

Development of Agricultural Marketing

—The Case of Thailand—

Sang Lak Oh

«Contents»

- I. Objectives and Policies**
- II. General Features of Agricultural Produce Marketing**
- III. Marketing System**
 - 1. Assembly Stage—Producing Areas
 - 2. Intermediary Stage—Central Wholesale Markets and etc.
 - 3. Dispersing Stage—Retailing in Consuming Areas
- IV. Physical Distribution—Storage, Packaging, Processing and Transportation, etc.**
- V. Marketing Facilitating Functions**
 - 1. Standardization and Grading
 - 2. Marketing Information
 - 3. Marketing Finance
 - 4. Marketing Education and Training
 - 5. Price
 - 6. Other Facilitating Functions

I. Objectives and Policies

The objective of the plan is to achieve stabilized balanced growth of the national economy by improving the agricultural marketing system in such a way that it will contribute to the equilibrium of demand and supply, and the stabilization of price, and thus the raise of farmers' income through the minimization of marketing cost and the enhancement of marketing efficiency and productivity.

The general policies are:

(1) Promotion of effective competition through shortening marketing channels and improving marketing functions in the producing areas.

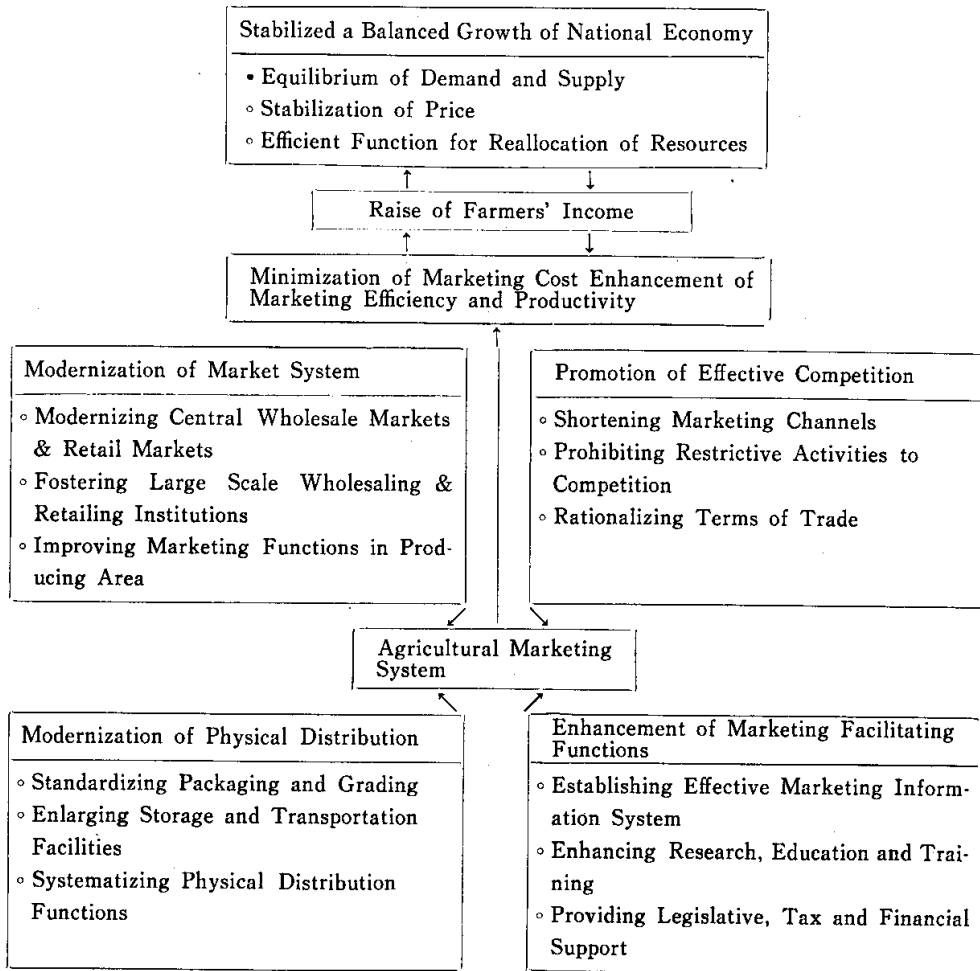
Author: Professor, School of Management, Seoul National University

(2) Modernization of agricultural marketing system to facilitate the orderly marketing transactions through fostering large scale wholesaling and retailing institutions and markets for agricultural produce.

(3) Modernization of physical distribution functions through standardizing packaging and grading, and also expanding storage and transportation facilities.

(4) Enhancement of marketing facilitating functions by establishing efficient agricultural marketing information system, research and training institutions, and providing legislative, tax, and financial support.

Fig. 1. A Model for Improvement of the National Agricultural Marketing System



II. General Features of Agricultural Produce Marketing

(1) Unstableness of Production and Supply

The yearly productions of agricultural products are seriously dependent on:

1) The price level of the previous year, which is affecting farmer's decisions on the productions and

2) Weather conditions

(2) Low price elasticity of demand and supply, and difficulties for balancing demand and supply:

1) Supplies (or production) are flooded during short harvest season.

2) Demands are evenly occurred throughout the year.

(3) Relatively bad marketing conditions as compared with nonagricultural product marketing:

1) Flooded supplies of products during the harvest season request for a large size of storage facilities.

2) Small scale of marketed volume requests for many marketing steps.

3) The commercial values of products are lowered due to the lack of grading, standardization, and packaging.

(4) Weakness of Farmer's Bargaining Power

Due to difficulties of small farmers for taking parts in the marketing activities.

1) Individualistic decision on production by small farmers.

2) Small size of farm and small scale of operation in marketing process.

Hence, generalization of support and protection in the agricultural marketing sector by the government levels.

III. Marketing System

1. Assembly Stage—Producing Areas

Problems:

- (1) Non-existence of growers' market.
- (2) Most farms are small (between seven and ten acres) and represent scattered producing units. The farmers must accept the middlemen's terms, or otherwise their bargaining power is very weak.
- (3) Most assemblers (or traders) also perform money lenders' function and extend credit to the farmers not only for their farming but also for their living expenses.
- (4) The price of rice is always low after harvest but farmers cannot afford to wait for a better price.
- (5) Small market share of the agricultural cooperative channels. It's market share is not more than 5%.
- (6) In producing area, cooperative shipment or farmers' voluntary collective shipment of agricultural produce to the wholesale market is scarcely seen.

Improvement Program:

(1) Farmers should have more selling outlets for their products. To this end, establishment of periodic markets throughout the country is recommended.

The rural periodic market should be established by the administrative heads of municipalities, such as Nakorn, Muang, or Tambon, where exist comparatively dense population and geographically convenient location, when they deem it necessary to open it.

From the consumer's viewpoint, the periodicity of markets amounts to a device for reducing the distance he must travel to obtain the required goods and services.

The periodic market in the long run will be transformed into permanent market such as shopping street as the national economy progresses.

(2) The enactment of the "Market Act" is necessary for the establishment of the periodic markets and for gradual improvement of permanent market (everyday market).

(3) Inducement of collective shipment groups of agricultural cooperatives and Farmers' Associations (or farmers volunteer association on village basis),

establishing a direct linkage with central wholesale market should be encouraged. These activities of farmers' primary cooperatives and Farmers' Associations will strengthen farmers' bargaining power not only at the assembly markets but in the central wholesale markets, formulating strong countervailing power against middlemen.

(4) The farming group should be "organized and work together for" joint selling through the cooperatives or farmers associations and for the contract farming with the large scale industrial users or institutional buyers, and play an important role in improvement of marketing at the farm level. The farming group is organized by the marketing oriented growers specialized in a particular species of agricultural crop produced in a particular area.

(5) The assembly (or buying) centers of large scale retailers should be established in the producing areas to form direct linkage system between individual farmer or farmers' groups and the large scale retailers such as supermarkets and department stores (eventually, chain headquarters when chain store systems are activated in this country).

2. Intermediary Stage—Central Wholesale Markets and etc.

Problems:

(1) Non-existence of modern wholesale markets in the real sense.

(2) Kamnan Song's Paddy wholesale Market at Phayuha Khiri is the first successful case which would be strongly recommended to take up as a model paddy wholesale market in this country for the time being.

However, it is still rudimentary one comprised of crude wooden building for office cum residence, open-wall shelters used as godown, and rugged, open space for auction which is not paved and so very dusty when trucks are in and out.

(3) Specialization between wholesaling and retailing is not yet common. Generally, fruits and vegetables markets and upland food crop markets are of combination of wholesaling and retailing activities.

(4) Although there is Public Sanitary Act, controlling the sanitation cleanliness in the food wholesale markets is not adequate.

(5) Most public markets are privately owned. Their main objective for operating markets is a profit rather than public service facility. Therefore managers of the market do not try to supply adequate marketing facilities and to keep market clean.

(6) The wholesale food markets are mostly located in the old part of cities, and the traffic congestion is a major problem. What seriously hinder future development is the lack of market space to expand the wholesale markets at the present sites.

(7) High Service Charges

Agents in the fish wholesale markets may exercise some monopoly control over fishermen and fish retailers. The agents service charge is fixed at 5% of the selling price, whatever the fish price is, either lower or higher than the costs of production.

Improvement Program:

(1) Bangkok Central Wholesale Market for white rice and food grains, fruits and vegetables, livestock, etc., which will perform the functions of price formation, demand-supply adjustment and price leadership in the marketing throughout the country should be established in the outskirts of Bangkok City by the City Government. The price formed in this market by way of auction will be disseminated through marketing information network and functioned as a guideline for all echelons from farmers to consumers. This market should have all the modernized installations and facilities.

(2) Three central wholesale markets for paddy should be established as pilot projects of the government. These markets will be a kind of improved form of Kamnan Song's Paddy Wholesale Market, and established by the municipal government and operated by the private wholesale company.

(3) Four central wholesale markets for cash crops including fruits and vegetables and one for marine products should be established in the strategic

points of Bangkok City along the suburban circuit highways as a demonstration project of the government.

(4) The “trading floor”, which is currently under preparation for establishment the Department of Internal Trade, Ministry of Commerce, should be set up to help farmers to be able to sell their agricultural products at a better price and to keep their price level stabilized.

(5) Government should enact the Central Wholesale Market Act and the details of the Act should be prescribed in the Cabinet Decree. Then, in accordance with the Act and the Cabinet Decree, Ministry of Commerce Ordinance are stipulated and the Minister’s Orders are issued.

(6) Agricultural Cooperative Wholesales Marketing Center should be established in Bangkok as a pilot project of Agricultural Cooperative Federation of Thailand, Ltd. (ACFT). This center will serve as wholesale market for the rice and other cash crops produced by the 810 primary cooperatives, and functions as a countervailing power against the central wholesale markets operated by the merchant wholesale companies. This kind of activities of agricultural cooperatives should gradually be expanded to the small-medities and producing areas as agricultural cooperatives grow more and more by the government support.

(7) The market facilities and operation functions of existing wholesale markets should be improved by means of raising operation funds for inducement of their healthy operations and expanding the number of institutional buying participants for the auction to promote fair competition.

3. Dispersing Stage—Retailing in Consuming Areas

Problems:

(1) Most retail markets are so archaic and undersized. They are incapable of coping with the changing circumstances. Market services such as parking lots, storages, containers, sorting facilities, washing facilities, space to display

or store commodities, space entrance to markets, garbage removal facilities, wash rooms and toilets and other were not considered by market planners.

(2) Public market locations are not well planned. The largest population group shops at the public fresh food markets close to their houses. It seems that no careful official considerations is made so as to meet the most suitable location for the establishment of public fresh food retail market.

(3) Poor sanitation and cleanliness—Sanitation Law is not effectively enforced. The structure, design and layout of market are simply made as low cost as possible. Therefore, the owners of these markets are not careful to keep spaces clean and sanitary. Generally it is found that there are dirty market spaces and sales premises, especially, in the rainy period. Sometimes, premises of the retailers are not only food.

(4) Inadequate marketing facilities

The qualities of food commodities are low and their prices are high. It is difficult to access to market because of dense traffic. The farm products are so perishable that the farmers have to sell them immediately after harvest. Therefore lower cost storage facilities are necessary for farmer or retail stores.

(5) Poor food quality and high food waste

Although there is an act concerning food standardization, grading foods is dependent on buyer's experience and seller's experience and eye estimates. Most food commodities are bought and sold without grading. This creates problems of drainage, high cost of garbage collection and high cost of marketing.

(6) Non-uniform weights and damages

Retailers do not use weighing scale in selling many food commodities to the consumers the Weights and Measure Ordinance. Commodity may be mispriced because of scale inaccuracies or malweighing practices by retailers.

(7) Modern food retailing institutions like supermarkets and food specialty stores are in fledgeling stage. Large food chain and franchise chain stores are not realized.

(8) Management of food retailing institutions is poor. The majority of food

retailing stores are family own type and impossible to apply modern mix of management.

(9) Excessive marketing margin for the petty retailers' daily subsistence. The quite dependency of the retailers' livelihood on the small store's income causes the expansion of the margin.

(10) Consumer Cooperatives have been established since 1952, but their food retailings have been developed just in recent years, especially, in the retailing fruits and vegetables.

Improvement Program:

(1) Inducement of more large food retailing institutions such as independent supermarkets and food chain stores in urban areas to reduce marketing margin through direct linkage—direct purchasing and contract farming with the farmers or farming groups in producing areas, and this will give an impact or stimulus upon the traditional retailing institutions in awakening for their modernization.

(2) Government should support to establish voluntary chains. These chain headquarters will establish the assembly centers for grains and vegetables in producing areas which will serve as direct access to farmers, thus, farmers can afford more income (or margin) through direct marketing.

(3) Amelioration and modernization of traditional food retailing stores and food retailing public markets, that is, permanent markets, through legislating "Market Act". This will help to lead to the gradual improvement of retailing institutions by way of differentiation (or division) of wholesaling functions and retailing functions, and separation of market place and residence.

(4) The program for rearrangement of the retailing system and relocation of public fresh food markets should be established and implemented.

(5) Without a considerable operation of inventory in consuming areas, it is difficult to keep prices stabilized since the difference between consumer market needs and local producer deliveries always exists. In this view, farmers cooperatives should be involved with storing business with sufficient storage facilities

for a better price and effective marketing for farm products.

(6) Consumer Cooperative should more actively engage in selling agricultural products under the Government support.

IV. Physical Distribution—Storage, Packaging, Processing and Transportation, etc.

Problems:

(1) Insufficient storage and packaging facilities. Farmers have no access, physically or financially, to storage facilities, and also are reluctant to store crops because of lack of market information, and that makes competitiveness of farmers worse. Lack of storage in the producing area has caused the flooded shipment in the harvest season that forces price down unfavorably to the farmers.

(2) Packaging problems of agricultural produce under the government regulated standard, which will improve their marketability have been neglected by both the individual farmers and agricultural cooperatives.

(3) The 73% (18,434 mills) of total rice mills (25,292 as of 1980) are small scale mills (milling capacity: 1—5 ton a day) and obsolete that cause the milling rate drop as low as 60%, whereas Japan and Korea's have more than 75%.

(4) Diverse varieties of fruits and vegetables are consumed within ripening seasons without processing or storing due to the lack of technology, facilities and capitals for it.

(5) Manual loading and unloading works and lack of cold storage facilities and freight trains or vehicles equipped with cold storage.

Improvement Program:

(1) Expansion of storage facilities in producing areas, central wholesale markets, and urban consuming areas is necessary for the stabilization of prices. The Government should support for the construction of storages of primary

cooperatives in producing areas with free or low interest loans under the specific construction plan by area and yearly basis.

(2) In urban areas installation of more air-conditioned, refrigerated or cold storage (freezer) facilities should be supported by the Government to preserve the quality and to maintain the price of agricultural and marine products.

(3) Improvement of rice processing facilities is urgently needed. The Government should support for improving and replacing old milling factories with free or low interest loans to primary cooperatives under the specific replacement plan by area and yearly basis.

(4) Establishment of a food processing laboratory run by Government or Government corporations and expansion of food processing factories, and support for their technical improvement especially in the processing, packaging and storing of perishable goods like fruits and vegetables. Food processing is an integral part of agriculture. It helps solve the problem of overproduction, regulate market supply, and increase farmers' earnings. The Government should promote the development of food processing more actively.

(5) The Government should take initiative to establish Thailand Package and Design Corporation which will perform the following functions:

- 1) to do research on package and design.
- 2) to produce superior package materials in a model factory.
- 3) to engage in enlightening activities for farmers and middlemen.

(6) Physical handling should be mechanized inside or outside the markets by using modern handling equipments, and perishable goods such as fish should be stored in cold storage and transported by freight trains or vehicles equipped with cold storage facility.

V. Marketing Facilitating Functions

1. Standardization and Grading

Problems:

(1) Grading of quality and classification of commodities are usually done by buyers. Buyers are in a better position when dispute arises. Substantially, non-existence of standardization and grading system for the domestic transaction of agricultural products although there are some standards and grading system for commodities, applied in exporting.

(2) Units of weighing, measuring and packaging in the course of transaction of agricultural products vary depending on the locality or marketing stages.

Improvement Program:

(1) *Agricultural Produce Inspection Act* should be enacted to ensure the rationalization and smooth transaction by conducting official inspection to agricultural produce for not only export but also domestic use, with a view to improving the quality of produce.

(2) A government organization for the inspection of agricultural produce and for the grading and standardization, i.e., *National Agricultural Produce Inspection Office* should be established under the Ministry of Agriculture and Cooperatives to enforce the *Agricultural Produce Inspection Act*.

(3) The objectives and functions of *National Agricultural Produce Inspection Office* will be described as follows:

- 1) The general agricultural produce inspection
- 2) Major agricultural seed inspection
- 3) To develop packaging technique for food and commercialized crops.
- 4) To improve the grain storage through the development of new and better methods of storage.
- 5) Researches on the standard and method of agricultural produce inspection.
- 6) Studies on the milling yield, milling techniques and milling machines for grains.

(4) Agricultural produce inspection standards for rice, maize, rubber, cassava, sugar, cotton, tobacco, livestock, fruits and vegetables seeds, etc., according to the *Agricultural Produce Inspection Act*, should be set up by the Government.

(5) In order to prevent the farmers' loss caused by the difference between the metric system and the traditional weight and measure system, and to spread and fix the metric system among farmers and merchants, the Government should enforce the special educational program to enlighten them through the agricultural cooperatives, farmers associations, and Chamber of Commerce, and also these educational programs should be included into the curricula of primary school and high school levels.

2. Marketing Information

Problems:

(1) Agricultural marketing information system is inefficient.

(2) Lack of statistical data of agricultural marketing institutions, which is essential for the government policy formulation.

(3) Research activities on agricultural marketing are being done by both the Government and universities in sporadic and inconsistent way by non-professional researchers.

Improvement Program:

(1) Marketing Information Service Center for the agricultural products should be established.

1) Establishment of Marketing Information Service Center

2) Surveys on agricultural products

3) Market information service for agricultural products

4) The automatic telephone answering device should be established.

5) Utilization of 'Market Information' and its effects

(2) An integrated "Agricultural Marketing Research Institute" financed by the government budget should be established for the systematic research for the development of agricultural marketing. The Institute will perform all the statistical survey work and theoretical study, formulate agricultural marketing development plan (long, medium, and short term) including its specific investment plan, and study agricultural marketing policies for the Government. It should publish "Statistical Year Book" as well as research journal. So that

Department of Business Economics, Ministry of Commerce may be able to concentrate in implementing policies and plans through the data analysis.

3. Marketing Finance

Problems:

(1) The Government has set a target for commercial banks to provide agricultural credit in the amount of at least 13% of their total deposits with 2% of this target going to agribusinesses. Most banks cannot meet their target by lending directly to farmers because of lack of collateral.

(2) So they meet their targets by accepting a lower rate of return of 11% by lending their share through the Bank for Agriculture and Agricultural Cooperative (BAAC).

(3) Only limited number of qualified farmers can borrow directly from the BAAC or through in which they are members. The amount of institutional credit is still below the potential demand.

(4) Local money lenders and merchants are the immediate source of credit to farmers, and interest charge can be at the rate of 120% per year or 10% per month. Considerable money is available at 5% per month.

(5) Lack of close cooperation between BAAC and agricultural cooperatives.

Improvement Program:

(1) Government should allocate more fund for the credits to farmers from the budget to lend it through agricultural cooperative with free or low interest rate because individual farmers have no collateral.

(2) Thai agricultural cooperatives should have a self-financing institutions by the way of

1) establishing a new bank within agricultural cooperatives, or

2) amalgamating the agricultural cooperatives and the existing Bank for Agriculture and Agricultural Cooperatives (BAAC) operating separately from the agricultural cooperatives.

4. Marketing Education and Training

Problems:

(1) Non-existence of agricultural marketing education and training institution which is vital for the development of agricultural marketing.

Improvement Program:

(1) Preparatory Survey for the establishment of *Thailand Agricultural Marketing Development and Training Institute* is recommended. The establishment of the Institute is to improve the efficiency of agricultural and food marketing system in Thailand, by improving the operational and management capabilities of the middle-level marketing managers and technicians.

Therefore, it is an urgent need to establish a national-level agricultural marketing development and training institute as an institutional foundation to train the manpower required by both public and private sectors for development and efficient operation of food and agricultural marketing organizations and facilities.

The number of the required manpower to be engaged in above activities both in the public as well as private sectors is estimated to be so large that special efforts are needed to train such middle-level marketing practitioners. For this purpose, a permanent institution, such as Thailand Agricultural Marketing Development and Training Institute, will be necessary to plan and implement such massive training program systematically.

5. Price

Problems:

(1) After harvest, short term disequilibrium in supply and demand is common every year.

(2) The price of the goods rises once they have left the farmer's hands, leaving him with less of final price of the goods and discouraging increased production and other investments.

(3) (With particular reference to rice) The Government's pricing intervention is intended to arrest the price at the beginning of the season when price is lowest.

(4) So far as individual products are concerned, the most important price fluctuations either seasonally, annually, or cyclically originate in changes of the quantities sold.

(5) Although the spread between farm price and Bangkok price are high, they mostly move in same direction with a certain time lag.

(6) Reliance on international markets for rice export accompanies always risk because the market is rather small compared with world consumption and production.

Improvement Program:

(1) The Government policy should concentrate to isolate domestic rice prices as much as possible from world market fluctuations, and maintain a plentiful domestic supply at prices well below world market levels.

(2) To enforce the suggested farmgate price for paddy, the active intervention of the Government should buy and store the surplus paddy under more efficient purchasing system which the Government is not prepared to do so.

(3) The Agricultural Cooperative Federation of Thailand, Ltd. and the government corporation, like MOF and PWO, should also more actively engage in the rice export trade for the Government, since they will act as a counter-vailing power against private exporters to prevent possible price manipulation.

(4) The ideal price support system would support the farmer and allow the consumer to be protected by an export premium.

(5) The nationwide price formation function should be entrusted mainly with the Bangkok Central Wholesale Market which will be newly established, where large scale demand and supply meet, and should not be left to the hands of a few big rice exporters.

(6) Introduction of price stabilization program for each commodities is necessary.

(7) To prepare for unfavorable export price fluctuation, farmers cooperatives should build more storage facilities with the financial support of the Government for the buffer stock operation of rice.

(8) It may be an idea to be considered to form a Government and private domestic and world price fluctuation completely.

6. Other Facilitating Functions

(1) MOF and PWO are actually functioning for same purpose. Therefore, these two government organizations should be integrated into one and expanded its organization and functions though they belong to different ministries—Ministry of Agriculture and Cooperatives and Ministry of Commerce respectively.

(2) The Agricultural Marketing Modernization Promotion Committee composed of marketing professors, marketing specialists, and relevant government officials, should be established in order to deliberate on the matters necessary for promoting the agricultural marketing modernization in the Ministry of Commerce.

(3) The Government should perform more active role for the marketing modernization by:

- 1) strengthening the supporting and supervising functions of marketing by the Government.
- 2) dispatching government officials to major wholesale markets for supervising.
- 3) strengthening marketing administrative functions by increasing marketing staffs in the central and local governments. They should be equipped with marketing knowledges to conduct consulting work for farmers and merchants.
- 4) more public investments for infrastructure of marketing sector.
- 5) the enhancement of the marketers' morality through their collective education at the Thailand Agricultural Marketing Development Training Institute which will be established.
- 6) the enforcement of *Wholesale and Retail Census* in every three year for

sequential analysis on agricultural marketing which provides basic data for the establishment of Agricultural Marketing Development Plan.

- 7) promoting agricultural cooperatives' activities for their self-support through ample financial assistance from the Government budget and the loan of the banks. Cooperatives, which are mostly operated by the Government officials, are usually quite inefficient at present. To compete the co-op. must be able to perform all the marketing services at least as efficiently as the private sector. In general, they are not competitive in the market.