

Role of wholesale markets in fresh fruit and vegetable distribution in Hungary

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Summary: The primer function of fruit and vegetable wholesale markets – which was the physical concentration of supply and demand previously – is changing gradually as consumer habits change and logistics functions (e.g. product manipulation, redistribution without the physical presence of the product) become more important with the technical development. Mainly individual growers sell their product to retailers at the Hungarian regional producers' markets and the Budapest Wholesale market on Nagykörösi Street, which is the largest wholesale market in Hungary regarding area, produce arrival and turnover. Parallel to the establishment of Producers' Organisations (PO) their market presence should be urged in selling their produce and also in ownership – and decision-making procedure – of the markets. The produce auction system and the on-line sales experiences of New Jersey State (USA) can contribute to the investigation of development possibilities and realization of development of Hungarian wholesale markets.

Changing role of wholesale markets

Primer role of wholesale markets is to simplify the distribution process of fresh fruits and vegetables, the concentration of supply and demand. The actual supply and demand form the prices on the market, at the same time price- and produce arrival data are important information sources for all market participants involved in fruit or vegetable production, sales or processing.

According to *Lehota* (2000) concentrated markets are characterized as follows:

- dominant function is the marketing channel function,
- advantages of market information, transparency
- price formation is based on bilateral bargain (depends on bargaining power, available information),
- method of payment is usually cash (rarely bank transfer),
- effect on product quality and product development is low,
- regulation possibilities of supply and market entrance limits are minimal.

On basis of conditions of time and space wholesale markets can be grouped as follows (*Tomcsányi*, 1973):

- *marketplace*, where supply appears simultaneously in time and side by side in place (e.g. in Italy, in Spain)
- *auction*, where supply appears successively in time and produce is concentrated at one place (e.g. in The Netherlands, in Belgium, in State of New Jersey – Vineland Produce Auction).

Wholesale markets have different proprietary structures, on basis of form of ownership wholesale markets can be divided into two groups:

- *producers' market*, where the producers of a region bring their produce to one certain market, the market is owned and operated by a Producers' Organisation (e.g. in The Netherlands, in Belgium),
- *servicing market*, where the local government forms sales places and leases these places out to growers. The major proprietor is usually the local government (e.g. Wholesale Market Shareholders' Company in Budapest, Hungary), but producers and wholesalers may also own a certain part of the shares (e.g. Bologna Wholesale Market in Italy).

Wholesale markets can be grouped regarding the dominant buyers as well:

- *distribution or logistics market*, where wholesalers, export companies or retail chain stores represent the primer buying group,
- *consumer market*, where the buyers are mostly retailers, wholesalers, or occasionally final consumers.

The temporal development of wholesale markets can be divided into four phases:

1st phase: until the '60-es. Wholesale markets were established in the neighbourhood of big cities, near important trade roads. The development of the network of wholesale markets was a long process. Because of the increasing number of inhabitants and food demand more and more markets were formed near the consumer centres. The primer function of wholesale markets was to distribute the produce grown in the region to retailers of the close cities.

2nd phase: from the '60-s until the first half of the '80-s. The importance of wholesale markets increased, a dominant part of fresh fruits and vegetables was distributed through these markets to the final consumers. The atomistic market conditions that characterized both the supply and the demand side contributed to the market balance. Wholesale markets completed their role, which appeared in the physical distribution of the produce, price formation for the participants of the market and presentation of market information.

3rd phase: second half of the '80-s and the following decade. The change in consumer demand significantly influenced the operation of wholesale markets. The change of consumer awareness did not only mean the preference of quality and food safety, but the demand for more service, value added products, and exotic products also increased. The expansion of retail chain stores and the increasing size of processors – which meant the concentration of the buyers' side – resulted the concentration of wholesale markets. Next to the traditional wholesale market functions the logistics tasks and the increasing number of types of goods distributed through the markets became more characteristic. Parallel to these processes wholesale markets turned into food distribution centres (besides fruits and vegetables, meat, dairy, bakery products and ornamental plants are distributed through these centres).

4th phase: from the second half of the '90-s. Retail chain stores count on producers' organisations instead of wholesalers operating at wholesale markets in the formation of their supply. The importance of E-commerce increases gradually in the distribution of fresh fruits and vegetables. The standardization of fresh produce highly contributes to this process. Produce appears on wholesale markets more rarely or keeps away from the markets physically. As a result it involves the danger of neglecting wholesale markets in the actual distribution of the produce. It becomes common

that produce arrives to wholesale markets after the sales and only for manipulation (e.g. grading, packing). Wholesale markets seek for their role and place in the changing economic environment.

The change in number of Dutch wholesale markets indicates the development phases of wholesale markets very well (*Figure 1*). In countries with medium level development of marketing channels (*Figure 2*) the social role of wholesale markets is also considerable. On one hand retailers and wholesalers buying their supply at the wholesale markets can react rapidly to the changing needs of their customers. On the other hand these markets help fruit and vegetable retail shops survive, which is an important task as multinational companies strengthen in the period of general globalisation.

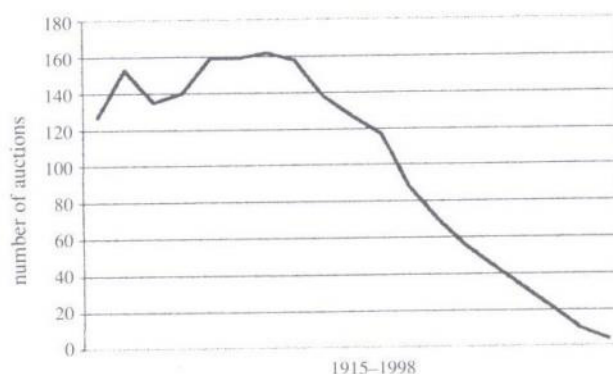


Figure 1 – Number of Dutch fruit and vegetable auctions 1915–1998 Source: The Greenery 1998

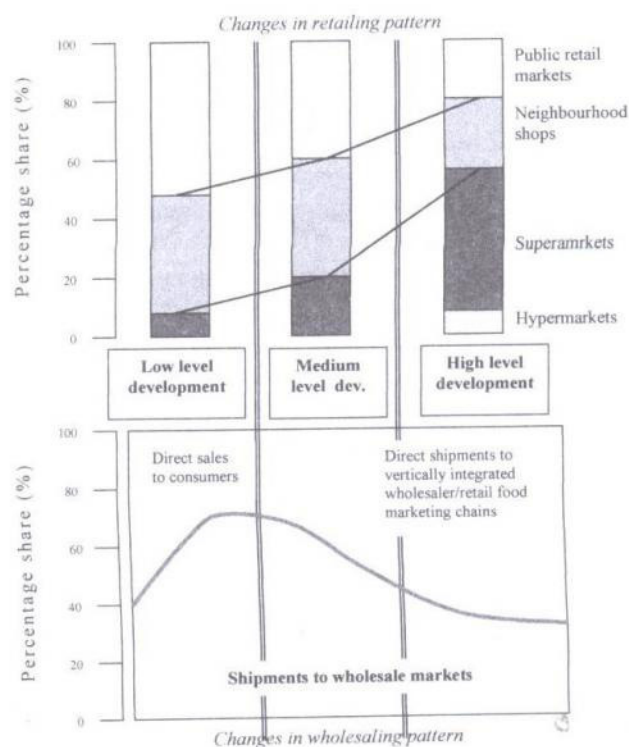


Figure 2 – Evolution of food distribution system, Changes in retailing pattern, Source: Tracey-White 1991

Wholesale markets in Hungary

There were 10 wholesale markets operating in Hungary in 2000. Among these markets the most significant market was the Nagykörösi street wholesale market in Budapest regarding the number of producers and buyers and also produce arrival. The other "wholesale markets" can be considered as regional producer markets (due to our investigation carried out in 1999 those producers who do not take their produce primarily to the Budapest wholesale market choose a wholesale market in a maximum 50 km distance). Produce arrives to the domestic wholesale markets mostly from small farms, which means that the quality of the produce is very heterogeneous and produce arrival is seasonal. Sellers at the wholesale markets are producers and wholesalers with mostly import products. The buyers are primarily the retailers and small shop owners. Wholesalers only buy the produce they have order for, but what is missing from their actual stock. In countries with developed distribution system (Figure 2) the importance of wholesale markets is diminishing as retail chain stores strengthen. Wholesale markets that provide classical wholesale functions do not exist in Hungary, but retail chain stores already exist and strongly increase their importance also in the sales of fresh produce to the final consumers (30% of fresh vegetables and 31% of fresh fruits are sold in supermarkets). 10% of fresh vegetables and 4,8% of fruits grown in Hungary are sold on the Budapest and regional wholesale markets (Juhász, 1999). According to our opinion these rates will even decrease as more Producers' Organisations (PO) will be established. These organisations use direct sales contracts to sell their produce both to retail chain stores and purchasing companies (Lakner & Sass 1997). PO members and also individual growers take that part of their produce to wholesale markets that could not be sold through other marketing channels. It involves the danger that these markets gradually become so-called *rest-markets*. Due to our investigation carried out in 1999, 22,5% of the interviewed growers takes all their produce to wholesale markets (horticultural production is the main activity for only a third of these growers, for the other growers it is only a supplementary income resource – less than half of their income comes from horticultural production). 12,5% of the growers take more than half, 10% takes approximately half of their produce to wholesale markets, 55% takes only the remaining part that could not be sold to wholesalers or purchasing companies. Besides individual produce transportation, more growers transport the produce together to wholesale markets to decrease transportation costs and time of sales.

In the summer of 1999 two wholesale markets were established (Szentés, Kaposvár) with support from the local authorities and government budget, partly involving private investors. These markets were artificially established in production areas and did not become popular among the buyers. Generally local growers offered the produces characteristic to the region. The sales prices of these produce

were very low due to the regional oversupply. To reduce the costs of transportation and purchase, retailers and wholesalers prefer wholesale markets, where they can satisfy all their purchasing needs and buy all types of produce they need to form their future supply.

Domestic regional markets and the Budapest market can be characterized as follows:

- primer function is the sales of the produce,
- produce manipulation facilities are not available for wholesalers,
- the collection of market information (price and produce arrival) is only continuous at the Budapest wholesale market,
- pricing method is bilateral bargain, prices are not indicated on produce,
- method of payment is cash, resulting that price information is not exact and reliable.

Wholesale markets in New Jersey (USA)

The state of New Jersey is called "The Garden State" in the United States of America, referring to the importance of the horticultural sector in the state's economy. Retail chain stores, supermarkets purchase their needs directly from sales cooperatives or wholesalers.

About 50% of the farms are members of *sales cooperatives*. These cooperatives can be divided into two groups:

- (1) *specialised cooperatives*, that only sell and deal with the marketing of a limited product group and collects the growers of only 2–3 different species (e.g. tomato and asparagus, apple and peach). Our experience is that these cooperatives – due to the considerable seasonality and the limited offer – have difficulties with collecting a commercial quantity offer. The regulation of cooperatives is loose in the state. Farmers are allowed to be members in several sales cooperatives even in relation to the same produce. As a consequence farmers can sell their produce through different cooperatives, which makes the organisation and planning of sales very difficult.
- (2) *unspecialised cooperatives* sell all kinds of produce of their members. Mostly they have direct contacts with chain stores, wholesalers, operate wholesale markets or sell online (through the Internet). A unique form of cooperative owned and run wholesale market is the *Vineland Produce Auction* in Vineland, New Jersey. The auction enables farmers to sell their produce at a central place with the application of the auction method. Due to arable production the auction wholesale market operates seasonally with unbalanced offer. The sales start at 10 a.m. and farmers show samples of their produce to the buyers (there are approximately 40 brokers and

wholesalers at the Auction). The computer determines the order of farmers every morning randomly. The auctioneer announces a minimal price for the produce and buyers make their bids one after another. Every sales or transaction is registered on the computer. Buyers are obliged to pay in 30 days and farmers receive their money once a week. From the farmers' payment 4 % is reduced for financing operational costs, other services (e.g. cooling facilities, ice-automat that can be rented by buyers as well) mean a supplementary financial source for the cooperative. The buyers at the Auction receive free storing facility in order to buy the majority of their offer from the Cooperative and enable the Cooperative to keep control over their supply. The price fluctuation is considerable in a sales day and also between the days due to the limited number of buyers and the sales order (produce is sold by farmers and not in produce groups which would make the everyday produce arrival more transparent). Because of this price fluctuation farmers seek for alternative sales channels and do not sell all their produce through the Cooperative. On the other hand the Cooperative means sales safety (the proportion of unsold produce is under 5%) and payment guarantee for the members.

To enlarge sales possibilities the Cooperative introduced a new sales channel in April 2000, namely the *online sales* through the Internet. Farmers set their offer and the minimum expected price on the computer; buyers make their bids (minimum-maximum offer for the produce) also on computer without knowing the farmer's expectations. The computer performs the sales procedure with the auction method, the buyer is chosen according to the minimum-maximum bids and the required quantity. Our experience is that the buyers did not receive the online sales favourably. They don't know the other buyers' bids and the farmers' expectations and as a result they often cannot buy the produce they want (their bid is not the most favourable). Farmers are also suspicious about online sales, they stick to the traditional methods.

Farmers who are not members of sales cooperatives or looking for alternative marketing channels, often sell their produce at *terminal markets*. Most New Jersey farmers bring their produce to terminal markets outside the state (Philadelphia Terminal Market, Hunts Point Terminal Market New York). These terminal markets are well organised, farmers deliver their produce in the evening (the same day as harvesting) and buyers visit the markets late at night. Farmers only deliver what the brokers or wholesalers have ordered in advance (during the morning), the brokers or wholesalers require 15% of the sold produce from the farmers as a commission. Only those farmers can enter these terminal markets that can guarantee a wide range of produce and commercial lots.

Fruits and vegetables are not packed individually in New Jersey. Produce is offered in bulk at the supermarkets,

therefore the producer cannot be identified in case of health- or quality problems rise. To prevent such problems retail chain stores initiated the introduction of the so-called *3rd part audit* system, controlled by an independent quality insurance organisation. Supermarkets purchase exclusively from controlled farms. At the same time their expectations cause significant increase of production costs. The quality insurance system includes for example the frequent control of wells, disinfections of instruments and means of transport, use of closed manipulation facilities. The system throws the responsibility upon the farmers, because the regulation does not apply to the employees, instruments and means of transport of wholesalers or supermarkets.

Recommendations, suggestions

- (1) Growers sell only small volumes at wholesale markets in Hungary. Therefore individual growers are not determinative participants of the market. Producers' Organisations should play an important role, both in selling their produce at the wholesale markets and also in the proprietary structure of these markets. Wholesale markets are not supported by the European Union except producers own and operate them. At present profit-oriented companies operate domestic wholesale markets. In case of producer owned markets the profit could be utilized in the development of sales and manipulation facilities, and POs could be involved in the decision making process of the markets. The collaboration of wholesale markets and POs can be observed in all countries with highly developed distribution system.
- (2) After the evaluation of our research about growers selling on wholesale markets we came to the conclusion that a considerable polarization process can be observed among these growers. A group of growers has upper- or medium level horticultural education. They are open to developments and new marketing possibilities. They demand PO membership in order to improve their sales possibilities and consider producers' ownership of wholesale markets as a necessary solution to facilitate participation in the decision-making process. They organize their marketing channels consciously and plan their production according to market demands. The other pole is represented by a group of growers without long-term production and marketing plans, production is only a "compulsion". They do not know or realize the essence of the fruit and vegetable market regulation of the EU and the operation of POs. They stick to the traditional sales channels, individual sales of their produce. At present they are determinative at the domestic wholesale markets. They are able to satisfy the retailers' needs but cannot guarantee the demands (e.g. equalized and continuous produce arrival, labelled packing) of the perspective buyers, the wholesalers or exporters.

- (3) Wholesale markets should be modernized in Hungary (e.g. covered sales places, cooling- produce manipulating facilities are needed). The development of an information network connecting all domestic wholesale markets could contribute to the distribution of exact and reliable information. A so-called reference market could coordinate the work of the wholesale markets, the national network of markets. The Budapest wholesale market could undertake this coordinator task.
- (4) Growers are unsatisfied with the current circumstances of sales at wholesale markets, in spite of that they accept the situation and prefer this marketing channel in hope of higher sales prices, undertaking the uncertainty of selling the produce. At present no data available on the packing materials about the grower or the quality, quantity of the produce. The indication of these data could be the base of confidence between growers and their buyers and after Hungary joins the EU the member states also expect these information. Growers should realize that on a buyer's market only the properly packed and labelled products are marketable.
- (5) The produce auction system could not be applied in Hungary, as selling on producers' markets is the

traditional method. There are already some existing POs that could consider the possibilities of introducing online sales. Procuring companies already demand this channel, but online sales would be advantageous also to retail chain stores.

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