

Title Empirical analysis of marketing margins for selected agricultural commodities: Fruits and vegetables

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Abstract

For decades, the main agenda of agricultural policies comprised improving farmers' and smallholders' income since Malaysian farmers remain relatively poor and mainly comprised of the low-to-middle income groups (Economic Planning Unit, Malaysia). In Malaysia, a large number of farmers have produced agricultural products on small scales for decades, using traditional production practices, operating on scattered and unorganized farms, and having difficulty to compete with commercial producers, particularly for fresh crops. Prior research revealed that Malaysian farmers sold their products based on consignments to wholesalers, collectors, traders or marketing agents, as a result, farmers often had limited pricing power (Mohd Arshad and Mohd Noh, 1994). Market structure was becoming more concentrated. According to Food and Agriculture Organization (FAO), the number of vegetable suppliers in Malaysia had been declining (200 in 2001 to 30 in 2003) due to highly competitive supermarket and hypermarket chains in agricultural industry forces small growers to seek lower products and transaction costs to minimize risks. These chains, also, will not contribute to the investment at the farm level for small growers in participating new global markets as most of them lack of capital in investing the commercial business practices. Hence, growers have difficulties in supplying fresh produce in the market, for example, the number of vegetables suppliers have been tremendously declining, from 2,000 in 2001 to 300 suppliers in 2003 (FAO, 2005). Subsequently, the main objectives of this study comprised to estimate the size of marketing margins for selected agricultural subsectors in Malaysia, focusing on fruit and vegetable sub sectors and to measure the extent of price transmissions among the different levels marketing and distribution chains. Cross-sectional time series data of 30 years (1980-2010) was utilized in this study and the data was analyzed by applying relative price spread model (RPS) approach (Wohlgenant and Mullen, 2001) which widely used in similar previous studies. The scope of commodities involved both fruits and vegetables, including chili, tomato, cabbage, cucumber, Brassica, starfruit, papaya, mango, pineapple and watermelon. Marketing margins or farm-to-retail price spread referred to the differences between retail prices at market level, which is paid by the [mal consumers and farm prices at farm-gate level, which received by farmers. The calculation of

relative marketing margins for vegetables showed that cucumber was the highest (62.6%), while mango (73%) was the largest, implying the farmers received the lowest shares for those commodities, ranging 37.4% to 39.1 % in average. RPS model had been applied to individual selected crops in this study, and the result showed that cucumber (1.0363) was highly elastic to the marketing margins or farm-to-retail price spread, followed by chili (0.5643). The coefficient values also revealed that market prices were significant factor in determining the level of marketing margins for vegetables in Malaysia. The findings suggest that the cost of marketing services, e.g. transportation cost, showed negative relationships and impacts significantly on the marketing margins for all selected vegetable crops. For fruits, starfruit (1.2618) and watermelon (1.0552) were elastic to the changes of marketing margins. The coefficients suggested that market price was important factor in each level of marketing margins. However, the coefficients of marketing cost showed that only papaya (-0.0004) and mango (0.0148) were negatively related to the margins. The findings of this study indicated that market price was an important factor in determining marketing margin for fresh fruits and vegetables in Malaysia that due to the elastic nature of marketing margins, middle-men gained disproportionately as compared to farmers, resulting of increases market price for fresh fruits and vegetables.