

REPORT ON THE DEVELOPMENT OF FOOD MARKETING SYSTEMS FOR LARGE URBAN AREAS IN ASIA

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1. Introduction

From 24 March to 2 April 1975 FAO conducted an "Expert Consultation on the Development of Food Marketing Systems for Large Urban Areas in Asia and the Far East" in Kuala Lumpur, Malaysia. This conference was held in view of the increasing food supply problems of the rapidly growing cities in numerous Asian countries. The participants were delegates from 12 Asian countries, staff members and consultants of FAO as well as observers of various organizations interested in marketing problems. The objective of the meeting was to analyse the changes needed to adjust the food marketing systems to present and future requirements and to formulate strategies for developing efficient food marketing systems paying particular attention to the food marketing aspects for low income consumers. In 1973 a similar conference for Latin America was held in Buenos Aires. Further conferences are planned for Africa and the Near East. This series of conferences indicate a shifting of emphasis from a producer-oriented policy to a more consumer-oriented policy of FAO.

The consultations were held on the basis of case-studies on marketing systems for foodstuffs in 13 large Asian cities introduced by the various delegates, as well as papers on different marketing problems presented by consultants and FAO staff members. This material enabled a comparative analysis of marketing systems.

Recommendations were made for

- improving food retailing in large urban areas
- improving food wholesaling
- the adjustment of farm production and supply to urban food marketing requirements
- implementing food marketing improvement programmes.

2. Comparative Analysis of Food Marketing Systems in Large Asian Cities

2.1. Changes in Consumer Structures

Table 1 gives an idea of population growth and present population of some Asian cities. Their average rate of increase in population per annum is over 5 percent in most cases. Rapid urbanization leads to an equivalent increase in food demand. It puts considerable strain on food marketing.

Income development is the other important factor determining food demand. Table 1 shows considerable differences between the individual cities. In all countries the income in cities exceeds by far the national average, i.e. it goes far beyond the average income in rural areas. However it should be taken into account that a great proportion of the urban population have only very low incomes at their disposal being obliged to spend over 60 percent on food. These strata of the population are greatly dependent on a supply with staple food at reasonable and stable prices. They have to rely on frequent purchases of small quantities in their immediate neighbourhood due to their insufficient mobility, their lack of storage facilities and inadequate liquidity.

The proportion of urban population with average and high earnings is growing along with the average income level, being very small in poor countries, yet playing a ma-

Table 1: Comparative Data on Population of Selected Cities for 1950, 1970 and 1985 and on Per Capital National Income, 1972

City	Population ¹⁾ in Mill.			Per Capita Income ²⁾ US Dollars	Per Capita Income National Average ³⁾ US Dollars
	1950	1970	1985		
Bangkok	1,0	3,1	7,0	300	193 (1972)
Bombay	2,7	5,8	12,1	110	88 (1969)
Colombo	0,7	1,3	2,0	180	164 (1971)
Dacca	0,4	1,2	3,0	130	-
Delhi	1,3	3,5	8,5	198	88 (1969)
Hongkong	1,6	3,8	5,7	724	724 (1974)
Jakarta	1,9	4,0	7,7	-	112 (1972)
Kuala Lumpur	-	-	-	1.000	713 (1974)
Manila	1,5	3,2	6,1	400	254 (1972)
Seoul	1,3	4,6	10,3	500	327 (1974)
Singapore	-	2,0	-	1.041	1041 (1972)
Sydney	-	3,0	-	3.474	2919 (1971)
Tokyo	-	11,0	-	3.700	2462 (1972)

Sources: 1) UN, World's Million Cities, 1950-1985, 20 March 1972

- 2) Compiled from the City Case Studies prepared for the FAO Expert Consultation on Food Marketing Systems in Large Urban Areas in Asia, 24 March - 2 April, 1975, Kuala Lumpur
- 3) UN Statistical Yearbook, 1973 - except for Korea and Malaysia

major role in countries such as Hongkong, Singapore, the Philippines and Malaysia. These consumers buy larger quantities and request ever more processed products as well as fruit and vegetables. They put higher demands on assortment, quality and packing.

2.2. Changes in Structure of Marketing Systems

2.2.1. Retail Trade

The structure of retail trade in Asian cities is characterized by a large amount of small traders working as hawkers, market retailers and owners of various types of retail shops. E.g. in Bangkok their number is estimated at 45.000¹⁾.

Hawkers offer foodstuffs in very small quantities. Simple wooden booths, mobile stalls, three-wheelers or a piece of pavement may serve for display and location. Mostly, hawkers are considered unwanted by the municipal authorities. Their hygienic conditions are difficult to control, hawkers mean additional traffic obstacles to the usually congested streets and in general they don't pay any fee for the place they require.

Retail markets administered either privately or by municipal authorities are also characterized by larger numbers of small retailers offering mainly perishables such as fruit, vegetables, fish, and meat. A great number of these markets do not have any storage facilities.

In the streets around the markets there are numerous retail shops offering mainly durable foodstuffs such as cereals and pulses. Mostly, those products are displayed in open bags or flat wooden cases. Besides food, simple householdwares are also offered. Most of these groceries are family shops remaining open until the evening. This system of retail markets and groceries is fitted especially to the needs of low-income consumers depending on purchasing facilities in their immediate neighbourhood granting credit, if necessary, for the required staple foods which they sell in small quantities and without any sophis-

ticated processing or packaging.

2.2.2 The Role of the Supermarkets

In all Asian cities with a higher amount of middle and high income consumers such as Hongkong, Singapore, and Kuala Lumpur, supermarkets are playing an increasing role. The organization of these supermarkets and their assortment resemble exactly their models in North America and Western Europe. They offer standardized, uniformly packed and mainly processed foods of high quality and in hygienic conditions. Supermarkets exist especially in cities with a large number of expatriates and in countries with a liberal import policy.

The social and economic costs and benefits of the promotion of supermarkets have to be carefully assessed:

- It is most obvious that supermarkets are patronized only by the highest income groups. So far, supermarkets have not contributed to solving the pressing problems of improving the food supply of low income consumers.
- Another common feature of supermarkets in Asia is that over 90% of the products offered are being imported. This means that supermarkets have an import promotion effect which results in strain on foreign exchange and lack of internal spread effects. This import promotion effect for food products is specially harmful to the development of national agricultural production.
- Supermarkets are a capital-intensive type of business which may not really be an appropriate technology in countries with low labour costs and pressing unemployment problems. Their expensive outfit with imported equipment again counteracts efforts for saving foreign exchange and promoting national production.

- On the other hand it is hoped that this innovation will give decisive impulses to rationalizing the whole marketing system for the benefit of an intensified vertical and horizontal cooperation and integration as well as a standardization of supply similar to what has been observed in Western Europe and North America. However, in view of the afore-mentioned limited spread-effects of supermarkets under the prevailing conditions in most Asian cities it is to be feared that the expected impulses may be limited.

In many Asian cities the share of supermarkets will continue to grow. Similar to the numerous Hiltens, Intercontinentals, and other 5-star-hotels in these cities they are a result of and a symbol of dualistic economic systems and crass income differences. A policy of market development aiming at improving the food supply for low income consumers in particular should refrain from concentrating attention on the promotion of supermarkets. The essential sources for the supply of lower and medium income levels are retail markets and groceries.

2.2.3 Wholesale Trade

Wholesale markets for perishables and partly durable foodstuffs exist in all big Asian cities. They are mostly located in densely-populated congested city centres. They have become much too small to cope with their highly increased turnovers and their functioning is affected by hopeless traffic jams. Some of the old markets are privately owned making proper maintenance and control difficult to achieve. Therefore, a number of cities either plan, build or have already accomplished the construction of new wholesale markets. In contrast to most of the old markets, these are publicly owned and under better control. Some

of them, however, are not fully used because some of the wholesalers refused to move. Precise investigations on local requirements seem to be of particular importance before constructing such markets.

Table 2: Provision of Asian Cities with Wholesale Markets

City	Status of wholesale markets		
	obsolete	new market planned	new market under construction or completed
Bangkok	x		
Bombay	x		
Colombo	x		
Dacca	x		
Delhi			x
Hongkong			x
Djakarta	x		
Kuala Lumpur		x	
Manila			x
Seoul		x	
Singapore	x		

Source: H.J.Mittendorf: Evolution of Food Marketing systems in Europe and North America and its Relevance for Asia. Paper presented at FAO Expert Consultation on the Development of Food Marketing Systems for Large Urban Areas in Asia, Kuala Lumpur, Malaysia, 24 March - 2 April 1975.

The most important factors determining the planning of wholesale markets are:

- Structure of retail trade
- Location regarding traffic and transport communications and their capacity
- Optimal size with regard to operating costs and social costs

- Kind of products to be marketed an
- Existing marketing institutions.

It seems desirable for instance to establish multi-commodity wholesale markets. Retailers could thus supply themselves at one single market. To improve competition auctioning should be organized by the market management and grading, packing and the application of uniform and correct weights has to be controlled. The market management should also make sure that certain behaviour patterns in wholesale markets which lead to high costs are regulated. For instance retailing and hawking on wholesale markets which unusually adds to congestion should be banned. The same holds true for uninhibited rubbish disposal practices by wholesalers. The market management should also try to improve the inefficient sales tactics of wholesalers which result in extensive display space, extended transaction time, unnecessary handling and poor packing. To be able to fulfil all these functions the market management needs competent, well trained and experienced operating officers.

2.2.4 Rural Assembly Markets

Various kinds of rural assembly or producer markets exist in almost every Asian country. In India for instance a close network of producer markets has been in existence for a long time. They are administered by market committees under government control. These markets offer alternative sales opportunities to producers as well as price information and buying possibilities for farm inputs and consumer goods. At present the area from which resources are drawn is expanding due to growing urban food demand. Consequently the share of producers taking their products to the urban wholesale and retail markets is declining. Simultane-

ously the importance of rural assembly markets is increasing. It is their function to compile the supply, to assort it to larger lots, to grade and to pack. An important task of rural markets is to adapt the producer's offer to changes of urban demand and to changes in retail and wholesale trade. They can fulfil this task only, if an adequate competition between private, cooperative and potential state business is secured as well as the availability of all required physical facilities (e.g. storage), and of market and price information.

2.2.5 Horizontal and Vertical Coordination and Integration

The prevalence of small and extremely small enterprise in production as well as food retailing results in considerable marketing and/or procurement costs. Costs reductions through larger lots and through standardization of qualities and packing become feasible if retailers and producers team up for a joint fulfilment of part of their trade functions. Such a trend can be observed in the field of retail trade where retail cooperatives have been established sporadically. At the producer level marketing cooperatives are increasingly taking over. At the same time the growing and more differentiated demand for foodstuffs is resulting in a greater tendency towards vertical coordination and integration in the fields of production and marketing. As a rule, these impulses are generated on the wholesale level and affect the preceding and subsequent stages. Chain-stores and contract farming are examples of vertical coordination and integration. They induce production to serve the demand and effect a rationalization of the distribution process.

3. Recommendations to Improve the Marketing Systems for Foodstuffs

Apart from detailed proposals to improve the marketing systems of each country, the 10-day conference elaborated the following general recommendations to develop the food marketing systems of Asian cities²⁾:

- 1) Urgent steps should be taken to plan and develop additional retail food outlets and to improve the control over existing markets so that the increasing population of large urban areas will be satisfactorily served.
- 2) To meet the needs of the bulk of the population - the low income group - attention should be concentrated on reorganizing and expanding the number of the bazaar type retail food outlets. In those countries where food hawking prevails, the government should supervise or regulate rather than eliminate this type of retailing.
- 3) To meet the needs of the expanding middle income group, the self-service type of store retailing standardized, packaged and processed foods needs to be fostered.
- 4) In addition to increasing the number and efficiency of retail outlets of the bazaar type or shopping centre, in those countries where the public and cooperative sectors predominate there is a need for more government and cooperative retail outlets for rice and other cereals basic to the diet of low income consumers. Such outlets should also be located in the planned bazaars.
- 5) There is the need to coordinate the functions and activities of the relevant departments and agencies concerned with the survey, planning, operation, and evaluation of food markets.

- 6) Whether the re-organized or new retail food markets are under government, cooperative or private sector ownership, they must be operated under the overall control of a centralized administration but run as autonomous business ventures using modern management methods and employing fully competent staff.
- 7) Government should ensure that existing credit institutions provide adequate finance for both initial establishment and operation by public or private food retailers in the re-organized or new markets.
- 8) Governments should take actions to improve the efficiency of operation of retail food markets, as follows:
 - a) New designs must be developed for markets, bazaars, or shopping centres, providing for low cost retailing facilities which will increase standardization as regards assortment and display of goods, and improve product preservation and general sanitary hygiene.
 - b) Updating all regulations covering product standards, method of operation of markets, and rent and commission charges, so that normal market forces can work towards the meeting of consumer needs.
 - c) Active education and training programmes are needed to.
 - (i) encourage the technical and managerial training of personnel involved in food retailing, including group or cooperative buying;
 - (ii) emphasize consumer education in the primary school system.

3.2. Improving Food Wholesale Systems

- 1) Integrated multi-commodity wholesale markets for

perishables, cereals and non-perishables should be established where practicable.

2) All wholesale markets in an urban area should be under the supervision of an independent and autonomous statutory authority of public sector company.

3) The market authority should where necessary be given adequate statutory powers to ensure fair trade practice.

4) Adequate institutional credit should be made available to farmers, cooperatives, wholesalers and retailers for their marketing function.

3.3 Adjustment of Production and Supply to Urban Food Marketing Requirements

1) The market role of the farmer should be expanded by providing more of the following:

(a) assistance with the formation of marketing cooperatives and farmer associations and providing them with management assistance;

(b) market information setting out both price and volume;

(c) market research;

(d) education on marketing methods and organization;

(e) extension services in regard to farm marketing;

(f) infrastructure such as feeder roads;

(g) storage and processing facilities in production areas where viable;

(h) more institutional credit at reasonable rates.

2) New rural assembly markets should be established and existing ones strengthened.

3) Cooperative marketing by producers should be strengthened by

- (a) ensuring efficient management of their organizations;
 - (b) consolidation of uneconomic farmer cooperatives, into viable units;
 - (c) adoption of progressive laws, relating to cooperatives;
 - (d) better supervision by the Government while at the same time ensuring their business autonomy.
- 4) Although the logical appropriate link between the village cooperatives and the urban marketing system is the federation of farm cooperatives, this should not preclude individual cooperatives from developing other links by utilizing their own marketing facilities and abilities.

3.4. Implementation of Food Marketing Improvement Programmes

- 1) A high level committee should be appointed at the national level to evaluate the existing food marketing system with reference to the existing institutional structure, existing legislation and the extent to which it is fair to the consumer and producer. The committee should formulate programmes for improvement suggesting changes if any, in existing legislation. The committee should consist of representatives of the legislature, traders, producers, consumers, and experts so as to ensure that a realistic programme is formulated.
- 2) In order to augment the availability of personnel trained in food marketing, courses of study on food marketing should be introduced or strengthened at the university and other appropriate institutes.
- 3) In order to train existing planners and executives in food marketing each country should consider establishing a national institute of food marketing. This institute

should carry out applied research, provide in-service training to planners, executives and other relevant groups, the development of teaching programmes, and function as an adviser to government, and demonstrate the application of improved marketing methods and forms of organization.

4) The FAO should develop an expanded regional programme of supporting national institutes by facilitating the exchange of information and personnel and making available consultancy services where necessary.

5) The FAO should, as a matter of urgency, establish a regional institute of food marketing to assist national institutes and deal with problems of a regional nature.

Footnotes

- 1) Nguen Srisuruksa, The Food Marketing System of the City of Bangkok. Paper presented at FAO Expert Consultation on the Development of Food Marketing Systems for Large Urban Areas in Asia. Kuala Lumpur, March 24 - April 2, 1975.
- 2) Papers distributed at the Expert Consultation on the Development of Food Marketing Systems for Large Urban Areas in Asia and the Far East, Kuala Lumpur, 24 March to 2 April, 1975.