

MARKETING VEGETABLES IN SURINAM  
part III  
(Recommendations for improving the marketing system)

C.B. HOUTMAN and G.W. CELLARIUS

## **MARKETING VEGETABLES IN SURINAM (III)**

**(Recommendations for improving the marketing system)**

**C.B. Houtman and G.W. Cellarius**

Department of Development Economics, Agricultural University, Wageningen, the Netherlands.

Formerly at the Centre for Agricultural Research in Surinam, Paramaribo, Surinam.

### **Summary**

In this third and final article on 'Marketing Vegetables in Surinam' the principal causes of the unsatisfactory marketing situation for vegetables are discussed and suggestions are made for improvement. No detailed plan for a reorganization of the whole system is presented. To work out such a plan, additional data are to be collected, the nature of which is also discussed.

### **Introduction**

Nowadays it is generally accepted that for the development of agriculture a well-functioning marketing structure is required. In this paper marketing is defined as the movement of produce from farm to final consumer, including all operations necessary to ensure the arrival of this produce at its destination. This includes the assurance that the products will reach their final destination under the most favourable conditions as to place, time, quality, quantity and price (Creuplandt, 1968).

Three marketing functions can be distinguished (Kriesberg & Steele, 1972):

1. Exchange Functions
  - Buying
  - Selling
  - Pricing
2. Physical Functions
  - Transportation and Handling
  - Storage
  - Processing and Packing
  - Grading and Standardizing
3. Facilitating Functions
  - Financing and Risk bearing
  - Marketing Information and News
  - Demand Creation
  - Research

How these functions operate (or not) is typical for each marketing system. For instance, in many less developed countries the facilitating functions are absent or nearly so, the physical functions are in the developing phase whereas the exchange functions though existing are often working in an unsatisfactory way, the latter being the result of insufficient market information.

As described previously (Cellarius, 1972; Houtman & Cellarius, 1972, 1973) in Surinam a number of marketing functions operate rather unsatisfactorily. The causes of this and the possible ways to eliminate it are discussed below.

### Market information

In our second article (Houtman & Cellarius, 1973) the great importance of a well-functioning marketing information service was stressed. When data were collected at the Paramaribo Central Market it appeared that especially the farmers selling their own products wanted actual information on prices. This information should be provided as soon as possible. In addition to consumer prices, data on supply and on expected demand and supply need to be given. In any case the daily market reports should include:

— Wholesale prices. It should be noted that different wholesale prices exist, e.g. prices paid by wholesale-agents to farmers, prices paid by whole-salers or retailers to commission-agents or prices paid by retailers to wholesalers or farmers. If the difference between these prices is substantial, this should be reported, if not, this distinction should be omitted to avoid unnecessary confusion. Heavy fluctuations during the day have to be reported too.

— Consumer prices. Until August 1972 consumer prices were collected as part of our study. However, because of selling by units other than weight and because of bargaining it was difficult to determine reliable prices.

(It should be noted that it is useless to give prices without making any distinction in quality and without any relation to a standard unit. These problems of standardizing and grading are dealt with in the next chapter).

If it is impossible to include these prices in the daily reports, the following market data should be added as soon as possible:

— Daily supply. To obtain a clear picture of the market situation this information is needed in addition to the prices.

— Expected supply and demand for the next day(s). Based on this information the farmer can make better decisions as to harvesting or sometimes postponement of harvesting.

As most Surinam people have a radio the reports should be broadcast. This has to be done at an hour that most people interested are able to listen. Besides, a suitable method to announce prices is to write them on notice-boards in the market-place.

As mentioned earlier the long term expectations are important as well, especially with respect to production planning for both farmer and Government.

The Surinam situation is an illustration of the problems that occur when estimating the future supplies. The high prices of vegetables during the last years seem to indicate a shortage of these commodities. This is partly caused by the expansion of the city of Paramaribo, resulting in a reduction of available land in the main vegetable producing area. Recently, however, two potential vegetable growing areas have been added; the newly cleared 'Tijgerkreek-West' area, partly planned for vegetable production, and an area of about 1500 ha, favourably situated along the 'Garnizoenspad' (a main road connecting Paramaribo with the district of Saramacca). If only ten percent of this area will be used for vegetable growing, this will increase the total vegetable area with about 25%. The eventual effect of this on the supply of vegetables, on prices and on farm incomes, is unknown. This makes clear that a strategy for vegetable production requires medium and long term information. The expected consumption is closely related to this. Whether lower prices stimulate vegetable consumption is a subject presently being studied by the senior author.

Finally, it should be noted that data on prices and supply are difficult to collect. For the sake of reliability this has to be done by independently acting and objectively judging officers. These officers should belong to a marketing service preferably resorting under the Department of Agriculture or perhaps under an independent marketing agency.

### **Standardizing and grading**

It is virtually impossible to obtain useful information on prices when exact units or classifications are lacking. Thus, in a country where standardizing and grading are nearly completely absent, introduction of these physical functions is a first requisite if a market information service is wanted. However, some aspects have to be considered before grading can be introduced. An important question is whether the consumer prefers graded products. The answer is yes, but at the moment it is not known to what extent qualities are preferred. The results of the study on vegetable consumption might give more information on this. A number of vegetables are already being sorted and graded by some retailers and higher prices are paid by the consumers for bigger or better-looking products. This holds among others for tomatoes, French beans, eggplants and bitter cucumbers. Some sorting takes place at wholesale level and for products intended for export or for contract delivery.

Another aspect is the possible expansion of the export which is probably needed for the larger production from an increased production area. Presently, enlarging the export will not be very easy because of the relatively high production costs and the unfavourable geographic situation of Surinam resulting in high transport costs. Nevertheless, grading is a requisite for export. It is important too should processing of some products be initiated.

Summarizing it can be concluded that grading of vegetables is necessary in Surinam. Both a market information service and the export require grading and the consumer prefers it. Furthermore a possible processing industry may need it. However, a successful introduction also depends on the willingness of the farmers. They will only co-operate provided it pays them to grade. We are convinced that this will be the case since the wholesale-agent can pay better prices because in case of export and contract delivery he does not need to grade himself. Furthermore, the quality of the offered products is easier to control and the farmer has a better bargaining position because through the market information service he knows the prices which are paid for his quality. Once convinced that grading has to be introduced the problems of classification comes next. To tackle this a study has to be made of the demands of the various consumers like households, institutes, exporters and processing industries. Some information can be obtained from the grading that is already being done by a few retailers. Broadly speaking grading should be based as much as possible on existing practices, e.g. on size, freshness, colour and shape. If export has to be taken into account international standards must be applied. We think of CARIFTA or EEC standards. Sometimes the processing industry has its own requirements concerning size, shape or acidity of the products.

Together with grading, weighing should be introduced in wholesale and in retail trade alike. This is another prerequisite for founding a market information service. It is useless to give prices in units such as bundles or baskets, since they vary in weight and size.

Retail trade by weight does not mean that all traditional units are to be abandoned. What has to be done is to weigh the bundle or the heap; this already occurs with cabbage and French beans. It is also advisable to oblige the retailers to write their prices on cards so that comparison is made easier for the consumer.

At wholesale level the extension of trade by weight can be executed in different ways depending on the nature of the products. For commodities that are packed in traditional wholesale units, the easiest way is to standardize weight. In that way the standard weight of a crate of top grade bitter cucumber might be between 13 and 15 kgs or a one-layer box of medium grade tomatoes (preferable to a two-layer box for easier quality control) might contain 2.5 kgs. For other commodities, supplied in traditional units like bundles or bunches, weighing seems the best solution.

When introducing new packing units it is good to keep the following in mind:

- The smaller the basket, crate or box the better.
- Care has to be given to good ventilation of the products packed, to avoid quick deterioration.
- Sharp parts in the packing material causing damage to the products have to avoided.

- Round units take up more space and may possibly lead to more transport and store costs.
- Eventually, new packing units should preferably be made from locally produced material (Abbott, 1970).

### **The role of marketing co-operatives**

Too much is often expected from the role co-operatives can play in marketing agricultural produce. The two Surinam marketing co-operatives illustrate a general phenomenon as to the major bottle-necks of the functioning of co-operatives in less developed countries. These are:

- Lack of proper management.
- Limited support from members.
- Lack of confidence on the part of the members in the co-operative ways of trading.
- The distance from producers to the market is too short. In periods when prices are high, farmers either do not deliver their produce to the co-operatives or merely send them inferior qualities; they go to the market to sell their own produce.
- The minimum size of the regularly marketed quantity is too small.

As long as these bottle-necks are not removed, co-operatives will not be able to play an important part in the marketing of vegetables. Once these problems have been solved, co-operatives can be of much help in improving marketing by mutual training of their members in, for instance, packing and handling their products. They also can be an important factor in strengthening the bargaining position of the farmer.

### **Wholesale and retail markets**

Wholesale trading takes place at the Paramaribo Central Market. This central trading is regarded as correct since the vegetable market is rather small. Even if other markets would gain in importance it must strongly be dissuaded to split up the wholesale trade over different markets. In view of the small size of the vegetable market such a split would mean a worse functioning of the price mechanism.

Retail trading takes place mainly at the Paramaribo Central Market, but vegetables may also be obtained at the former temporary market which is planned to be extended now, in mostly small vegetable shops, in supermarkets and from streetvenders mostly selling without a licence. Decentralization of the retail trade is advisable, but this should not lead to a larger number of retailers insofar they are dependent for their living on the sales of vegetable only. Such a decentralization might be realized by improving or enlarging the ser-

vices at the existing retail points in Paramaribo and not by building a new markethall. These services, which are supposed to be rendered at the Central Market, need to comprise a larger assortment, generally fresher products, lower prices through more competition and a reduction of the chance of finding a product sold out.

Improvement of the retail trade at the Central Market has to be accompanied by removing the chaos that exists outside the market, a situation which is caused by busy traffic, the occupation of nearly the entire sidewalk by 'illegal' traders, and the lack of sufficient parking space for various types of vehicles. If the market regulations, which in some cases have to be adjusted, would be adhered to much of the chaos inside the market-place could be avoided.

### **Marketing margins**

In a previous article (Houtman & Cellarius, 1973) wholesale and retail margins were discussed. Without an exact knowlegde of what services traders render and what costs they make, it is impossible to judge whether a margin is high or not. For a reasonable assessment of these margins a study of costs and an evaluation of the services rendered have to be made. The first of these is rather easy but the latter is much more difficult. To illustrate this we quote some remarks made by Kriesberg and Steele (1972) on this subject:

'Marketing firms, agencies, institutions, and middlemen are involved in many activities that add utility to the final good or service. Resources are required to perform any of the activities keyed to fulfilling the marketing functions and utilities desired by consumers in the final goods and services. Each of the resources used has its price.

Consequently, each marketing activity has a cost. This is true regardless of who performs the marketing activity;...

The question of how much it costs to perform the activity at a given point of time, or under a given set of circumstances, is a factual one; costs can be measured and analysed with objectivity. Resolving questions about what the performance of particular marketing functions should be or should cost, or by whom they should be done, involves socio-economic value judgements which lay outside the competency of marketing technicians.

Two common measures used to evaluate marketing performance are:

- (1) the farmer's share of the consumer's food expenditure, and
- (2) ..., the gross marketing margin, ... These statistics are often misunderstood and, consequently, are misused. For example, the gross marketing margin may be low because marketing activities are being carried on at low cost. But, the margin may also be low because the marketing system is providing few services. (...).

The question remains, then, whether it is more important that the farmer receives a larger share of the consumer's expenditure, or that the consumer be able to purchase more services. It might also be possible for the farmer's share to remain constant while prices paid by consumers and services provided then are rising.

Thus, objective measurements of prices and margins as reflection of costs become extremely important inputs in marketing efficiency considerations. The costs of performing specific marketing activities must be evaluated on the basis of the prices of the inputs. This is not a particularly difficult compilation for inputs that have known market prices, such as labor, containers, raw material, and the like. Equitable charges for other inputs, such as management and capital, may not be as easily evaluated. The marketing economist turns to concepts such as normal profit, risk factors, and opportunity cost in such evaluations. (...)

Profits in excess of opportunity costs, i.e., in excess of what could be earned in their next best alternative, are extra normal. They are a source of inefficiency in the marketing system, because they inhibit the flow of scarce resources, and are regressive since the price of the commodity in question is artificially raised.

Consequently, more consumer income is spent for the good than would be the case in the absence of extra normal profits, and total consumer satisfaction is less because other goods desired cannot be demanded with a reduced income'.

The above shows that it is impossible to make regulations for fixed margins or maximum consumer prices if exact data of both marketing and production costs are lacking, even when we know that exorbitantly high profits are made in some cases. On the other hand, as a start, some constraining factors obviously causing present high prices should be removed as soon as possible. For example the large number of retailers in and around the Central Market has to be reduced. Especially the retailers with low turnovers have to disappear (Cellarius, 1972; Houtman & Cellarius, 1973). It is clear that a solution has to be found for the then created problem of leaving some people without an income. However, for a well-functioning marketing system with reasonable consumer prices, which is required for a sound development of vegetable production, the market has to fulfil primarily its economic function, something which is not the case at the moment.

### **The role the Surinam Gouvernement**

Lately two governmental services were involved in the marketing of vegetables. Their importance is hardly worth mentioning. Recently one has been

closed down whereas the other one does not respond at all to its original intentions. A number of factors caused this failure; an analysis of them is given by Cellarius (1972).

As the circumstances in which operations take place are still the same, it is important to avoid any governmental involvement. After the disappointing experiences it is a waste of energy to try to found a new service that acts as a wholesale-agent. Such an institution must render the following services:

- Improvement of marketing structure.
- Higher producer prices.
- Lower marketing margins.
- Lower and stable consumer prices.
- A guarantee for more farmers to be able to sell against reasonable prices.

If the Government wants to act in this field, in our opinion she should do this indirectly. The Government should stimulate and coach activities which lead to an improvement of the marketing structure, including:

- Market and marketing research — regulation of the marketing mechanism (see below).
- Marketing information and news services.
- Quality improvement and standards.
- Sales promotion and advertising.
- Institutional improvements.
- Investment and credit.

All these activities could be housed in existing divisions of the Department of Agriculture. Only a few divisions would need some reorganization.

For the sake of completeness it is to be noted that the foundation of an auction has to be dissuaded strongly. This form of wholesaling would give lots of troubles which among others are caused by:

- The large number of suppliers most of them delivering very small quantities.
- The large number of buyers often only demanding small quantities. Trade would take too much time.
- Coming into existence of a monopsonistic situation. In Surinam this happened before when some important wholesalers bought everything; the system was then used by a governmental marketing service.
- The requirement of an extremely good organization which would mean observing many regulations.

## **Market regulations**

Satisfactory market regulations are indispensable to have trade pass off. But regulations are functional only provided they are punctually observed. If not, they only give rise to confusion and injustice. Moreover, a reintroduction of

obeying the rules is very difficult. This is in fact the situation at the Paramaribo Central Market. Regulations do exist, but they are not punctually observed. Thus, in our opinion, many complaints of discomfort and favourism would disappear if observance of the - probably in some cases to be adjusted - regulations will be reintroduced. Such regulations might settle (e.g. FAO, 1968):

- Coordination of the activities of the responsible agencies (authority, private agencies) that are involved in the establishment and operation of the market.
- Market administration covering supervision and control over incoming and outgoing produce, maintenance of market facilities, etc.
- Internal market by-laws should be established in order to secure keen market practices and fair return to the grower (e.g. charges of the various market operators, selling methods, etc.).
- Assessment of market fees and control over the collection.
- The range of produce to be handled at the market.
- The level of trading allowed to operate at the market, e.g. producers, wholesalers, commission-agents, retailers and co-operatives.
- In order to obtain supply and price information and to facilitate the collecting of market fees (if based on turnovers), control procedures could include the recording of incoming produce and of sales (quantity, price, seller, buyer). Some of these measures will be of much use if data for a marketing information service are to be collected.

In this context the responsibility of the authorities in providing adequate facilities has to be stressed. Firstly, this has to be regarded as a service of public interest, as the private sector in most developing countries is either reluctant or not in a position to invest in this public sector. Secondly, the authorities are able to impose the necessary market fees and service charges to cover more or less the overhead and running costs, at least when the markets have been planned according to real needs.

Nevertheless deficits may appear in the initial period as some reluctance amongst dealers to make effective use of the new facilities may have to be overcome. In most cases a governmental contribution and/or loans on preferential terms have to be provided for to realize such projects. Vested interests among some established traders presently using their own but obsolete premises may also delay the construction or, such as in the Surinam situation, the improvement of a central (wholesale) market, as generally these traders have some influence on government decisions.

### **Final remarks**

The processing of vegetables, which often plays an important part in stabilizing prices, does not exist in Surinam. It is recommended to pay more atten-

tion to this activity. A not imaginary possibility of over-production exists as a consequence of the recently increased production area. In order to substitute the import of some (processed) food, processing is equally necessary.

Credit facilities have not been discussed here because at this moment virtually no institutional credit is used in the marketing activity of vegetables. Though sometimes credit is provided to the producer and retailer by the wholesaler and commission-agent, it is not exactly known to what extent. A first impression of recent investigations is that vegetable growers are not much involved in these practices. However, a study of the effect of better credit facilities on prices is recommended.

A small number of wholesalers control the wholesale market. This way of trading is institutional. It is not recommended to exclude this important group when the structure is changed, because of their ample knowledge of what is going on at the market.

During the fieldwork at the market it appeared that some of these traders, realizing that something has to be changed, are willing to co-operate with the introduction of some improvements (Cellarius, 1972). With this knowledge we venture to suggest that in case the Government really wants to improve the marketing situation and provided the co-operation of the traders can be obtained, the reorganization could be done in a relatively simple way.

If the producer obtains higher prices for better quality, he will try to produce more of it. This may lead to the introduction of new production methods. The higher the returns for his efforts, the quicker he will take the risk of introducing new techniques. An improvement of the marketing structure has a positive impact on the production structure.

In the market-place retailers are able to store their produce in boxes below the counter. Besides, the cold-store next-door can be used at fixed rates by both retailers and wholesalers. This facility is mostly used when prices are high and is meant only to store the vegetables for a couple of days so as to prevent them from rotting. This sort of cold storage cannot have any price-leveling effect which may occur only when prices are low and vegetables are kept until they become expensive. We therefore recommend a study of the possibilities of cold storage, and in connection with this an investigation of the temperature requirements for storing the various vegetables.

## References

- Abbott, J.C., 1970. Marketing fruit and vegetables. F.A.O. Marketing Guide No. 2, Rome.
- Cellarius, G.W., 1972. De afzetstructuur van groente in de omgeving van Paramaribo. CELOS Rapporten, 70, Paramaribo. (internal report Dutch)
- Creuplandt, H., 1968. Marketing structures and enterprises, F.A.O. seminar on the marketing of fruit and vegetables in Africa, Nairobi (Kenya), 16–28 sept. 1968.
- F.A.O., 1968. Retail and wholesale markets, F.A.O. seminar on the marketing of fruit and vegetables in Africa, Nairobi (Kenya), 16–28 sept. 1968.

- Houtman, C.B. and G.W. Cellarius, 1972. Marketing vegetables in Surinam I. Surin. Land. 20 (2): 34—43.
- Houtman, C.B. and G.W. Cellarius, 1973. Marketing vegetables in Surinam II. Surin. Landb. 21 (1): 12—20.
- Kriesberg, M. and H. Steele, 1972. Improving marketing systems in developing countries (an approach to identifying problems and strengthening technical assistance). For Econ. Dev. Serv., U.S.D.A. co-operating with U.S.A.I.D.