

CHAPTER VII

THE PROBLEMS OF FINANCING, WEIGHTS AND MEASURES AND RISK-TAKING ETC.

Financing

Not all of the farmers receive immediate payment when selling their produce to hucksters, truckers and local vegetable collectors. Having limited funds at their disposal which are readily exhausted by paying for purchases from the first few farmers, these hucksters, truckers and vegetable collectors are obliged to make subsequent purchases from the farmers on credit which is usually of 2 or 3 days duration. Payment is effected after the lapse of 2 or 3 days from the date of purchase.

What makes a farmer willing to sell his produce on credit? The reasons are as follows:

- 1) In view of the number of competitors around him who produce the same products (vegetables, maize, sweet potatoes etc.) selling on credit constitutes an attraction to truckers, hucksters and local vegetable collectors to make frequent purchases from his farm.
- 2) Unavailability of up-to-date storage facilities makes a farmer unwilling to store his produce especially vegetables even for one day for fear of quality and appearance deterioration and the loss in income it entails. With the mounting desire to dispose of his produce the very day it is harvested a farmer, therefore, has to sell to buyers on terms favourable to the latter of which selling on credit is one of them.

The problems confronting the farmer as a result of extending credit to hucksters, truckers and local collectors are two-fold.

- 1) He is deprived of an immediate source of income for which he needs badly being short of money himself.
- 2) He has to extend credit for which he receives no interest.

Weights and Measures

Weights and measures used in the rural areas by farmers, hucksters, truckers and local produce collectors are not standardized. They are not the standard weights or measures approved by the State or Federal governments. As a matter of fact, each uses his own weights and measures.

It is common knowledge to everybody in this part of the world that Chinese dealers do not use weights which measure up to common accepted standards. For buying purposes they use weights that show more katis to the pikul and for selling purposes they use weights that show less katis to the pikul.

When selling to truckers, hucksters or local collectors, the weighing of the farmer's produce is done not by using the farmer's own weighing scale but by using those of the dealers. The weighing scales of these dealers are of the Chinese type, not standardized and have the reputation of showing more katis to the pikul, for example, instead of measuring 100 katis to the pikul their weighing scales will show slightly more katis to the pikul say, 110 katis. For every pikul the dealer buys from the farmer he, therefore, gets 10 extra katis. This fact is very well known to the farmer but due to the unavailability of up-to-date storage facilities, his lack of bargaining power and the nature of his products which necessitates prompt disposal, the farmer must content himself to be the silent witness of this daylight "robbery".

Risk-Taking

There is more risk in agriculture than in most manufacturing and merchandising enterprises. That is, earnings fluctuate more widely from year to year in agriculture than in most other lines of business.

As far as the marketing of vegetables, maize and sweet potatoes is concerned, the risks faced by a farmer are:

- 1) Mechanical injuries to his produce before, during and after harvesting.
- 2) Quality, freshness and appearance deterioration to the produce while awaiting disposal.
- 3) Theft and fire.
- 4) Price changes.

All the above risks are borne by the farmer himself because there is no insurance company in this country which is willing to underwrite such risks. Being unable to shift the risks to someone else the farmer has to bear them himself and suffer from the unpleasant consequence of violent fluctuations in his income.

The risk of price changes is another great hazard faced by the farmers in Block S2 and there is no way at all for them to reduce or minimise this risk. He is not able to deal in the futures market for there is none for vegetables. He is not able to sell his vegetables to the government at a constant price because there is no Reserve Stock and no guaranteed minimum price for vegetables. Risk-taking is solely the responsibility of the farmer and is a serious problem to him.

Transporting

Transporting vegetables, maize and sweet potatoes does not pose any serious problem to the farmers in Block S2. When buying produce from the farmers, truckers and hucksters bring their lorries right into the heart of the agricultural area. Except for selling their produce to the local collectors in which case the farmers have to transport their produce by bicycles from their farms to the collectors' shops which sometimes necessitates the making of a number of trips to and from the farms. Other than this, transportation of produce is no problem to the farmers at all.

Market Information

Market information or market intelligence is an important aspect of marketing. Before trying to market his products a farmer must, first of all, know: (i) the market for his product and its composition, (ii) where his market is, (iii) when and where do people buy his product and (iv) the price they are willing to pay for his product.

Finding out the strength of his market and its composition is important to the farmer because it enables him to have an idea of the number of consumers for his product. This gives the farmer an idea whether it is worthwhile or not for him to produce and market that product.

Finding out the composition of his market will aid him in finding out the location of his market. Finding where his market is aids the farmer in selecting his channels of distribution.

The answer to the question of when and where people buy his product is important to the farmer in aiding him to plan for the right marketing programme. He must sell his product at the time it is wanted and in the place where it is wanted. If his product is most wanted in January, it is marketing suicide for the farmer to turn his product onto the market in April. Likewise, if his product is most wanted in super-markets it would be unwise for the farmer to put his product in retail stores.

Finding out at what prices consumers are willing to pay for a product like his enables a farmer to fix the right price for his product - not too high and not too low.

Apart from the abovementioned informations a farmer has to be also well-informed about (i) the number of competitors operating in his market and the prices charged by them, (ii) the prices prevailing in important centres like Kuala Lumpur, Klang, Ipoh, Teluk Anson etc. at wholesale and retail levels, (iii) the total demand and supply conditions of the product he deals in and (iv) the present trends in consumer preferences - whether they want long beans wrapped in plain paper or in plastic bags or whether they prefer to buy unbranded sweet potatoes or those that carry a brand.

Up-to-date and reliable market information is an asset to a farmer. It aids him in formulating the right production and marketing programmes. It helps him to solve the problems of what to produce, when to produce, how to sell, to whom to sell, when to sell and at what price to sell. In other words, the availability of up-to-date and reliable market information will aid a farmer in making the correct decisions as to the production and the marketing of his product.

But the problem to the farmers in Block S2 in connection with market information is that they do not have any information on the market at all. The unavailability of market information is a problem to them and a serious one too. They do not have the faintest idea of the supply and demand conditions in the market, of prices prevailing in Kuala Lumpur, Klang, Teluk Anson etc. at wholesale and retail levels, of transport costs, of alternative means of distributing their products and the current trends in the consumption of their products. As a result the farmers have to rely heavily on the itinerant as well as on the locally - domiciled collectors of farm produce for the marketing of their products. These collectors also constitute the one and only source of market information to the farmers and an unreliable one too. Relying on the dealers for market information works to the disadvantage of the farmer. Convincing the farmer of "unfavourable" market conditions in Kuala Lumpur or in other towns, these middlemen are able to make purchases from the farmer at low prices.

Another disadvantage to the farmer of the unavailability of market information is manifested by his inability to make a proper selection of crops in terms of higher returns in his production programme. Consumers are willing to pay higher prices for Salad, Daun Soup, Onions and Kai Lan as shown in the following table but the farmer in Block S2 seems to be concentrating all his efforts in the production of Long Beans, Ladies Fingers, Pumpkins, Spinach Mustard, Sweet Potatoes and Maize which fetch relatively lower prices in the market.

TABLE 7

**PRICES OF CERTAIN VARIETIES OF PRODUCE AT
WHOLESALE AND RETAIL LEVELS IN KLANG
FOR ONE DAY IN 1964***

Variety of Produce	Wholesale Price Per Kati ($\text{\$}$)	Retail Price Per Kati ($\text{\$}$)
Salad	0.35	0.40
Daun Soup	0.60	0.80
Union	0.60	0.80
Kai Lan	0.35	0.40

Sources: Tan Lai Leong, 88-A, Meru Road, Klang.

*The exact date is not known.

This phenomenon is explained by the fact that the farmer is not aware of the prices prevailing in Kuala Lumpur, Klang and in other towns and, therefore, has not planned his production programme in conformity with consumers' demands. Unavailability of market information has deprived the farmer of his opportunity to benefit from the higher prices consumers are willing to pay for certain varieties of produce.

Unavailability of reliable and up-to-date market information (which is in itself a problem) has given rise to the farmer two problems of marketing namely (i) constant price fluctuations and (ii) determination of price by the intermediaries.

Ill-equipped with market information, the farmer is not able to make the correct choice as to which crop to cultivate. He has no information on the number of farmers and the number of acres under the cultivation of that crop which he is going to cultivate. As a result at a time when it too late to take corrective action the farmer realizes that the same few crops are being cultivated by each and every farmer in the Block. Although the production of each individual farmer is not large but with each farmer producing a bit of the same crop, the total production of that crop will, nevertheless, be large. It is evident that the income of a farmer is influenced by the production of other farmers. A crop may be profitable when grown by a limited number of farmers but much less so when its production expands more than demand. When production expands more than demand

price tends to drop and as long as supply continues to outstrip demand price keeps on dropping. This is the situation facing the farmers in Block S2 as a result of everyone producing the same few crops.

This situation of supply exceeding demand is also partly due to the farmer's unawareness of alternative uses of their crops, for example, he is not aware of the possibility of converting fresh chilies into dried chilies, spinach mustard into salted spinach mustard and maize into livestock feed-stuffs. Selling a produce in many different forms is important not only to augment the farmer's income but also to act as a price stabilizer. For example, in the case of chilies, the declining in its price can easily be checked had the farmers sell a portion of their output as dried chilies instead of selling the whole of the chilies production fresh. In other words, when the price of fresh chilies is declining what the farmers should do is to sell a portion of their chilies output as dried chilies instead of selling them all fresh. In this way, when the supply of fresh chilies curtailed, the declining price will tend to rise and if supply can be constantly equated to demand, the price of fresh chilies can be stabilized. Or had the farmers sell their chilies in both these forms - fresh and dried - from the beginning of the season, the price of fresh chilies could have remained constant throughout the season. Secondly dried chilies can be stored for a long time and its price at retail level at \$1.20 per kati is very much higher than that of fresh chilies which is only \$0.90 per kati at retail level. But due to the unavailability of market information farmers are unaware of the alternative forms in which their products can be marketed and the prices they command and, therefore, had not been able to derive any advantages from such knowledge.

Pricing

The same economic factors affecting the price of other commodities affect the price of vegetables, sweet potatoes and maize. The relationship of supply, demand and price are very close in the case of the aforementioned agricultural products. When there is more of a given vegetable, maize or sweet potato on the market than the consumer wants, the price drops. Conversely when there is a scarcity of a given vegetable, sweet potato or maize the price of that particular product rises.

There is no single price ruling in the market for all varieties of vegetables, maize and sweet potatoes. Each variety commands its own price in the market consistent with its supply and demand conditions as shown in Table 8.

The price of a variety of vegetable, sweet potato or maize differs from one stage to another in the distribution process; the price increases as the product moves away and away from the point of production towards the point of consumption. The price of any variety of vegetable, sweet potato or maize thus has four levels.

- 1) The producer level - the price at which

producers change vegetable collectors.

2) The collector level - the price at which collectors charge wholesalers.

3) The wholesale level - the price at which wholesalers charge retailers.

4) The retail level - the price at which retailers sell to consumers.

TABLE 8

PRICES OF VEGETABLES, SWEET POTATOES AND
MAIZE AT PRODUCER AND RETAIL LEVELS
IN SEKINCHAN FOR ONE DAY IN 1964*

Nature of Produce	Producer Price Per Kati/ Per Piece (\$)	Retail Price Per Kati/ Per Piece (\$)
Chilies	0.65	1.00
Long Beans	0.12	0.20
Ladies Fingers	0.18	0.25
Spinach Mustard	0.20	0.25
Pumpkins	0.08	0.15
Sweet Potatoes		
(i) Red Variety	0.04	0.08
(ii) White Variety	0.05	0.10
Maize*		
(i) Grade One	0.04	0.07
(ii) Grade Two	0.02	0.05

Source: Yap Cheo, Proprietor of Stalls 1, 2, 3 and 4 in
Sekinchan Town Market.

* The exact date is not known.

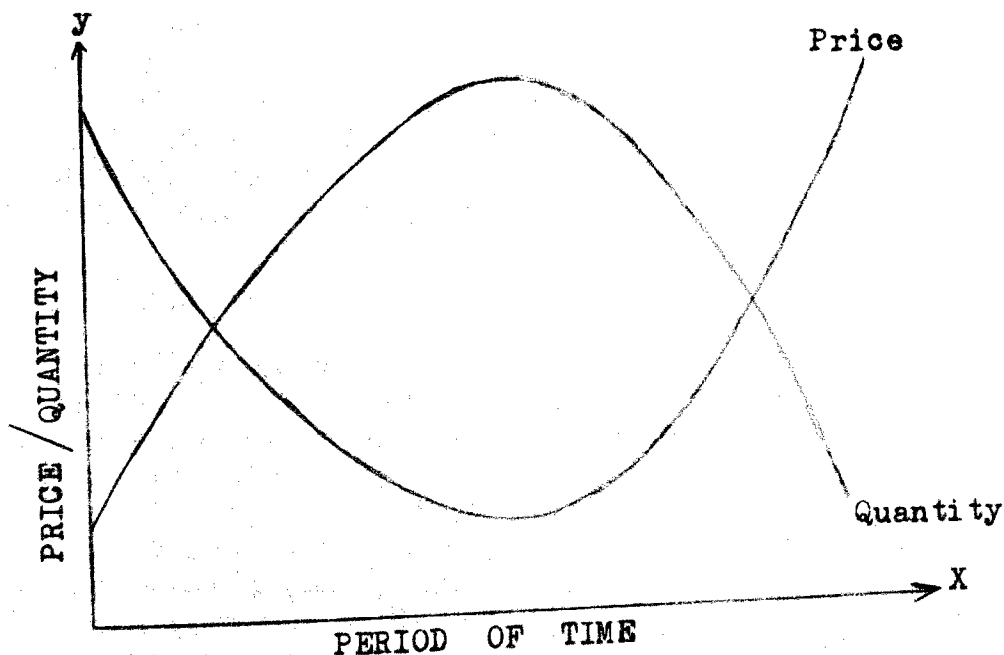
*
The price of maize is on a piece basis.

As transport and other marketing expenses are incurred in distributing the vegetables, maize and sweet potatoes from one stage to another in the marketing process the price is increased by the amount of expenses incurred and the margin of profit for the dealer. The price at the retail level less the price at the producer level gives the marketing margin or the farm-consumer spread.

A feature of vegetable, maize or sweet potato pricing - or the pricing of any agricultural product for that matter - which has been a constant worry to farmers in Block S2 is the periodical fluctuations of the price. The price does not remain constant throughout the season. It is either at its maximum, normal level or at its minimum. The fluctuations in price more or less follow a standard pattern. The price is highest in the early stages of production when the limited supply of that particular variety of produce falls far short of demand. As supply gradually increases the price gradually falls until it reaches the normal level where demands conditions are equated to those of supply. When production reaches its peak with supply greatly exceeding demand the price is at its minimum. Towards the end of the season as supply gradually exhausts itself price gradually begins to rise until the normal price is again attained when supply equals demand. As supply decreases further the price begins to rise further and it keeps on rising following decreases in supply until the season is over. This pattern of price fluctuations may be shown diagrammatically as follows:

DIAGRAM 2

PATTERN OF PRICE FLUOTUATIONS OF VEGETABLES, SWEET POTATOES AND MAIZE IN ANY GIVEN SEASON



Apart from the difference in time and price, the price fluctuations of all the varieties of vegetables (red chilies, pumpkins, long beans, ladies fingers and spinach mustard) sweet potatoes as well as maize follow the pattern of price fluctuations as shown in the above diagram. The only exception to the normal pattern of price fluctuations as shown in the above diagram is that of the price fluctuations of green chilies.

The Pricing of Green Chilies

Green chilies are one of the two varieties of chilies put onto the market. The other variety is red chilies. Both varieties command different prices.

Green chilies are ready for plucking two and a half months after transplanting. With transplanting taking place in mid-April the harvesting period of green chilies thus begins in early July. Starting at maximum price of 0.40 cents per kati in early July brought about by an insufficiency in the supply of green chilies the price falls gradually as more and more green chilies are brought onto the market until the price reaches the normal level of 0.20 cents per kati. This happens somewhere in the second week of July. As supply increases further and further, price falls more and more and the price reaches its minimum at 0.05 cents per kati when production is at its peak with the supply of green chilies greatly outstripping the demand. This period of minimum price occurs somewhere around the end of July. As the yield begins to decrease towards the end of the season with the subsequent curtailment in total supply, the price begins to rise again, at first reaching its normal level and finally reaching its maximum. In early September there is a sharp drop in the price following a glut of green chilies in the market. The price is at a minimum during this period and this price persisted until the season is over. This phenomenon is explained by the fact that in early September the farmers are clearing their lands off all chili plants in preparation for the next cropping of padi. The green unripe chilies from the uprooted plants bring a sudden increase of green chilies onto the market and this results in a sharp drop in the price. The pattern of price fluctuations of green chilies is shown in Diagram 3.

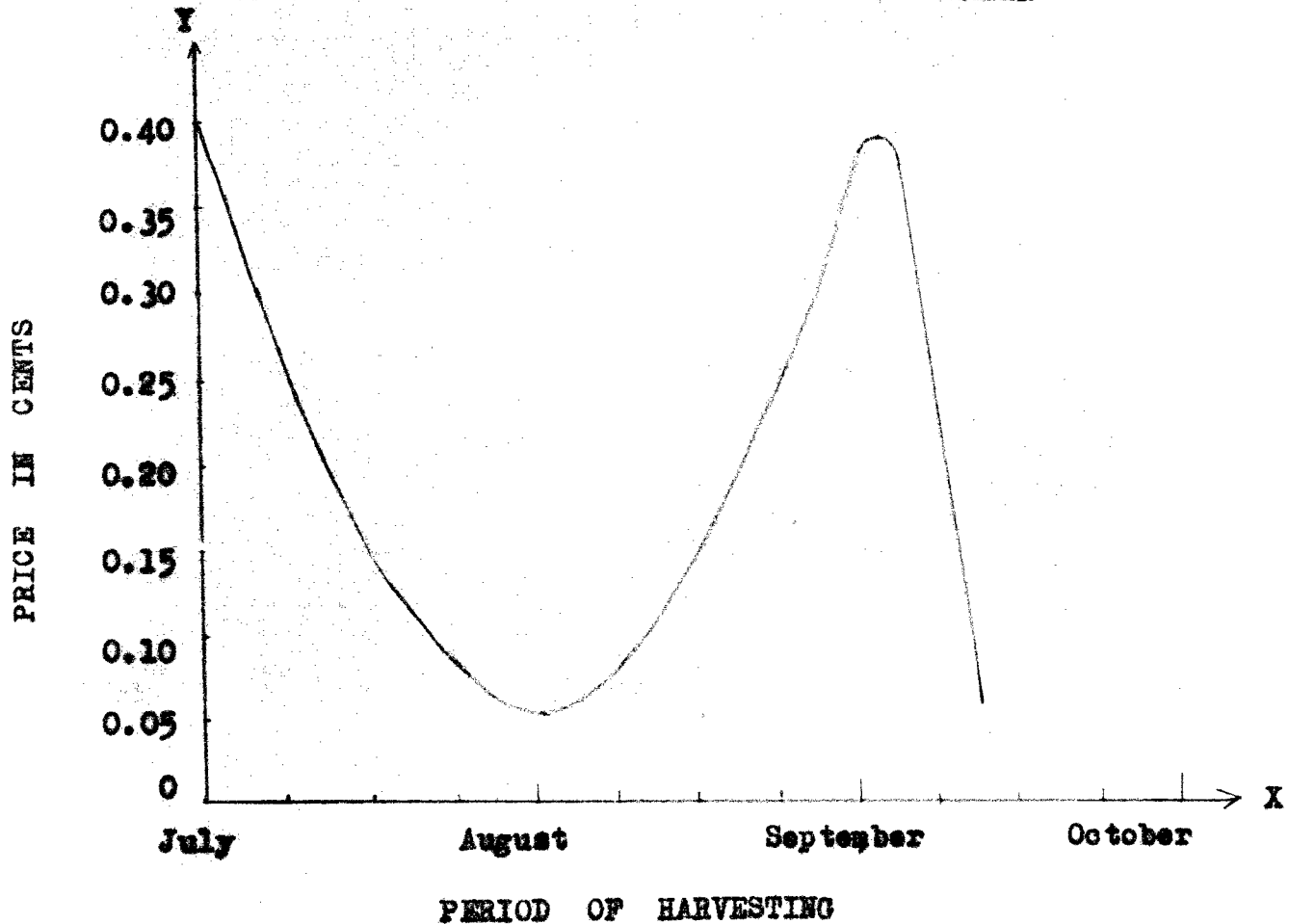
Problems of Pricing

Price fluctuations has been a problem, is a problem and will continue to be one to the farmers in Block S2 for a long time to come unless positive steps are taken by the farmers themselves or the government to remedy it.

Price fluctuations is a problem to the farmer because fluctuations in price cause him to face instability in his income. When the price is high his dividends are large as his sales proceeds greatly exceed his production costs. But when the price is extremely low the farmer may be lucky if he can just break-even. It happens more often than not that a farmer sells a greater proportion of his produce at prices below the normal level. Under such circumstances

DIAGRAM 3

PATTERN OF PRICE FLUCTUATIONS OF GREEN CHILLIES FOR THE PERIOD FROM EARLY JULY TO EARLY SEPTEMBER



the farmer incurs a loss as his costs of production greatly exceed his sales proceeds.

A problem of marketing which has arisen in connection with pricing is that of the determination of the price of vegetables, maize and sweet potatoes etc. by the hawksters, truckers and vegetable collectors.

A farmer with an average lot of 3 acres does not utilize the whole of the 3 acres for the cultivation of a single crop. Instead he diversifies his production by planting, say, $1\frac{1}{2}$ acres of maize, $\frac{1}{2}$ acre of spinach mustard, $\frac{1}{2}$ acre of long beans and $\frac{1}{4}$ acre of ladies fingers with the result that he is a small producer of many crops but a large producer of none. Taking the Block as a whole, there is thus many producers of a particular crop producing it in small quantities. This puts the farmers in a position of atomistic competition where there are many producers of a given crop and that the actions of a single producer has no noticeable effect on the total output and the price of that crop. The farmer will be producing such a small proportion of the total output of the produce that even a large change in his own output will have a negligible effect on the price of that produce.

On the buying side, the farmers are faced with only a limited number of buyers who makes purchases in large quantities and are well-organised. They are, thus, in an oligopsonistic position where the actions of one buyer can have a significant effect on the price. The manipulations of a buyer on his purchases (decreasing or increasing them) can have a significant effect on the total supply of a given produce and hence on its price. This puts the middlemen in a better bargaining and price-controlling position which enables them not only to fix the prices of the farmer's produce but also to bring it down. This position is further fortified by the farmers' continuous competition with one another to sell their produce to the limited number of intermediaries coming into or stationed in their area.

This behaviour of the farmers has its root cause in the perishable nature of the produce they handle and the unavailability of up-to-date storage facilities where the produce can be kept fresh for several days without any quality deterioration. The farmers obsessed by the thought of substantial losses if they could not market their produce within the day of harvesting try to dispose of their produce as immediately as possible after harvesting. This makes the farmers compete with one another to sell their produce to the few buyers coming into or stationed in Sekinchan. When sellers scramble for buyers making the latter aware of the farmer's predicament, this fortifies the latter's already strong bargaining and price-controlling position.