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Relationship Marketing Moderating Effect On Value Chain Of Horticulture Produce: An Intermediaries' Perspective

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Abstract

Transformation of Malaysia horticulture industry had detected transition from supply chain to value chain perspective as well as emerging of new type of intermediaries called the packers. However no major changes of marketing activity at farm level and stringent quality requirements at entry level imposed by hypermarket, small scale production, coupled with the lack of integration across the value chain and limited compliance to global food safety are highlighted as the challenges in this industry. Intermediation might contribute to the chain deficiency process and actors. Nevertheless, relationship marketing approach had emphasized people as the main dimension on marketing research which may reveal the intangible aspect of the challenges. Therefore this paper proposed the conceptual framework to investigate the moderating effect of relationship marketing towards intermediaries' roles and functions that contribute to smallholder business performance as well as the firm performance.

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Keywords: intermediaries; horticulture industry; relationship marketing; firm performance; smallholder business performance; retailer performance; Malaysia

1. Introduction

Mixed perception towards intermediaries also known as middleman had being report from previous study. As claim by Ellis (1996), agricultural policy makers perceived middleman as opportunist for taking large percentage of

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profit and advantage from smallholder. Traders and middlemen are cheating farmers by taking advantage of their lack of knowledge of market prices, poverty, seasonal shortfalls of cash, lack of storage facilities in villages that contribute to weak bargaining power arising from illiteracy and low social status (Thapa, Koirala and Gill, 1995; Lantican, 1997; Banskota and Sharma, 1999; Shrestha and Shrestha, 2000 and Khushk, 2001). However traders and middlemen functions in marketing services particularly to smallholders in developing countries play others important roles such as providing storage services to cater perishable produce, increase added value of product by performing grading, packaging activities and provide financial assistant, able to improve efficiency through greater organization, improved information flows, shared standards along the chain, provide outreach and linkages both horizontally among institutions and vertically among different levels of public administration and value chain stakeholders as well absorbing the risk of fluctuations of production and price variation as results from the rapidly changing global environment (Bingen, Serano and Howard, 2003., Arshad, Mohamed and Latif ,2006., Arshad and Rahim, 2008).

Malaysia horticulture supply chain undergoes transformation due to aggressive growth of large retailer such as hypermarket chain, increase of consumers' income and changes in lifestyle as well as consumptions pattern. Hussin, Lee, Ibrahim and Bojei (2010) had listed 13 lifestyle factors associated with fresh produce purchase in Malaysia such as usage of fruit orientation, word of mouth orientation, label orientation, personal use orientation, origin orientation, ethnocentric orientation, freshness orientation. They concluded that shopper characteristics such as increase in household income have influence on retail patronage behavior. The preference and demand for high quality vegetables produce are expected to increase consistently and the business-to-business activities have become more challenging than before (Tey, Mad Nasir, Zainalabidin, Jinap, and Abdul Gariff, 2009).

In this emerging market, Arshad et al., (2006) found new type of intermediaries so called as packers and there are sign of market transition from supply chain to value chain. However marketing of horticulture produce did not detect any major changes at the farm level even though large retailer impose stringent quality requirement at entry level that became the barrier to potential entrant especially smallholder or supplier (Arshad and Rahim, 2008). In addition, the Malaysia Economic Transformation Program (ETP) under Entry Point Project 7 had pointed out challenges of small scale production, lack of integration across the value chain and limited compliance to global food safety on mission to tapping premium export markets (ETP, 2010). The disconnection of integration across the value chain may involve the intermediation process as well as the intermediaries which can contribute to increase in cost of living.

The study on intermediaries' roles and functions are being emphasized by industries such as services, industrial and information but it remains scarce for the horticulture industry. Lindgreen and Wynstra (2005) stated that the intermediaries can be studied by either focusing on product and services values or value of buyer-seller relationships, networks, and interactions. Current research stream still lacking on relationship related value. Therefore this research intention is to investigate the moderating effect of relational variables towards intermediaries' roles and functions that contribute to smallholder business performance as well as firm and retailer performance.

2. Literature Review

2.1. Horticulture industry in Malaysia

Globalization and economic growth had increase the importance of agriculture sectors. Malaysia through Economic Transformation Programme (ETP) underlines Agriculture National Key Economic Area (NKEA) that project contribution up to RM 28.9 Billion in year 2020. Currently Agriculture sector (excluded industrial crops such as palm oil, rubber, cocoa ect) contribute RM 20.1 million equal to 4% Gross National Income (GNI) with 10.7% growth rate (2005-2009) annually. (ETP,2010). Despite intensive focus had been given by the government on developing horticulture industry, projected self-sufficiency in 2010-2020 are still low which vegetables only 41-68% whereby fruits 66-76% respectively. This phenomenon is base on negative relationship of production as

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