure that they are not excluded from the opportunities afforded by these new markets and in order to do so, they will need to enhance their capabilities and skills, not only at farm level but also collectively at farmers' organisation level. According to Kirsten and Sartorius (2002) processors and retailers face a number of constraints when it comes to contracting small-scale farmers, including the fact that they are widely scattered in geographical terms, they require higher levels of inputs and they need to deliver more frequently to the market because of their smaller production quantities.

According to Kirsten and Sartorius (2002) a possible solution would be for small-scale farmers (small-scale in terms of turnover and produce) to form partnerships aimed at increasing their marketing power to compete against large-scale farmers (large-scale in

terms of turnover and produce). This would enable the smaller farmers to take advantage of the same benefits enjoyed by large farming businesses. These partnerships could also allow the farmers to use fewer managerial inputs and deliver in bulk, thereby reducing their transaction costs considerably.

In a study conducted in the United Kingdom, English Farming and Food Partnerships (EFFF, 2004) identified these farmer-owned business structures as farmer-controlled businesses (FCB's). An FCB is defined as a legal entity, not necessarily a co-operative or agribusiness but it should be managed and controlled by farmers or farmers' organisations. An FCB enables members to effectively combine efforts and marketing functions, which will assist them in negotiating better prices for their products. An FCB can be in the form of an informal buyers' group or marketing group, a joint ownership group in terms of machinery or other capital structures, or a co-operative or formal business structure. Worldwide FCB's are a well-known phenomenon, but it is only recently that the formation of informal groups has gained popularity in various industries in South Africa.

In South Africa, the Department of Trade and Industry (DTI) has taken some steps to promote the importance of co-operatives by publishing the New Co-operatives Act 2005, by developing co-operatives, and by hosting national co-operatives conferences – most recently in 2008. In Uganda, the National Agricultural Advisory Development Service (NAADS) is promoting mass formation of farmer groups as a vehicle for using social capital and collective action to enhance the market performance of smallholders (Kaganzi *et al.*, 2008). Although this study will review existing FCB's, special attention will be given to co-operatives as a vehicle for emerging farmers seeking to gain access to inputs and markets and to reduce their transaction costs.

## **Problem Identification**

In the United Kingdom it has been found that farms are detached from other sectors in the economy. It has been concluded that if partnerships were to be formed between the smaller farming businesses, allowing them to work together as a unit, they would be able to take advantage of the benefits enjoyed by large farming businesses (Gonzalez-Diaz *et al.*, 2007). In developing countries, it is evident that there are constraints when it comes to contracting small-scale farmers – for example, they are widely scattered geographically, they require higher levels of inputs and they need to deliver more frequently to the market, whereas

large-scale farmers deliver in bulk and make use of fewer inputs, thus reducing their transaction costs (Kirsten & Sartorius, 2002).

The South African situation follows the same pattern as in the United Kingdom: farmers are detached from their markets as a result of market deregulation, which lowers their profits as market concentration increases at the processing and retailing level (Botha & Van Schalkwyk, 2006), thereby reducing their market power. In addition to these factors, they are facing increasing levels of poverty, food insecurity and weaknesses in the restitution, redistribution and tenure programmes, making it difficult for individual emerging farmers, who produce in small volumes, to gain access to the markets.

In conclusion, worldwide FCB's are seen as the means for farmers to gain economic power. In South Africa there are very few established FCB's, although farmers here are facing the same problems as those in the United States of America and Europe. Few studies have been done on the origin of the established FCB's, how they function, or the challenges they face. The vehicles available to link small-scale farmers are also not clearly specified and many industry leaders are of the opinion that the measures available are not effectively linking small-scale farmers to the markets and assisting them to be sustainable farmers.

## **Project description**

Worldwide Farmer Controlled Businesses (FCB's) are seen as a means for farmers to gain economic power. In South Africa there are very few established FCB's, although farmers here are facing the same problems as those in the United States of America and Europe. Few studies have been done 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 very little information available regarding the reasons why the level of participation amongst South African farmers is so low.

## **Primary objective**

The primary objective of this study is to investigate the factors that influence South African farmers' participation in FCB's.

## **Secondary objectives**

- To select a sample of farmers to be interviewed in the dairy and grain industries. Interviews will be conducted with farmers in the Free State (Kestell), KwaZulu-Natal (Ixopo), Eastern Cape (Humansdorp and Port Elizabeth) and the Western Cape.
- To identify the factors that influence 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.

## **Outcomes from the research**

- Provide answers to why farmer-controlled businesses are successful.
- Provide an analysis of the structure and operations of FCB's.
- Review of international farmer-controlled businesses.
- Recommendations for small-scale farmers.
- Provide possible options on what Government can do.

## **The questionnaire**

The questionnaire (Appendix A) consists of semi-structured questions, which is both quantitative and qualitative. The first part of the questionnaire focuses on the organisation itself; the reason for its establishment, financing, obstacles and future outlook of the organisation. The management of the organisation is discussed by the group, as well as the use of their assets. The second part focuses on the contract between the members and the organisation and the third part on the contract between the organisation and the buyer; here the responsibilities of the different role players are discussed in terms of product quality and volume, marketing and payment. Part 4 & 5 captures the requirements as they are stipulated

in the contract with their buyer and the interviewee is asked to rank certain key success factors within a group.

The questionnaire has semi-structured questions and therefore each part is discussed to enable us to get detailed information from the interviewee. The estimated time required to complete the questionnaire was 2 hours. This allowed us to get the overview of their business models.

Groups were also identified who have collaborated successfully with emerging farmers; these groups were Kleinbosch Dairy Trust and Rheeboek Rant. In addition, Mrs Jane McPherson from GrainSA was interviewed to obtain a better understanding of the challenges and successes of emerging black farmers and the role private organisations and Government play in linking these farmers to markets.

## **The interviews**

Interviews were conducted with producers, who are currently in a group, producers who were part of a group and also individuals with previous experience in producer groups (co-operatives or companies)

The idea of Farmer Controlled Businesses is a fairly new concept in the South Africa. Some industries have been working together within a legal structure for many years while others only come together once a year to buy inputs in bulk in order to take advantage of economies of scale. To give an example: the grain industry is far behind the dairy industry in forming groups within a formal legal structure. In the grain industry many informal groups can be found, who have collaborated only to buy inputs like fertilizer together and are therefore not part of a Farmer Controlled Business. It was also evident that these farmers do not understand how FCB's can be formed nor the advantages they hold for them as producers. Producers also indicated that they do not see themselves working together with other producers in their area.

**Table 1: Interviews were held with the following persons**

<b>Mr Johan Potgieter</b>	<b>GrainSA, Bothaville</b>
<b>Mr Willie Du Plessis</b>	Kleinbosch Dairy Trust, Humansdorp Manager
<b>Mr Johan Heunis</b>	Rheebok Rant, Humansdorp Manager
<b>Mr Agenbach</b>	Humansdorp Co-operative Accountant
<b>Mr Johan Greyling</b>	Mixed Farmer, Eastern Cape Shareholder of OVK
<b>Mr Harry Hepton</b>	Dairy marketing group, Eastern Free State
<b>Hugh van Heerden</b>	Mixed Farmer, Eastern Cape
<b>Mrs Jane McPherson</b>	Small-scale farmers, GrainSA
<b>Mr M Black</b>	Midlands Milk, KwaZulu Natal
<b>Mr S Matthewson</b>	Springmount Farm, Eastern Cape
<b>Ms Lesego Sejosengoe</b>	Small-Scale farmers, Centre for Farm Management, UFS

## Introduction

Questionnaires, interviews and literature were used in meeting the objectives of the study. The following part contains the results from the various sources.

**Part 1** will discuss the results obtained from commercial farmers, part of a FCB or with knowledge in producer groups and collaboration, who were either interviewed or completed a questionnaire.

**Part 2** contains the questionnaires completed by commercial farmers involved in BEE ventures, as well as interviews held with employees of Government and private companies, involved in the training and mentorship of emerging farmers. This part will provide more insight into the problems faced by emerging farmers and the effect of policy and Government regulations on the success of these farmers.

**Part 3** will consist of the conclusions and recommendations.

**Part 4** the final part will consist of case studies of the successful FCB's interviewed, as well as international FCB's reviewed.

## Results

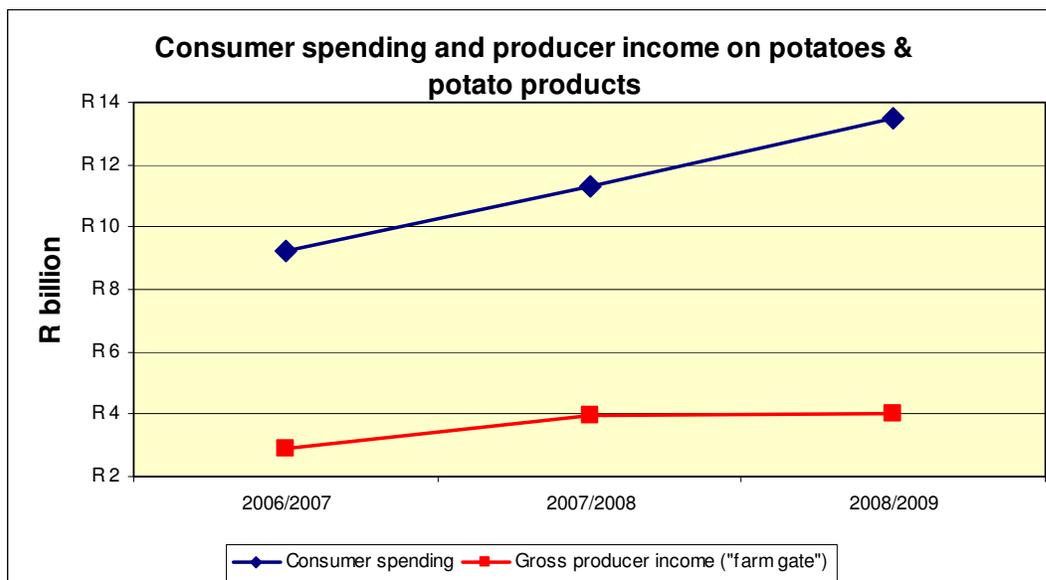
### *Part 1:*

#### **1.1 Results obtained from the questionnaires with commercial farmers**

Commercial farmers are competing in a market where four supermarkets have a 94% market share (Botha & van Schalkwyk, 2006). Contributing to this; is the migration of people from the rural areas to the cities; these consumers' preferences change, causing them to demand processed foods. As a result, the gap between producer income and consumer spending is increasing (Fig 1), causing producers to become detached from the market they are serving. As illustrated in Fig 1, this is evident in the potato industry and according to industry leaders; this is the case in the other agricultural sectors as well. In order to compete against these supermarkets, producers will need to gain economies of scale and cut production costs to increase their profit margins. Many South African producers in a range of agricultural industries have realised the importance of economies of scale and therefore they

have decided to collaborate. Two kinds of groups were identified, namely informal groups and formal groups.

**Figure 1: Consumer spending and producer income on potatoes and potato products**



*Source: Potato South Africa, 2009*

Informal groups were interviewed, who only buy their inputs together. These groups are very informal and except for collaborating to buy inputs, they do not work together. Some of these groups have a contract between the members that forces them to buy their inputs together, thus taking advantage of the discounts when buying in bulk, while others do not have any contract. What makes this problematic is that it is easier for the member to change his mind when the input supplier offers him a lower price. The result is that the group will have to order less volumes, which can decrease their discount and reduce their market power - after a while many of these groups decide to break-up.

The formal groups are groups who work together throughout the year. These groups either produce or market together, or do both. They usually have a contract with their buyer, except in cases where the group prefers not to have a contract, as they only sell to the buyer offering the highest price. The groups operating like this have indicated that their prices are volatile and, especially in the dairy sector, this is a high risk route to take, as milk is a perishable product. The EFP (2004) found in the study they conducted that when FCB's have contracts with their buyer, their prices become less volatile, trust is built between the

FCB and the buyer and in the long term their prices average higher than prices received by individual producers.

## 1.2 Key success factors

The interviewees were requested to allocate a weighting according to what they considered of importance for the FCB to be successful. 1(not so important) to 5 (extremely important).

**Table 2: Key success factors as rated by the interviewees**

Level of technology/expertise of the members	5
Individual size of the individuals	2
Production technology	4
Financing/money	5
Discipline within the group	5
Trust within the group	5
Sustainability of the group	4
Management and supervision	5
Policies/Laws	4
Tax implications	2
Limitations in the marketing	3

Financial Policies	3
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*The ratings in the table is calculated as an average*

The results show that the FCB is not successful when members do not use the same level of technology and that they rank trust and discipline within a group as extremely important. Management and supervision were also ranked as extremely important, which again shows that if the group invests a little bit of time and money to ensure that a capable manager is hired, this will have an incremental effect on the success of the group. The group's productivity and sustainability, together with the laws and policies, were ranked as level 4 (very important). These factors include the capability of the group to take on new risk, to expand into new markets or to integrate further down the supply chain. Other factors, like financial policies, do not have a major impact on the success of the group because many of the members invest their own money and have no need to borrow money from the bank. The individual capacity of the members is also not that important: from the interviews, I have concluded that the location of the farmer is much more important, because if he is along a transport route, it is much cheaper and easier to include him in the group and pick up the volumes he produces. One of the objectives of collaboration is to join these smaller producers in order to market bigger volumes to the buyer.

### **1.3 Some of the challenges identified by these groups and interviewees:**

- Administration/Finances

The members have to employ someone responsible for the administration of the group. If the members did not invest capital when they started, the question is always: "Who pays this person's salary?" The other option is that one of the members does the administration of the group (often voluntarily) but then factors like trust and leadership or seniority sometimes become problematical. The best option would be if the members are compelled to invest capital when joining the group, which is then used for all administration purposes. Then, as the group becomes stronger and more successful, a levy can be reserved for every litre/ton they sell, which can be utilized for expansion or investment in new assets for the group. Commercial farmers have indicated that they would prefer not to take out loans in order to start a group, they would rather invest a little of their own money.

- Trust

The interviewees have indicated that they have to trust the management and members of the group before they will join such a group. They indicated that they do not always trust other farmers in their area. Milagrosa (2007) found that farmers who trust their church, their leaders, etc. and are actively involved in their communities, are more likely to be trusted by the farmers in their area, as they are well-known and are able to function as a group.

- Government policy and attitude towards agriculture

Interviewees have indicated that the negative publicity about farmers and agriculture is a massive obstacle and leads to negative morale of the farmers. They feel that Government's attitude towards agriculture should be positive and that investments should be made in research and development within the industry, in order to ensure that the industry (emerging and commercial) remains sustainable.

- Complying with the requirements

The FCB's interviewed have indicated that individually it was difficult for them to comply with the requirements stated in the contract of their buyers, in terms of volume, quality and delivery and that they lack economies of scale to negotiate better prices for their produce. When they collaborated, these FCB's indicated that they were able to sign contracts with their buyers and negotiate the terms and conditions of delivery, quality, and quantity and later as a relationship developed between the buyer and the group; they were able to negotiate better prices.

- Commitment and loyalty from members

This obstacle is linked to trust; the members must believe in the mission and vision of the group and show loyalty towards the group. For this reason, many of the groups would initially start with 3 to 5 members and as they become more successful, they will allow more members to enter the group. The groups interviewed, clearly stated that they would prefer the group to stay small, rather than allowing new members to enter that do not fit in with the culture of the group.

The competition in the market is fierce; many competitors do not want these groups to succeed because it gives bargaining power to the producer. The larger agribusinesses have the power and resources to force these producer groups out of the market.

- Access to updated information

Access to market information, which includes producer prices, input prices, consumer prices, supply and demand and international market conditions, are seen as major obstacles for an individual. Farmers have to conduct their own research or have to spend a lot of time attending farmers' days and other workshops to collect information. This is time-consuming and increase expenses.

- Traceability of the commodity

The traceability of the commodity is becoming more important to the consumers and therefore also to the buyer. On the producers' side; in order for them to earn a premium, many of them are marketing their product, especially milk, under a brand name. For producers marketing individually, this might be seen as an obstacle, as it costs money, needs additional infrastructure and volumes. As a group, the interviewees said they are able to overcome these obstacles.

- Marketing

In the case of marketing, the scenario is the same: marketing as a group is more affordable, more effective if they market in terms of volumes and provides the group with more power, as it gives them the opportunity to negotiate better prices. Many of the groups have indicated that they do not market in collaboration with their buyer. They market their produce as a group, to their buyer.

In summary, farmers should take their weaknesses and convert them into strengths. Table 1, identifies the internal weaknesses that a group can have and how they can be converted into internal strengths.

**Table 3: Converting weaknesses to strengths**

Internal Weaknesses	Internal Strengths
Obsolete products	Production competence
Rising production costs	Good marketing skills
Poor marketing plan	Human resource competencies
Inadequate human resources	Appropriate management style
Growth without vision	Appropriate organizational style
High conflict and politics	Appropriate control systems
Loss of business direction	Good financial management
Vulnerable competitive pressures	Innovative products
Below average marketing skills	Cost advantages

*Source: Dobbins and Cole (nd)*

#### **1.4 Summary of Part 1**

The gap between producer income and consumer expenditure is increasing. Farmers will need to gain economies of scale to increase their income. Many farmers have realised this and formed informal and formal groups. The informal groups only meet once a year and together they buy inputs, for example. Formal groups have contracts between the members and usually not only buy together but also market together. The formal groups' members are more committed and realise the benefits of a FCB in the long term.

When the producers were asked to identify their key success factors, they stated that it is important for the members to use the same level of technology and ranked discipline and trust as extremely important. The managerial capability of a good manager is instrumental in the success of a FCB. The group must also be willing to take on more risk and expand into new markets. The challenges the producers face were the following: administration and finances, trust, government policy towards agriculture and complying with the requirements that their buyer demands. In addition, access to updated information, traceability of the commodity and marketing of the commodity were seen as obstacles

## ***Part 2:***

### **2.1 The results obtained from interviews with industry and Government working with emerging farmers**

Ortman and King (2007) cite Roets (2004) where he recommended that emerging goat farmers should use co-operatives to market their goats. In addition, as Minot and Hill (2007) point out, emerging farmers take on a huge risk when they purchase inputs individually at high prices and then have no guarantee of high returns on their crops. By collaborating in groups, the farmers can reduce their costs by jointly transporting their goods and purchasing inputs and other supplies, such as stock remedies. Agrawal (2001) and Meinzen-Dick (2002) (as cited in Kaganzi *et al.*, 2008) studied the Nyabyumba United Farmers' Group in Uganda, whose members shared information on their past successes, their interdependence and the positive collective action in the group. The Nyabyumba United Farmers' Group confirms that by collaborating, they have established ways to form linkages to other producers and also their buyer; this has created a market for the group and a beneficial relationship with their buyer. Kaganzi *et al.* (2008) identified situations where the formation of farmer groups can be effective in, for example, enabling farmers to access inputs at a lower cost and being contracted by a buyer who will ensure price continuity and delivery on a continuous basis.

The EFFP (2004) emphasised the importance of FCB's when they found that in Sweden and Denmark FCB output had grown to twice that of their primary agricultural output, while in the United Kingdom, the total FCB output was calculated at 30-35% of the country's gross agricultural output. Comparative figures are not available for South African agriculture, but the consensus amongst industry leaders is that it is below that of the United Kingdom.

During 2003 the EFFP conducted a study in which they asked the farmers in the study group to describe what they saw as collaboration and how important they thought it would be in the future. It was found that although the farmers had previously joined forces to purchase inputs together (almost 60% of the larger farms), they did not consider this to be collaboration. The reason for this could be that many of the farmers had no formal contracts with one another and were still operating as individual entities, combining merely to purchase inputs. Seventy-six percent of the farmers interviewed believed that collaboration would become increasingly important in the future, while only 4% thought it would become less important (EFFP, 2004). In addition, the EFFP (2004) also determined that the market

share of European FCB's in the dairy industry was far greater than their share in the fruit and vegetable, meat, farm-input and grain sectors.

Mrs Jane McPherson from GrainSA assists in the coordinating and establishment of emerging farmers. GrainSA Provides these small scale farmers who are in study groups with mentorships. GrainSA currently have 130 study groups, consisting of six offices, managed by two managers. Additionally there are seventeen permanent employees and twelve additional trainers. The study groups plant various trials, in order to illustrate to farmers the effect of different scenarios on their crops. They also organise farmer's days to which they invite different companies to advise farmers. Additionally, GrainSA identifies farmers with the potential to become commercial farmers; this is done by means of an assessment of their farms. This data is then recorded throughout the year to track the progress of the farmer. This method has proved to be extremely successful as it enables GrainSA to establish whether the farmer is improving and identify areas of improvement.

GrainSA also broadcasts on the African radio stations, with updates on training, crops and markets. The feedback they have received has been very positive and farmers find the broadcasts extremely helpful. The broadcast theme coincides with the theme of their newsletter, so that farmers not only hear it on the radio but can also read about it.

Mrs J. McPherson says that the farmers have different goals they need to attain, which enables them to move through the system and make place for new farmers. The trainers all have more than fifteen years of farming experience and therefore they can assist the farmers with confidence and give a practical solution to their problems. The courses are presented in the mother tongue of the attendees, which makes the courses more participative as they have more confidence to ask questions. The organisation has no hidden agendas, their purpose is to develop emerging farmer in order to link them to the market and have the resources and skills to progress from emerging to commercial farmers.

Some of the obstacles include: Government projects which are not properly aligned; the timelines of the loans prevent farmers of being successful as they only receive their money after planting season, with the result that they are forced to wait until the following year; the high cost of inputs and machinery. These obstacles can be overcome if the emerging farmers are situated close to commercial farmers, as in many cases the commercial farmers will sell or even give their old machinery and equipment to emerging farmers. It is also easier for commercial farmers to act as mentors and fulfil their AgriBEE scores if they know what the needs of emerging farmers are and if they are in close proximity to assist them. The last

obstacle is infrastructure in the rural areas; this makes it extremely difficult for the emerging farmers to get their produce to the market and sell it.

Miss Lesego Sejosengoe is actively busy in training emerging farmers with the use of the Excellence Model. Some of the obstacles identified by Miss Sejosengoe are the following: Farmers are not educated in economics and marketing. With the effect that they do not understand supply and demand in the market. They do not understand what influence cheap imports have, the exchange rate, interest rates, the effect of complements and substitutes and economies of scale. It will be extremely beneficial to these farmers if they understood the basic principles of economics. Secondly, the marketing factor, emerging farmers need to know who their target market is, what their demographics look like and what their preferences are. Finally, it is important to understand how prices are determined, supply chain management and to ensure that the farmers have basic negotiating skills.

A study conducted by Ozowa (1995) identified five information needs of emerging farmers in Nigeria, namely; extension education, agricultural technology, agricultural credit and marketing. These issues are also prevalent in the South African market. This is the reason why they are included in this study, to identify solutions found to similar problems faced by emerging farmers in other countries and adapt it to assist the South African farmers.

- Extension education

High levels of illiteracy can inhibit the producers' use of new technologies and production methods, therefore extension officers should find innovative ways to transfer information to farmers. By training one group, the goal is to empower that group to train other farmers.

- Agricultural technology

New technologies should reduce the work on the farms and enhance production. At the moment, many agribusinesses, like GrainSA, are organizing farmer's days, to convey new information on production technology to the farmers. In most cases, input suppliers and other companies involved in production, attend these farmer's days and share their skills and expertise with the farmers.

- Agricultural credit

In order to reap the benefit of credit granted to emerging farmers, the farmers must have a basic knowledge of interest rates, loanable amounts and the mode of repayment. Like

previously mentioned by Ms Sejosengoe, the farmers lack this knowledge and therefore a need exists for basic courses for emerging farmers.

- Marketing

The farmer requires market information in order to make rational and relevant decisions. Market information services need to collect information at regular intervals and update it regularly, subsequently this information needs to be published or dispersed to farmers. As previously established, training should be provided to emerging farmers regarding the marketing of their product. Some of this marketing should include:

- Information guiding the producer as to what crop he should produce
- Information on current prices
- Forecasting of market trends which can assist farmers with their planning when marketing their product.
- Information on sales timing: This is important, as it will prevent farmers of producing a surplus in the market, which can result in lower commodity prices.
- Information on improved marketing practice and improved harvesting methods
- Information on group marketing, which will enable emerging farmers to have organized sales of their produce.

These factors are very important, not only to small-scale farmers but also to commercial farmers (Ozowa, 1995) as they also struggle with certain inhibiting factors mentioned above. I think it is of utmost importance that Government policy should address these issues.

According to Torgerson & Cobia (1998), it should be noted that FCB's are development tools and should be used to improve the social and economic circumstances of emerging farmers. Every FCB can be utilized differently, depending on their objective, but the farmers will need the assistance of a trustworthy leader, who can provide them with technical assistance and help them to form their vision and provide training to the farmers. Although this leader is essential to the success of the group, the group must still be democratic and the members must be part of the meetings and vital decision-making within the group. The FCB should focus on being self-sustaining in the future and explore new market opportunities. Emerging groups should also communicate with successful ones in order to learn from them. This is where commercial farmers and universities could assist. Commercial farmers have AgriBEE

targets they need to comply with and therefore it is an incentive for them to assist emerging farmers. They can provide technical and practical assistance as well as assistance in the form of machinery, equipment and other inputs.

## 2.2 Case Study

### 2.2.1 Rheebockrant, Humansdorp

Interviewed: Johannes Vermaak

Address: PO Box 194, Humansdorp, 6300

E-mail address: [rosenhof@intekom.co.za](mailto:rosenhof@intekom.co.za)

Telephone: 042 295 1632

Turnover: R20 million

Registered as: Trust

Rheebockrant originated in 2006; the reason for their establishment was to empower their workers and individually this would not have been possible. The group received funds from the Department of Land Affairs and acquired a loan from Nedbank and Humansdorp Co-operative.

Currently the group consists of 86 members, who joined the group voluntarily. Therefore, the members are motivated to be successful. Transparency and honesty is extremely important in the group. What is expected of the members and of management is clearly defined, which contributes to the success of the group. The members are all situated in the same area. They have enough members now and would not allow new members into the group. If a current member decides to leave the group, he must sell his shares to an existing member of the trust.

The obstacles faced by the group: There are very few buyers in the market, which makes the buyer the price maker, as they have a lot of market power. Government can also prevent the group from expanding and being successful. Rheebockrant has waited 2 years for financial assistance from the Government. In addition, commercial banks do not give any incentives to BEE groups, with the result that Rheebockrant waited 5 months for their loan to be approved.

The group has expanded by buying 1000 – 1500 head of cattle this year and they plan to buy another farm where they can implement wind energy in future.

The group is controlled by one manager and two assistant managers. The assistant managers have practical training in dairy farming. The manager also has practical

experience, as he was a dairy farmer previously. The group has a specific schedule for activities because they have a budget and therefore certain actions have to be fitted into a specific time. Their meetings are scheduled to take place once a month. Managers are present and they can invite members from the workers' trust to ensure that the meetings are transparent. Minutes are kept and members can refer back to them if they want to make enquiries regarding certain decisions. The assistant manager assists with the recordkeeping, while the accountant is responsible for the financials.

The group buys assets on a hire-to-purchase contract while the fixed assets belong to the Dairy Trust. The terms and conditions are discussed at a meeting where the group is present. The contract between the members and the organisation is not subject to the quantity they supply. There are no penalties in the business and any problems could be discussed during meetings.

The milk buyer tests the quality of the milk on a daily basis. No marketing is done by the buyer, but the group does receive market information from the buyer. The Milk Producers Organisation provides the farmers with market information.

### **2.2.2 Kleinbosch Dairy Trust**

Interviewed: Willie du Plessis

Address: PO Box 247, Humansdorp, 6300

E-mail address: [kromhout@intekom.co.za](mailto:kromhout@intekom.co.za)

Telephone: 082 457 1779

Turnover: R18 million

Registered as: Trust

The group started in 2002 by renting land and decided to get involved in a project to enable them to gain maximum use from the land and get emerging farmers and other disadvantaged individuals involved. The capital was supplied by mr Du Plessis, who also took responsibility for the loans - this money was later paid back by the trust. The trust has shares in the BEE enterprise. The group is disciplined and has strict regulations the

members have to comply with. The objective of the group is not to make money but to transfer agricultural and managerial skills and knowledge to the beneficiaries.

The most important obstacle faced by the group, is the power of the buyer. There are only three or four major buyers in the area and the farmers have to compete against one another for the best price.

In future, the group plans to expand horizontally and increase the size of the farm. The group is not keen on exporting the product because they must then go into processing. Willie du Plessis has an agreement with the trust that he takes full responsibility for the organisation, on condition that he appoints the manager and the other senior managers. Six trust meetings are held per year, minutes are kept and the day-to-day financial recordkeeping is done by the group themselves and on a monthly basis it is sent to an accountant. When a member wants to leave the group, his shares are divided and sold to other members.

Willie's brother, Johan du Plessis, is the CEO of the organisation and he reports to the trust consisting out of Willie du Plessis, Johan du Plessis, two BEE representatives and one independent, retired agricultural economist.

The members are spread throughout the country, some from as far as Johannesburg. The buyer tests the quality of the milk and Mr Du Plessis ensures that the members comply with their delivery requirements. The contract clearly stipulates the price, quality and volume required from the producers. Contracts are fixed for 19 months. The group do not have a brand name, nor do they do any marketing in association with their buyer.

## **2.3 Summary part 2**

Various studies done, both internationally and locally, have motivated collaboration amongst farmers to establish linkages within the supply chain, decrease costs, share skills and expertise and market in larger quantities. The EFP (2004) emphasised the importance of FCB's when they found that in Sweden and Denmark FCB output had grown to twice that of their primary agricultural output, while in the United Kingdom, the total FCB output was calculated at 30-35% of the country's gross agricultural output. Comparative figures are not available for South African agriculture, but the consensus amongst industry leaders is that it is below that of the United Kingdom.

Mrs Jane McPherson from GrainSA assists in the coordinating and establishment of emerging farmers. GrainSA provides these small scale farmers who are in study groups with mentorships. GrainSA identifies farmers with the potential of becoming commercial farmers

by means of an assessment. If they meet the criteria their data is saved and recorded over time to track their progress. GrainSA also broadcasts on the African radio stations, with updates on training, crops and markets. The feedback they have received has been very positive and farmers find the broadcasts extremely helpful. The broadcast theme coincides with the theme of their newsletter, so that farmers not only hear it on the radio but can also read about it.

Some of the obstacles identified from the prospective of the emerging farmers include:

- That the projects were not properly aligned to meet the objectives
- The loans are paid out after planting season, which force the farmers to wait another year
- High costs of machinery
- Infrastructure which leads to increase expenses and loss of valuable time

These obstacles can be overcome if the emerging farmers are situated close to commercial farmers, as in many cases the commercial farmers will sell or even give their old machinery and equipment to emerging farmers. It is also easier for commercial farmers to act as mentors and fulfil their AgriBEE scores if they know what the needs of emerging farmers are and if they are in close proximity to assist them. The last obstacle is infrastructure in the rural areas; this makes it extremely difficult for the emerging farmers to get their produce to the market and sell it.

Miss Sejosengoe, who is actively busy with the training of emerging farmers, says that the lack of training in marketing and economics is evident. The result is that the producers don't understand what supply and demand is and how prices are established. Basic training in these areas is needed.

In conclusion FCBs can be a valuable tool to assist emerging farmers in improving their social and economic circumstances. Critical to the success of these FCBs will be a knowledgeable and trustworthy manager or leader.

### ***Part 3:***

#### **3.1 Conclusion and recommendations – Commercial farmers**

Commercial producers are struggling to compete in a market where retailers and processors are price setters. Producers must understand the supply chain and see themselves as important links in this chain and not as units functioning separately. When this mind-shift is

made, they can understand that in order to compete against the other links in the chain, they cannot compete as individuals. They must compete as a unit and become bigger, whilst still being in control of the management and production of their commodity. Farmer-controlled businesses give producers control over their product and economies of scale to increase their market power. As some have predicted, in the near future competition will not be found in the form of individual producers competing against one another for a market share, but competition will be in the form of supply chains competing for their share of consumers' food expenditure.

The results of the interviews showed that commercial farmers find that collaborating has improved their position in the market and have decreased their transaction costs. Collaboration cannot be forced and it takes time for the group to form a culture with which they are comfortable. Trust and discipline in the group are extremely important to ensure the success of the group.

### **3.2 Conclusion and recommendations – Emerging farmers**

The following recommendations can be made:

#### **Potential members**

Not every emerging farmer will feel that he wants to be part of a FCB. Farmers with the following characteristics will be ideal members:

- Ability to function within a group
- Entrepreneurial abilities
- Determined
- Hard-working
- Loyal and trustworthy
- Not afraid to take on risk

#### **Mentorship**

A mentor or manager is important to assist these producers with technical and practical problems; they should provide guidance to the farmers and assist them to formulate a vision and mission that is achievable for the group. The success a good manager can achieve, is

evident in the Rheebookrant and Kleinbosch examples. These managers ensured the discipline within the group, assisted the farmers to obtain finances and provided them with technical and managerial guidance. Another important function of these mentors/managers is that they assist in formulating the business plan of the group, as well as negotiating contracts and delivery requirements. They train the emerging farmers to become managers and take over the management when the contracts of the emerging farmers should expire.

## **Training**

Emerging farmers need basic training not only in farming, but also in marketing, entrepreneurship and economics. These skills will assist the farmers to understand how prices are formed, how to market their products, what market will be the most suitable and lastly, how to negotiate prices and acquire management skills. Universities and agribusinesses can collaborate with Government projects to train these farmers. Government is already conducting training courses but is struggling, due to a lack of capacity, to train every farmer granted land in every province. Therefore, universities, as part of their community service, can act as “extension officers” and assist these farmers as part of a module in certain B..Agric courses. This is implemented with huge success at international universities, where researchers can conduct tests and provide training, amongst many other functions, to farmers in the area.

## **3.3 Recommendations to Government**

### **Government should focus on the following;**

Proper alignment of policies and initiatives from the development to implementation phase

Proper training of extension officers

Linking with industry and universities in terms of research, training and mentorships

Realising the importance of alliances, not only between emerging farmers themselves, but also between emerging farmers and industry/private institutions and commercial farmers; thus creating an environment that promotes these types of partnerships.

## Factors critical to the success of FCB's

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**Identify an opportunity in the market**

**Agree on how you can take advantage of this opportunity**

**Invite producers who should be included in this opportunity**

**Agree on a business form in which you as producers can align yourself**

**Agree on how this business should be financed**

**Agree on a mission and vision of the business**

**Will there be a contract between the members and what should this contract contain?**

**Will there be a contract between the group and the buyer?**

**There should be trust and loyalty within the group and the members should believe in the vision of the group**

**The members should have the same level of technology**

**The group should have regular meetings, attended by the shareholders and members; minutes should be kept and distributed to the rest of the group.**

**To simplify logistics and monitoring policies, the groups should be located in the same area, especially in the starting phase**

**Start small, not a lot of capital is required to start the group. As the group grows, a levy can be put aside for investments in the group (buildings, trucks for transport)**

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### 3.4 Summary Part 3

This part summarizes the conclusions and recommendations derived from the study. From the side of the commercial farmers; they are struggling to compete individually against retailers and processors who are price setters. They need to increase their marketing power and gain economies of scale and to do that they will need to collaborate. The interviews with

producers involved in FCB's proved that collaboration have improved their position within the market and have decreased their transaction costs. Trust and discipline within a group is critical to their success.

In the case of emerging farmers the study concluded that not every farmer emerging or commercial would join a FCB, there are some characteristics that an ideal member should have. A FCB member should be determined, hard-working, not afraid to take on risk and loyal. Entrepreneurial ability is also vital. Mentorships are important and farmers should receive the proper training and as previously mentioned, it is to the advantage of the trainees if the training is presented in their first language.

## ***Part 4: Case Studies***

### **4.1 Midlands Milk**

Name of group: Midlands Milk
Manager: Alan Penderis
Area situated: Ixopo
E-mail: info@midlandsmilk.co.za

One of the Farmer Controlled Businesses that I have visited was Midlands Milk. Midlands Milk is managed by mr Allan Penderis of Tammac Consultants CC. It is due to Midlands Milk's mind-set that they should make a success; they see their milk buyer as their customer and although they respect their customer, they do not give the control and decisions over to him. The seller should provide the buyer with a product that is different from that of their competitors, so as to attract buyers and keep them as clients in the long run. Traditionally, the producer has been a price taker in terms of both his inputs and his outputs. Midlands Milk takes the needs of the market and its customers into account and strives not to be pure price takers when it comes to selling its product.

“Midlands Milk was started in 2006 by a group of dairy farmers in the Midlands of Natal, led by mr René Stubbs. The guiding principle of Midlands Milk (Pty) Ltd is “to ensure a continuous and sustainable supply of high quality milk, ensuring that the respective needs of both processing and retailing industries are met, whilst ensuring an equitable and reasonable share of economic benefit to all the participants in the value chain”

They currently have approximately 30 members; producing approximately 80 million litres of milk per annum or about 4% of South Africa's milk. The members are all situated in relative close proximity between Howick and Mooi River, making transport relatively efficient. The management of Midlands Milk consists of 5 directors and a manager. They strive to provide their buyers with A-grade milk. Testing is done by Lacto Lab (Pty) Ltd, in Irene. Midlands Milk members take their own milk samples for testing on a weekly basis. This is just another way in which producers take control of their product. Samples are delivered to a number of “sub-depots” from where they are collected, packaged and dispatched to the laboratory. Results of the tests are e-mailed to the farmers and posted on the Midlands Milk web site,

normally by the following afternoon. By promptly reporting the results, the producer is more likely to be in a position to take corrective action if necessary.

Since a relatively stable supply of milk is essential to ensure market and therefore price stability, Midlands Milk has a quota system in place. Producers earn quota during the traditionally low-production months from February to May each year. The quota is then applied between July and the following January. Quotas cannot be purchased, only produced.

Each farmer has his own milk receipt book, which he uses to record milk sales. Milk producers also invoice the buyers directly. On the fifteenth of every month the buyer pays the farmer directly. Prices are negotiated every three months. Midlands Milk has developed the Base Price Indicator Model, an aid in price negotiations. This is available on their website. If the farmers have surplus milk, the company will help the farmers to sell the surplus or the farmer can negotiate with their buyers to buy the surplus. Midlands Milk therefore also require their farmers to give production forecasts every three months, this is done on an Excel template, provided by Midlands Milk and once again, available from their web site.

## **4.2 Laitco Dairies**

Name of group: Laitco Dairies (Pty Ltd)

Manager: Mike van den Berg

Situated: Ottosdal

Group started: June 2007

The group consists of 5 directors and 2 staff members responsible for the administration of the group. The group started out with 6 farmers delivering 13,000 litres of milk every 2 days, now, three years later, there are 50 members delivering 75,000 litres of milk daily. A key success factor of the group is that all the directors have business backgrounds: mr Van den Berg is a MBA graduate, indicating that the group is well-managed, with strict business ethics. They are a self-managed group and believe that they need to be independent from external management. Therefore, the members are all farmers who market their milk through

the group. One of the requirements is that their farms should be located along the same transport route to simplify logistics and decrease transport costs. The group is also psychologically strong and believes in the vision of the group. The group meets once a month to discuss urgent matters and each member has 1 share in the company according to the signed contract they have with the company.

The group markets all the milk the farmers produce and do not give a producer a penalty when producing surpluses, however, the producers do get penalised if the quality of their milk is bad. Their price is determined every three months and may vary according to market conditions. The price that the producer receives also differs according to the volumes they market through the group. One of the members is a veterinarian and therefore he manages the animal health and Laitco Dairies have invested in laboratories to do their own quality tests. These steps are crucial in increasing farmers' market power because they take away the power from the buyer and give it to the producer. A producer is notified by means of a quality report if something should be wrong with the quality of his milk and, as one of the directors have experience in quality control, he will therefore assist the producer to improve the standard of his milk. Sometimes it takes only a small correction and therefore it is useful that one director is a veterinarian and another has experience in quality control.

The members pay a levy of 5 cents per litre to the group, which is kept in a separate bank account. These levies enabled the group to buy their own tankers, which assist them with logistical issues; the group also have their own silos and the study group makes regular visits to other successful groups or producers to share skills and experience and improve their dairies. In future, the group would like to buy a silage cutter and acquire a group buying office, providing one central point from where the marketing occurs and then, hopefully not lastly, they are investigating the possibility of a corporate farm in which every producer (member) will have a share and therefore will share in the profits of the farm.

The group admits that their success factors are due to a good business model that works, they follow a well-planned strategy, they pride themselves on delivering high-quality milk and the area in which they operate is not too big. Lastly and very importantly, they are "like-minded" and have a strong culture within the group, which makes it easy to trust each other and work together as a group.

### 4.3 Humansdorp Co-operative

Name of group: Humansdorp Co-operative

Manager: Henk Agenbach

Situated: Humansdorp

E-mail address: [henk@humkoop.co.za](mailto:henk@humkoop.co.za)

Tel: 042 295 1082

The Humansdorp Co-operative was established in 1944. Even in those days farmers realised they were price takers and that they should stand together to be sustainable as farmers. The group is extremely disciplined, with strict requirements they need to comply with. The 900 members must pay a levy on products sold, which is used to finance the co-operative.

They pride themselves on the fact that their members know how important the co-operative is to their existence and that transparency within the co-op is vital. Their main objective is to serve the members' needs and not to make a profit, which is unique, since there are very few traditional co-operatives left in SA.

The co-operative finds that a lot of competition comes from bigger, more powerful businesses that see the co-op as a threat. These big businesses do everything in their power to break up the co-op to increase their market share within the area. To avoid stagnation while their competitors are growing, the co-operative has added several branches and is focused on increasing the turnover to realise bigger profits. Already branches have been established in Golden Valley, Cookhouse, Kareedouw, Uitenhage and Humansdorp.

The group has indicated that a successful manager, with a variety of skills, years of expertise and important contacts within the industry, has played a major role in their success. Their board of directors meet regularly and minutes are always kept of all the decisions taken. The assets of the co-operative belong to the co-operative, as stated by law, until the co-operative should cease to exist, when the assets are to be sold and the money paid out to the members.

The contract between the members and the co-operative requires the producer to complete an application form which would be considered by the board of directors before the producer can become a member. The minimum requirement is that the farmer must actively produce a

commodity. When members wish to cancel their membership, they must give a reason for wanting to do that; the cancelling of membership is only considered by the board once a year. The group belongs to a benchmarking club, managed by PriceWaterhouse Coopers, which is highly valued by them. They market themselves under a brand name, Humansdorp Co-operative, which is one of the reasons why they have very high quality standards.

The co-operative have a marketing division that do all their marketing, they also collect market information on new market trends, etc., from their members

#### **4.4 Central Minnesota Buckwheat Growers**

They are a co-operative consisting of 16 emerging farmers who collectively market their product and so doing, get higher prices for their produce.

Due to the fact that grain buyers and processors prefer to contract only when large-scale supplies can be guaranteed, small-scale growers struggle to sign contracts directly to buyers and have to sell their produce at much lower prices to big local producers who can guarantee large supplies.

At first they only focused on informal networking which enabled pooled grain sales. As they expanded they decided, after consulting with experts and careful planning, to form a co-operative as this will enable them to pool investments, sign contracts, file taxes, and purchase value adding equipment for their produce. The forming of a co-operative would also have given them more creditability with brokers and lenders, which was very important, since they would need the necessary loans to finance storage, transportation and equipment.

The co-operative was thus formed and within 1 year they purchased value adding equipment and hired a co-operative member to run this equipment, hired two 1500-bushel storage bins ( $\pm 40,8$  ton per bin), added two more members and shipped their first semi-load of buckwheat to a local flour processing plant for a premium above traditional market prices.

The co-operative charge members a one-time membership fee, a per-bushel (27.216 kg) fee for cleaning their grain and a storage fee to cover costs. Additional income is generated by cleaning grain for non-members. Members' produce is stored until they have enough to fill one semi-truck load, then they vote on when and at what price to sell it. Growers thus receive a check from the Co-operative after the grain has been sold and delivered.

Collective marketing of their produce thus enabled these farmers to sell their produce at higher prices, add value to their produce, expand co-operative equity and share market risks in the process. It also provided a platform for the circulation of marketing and production knowledge to increase profits, improve soil quality and conserve resources. They also got the opportunity to expand and have big plans for the future as they will be able to infiltrate bigger markets in Japan as they expand and produce higher quality produce.

**Extracted from:**

King, R. & DiGiacomo, G. Collaborative marketing – A Roadmap and Resource Guide for Farmers p 38.

#### **4.5 CROPP Co-operative**

This co-operative was established by 35 farmers to promote sales of their organic produce and to secure stable prices for its members. It is known as the Coulee Region Organic Produce Pool (CROPP) and is now the largest farmer-owned organic co-operative in North America. They ship organic dairy, beef, poultry, vegetable, pork and egg products across the country under their “Organic Valley” label.

The primary goal of the co-operative was to establish a stable target price for its members. A target price is a price goal established to pay the producers their cost of production plus a profit. This will enable members/farmers to plan around a price, which mean that they can now make sound production and marketing decisions. The other goal was to create a marketing arm that could develop sales, arrange processing and distribute products. With these goals firmly in mind, a small committee was organized to explore consumer demand for organic vegetables and milk, processing feasibility, financing options and distribution alternatives. They found a very enthusiastic market out in the field, but they were reluctant to sign purchase contracts before the products were actually available. Since the farmers had nothing to lose they decided to move ahead with the co-operative.

They identified two finance related challenges: cash-flow constraints and the need for plant capacity to process and package dairy products. The cash-flow problem was addressed by requiring new members to contribute the equivalent of one month’s worth of production in the form of a certificate of deposit at a local bank. This deposit is then pledged as an equity guarantee against loans to finance cash-flow. To address the processing and packaging needs, a lot of time was and is devoted to development of relationships with local

processors. They now work with 30 different processors to process and package dairy, meat and egg products.

After forming the co-operative, they recruited new members through newspaper ads and town meetings. Within one year they hired a marketing firm to develop and design a label for their dairy products. They also purchased an abandoned creamery to serve as an office for its six employees and to serve as warehouse for its products. Collaborative marketing allow members to focus on farming rather than sales, storage and transport. Through the cooperation members also gain access to technical assistance and scarce resources.

After 10 years of collaboration, market development, member recruitment and equity building, CROPP Co-operative is booming, but more importantly, it has achieved its original price target goals. Over the life of the co-operative, dairy members have been paid well above average for their milk. Their price was also more stable than conventional prices. It is thus clear that collaborative marketing of produce through cooperation helped this business to flourish and grow so that it is today the largest farmer-owned organic co-operative In North America.

**Extracted from:**

King, R. & DiGiacomo, G. Collaborative marketing – A Roadmap and Resource Guide for Farmers p 42.

## **4.5 Agricultural Co-operative**

Agricultural co-operatives, as a form of farmer controlled businesses, are established to produce a variety of agricultural products and services to the local markets. Members can benefit by marketing their project as a group, therefore securing a higher and more consistent price. Members can also buy inputs as a group, which allows them to purchase their inputs at a lower price. The co-operative thus strives to establish itself as a group of individuals which meet their mutual economic and social needs in such a way that they gain more in economic terms than they would have as individuals outside the co-operative.

The membership to the co-operative is voluntary and open to any person that wishes to gain something from the group. To become a member of the co-operative, a farmer should usually pay a small monthly or yearly fee, or purchase shares. Membership provides voting rights to the individual, especially since the co-operative is owned by the members. A board

of directors is elected. Directors stand for elections or management can suggest certain individuals. The board of directors then vote for the chairperson and vice-chairperson. Within the co-operative there is the general manager who is appointed by the board of directors, and also the managers in control of the different sectors within the co-operative, such as marketing. The General Manager is usually in control of the administrative functioning and is responsible for the employees. General daily functioning of a co-operative is handled by employees who get appointed by the directors and management.

Many problems are associated with co-operatives. With the Boshatshe co-operative which is located in the Vaal Triangle for example, the biggest problem inhibiting the growth and success of the co-operative is related to poor management and the associated failure to market its products. The co-operative marketed its products in numerous surrounding areas and the co-operative produced a surplus. This initial success was however, hindered when a new manager was appointed who did not manage the co-operative very well. Management within a co-operative, especially related to marketing, is absolutely vital to the success of the co-operative. The free-rider problem is also something that hinders the success of the co-operative as all members can benefit from the investment made by another member, without contributing himself. This is the main elements that led to the downfall of the Boshatshe co-operative.

Lessons that can be taken from this are that success of a co-operative can be achieved through strong and efficient management, especially with the marketing of the products or services of the co-operative. Tradable and well-defined property rights are also key in avoiding free-rider problems which causes a disincentive to invest in the co-operative.

**Extracted from:**

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## Appendix A

<b>Name:</b>
<b>Surname:</b>
<b>Address:</b>
<b>E-mail address:</b>
<b>Telephone number:</b>
<b>Name of business/organisation:</b>
<b>Number of members:</b>
<b>Turnover of the group:</b>
<b>Registered as what kind of entity:</b>

### Organisation

- ∞ When did the organisation originate?
- ∞ Why did you establish the organisation?
- ∞ Would you say that your group is a “voluntary group” or a “disciplined group”?
- ∞ How was the organisation financed?
- ∞ How many members does the organisation have?
- ∞ In your opinion, what differentiates your group from other groups/individual farmers in the industry?
- ∞ Obstacles/issues that the group have (Government, competitors, power of the buyer)
- ∞ Future outlook of the group (sustainability, expansion, new markets, value adding)
- ∞ Does the group have any AgriBEE initiatives or procedures in place?

### Management

- ∞ Who manages everything that happens in the organisation?
- ∞ Management structure of the business?
- ∞ Background and skills of the manager?
- ∞ Who appointed him? Terms of the contract with the manager?
- ∞ Do you have a time schedule for activities within the organisation?
- ∞ Do you have regular meetings?
- ∞ Do you keep minutes?
- ∞ Penalties and who enforces them?
- ∞ Who is responsible for the recordkeeping of the group?

## **Assets**

- ∞ Do you own the assets or do you rent it?
- ∞ Do you buy assets as a group?
- ∞ On what terms are these assets bought?
- ∞ Do you have any terms in the event of the group wanting to sell these assets?
- ∞ Do you have a schedule stipulating the usage of the assets?

## **Contract between the members and the organisation:**

- ∞ Volume/quantity :
- ∞ Price:
- ∞ Any Penalisation:
- ∞ How wide-spread are the members of the organization located?
- ∞ What is the procedure for new members joining the group?
- ∞ What is the procedure for current members cancelling their membership?
- ∞ Do individual members share their financial statements with the group?
- ∞ Do you as a group do any benchmarking between one another?
- ∞ Do you as a group do any benchmarking against other groups?

## **Quality:**

- ∞ Do you have any quality specifications to comply with?
- ∞ Who ensures that these requirements are met?
- ∞ Do you market your product as a group?
- ∞ Do you market under a brand name?

## **Contract between the organisation and the buyer**

### **Marketing**

- ∞ Does your buyer do the marketing of your product?
- ∞ Does the marketing occur in co-operation with the buyer?
- ∞ Does the buyer involve you in the marketing of the product?
- ∞ Do you obtain any market information from your buyer? (e.g.. consumer trends)

**Terms stipulated in the contract between the group and buyer.**

**Short description;**

Volume the group has to supply	
Price	
Quality	
Is the contract flexible?	
Who ensures that the contract requirements are met?	
Does the buyer regularly visit the group?	
For what period is the contract valid?	
Is the contract flexible in terms of delivery/payment?	

**Exchange of information between the group and buyer**

∞ Do you do market research in association with your buyer?

∞ Do you do market research as a group?

Consumer preferences	
Packaging	
Quality	
Price forecasting	
Communication between buyer and group	

**Key success factors:**

Rank in importance from 5 (very important) to 1 (not important)

Level of technology/expertise of the members	
Individual size of the individuals	
Production technology	
Financing/money	
Discipline within the group	
Trust within the group	
Sustainability of the group	
Management and supervision	
Policies/Laws	
Tax implications	
Limitations in the marketing	
Financial Policies	