

Marketing Management by Agricultural Marketing Institutions: A Case Study of Horticultural Auctions in the Netherlands

by

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1 INTRODUCTION

In the early stage of its development agricultural marketing theory had much in common with general marketing theory (see for example, Bartels, 1963). The institutional, functional and commodity approaches were all used in both general marketing and agricultural marketing theory, in fact, in the beginning, agricultural marketing contributed to general marketing theory. However, with the development of the concept of marketing management and its subsequent extensions, such as, non-profit marketing, social marketing, macro-marketing and strategic marketing, general marketing and agricultural marketing theory have developed in different directions.

While the food industry is one of the most devoted users of the marketing management concept, application of this concept to marketing of agricultural products at the farm gate has specific problems. A co-ordinated policy in respect of product, price, promotion and distribution, which are the essence of marketing management is difficult to develop in that market situation. Also, marketing of agricultural products at the farm gate involves marketing institutions which, as such are not always suited to marketing management policy. This problem is discussed in this paper. Problems of agricultural marketing institutions, including technical markets, marketing co-operatives and marketing boards, in adopting a marketing management policy are analysed qualitatively. The paper aims to develop a frame of reference for the establishment of a marketing management policy in agricultural marketing institutions. Thus, the discussion is particularly relevant to agricultural products, such as fresh fruit and vegetables, which are not, or to a limited extent only, transformed by a processing industry or middlemen.

The paper is organized as follows. Firstly, it is argued that the marketing management approach is most appropriate in agriculture and also why, in many cases, this approach is the most useful for agricultural marketing institutions. Subsequently, problems in adopting such an approach in practice are discussed.

Our analysis will search for useful criteria on the basis of which, the suitability of agricultural marketing institutions for a marketing management policy may be checked. Then, the frame of reference developed is used to analyse the practice of marketing management in horticultural auctions in the Netherlands. Differences in market management with regard to auctions for flowers, fruit, and vegetables are discussed.

## 2 MARKETING MANAGEMENT BY AGRICULTURAL MARKETING INSTITUTIONS

### 2.1 Need for a marketing management approach

Marketing management is concerned with the manner in which a business or organization should match its marketing potential to the needs, wants, and purchasing power of potential prospects for products or services by a specific marketing mix of: product, price, promotion, and distribution, in order to attain its marketing objectives.

According to Kotler (Kotler, 1980, p. 22). "Marketing management is the analysis, planning, implementation, and control of programs designed to create, build, and maintain mutually beneficial exchanges and relationships with target markets for the purpose of achieving organizational objectives. It relies on a disciplined analysis of the needs, wants, perceptions, and preferences of target and intermediary markets as the basis for effective product design, pricing, communication, and distribution."

Marketing management is concerned with the following basic marketing questions which are relevant in agriculture too: what to produce, at what price, by what information and stimulating cues and at what place and time.

In agricultural marketing textbooks, marketing is summarized as a number of marketing functions for instance:

- A. Exchange functions. 1. Buying (assembling). 2. Selling.
- B. Physical functions. 3. Storage. 4. Transportation. 5. Processing.
- C. Facilitating functions. 6. Standardisation. 7. Financing. 8. Risk-bearing. 9. Market intelligence. (Kohls and Downey, 1972).

These functions can be interpreted as a special case of the marketing mix as proposed in marketing management.

The extent to which the marketing mix is elaborated in a marketing operation is determined by the dynamics of a market. For instance, in a market having dynamic changes in consumer needs and wants, product policy has to be elaborated more fully than in a market with stable consumption patterns.

In the former, various activities, such as, research and development, product testing, branding and market segmentation are warranted, while in the latter, product policy is restricted to a limited number of functions such as grading and sorting. Increased production capacity or competition require promotion which will stimulate demand and may also require more elaborate price and distribution policies. If marketing management is necessary, then consideration must be given to whether the marketing mix can be managed adequately to deal with marketing problems. Actually, market structure, consequently company size and degree of product differentiation, determine whether companies can manage a marketing mix adequately (see Table 1).

TABLE 1 Use of "Marketing Mix" in relation to market structure (Company size and product differentiation).

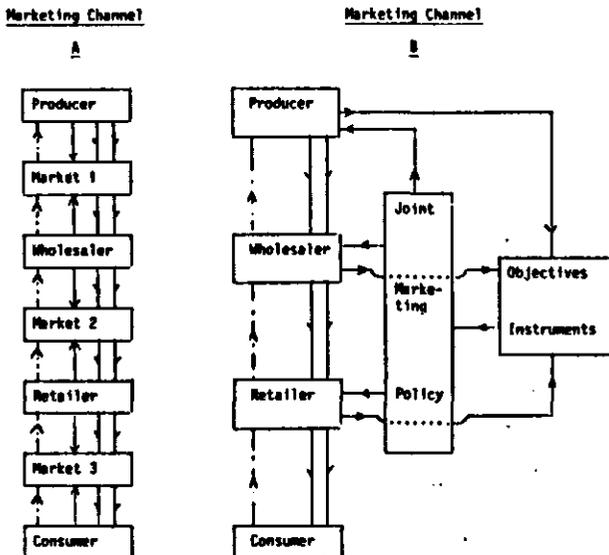
Marketing Mix	Market Structure	
	<u>Oligopoly</u> with <u>Product-Differentiation</u> e.g. Large Food Company	<u>Pure Competition</u>  e.g. a Family Farm
Product	<ul style="list-style-type: none"> <li>- Attributes</li> <li>- Assortment</li> <li>- Brand</li> <li>- Package</li> <li>- Image</li> <li>- Quality</li> </ul>	<ul style="list-style-type: none"> <li>- Standardisation (Grading, Sorting).</li> <li>- Quality</li> </ul>
Price	<ul style="list-style-type: none"> <li>- Level</li> <li>- Discrimination</li> <li>- Discounts</li> </ul>	<ul style="list-style-type: none"> <li>- Time of selling (Farmer is a price taker)</li> </ul>
Promotion	<ul style="list-style-type: none"> <li>- Advertising (Radio, T.V., Press)</li> <li>- Sales Promotion</li> </ul>	<ul style="list-style-type: none"> <li>- Information to potential buyers</li> </ul>
Distribution	<ul style="list-style-type: none"> <li>- Channel (Type, number)</li> <li>- Outlets (Type, number)</li> <li>- Service</li> <li>- Programming</li> <li>- Logistics</li> </ul>	<ul style="list-style-type: none"> <li>- Channel (limited choice)</li> <li>- Transport</li> <li>- Storage</li> </ul>

No further substantiation is required that most agricultural markets are dynamic in the sense that consumers change in number, income, life style, family structure, that competition is great because of increasing international trade, and that retailing is being changed by selling method and size of company. Consequently, marketing management will be useful in agricultural markets. A particular feature of marketing perishable agricultural products is that there should be an integrated marketing policy throughout the marketing channel: a vertical marketing system (Figure 1).

FIGURE 1 Interfirm relationships in the marketing channel:

- type A, exchange-relationships only;
- type B, relationships in joint marketing programs.

Antipodes A and B are rather conceptual structures. In dynamic markets interfirm relationships shift from A to B.



Legenda:

- : Products and services
- - - - -→ : Money
- : Communications, Decisions.

Many agricultural marketing institution have been set up between producer and wholesaler, but in fact, today marketing concerns the total marketing channel. This has consequences for marketing institutions, such as technical markets, co-operatives, marketing boards and marketing agreements.

Marketing institutions have now become involved with marketing throughout the marketing channel but the question is, are they capable of handling the changing marketing task ? To answer this question, a frame of reference has been developed on the basis of two main topics:

- response of market institutions to the need for marketing management;
- institutional characteristics relevant for the adoption of marketing management.

## 2.2 Response of marketing institutions to the need for marketing management

A wide variety of agricultural marketing institutions exists:

- a. technical markets, for example, exchanges, auctions, futures market;
- b. marketing boards, and various types of commodity boards;
- c. co-operatives;
- d. marketing orders and marketing agreements.

There is no simple answer to the question whether marketing institutions in agriculture are prepared, and able, to develop marketing management policy. Responses to the need for marketing management vary as follows:

- Marketing institutions are bypassed by farmers, middlemen, finally disappear. For example, in the Netherlands many technical markets for pigs, poultry, eggs have disappeared, and selling co-operatives for dairy products have been integrated into processing companies. In these cases it is useful to distinguish between the case in which the marketing function is superfluous, and in which it can be performed more efficiently by another part of the marketing channel.
- Marketing institutions continue to function and adapt their activities to those of the emerging leading companies or other institutions in the channel. Examples are the commodity boards in the Netherlands, which are increasingly confronted with big co-operatives and private companies taking the leading role in marketing the respective agricultural products. Other agricultural marketing institutions, such as futures markets, offer specific services and remain in business even if they are not able to develop a marketing management policy.
- The strategy of marketing management by co-ordination, is followed by marketing institutions, which have no formal authority or the financial capacity to handle the total marketing operation for a product, but which have great marketing authority because of their expertise, their position power in the market (products must be sold through their respective institution), or their central role in traditional marketing. Examples of such are co-operatives which advise or stimulate farmers to produce specific products and which play a leading role in adapting marketing policies for the product to the requirement of retailing companies. Co-ordination by administered plans and advice can be effective only if the marketing partners are capable and effective entrepreneurs: a selling co-operative for fruit and vegetables needs capable growers in order to control product quality and quantity, if its marketing operation is based on persuasion and not on formal authority.

- The policy of market management based on acquired marketing power has been adopted by marketing boards having formal authority to market farmer products, and, also by large co-operatives, for example, dairy co-operatives converting milk supplies into specific products.

### 2.3 Institutional characteristics relevant for the adoption of a marketing management policy

In the context of this paper, it is neither possible, nor relevant to discuss agricultural marketing institutions in detail, rather, discussion is limited to those institutional characteristics considered essential for the adoption of marketing management. These include objectives and instruments.

#### 2.3.1 Objectives.

Marketing institutions in agriculture have been set up to improve marketing of agricultural products. Technical markets, such as futures markets, have been established by those seeking to profit by offering marketing services to farmers, or wholesalers, or both. Co-operatives are set up by the farmers themselves to improve market prices. Marketing Boards are founded by farmers and other marketing parties involved, with the consent of government, to obtain the best prices for farmers and to serve other societal interests. Marketing agreements and marketing orders originate from policy considerations of society or government in regard to farmers' income.

Two aspects of the institutional objectives are of particular relevance to this discussion, firstly that the institutional objectives concern a restricted set of marketing instruments only; and secondly, that the intensity and range of the marketing responsibility to the industry is limited (see Table 2).

Some agricultural institutions are founded particularly for price formation. In technical markets, auctions and futures markets, buying and selling follow specific rules in order to improve price formation. Co-operatives have as their objective the attainment of the highest price for the products of their members. For marketing boards and marketing agreements, objectives concerning prices are also influenced by societal considerations about fair income for farmers. Some co-operative societies, as for example, bargaining co-operatives, restrict their task to price formation, while other marketing institutions are mainly concerned with the promotion of a specific group of products, for example Dutch Dairy Council in the Netherlands, Sopexa in France, and CMA in West Germany. (Besch, 1981, Youn, 1976). Abbott and Creupelandt

distinguished promotional boards as a type of agricultural marketing board (Abbott, Creupelandt, 1966). Few agricultural marketing institutions are concerned exclusively with distribution, that is, with determining time and place of supply only. Many selling co-operatives have important distributive responsibilities but are also concerned with other marketing activities.

TABLE 2 Classification system for agricultural marketing institutions on the basis of:  
 a) number of marketing instruments the institution is concerned with, and  
 b) type of activities with respect to these instruments in order of institutional responsibility for farmers (examples are given for illustrative purpose only).

Marketing Instruments		N U M B E R			
		1	2	3	4 (All Instruments)
O R D E R  O F  R E S P O N S I B I L I T Y	Market Intelligence	Research Institute for Distribution Problems			Marketing Research Institution
	Guidance of Exchange Process	Price Discovery Institution e.g. Auction			
	Marketing Strategy (one market segment)	Promotional Board for Export Markets			
	Marketing Strategy (total market)	Promotional Board for All Markets			Large Dairy Co-operative

Other agricultural marketing institutions having restricted objectives are marketing research institutions serving a particular agricultural sector, and institutions involved in developing new products. The latter are not easily recognized as marketing institution but their research activities are the basis of many new marketing activities in respect of product and physical distribution.

Objectives of marketing institutions which restrict their marketing task to specific elements of the marketing mix, diminish the potential for marketing management policy to embrace all elements of the marketing mix.

The second aspect distinguished in the objectives of an agricultural marketing institution is the sometimes limited intensity, and range of marketing responsibilities to the industry. This aspect is related to the first aspect discussed, but it also has specific features. The responsibility of marketing institutions to farmers and/or other participants, such as wholesalers and

retailers, varies from limited to full responsibility for the outcome of the marketing process for an agricultural product (Table 2).

The involvement in and responsibility of institutions for farmers and suppliers interests increase from those institutions doing research only, to those concerned with improving the market mechanism in respect of one instrument (for example, a private auction aims only at developing good prices, without serving the particular interests of specific market partners) to those institutions improving one instrument of the market mechanism in order to serve the interests of a specific group of companies, (for instance, a co-operative auction or a promotional marketing board). Involvement and responsibility are most far reaching with those co-operative and marketing boards having the task of developing the highest revenue for a product in the medium- or long-term. (Large dairy co-operatives and marketing boards are examples of this type of marketing institution). Having greater responsibilities to farmers, marketing institutions will soon experience the need for marketing management. For instance, such pressure is greater for a bargaining co-operative than for a futures market, both of which are concerned with price formation, but have different responsibilities to farmers.

### 2.3.2 Instruments, capacities to formulate a marketing management policy.

Marketing management implies integrated decision making regarding marketing instruments. This implies that marketing institutions need to expand their marketing activities.

Whether a "classical" agricultural marketing institution can expand its marketing activities from a narrowly defined area to encompass those in a broader marketing management policy, depends also on the power in the channel while performing its traditional functions.

Bases of power available to a marketing channel member are, according to Stern and Ansary (1982): rewards, coercion, expertness, identification, and legitimacy. Little (1970) distinguished economic power and position power in the marketing channel. These power bases are discussed in relation to the potential of agricultural marketing institutions.

The importance of *rewards* as a basis of power is related to the degree in which the marketing objective of marketing institutions is concerned with farmers' income. For instance, an institution having as an objective the best possible price for farmers, has a greater reward potential than that concerned only with promotion. Changes to the first type of institution will have greater consequences for farmers than changing the latter.

*Coercive power* seems to be important for those agricultural marketing institutions having a monopoly or near monopoly in the marketing channel. A case in point is a marketing board, which, by law has sole authority to market the produce of all farmers in a specific sector of agriculture.

*Expertness* definitely seems to be an important power basis for a marketing institution to gain acceptance for widening its marketing activities. Good performance in a specific marketing task by a selling co-operative encourages farmers to award additional marketing tasks to that co-operative. Also, a marketing institution, having displayed substantial expertise in its original marketing objective, say price formation, may well have built up useful expertise for carrying out other marketing ventures. For instance, a bargaining co-operative for milk, successful in price formation, ultimately becomes a dairy co-operative performing all processing, product development, and marketing.

*Identification* may be an important power basis for some types of marketing institutions in agriculture, particularly co-operatives. However, it is argued that the modern farmer judges a co-operative more on its financial benefits and less on ideological grounds. This may erode the differential in advantage over private marketing institutions. Identification, in the sense that farmers feel bound to do business with the agricultural marketing institution, does not seem to be, in general, of great importance as a power basis, but may be of incidental importance.

*Legitimacy* of the institution stems from the values internalized by farmers which give rise to the belief that the marketing institution should or has a right to exert influence and that the farmers have an obligation to accept it (Stern, Ansary, 1982).

Legitimacy as a source of channel power seems particularly important for statutory authorities set up by government, under legislation, as is the case of marketing boards and commodity boards. The legally based rights must be obeyed by the farmers. Also, it may happen that farmers consider a marketing institution, such as a co-operative, to be entitled to prescribe for specific actions. This, however, is generally based on co-operative voting.

The *position power* of an agricultural marketing institution depends on its efficiency and effectiveness in the exchange process. When farmers and middlemen are indifferent to or would rather bypass the agricultural marketing institution, position power of the institution is weak and vice versa. For instance, technical markets for eggs and pigs have lost position power and some have disappeared.

*Economic power* is based on financial, technological and managerial capacities of agricultural marketing institutions. They generate bases of power which have been discussed already, like rewards, coercion and expertness. Also they enhance the institutions' ability to invest in marketing management policies.

### 3 DUTCH HORTICULTURAL AUCTIONS: A MARKETING INSTITUTION MOVING TOWARDS MARKETING MANAGEMENT

#### 3.1 Background information

Horticultural auctions in the Netherlands commenced in 1887. Originally, they were set up for price discovery. By concentrating supply and demand, auction prices were considered to reflect the market situation adequately. Further advantages of the auctions were considered to be: payment to the grower in a satisfactory manner; middlemen could find a wide range of produce in large quantities; quality control, grading and sorting and standardization of packaging could be improved. Thus, from the beginning, these auctions performed a number of marketing functions, but their main function was price formation. In this paper it is not possible to provide a detailed history of these auctions but only a few facts as a background for this analysis.

In 1983, there were 47 co-operative auctions for fruit and vegetables, having sales of 2.8 billion guilders and in 1982 having a market share of 84% of vegetables sales and 82% of fruit sales. (Centraal Bureau van de Tuinbouwveilingen, 1984, N.C.R., 1984). In 1983, there were 12 co-operative flower auctions, having sales of 2.7 billion guilders and in 1982 having a market share of 90% of flower sales (Vereniging van Bloemenveilingen in Nederland 1984, N.C.R., 1984).

Fruit and vegetables, and flower auctions have a central organization, being an association of the individual auctions: for fruit and vegetables, the Central Bureau of Horticultural Auctions, and for flowers, the Association of Flower Auctions. They were founded in 1918 and 1974 respectively. Gradually they have set up a number of marketing services, including market research, promotional activities, systems of quality control, packaging policies, product development, and general management services to the individual auctions. Special selling systems have been established for special products, or for special transactions, in addition to traditional auctioning. For instance, for pot plants sales, a type of brokerage system has been set up in addition to auctioning pot plants. A separate selling organization, the C.B. II has been set up to

manage special sales of fruit and vegetables, for example, large transactions to east European countries, which cannot be made satisfactorily the traditional auction system.

How do these auctions cope with the move towards marketing management ? To answer this question, firstly, the need for a marketing management policy throughout the marketing channel is described briefly. Subsequently, on the basis of the frame of reference suggested in Section 2, how auctions have endeavoured to develop marketing management for horticultural products, is discussed.

### 3.2 Need for marketing management policy

In the markets of horticultural products many changes occur which necessitate variation of marketing policy. To a certain extent these changes differ for fruit, vegetables and flowers (Table 3).

TABLE 3 Changes in marketing channels of Dutch horticultural products during the past five years; a qualitative description  
(\*\* = very substantial; + = substantial; 0 = somewhat)

Stage of Marketing Channel	Flowers and Plants	Vegetables	Fruit
Consumption	Level : ** Variety : **	Level : + Variety : +	Level : 0 Variety : +
Retailing	Outlets: - Type : ** - Number: ** Marketstructure: 0	Outlets: - Type : 0 - Number: + Marketstructure: +	Outlets: - Type : 0 - Number: + Marketstructure: +
Wholesaling	Competition : ** Number of Firms: 0 Marketstructure: 0	Competition : ** Number of Firms: + Marketstructure: +	Competition : ** Number of Firms: + Marketstructure: +
Production	Output : ** Assortment : **	Output : + Assortment : **	Output : 0 Assortment : **

Developments in flower markets in the Netherlands include:

- a substantial increase in production for which new markets have to be developed;
- increasing retail sales at street stalls and increasing interest by supermarket in sales of flowers;
- consumer demand in some traditional markets is stagnating, but increasing rapidly in other markets;
- substantial competition from other exporting countries, such as Israel and Colombia.

The market for locally produced fruit is not so dynamic in respect of either retailing and wholesaling, or spectacular changes in consumption of fresh fruit, but is truly dynamic in regard to international competition, and because of the introduction of new varieties of apples.

Vegetable markets are dynamic in the sense that: an increasing and diversifying production is sold in competition with other countries exporting to West European markets and because large size of retail business is becoming increasingly important for vegetables sales.

These market characteristics of horticultural products suggest a need for marketing management throughout the marketing channel. The question can be raised as to the role of auctions in this move towards marketing management. For flowers, such a policy is concerned particularly with developing new markets for existing and new products; and for vegetables, with new products for existing markets, and with improving the position of existing products in existing West European markets. The latter seems to be also the main objective of fruit marketing in the domestic market.

### 3.3 Objectives

Do the objectives of horticultural auctions stimulate or impede the development of marketing management? The primary objective of horticultural auction is price discovery. Being co-operatives, horticultural auctions in the Netherlands are impelled to improve price formation for the growers. An extension of price formation by the auction process is the minimum price scheme. Such schemes have been set up since 1948 for a large number of horticultural products to avoid temporary catastrophic decreases in price. As the auction system is essentially oriented to one instrument of the marketing mix, it is not easy for them to develop a marketing policy encompassing all marketing instruments. Further, price formation at auctions is a short term process: auctions concentrate on daily demand and supply. Medium- and long-term price formation also depends on the policy in respect of other marketing instruments (product, promotion, and distribution). For fruit, the planning of market supply throughout the year may bring price formation in medium-term within reach.

Thus it would seem that auctions playing a central role in marketing horticultural products, are impeded by their primary objective of price discovery in developing marketing management policy.

### 3.4 Instruments and Capacities

In so far as marketing instruments are derived from the objectives the hold of auctions on marketing instruments has been discussed in Section 3.3. Auctions, as such, have no control over the quantity supplied by producers and no formal authority over product quality. The same holds for the assortment supplied to the market by producers. Auctions can influence product supply to a certain extent by grading, sorting, packaging and by determining the selling period of product varieties. However, as auctions should not interfere with the business of wholesalers and retailers, they have limited opportunities to control the distribution of products throughout the market channel. Auctions have storage and cooling facilities and thus some element of control over physical distribution. Promotion, as a marketing instrument, is not an essential task of auctions as such. In the frame of reference set out in Section 2, it has been argued that marketing management policy can be established, even if it cannot be derived from the primary objective of the institution, through its channel power. Auctions have built up a strong position in the marketing channel. Fruit and vegetables auctions have a central organization, which is the centre of many new marketing activities beyond price formation. For instance, since 1948, extensive market research has been carried out to support minimum price schemes for fruit and vegetables and research has been extended to other areas including consumer behaviour. Before 1974 at which time market research was implemented by the central organization of flower auctions, it was carried out by the Commodity Board for Ornamentals. Market research for flowers is conducted by a greater number of parties than for fruit and vegetables. Which characteristics give auctions authority to expand marketing activities beyond their primary objective ?

#### *Rewards.*

Rewards to the growers has been mentioned as a power basis of auctions to enlarge their number of marketing instruments. It seems that the centrality of the primary function, price discovery, will assist auctions to gain acceptance of new marketing functions by member growers. The price discovery function of auctions is central because of the perishable nature of horticultural products. In the Netherlands, auctions perform this price discovery functions adequately since:

- they have a major share of market supply: in 1982, 84% of vegetables, 82% of fruit and 90% of flowers;
- concentration of auctions leads to sufficient supply both in the terms of assortment and quantity for prospective purchasers, in particular

concentration of auctions has prevented the development of monopsonistic market situations;

- potential demand at the auction is large enough to attain the price which the market can bear.

Additional arguments for effective price discovery for the flower auctions are the facts: the two largest flower auctions are substantially larger than the largest vegetable auctions (consequently, attract many buyers), and further, flower auctions are more centres of international trade than the vegetable auctions. While the export of fresh vegetables from the Netherlands is concentrated on Europe, 6% of the total exports of 2.8 billion guilders of ornamentals in 1983 went to the United States, Canada and Saudi Arabia; also, important in this respect is the fact that the flower auctions sell substantial amounts of imported ornamentals, in 1983 about 6.7% of total sales.

Thus it seems that horticultural auctions in the Netherlands are, because of their rewards to the growers as to price formation, in a strong position to expand marketing activity beyond their primary objective.

#### *Coercion.*

Do auctions have the authority to penalize members who do not accept expansion of auctions towards a broader marketing management policy? In theory they have little coercive power since the growers themselves own co-operative auctions and are entitled to determine the extent of marketing policy. In practice, auctions have coercive power since horticultural growers are dependent on auctions for the sale of their produce. Daily market supply of the individual grower is too small to sell directly to a wholesaler. This is also the case to a lesser extent for fruit growers, who at harvest time have larger quantities available. Consequently, fruit auctions have less coercive power than flowers and vegetables auctions. Auctions also have some coercive power vis a vis wholesalers, since the latter often rent facilities at the auction, and since they often have no equivalent supply alternatives.

#### *Expertise.*

The expertise of co-operative auctions in marketing and market research for horticultural products has made them, particularly their central organizations, suitable institutions to develop marketing management policy throughout the channel. The Central Bureau for Horticultural Auctions, and the Association of Flower Auctions have developed substantial marketing expertise in regard to their central role: price discovery. Central Bureau for Horticultural

Auctions was founded in 1918 by a great many auctions, in the need of a central organisation. Therefore, it has built up a more central role in guiding marketing policy than the Association of Flower Auctions established in 1974 by twelve auctions, of which two large ones, each having annual sales in 1983 of about one billion guilders, do 76% of national sales. The latter have built up considerable marketing expertise as an individual rather than as a central endeavour.

#### *Identification.*

Identification, meaning that the grower has a feeling of membership or a desire to join the co-operative auction for ideological reasons, does not seem important as a basis of authority for co-operative auctions. Because of the virtually monopolistic market position of the co-operative auctions, there seems little place for ideological attitudes about membership. Also, the economic and commercial orientation of horticultural growers is not a strong basis for identification of growers with the auction system on ideological grounds: it is the price that counts.

#### *Legitimacy.*

Clearly, when the central organization of the co-operative auctions has decided, by majority, on activities with respect to market research, promotion, product development, etc. the subsequent levying of members to finance the activities will be considered to be legitimate. Apart from such regulations and measures of auctions based on majority vote, co-operative members most probably will accept other measures and advice only if profitability is obvious to them.

So, consensus between auctions is necessary to expand marketing activities of central organizations. It makes the move to marketing management a well considered, but sometimes a creeping process.

#### *Economic power.*

Whether the auctions' organization has the financial means to set up marketing management policy is a major issue. In particular, investments in new products, in promotion and distribution facilities can be substantial in marketing management. Since auctions do not sell products themselves but in fact deliver services only, they would probably need to finance wider marketing management by levying member growers. Therefore, in this respect the power lies with growers.

*Position power.*

Whether co-operative auctions have sufficient position power for the development of a marketing management policy, will depend largely on the extent to which products can bypass such auctions. If products have to pass through the marketing institution, then it has a greater potential to develop marketing management policy than if the reverse is the case. Because of their large market share and their co-operative structure, horticultural auctions in the Netherlands are the channel for horticultural products from growers to wholesalers and retailers. They are, therefore, very well positioned to become leading marketing organizations in the marketing channel for horticultural products.

In summary, our qualitative analysis shows that horticultural auctions, in particular their central organizations, can expand to marketing management policies because of: the centrality of their primary objective, price discovery; their position in the marketing channel; their rewards to growers and middlemen; and their marketing expertise.

**3.5 The actual movement of horticultural auctions in the Netherlands towards a marketing management policy**

It would seem from the characteristics of horticultural markets already described, that marketing management is needed throughout the channel. Also, it is clear that horticultural auctions in the Netherlands cannot develop marketing management policy if they restrict themselves to their original objective of price formation.

On the other hand, the power of these auctions in the marketing channel is substantial. The fact that auctions are co-operatives, indicates that growers favour their central role in the marketing channel. The marketing management challenge might have been met by transforming co-operative auctions into selling co-operatives. This would have been a drastic change, and also would have posed a threat to the private wholesale companies, many of which perform well in finding outlets for Dutch produce. In addition, it would have meant the end of daily auction process. Consequently, price orientation in a market of perishables where prices vary daily because of changes in supply, temperature, and demand, would become difficult.

Thus, the primary function, price formation, has remained central and within that context, horticultural auctions have developed additional marketing activities to set up marketing management.

The price formation process has been expanded to include the minimum price schemes; and promotional programmes have been set up to stimulate domestic and export demand for horticultural products. These activities are financed by levying produce sold through the auction. Promotional programmes for flowers began before the central organization for flower auctions had been established. The Commodity Board for Ornamentals, which was the statutory authority responsible for marketing of ornamental products of the flower industry, undertook this activity. The actual promotion task is performed by a special council, the Flower Council Holland. In the case of fruit and vegetables, the commodity board has left the promotional task mainly to the co-operative auctions. Individual flower auctions have become involved in sales promotion activities to attract new buyers.

Marketing management by auctions has come of age since product policy was incorporated in marketing policy. Auctions for vegetables have been developing product policy by quality control, packaging, and broadening the assortment (by enlarging auctions, and by stimulating production of new varieties). Essentially, these new product programmes are of the "me too" type. Products grown in other countries, which seem to be a promising extension to the product range, have been introduced by the central organization: those prepared to grow these products in the introductory period are guaranteed a satisfactory price. Within a few years, the new product must be of established marketability and no further price guarantees are given. Clearly, this new product operation is of the "low budget" type, and depends on the willingness of growers to take up new opportunities. It is a product policy which is dependent on persuasion and is successful with dynamic and capable growers only. Another type of product policy to be developed by auctions is to advise research institutes, particularly government institutions, on the direction of research in view of market development. The success of this type of product policy depends largely on the quality of the proposals and on the auction managers themselves. Auctions have improved physical distribution substantially by offering wholesalers and growers improved facilities and by improving logistics in the auctions themselves. However, the position of the auctions with regard to distribution strategy and

programming is weaker. They can fulfil the primary function of price formation adequately, provided they do not become involved in wholesaling and retailing. Thus, with regard to this aspect, auctions have limited authority. Consequently marketing management by auctions throughout the marketing channel, that is the vertical marketing system, requires close co-operation between auctions, wholesalers, and retailers. Auctions, in particular, their central organizations endeavour to support wholesalers and retailers in effective marketing of horticultural products. This is accomplished by service-merchandising, co-operation in promotional programmes, by packaging programmes, extension work and by general exchange of points of view and experience. A "marketing team" for the strategic marketing flowers has been formed in which representatives of both co-operative auctions and the Industry Board of Flower Wholesalers and retailers representatives participate. The central organization of auctions for fruit and vegetables participates financially in some wholesaling companies, albeit a minority share. It appears that auctions endeavour to improve distribution strategy and programming throughout the marketing channel in various ways.

### 3.6 Conclusion

The foregoing discussion of the major aspects of the adoption of marketing management by horticultural auctions in the Netherlands shows that the inherent characteristics of these auctions places constraints on marketing management policy. In many respects these auctions have been able to develop successful marketing management. This success is probably due to the following function characteristics:

- a. being co-operative organizations;
- b. embracing most supplies and consequently having a strong position in the marketing channel;
- c. having built up expertise in marketing and market research;
- d. both growers and wholesalers being dynamic entrepreneurs, the former comprising small family groups and the latter often medium-sized; all prepared to co-operate in commercially projects to develop new and to maintain existing markets.

Thus, it would seem that co-operative auctions have been able to develop marketing management policy throughout marketing channel by co-operating with the other parties involved. It is a type of marketing management which was distinguished as "marketing management by co-ordination" in section 2.2.

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