

The reasons for creation of agricultural sales organizations

Opodstatněnost vzniku prodejních organizací zemědělských producentů

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Abstract: Due to the transformation of the agricultural subjects realized after 1990, the new ownership relations occurred in the sectors of agriculture and food processing. The entrepreneurs started to build their activities on the base of market economy principles. The farmers started founding of specialized or universal-trading organizations aimed to sale of the agricultural production. The legal forms of the companies were cooperatives or companies incorporated. In practice, the subjects proved the reasonability of their existence not only on the side of agricultural production sale, but also on the side of purchasing inputs necessary for the agricultural production process. One of the best trading organizations is Agropork-družstvo in Brno, which is specialized in purchasing and sale of pigs, cows and recently poultry as well.

Key words: sales agricultural cooperatives, theoretical conclusions, importance, results of Agropork-družstvo, market share

Abstrakt: Transformací zemědělských subjektů uskutečněnou po roce 1990 vznikly principiálně zcela nové vlastnické vztahy v celém resortu zemědělství a potravinářství. Podnikatelské subjekty začaly své aktivity rozvíjet na zásadách tržní ekonomiky. Zemědělci začali zakládat obchodní organizace specializované, příp. univerzální na prodej zemědělských produktů. Právní forma těchto společenství je družstvo, popř. akciová společnost. Praxe potvrzuje opodstatněnost vzniku těchto organizací nejenom na straně zemědělské produkce, ale i na straně nákupů vstupů potřebných pro zemědělský výrobní proces. Jedno z předních míst mezi těmito organizacemi zaujímá Agropork-družstvo se sídlem v Brně specializované na nákup a prodej vepřů, hovězího dobytka a v poslední době i drůbeže.

Klíčová slova: odbytová družstva zemědělců, teoretická východiska, význam, výsledky Agropork-družstvo, tržní podíl

INTRODUCTION

The sales and purchasing organizations of agricultural producers (commonly called “sales cooperatives”) have been lately becoming an essential part of the marketing distribution channels, especially in the field of sale of agricultural products. In some cases, the activities in the field of purchasing of inputs necessary for realization of the business targets of the members can be seen as well.

The activities of the organizations (the most usual legal form is a cooperative) present in the market of agricultural products are a subject to the research programme resolved at the Faculty of Business and Economics of the Mendel University of Agriculture and Forestry in Brno, Czech Republic, called “The forming of agricultural and food processing industry and the trends in business behaviour of subjects in the integration process of the Czech Republic to the European Union”.

The aim of the article is to bring into view the importance and position of selected sales organization of agricultural producers – Agropork – a cooperative, specialised on pig meat.

The reasons to create sales organizations of agricultural producers

The reasons to create these specialized organizations (usually wholesalers of selected agricultural products) can be divided into the following groups:

1. *On the sale side of agricultural production*
 - a) to negotiate the prices with the processing companies. The prices should reflect the importance of the products regarding the demand, especially when there occur surpluses of the seasonal plant production or when exceeding the marginal cost per unit in case of the animal production;
 - b) to purchase and sell the products, which is the wholesale specialized in, on their own risk and thus to be recognized and even more appreciated by the agricultural producers, especially when the payments for sold products are transferred in agreed time.
2. *On the side of input, purchasing for the agricultural production*
 - a) to centralize purchasing of the necessary inputs for the members and thus to negotiate lower prices and

The results have been obtained by the research project of Mendel University of Agriculture and Forestry Brno, Faculty of Business and Economics “The forming of agricultural and food processing industry and the trends in business behaviour of subjects in the integration process of the Czech Republic to European Union”.

price discounts offered as an effective purchase enhancing factor;

- b) to realize the purchasing of the inputs mainly on the base of the written orders, which is a necessary condition to gain certain negotiating position. However, certain additional operative costs may occur due to change in needs of agricultural producers.

3. *In the mutual relations in the food processing verticals*

The number of the agricultural producers, incoordinate sale and purchasing activities require higher effort to follow the trends occurring in the food processing verticals. The most spread is the vertical of cereals. The processing subjects following the primary production spread the vertical significantly, which levies specific requirements to every single producer. In case of the sale organizations, all problems will be concentrated to the section, where it is possible to effectively assess and guide fulfilment of the requirements regarding time, quality or delivery and payment conditions.

Thus there would occur a mutual adaptation of the parts of the food-processing vertical to the market requirements, and also to the global nutrition trends and the new approaches to progressive trends of population nutrition. Especially we regard the production of bio-products as well as the functional food products manufactured with use of the nutrition complements according to the production possibilities conditions¹.

Between the most important subjects of the food-processing vertical, e.g. producers and processing industries, there exist various intermediaries and resellers who gain part of the final price in their favour, although they do not create any systematic conditions for further long-term development of business relations. Moreover, purchasing and storing companies with own material storing capacity are present there. They are capitally related to specialized food enterprises or directly to trading companies. Strong trading companies are trying to enter the agricultural production to influence it and benefit out of it. The outer point of view shows these storing and purchasing enterprises as economically and legally independent subjects, because the agricultural producers usually sign contracts for the production sale and input purchasing. In fact, they are capitally influenced by other subjects having decisive power according to the capital share in the companies. As a new feature of the relations between producers and these subjects, the existence of advanced payments, which ensures the purchase of the agricultural production, occurred.

4. *In economic field*

- a) to create sufficient economic background, where the member enterprises can find understanding and security in case of their financial troubles;

- b) to effectively influence and partly guide the cash flow of the member enterprises and their production regarding the financial resources necessary to cover the payables in time, thus to form goodwill in business and contractual relations.

5. *In the field of organization*

- a) the systematic analysis of the development in marketing trends at the food and food-processing market. The task is even more difficult; not only the analysis of the present consumers is sufficient but also the future need must be taken into consideration, which is the necessary condition for qualified decision for commercial targeting of the enterprise;
- b) to catch the trends of founding the sales organizations of agricultural producers in member states of the EU before the accession of the Czech Republic to the EU and possible transformation of these sales organizations in the market of agricultural products. Therefore, the experienced and educated staff with good negotiating skills should be working in the sales organizations, because the results of such specialized trading organization depend on the managerial skills to be successful in the market of agricultural products.

MATERIAL A METHODS

To work out this article, we used the resources listed in the Index at the end of the article. Further, we used the internal materials of Agropork-družstvo, which are sent by the individual centres. It is necessary to say that the cooperative has got a very precise rule of statistical data gathering on which base the analyses are made. As valuable resources, there must be considered the interviews with managers dealing with the topic of the research, especially about the creation of the marketing information system of the organization. We chose the method of interview to get the information about the activities of these organizations from non-members. To realize this, the students of fifth year of combined studies at the Faculty of Business and Economics were used as interviewers. The interviews cannot be included due to a limited size of this article. The methods of processing are based on the set targets. The analysed problem is solved by the general methods: deduction and synthesis. Due to the short time rows of the data, the trend analysis could not be done. Due to this, we used the method of basic indexes for the figure interpretation.

RESULTS

During the previous research we mainly focused on the sale organization Agropork-družstvo seated in Brno. The

¹ Prepared Foods published an article in 1999, which brought an example of the nutrition drink Balance Bar, Co. Carpinterin, California, which does not contain any artificial colour, aromatic or conservation additives. It contains high amount of proteins (30% of daily dose) and calcium (15% of daily dose) and contains 22 vitamins and minerals. These products are typically bought by people over 45 with higher incomes.

enterprise is aimed at the sale of pork, beef and poultry. The activities of the Agropork-družstvo are governed according to the company memorandum and further guided on the base of the trading rules approved by the general meeting. The sale of pigs is realized in accordance with the system SEUROP. The sales organization is divided into 7 centres:

- a) Náchod – East Bohemia;
- b) Mladá Boleslav – Central and West Bohemia;
- c) Staňkov – South and West Bohemia;
- d) Znojmo a Ratíškovice – South and Central Moravia
- e) Olomouc – Central Moravia;
- f) Frýdek-Místek – North Moravia;

These centres are connected with their members and purchase the pig meat, cattle and poultry from them and they directly settle the payments to them for the purchased production. The cooperative obligations can be differentiated as obligations of the cooperative to the members and obligations of the member to the cooperative.

Obligations of the sales organization to the members

The basic obligations are:

- to purchase all the production of the slaughter animals offered by the member for sale for the agreed prices according to the kind of animal and the quality classification according to the closed contract of sale;
- to pay for sold production according to the agreed principles;
- to inform the members about the traded amount, prices and qualitative classification of the sold livestock quarterly.

Obligations of the members of the sales organization

The member of the cooperative is obliged to provide the management of the sales cooperative with all necessary information through the mediation of the regional centres. The provided information is mainly following:

- amount and weight of yearly production of the animals;
- structure and classification of the animals and the estimation of the scale for individual months of the year;
- to supply all the production of the animals of all kind and categories traded by Agropork-družstvo.

Further obligations are:

- in case of not keeping the agreed amount of production to be sold during the year, to pay the contractual penalty agreed in the contract of sale; tolerance of 5% is agreed;
- to close a yearly contract of sale of the production;
- to contribute to cover the overhead costs of the cooperative through the share of the revenues for the sold animals realized through the cooperative;
- to keep the amount and time of agreed supplies of the beast according to the closed contract of sale;

- to respect the conditions of acceptance and sale of the animals;
- to take part at the sale realizing through them;
- to cooperate to load and transport the animals to a slaughterhouse;
- to send the quarterly reports of turns in heard; if not sent the penalty of CZK 1 000 is charged.

The rules for sale of animals

1. The rules of sale of the animals are one of the main documents of the business strategy of Agropork-družstvo. There are settled the principles that every member of the cooperative runs his own breeding activities. The members keep rules of animal husbandry, veterinary and hygienic standards to achieve the production meeting the qualitative requirements for food processing and production purposes.
2. The member of the cooperative is obliged to announce the amount of the supply of the animals by the 15th day of the month before the month of supply. If the member does not meet the amount or term of the supply the cooperative cannot be responsible for sale of these animals.
3. The animals are being handed in by the member for the transport to slaughterhouse in agreed terms. The place of delivery is the production unit of the member, which is responsible to get the veterinary documentation.
4. The contract of sale closed with Agropork-družstvo are specified the slaughter places according to the:
 - principle of district creation;
 - regarding the distances and consecutives;
 - the scale of production and slaughter capacity as well as the customer class.The member must respect the obligations of the cooperative in terms of amount and must secure the transport of the animals according to the contract of sale. The changes are possible only on the base of further agreement.
5. The sale of the animals is realized at the end customer according to the principles stated in the contract of sale. The members who produce more than 600 tons of pigs per year are obliged to supply part of their production (to 5%) for export purposes. When the export price is lower than domestic market prices, the difference will be reimbursed to the level of the yearly average of Agropork-družstvo. The sale cooperative declares to export only when the domestic obligations are covered.

Results of the Agropork-družstvo

The chart of the sold animals in tons of scale for the years 2000 and 2001 and average realization prices according to the kinds of the animals are stated in Table 1.

The Agropork-družstvo is strongly oriented at the purchasing and sale of pigs according to the data in the table. On the other hand, heifers show a very low share.

Table 1. The development of amount, prices and revenues of Agropork-družstvo 2000–01

Animal kind	2000			2001			Index 2001/2000	
	live weight (t)	price (CZK/kg)	sales (th. CZK)	live weight (t)	price (CZK/kg)	sales (th. CZK)	live weight	sales
Swine	112,584	35.42	3,987,725	117,251	43.63	5,115,661	104.15	128.29
Sow	3,112	27.72	86,265	3,757	35.45	133,186	120.73	154.39
Bull	6,644	40.83	271,275	7,663	34.20	262,075	115.34	96.61
Heifer	1,002	31.47	31,533	1,100	25.94	28,534	109.78	90.49
Cow	4,092	26.93	110,198	4,303	21.02	90,449	105.16	82.08

Source: Materials of Agropork-družstvo

BSE disease strongly influenced prices per unit of cattle, which fell of CZK 6.63 per kilogram for bulls, of CZK 5.53 per kilogram for heifers and of 8.22 CZK per kilogram for cows. The sales prices of pigs increased of CZK 8.22 per kilogram and of CZK 7.73 per kilogram for sows.

As the cooperative is operating on the republic level, it also must analyse the realization of the sale of the single kinds of animal on the level of purchasing centres as well as on the company level. Therefore, it can motivate the members to intensify breeding activities and possibilities of realization of sale. The development of the average prices according to the centres and quarters are shown in Figure 1.

Regarding this, the highest selling price of pigs in the first quarter of 2000 were reached by the centre in Ratiškovice (CZK 31.38 per kilogram), the lowest was on contrary reached in Staňkov (CZK 30.47 per kilogram). In the second quarter of 2000, the highest average price was

reached in Olomouc – CZK 32.99 per kilogram, compared to Staňkov – CZK 32.31 per kilogram. In the third quarter, the sale cooperative managed to increase the price significantly – of 16.83% compared to the second quarter. The highest price is in Olomouc again – CZK 38.69 per kilogram. In the fourth quarter, the prices increased of CZK 1.79 per kilogram (4.69 %). The highest average price was reached in Olomouc again on the level of CZK 40.24 per kilogram compared to CZK 38.69 kilograms in the Náchod centre. The year 2001 can be generally described as follows: The growth in average price occurred during the first, second and third quarters from CZK 39.33 per kilogram to CZK 47.89 per kilogram. During the fourth quarter, the price decreased to CZK 42.98 per kilogram but was still higher by 9.28% compared to the first quarter. The highest price was reached in Ratiškovice during the year. It was CZK 39.68 per kilogram during the first quarter, maximal price of CZK 48.47 per kilogram was reached

price (CZK/kg)

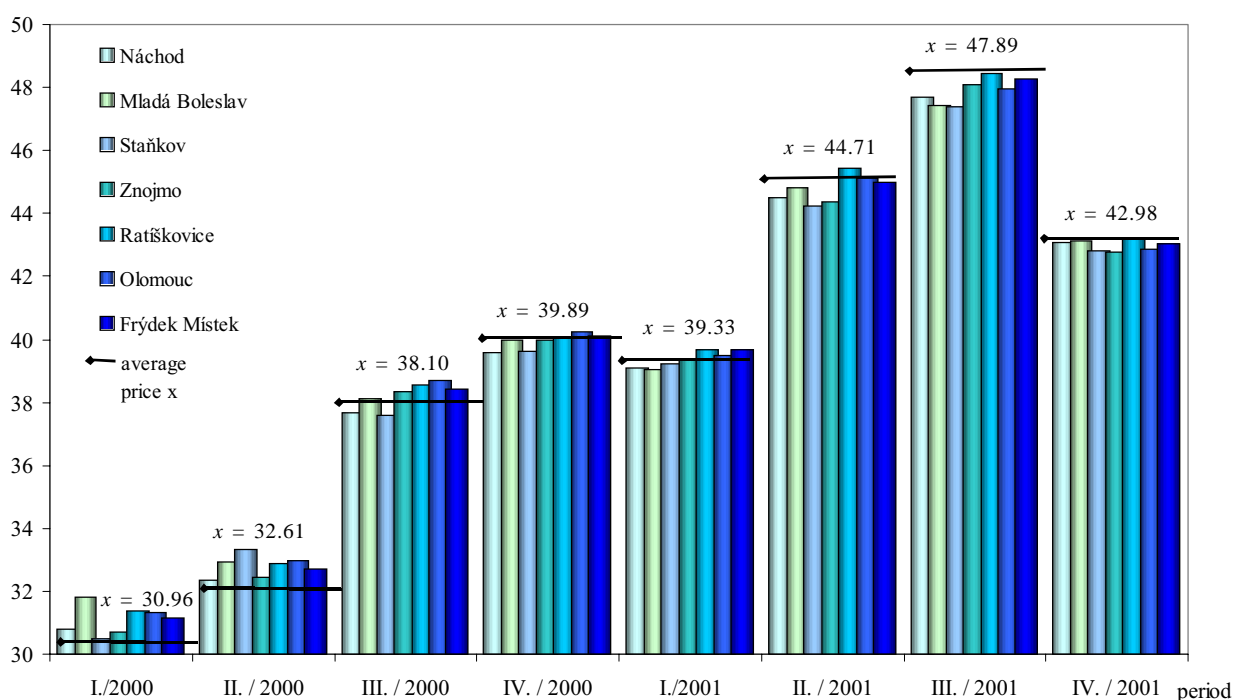


Figure 1. The development of market prices of pigs according to the centres – Agropork-družstvo

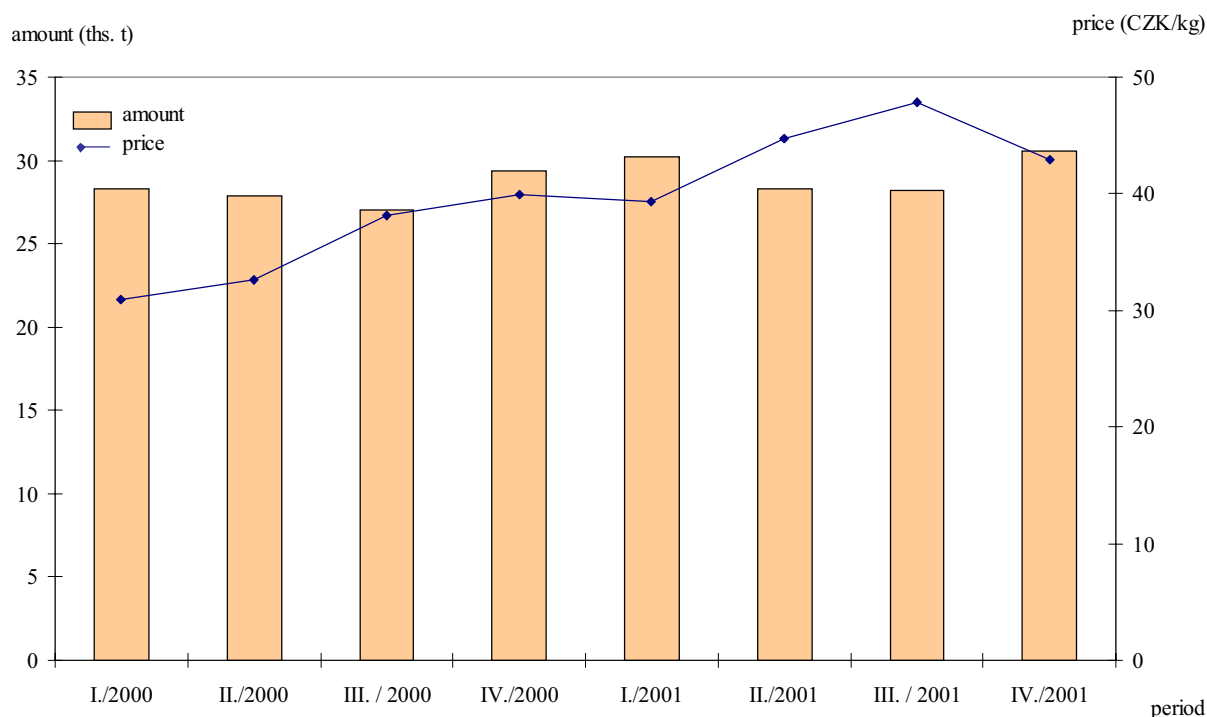


Figure no. 2: The development of prices and amounts traded through Agropork (2000 and 2001)

Source: Materials of Agropork-družstvo

during the third quarter. The price dropped to CZK 43.21 per kilogram during the fourth quarter.

In Figure 2, we bring the average price of pigs per unit and sold amount in 2000 and 2001.

Agropork-družstvo has a significant market share in purchasing and sale of the pig meat in the Czech Republic (see Figure 3).

Marketing information system

The successful management of the business activities depends on the actual and quality information. Therefore,

the existence of quality marketing information system is necessary in every subject. It underlines also the number of subjects that Agropork-družstvo cooperates with. The number of customers, according to the regions, are contained in the Table 2. It is obvious that the highest increase was experienced in centres Náchod, Staňkov and Znojmo. Thus the requirements for the operative negotiation and mutual relations development are specific. Regarding suppliers (anybody who closed a contract with Agropork-družstvo) the biggest drop can be seen in centre Olomouc, although it did not affect the production amount.

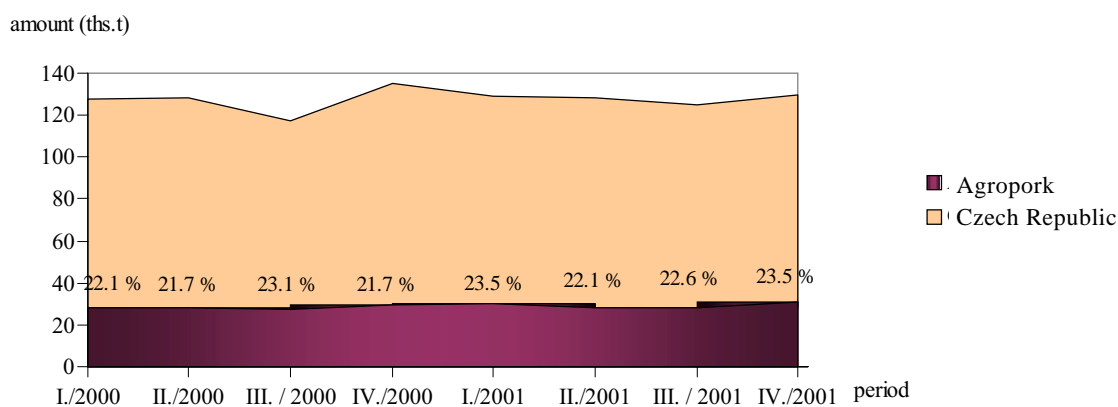


Figure 3. The Agropork share in the Czech pig meat market

Source: Materials of Agropork-družstvo, ČSÚ

Table 2. The number of customers of Agropork-družstvo according to the regions

Customers acc. to the region	2000		2001		Index 2001/2000
	no.	share (%)	no.	share (%)	
Frydek-Mistek	19	10.7	21	13.0	110.5
Mlada Boleslav	13	7.3	13	8.1	100.0
Nachod	23	13.0	23	14.3	100.0
Olomouc	33	18.6	22	13.7	66.7
Ratiskovice	40	22.6	36	22.4	90.0
Stankov	14	7.9	14	8.7	100.0
Znojmo	35	19.8	32	19.9	91.4
Celkem	177	100	161	100	91.0

Source: Materials of Agropork-družstvo

Information about the traded animals is being exchanged on the regular monthly meetings between the top management and regional centres representatives. The results for the previous periods are assessed on the meetings, especially number of sold animals according to the kinds, total weight, average slaughter weight, realization price and keeping the price and payment rules by the customers. The future perspective is negotiated as well regarding the preparedness of animals for the upcoming periods. The clear benefit of getting information that way is the unchanged quality of the information, there is no loss of information. Information is then processed in the headquarters of the enterprise using the index method and method of absolute increments. To estimate the trends, the trend functions are used.

In many cases, the information is gathered by the operative telephone contacts with centres or the processing units. The aim is often specification of the offer, to check the preparedness for sale of the animals or occasional transfers among the centres to process. The aggregate data are negotiated by the managers of the cooperative (general, business and economic) with assistance of other employees of the enterprise. During the meetings, the managers solve financial issues, payment

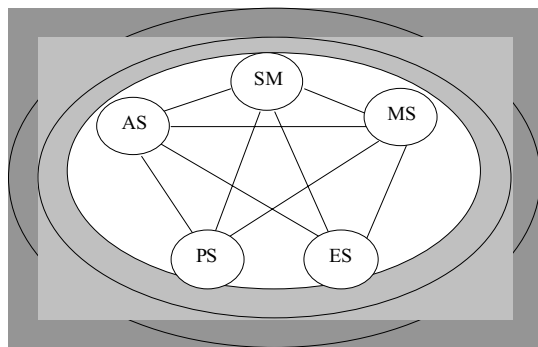


Figure 4. Marketing information system in Agropork-družstvo

discipline and they negotiate the problems solved during the regular meeting with regional representatives.

Marketing information system may be generally characterised by the Figure 4.²

- **MS** – Material subsystem – into material subsystem, we incorporate all the traded animals according to the kinds. It is decisive part because the successful sale and encashment are crucial for the cooperative performance and of its members.
- **SM** – Subsystem of management – it outlines the targets of the company and its departments, it manages employees and projects the tasks.
- **AS** – Administrative subsystem – it decides about the tools of the production policies, rules of trading or company memorandum, company equipment, investments, use of the tangible property.
- **PS** – Personal subsystem – includes managers and employees and their qualification.
- **ES** – Economic subsystem – includes bookkeeping, statistics, evidence, etc.
- **PR** – Subsystem public relations – enables the relations with employees, public and outer environment.

The material subsystem is tightly connected to economic-financial subsystem. The processors – food-processing enterprises transfer the payments to the bank account of Agropork-družstvo. Two kind of payments are used within the company:

1. Sequential payments. In this case, the Agropork-družstvo fully guarantees the payments to suppliers. The cashed revenues for one indirect sum used to settle the invoices of the members. The decisive criterion is the due date. For example, the list of the suppliers according to the due date contains members A, B and C. First payment for the delivery is obtained from the processor X, who was delivered the animals from member C (third in the list). Because member A should be paid first, he gets the payment as first.

2. Direct payments. Some of the members were interested in trading with the partners, which Agropork-družstvo did not want to cooperate with, because they were risky and economically inefficient. The members still wanted to trade with them, so they chose direct payments to their bank account. In this case, Agropork-družstvo guarantees the settlement of the invoice immediately after encashment of the payable from the customer. The supplier waits until the customer transfers the payment. If “his” customer does not pay within 30 days after the due date (65 days after realization), the member is obliged to take the receivable from the customer. There are only about 20% of the payments of this type in the company.

The financial accountant is responsible for the kinds of the payments, their distribution and relations with the commercial bank. The economic manager monitors and evaluates the receivables after the due date regularly – once a week.

² Kotler outlines the marketing information system as a set of procedures and information sources used by managers to get necessary information about the development of the market environment. Kotler, P.: Marketing, management. Grada, Praha: 1998, p. 110.

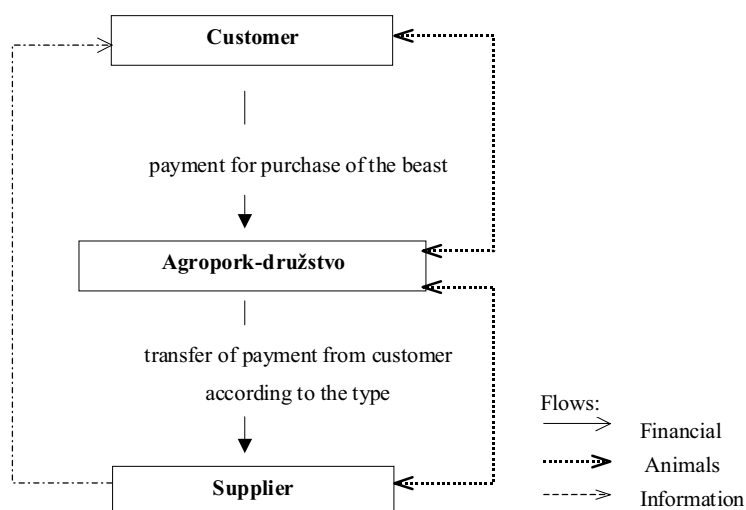


Figure 5. Material and financial flows

The sequential and direct payments are different in the term of margin imposed. The direct payments have the margin of CZK 0.20 per kilogram. The sequential payments have the margin of CZK 0.30 per kilogram, which is higher because Agropork-družstvo created certain reserves for the case of later encashment to settle the payables that are contractually obliged to. The cooperative uses the margin CZK 0.10 per kilogram in case of “own slaughterhouse”; some of the agricultural enterprises have their own slaughterhouses and trade through Agropork-družstvo within their own enterprise.

The traded amount of Agropork-družstvo is 130 000 tons of pigs per year. About 7 000 tons from the amount are the “own slaughterhouses”, about 26 000 tons are traded using the direct payments, and the rest of 97 000 tons are realized using the sequential payments.

The invoice due date for customers is 35 days from realization. The due date to supplier is agreed to 38 days. It means that there exists certain contractual reserve in case the customers pay 3 days late, but settle the payable in time. The real due date for the customer payment is 37 days.

The contract still does not clearly declare the decisive date – whether it is date of writing-off the payment from the bank account of the customer or the charge in favour of the bank account of Agropork-družstvo. If the customers and suppliers have the accounts in the same bank, the payment is transferred the same day. But if they have the accounts at different banks, the time required for the transfer is 2–3 days. The bank statements and payment transfers are checked by the financial accountant, business manager and assistant manager.

DISCUSSION

The theoretical conclusions as well as the analytical results found at Agropork-družstvo underline the importance of creation of sale organizations specialized in sale of selected commodities or other commodities. We found

that the agricultural producers are not well informed of the benefits streaming from the membership in these sales organizations. The foreign countries’ experience, as well as the domestic findings, shows their importance especially in the negotiating power, which they benefit from in relations with their customers (food-processing enterprises) or wholesale chains.

For example, the sale centre *Odbytové družstvo Centrum-Tábor* founded in 1999 is specialized in purchasing and sale of the livestock. It is active also on the side of the input purchasing, mainly the mechanisation equipment. The cooperative sent request list to their members, which was in fact an order for the purchase of fuel, working equipment and tools.

The cooperative is active in the districts of Tábor, České Budějovice, Český Krumlov, Prachatice, Písek, Strakonice, Jindřichův Hradec, Pelhřimov and Příbram. The cooperative tries to form its own capital base and attempts to create own slaughter and processing capacity.

The cooperative *Mlékařské a hospodářské družstvo JIH* purchases milk from its 28 members and sells it on its own to the dairy Jihočeské mlékárny, a.s. in České Budějovice. Originally, the trading was processed on the base of mandatory contract, which is not convenient because the company could only represent the members. Therefore they closed the contract of sale and got to the position of selling or purchasing part which changed the quality of relations to either members or Jihočeské mlékárny, a.s. as a buyer. Besides purchasing and sale of milk, they purchase the feeding mixes for their members. They keep the due dates of the invoices for purchased milk, which means 30 days from the realization.

On the base of the research, we found that in case of milk, the great concentration of purchasing and sale was reached through the sales cooperative MLECOOP, Praha. It gathered 17 regional cooperatives in 2000, in 2001 the number dropped to 12. Due to this, further analysis has to be made to find out the reasons why the number of members decreased.

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