

**ROLE OF MARKETING COOPERATIVES FOR INCREASING FARMERS
PARTNERSHIP IN THE MARKETS**

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ROLE OF MARKETING COOPERATIVES FOR INCREASING FARMERS PARTNERSHIP IN THE MARKETS

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1. INTRODUCTION

The growth of the Albanian economy and the economic stability are conditioned from the growth and the development of the agricultural sector. After 1990, the big changes of the economy affected also the change of the GDP structure in favor of agriculture. Because of the massive damages and the drastic reduction of the production levels in general and especially in other branches of the economy like industry, transport, services etc it results; that starting from the year 1992 to 1996 agriculture stands for about 54% of the GDP. Because of changes in the methodology of calculation, the economic restructuring and the better assessment of the economic indicators in the other branches of the national economy, a remarkable decline of the agriculture's specific weight in the GDP is noticed, starting from 54.6% in 1995, down to 30.8% in 1996 and yet 28.1% in the year 2000, which is the last year calculated with the new methodology. The decline in the specific weight of agriculture in the GDP structure does not mean that agricultural production has also declined. On the contrary, even in the period 1996-2002 it increased by 3% to 4% each year, except for the year 1997 when the collapse of the pyramid schemes resulted in a total collapse of all branches of the economy.

2. FARM'S SOCIO-ECONOMIC PROFILE IN THE AREA

According to the study, in Albania family farms activity in these areas can be classified into three groups: First group includes a part of the farmers in the surveyed area whose main objective of their activity is self-consumption. Survey data reveal that this group accounts for about 21% of farmers in this area. Second group includes the farmers who produce for self-consumption, but sell product surpluses as well. This group accounts for 64% of farmers in the surveyed area. Third group includes about 15% of farmers in the study area that produce mainly for selling. As we can see above the main problems that must be overcome are: increasing production level towards market, as well as organization and functioning of marketing structure of the agriculture products.

3. MARKETING OF AGRICULTURAL AND LIVESTOCK PRODUCTS ADVANTAGES AND BARRIERS

In Albania, farm households market driven production hasn't grown to the level of an authentic objective yet, because market driven farm households (First group) themselves are not so numerous. Also, farm households that produce for self-consumption (Second group) sell part of their products (surplus). Finally, there is another category of farm households (Third group) that sell products, which can be considered surpluses under no circumstances since from the very beginning they are intended to be sold in order to obtain necessary financial means for fulfilling farm households' very basic needs.

Following this study, farm households' marketing as regards particular crops. The fact of the matter that marketing activities for products which make up basic consumption of Albanian farm households (Wheat-28%, Beans-29%, Potatoes-26%, Vegetables-21% and Fruits-24%) is relatively low evidences high levels of self consumption for these products within farm households. The situation is completely different with tobacco for example, whose marketing is relatively developed -75% of farm households that produce tobacco sell it.

From the study results that agricultural products markets according to their importance rank as follows: Center district, Local market, Village and Road, Other villages, Center of other districts, directly to the purchaser. Regarding sales of live animals the importance ranking of markets is as follows: Local market, Village, Centre district, Directly to the purchaser, Centre of other districts.

According to the study, there are some difficulties for selling products in general, such as, lack of permanent market place 33%, lack of provision enterprises 25%, transport problems 15%, willful decline of prices 14,%, lack of processing enterprises 9%, etc.

Regarding the kind of obstacles that farmers face while selling their crops outside their district or abroad, from the study results the following ranking: Transportation problem is most important, then Other problems (such as lower quality of their products in comparison with the imported ones, inadequate appearance of their products, lack of time to go to the market, competition from local producers of similar products). Obstacles such as Troubles on the road to the sale place and High custom taxes result insignificant.

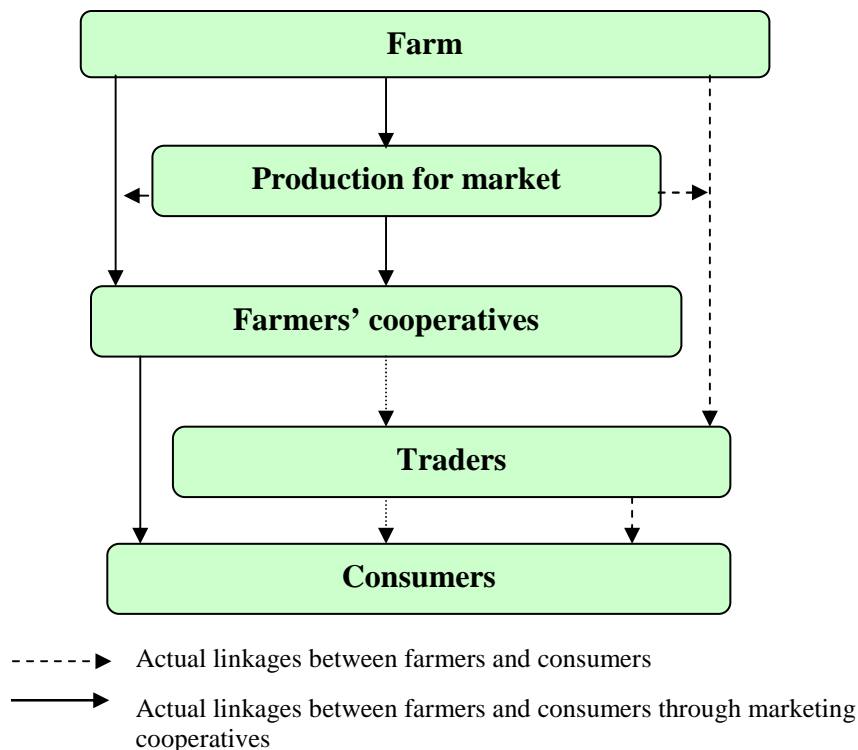
Most respondents regarding the difficulties that they face while selling their products in general indicated Lack of permanent market place as most important. Then, they indicated Lack of provision enterprise, Transportation problem, Willful decline of prices, Lack of processing enterprise and other problems (regarding inputs and irrigation competition from imported products).

Consolidation of the farm activities, and farm specialization as an important point for market oriented farms. Specialization and increased production requires well-organized marketing channels for efficient and good operations on the markets. This process demand distinguishes between farm "input supply" sectors 'farm' and 'processing' sector and the farm must be focused only on the production activities.

4. FARMERS' COOPERATIVES AND ITS ROLE IN VERTICAL INTEGRATION

4.1. Farms and their position in the markets

Analysing farms' production systems we can recognize that in every case farmer try to be in its classic position, as a producer of agricultural and dairy products. But, this position can' take him aside from possibility looking ahead, to exploit trade intelligence, thinking about the trade and future prices for its products, also to be part of marketing system for these products, as it is illustrated in the following scene.



Relying on the reality in the country, we can distinguish three possibility of farms orientation: production oriented farms, trade oriented farms, marketing oriented farms.

Looking at marketing oriented farms, farmers try to benefit from the marketing system of its products, which involve its commitment in some activities like:

- Storing of product for future selling, waiting for profitable prices in the future: farmer benefit from time utility that marketing system gives to its products
- Product processing (cleaning, sorting, categorization with respect to quality, standartization, aiming increased future prices);
- Selling of product, through the first marketing chanel, directly to last consumer, forward vertical integration;

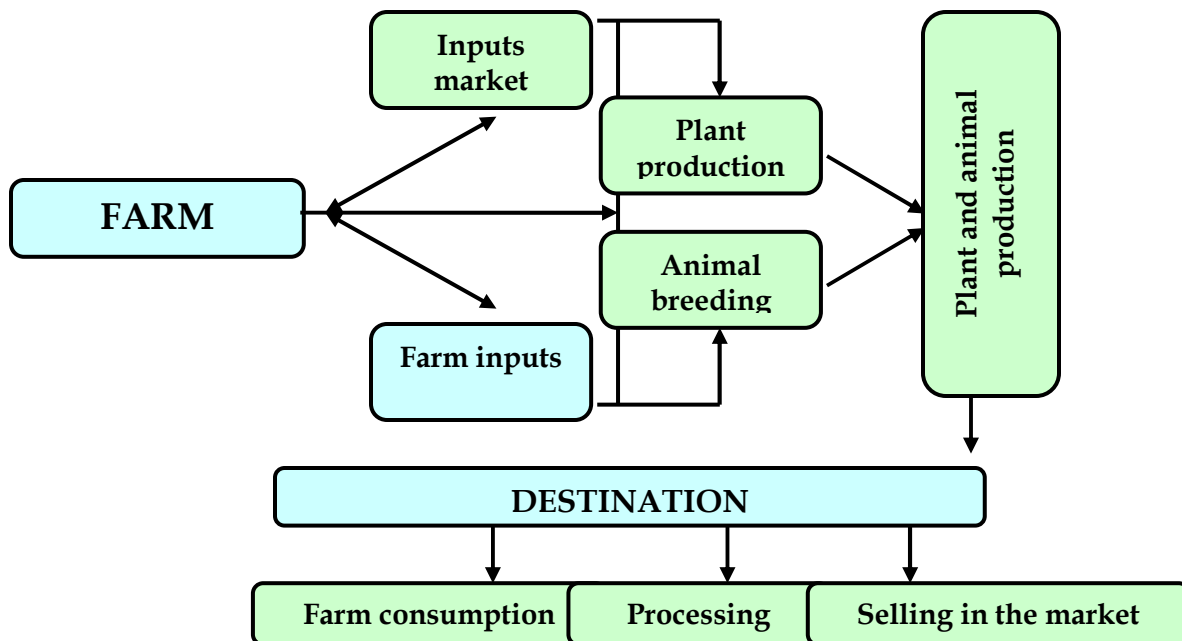
Farmers' participation in such activities, like joining potential benefits coming from these activities can be accomplished only through marketing cooperatives.

4.2. A brief analysis about farm system activities

To judge about the ways that evolution development of farms must follow, aiming integration with agri-industry, it is necessary to know and evaluate some features that caracterizing actual Albanian agriculture development such as: **existing farm structure, farms orientation, complexity level of production systems, level of profitability for each level of production activities, etc.** To know and analyse these features help us identifying even the most rationale alternatives of their activities, **dealing with way of organizing these activities which can be individually or**

cooperation between different groups of farmers and for which defined level of their production activities.

Studied conducted show that family farms generally are characterized from very complex production systems, as a consequence this complexity involve a large number of production activities like: cultivation of agricultural plants and agricultural production, animal breeding and dairy production, securing the necessary inputs for production, selling of production in the market and processing as you can see in the following sceme.



Cultivation and plant production involve a large number of plants, also animal breeding and production systems involve a large number of animals. This because of perceptetion logic of production systems itself is projected for supporting objectives like: securing food needs for the family, increasing production for the market, incresing production efficiency, minimazing economic risk, etc. Securing production inputs, products marketing, processing are other difficulties for the farmers. This is dedicated mostly type of these activities, which, qualitatively are different from agricultural and animal production activities. Meanwhile must not forget that bennefits as an effect of “*scale economy*” are larger compare than production activities.

4.3. Challenges that must be faced

It is obvious, the more complicated the production systems activities of the farms, the more difficult is for farmers to handle these activities. This because of they have to be engaged in the same time in all levels that this system involve. Certainly this result with consequences for the farmers because of their engagement in many activities, specific specialization that some of them require and inability of farmers to handle them, also financial difficulties of the farmers for individual engagement in those activities that are more profitable for them.

In this context, naturally rise the problem that in which level of production activities farmers must be engaged, ways of engagement (individually or cooperation) and even more, how farmers can participate in those level of their production activities where benefits as an effect of "scale economy" are very large?

5. FARMS, AGRI-PROCESSING INDUSTRY AND VERTICAL INTEGRATION?

Why is needed vertical integration, is it a possibility for faster rhythms towards development of agri-processing enterprises? For answering this question it is necessary: First, **enterprises itself must be aware if they face problems like, limitation in agricultural domestic supply, problems with actual forms of organization of production in agriculture, limitation in agricultural supply as an effect of fiscal policies, limitation in products marketing development, lack of farmers' partnership in the markets, lack of contracts and lack of enforcement instruments, lack of supporting policies for comparative advantages, limitation in production capacities.** Second, **enterprises itself must appraise effects of transaction and administration cost that they face or can face in the future.**

Above analysis, considering a significant number of agri-industry enterprises, lead at the conclusion that, **they face every day in their activity with difficulties in assuring raw materials, assuring quality of raw materials and about the cost of raw materials.** This is the reason that **vertical integration, backward (in assuring raw materials) and forward (until to final consumers) is a necessity.**

Taking into account that product path from producer to final consumer, engage some intermediate steps, so called value chain, **through vertical integration enterprise itself establish this value chain that includes a number of steps like: new product development, production, marketing, distribution, relation with wholesalers, relation with retailers and finally assuring services for clients for the sold products together with added benefits from added value in every step of value chain.**

Often happen that these steps are separated from each-other, means that particular enterprises cover each-other. In this case, **movement from one step to another result in transaction cost, which vertical integration avoid, but on the other hand administration cost rises, considering the fact that even when these steps in the chain belong to the enterprise they have to be administrated.** Not only theoretically, but several studies conducted in this field show that **level of costs belong to the first group (transaction costs) is relatively higher than costs belong to**

the second group (administration costs), for this reason coordination of a certain numbers of steps within enterprise (vertical integration) is considered as an rationale action. Generally by evaluating our enterprises operating in agri-processing industry, it can be concluded that in actual situation we can discuss only for very partial integration, where benefits are lower compare to full vertical integration.

Referring to what is discussed above, it can be concluded that **vertical integration is one of the most important strategy for development of agrobusiness enterprises.** This expanding strategy means **expanding of enterprise businesses in two possible directions in relation with production and distribution of products.**

In a concise manner we wanted to emphasize that vertical integration is characterized with a lot of advantages, but in the same time there are some possible disadvantages:

ADVANTAGES	DISADVANTAGES
Inside bennefits	Inside costs
Vertical integration of enterprises leads to reduction of costs as a result of: ⇒ reduction of some activities ⇒ reduction of general double expenditure ⇒ reduction of costs depending on technology improvement.	Increase in general expenditure as a result of mix activities in the enterprise.
Vertical integration of enterprises enable: ⇒ improving coordination of activities ⇒ reduction of inventory costs, etc.	Added costs, over capacity as an result of integration of plants.
Vertical integration of enterprises enable time reduction for: ⇒ determination of price in the shop ⇒ communication regarding model details ⇒ contracts negotiation, etc.	Weak organization of vertical integration can lead as an consequence to increased costs.
Competitive benneficiaries	Copmetitive risks
Vertical integration of enterprises enable: ⇒ Securing necessary inputs for production.	Difficulties to get rid from old processes
Vertical integration of enterprises enable: ⇒ an effective marketing development.	Creation of mobile barriers
Vertical integration of enterprises enable: ⇒ added benefits from products' differentiation (more products increasing value).	Connect firms with similar businesses (which sometime can be "seak")
Vertical integration of enterprises enable: ⇒ larger control of economic environment of the firms (market power).	Loss of information axes from the suppliers.
Vertical integration of enterprises enable: ⇒ more reliability of the products.	Overestimation of amalgamations through vertical integration.
Vertical integration of enterprises enable: ⇒ Better control over all enterprises' activities.	Accelaration of integration (decision-making for integration before thinking about the best way of implementation).

Source: Harrigan (1985)

Anyhow, it is worth considering vertical integration of agri-industry enterprises even for the reason of some other problems that this industry faces. Some of them are listed below:

- Lack of information regarding selling markets for different products.
- Lack of contracts, also difficulties in implementing contracts' enforcement instruments.
- Organization and performance of fiscal system.
- Increase market competition
- Low level of buying power of retailers.
- Existing disproportion in levels of received benefits between producers and retailers.
- Products quality and health assurance.
- Products falsification etc.

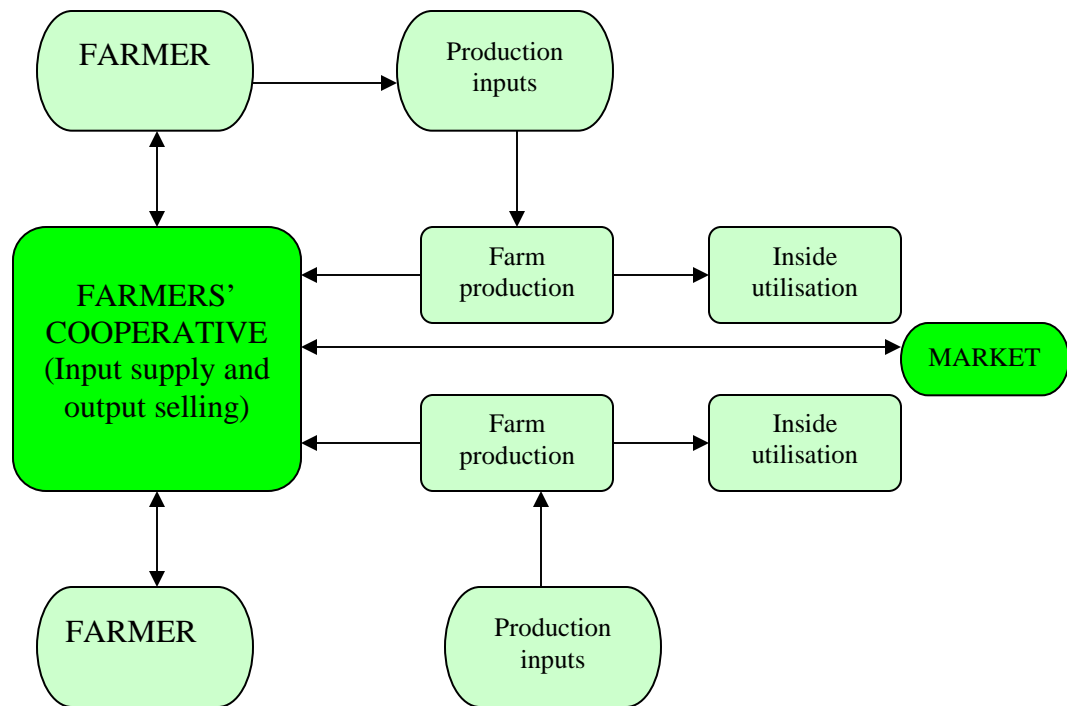
6. MARKETING COOPERATIVES AND ITS ROLE IN PROMOTING INTEGRATED DEVELOPMENTS

Consolidation of farms' activities, and in this context further specialization of production in farms towards market, finds out the need for simplification of farms' activities system. This simplification deals with separation of farm from inputs sector, from processing and marketing of production (selling it in the market). Fulfilling this objective require selforganization of farmers through cooperatives, where marketing cooperatives play a very important role for their integration in the markets.

What is a marketing cooperative? A marketing cooperative is a economic organization with juridical entity status, organized based on member union and not on capital unification. Members are owner and users of cooperatives' business and benefits are distributed based on activity of each members of cooperative. A marketing cooperative distinguish from other forms of agribusiness organization regarding three fundamental principles:

- **Users' utilization principle.** Meaning that the owners of cooperative are the ones that use it.
- **Users' control principle.** Meaning that cooperative control is done by its users.
- **Users' benefit principle.** Meaning that cooperatives benefits are distributed to its users based on their activity.

Referring to the above information, below is presented in scematically way how a cooperative can be organized regarding the marketing and supply sector, which is the farmers' position (members) in it, and its role in farmers' integration into the agri-industry enterprises.

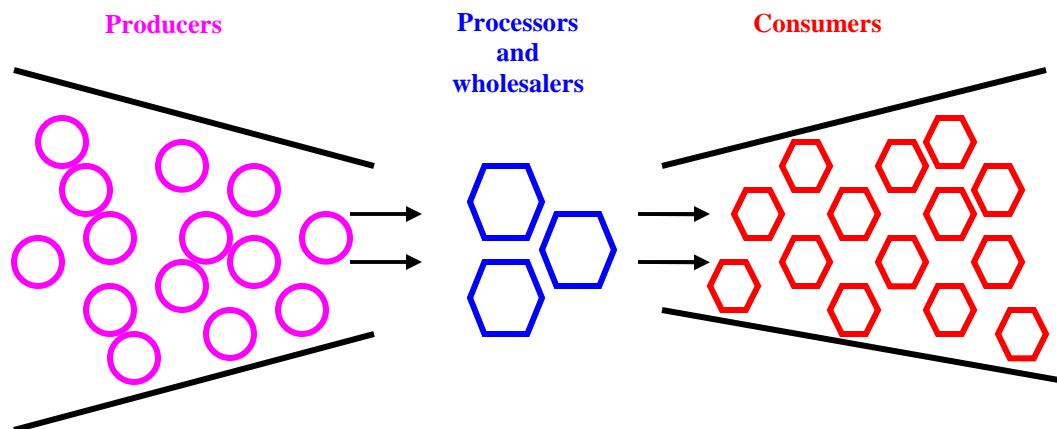


As it is shown above, the only function of farmers is production activity on the farm, meanwhile the other functions are running from cooperatives.

6.1. Potential benefits from cooperatives

Referring to the above scheme, we are going to identify which are the potential benefits that marketing and supply cooperatives offer:

⇒ Being focused on production, farmers can be partners in the markets, as a result of an larger supply, it is very well known that actually in the markets producer supply (which is a individual supply) face always a aggregated supply



- ⇒ Cooperatives enable farmers for their vertical integration. As a result of being member of cooperative, farmers can assure markets for their products, and agri-industry enterprises can assure raw materials. As a consequence farmer will consider itself part of agri-industry enterprise and in figurative way will consider itself as part-time employer in enterprise.
- ⇒ Farmers can benefit not only from farms' activities, but even from "*added value*" created by product along different steps of marketing channel, as a result of cooperatives' activities.
- ⇒ As the size of agriculture enterprises increases, cooperatives enable farmers (members) receiving more benefits coming from "**scale economy**".
- ⇒ Cooperatives will enable farmers getting more benefits from other levels of production activities (outside production), these benefits can't be provided from other organization forms.
- ⇒ Such cooperatives can exercise sensitive pressures in competitive market environment, by offering high prices for products coming from members and low prices for inputs. That's because cooperatives are very flexible in price policy determination.
- ⇒ Another function of cooperative can be fulfilling demand and needs of consumers, despite the fact they are cooperatives' members or not. This function involve all business activities between clients members and their cooperative, also involves activities that orient products and services path from cooperative until final consumer.
- ⇒ Reduction of individual uncertainty by risk diversification is other important function that cooperative can offer.
- ⇒ Cooperative try to lower market power of other businesses, by doing so favor its members. This is realized by increasing consumers' reliability, by producing with brand name, by offering necessary services etc.
- ⇒ Cooperative can try for assuring quantity and quality of product, necessary for fulfilling markets' requirements. In this contexts must be emphasized that

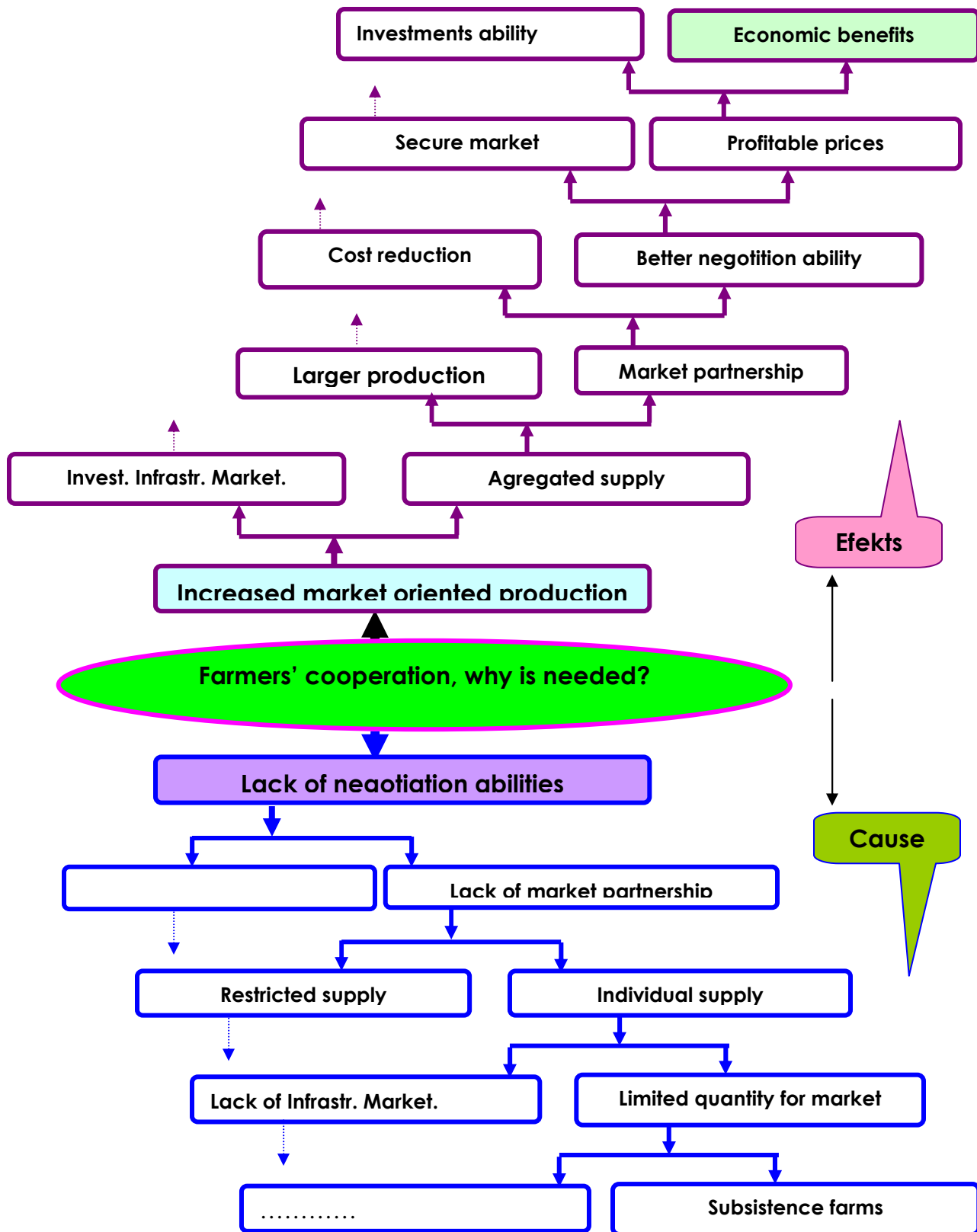
- cooperative can get information and offer advices encourageing production and marketing practices, which can lead to higher revenue.
- ⇒ Finding inputs' markets and products' markets, are two most important advantages that cooperative offers. This is a big problem, especially for the farmers that produce sensitive products (fruits, vegetables).
 - ⇒ Cooperatives' activity can increase politic influence to government. As a result legal and administrative rules can be established in favor of cooperatives' business.
 - ⇒ Benefits from cooperatives' activity exceeding its members, benefits go not only to the members but also to the community in general. These kind of benefits can be locally or regionally.

Considering what is discussed above we can conclude that a cooperative is the most appropriate alternative for helping family farms. Credits' and supplies' cooperatives can help farmers increasing operating performance to reach big economies. Marketing and processing cooperatives can help farmers securing markets for their products.

7. DECISION-MAKING FOR COOPERATIVE ORGANIZATION

Organization and functioning of a cooperative is certainly a difficult enterprise. In any case to get into suces in this activity is necessary **knowing closely all problems that farmers face, detrmining clerly targets that must be reached, also farmers must be aware for the necessity of being organized in a cooperative.** All what is discussed above contribut to the suces in decision-making, as you can observe in decision-making tree below.

MARKETING COOPERATIVE



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