ANALYSIS OF A DIRECT SELLING NETWORK FOR AGRIFOOD PRODUCTS

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ABSTRACT

Sicily has become a food and wine area of great interest. However, conflicts within the supply chains have caused the selling process to become long and complex to the disadvantage of farmers, thereby leading to an information asymmetry between producers and consumers.

In order to meet the new needs of the agrifood sector, we developed a theoretical model of organized direct selling that goes beyond regional boundaries, which is an alternative model to farmers’ markets and that helps to promote the creation of a network among the operators of Sicilian agrifood supply chains. The aims of this study was to verify the potential of the proposed theoretical model based on a SWOT analysis, which was achieved by collecting data from interviews with the producers involved in the Sicilian agrifood supply chains, and with the main stakeholders involved.

- Keywords: agri-food, consumer, market, marketing -
INTRODUCTION

Farmers have always tried to shorten the supply chain between producers and consumers. They started by setting up consumer cooperatives and farmers’ points of sale. Recently, farmers have incorporated e-commerce within their selling activities, as well as farmers’ markets, box schemes, pick-your-own initiatives, and community-supported purchasing groups (ABEL et al., 1999; AGUGLIA, 2009; BRUNORI et al., 2009; LA TROBE, 2001).

National and international studies make numerous references to these practices, which have focused on producers, consumers, those outside the established sources of supply, which have been compare with consolidated distribution systems (MURDOCH et al., 2000) with respect to environmental or legislative issues. In particular, these studies focus on short supply chains, direct selling, alternative food networks (HOLLOWAY and KNEAFSEY, 2004), short food supply chains (RENTING et al., 2003), community-supported agriculture (RAFFAElli et al., 2009), and food community networks (LOMBARDI et al., 2012; PASCucci, 2010).

One of the main features that are debated frequently concerns the effective advantages of short supply chains for producers, consumers, and the community as a whole. Producers may have higher economic margins compared with those in the traditional agrifood supply chains, where different mediators take away part of the producers’ margins (VAN DER PLOEG, 2006).

However, a feature that is often ignored is the fundamental difference between the roles, tasks, attitudes, and capacities of farmers and market experts, who have specific skills to address the market in an effective manner. It is inconceivable in terms of education, culture, or tradition for farmers to occupy specific commercial roles or to confront the “unfair” challenge of large-scale retail trade, which has been present in cities for decades. Instead, it is possible to suggest the organization of an innovative market system, which can use its available efficiencies to move agriculture closer to urban consumers in different but stable ways, because consumers are increasingly keen to retain the precious nutritional value of food in general and of the “Mediterranean diet” in particular, where UNESCO has recognized the latter as an intangible heritage of humanity (GROSSO et al., 2013).

At present, the food industry and large-scale retailers are trying to exploit the information asymmetry that exists to direct consumption toward their needs and targets. This can only be overcome by farmers, particularly the producers of high quality food with good organoleptic characteristics (ABEL et al., 1999; HUNT, 2007). The real advantages for consumers of short supply chains are lower prices but also better information about the nutritional value of raw materials, the characteristics of the production process, agri-industrial processing techniques, and food preservation techniques (HINRICHs, 2000; LA TROBE, 2001).

Accordingly, our goal was to design an experimental model of direct selling that may represent an innovative method for agrifood products and to promote the products from specific areas, thereby implementing an alternative networked commercial system that can communicate effectively and reliably with consumers about the value of the food produced.

ANALYSIS AND REFERENCE CONTEXT

Italian legislation has supported the direct commercialization of agrifood products since the 1960s (Law no. 59 of 1963) and legislative decree no. 228 of 20013 simplified the relative procedures for farmers who practice direct selling (ALABRESE, 2008).

Subsequently, a decree has been applied to farmers’ markets only (BELLETTI et al., 2010). The growth of these markets was supported further by the Ministry of Agricultural, Food, and Forestry Policies on November 20, 20075 but the current economic recession is limiting food habits and life style, and reducing the purchasing.

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1 For example, citrus fruit producers’ organizations in the province of Catania promote a network of points of sale in north-eastern Italy, which are run directly by the members (Rizzo and Mazzamuto, 2009).
2 Hedonistic reasons accompany healthy ones in defining the value of food products. The increasing number of press columns and television formats dedicated to food confirm the widespread research into the pleasure of good food and conviviality, as well as best sellers and editorials about regional recipes and the increasing number of concept stores where furniture, atmosphere, and menus make consumers feel relaxed and comfortable while enjoying simple, traditional, but creative meals based on the Mediterranean diet.
3 Article 4 of L.D. no. 228 dated 18 May 2001, “Orientation and modernization of the agrifood sector, according to art. 7 of law, no. 57 dated 5 March 2001”.
4 The new decree also allowed direct selling for products not produced directly by the farm itself. The previous law, no. 59/63, “Rules for Farmers to Directly Sell Agrifood Products,” limited selling by farmers to the products obtained exclusively from their farms. They were identified as “owners of the land where they grow, their cooperatives or associations.”
5 This is an unprescribed decree since the legislative competence concerning commerce and agriculture is limited exclusively to regional governments according to article 117 of the Constitution. Only regional governments can issue rules and regulations about this matter. Thus, it is a decree aimed at guidance that is not mandatory (Alabrese, 2008).
Producers use direct selling as a way to sell their products in nearby markets. There are two reasons for this: first, the greater the distance from the origin of the food, the greater the problems of information asymmetry between producers and consumers become, while the information and communication costs related to products and production techniques are also higher (Briamonte, 2010; Gardini et al., 2007; Guidi, 2008); second, producers are hampered by the lack of organization, logistics, and the availability of finance when operating in distant markets. This makes it difficult for small-medium enterprises to place their products and operate at national and international levels (Chiffolleau, 2009).

Several regional governments have issued specific regulations and financially supported market development, including numerous measures in the Rural Development Plan (RDP). In Sicily, measure 321/A1 of the 2007/2013 RDP supports the development of equipped public areas for farmers’ markets of typical products and handicrafts.

Fig. 1 shows the intervention areas, which include 85 projects and a total investment of 9 million Euros to develop farmers’ markets, 79 of which will be activated in Local Action Groups (LAGs) areas and the remaining six in other areas.

However, direct selling within farmers’ markets has limits and critical points (Verhaegen and Van Huylenbroeck, 2001; Chiffolleau, 2009). Thus, previous studies have noted that farmers’ markets provide a direct relationship between producers and consumers, which may guarantee fresh products, because of their excellent locations and temporal discontinuity, but they do not provide an effective organization for selling, they do not obtain appropriate sales volumes, and they do not meet demand in full (Brunori et al., 2009). Farmers’ markets are often combined with village fairs and with folkloristic and cultural characteristics, but they are rarely oriented towards a modern organization.

The exclusive selling of products grown and consumed in the same area cannot allow for temporal continuity or completeness in terms of product diversification and the quality level, which is the basis of the modern distribution...
system thanks to the evolution of preservation techniques, transportation systems, and logistics (HINRICHSH, 2000).

Several studies (RIzzo and VECCHIO, 2008) have shown that this approach is not a sustainable alternative because the volumes are too small. These low volumes are due to the lack of temporal continuity of production and the incapacity of the local agrifood system to offer an articulated range of products. If direct selling of agrifood products is to gain a higher economic weight, it cannot be confined to the farm location itself or to the neighboring area. Italian legislation has not limited direct selling to local products alone, which has allowed it to spread throughout the territory of the Republic after communication with the municipality to which the farm belongs (TUDISCA et al., 2014).

Recently, the Sicilian regional government issued a regulation (article 10 of Law 25/2011) that goes beyond regional boundaries to support and promote “the direct and market selling activities” of Sicilian agrifood products via networked regional structures (section 1), that may interact in synergy with analogous networked structures at the national level (section 5) and at community level (section 6).

PREREQUISITES OF THE NETWORK MODEL

The European agrifood sector, particularly fruits and vegetables, has not experienced consumption increases for many years. By contrast, demand has diversified greatly where the dynamics have affected the structure of the offer (CSO 2012 data).

Consumers are increasingly keen to look for products that better meet their needs and their respect for a renewed linkage between purchasing processes. The points of sale within the framework of the complex income dynamics suggest new market segmentation models, which are function of a different “perception” of the quality-price relationship. Indeed, quality now includes aspects that go beyond its traditional, healthy, evocative, ethical, and solidarity-based characteristics compared with commodities (DI VITA et al., 2013). This value is derived from, either jointly or singly, the fact that products come from specific territorial contexts (ABEL et al., 1999), where they are grown with traditional and/or organic production techniques, thus the offer is organized directly by producers who bet their reputation on their products and they only receive a premium price.

Accordingly, Sicily’s pedoclimatic characteristics may allow it to produce a wide range of agrifood and zootechnical products, which may satisfy all the nutritional needs of the regional market, but also the national market. Sicily is a food and wine “continent” because of the wide range of high quality agrifood products it offers and its millennial culinary tradition. Based on its range of high quality agrifood products, Sicily (Graphic 1) is the third highest ranked region in terms of the number of registered products (28), especially for fruits, vegetables, oils, and cheeses.

Despite the acknowledged excellence of several quality products, the tendency for territorial specialization and exploitation has not diminished, especially in those territories where the community politics for years have favored monocultures destined for “global” markets.

In Sicily, this tendency has caused (Fig. 2) the sellable gross production (SGP) to rely on a few typical products, i.e., citrus fruits, grapes, oil, wine, vegetables, and a wide range of zootechnical products, which together comprise 70% of the SGP of Sicilian agriculture, while 30% of the SGP includes other fruits, vegetables, and livestock, which have lower value despite their high quality.

Although Sicily may rely on a good range of agrifood products, its supply chains are inadequate due to a lack of organization and production volumes. Thus, it cannot account for a significant market share.

In many cases, single companies cannot face the problems related to the planning and management of the necessary promotion and communication activities. In addition, they cannot easily obtain the necessary information about the market situation and consumers’ preferences in order to tailor their offer according to consumer needs. For example, it is difficult for them to standardize their quality, arrange for suitable packaging, ensure the constant presence of their product, or adopt an advanced traceability system (HAUSMANN and DE AMICIS, 2007; RAPISARDA and RIZZO, 2010). All of this would require

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8 The first national organization to undertake direct selling and overcome these critical points was sponsored by Coldiretti, an organization that represents Italian farmers. Coldiretti, via its initiative called “Campagna Amica,” is promoting points of sale throughout the national territory. These points of sale are gathered in a single commercial network that offers consumers the products of their members regardless of the geographical location of the growing area within Italy.

resources, competencies, and a critical mass of products that SMEs often lack. The only way to overcome these problems is via group initiatives (GALISAI et al., 2009; LOMBARDI et al., 2012) that combine production as well as some steps of the distribution processes and logistic arrangements (BELLETTI and MARESCOTTI, 2012).

Based on these requirements and legislative interventions of the Sicilian regional government, we aimed to develop an organized direct selling (ODS) theoretical model, which goes beyond regional boundaries and provides an alternative to the farmers’ markets, thereby promoting the creation of networks among Sicilian agri-food supply chain operators.

The model is structured and includes the following subject typologies.

- **Subjects in the supply chains**: farmers’ associations: these subjects have to organize the offer and services for each farmer’s direct shop from product preservation to shipment.

- **Subjects for farmer’s direct shop management**: specific or pre-existing companies will organize the farmer’s direct shops at national and international levels, such as the organization of promotional events and the management of market activities. They will have the functional prerequisite of collaborating with the subjects of the supply chains to guarantee the direct selling of products and to form a network that agrees to perform all of the other related activities.

- **Network junction**: This is the organizational structure required to deal with the relationship between the subjects of the supply chains and

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10 Direct selling shop, a “closed area,” which is independent and included in an articulated structure with dedicated corner for the subjects of the supply chains to carry out their activities.
the subjects of the farmer’s direct shop management to coordinate and organize common activities, and to ensure that regulations are observed (RIZZO and GIUDICE, 2013).

This ODS model allows the possibility of overcoming the limits of the most common short supply chains in the Italian territory, by joining producers as subjects in the supply chains, which are separated based on products, and by proposing the management of the direct selling commercial activities via a direct selling shop manager, who is a third subject.

This theoretical management model is based on the network junction, the function of which is to coordinate the bidirectional inputs from the subjects of the supply chains and the subjects of the farmer’s direct shop management. The results of this information exchange will generate the product typology, the packaging typology, and the selling price, as well as linking producers directly to the subjects of the farmer’s direct shop management, who have direct daily contact with consumers. All of the subjects of the supply chains will be represented inside farmer’s direct shops with promotional and tasting initiatives for their products.

In order to make the model stronger and more significant, side activities are included within the agrifood product direct selling scope, such as the following:
- Tasting and distribution of quality regional agrifood products;
- Organization of “satellite market spots” within the commercial area of reference of each farmer’s direct shop;
- Promotion of regional quality production within the hotel, restaurant, and café (Ho, Re.Ca.), and ethical purchasing groups (GAS) commercial scopes of reference;
- Acting as a structure that manages the organization of promotional activities at a regional level, including territorial marketing and customer retention;
- Acting as an intermediate logistics centre to carry out e-commerce activities.

This network includes a union point where producers and consumers meet to increase knowledge of the organoleptic and nutritional qualities of products based on tasting as well as on information that, thanks to modern IT tools, has become widely available and is articulated and updated in real time. In order to comply with the aim of this research and combine tradition, culture, gastronomy, and diet inside farmers’ direct shops, traditional promotional activities will be developed, such as tasting, cultural, educational, and gastronomic activities involving the products and the territory.

The truly innovative element is the promotional function of farmer’s direct shops, which will be integrated within the market and promotional activities, thereby producing a synergy between promotion and selling to help overcome the limits of the promotional activities carried out by public and/or territorial bodies, which often develop out of the commercial logic of private operators. Integration, in addition to the physical level, is a common operative project between the public promotional activity and the private commercial activity, which is a highly innovative element of the model suggested to the regional government.

METHODOLOGY

We decided to verify the potential of the proposed theoretical model by carrying out a SWOT analysis using data collected from interviews with producers and the main stakeholders involved with Sicilian agrifood supply chains.

SWOT analysis is a strategic planning tool used to evaluate the strengths, weaknesses, opportunities, and threats related to the ODS model in order to fulfill its goals.

The SWOT analysis includes:
- Strengths: the aspects of the model that help to fulfill its goals;
- Weaknesses: the aspects of the model that hamper the fulfillment of its goals;
- Opportunities: useful conditions outside the model that help to fulfill its goals;
- Threats: external conditions that may damage the performance of the model.

The analysis used aimed to meet the goals of our research. In fact, it links the knowledge of the context where producers operate to the politics of the economic development and promotion of agrifood products.

The analysis group collected information concerning the difficulties of Sicilian farmers, commercial solutions, market dynamics, the specific needs of producers who adopt short supply chains at organizational and management levels, and objective and official data related to the agrifood system, which was obtained from the main research institutes of Ismea, Inea, Istat, the Osservatorio sulla Vendita diretta, and Nomisma. This study helped to identify the strengths and weaknesses of the most widespread forms of short supply chains, specific data concerning Sicilian agrifood productions, the importance of this phenomenon, legislative aspects, and the fiscal and administrative supports of direct selling.

Direct interviews were conducted during 2013 in collaboration with the technical assistance operational sections (SOAT’s) of the Sicilian regional government, which allowed the nine provinces of reference to select farms that were interested in the proposed direct selling model, where 126 operators in the Sicilian agrifood supply chains were interviewed either jointly or singly.

The number of interviews was quite significant compared with the number of operators involved. The answers to the questionnaire and SWOT analysis entries were selected based on
the number of times they were iterated. Answers were given according to the personal experiences of the interviewees.

The originality of this research concerns the definition of a functional model of direct selling that includes producers, market managers, and consumers, as well as the creation of farmer’s direct shops with the primary function of selling agrifood products, but also with a wider and complex economic meaning, which combines articulated functions, such as “farmer’s direct shops”, promotion, marketing, and tasting that are linked to the production territory.

RESULTS

The results of this study show that “Local Food” has emerged as an increasing interest due to the economic weight it is gaining in terms of “proximity,” i.e., the physical distance between producers and consumers, but also because of the growing importance consumers allocate to the quality of products that come from a specific territory. Numerous typical Sicilian products possess the necessary characteristics to develop their own local market and to find places in the market that differ from their original roles, especially if they are characterized by clear traceability, sufficient critical mass, and the will to create a network of all supply chains and services for farms.

The SWOT analysis highlighted the main strengths, weaknesses, and threats, but also the opportunities that the proposed model offers to support Sicilian agrifood productions and to strengthen the role of producers in the supply chains (Table 1).

The SWOT analysis suggest that the ODS model has a strategic meaning and it may achieve the following:

- Promote a base of knowledge and excellence beyond the regional scope, thereby spreading information and stimulating consumption.
- Improve the competitiveness of producers who cannot easily find commercialization channels

Table 1 - SWOT analysis of the organized direct selling experimental model.
Source: elaborations of direct surveys and Nomisma data

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<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>▪ Wide product range</td>
<td>▪ Logistics organization</td>
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<tr>
<td>▪ Creation of a network between producers and consumers</td>
<td>▪ Remote management of points of sale</td>
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<tr>
<td>▪ Selling far from the place of origin guaranteeing the origin of products, quality, freshness, product seasonality</td>
<td>▪ Logistics and transportation costs</td>
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<td>▪ Valorization and promotion of products within the selling stage</td>
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<tr>
<td>▪ Higher added value for producers along the value chain</td>
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<tr>
<td>▪ Daily selling activity</td>
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<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tr>
<td>▪ Creation of alternative selling channels</td>
<td>▪ Management cost of points of sale</td>
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<tr>
<td>▪ Promotion of the territory of origin</td>
<td>▪ Purchase frequency</td>
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<td>▪ Possible interaction with local bodies and associations to develop community initiatives to the advantage of the territory</td>
<td>▪ Management of returns</td>
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<tr>
<td>▪ Diversification towards non-agriculture-related activities (Ho.Re.Ca; catering)</td>
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<tr>
<td>▪ Advertising of the Mediterranean Diet and of the “born in Sicily” label</td>
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beyond the regional scope, thereby motivating production differentiation in Sicilian agriculture and making traditional producers economically sustainable. Indeed, the latter remains an expression of the biodiversity of specific territorial contexts.

Exploit the well-known advantages of short supply chains to allow the agrifood world to become closer, both significantly and stably, to the growing segment of consumers who look for and buy quality agrifood products.

Stimulating farmers’ associations to concentrate, organize, and commercialize their offer, thereby improving the performance and competitiveness of members.

In addition, several weaknesses of direct selling in farmers’ markets may be overcome by creating an organized network that strengthens the role of producers within the supply chains. However, the weaknesses and threats show that there is a need to strengthen the concept of direct selling within farmer’s direct shops. By contrast, the model may become distorted given the difficulties of maintaining the producer-consumer relationship directly from a legislative-fiscal point of view.

Overall, this model is an example of organized supply chains with defined roles and a vertical distribution strategy directly from producers to consumers, thereby providing the opportunity to design intervention proposals and strategies to define the offer based on the specific characteristics of the demand.

CONCLUSIONS

The research results allowed us to evaluate our experimental model that aims to promote a network of direct selling operating promotional farmer’s direct shops and points of sale throughout the national territory, thereby promoting Sicilian agrifood products. This is a step forward compared with today’s “country markets” because it shortens the physical distance from the field to the table and optimizes the organization- and economic structure of this sector.

The proposed short supply chain management model provides tools that are more flexible for producers, by overcoming the current difficulty of being present in different places at the same time to meet consumers. A direct relationship with the farmer makes product commercialization easier but not all farmers are ready to assume this role. Indeed, many would prefer to continue playing their existing role, which is to dedicate themselves to their production activities because they lack sufficient time, resources, or the correct attitude to participate in selling activities.

Sicilian farmers may not face price competition, but the hypothetical shortening of the distribution chain by proposing direct contacts be-

tween the consumer (national, according to the whole range of the legislative intervention under study) and the producer (Sicilian) cannot be separated by the segmentation of a specific target group of consumers. Thus, the proposal of a “pact” as a sign of a philosophy that favors some qualitative aspects but does not aim to make it prevail over the price-quality relationship that is a prerequisite of large-scale retailers cannot be a characteristic element of the supposed distribution model’s competitiveness.

This verification model could be a combined governance model for regional planning.

To evaluate the replicability of the model, it will be necessary to establish the trend in the relationships within the network and the evolution of the organizational system, as well as determining the extent to which this might help to develop the technical, organizational, and relational capacity of each farmer, as well as to preserve/reproduce local resources and biodiversity.

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