



How do we narrow the gap?

By Willie Jacobs, CEO, Potatoes SA

One of the key issues that is keeping me awake when it comes to the market efficiency of our potato trade, is the gap between producer and consumer prices. All interactions with relevant retailers conclude in an intentional specific markup which entails significantly lower amounts than what the statistics imply. So, how is this possible?

Doing the math

Perhaps we should start with the sources used to calculate this gap. The currently accepted reference is the analysis obtained from Statistics SA. The sources of this analysis are the market sales prices and price of 1 kg loose potatoes at various retailers in South Africa.

This, by implication, means the gap depicted is the maximum difference that will be observed at any given point in time – in essence, the worst case scenario. However, the result and data actually offer a true reflection of the daily variances we experience. This then begs the question as to what the primary cause of this gap is?

The most informative answer is that retailers, who connect with consumers, need to be consistent in the shelf prices of their products. This is extremely difficult if the pipeline is volatile and inconsistent.

Losses affecting price

Retailers therefore need to buffer this volatility, but where are the possible losses that need to be mitigated? Here are a few possibilities:

- *Selling low-price stock and having to buy new stock at increased prices (with consumers still expecting the lower price).* One can expect retailers to take a view on the longer-term price and base the consumer sales price on a point that will rather address the higher price expectation. This can cause excessive buffering.
- *Sitting on in-store stock at high prices while the market floor price has already dropped.* Consumers tend to catch on to this quite fast and, at certain price levels, will hold back on purchases until the reduced prices are passed on. Retailers will either have to discount their stock-to-loss levels or face rotten products that have to be disposed of.
- *High-temperature seasons with inadequate cold chain management causing significant deterioration of shelf life.* These incidents usually coincide with above-normal deliveries to markets. The result will be food waste at retail and consumer level.

There is no sense in value leakage, especially if there are ways to address it. We acknowledge that producers, especially the ones who lift in the warm seasons, have limitations and are confronted with various challenges throughout the season. What I am proposing, though, is a change of mindset and altered behaviour.

The lay of the land

Let's start the process by looking at one principle for now: know the flow.

We call on market agents to take responsibility for this aspect and lead the conversation.

We cannot afford to allow deliveries to flood markets. This has major consequences:

- The complexity of floor stock management will increase with the subsequent risk of stock sales not following first-in, first-out principles, resulting in unnecessary ageing up to the point of waste.
- Secondary consequences include the daily deterioration of stock value, and the end user losing faith in the quality of the product as not everything that was purchased can be used.
- Retailers will have to increase their markup in anticipation of losses due to waste, thus increasing the gap.

Please understand that the general municipal fresh markets have lost their logistic capacity over time. They simply are not geared to handle excessive volumes anymore. If you as a producer contributes to this excess, you cannot expect to yield good prices. On top of that, you will be the cause of additional expenses.

This behavioural change will only have an effect if all producers and market agents/facilitators adopt it across the board. Let's grow respect for our industry by working together to reduce inefficiency and waste, giving the consumer a product we can be proud of. After all we, as a holistic industry, from producer to retailer, will reap the benefits. 🍌

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CHIPS

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