

CHAPTER 5

VEGETABLES SOURCING IN AFRICA

The experience of Freshmark

JOHAN VAN DEVENTER¹

*Managing Director
Freshmark Group*

Abstract. Freshmark is a leading South African company organizing the sourcing of fresh produce in 11 countries throughout the African continent. The company was established 15 years ago and increased its turnover from 20 million Euro in 1989 to more than 125 million Euro in 2004. Key to its success are direct eye-to-eye relations with suppliers, a fleet of refrigerated trucks and highly qualified technical and commercial staff. The main customers are the Shoprite stores that serve a market of around 30 million customers. Freshmark operations are based on the establishment of real chain partnerships, where suppliers share common goals and loyalty. Open communication as well as knowledge and understanding of each other's business reinforce trust and trust. Growers and retailers thus maintain a joint interest in promoting better product specifications through Eurepgap and HACCP norms. The core message is that information must flow from the market back to the suppliers. Local markets are highly segmented, but at the lower end of the market where people earn up to 120 Euro a month a large turnover can be made. Market access also requires joint planning towards a fine-tuned system that delivers small quantities on a daily base, with the guarantee that the produce will be collected. This guarantee enables farmers to intensify production and permits Freshmark to satisfy variety-seeking customers.

Keywords: supply chain organization; preferred suppliers; partnerships; market segmentation; South Africa

INTRODUCTION

When I was a little boy I grew up in a small railway town in South Africa, and when I became eight years old my father one day showed me on the map where the town Deventer was located. For a guy who never travelled more than 400 km in his life, Deventer in The Netherlands was really far away. And you know what is going to happen during my stay in this country: I am going to visit Deventer, 38 years later. The lesson is: never stop dreaming!

I would like to share with you the experiences of how to organize the sourcing of fresh vegetables in the African continent. We will start our journey in South Africa and then we continue into other African countries; we will soon open activities in India as well. What did we do as Freshmark group? We took the dream of Africa

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after apartheid out of the boardroom to the African people. Today I can stand here in front of you and say: “We don’t only dream about entering into Africa, we are already active in 11 African countries”. And may I say right in the beginning: the objective of our Freshmark Group is to make every African country as self-sufficient as possible to get the produce from the local people to the market place.

PARTNERS IN TRADE

My main concern – and I am now talking to myself – is that we hold conferences and sometimes print very glossy brochures, but that in these African countries I sometimes miss you as a partner. I want you right next to me. Let’s therefore get to reality. Let’s get to where it makes a difference. And that is at ground level. There where we have an expression in South Africa: “Where the tire is the tar”. That is where we can make the real difference. And therefore we need you. My invitation here is: let’s take hands and let’s go and change the lives of so many people through fresh produce. Because it can be done. It is a powerful tool, it can empower people, it creates jobs, we have customers, and we need the farmers that we are talking about during this conference. It can become a win-win situation.

I would like to share with you our experiences in this field. Don’t re-invent the wheel. We are not the beginning and the end of the fresh-produce industry in Africa, but I might be a very good start. Where you can produce vegetables might be a very good point to start learning. Enterprises like ours can introduce the producers to the suppliers, we can take them to the farms, and this is not a dream anymore, it’s no boardroom talk, it’s our reality. That is my invitation and maybe next year if we have a meeting like this I would really like to say: there are the people from Angola, the farmers, there are the small-scale farmers from Malawi, to talk to them. Let them come and stand here; don’t listen to me anymore.

FRESHMARK

Who is Freshmark? We are a fruit and vegetable supplier to the largest retailer in Africa: the Shoprite Group. Shoprite is the mother company, but Freshmark is an independent profit centre that is a very important part of the group. Freshmark was established 15 years ago. We grew from a turnover of 165,000,000 Rand (20,625,000 Euro) in 1989 and last year we went over one billion Rand (125 million Euro) in 2004. The scope of business are six distribution centres in South Africa ,and we are present with operations in 11 other countries: distribution centres in Namibia, Zambia and Zimbabwe, and depots in Angola, Mozambique, Madagascar, Mauritius, Malawi, Tanzania, Uganda and Ghana. The procurement department in Freshmark started in 1997. Today we have 500 suppliers – farmers or growers – in South Africa and roughly 150 suppliers in the other countries of Africa. We maintain a direct eye-to-eye relation with each of them. We also have a fleet of 120 refrigerated trucks and a staff of around a thousand people. Our main customer is the Shoprite Checkers Group, operating 410 stores that need every day fresh supplies.

This represents a captured customer market of around 30 million customers per month. That is the market that we stand for.

CHAIN PARTNERSHIPS

Our operations are based on the establishment of real chain partnerships. Can suppliers become loyal supporters? Our answer is fully affirmative. And I am willing to share with you our recipe free of charge. Chain partnership is definitely feasible, if based on common goals, loyalty, truth and trust that comes from both sides.

First, it is important to know how we see each other. We sometimes consider the suppliers/farmers as coming from a different planet, since it is difficult to understand each others' motives. The typical saying "*A boer is a bok*" – and Dutch people will understand this – indicates certain stubbornness. Another expression is "*a bok is a bliksem*", which implies that they don't really understand retail; they know nothing about marketing, market share, category management, continuous supply, etc. Farmers are usually pursuing the best prices for themselves and can tell you everything about increased input costs of labour, seed, fertilizer, transport and packaging. In this view, the trader and retailer are dictators and the suppliers can never become loyal supporters.

But can we challenge this idea that the retail is the devil, that they abuse the system and always survive, that they pay the suppliers as little as possible and ask the customer as much as possible? Is there also an alternative viewpoint possible, which looks for a partnership between growers and retailers who maintain a joint interest in promoting better product specifications through Eurepgap and HACCP norms?

We started to reconsider and break down these perceptions. Because, if these images are correct, both the farmer/grower and the wholesaler/retailer face very serious problems. We cannot be successful in today's competitive environment 'where dogs eat dogs'. Our distribution chains will not flow smoothly and will become very expensive if such distrust is maintained. Similarly, we will not be able to satisfy our customers' demands, and this is probably the most important benchmark. We should always keep in mind that Madame Customer has a choice between different retailers. In South Africa, there is fierce competition and customers have a real choice in an over-saturated retail market. Therefore, reliable supplies and constant quality are key elements in the competition.

COSTUMER ORIENTATION: KNOWING THE MARKET

The key issue to be addressed by both producers and suppliers is to maintain a focus on the same goal, which is to satisfy the demands of Madame Customer. We must know the retail market, and the core message here is that information must flow from the market back to the suppliers. In South Africa, the upper-income group that represents the wealthy people only represents about 14% of the market of any retailer. Also farmers need to know that this market segment is only 14% of the

people. Although the rent value will be higher – up to 22% of the market value – in this customer category we cannot realize large turnovers. At the lower end of the market there are people who earn up to 900 Rand (119 Euro) a month, and they represent roughly 34% of the market (see Figure 1).

Knowing the market implies that suppliers should understand the structure of market demand. In the upper segments, customers in that market expect a triple P: a perfect product plus food safety, organics, ripe and ready, pre-cut for convenience, etc. But in the middle and lower segments people need basic food stuffs. They are not prepared to pay for thrills or any extras, basically because they are poor and hungry. This information regarding market composition and demand must flow on a continuous basis. Suppliers need to know in which market they operate. Customer intelligence is therefore very important; it is the beginning of everything. Retailer must also know their suppliers, because it is not sufficient just to grow the products. It is necessary to understand your customers and to follow your market. This information must flow on a continuous basis if you want to be successful.

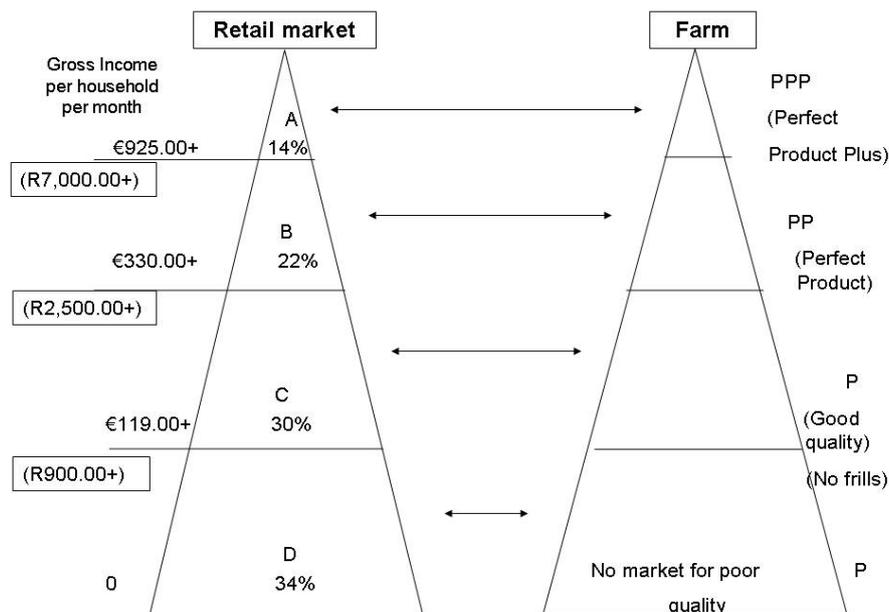


Figure 1. Market segmentation in South Africa

That upper market segment expects a perfect product, continuity of every day's supply, right packaging, right label, and so on. In addition, an A customer asks for food safety, ripe and ready, refrigerated, pre-cut, organics and this list is just getting longer by the day. On the other hand, for the D customer at the bottom end, the price

is very, very important. They ask for good basic food, no poor quality, affordability, cheap prices, quick in and out, just basic delivery with no thrills and no fancies.

PLANNING TOGETHER FROM SEEDLING TO MARKETING

In other places of Africa, like in Malawi, it's a different ball game compared to South Africa. We had to cross the bridge and find each other. We first had to go to those farms in order to understand their reality – eye to eye – and to find out what is important at farm level. You cannot only talk about them and think what is the problem out there in the field; you need to go there and discuss with farmers their options and constraints.

Many farmers grow maize but have no resources to use fertilizers, and consequently the maize hardly grows and yields are extremely low. When we discussed about planting pumpkin or potatoes, they argued that they need better seeds and inputs. And they proved to be very capable farmers, proud with their first commercial harvest that provides them a rewarding income. In the board meetings we talk about business and trade, without thrills and fancies. If we want to reach the town stores, we need to plan all activities together – from seedling to marketing – to ensure that we are on the same wavelength. Planting and planning together is the key to enable smallholders to enter the market.

Planning together – row for row, basket for basket – is very well possible with small-scale farmers. We don't want to plant a hectare full of cabbage, we only want two rows. But we want these two rows every day. Therefore, our suggestion is no full specialization, but a more fine-tuned system that delivers two rows every day, with the guarantee that we will buy the produce. This guarantee enables farmers to intensify production, and it enables us to dispose of a whole variety of products for the customer.

SUPPLY-CHAIN MANAGEMENT

Today our suppliers range from big to very small. Our company maintains as common goals to cut costs, eliminate unproductive links, trading as directly as possible, improving efficiency and reducing costs by introducing returnable crates, etc. Before anything we need to know which market segments we are addressing: the A, B, C or D market? This knowledge should be with the suppliers/producers as well. When we work from the consumer back into the supply chain, this implies that we start right back with the seed selection. Supply-chain management cannot go from the farm to the customer; that is the wrong way. Management programmes need to ensure that you start from customers' demand and that everybody stays on the same track. Our keywords are: communication and knowledge of each other, understanding of each other's business, knowing your competitors. The connecting links to make this reality are truth and trust.

We can work together in a win-win relationship, letting grow the market share to satisfy the customers and of course to make money. We are not working for charity, but for business. But therefore we first need to invest at the grassroots level. We

start with seeds and water supply, but this is quickly followed by a cell phone to guarantee better communication. Moreover, we want the children to go to school and receive better education.

We also learned that retail is about specifics. We cannot leave our suppliers in the dark regarding consumers' demands. We therefore give them posters with pictures of the products in real size, so that they can see what the market asks for. Anybody can take a tomato and measure it against the specifications and then can be certain that the produce will not be rejected at Freshmark. So, if you believe in good business on a continuous basis, supply-management programmes should be based on bilateral communication, knowledge and trust, and mutual understanding of each others business.

NOTES

¹ Johan van Deventer has a doctorate in Marketing and Management of the University of Pretoria and is Board member of the Shoprite Chain Group.