

The Extent to which Downstream Buyers are able to Fulfil Flower Farmers Needs in Da Lat – Viet Nam

Bich Nhu Le*. *Curtin University*. bicnhu.le@postgrad.curtin.edu.au
Peter J Batt. *Curtin University*. p.batt@curtin.edu.au

Abstract

This study seeks to examine the gap between what farmers want and what they actually receive from their downstream buyers in Da Lat – Viet Nam. The sample consisted of 206 chrysanthemum and rose farmers in Da Lat and reports on their exchange transactions with their most preferred and second most preferred buyer. Both social and economic criteria are identified as influencing the farmers' choice of downstream buyer, reinforcing the importance of relational marketing in the transitional economies as a means of risk mitigation.

Introduction

The major cut flower production centre in Vietnam is Da Lat. With ideal climatic conditions, temperate cut flowers are cultivated all-year-round for both the domestic and export market. Within the industry, many alternative supply chains have emerged to service different end customers. However, the efficiency of these supply chains is determined primarily by how well customer's needs are satisfied (Herlambang, Batt and McGregor, 2006). In Viet Nam, like many other developing countries, the lack of refrigeration and poor packaging leads to poor product quality and a short shelf (vase) life. Furthermore, without appropriate technology and limited access to information, the supply of cut flowers is very seasonal, production is low and the product quality is low (Batt, 2003; Fafchamps, 1996; Martin *et al.*, 2008; Murray-Prior *et al.*, 2006).

While a plethora of material in the business-to-business marketing literature discusses the key criteria a firm utilises in its decision to select suppliers, from a suppliers perspective, the literature on customer selection is surprisingly sparse. While rational economic theory suggests that farmers will transact with those buyers who offer the highest price, unless the transaction concludes with the exchange of produce for cash, additional costs may be incurred and there is the potential risk of non-payment (Young and Hobbs, 2002). Where it is necessary to offer credit, farmers will seek to transact with those exchange partners who have a good reputation and with whom they have dealt in the past (Batt, Concepcion and Digal, 2006). In other situations, it would seem equally conceivable that just as buyers reduce uncertainty by purchasing from well-known preferred suppliers (Anderson, Chu and Weitz 1987), farmers will choose to sell to those market intermediaries who were reputable market leaders. Buyers are strongly attracted to well known or existing suppliers, for current suppliers are perceived as being less risky (Puto, Wesley and King, 1985).

While buyers generally seek to purchase the best quality produce available for the least cost, farmers are expected to identify those buyers who offer the highest price for good average quality. Assuming that farmers take the time to grade the produce prior to sale, most farmers will have no difficulty in selling better quality produce. As significant premiums are often paid for quality, the problem that then arises is how to dispose of the inferior quality produce, especially when the market is saturated. To overcome this problem, many farmers prefer to sell produce to traders and collector agents without grading (Batt *et al.*, 2006).

From a suppliers perspective, having a secure and reliable market for their produce, access to reliable and timely market information, technical information and capital often emerge as major considerations in choosing between alternative buyers (Rankin, Dunne and Russell, 2008). This study seeks to examine the gap between what farmers want and what they actually receive from their downstream buyers in Da Lat – Viet Nam.

Methodology

For this study, contact names and addresses for key chrysanthemum and rose farmers in different localities were provided by the Ward Farmers' Association. Additional respondents were subsequently identified during the interviews with farmers. Using a prepared questionnaire, 210 face-to-face interviews were conducted. Farmers were first asked a number of questions about the scale of their cut flower growing enterprise before being asked to identify the various criteria that they used in deciding to whom they would sell the flowers they had grown. Farmers were then asked to respond to 13 prepared statements. In the first instance, farmers were asked to identify how important all 13 criteria were to them in their choice of downstream buyer. Farmers responded on a six point Likert scale where 1 was "very important" and 6 was "not at all important". On the second occasion, farmers were asked to indicate how well their most preferred buyer was able to meet the same 13 criteria on a six point scale where 1 was "very well" and 6 was "not at all well". On the third occasion, where farmers dealt with another buyer, they were asked to indicate how well this second buyer was able to meet their needs on a similar six point Likert scale. The differences between the means for the 13 criteria were compared using the paired sample t-test.

Results and Discussion

With the exception of a large Dutch-Vietnamese joint venture, the majority of flower growers in Da Lat are smallholder farmers, most of who (69%) cultivate less than 5000 m². The cut flowers they grow are sold to wholesalers (67%), traders (23%), a company (9%) or directly to a retail florist (2%) (Table 1).

Table 1: Buyers to Whom Cut Flowers are Sold

Buyer	Most preferred buyer		Second preferred buyers	
	Number	Percent	Number	Percent
Wholesaler	137	66.5	1	2.2
Trader	47	22.8	27	57.4
Company	18	8.7		
Retailer	4	1.9	18	38.3
Consumer			1	2.1
Total	206	100	47	100

In selling to a wholesaler, farmers perform all of the activities such as harvesting, packing and transporting the flowers to the buyer. However, when they sell to a trader, these activities become the trader's responsibilities. Retailers are occasional buyers who generally purchase only in small volumes in the high season such as the Lunar New Year (Tet).

Cut flower prices are basically determined by supply and demand in the wholesale market in Ho Chi Minh City. Farmers and traders rely on their relationship with the wholesaler for price information. Generally, the farmer does not know what price they will get until after 2 weeks.

When the quality is low, the wholesaler is forced to sell the flowers at a cheap price for use in either wreaths or cut flower baskets.

Of the thirteen criteria that were thought to be important in choosing between alternative buyers, the five most important variables were the buyers willingness to purchase flowers all year round, to pay an acceptable price, to pay on time, trust and a good reputation (Table 2).

Table 2: Criteria Farmers Want and the Extent to which the Most Preferred Buyers Meet these Criteria

Criteria	Farmer wants ¹		Farmer gets ²		Sig.
	Mean	SD	Mean	SD	
be able to buy my cut flowers all year round	1.52	0.940	1.72	0.961	.004
have trust/confidence together	1.63	0.755	1.83	0.830	.001
pay on time	1.64	0.706	1.90	0.895	.000
provide me with an acceptable price	1.69	0.688	2.30	0.741	.000
has a good business reputation	1.87	1.027	1.90	1.030	.557
is in frequent communication with me	2.34	1.381	2.44	1.426	.231
is willing to meet my immediate needs	2.41	1.281	3.05	1.272	.000
can transport cut flower from my farm	2.70	1.655	4.48	1.919	.000
we have a long standing relationship	3.00	1.536	2.85	1.467	.098
provides market information	3.10	1.769	4.06	1.533	.000
do all activities: harvest, grade, pack and store cut flower	3.59	1.901	4.64	1.664	.000
is geographically close to me	4.19	1.849	4.56	1.890	.016
provides technical information/advice	4.22	1.935	5.39	1.355	.000

¹ where 1 is “very important” and 6 is “not at all important”

² where 1 is “very well” and 6 is “not at all well”

As all actors within the supply chain face an element of risk and uncertainty, both upstream and downstream, an element of trust is necessary within the exchange. Anderson and Narus (1999) define trust as the firm’s belief that its exchange partner will perform actions that will result in positive outcomes for the firm, as well as not to take unexpected actions that would result in negative outcomes. Moorman et al. (1993) define trust as a willingness to rely on an exchange partner in whom one has confidence.

Trust is more important in facilitating exchange in the transitional economies (Lyon, 2000). Since small farmers have limited access to legal recourse, they must rely to a much greater extent on trust as the principal mechanism of market governance. Trust will operate when farmers have confidence that their trading partner will not act opportunistically. Trust will come from the generalized norms of morality (reciprocity), the various sources of information the farmer uses to evaluate a potential partner’s reputation and various social sanctions which include the loss of benefits, damage to reputations and social pressure from the community (Batt, 2004).

Fafchamps (1996) describes reputation as a collective coordination and information sharing device that ensures contracts are complied with. In its simplest form, it suggests that actors will choose not to interact with other actors who do not comply with their contractual obligations. Reputation is a form of social collateral where concern for one’s reputation may be sufficient to ensure compliance and to enable the exchange to take place. Reputation may not only signal an exchange partners’ ability to deliver valued outcomes, but may also provide an important signal about how its offer quality compares with those from competing firms

(Batt *et al.*, 2005). According to Wagner, Coley and Lindemann (2011), suppliers expect that those buyers with a good reputation will be more trustworthy.

Farmers placed considerable importance on the frequency of communication (to know what price and what volume the buyer needs) and the buyer's willingness to meet their immediate needs. Even although Batt *et al.* (2006) suggests that farmers prefer to transact with local buyers, geographic proximity was of little importance to most farmers when selling their cut flowers to Ho Chi Minh City because of the distance (over 300 km). As few farmers had any means of transporting the flowers themselves and even fewer had any direct contact with retailers, they were dependent on wholesalers to consolidate and transport their flowers. Transacting with retailers in Da Lat was not a major consideration for most farmers as they did not purchase all year round and required only small quantities.

It was with some surprise that most farmers placed little importance on the provision of technical information/advice. In most instances, the wholesalers were exactly that: cut flower traders who had limited experience in cultivating cut flowers. Farmers generally relied on advice from the Ministry of Agriculture and Rural Development (MARD) or knowledge that they had acquired through working with one of the larger companies. However, the limited capacity of local institutions to adequately support the process of technology transfer often resulted in inappropriate applications (Danse *et al.*, 2008).

In comparing what farmers expected from their transactions with their most preferred buyers and what they actually received, it was apparent that even their most preferred buyers were unable to provide acceptable prices, to pay on time and to buy the farmers flowers all year round (Table 2). While there was an element of distrust in the transaction, the most preferred buyers were considered to have a good business reputation, which lowered the farmers risk to loss.

Preferred buyers communicated with the farmers on enough occasions for the farmers to be generally satisfied, but most farmers were dissatisfied with the quality of market information conveyed. The quality of information related to both the poor generation and poor transfer, but also to the farmers limited understanding of the market's needs (Chang, Spriggs and Newman, 2008).

Furthermore, most buyers were unable to meet the farmer's immediate needs. Although most farmers expected their most preferred buyers to collect the flowers they had harvested from the farm gate, for the majority of farmers, this was not the case: most farmers were responsible for transporting their flowers to wholesale buyers. Only traders and retailers picked up the flowers they had purchased. As most farmers sold to wholesalers, they were responsible for harvesting, grading and packing.

The gap between what farmers received from their most preferred buyer and their second most preferred buyer was subsequently explored. It was immediately evident that the second most preferred buyer not only offered a higher price, but as payment was generally made in cash upon collecting the flowers from the farm gate, the terms of payment were more timely (Table 3). However, in this relationship, buyers were seldom able to purchase all year round: most of these buyers were opportunists, purchasing flowers from the farmers only when the demand was strong, primarily for the festivals. Consequently, there was little evidence of any long-term relationship.

As most traders and retailers operated locally, they were geographically much closer to the farmers. Invariably, both traders and retailers were responsible for transporting the flowers and in the case of the traders, they were also responsible for harvesting and packing the flowers. However, in this relationship there was little trust and the second buyer generally had a poor reputation. They communicated with the farmer much less frequently and not unexpectedly, they provided little market information.

Table 3: Comparison between what Farmers Received from their Most Preferred and Second Most Preferred Buyer

Criteria	Farmer gets from preferred buyer		Farmer gets from second buyer		Sig.
	Mean	SD	Mean	SD	
have trust/confidence together	1.83	0.702	2.77	1.448	.000
be able to buy my cut flowers all year round	1.89	0.814	4.79	1.122	.000
has a good business reputation	2.02	1.053	3.60	1.664	.000
pay on time	2.17	1.129	1.55	0.653	.000
is in frequent communication with me	2.55	1.346	3.15	1.318	.034
provide me with an acceptable price	2.55	0.775	1.98	0.776	.000
we have a long standing relationship	2.94	1.634	3.77	1.658	.021
is willing to meet my immediate needs	3.00	1.216	4.19	1.409	.000
provides market information	3.87	1.361	4.68	1.385	.001
can transport cut flower from my farm	4.57	2.008	2.79	2.053	.000
is geographically close to me	4.89	1.684	2.55	1.530	.000
do all activities: harvest, grade, pack and store cut flower	4.91	1.561	3.30	1.817	.000
provides technical information/advice	5.57	0.950	5.79	0.587	.200

¹ where 1 is “very well” and 6 is “not at all well”

In comparing what farmers got from each of their preferred downstream buyers, based on the price offered, farmers were most satisfied with the price offered by the traders and retailers. However, these buyers were only active during the festivals when there was a strong demand for cut flowers. While it is possible through pruning (roses) and the manipulation of planting dates and photoperiod (chrysanthemums) to encourage flowering during the festival periods, as farmers must have a market to dispose of the flowers they grow during the remainder of the year, farmers preferred to transact with wholesalers.

Conclusion

The results of the study suggest that what farmers actually want from their downstream buyers and what they actually receive from their transactions with their preferred trading partner are different. Most of the farmers indicated that they wanted a reliable market and an acceptable price (best price) from their transactions with their downstream buyers. However, as there was an element of risk in the exchange, farmers endeavoured to transact with those buyers who had a good reputation. Both economic and relational variables were found to be important in facilitating the exchange process between farmers and their preferred downstream buyers.

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