Superchain working paper

Guidelines on Good Trading Practices for Vegetable Farmer Organizations

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I - Objectives

The main objective of these guidelines is to help farmers get higher profits by having access to more profitable outlets (higher prices, more stable quantities sold). When asked about their problems, farmers commonly identified marketing issues as their key constraint. Lack of customers, low prices and transportation difficulties due to inadequate roads are usually highlighted. However, while farmers usually can clearly state their problems, they often face difficulties in identifying potential solutions (Dixie, 2005:4).

These guidelines will enable farmers to make good decisions in various areas of marketing: Which type of outlets should they choose, for example, sales to collectors versus retail sales? How to get access to supermarkets? How to set selling prices? What are the quality criteria that products should comply with? How to design a production calendar? What are the advantages and drawbacks of contracts with buyers? And what are the rights and commitments attached to contracts? Why is collective action between farmers a necessary step for marketing? How to communicate with buyers to promote one’s product?

In this manual we will stress the necessity for farmer groups to establish long-term relationships based on trust with their buyers. Good trading practices are here defined as practices that provide satisfactory conditions for farmers so as to receive adequate rewards for their products, and at the same time, acknowledging the necessity to provide satisfactory conditions of purchase to buyers, who are considered as long-term partners. The notion of long-term relationships, responsibility, partnership rather than confrontation, and collaboration for development of the chain, are behind the principles of fair trade. (For this, we focus on international rather than domestic trade; or more generally, ethics in trade (Nicholls and Opal, 2005; see also www.ethicaltrade.org)). Commitments by business to behave ethically and to contribute to the development of society, are guiding principles included in social and corporate responsibilities by various enterprises, including supermarkets (Holme and Watts, 2000).

The persons for whom this manual is primarily written are: the heads of farmer organizations, those in charge of marketing, as well as development agents supporting farmer organizations. These targeted agricultural organizations are already involved in the guarantee of vegetable safety, as this is a key condition for access to profitable outlets.

II - General principles

Food marketing includes all the activities involved in the transfer of agricultural products from producers to the end consumers. This transfer of products involves changes in place (transporting), form (processing) and time (storage). It involves physical activities: transportation, processing, and storage. This process also involves communication activities such as the exchange of information and discussion. And it may also involve supporting activities, like financing, market information systems, and agreement regarding standardization of products and procedures.

Another definition of marketing is as follows: “marketing involves finding out what your customers want and supplying them with a profit” (Dixie, 2005).

In order to supply a reasonable profit to all involved, careful planning is necessary. Marketing activities involve costs at all stages, and also some special skills that are different from farming skills (negotiating, promoting one's products, adapting products to buyers’ needs). This is why it is not easy for individual farmers to get involved in marketing. It is recommended that they link with traders, or that they employ someone who specializes in marketing to assist their group. Traders should be viewed as partners, because farmers and traders are dependent on one another. Some may think that traders exploit farmers’ labor
through low prices. But traders also have to bear various costs, resulting in incomes that are not necessarily much higher than the income of farmers.

All marketing activities should be directed toward satisfying the end consumers. It is thus necessary to know the needs of consumers, and how they can be satisfied even better than at present. This is why conducting surveys of consumers and retailers is so important.

Generally consumers are interested in the following with regard to food: quantity, diversity, price, regularity and quality. Improvement in each of these areas is necessary for farmers to remain competitive, which also results in acquiring a higher share of the market.

In Vietnam, surveys have shown that the main criteria for consumers in choosing vegetables are freshness and safety. Some consumers are indeed ready to pay higher prices for vegetables if they have satisfactory guarantees about vegetable safety (up to twice as much for organic vegetables; increase of around 40% for “safe” vegetables).

In marketing handbooks, development activities are classified by the 4 Ps: product, price, promotion and place. These combine to define the marketing mix. Each enterprise should have a clear marketing mix, which distinguishes it from another one. For instance, an enterprise that focuses on product quality may put less emphasis on offering low competitive prices (Kohls and Uhl, 2002).

In what follows we will review these dimensions of the marketing mix, also adding some insight on contractual arrangements, collective action and crop planning.

III - Place (Choice of outlets)

A) Distribution points for safe vegetables

Vegetables labeled as safe are sold in specific channels compared with ordinary vegetables. Ordinary vegetables are mostly traded through collectors buying products in the field, who then sell the products in Hanoi night wholesale markets (e.g. Long Bien and Phia Nam markets), where wholesalers or market retailers buy the vegetables. Vegetables labeled as safe are generally sold through supermarkets, “safe vegetable” market stalls, canteens of schools or enterprises and restaurants.

More and more outlets for selling safe vegetables are emerging in Hanoi. In 2002, the number of places where consumers could buy vegetables labeled as “safe” was 36, including 13 shops, 9 market stalls and 14 supermarkets (Moustier and Nguyen Thi Tan Loc, 2003). There are a growing number of shops and supermarkets selling safe vegetables, which increased to 80 in 2007 (Nguyen Thi Tan Loc, 2008). Figure 1 shows the increase in the number of supermarkets. The number and location of supermarkets, safe vegetable shops and stalls is presented in Table 1. Some estimates of quantities purchased by each type of distributor is given in Table 2.
Figure 1 Number of supermarkets in Hanoi

Table 1 – Data on safe vegetable shops, stalls and supermarkets

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
<th>Type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shops and stalls</td>
<td>53</td>
<td>Supermarkets</td>
<td>27</td>
</tr>
</tbody>
</table>

Number of shops and stalls selling vegetables labeled as safe by districts

<table>
<thead>
<tr>
<th>Districts</th>
<th>Number of selling points</th>
<th>Districts</th>
<th>Number of selling points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dong Da</td>
<td>18</td>
<td>7. Hoang Mai</td>
<td>2</td>
</tr>
<tr>
<td>2. Ba Dinh</td>
<td>14</td>
<td>8. Thanh Xuan</td>
<td>3</td>
</tr>
<tr>
<td>4. Hoan Kiem</td>
<td>10</td>
<td>10. Tay Ho</td>
<td>3</td>
</tr>
<tr>
<td>5. Hai Ba Trung</td>
<td>6</td>
<td>11. Long Bien</td>
<td>2</td>
</tr>
<tr>
<td>6. Thanh Tri</td>
<td>3</td>
<td>Total</td>
<td>80</td>
</tr>
</tbody>
</table>


Table 2 – Daily quantity of safe vegetables demanded by buyers

<table>
<thead>
<tr>
<th>Buyers</th>
<th>Size/classification</th>
<th>Quantity sold (kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Lowest</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>Big</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>30</td>
</tr>
<tr>
<td>Shops &amp; stalls</td>
<td>Producers</td>
<td>250</td>
</tr>
<tr>
<td></td>
<td>Traders</td>
<td>40</td>
</tr>
<tr>
<td>Canteens &amp; Restaurants</td>
<td>School canteens</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Company canteens</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td>Restaurants (beer)</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Restaurants (university &amp; college)</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Nguyen Thi Tan Loc et al., 2008

While supermarkets, shops, stalls, restaurants and canteens, all have safety as their priority in choosing suppliers, the other parameters vary slightly between one another (see Table 3).
Table 3 - Order of criteria to buy safe vegetables

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Supermarkets</th>
<th>Shops &amp; stalls</th>
<th>Canteens/ restaurants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Varieties of vegetables</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Legal status</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Quantity sold</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Appearance</td>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Price</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Nguyen Thi Tan Loc et al., 2008

**B) Comparison of different outlets**

Farmer groups have different options to sell safe vegetables:

1) Selling to collectors at the farm
   
   This is not a profitable option for quality vegetables because the price offered won’t be different than for ordinary vegetables

2) Selling directly to the consumers in shops or market stalls
   
   This has the advantage of getting high final prices, and allows farmers to gain the trust of consumers by regular relationships. But it requires a high initial investment for renting the stall. Renting a shop costs around 10 M VND (600 USD) as an initial lump sum, then around 1 M VND per month (60 USD). Dang Xa cooperative, as well as Phuong Vien cooperative in Son Phuong commune have benefited from assistance from the district Department of Agriculture to rent a shop in Ha Dong and another shop in Hoai Duc. This is not the case for Van Duc commune. Another cooperative located in Gia Lam district, Dong Du, stopped selling vegetables in a market stall after two years because the market stall was not well located to reach customers and they did not have enough financial resources to rent another stall.

   Another constraint is the lack of regularity and variety of supply if the shop only sells produce from one farmer group. As proposed by the Consumer Club, shops should be allowed to sell vegetables from other groups if such groups have similar commitments to follow and abide by safe vegetable regulations and indicate the actual origin of the produce.

3) Selling to supermarkets
   
   The main advantage of selling to supermarkets is the fact that large amounts of produce are purchased on a regular basis. However, selling to supermarkets also has requirements to be met. Suppliers must:
   
   - Be registered as a formal enterprise, cooperative or association
   - Be able to produce official invoices
   - Have a bank account
   - Be able to wait 2 weeks for payment
   - Hold a certificate of vegetable safety
   - Be able to supply large, regular quantities of vegetables: for instance, around 200 kg per day for Big C
• Have a diversified supply of vegetables: more than 10 varieties, including non-leafy vegetables
• Be able to transport the vegetables everyday to the shops
• With some supermarkets, ability to bear the cost of unsold products (the cost of unsold products are to be refunded by the supplier)

4) Selling to canteens

Selling to canteens presents the advantage of selling regular quantities, from 25 to 200 kg of produce per day. While these amounts are less than the amount for supermarkets, some of the requirements are the same: official invoices, bank accounts, and specific ones; vegetables need to be prepared, and the time of delivery is strict.

5) Selling to wholesale and distribution companies

The main advantage of selling to wholesale and distribution companies is that they maintain direct contact with buyers, like supermarkets, and there is not as much paperwork required. They can supply the farmer groups with services such as input supply, technical advice, and they guarantee the purchase of products according to an established contract. The disadvantage is that farmers may not get as satisfactory a price as with direct contact with final buyers. On the other hand, the marketing costs are lower than with direct sales.

6) Summary

The advantages and drawbacks of several marketing options, as well as the conditions which the group should have for each of them, are summarized in Table 4. The survey of 115 farmers actually suggests that the more profitable option is for farmer groups to combine sales to canteens, sales to supermarkets and sales to consumers through their own shops. But this may be difficult from a financial point of view. Hence, one possibility is to start with sales to canteens, then rent a market stall, and finally sell to supermarkets.

Table 4 – Advantages and constraints of different marketing options

<table>
<thead>
<tr>
<th>Type of outlets</th>
<th>Advantages</th>
<th>Constraints</th>
<th>Required conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct retail sale</td>
<td>Higher selling price</td>
<td>Time taken out of production activities</td>
<td>Available labor force, skilled for marketing</td>
</tr>
<tr>
<td></td>
<td>Development of trust relationship with consumers</td>
<td>High cost of rent</td>
<td>Savings (or public support) available in the farmer group for stall rental</td>
</tr>
<tr>
<td>Selling to supermarkets</td>
<td>High and regular quantities purchased</td>
<td>Constraining conditions</td>
<td>Registration with official invoice</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Some require product diversity</td>
<td>Bank account</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A lot of product returns</td>
<td>Good knowledge of quality specifications and ability to fulfill them</td>
</tr>
<tr>
<td>Selling to distribution companies</td>
<td>No requirements in terms of registration or certificate</td>
<td>Prices may be low</td>
<td>Diversity and regularity of production</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sorting produce before sale</td>
</tr>
<tr>
<td>Selling to canteens</td>
<td>Regular quantities purchased</td>
<td>Regular quantities required</td>
<td>Similar conditions as supermarkets</td>
</tr>
<tr>
<td>Selling to shops or stalls vendors</td>
<td>Not many product returns</td>
<td>Small quantities compared with some supermarkets</td>
<td>Good knowledge and confidence relationships developed with shop</td>
</tr>
</tbody>
</table>

Adapted from Moustier and Nguyen Thi Tan Loc (2003).
IV - Contracts and regular business relationships

Contracts are commitments binding on both the seller and buyer on the conditions of future transactions. Contracts can be written or oral – but the term contract usually applies to written commitments. Contracts include various terms relating to different aspects of transactions; some contracts may include all these terms, while some others will relate to only some of them:

- The conditions of delivery (for example, delivery every morning at 4 a.m. at the shop)
- The necessity to provide documents related to product safety, e.g., Plant Protection Department certificate
- The type of products supplied
- The quantities supplied for a certain unit of time, e.g., per day; or the type of order (e.g., via telephone)
- The prices; or the frequency on which the prices are discussed between the two parties, e.g., twice a month
- The grading system relative to product quality. For example, only products of Grade 2 are purchased
- Some services which may be provided by the buyer, for instance, input supply or technical training
- Some conditions related to the product returns or leftovers, for instance the farmer group needing to buy back the unsold products.
- The length of contract: for instance, one year or two years
- The consequences of contract violation, for instance, monetary compensation.

For supermarkets in Hanoi, contracts mostly relate to the first two conditions. Prices are discussed at a given frequency, for example, every three months. An example of a contract between a cooperative and a supermarket is shown in Appendix 1.

The main advantage of contracts relative to occasional transactions without contracts is that they provide some security, both to the buyer and to the seller. With a contract the seller is guaranteed to have a regular buyer for its products. The more terms of the contract, the more security it provides. For instance, if the contract states given quantities, the farmer does not need to worry to whom he will sell these quantities. If the prices are set in the contract, he does not need to worry if the prices go down suddenly in the market, because he will still be guaranteed the agreed prices.

But there is a drawback to security, as in all aspects of human life. Security restricts freedom. If after having signed a contract, the farmer group meets a customer who is able to offer higher value conditions, for example in terms of prices, the group may be tempted to deliver the products to the new customer. But this will create problems with the contracted partner. The stable relationship will be broken in favor of a more occasional relationship. And maybe the new buyer will offer high prices at the beginning to attract the supplier but later on will decrease them (a point made by Dixie, 2005). Suppose the buyer has the same opportunistic attitude. He finds a seller with more favorable conditions, for instance lower prices or better product presentation, and then he does not want to buy the products from the contracted farmer group. This will create a big problem for the group who now has to look for
another partner. The farmer group has to be reliable for the buyer just as it expects the buyer to be reliable with him. This is why ethics is so important in trade relationships.

Of course there may be exogenous, uncontrollable reasons that may explain why Party A cannot fulfill the contract. This is the case with a natural disaster, such as heavy floods, which damage the production. It is good that these events are taken into account in the contract: for instance, no monetary compensation will be asked for in case of breach of contract in the case of natural disasters.

Maintaining the loyalty of buyers is especially important in the case of special orders for vegetables produced to meet a specific quality. To meet the quality requirements, farmers have made specific investments, for instance purchasing nets, labor spent in disease control, packaging, payment for certification, etc. If the farmer group does not find a buyer offering higher prices than for ordinary vegetables, then the investments are lost.

There is a trade-off needed in the terms of a contract, which provides greater security, and flexibility regarding price and quantity, when circumstances change due to quickly changing weather conditions. During a one-year contract period, there may be heavy rainfall and wet conditions causing a high loss of vegetables. If so, the prices agreed upon in the contract may be too low for the farmer to make a profit. Reciprocally, from the buyer’s point of view, if there is a surplus of production, then the agreed upon prices may be too high for the buyer to be competitive relative to other retailers who have access to cheaper prices. So in situations of high weather instability, it is better to keep a flexible arrangement regarding price and quantities. In order to provide better security to the buyer, it might be best to propose minimum quantities and prices below which the buyer cannot adjust whatever the situation of the market. Reciprocally, the seller may propose maximum prices to the buyer. If needed, these adjustments could be made over a certain period of time, i.e., 3 months.

Ideally, it is good that the farmer groups exchange information on the conditions of contracts proposed by their buyers. In this way, they can discuss the conditions before a contract is signed if necessary, resulting in a stronger, united voice. Otherwise, the buyers may take advantage of any divisions and competition between individual farmers to offer lower prices.

Some groups or companies may propose to supply inputs and other services to farmers, including technical training, in exchange for products. This type of arrangement is commonly termed as contract farming. This is the case of the Hadico Company. Another example is Mr T’s Cooperative in Moc Chau region. Mr T’s Cooperative signs contracts with 4 farmers to whom he supplies inputs and technical advice, which allows him to exert control on production protocols. Mr T’s buys all the production of these farmers at stable prices, and participates in the risk of production by not asking for input credit refunding in case of product losses. As mentioned in the section on outlets, the advantage of being supplied with inputs and services is that it enables farmers not to disburse cash, which is convenient for farmers with problems of access to cash. Another advantage is that the company may have some skills to choose the proper inputs. The disadvantage, as in any other type of contract, is that it creates dependence on the buying company.

In summary, the main rights and commitments of farmer groups in contracts are as follows:

1. Rights
   - Be ensured the quantities and prices agreed upon will be purchased if comply with conditions set in the contract
   - Get the payment on time

2. Commitments
• Communicate with your buyers honestly and openly including the expected price and ability to produce and deliver vegetables on time

• Not selling the products to other buyers if more reasonable prices are offered.

V - **Price-setting**

There are two ways to establish prices proposed to the buyer:

• Calculating production costs and applying some margin to get satisfactory returns on labor

• Checking the prices in different market places: for other farmers, at the farm gate, for similar products sold to similar buyers; the prices in wholesale markets; the prices in retail markets; the prices in shops and supermarkets.

The two ways are indeed complementary. Calculating production costs enables one to evaluate the conditions needed for prices to generate sufficient income. On the other hand, checking the situation in the market enables one to appraise the general situation of supply and demand: if supply is in excess relative to demand because of good climatic conditions, prices will fall. They may even fall to the point where the farmer may lose income. This is why contracts that specify minimum purchase prices may be useful.

An example of calculation of production costs is given in Table 5. For this calculation, it is necessary to compute:

• Crop yield per hectare

• For a given area of crop (for instance, 100 m²), all the costs of the inputs used for the crop

• For the same area of crop, the costs of labor: salaried labor only or also family labor (it needs to be specified that the production cost is with or without family labor). In the example, there is only family labor, which has been counted at 45,000 VND/day, with 8 hours of work per day.

• For the same area of crop, the depreciation of any equipment: for instance, if there are nethouses worth 250,000 VND for 100 m² paid by the farmer and which need to be renewed every 5 years, then the depreciation cost per year is 50,000 VND for 100 m², and needs to be added to the production cost.

The production cost per kilo is derived from the production cost per area divided by the yield for the same area. The production cost per kilo represents the minimum farmer resale price, under which the farmer will lose money (termed as break-even price). In the example of Table 5, if the farmer sells at 3,000 VND/kilo, the cost of ordinary cabbage, he will lose money. With a resale price of 3,600 VND/kilo, he will get 86,250 VND/100 m². If he has a total area of 300 m² with crops generating similar incomes, he will get 260,000 VND in total, i.e. 86,250 VND/month for a 3-month cycle like for cabbage.

<table>
<thead>
<tr>
<th>Table 5 – Example of calculation of production costs, “safe” cabbage, Son Phuong commune</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
</tr>
<tr>
<td>yield/ha</td>
</tr>
<tr>
<td>yield/100m²</td>
</tr>
<tr>
<td>For 100 m² of cabbage:</td>
</tr>
<tr>
<td><strong>Input costs</strong></td>
</tr>
</tbody>
</table>
Seeds: VND 192,360
Fertilizer: VND 210,000
Pesticides: VND 73,080
Sample analysis: VND 5,880
other inputs: VND 27,720
**Labor costs**
Total production costs/100 m²: VND 412,440
Production costs/kilo: VND 3,291
resale price/kilo: VND 3,600
benefit/kilo: VND 309
benefit/100 m²: VND 86,520

When comparing the sale price to the final retail price, farmers should be cautious not to conclude too quickly that retailers get much higher prices and hence profits relative to them. Marketing costs are sometimes less visible than production costs. Traders also have high risks of losing their commodities. “The price the farmer gets depends on the point in the marketing chain at which he or she decides to sell. Although prices are higher, selling further along the marketing chain involves additional costs for transport, market fees, meals and accommodation. There are also costs in terms of the farmer’s time. Farmers who take produce to market and sell directly to consumers will usually get the highest price but they do need to decide whether this is the best use of their time, as it may be more usefully spent managing the farm” (Dixie, FAO, 2005:14). Figure 2 shows the price increases between farmers and retailers. Each step of marketing involves transport costs, other costs like storage, packaging, telephone, and also the margin of the trader, which is payment for his labor.

The calculation of production and marketing costs needs to include the calculation of losses (quantities lost multiplied by the price at which they could have been sold).

Changes of prices over time are due to changes in supply by other farmers and changes in demand (for instance times of festivities increase demand while times of economic crisis reduce demand). It is important that farmers are informed about the months when the crops get the highest price in order to increase the supply at that time, and decrease production when prices are the lowest. The months when vegetables are imported also give some indication of the periods of deficit of local supply. For instance, in Hanoi, tomato and cabbage get the highest prices from June to November, and it is also the time when they are imported from China (see Moustier, 2007). On the other hand, farmers should with caution the reaction to exceptional weather conditions. For instance, in November 2008 in Hanoi, there was exceptional rainfall during one week and 80% of vegetables were destroyed in Hanoi Province, and prices increased by three. Then all vegetable farmers planted at the same time again. And in March 2008, there was a surplus of vegetables and prices fell by four times compared with November. “Wiser farmers often deliberately decide the opposite to what their neighbours are doing” (Dixie, 2005:23): it may have been wiser for some farmers to wait some weeks before planting. But naturally this is difficult in times when cash is in short supply.

Checking wholesale prices daily or weekly is also helpful to better negotiate with one’s customers. This can be done by visiting markets, and also through watching special TV programmes (in 2007, VTV2 was broadcasting prices at 7:30, 18:30 and 23:30).

**Figure 2 – Price increases along the marketing chain**
The physical appearance of vegetable products is an important factor in the negotiation with buyers. Buyers prefer products to be of uniform appearance in terms of size, shape, color, lack of damage, and they usually have quite a clear idea of what these criteria should be in order to appeal to their consumers. If the vegetables are of mixed quality and size, the buyer may give a price that is equivalent to the lowest quality in the batch. Also, the buyer (or consumer) will spend time to separate the good produce from the poorer quality produce, and this time will be reflected in lower purchasing prices.

“Food quality standards are commonly accepted properties that differentiate food products in terms of their value to buyers. Grading refers to the sorting of unlike lots of products into uniform categories, according to quality standards (Kohls and Uhl, 2002:302)”.

Grading systems enable the seller to get prices that are a better reflection of the product quality. They can also reduce the time spent by the buyer to inspect the products.

“Standards should be built on characteristics the users consider important, and these characteristics should be easily recognizable. Grades must be oriented to user opinion of value and not that of a few technical experts. Standards should be built on those factors that can be accurately and uniformly measured and interpreted” (Kohls and Uhl, 2002:310).

If there is a grading standard used by buyers to select the products, heads of farmer groups need to inform the members and make sure they are well aware of this. Supermarkets in Ho Chi Minh City have a grading system based on color, size and texture. For example: tomatoes should be solid, not limp and flaccid; water convolvulus should be
green and soft (Phan Thi Giac Tam, 2006). In Hanoi, we did not find evidence of grading systems required by supermarkets. In this case, it would be good if there were discussions between sellers and buyers to design such a grading system. One basis can be the grading system established by FAVRI and CIRAD (2005) to collect prices on a product of average quality based on observations and interviews with traders to assess the quality criteria affecting the final prices (see Table 6).

<table>
<thead>
<tr>
<th>Vegetables</th>
<th>Physical assessment</th>
<th>Good (Grade 1)</th>
<th>Medium (Grade 2)</th>
<th>Bad (Grade 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wax gourd</td>
<td>Smooth, slim fruit, young, fresh, no stains from insects or damage</td>
<td>Smooth, relatively slim fruit, few stains from insects, no damage 35-45 cm long</td>
<td>Rough, curved fruit, many stains from insects, damage &lt;35 cm long</td>
<td></td>
</tr>
<tr>
<td>French bean</td>
<td>Long and slim fruit, no stain of insects and diseases, regular shape, fresh, young, no damage</td>
<td>Average fruits, curved, no stain of insect, a bit old and hard, a bit damaged 10-16 cm long</td>
<td>Curved fruit, many stains from insects and damage, old, not fresh &lt; 10 cm</td>
<td></td>
</tr>
<tr>
<td>Tomato</td>
<td>Evenly ripe, succulent fruits, smooth and shiny, no scar, no stain of damage, Diameter: 4.5-5.5 cm Height: 6-7.5 cm</td>
<td>Relatively ripe, few stains from scars and damage Diameter: 5.5-7-5 cm Height: 6-8.5 cm</td>
<td>Not evenly ripe, many scars, unsmooth, not shiny, irregular shape, many stains from damage Diameter &lt; 4.5 cm Height &lt; 6 cm</td>
<td></td>
</tr>
<tr>
<td>Cabbage</td>
<td>Tight rolling, no stain of insect and diseases, young and fresh Diameter &lt; 14 cm Height &lt; 6 cm</td>
<td>Normal rolling, few stains from insect, fresh Diameter &lt; 14 cm Height: 6-8.5 cm</td>
<td>Leaf rolling, many stains from insects and diseases, begins to rot Diameter &gt; 16.5 cm Height &gt; 8.5 cm</td>
<td></td>
</tr>
<tr>
<td>Cucumber</td>
<td>Long, big and straight fruit, no stain from insects, disease and damage, fresh</td>
<td>Some stain from insects and disease, a bit damaged Diameter: 2-3.5 cm Length: 15-20 cm</td>
<td>Small and curved fruit, not nice appearance, many stains from insects and damage, not fresh</td>
<td></td>
</tr>
<tr>
<td>Kangkong</td>
<td>Fresh, young and green leaves, no stain from insects and damage &lt; 30 cm</td>
<td>Fresh and green leaves, few stains from insects and disease, a bit damaged 30-40 cm long</td>
<td>Dark green leaves, peduncles rooted, stains from insects, disease and damage &gt; 40 cm</td>
<td></td>
</tr>
</tbody>
</table>

Source: An and Moustier (2005).

For grading, FAO recommends specialist grading areas with thatched or tin roofs; standing or sitting at tables covered with polythene sheeting, with good lighting, good ventilation. Damaged vegetables should be discarded (Dixie, 2005).

It is recommended that farmers are involved in some basic preparation of the products, to get more value out of them: for instance, peeling carrots and selling them under plastic. The more services the farmer adds on the product, the higher the price he can obtain (once again the calculation of the additional costs is necessary to conclude if he gets higher benefits). Pre-packed and/or prepared vegetables also enable the seller to have some distinct advantage relative to his competitors.

### VII - Vegetable safety and traceability

In addition to vegetable appearance, vegetable safety is a key quality criteria of importance for buyers. But by contrast with vegetable appearance, it cannot be observed or measured directly. Hence, the farmer needs to provide buyers all possible evidence that he has produced the product in compliance with regulations relative to vegetable safety. The
more documents there are testifying compliance with good agricultural practices, the better it is to convince the buyers. These documents can be in the following form:

- A joint production protocol that the group has committed to follow on good agricultural practices
- An internal control system that the group has committed to follow outlining the farmers’ practices and inspection arrangements
- Actual records of farmers’ practices
- Actual records of inspectors’ visits
- Certificate of vegetable safety; at the moment there are two kinds of certificates in Vietnam: the certificate on conditions of safe vegetable production delivered by the Plant Protection Department of the Hanoi Department of Agriculture and Rural Development; and the VietGAP certificate delivered by eight organizations including FAVRI. Compared with the certificate on vegetable safety, the VietGAP certificate requires an internal control system, and also the checking of more detailed procedures at the production and post-harvest stage. The present cost of certification is around 40 dollars per hectare for PPD certificate.

“Traceability is a way to retroactively detect where a problem occurred in the supply chain” (Coceral, 2003), for instance, excess pesticide residues detected after random checking on the product by a supermarket. It implies a clear labelling of the product: a clear indication should be made about the origin of the produce, in terms of address of the place of production. The most specific way is to have the name of producer on each package (or box) of product sold. A possible system is that each producer has a stamp with a specific picture (this system has been tried in Hanoi, Hoai Duc district, by CASRAD staff in Superchain project). If the group buys vegetables from another group in addition to its own, this other group should have the same compliance with vegetable safety as itself.

It is good that representatives of the groups regularly organize some control in the shops where their products are sold to check if it is mixed with products from other sources.

Regulations of safe vegetable trade are provided in Decision 106/2007/QD-BNN (see Appendix).
VIII - Quantities and crop planning

We have mentioned that the regular delivery of diverse products is an important condition of delivery, especially for supermarkets. It is difficult for an individual farmer to achieve this. It is recommended that the person in charge of marketing for the group establish a supply plan and organize crop planning for all the members:

- Establish the plan of supply in terms of quantities needed for each crop per day in each season;
- Distinguish between the regular crops which can be produced all year round and provide the bulk of the orders, and the seasonal crops;
- Organize seasonal meetings with group members: (i) to evaluate the possible contribution of each member to the supply plan; (ii) to adjust the orders to this assessment; (iii) to guide the members to reduce crops in excess and increase crops in demand (for example, by change in varieties);
- Keep regular interaction with group members to check if there are any difficulties in implementing the plan.

An example of a cropping calendar is shown in Table 7.

Table 7 – Cropping calendar for Song Phuong, Hoai Duc

<table>
<thead>
<tr>
<th></th>
<th>J</th>
<th>F</th>
<th>M</th>
<th>A</th>
<th>M</th>
<th>J</th>
<th>J</th>
<th>A</th>
<th>S</th>
<th>O</th>
<th>N</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabbage</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Tomato</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Kohlrabi</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Green beans</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amaranth</td>
<td></td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cucumber</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Le Thi Nham and al, 2007

IX - Collective action

There are several advantages for farmers to sell collectively:

- Group marketing can solve the problem of small volume. The group can “jointly plan production and marketing so as to have a sufficient volume of produce available at one time to provide marketing strength” (Dixie, 2005:68).
- Group marketing can reduce the time spent in contacts and negotiations with purchasers
- Group marketing can reduce the cost of services necessary for marketing like packaging, storage, credit access, access to a market stall
- The group can collectively invest in a person responsible for the sales who has appropriate skills in terms of marketing
- It is easier to get a reputation in terms of quality as a group than as an individual
- Belonging to a group enables an increase in the variety of vegetables proposed to buyers
• Groups can have a bank account, and issue invoices, which is necessary for transactions with supermarkets

• Belonging to a group facilitates the access to training, in particular, in the area of quality.

As regards the present situation for marketing of safe vegetables in Hanoi, it can be described as quite decentralized among the members of groups. The typical situation is that some members are in charge of supplying a particular point of sale (for instance, a canteen, or a supermarket, or a shop), where they sell their own production, plus the production from some other members/groups from which they buy. Some members of the group operate as collectors for the other groups. Collective aspects of marketing mostly involve the access to collective training on vegetable safety, collective transportation, contacts with buyers, packaging and labeling, promotion of the reputation of the group. On the other hand, in other cooperatives (Cooperative of Safe Vegetables in Ho Chi Minh City, Litchi Association in Thanh Ha, Flavored Rice Association in Hai Hau), one person is in charge of group marketing. The marketing and administration costs are taken out of the farmer’s profits. The advantage is that farmers can be more informed about the marketing process than if they have to deal with various collectors from whom they have to accept the proposed prices, and also that the cooperative can invest in a person with good marketing skills. The disadvantage is that it requires some initial investment by the group.

As discussed for contracts with buyers, belonging to a group entails a set of rights and commitments:

• Rights: benefiting from the services offered by the group; being involved in the decisions of the group; having a share in the outputs produced by the group

• Commitments: following the rules set by the group, in particular the financial contributions, the compliance with production and control protocols, in some cases the necessity to sell all or a share of products to the group

There are a number of actions that require cooperation between several vegetable growing groups:

• Enlarging the diversity and quantities of products proposed to the buyer

• Agree on minimum sale prices to buyers, especially in times of surplus production

• Organize joint operations of communication with buyers, including fairs or journalist interviews, opening a website

• Participate in policy planning regarding the sector.

This is why it can be useful for farmer groups to participate in the alliance of safe vegetable production and distribution cooperatives of Hanoi Province (which may be extended to other provinces).

X - Communicating

It is not only necessary to produce satisfactory products adapted to the buyers’ needs, in particular in terms of quality; it is also essential to have these products known and appreciated by the buyers. Several means are possible for that:

• Prepare promotion material: simple leaflets, A4 format, with information on the group capacity in terms of number of members, area, list of vegetables produced, if possible minimum quantities supplied per day, commitments in terms of quality, existing documents related to quality, address of the group and the places where products can be found; pictures of the production area, and of products. Posters with similar information can be displayed in shops where the products are sold.
CDs presenting the process of production, farmers’ commitments and distribution channels can also be prepared.

- Give interviews to journalists
- Send information to persons in charge of relevant websites, including the Consumer Association website (for groups selling directly to consumers); and the website of the Alliance of Safe Vegetable Groups.
- Participate in fairs organized by Hanoi Province or by the consumer association
- Organize visits to the farms for present and potential buyers
- On the package of the product, provide clear information on the address of the group, type of available certificate. A sentence showing the commitment of the group is also possible: “We, the farmers of xxx, commit all the necessary efforts to protect your health”

XI - Concluding remarks

In Hanoi, there are real opportunities for vegetable groups to expand their market outreach. Consumers are not entirely satisfied with the guarantees of safety they currently find in the retail sector. Retail shops, restaurants and canteens always look for new suppliers, because when they expand their business, they sometimes lack the diversity of products they are looking for, and they do not always trust their present suppliers in terms of quality products. For vegetable groups to find good partners, they need to have a clear sense of responsibility in terms of ability to fulfill their commitments, in particular, in terms of quantity, time of delivery and quality – as they are entitled to expect a sense of responsibility from their buyers. These guidelines have presented a set of recommendations for farmers to create long-term relationships with their buyers. We would like to summarize below some essential ones:

1. Produce well, and make it known
   The group should be able to commit itself to follow a specific production protocol, that can be written down in the form of a document, and that can be enforced by an external control body

2. Choose the appropriate marketing option
   The marketing options are diverse: direct retail sales, sales to shops, supermarkets, schools, restaurants, distribution companies. They should be chosen according to the labor, financial capacity, communication skills of the farmers; and characteristics of production in terms of diversity, regularity and quantity

3. Communicate well regarding the produce quality and place of production
   Allow your customers to become faithful to your label. Only provide genuine information on the product.

4. Consider the trader as a partner
   Traders have their own costs and risks. It is logical that they make some mark-up on the purchase price. You have rights with respect to them (get prices that take into account your production costs), but also responsibilities (fulfilling your commitments)

5. Beware before committing to a contract: contracts provide security but they restrain freedom – once you are committed you cannot sell your products to someone else even if you are offered more favorable conditions

6. Take advantage of the strengths of collective action
- Use joint finances in the group to invest in marketing e.g. renting a stall
- Select someone with good marketing skills to act as intermediary between the farmers and traders
- Establish production plans for the group to be able to regularly fulfill the buying agreements
- Get involved in an association of safe vegetable growers to have more influence on policy planning, and on communication with buyers

XII - References


Moustier, P. and Nguyen Thi Tan Loc, 2003. Identifying the outlets for safe vegetables in Hanoi. Presentation to Dong Du SUSPER workshop, 20/10/03. Hanoi, CIRAD, FAVRI.


Appendix 1 – Regulations of safe vegetable trade

For safe vegetables trade, the following requirements are presented in the Regulation on Safe Vegetable Production and Trade (Decision 106 /2007/QĐ-BNN) by the Ministry of Agriculture and Rural Development issued on 28 February 2007:

1. Organization/individual trading in safe vegetable trade at stores and agencies must meet the following requirements:
   a) Business registration paper must include trading in fresh vegetable;
   b) Certificate of meeting hygiene and sanitary conditions issued by authorized bodies;
   c) Certified copy of certificate of safe vegetable production
   d) Contract, invoices of input & output or records showing category, quantity, origins of safe vegetable and time of purchasing & selling
   e) Vegetables must have hygienic packaging, boxes or string; the package or label should have at least the following information:
      - Name, address of organization/individual producing safe vegetables
      - Sentence “Vegetables produced under safe vegetable production protocol”
      It is encouraged that labels have code, barcode, logo, brand name of producer, certification agent and other information.

2. Safe vegetable producers when supplying directly to customers (factory, restaurant, hotel, school, hospitals and households) or to a wholesale market must satisfy the requirements below:
   a) Have contract, invoice of input & output or records clearly showing categories, quantity, origin of safe vegetable and time of purchasing and selling
   b) Safe vegetable must be in hygienic packages, boxes, string and vehicles.
Appendix 2 – Example of contract between cooperative and supermarket
SOCIALIST REPUBLIC OF VIETNAM
Independence – Freedom – Happiness

CONTRACT

- According to real demand of involved parties
As of today, ..........Sep 2007 in Hanoi, we hereof include:

Purchasing party (Party A):
Office:
Tel:
Email:
Account:
Bank:
Tax code:
Representative:

Selling party (Party B):
Add:
Tel: 04 956 3780    Fax :
Tax code: 0101397009
Representative:     position: Head of cooperative

The two parties agree to sign the contract on the following conditions:

**Article 1: Content**
Party B agrees to sell and Party A agrees to buy the vegetables at the price negotiated by the two parties.

**Article 2: Vegetables, price and quantity**
- Price: The two parties agree to review the quotation 02 times per month (on 15th and 30th every month). Delivery: At the store of Party A (with checking, weighing, booking and signing)
- Time: from 4:00 - 4h30: every morning
- Quantity: According to the demands of Party A, order via telephone

**Article 3: Repayment**
- By cash or bank account (in Vietnam dong according to valid invoices based on receipt and delivery papers with all signatures of both sides). One time per week, repayment 1 time every 15 days (on 15th and 30th every month). Based on all the vegetable quantities that have been delivered and received.

**Article 4: Responsibility of each party:**
+ Responsibility of party A:
- Full and correct payment as value of total vegetables according to papers of actual delivery and receive. During the contract validity, if there is any change in the kind of vegetables and quantity, Party B must be informed by paper or telephone. In case that price is changed, the two sides will consider prompt solution not affecting the supply.

- Party A has the right to unilaterally terminate the contract after informing party B 2 weeks in advance in writing.

+ Responsibility of Party B:

- Producing and supplying goods as said standard and certificate on food hygiene and safety. The quality and hygiene safety are secured for consumers, if the vegetables are not ensured, they will be returned and required for compensation of costs relating to low hygiene standard.
- Providing vegetables exactly as per the weight, packaging and quality. Delivery on time and at right place. The vegetables must be fresh, of good quality, safe and in new packaging (with “best before” date).
- Legal responsibility towards consumers, the company, legal system and Government of Vietnam and bearing any costs due to violation in food safety.
- If the price changes, inform Party A for consideration, negotiate 01 time per month on the 30th of previous month. The same price quotation is applied during 15 days.
- Party B has the right to unilaterally terminate the contract after informing Party A in writing 2 weeks in advance.

Article 5: Common terms

- The contract is valid as of the date of signing.
- The two parties commit to implement exactly the articles stated in the contract. During the implementation, if any problem occurs due to objective factors the two sides will negotiate based on mutual benefits. All new negotiation must be noted in paper to have legal validity. Any delay in respect of one of mentioned articles shall be considered as contract violation and shall be compensated for the other party, except for some force majeure like natural disasters, changes in governmental mechanism or policy.
- In the case of any dispute arising that can not be settled by the two parties, the parties will bring the case to the court.
- The contract is made out in 4 copies, each party keeps 2 copies of equal validity.

Day …..month …..year

For party B

For party A