

A New Cooperative Marketing Strategy for Agricultural Products in Bangladesh

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Bangladesh, an agro based country where 17.3% of GDP comes from agriculture. Despite being an agro based country, the farmers do not get proper price for their products due to improper marketing system of agricultural products. Our field survey in two villages reveals that there are many intermediaries in the market who take the major portion of the benefits. Those intermediaries create artificial shortage of supply which also forces the consumers to pay more. The survey on vegetables and rice market explores that farmers are bound to sell their products to the intermediaries at lower price due to improper marketing systems. A producer organization or growers' cooperative can be established to reduce the plethora of intermediaries from the supply chain of agricultural products. The establishment of cooperative ensuring the participation of local farmers can ensure fair price for the growers and consumers with the direct marketing system.

Keywords: Agriculture, Marketing, Intermediaries, Value-chain, Agricultural products

1. Introduction

Agriculture is one of the significant contributing sectors to the GDP of Bangladesh. Most of the people of country directly or indirectly are involved with the agriculture where 15,089,000 families out of total 17,600,804 families involve with the agriculture (BBS, 2006). In 1971, agriculture was the first contributor to the GDP 71% what is 17.3% in 2013 (BBS, 2013). Although the relative contribution of agriculture to GDP has fallen over time (currently 17.3%) the absolute contribution is still on the rise. In terms of employment, agriculture still remains to be the largest source. The economy of Bangladesh is primarily dependent on agriculture in terms of employment. About 85% of the population is directly or indirectly attached to agriculture. The availability of cultivable land (8.44 million hectare) and waste (0.268 million hectare) makes it easy to produce the agricultural product at lower price than other countries. Although land is enough for the cultivation, manpower is also abundant and the total production of the crop (23.029 million metric ton) exceeds the national demand (23.029 million metric tons) (BBS, 2006) but the farmers are not in a good condition from the economic perspective as they do not get the fair price of the products. There is a significant difference between the price what the consumers pay and the price what farmers get. This means that farmers of the country are not getting that price at which products

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are sold in the market. A lot of programs and initiatives are taken by the government and non-government organizations (NGO) for the development of agriculture sectors but all of the initiatives emphasize on the high production through different programs like distribution of fertilizer and seeds along with ensuring other facilities for the farmers. Due to proper steps by the government and NGO, crop production has increased by two to three times in the last few economic years. But it is evident that without an efficient agricultural marketing system, high crop production cannot be sustained for a long time. When the farmers do not get the fair price for their products they must be demotivated or unable to continue farming as for financial crisis. Without efficient marketing no production can create much value. Agricultural marketing is an essential tool to uninterrupted, adequate and timely supply of agricultural products, inputs and services to target groups, including producers, consumers and intermediaries and agricultural marketing is not just a means of distributing agricultural product but also a way of stimulating new forms of production (Abbott, 1987). Agricultural marketing involves moving from an agricultural product of the farm to the consumer. A Large number inter-connected activities are: planning, production, growing and harvesting, grading, packaging, transport, storage distribution and sale (Sultana, 2012). But the farmers of Bangladesh only perform a few of that marketing activities as for their illiteracy and improper infrastructure of the agricultural marketing system. Intermediaries in agricultural product marketing are playing prominent role in making the agriculture business as a risky business absorbing major portion of the benefits from the real farmers and gaining high profit by setting a high price for ultimate consumer of agricultural commodities. In course time of marketing agricultural products in Bangladesh, supply of the products is artificially interrupted and adversely affected by some intermediaries who are not actually the major players in the agricultural sectors. These redundant intermediaries create a marketing channel through which farmers have to supply their products to the markets, thereby creating a value chain. The value chains which are created and maintained by the intermediaries have profound impact on the ability of farmers that creates barriers in getting fair price for their output. Absence of adequate institutional network persists to deal with the marketing of all major commodities such as rice, vegetables, jute, cotton, sugarcane and tea in the country. Farmers suffer from a number of difficulties that reduce their bargaining power. They are deprived of getting the right price for their product. In addition to the value chain, there are a number of factors that obstruct the farmers from getting fair price for their products. Farmers are compelled to sell their products at the harvest time when the prices are minimal resulting in a very low return for their produced products. Small and marginal farmers in the remote rural areas remain ignorant about the current price of their product in the market, their trends, demand and supply which create obstacles for the farmers in getting fair price of their products. Ultimately, the farmers who produce and bear the risks associated with the crop production are deprived of the major benefits of their products.

Marketing plays an important role not only in stimulating production but also in accelerating the pace of economic development. Efficient marketing system usually ensures higher level of producer's share, reducing the number of middlemen and restricting the marketing charges, malpractices during marketing of farm products. It is, therefore, essential to explore the efficient marketing channels and to suggest the

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producers the channels for obtaining optimum prices of their farm produce. So far, very few researches have been done, especially on marketing aspects of agricultural products in this country. Keeping this in view, this study was undertaken. The objective of the study is to reduce the impact of intermediaries in the agricultural market providing the facilities to access the market to get proper price for their produces and delivering the agricultural commodities to ultimate consumer at lower price. The other specific objectives of this study are as follows

- i) To examine the present marketing situation of the agricultural products.
- ii) To assess the role of intermediaries in the supply chain of agricultural products.
- iii) Reducing the intermediaries from the supply chain of agricultural product to provide the farmers fair price and bargaining power and providing the products at a lower price to the ultimate consumer.

This study will help the growers to adapt to the changing new rules and regulations and to the Department of Agricultural Marketing (DAM), National Agricultural Policy (NAP) etc. which involve with planning of the development program in Bangladesh. The rest of the paper is structured as follows: the next section presents the theoretical discussion of the study; the following two sections outline research methodology and major findings of the study; the last section presents proposed model for cooperative marketing, theoretical and managerial implications, limitations of this study, and guidelines for further study.

2. Literature Review

2.1 Conceptualizing the Agricultural Marketing

Marketing is not simply an extension of the production process but its only purpose is as Adam Smith emphasized when, in his text *The Wealth of Nations* (1776), he said that: "Consumption is the sole end purpose of all production: and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. Dixie (1989) relates what he describes as a definition of marketing which is: "The series of services involved in moving a product (or commodity) from the point of production to the point of consumption." Kohls and Uhl (1990) define agricultural marketing as the performance of all business activities involved in the flow of food products and services from the point of initial agricultural production until they are in the hands of consumers. According to Ritson and Albisu (1986) "agricultural marketing is the process whereby in order to fulfill its objectives, an organization accurately identifies and meets its customer's wants and needs". Ritson et.al (2002) stated that agricultural marketing is the process whereby in order to fulfill its objectives, an organization accurately identifies and meets its customer's wants and needs. Dixie (1989) suggests that as countries experience economic growth, their rate of urbanization tends to increase substantially. Whereas the rate of population growth, in developing countries, averages around three percent per annum, their cities and towns are increasing their populations at about four percent per annum. In essence, this means that the number of people, in urban areas, needed to be fed by rural people, will be double within sixteen years. This has clear implications for agricultural production and the marketing systems that direct that production and distribution the

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output to the points of its consumption. To meet the demand of urban or distant people marketing of agricultural product is essential to LDC like Bangladesh.

2.2 Theoretical Discussion

Bangladesh is endowed with a fertile land and favorable climate for the production of various agricultural products (Hoq, Raha & Sultan, 2012) and the economy of this country draws its main strength from agriculture sector. The sector contributes 19.10% to GDP (at current prices) and employs 50.28% of the labor force (Mondol, 2010). Considering its potentiality, the Government and NGO have given much emphasis on the development of agricultural products and agro-based industries in the country. Despite of having high potentiality in agriculture business and comparative advantage in this business, the farmers who produce the crops live under extreme poverty as they do not get the fair price for their products as for plethora of intermediaries in the market.

Review of the previous literature and observation of institutions that conduct different development programs for the agriculture explores that 'structural and institutional features of intermediation' (Reardon & Timmer 2005) that tended to generate monopsony or oligopoly in the trade, resulting in depressed prices for producers or high consumer prices. Studies representing this school of thought include the works of Wharton (1962), Harriss (1979), Crow and Murshid (1994). These works generally emphasize complexity' in describing exchange relations and institutional arrangements, arising from the difficulty of reducing what appears to be numerous exchange relationships between a large number of diverse market actors, offering and receiving a wide range of exchange terms, frequently involving various tying conditions or inter-locking markets (Olsen 1999, Crow 2001, Harriss-White, 2008). For example, Crow (2001) concludes, "Structure of grain and finance markets assists accumulation by the rich and the dispossession of the poor." Others (such as, Bharadwaj 1974, Bhaduri, 1986) point to coercion or forced commercialization of small farmers to participate in the market as a disadvantage. Different studies conducted on the agricultural marketing system revealed that intermediaries are absorbing the major benefits from the market which lead to the farmers' unfair price getting and high price paid by the consumers.

Matin et al. (2008) conducted a research on mango marketing system of Bangladesh where he tried to identify the effective marketing channel for the farmers in respect to cost and margin. In his study he finds that if the farmers sell their mango direct to the ultimate consumers then they will get more benefits, but it would not be possible because intermediaries were engaged to transfer mango from the farmers' field to distant consumers. Hossain and Hossain as well as Masud (2012) conducted a study on the value stream of dried fish in Bangladesh. The study revealed that there are four to five channels through which dried fish reach to the ultimate consumers after being added value at different stages. Murshid (2011) divided the market for agricultural products into two circuits in his study such as a. a simple local circuit catering to localized demand; and b. a more complex long distant circuit that connects local supplies to distant markets where trade basically revolves around spatial arbitrage

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although some degree of temporal arbitrage also exists, especially when commodities are storable. Typically, the market consists of a number of essential intermediation roles carried out by numerous specialized agents. In his study he revealed different types of intermediaries in rice market. The study of Mondol (2010) reveals that “productive farmers of Bangladesh mainly belong to small and marginal categories. These farmers do not have either Farmer’s Association or Farmer’s Co-operative to bargain for fair prices of their products. They are thus forced to sell their products at a low price to intermediaries. A study on potato marketing system in Philippine described that “Assemblers-wholesalers are the major players in the distribution process in a number of agricultural commodities; e.g., potatoes and other vegetables. They have both the financial and logistic capability to procure and transport agricultural products to the major demand centers. Because of the needed large volume, some of them provide financing and cash advances to farmers to guarantee the volume of procurement (FRLD,1995, p. 42). Bayes and Hossain (2007) shows the vulnerability of the small and marginal farmers of Bangladesh. Their vulnerability forces them to sell their product at a very low price in the market. There is a negative relationship between the size of farm and distress sale. It has been seen that within a month after the harvest, small farmers have to take two-third of their products to the market for sale. For small, medium and large farms it is 59%, 40% and 27% respectively. It proves that small farmers are forced to sell their product in the market after the harvest to meet their necessary requirements rather than to get profit from the selling.

Different studies on agricultural marketing of Bangladesh explores that farmers of this country are always deprived of fair price for their products due to plethora of middleman like Beparis, farias, wholesalers, commission agents/aratdars, contract-buyers, cold storage operators, wholesaler-retailers, assembler-wholesalers, hawkers and retailers and they also force the farmers to sell their products to them by tying up some conditions.(Sultana,2012).The middleman or intermediaries in the agricultural market create artificial shortage in the supply and increase the price of the product(Chowdhury,2011).To overcome the unexpected interruptions by intermediaries in the market, an effective marketing system or structure is essential in Bangladesh to ensure the proper distribution of agricultural product from growers to consumers ensuring the fair price for both parties. Cooperative marketing system or community based marketing system can be an effective way to reduce the unexpected interruption of the intermediaries in the supply chain of farm products.

2.3 Conceptualizing the Cooperative Marketing

The number of definitions of cooperatives is large (e.g., Centner, 1988, Phillips, 1953; Roy, 1981).The most widespread definition of cooperatives is, “A cooperative is a user-owned and user controlled business that distributes benefits on the basis of use” (Barton, 1989, p. 1). According to the Reserve Bank of India “a cooperative marketing society is an association of cultivators formed primarily for the purpose of helping the members to market their products more profitably than possible through the private trade”. The aim of a cooperative is not to convey capital gains to any owners; it is to create benefits to a group of members. And the cooperative was established to adjust a malfunctioning market mechanism, which is to say that the members through their

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cooperative could reduce the risk taking in their farm enterprises. Cooperative marketing or cooperative in agricultural business helps the farmers to take different risks associated with the production and distribution of crops. Cooperatives are strongest in the food processing industry (Hardestv,1992).The government of India has taken different initiatives to strengthen the cooperative marketing in agriculture sector(Mondol,2010).Proper management of cooperative marketing can remove the interruption of intermediaries from market of agricultural product. Cooperative marketing in agricultural business is evident by the different studies what were conducted in different countries (e.g. Banaszak, 2006, Bruynis, 1997, Spulber, 1999, Menard, 2005)

3. Materials and Method

Sampling Technique

Selection of Study Area

Considering the high intensity of vegetables production and availability of farmers, Nimshah upazilla of Comilla and Shitakundo upazilla of Chittagong was selected for collecting the data. Nimshah is one the wholesale (Makam) markets for vegetables from which most of the intermediaries collect their product for selling at the retail market of big city like Dhaka and Chittagong. Shitakundo Bazar is another renowned wholesale market near to the Chittagong City from where most of the intermediaries collect their product to supply at the retail markets and departmental stores of Chittagong and Dhaka city.

Selection of Samples

The vegetables and rice growers and suppliers were considered as the population for this study. The samples of the study included producers of agricultural products. First a list of 80 vegetable growers from the the Nimshar upazilla and 40 growers were selected from the Shitakundo upazilla were selected for the study of which 65 of nimshar and 35 of the Shitakundo were interviewed based on the simple random sampling.

Collection of Data

Data were collected from both primary and secondary sources. Primary data were collected through direct interview with the respondents. The secondary data were collected from renowned national and international organizations, viz. Bangladesh Bureau of Statistics (BBS), Export Promotion Bureau of Bangladesh (EPB), Directorate of Agricultural Marketing (DAM), Food and Agricultural Organization (FAO), Statistics Department of Bangladesh Bank, The Bangladesh Journal of Agricultural Economics, The Indian Journal of Agricultural Economics, Bangladesh Economic Review, Asian Vegetables Research Development Center (AVRDC), Newspapers and Internet Files. Data was collected from Februray, 2012 to July, 2012.

Data Analysis and Method

The research is qualitative in nature that is based on primary and secondary data. The research procedure includes preparation of questionnaire, pre-testing of questionnaire,

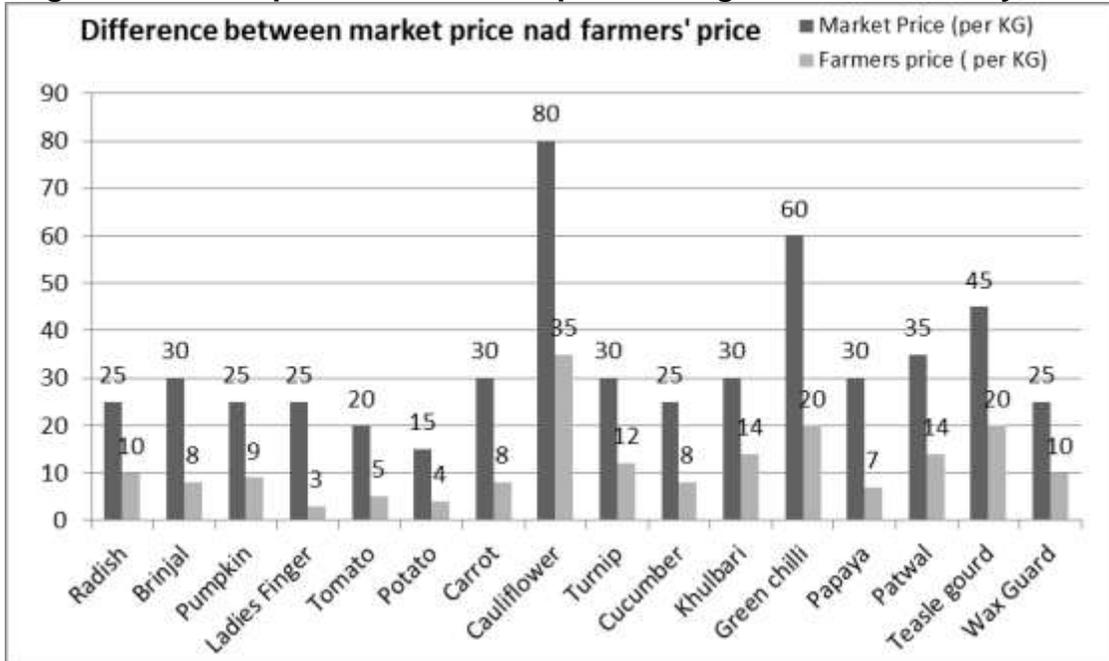
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survey, data decoding, data analysis, interpretation and findings. SPSS 17 version is used to analyze the primary data. Mainly the descriptive statistics is used to analyze the survey data.

4. Analysis and Discussion

Considering the intensity of vegetables and rice production, we conducted the survey at two villages of the Bangladesh named Shitakhundo from Chittagong district and Nimshar from Comilla district. To assess the gap between market price and farmers' price, we conducted a survey at Razganj in comilla which explores that there is significant difference between the market price at which consumers buy the vegetables and farmers price at which farmers sell their product to the middleman. In the figure: 1 the market price and farmers' price of vegetables are shown.

Figure 1: Market price and farmers' price of vegetables at 26th May, 2013



In the figure 1, the market price of the vegetables indicates to that price at which consumers buy the vegetables for consumption and the farmers' price indicate to that price at which farmers sell their products to the intermediaries. In the figures the price of 16 items vegetables are shown which explores that in all of the items farmers' price is below the market price. The differences between the two prices are the margin of the intermediaries.

The survey reveals the market situation from the farmers' view point. Figure: 2 shows that in Nimshar 84% of the farmers sell their product after the harvest and in shitakundu of Chittagong 82% of the farmers sell their product after the harvest where 16% in Nimshar and 18% in Shitkundo sell their products when price increase. Although 16% of the farmers in Nimshar and 18% of the farmers in Shitakundo said

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that they sell their product when price of the products increase. They said that “we have to sell our product to repay the loan what was taken from the different NGO and other intermediaries.” In both of the village farmers continue their farming with the financial assistance of different intermediaries who provide the loan imposing some unexpected condition like only selling the product to them in accordance with their selected price.

Figure 2: Product selling time

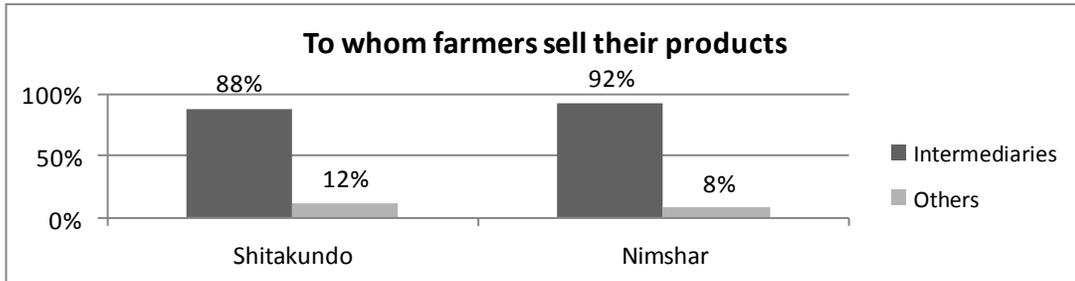


Figure 3: To whom farmers sell their products

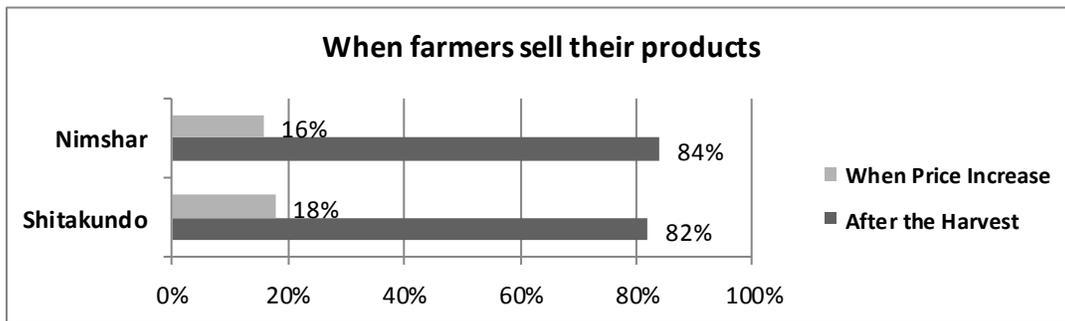


Figure 3 shows that the farmers of the Nimshar and Shitakhundo sell their products to the intermediaries where 88% farmers and 92% of the farmers sell the product to the intermediaries. They mentioned that due to financial crisis along with high transportation cost, they cannot reach the real market to sell their product. Figure 4 shows that 90% in Shitakundo and 84% in Nimshar have no storage facilities and in both of the market the farmers do not have transportation facilities to move the product from the production place to consumption place. The farmers of Nimshar said that “the transportation cost is so high and it is not possible to maintain high transportation cost by the marginal farmers.

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Figure 4: Transportation and storage facilities of farmers

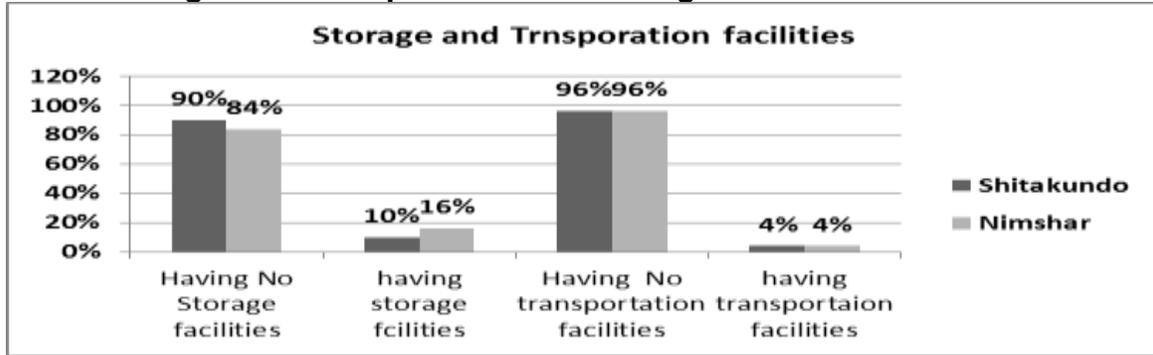
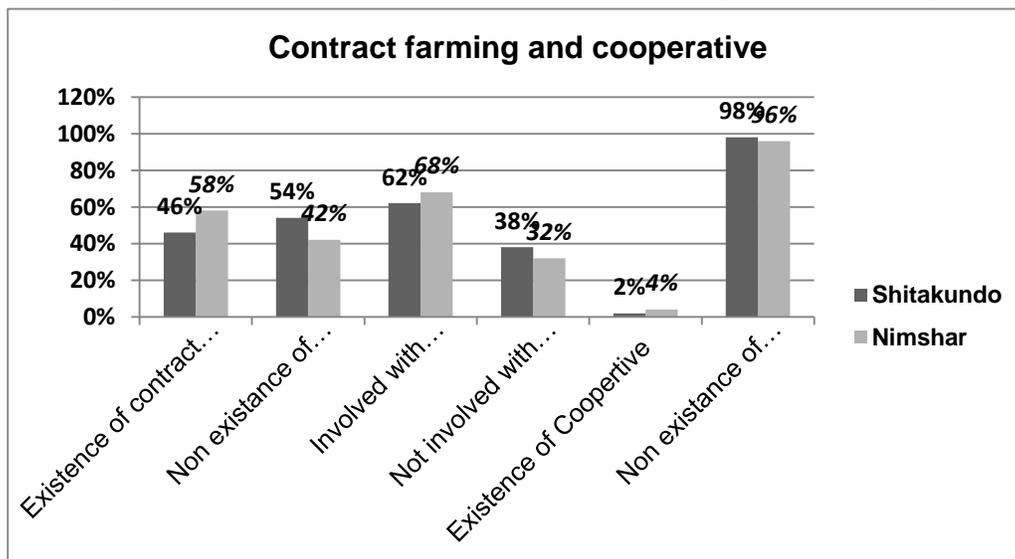


Figure 5 depicts that existence of cooperative and contract farming in Shitkundo and Nimshar village. Farmers' responses reveal that there is a very few activities of cooperative in both of these areas. 46 % of the farmers said that they are involved with the contract farming and they mentioned contract farming is not beneficial to them because contract farming force them to sell the products after the harvest without considering market price. The persons who provide the loan or other facilities to the farmers on the basis of contract farming grade the product of the farmers and set a price at which farmers are forced to sell. And farmers are also bound to sell the product to repay the loan.

Figure 5: Cooperative and Contract farming in both villages



Our survey reveals that the farmers of both areas are deprived of the fair price for the products they produced. The farmers of these areas suffer different types of problems like financial, transportation, storage facilities, lack of cooperation and other facilities that create barriers in marketing their products by themselves. They are bound to be dependent on others especially on the intermediaries to sell their products and intermediaries absorb the major portion of the benefits from the agricultural product. Our survey also finds that the farmers of both of the villages are deprived of the fair price due to lack of proper marketing systems in the agricultural market. Farmers face

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a lot of difficulties in transporting and storing their products to sell at the real market. The survey result is in line with the study of previous studies of (Bayes & Hossain, 2007, Sultana, 2012, Mondol, 2011, Murshid, 2011)

5. Proposed Model to Develop Agricultural Marketing

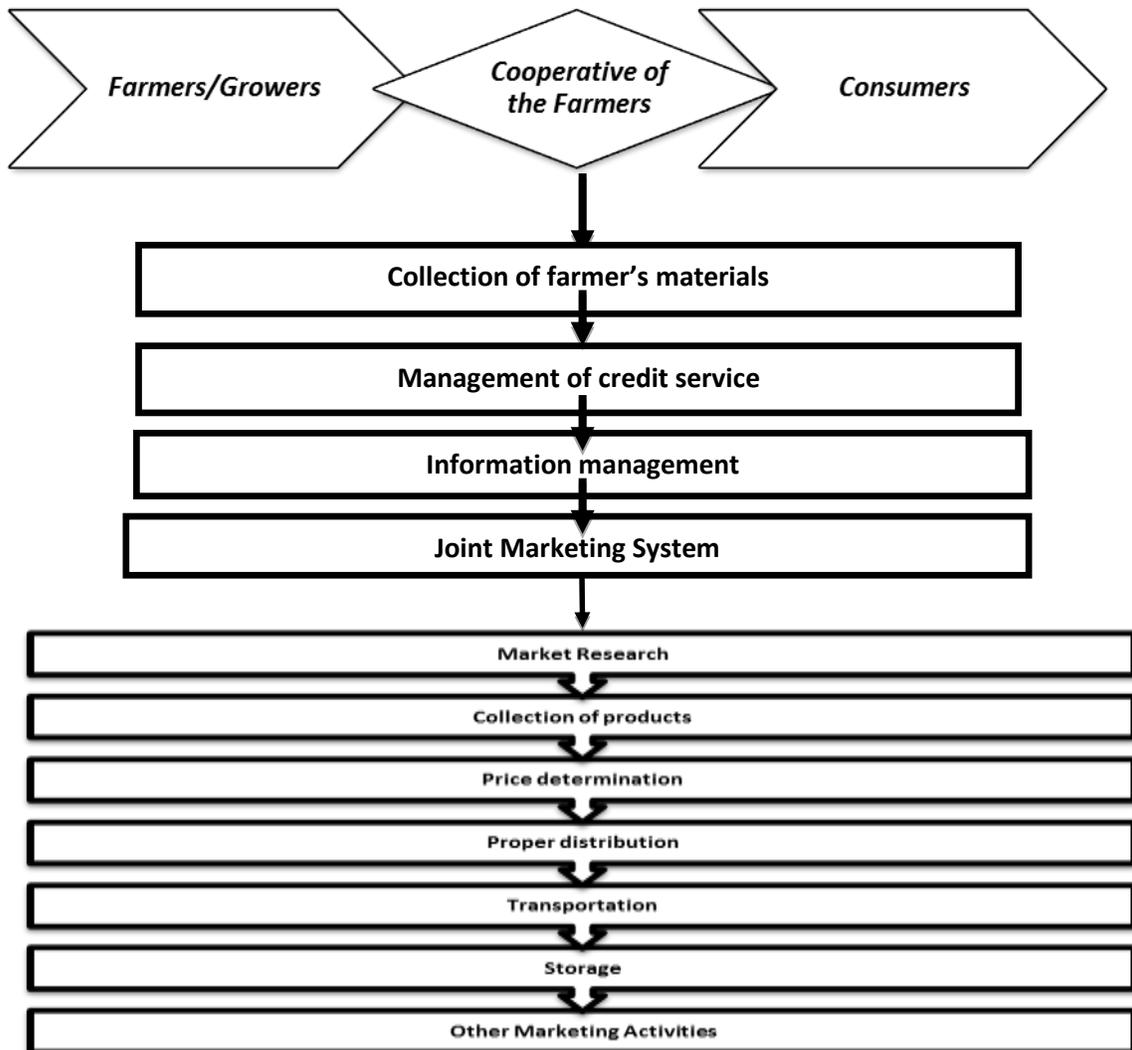
Marketing is the process that an agricultural product goes on its way from the producer to the consumer. But present marketing involves several intermediary stages within this process. The result is, of course, that the consumer pays an exorbitant price and the producer receives a very low price for his production. Naturally, it is in the interests of both producer and consumer that the number of steps in the marketing process be reduced as much as possible. The result: the producer will earn more and the consumer will pay less. A producers' organization or cooperative can be established in each village as farmers' cooperative. The organization will look after the marketing of products of the small and marginalized farmers. Figure 6 depicts a frame work for the cooperative marketing system in Bangladesh. The model includes three steps of cooperative marketing. The cooperative must be formed by the farmers or growers of specific region and this cooperative is responsible for all kinds of activities that are essential to the farmers including financial, Informational and all other marketing activities. This will help the famers get the fair price and the customer will get the products at fewer prices. The cooperative must have specific strategic planning for the operation of the cooperative. The strategic planning must incorporate some fundamental issues through which growers' participation and fair price are ensured for the farmers. Bruynis et al. (1997), for instance, executed an empirical survey with 52 American marketing cooperatives and distinguished eight keys to success, understood in terms of longevity, business growth, profitability, and member satisfaction. Such factors as implementation of a management training process, employing an experienced fulltime general manager, regularly distributing accurate financial statements among the management team, using marketing agreements to secure business volume commitments from the members, and utilizing human resources appeared to be significant for the researched organizations achieving success. Regarding the implementation of their main task – that is, organizing joint sales of the output produced by individual member farmers – producer groups act as intermediary market organizations that coordinate the exchange of goods and services between farmers and purchasers of their produce. Intermediaries are firms that seek out suppliers, find and encourage purchasers, select buying and selling prices, organize the transactions, keep the records, and hold inventories to supply liquidity or availability of goods and services (Spulber, 1999).

Some of the factors that increase the success rate of the cooperative must be considered by the members of that cooperative. The cooperative will always strive to increase its members because increasing number of members will facilitate the organization by reducing the cost with an increase in the transactions by the new members of the organization, decreasing the danger of opportunistic behavior and discouraging the internal rent seeking. Member homogeneity must be confirmed within the organization.

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Figure 6: Model of Cooperative Marketing developed by authors

Model of Cooperative Marketing



Hansmann (1996) argues that member homogeneity of any kind implies that members will have more interest in common and is an essential factor to successful cooperation. The growers in a region of the country can establish a cooperative by considering the issues like financial requirement capital, strategic planning requirement and management structure of that organization. When the farmers or growers can get the proper market, they must be able to sell their output to the market without any interruption by the middleman.

6. Challenges of this Model

NGO as well as contract farming is the major challenge for this system because some of the NGOs inspire the farmers to be involved with contract farming. Although these organizations help the farmers in the crisis period but ultimately they are not benefitted

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by these organizations as for interest rate and imposed conditions by those organizations. In the rural areas of Bangladesh transportation system is not developed. As observed in the fields, the farmers have to carry their products to the markets by small vans and rickshaws. During rainy season it is very difficult to reach the market places and the crops are damaged by the time they reach the markets. Thus it is necessary to develop the transportation system and enable farmers to carry their products unspoiled to the markets on time. Illiteracy of the farmers is also an obstacle to improve the present system. Women in rural areas face more problems than men in transporting their products to the markets, as observed in the field visit to the rural areas. While undertaking measures for developing the transportation system, special measures should be adopted for women. Producers' organization as suggested above can help women to carry their products to the market place.

7. Recommendations

Government should take action against hoarders and market manipulators to control country's marketing system. Public procurement system should be extended to areas which are deprived of any support from government in marketing their products and the poor farmers should get the ultimate benefit from the program instead of the middlemen. Crop insurance can be introduced especially in areas which are prone to natural calamities to save the small and marginal farmers in those areas. Transportation system should be developed in remote rural areas. As there is provision for increasing tariff level under WTO rules, initiatives should be taken to increase the tariff rate. Rent paying system in the local markets takes away a large part of the benefits that farmers get from selling their output. Such system should be abolished. Storage facilities should be undertaken by local government initiatives and private sector may be encouraged to follow the suit. Fertilizer distribution system by dealers at the local level contains problems regarding the right time and quantity of fertilizer distribution. In this case open market sale is preferred by the farmers. Thus open market sale of fertilizer should be extended. Farmers in rural areas get seeds from NGOs. But that is not according to their requirement. Government can distribute improved seeds at subsidized price to the small and marginal farmers. SME loan can be expanded in the marketing of agricultural products. Facilities of information technology should be provided to the farmers.

8. Conclusion

In Bangladesh, agriculture is one of the contributing sectors to the economy of the country. Major portion of the GDP comes from agriculture. Crop production has also exceeded the national demand in the last few years. But the farmers are always deprived of the fair price for their products due to improper marketing systems that exist in Bangladesh. We conducted a survey over the two villages considering the intensity of the high crop production in both areas named Nimshar from Comilla and Shitakundu from Chittagong district. The survey revealed that the farmers of both villages do not get fair price as they cannot access the real market which is fully dominated and captured by the intermediaries. The difference between market price at which consumer buy the agro-products and farmers' price at which farmers sell their

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products to the intermediaries caused by the improper infrastructure of marketing system. Agricultural marketing requires changes for bringing sustainable development to the agricultural sector. Decrease in profitability of farmers due to getting low price for their products lead to unwillingness among farmers to invest in this sector. To reduce the impact of intermediaries from the market, steps should be taken by the growers with the help of respective authorities from the government. A cooperative of farmers can be established at the local level of the country. The cooperative will perform as marketers for the farmers ensuring fair price for farmers and consumers and that cooperative must be controlled and monitored by the farmers of local area. Proper management, capital requirement, marketing orientation programs and other activities must be considered as major issues in the cooperative. Successful cooperative can ensure the fair price for farmers and consumers reducing the plethora of intermediaries from the market.

A limitation of this study is focusing on only two villages with some of the limited products which are produced in those areas. Another limitation is not a big data set (n = 100). Data have been collected from a particular group of farmers who are involved with some specific items like vegetables, rice; they do not represent all categories of farmers who are farming another agro based product. This study has taken under consideration only 12 open ended questions that focus on only marketing system emphasizing on the distribution of the product. The proposed model for the cooperative does not incorporate the organizational structure for the operation of that model in the real life. Future study should utilize this cooperative model incorporating the organizational structure and other issues to implement the model in real life. Further study should address the market situation with a large sample size by incorporating representatives from all districts of Bangladesh where crop production is high.

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