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Marketing Channels as a Factor of Sustainable Agribusiness

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Abstract

Due to the growing importance of marketing channels in market economies and the dominance of trade, particularly retail, as well as the fact that current economic flows in the Republic of Serbia, in the process of transitioning from an administrative to a market system of economy, highlight channels of traffic and distribution as a central problem and area of business rather than product, price, and promotion, the subject of this paper is precisely marketing channels, i.e., trade in the Republic of Serbia. The contemporary business environment requires a different approach to business. Between domestic and foreign markets, there is a very pronounced competition. The demands and needs of consumers are more complex, and their expectations have increased. Rapid adaptation is necessary due to constant changes in the environment. On the one hand, it is essential to monitor changes and adapt, while on the other hand, it is essential to show initiative. All these mentions indicate the absence of a single formula that guarantees success, therefore flexibility, proactivity, and willingness to accept changes appear as key success factors.

Keywords: marketing channels, agribusiness, trade, vegetables.

JEL Classification: M31, Q01, Q10, Q13.

1. Introduction

Globalisation has created a business environment that is beneficial for the internationalisation of operations in the food and beverage industry. International markets are accessible to more and more businesses thanks to advances in communication methods and the facilitation of the transport of goods, knowledge, and capital. Due to the development in international business and technology,

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borders seem to disappear and this results in the world being seen as a single market. Connectivity and interdependence among international markets are at a high level. This is evidenced by the fact that consumers from various parts of the world have access to products that are not characteristic of their region (the supply has become quite equalised across different markets).

However, the propagation of negative effects is also present, caused by the high degree of interconnection between markets. An enterprise must be prepared to react to the occurrence of negative effects in order to mitigate the potential consequences on its operations. A good example of unexpected situations for which there was no preparation and which had a big impact on the changes in the market are the events in 2020, caused by the Covid-19 pandemic. Companies faced numerous difficulties and problems. Some managed to cope and make the best out of the situation, some still feel the consequences to this day, while some ceased operations.

The purpose of this study is to examine the method of choosing an appropriate strategy for the development of marketing channels for agricultural products. The expansion in the process of creating a competitive advantage requires an analysis of various factors that can affect operations. As the modern business environment is uncertain and exposed to rapid changes, the objective of the study is also to emphasise the importance of monitoring these changes and reacting quickly to them, so that the enterprise is able to maintain its competitive advantage, an even more difficult task.

2. Problem Statement

The food and beverage industry is crucial because it satisfies the basic needs of a human being. The food industry it is a dynamic global network of entreprises that provide the biggest ratio of the world's food. Because it represents around 15-30% of the total negative effects on the environment, it is very important for us to better understand this sector. There has been an increasing focus on certain topics such as food origin, quality, sustainability of food production, and nutritional value. The importance of the origin and quality of products has become more relevant since the COVID-19 pandemic. The main effects of the pandemic are related to the physical access to food. Both the purchase and supply of food have been limited because of the restrictions, having a negative effect on the supply and demand for food. (Kakaeia et al., 2020, pp. 4-5; Koster 2021, p. 6; Memon et al., 2021, p. 1071).

Given the increasing emphasis on building and managing buyer-supplier relationships as a foundation for sustainable competitive advantage, opportunities arise where strategic procurement contributes to improving business performance and positioning manufacturing enterprises better in the global market.

These opportunities include the ability of enterprises to: (a) develop close business relationships with a limited number of suppliers; (b) promote open communication among supply chain partners; and (c) develop a long-term strategic orientation to achieve common benefits. Together, these activities foster sustainable competitive advantage by enabling the company to build interorganisational relationships. Additionally, the rapid response of suppliers is a crucial component of

competitive advantage through which strategic procurement has a significant impact on company performance (González-Benito, 2010).

The development of strategic relationships with suppliers and the exchange of information, ideas, and suggestions on the quality of goods and services are becoming increasingly significant (Ellram and Krause, 2014; Castaldi et al., 2011; Weigel and Ruecker, 2017).

The effects of strategic procurement not only have a positive impact on company performance, as confirmed in our and many other empirical studies, but also become a crucial factor for survival, sustainable development, and creating a competitive position in the strategic positioning of manufacturing enterprises in the global market (Shen, Lapide, 2005).

The cumulative effect of generational shifts and changes in consumer behaviour in pandemic conditions is reflected in the dominant shift of digital commerce in B2B companies. B2B companies that rely on digital channels are achieving higher overall sales. For example, a food distributor reported a 40% revenue growth compared to the previous year for its online customers, compared to approximately 9% growth for its customers overall (Deloitte, 2021: 14). Therefore, the e-commerce increases sales and fosters new customer relationships. The same source indicates that global sales through e-commerce increased in 2020 by 11,8%, although the total sales B2B descreased by 2,6% because of the negative impacts of the pandemic.

It is very important to consider numerous environmental factors in order to build a successful strategy of the marketing channels in all sectors, especially agriculture. Marketing channels in agriculture are strongly related to environmental information.

Finding an equilibrium between achieving economies of scale and aligning with local customer tastes is essential. Adaptation strategies are most common in food and beverage, apparel, and retail businesses. For example, Nestle offers its famous KitKat chocolate bar to consumers in Japan in combination with various local flavours (such as wasabi, azuki beans, and green tea). Coca-Cola and Pepsi use different levels of sweetness in their products to respond to the local taste (Lund et al., 2019, pp. 95-96).

3. Research Questions / Aims of the Research

The focus of the study will be on the process of globalisation and marketing channels of agricultural products in contemporary developments. It will examine their impact on creating a modern way of doing business that has led to changes in the food market.

The subject of research will be specific internal and external factors that contribute to the choice of strategies for the local and international expansion of food marketing channels. The application of the international expansion strategy will be explored through a specific example. The marketing channel in the vegetable sector, using potatoes as an example, will be analysed. Challenges, problems, and solutions encountered by potato marketing channel entities in placing products on the local and international market will be addressed.

In theoretical terms, the analysis of marketing channels in agribusiness can be viewed from two perspectives. The first approach focusses on analysing the specifics of food marketing channels at the local level, while the second approach leans toward the internationalization of food distribution issues from producers to consumers as end users and involves analysis at the global level. Considering the agrobiological, production organizational, and market-specific characteristics of agricultural production, and the need for its economic renewal and restructuring towards the development of agribusiness - market-orientated exports, the expected perspectives of development and changes are:

- Liberation from social constraints and the emergence of economically responsible agriculture;
- Contribution to food security (self-sufficiency, operational and strategic reserves);
- Sustainable development - optimal use of agricultural resources (land, water, air, biological diversity), and environmental protection,
- Market stability, with a tendency to decrease the share of food costs in the family budget structure;
- Export orientation, with the ambition to achieve a surplus in foreign trade,
- Integral rural, regional development - economic-social recovery and sustainability of rural areas, which will include the formation of alternative earning opportunities.

Variables by which the agribusiness system, efficiency, effectiveness, or sustainability of the entire sector will be measured and evaluated include:

- Adaptation to market changes;
- Creation and adoption of technological innovation;
- Access to capital;
- Ability to gain and retain market share;
- Climate change.

The response of companies in the food and beverage industry to global crises is accelerating process digitisation. The digitalisation of processes has emerged as a response to the crisis, and companies in various sectors have resorted to digital communication and business systems.

The trend in modern agriculture is less focused on farms and their dominance in production of basic foodstuffs and raw materials for the accompanying industry. To understand the complexity of marketing channels for this sector, we must explain the concept of agribusiness.

Trade in marketing channels for agricultural products involves economic entities from the agricultural sector, as well as those from the processing industry and trade. Hence, in the United States, modern agriculture is seen as a homogeneous economic activity consisting of: family farms, large corporations, credit institutions, input suppliers, processing companies, transportation firms, wholesale, retail, and restaurant chains. Davis coined the term "agribusiness" to denote vertical integration and harmonious functioning in food production. We conclude that there is a large

number of participants in marketing channels, which can be graphically represented in the following Figure 1.

Figure 1. Functional organisation of agribusiness in the USA
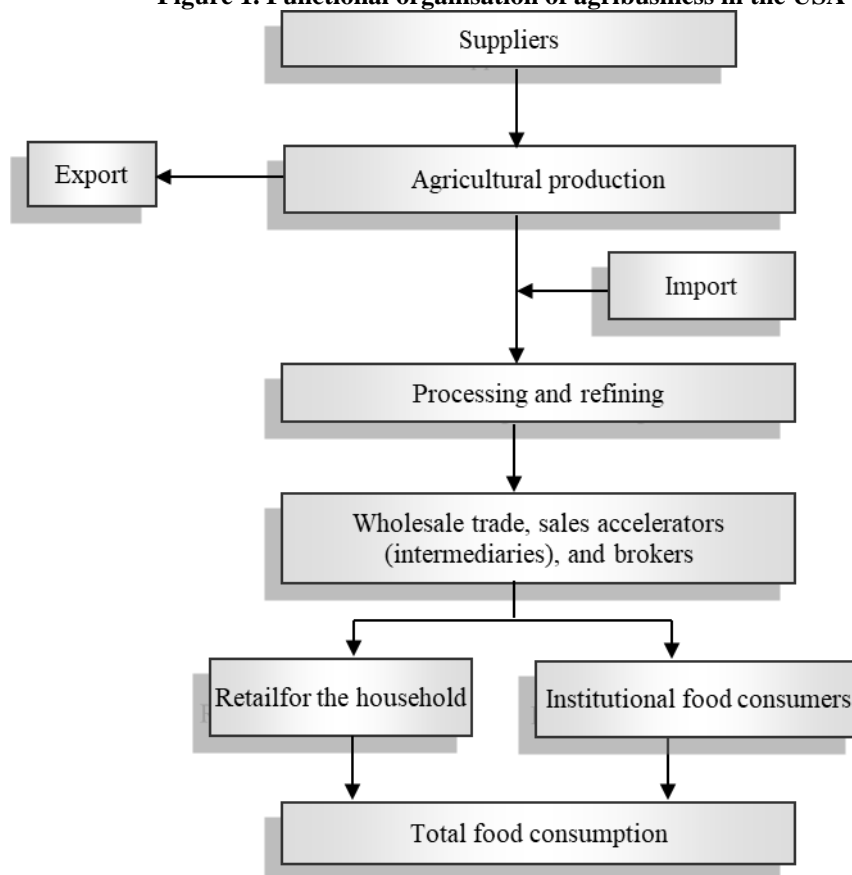
Source: Vujatović-Zakić Zorka, Tomić R. (1998). Agricultural Economics, Faculty of Management, Zaječar and Megatrend Business School, Belgrade.

Under the influence of exceptionally variable economic circumstances throughout the twentieth century, marketing channels have undergone significant changes.

In addition to the permanent implementation of various innovations and thereby achieving significant progress in their quality, in recent decades, their evolution has primarily been directed towards shifting power from producers to intermediaries, namely towards strengthening the role and position of one of the primary participants in the channel: retail, within which over time, retail has become the dominant and decisive factor in the functioning of marketing channels.

4. Research Methods

The research in the paper is based on existing domestic and foreign, professional, and scientific literature, as well as available statistical data from the food industry, in order to approach the given topic as accurately as possible.

Using the method of comparison, analysis, and synthesis, with a wider range of literature from the marketing channels of agricultural value products, including theoretical and empirical studies, knowledge of food production and marketing methods in the EU with the help of new technology in production through the application of the principles of sustainable marketing channels in the last ten years, we came up with key solutions and recommendations for food marketing channels in Serbia, applying the principles of sustainable development.

5. Findings

All the crises from the last decade accentuate the idea that businesses must be flexible, by implementing appropriate strategies. Thanks to the large amount of information available today, businesses have access to large databases of precollected secondary data, ensuring faster and easier navigation when entering new and unfamiliar markets.

In the food industry, it is necessary to create a new personal database that is combined with the existing ones to create a quality product that gives a sense of trust to parents, the target customers. When choosing an appropriate strategy for the company to apply to foreign markets, it is very important to have a detailed analysis of the company's current position, its strengths and weaknesses, and the analysis of the external environment.

The main purpose of marketing channels is to deliver agricultural and food products from the primary producer to the consumer in the shortest possible time, with minimal costs, and preserving the product's properties intended for consumers. The research task is also to present how the specific characteristics of agricultural and food products and their purpose influence the choice of marketing channels, as well as to highlight the effects of organising marketing channels for agricultural products on the competitiveness of Serbia's agro-sector in the global market.

Specifically, the aim of the paper would be to design the structure of marketing channels for selected types of products typical for small, family, and large agribusiness farms, both domestically and internationally. Although direct marketing channels, which exclude intermediaries between production and consumption, are present in modern business, channels that imply the use of intermediaries, primarily retailers, are much more common. This is because intermediaries, thanks to their specialisation in performing marketing functions, are much more efficient than producers and consumers.

Regarding trade in Serbia, its position, role, and development in the overall system of reproduction have changed depending on changes in socioeconomic determinants and specific economic systemic solutions and their modifications.

It is important to mention legal and other measures, activities and actions that have been taken from the trading practices of developed Western countries but

created and implemented with the consideration of experiences from Eastern European countries, where transitional processes (currently characteristic of our trade) have long been realised, in order to avoid and prevent problems that those countries faced and to utilise their positive experiences and solutions. If we compare the functional organisation of agribusiness in the USA (Figure 1) with the potato marketing channel in Serbia (Figure 2), we notice the lack of connection and organization of family farms (Figure 2), in the process of placing agricultural products. Organised marketing of agricultural products from family farms to wholesalers is a weak link in the marketing channel of agricultural products in Serbia.

A barrier to the marketing of potatoes is related to an outdated product range: the use of traditional seeds that do not meet the requirements of modern consumers. In addition to the above, another barrier concerns the processing and packaging of products, which are unsuitable for market needs – the lack of washed potatoes, products in packages of various sizes – packages of 100g for snacks or family packages, products "to go" or "ready to use" (Figure 2).

Figure 2. Marketing channel for potatoes in Serbia
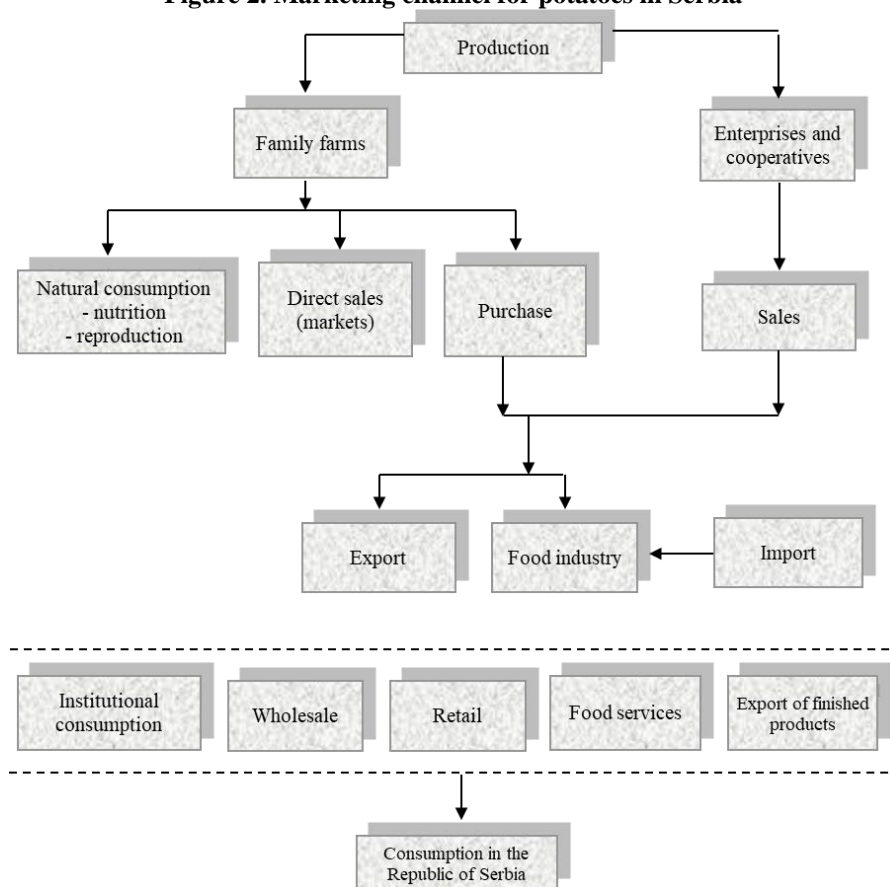
Source: author's processing.

Producer: After socialism, the production estates were fragmented into smaller production units. Marketing organisations, such as cooperatives, and marketing infrastructure are no longer available to producers, and alternative solutions have not been found.

One proposal to improve the functioning of cold storage facilities, to remain competitive in the market, is to invest in new processing technologies. Negative experiences from the past have caused distrust among producers. However, the new production organisation would not be a traditional cooperative but would engage in other marketing activities (quality control, promotion, and market research). The cooperative would represent a capital society.

Industry: In order to achieve integrated quality improvement, the concept of total quality management is increasingly being applied in all enterprises. The essence of this process is that the entire organisation and all employees, as well as suppliers and consumers, should be involved in the quality improvement process. Raw material processors will initiate vertical marketing integration to protect against uncertain further raspberry and cherry product placements. The industry will offer producers guarantees for production contracts and future prices. The basic documents regulating quality, by law, are standards. Standards are regulations that determine certain characteristics of a product or define terms, dimensions, graphical, and letter symbols.

Wholesale Trade: The future of wholesale trade also involves its entry into the sphere of production. To avoid competition between production organisations and wholesalers in the market and reduce marketing costs for production organizations and risk, the suggestion is that wholesalers to join cooperatives as shareholders. The cooperative would have the opportunity to collaborate with a larger number of wholesalers to promote competition.

Industries can organise the sale of their finished products in several ways.

- Industrial placement under their own brand for domestic wholesale
- Industrial placement under the brand of domestic wholesale
- Industrial placement under their own brand for foreign wholesale in the domestic market
- Industrial placement under the brand of foreign wholesale for the domestic market

Retail: The properties based on which it can be assessed that a product meets the need for which it is intended represent objective characteristics, such as technical, physical, chemical, mechanical, functional, aesthetic, etc.

Consumer: determines the fate of the entire marketing channel. The aim of the entire channel is to satisfy consumer needs through a quality, safe, attractive product, and an acceptable price.

6. Conclusions

It can be said that good organisation of agricultural product traffic requires meeting the demands related to understanding and respecting certain specificities resulting from the nature of agricultural production. The specificity lies in the fact

that the production results depend not only on agronomic measures and technology, but also on climate and soil. On the other hand, the demand for agricultural products is generally continuous over time. Therefore, a legitimate question arises: How to organizationally overcome these discontinuities and align the supply and demand of agricultural products? The problem becomes even more complex when considering the constant growth of consumer centres that need to ensure not only adequate supply, but also the stability and continuity of that supply, at an increasingly higher level of dietary standards. From a transportation point of view, it is also essential to consider that agricultural products are generally larger, many of them are susceptible to damage and rot, which makes them very risky for the traffic phase. The influence of incomes, prices, and other variables expressed by coefficients of elasticity are an inevitable factor in determining the future development of agricultural and food products.

Farmers and small and medium enterprises in developing countries have been severely affected by the pandemic due to a lack of advanced technology and infrastructure. Moreover, food businesses that import raw materials were the severely affected. As local producers and small food supply chains are less restricted by containment laws, an effective crisis mitigation strategy is improving and providing technological solutions for them. In India, the dairy subsector has led digitization and automation during the pandemic. One of the leading organisations in India, 'Chitale Group', has implemented a traceability system that tracks milk from purchase to sale, along the entire value chain. This allows spoilage to be easily detected and eliminated (Memon et al., 2021, pp. 1085-1087).

The general goal of the food and agriculture sector, as well as the fruits and vegetables subsector, in the future should be value addition and diversification of placement, which would result in enhanced competitiveness. Policies aimed at achieving this should take into account the key characteristics of the domestic supply: fragmented structure and predominantly domestic and regional ownership of companies, as well as demand characteristics for products: the export market can only be a true engine of growth, unlike the quantitatively saturated and weak domestic market in terms of purchasing power.

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