“The choice of a marketing channel to benefit corn producer’s welfare in Indonesia”

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Abstract

This study aims to examine the marketing channel options available for corn producers in South Sulawesi, the production center in Indonesia, as well as the impact of such a choice on their income level. The target group was corn producers and corn traders. The total sample comprised 150 people, consisting of 120 corn producers and 30 corn intermediary traders within South Sulawesi Province. The results showed that three marketing channels accessed by producers are zero-level, one-level, and two-level channels. The net profit margin obtained by intermediary traders per kg is different by type for each marketing channel due to different marketing activities leading to different costs spent. The most efficient marketing channel is the zero-level channel that conducts direct selling to breeders. It followed by the one-level channel (from farmers to collectors and consumers). Finally, the two-level channel (from producers to merchant traders) showed the lowest efficiency. It should be mentioned that the zero-level channel offers a slight price increase for producers compared to other channels. Its consumers only buy limited number of products so that it does not have a wide impact on producer’s welfare. The study also found high input costs spent to cultivate corn due to land rent, fertilizers, and pesticides.

INTRODUCTION

The agricultural sector is one of the prominent sectors contributing to economic development in Indonesia as this country is supported by abundant natural resources (Mahanty et al., 2017). The leading agricultural commodities, especially in South Sulawesi, are food crops, one of which is corn also known as Zea mays L that is the second most cultivated commodities after rice in the area (Suddin et al., 2020; Syaiful et al., 2020; Hatima et al., 2020; Jusni & Aswan, 2020; Taufik et al., 2015). This province, its districts at most, is said to be a centre of corn production for consumption and dominant inputs for animal food supply (Hatima et al., 2020; Tetik et al., 2019).

Although the province has sufficient soil fertility for growing corn, the welfare of corn producers in this area is inadequate (Hatima et al., 2020; Yuniarsih & Taufiq, 2020; Suprapti et al., 2016). Increased production and demand for any type of corn product is not followed by a proportional increase in farmer’s income level (Suprapti et al., 2016). Many empirical works noted some factors that affect the welfare of corn producers (Gede & Nyoman Djinar, 2019; Sebayang et al., 2019). For example, the quality of corn depends on harvest and post-harvest handling (Fil’aini et al., 2020), land area, labor, farmer production...
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(Gede & Nyoman Djinar, 2019), government policies (Sebayang et al., 2019), seed quality (Wawo et al., 2020), the use of technology (Chavas & Nauges, 2020; Mariyono, 2019), and the policy of providing information (Liao et al., 2019).

In contrast to the abundance of existing literature, this study looks closely at the issue of farmer’s welfare in relation to choose of marketing and distribution channel. It is noted that corn is one of the crops that is susceptible to quick damage. Hence, it requires a short and fast marketing, and distribution channel to maintain the quality (Frank et al., 2017; Mmbando et al., 2016; Davis et al., 2017). Long marketing and distribution channels and slow handling during each stage of the channel could cause a decline in quality, which in turn can affect the selling price (Paulsen et al., 2018; Osayi et al., 2018).

It is estimated that the study of corn producer welfare, even if any, is limited to a small area (Pratiwi & Canon, 2020), and based on the provincial level in Java at most (Nugroho, 2015; Widarma, 2019), which is not a corn production centre in Indonesia as designed by the central government (Sahro & Chen, 2021). Corn literature in the province, to the best of our knowledge, is only found at a district level (Suddin et al., 2020), and is focused on marketing matters regarding production or marketing costs spent by marketing and distribution channels. Accordingly, the study extends the existing literature by linking the matters of the efficiency of marketing and distribution channels and input costs, which could possibly affect the selling price at the corn producer level. These two matters together could cause a severe impact on producer’s welfare (Dastagiri et al., 2012).

With respect to the importance of marketing distribution channels, it is noted that it could lower the prices at a producer level as given by these two reasons. First, a wide difference in each marketing channel for selling and buying price could encourage a price difference between producers and consumers. Secondly, it is also valid in a long marketing and distribution channel (Hadi & Hani, 2020). Even when there is a slight difference in selling and buying prices within each channel, but when marketing distribution involves a number of players, it causes a vast price difference between producers and consumers. These two reasons are also corroborated by the fact that farmers in each producing area might have a different relationship to the market, which then affects price response at a farmer level. This condition has been justified in some developing countries, including Mexico (Key et al., 2000).

Based on the above, the study looks closely to examine the efficiency of marketing and distribution channel that could strongly influence price determination at producer level. A vast price difference between producers and consumers is believed to be caused by an inefficient marketing and distribution channel accessed by producers, as well as high input costs spent by producers. To analyze deeply the efficiency, this study firstly is focused on assessing net revenue obtained by producers and at the same time analyze the revenue level of intermediary traders for each marketing channel within the province. The results are then used to analyze the efficiency of corn movement in the marketing channel accessed by producers.

1. LITERATURE REVIEW

1.1. Corn farming business income

Corn cultivation also requires a calculation to maintain business continuity. There are two factors that affect farming – sales and expenses. Income or revenue, interchangeably used in this study, is obtained by a producer in a season, that is the result of multiplying the total number of products with the unit selling price. Expenses or costs are the value of the use of production facilities and others that are incurred in the production process.

These production costs are often referred to as operational costs. Production costs are costs that occur during production in each corn cultivation stage before sales. This stage includes corn seeds procurement, processing of planting site, preparation, weeding, planting, fertilizing, and harvesting (Rahayu et al., 2020; Hardesty & Leff, 2010). From the financial aspect, the production costs incurred
by farmers vary and can be grouped into variable and fixed costs (Gede & Nyoman Djinari, 2019). These two costs must be identified and calculated in the early stage before estimating the total production costs.

At the time of sale, this difference between total revenue and costs is known as profit (Mishra et al., 2012). It is the amount of money earned after deducting all production costs. If the sales obtained after deducted by production costs are positive, then a profit is obtained (Krismawati & Sugiono, 2020; Palobo, 2019), while a negative result means loss (Suddin et al., 2020).

1.2. Margin of intermediary traders

The movement of goods from producers to consumers requires efforts from marketing channels (Capstick & Capstick, 2019; Nalini & Rohaya, 2015). The marketing channel consists of intermediary trader(s). They are a collection of interrelated organizations (Gonzalez-Padron, 2017) to stream products from producers to consumers (Hardesty & Leff, 2010).

There are five kinds of marketing and distribution channels (Putri et al., 2018; Krafft et al., 2015). Zero-level channel involves producers and consumers only. One level channel involves producers, retailers, and consumers. The two-level channel comprises producers, wholesalers, retailers, and consumers, or it connects producers, agents, retailers, and consumers. Last, the three-level channel involves producers, agents, wholesalers, retailers, and consumers.

With respect to intermediary traders in agriculture commodities, marketing activities are applied at each level to move the commodity within a marketing channel (Hardesty & Leff, 2010). Each marketing activity requires costs to market the product, which are called marketing costs (Mounika, 2020; Hardesty & Leff, 2010). These marketing costs include transportation, loading, unloading, and stock costs (Onogwu et al., 2018; Hardesty & Leff, 2010). Elaborately, Suddin et al. (2020) classified marketing costs into transportation (personnel transportation, bag, and transportation), storage (warehouse), and process costs (drying, sorting, and shrinkage cost).

When costs spent are covered by selling price, traders gain income. It is the difference between the selling price paid by consumers and the costs spent for marketing activities (Hardesty & Leff, 2010).

1.3. Marketing efficiency

The concept of efficiency is simply measured by the output-input ratio (Sartina et al., 2021; Dastagiri et al., 2012). Similarly, efficient marketing is the ultimate goal to be achieved in the marketing system (Alderson, 2006; Gruen, 1997). A marketing process is said to be efficient if 1) output remains constant with less input; 2) output increases while the input used remains constant; 3) both output and input have an increase, but the rate of increase in output is faster than that of the input; and 4) output and input both experience a decrease, but the decline in output is slower than the input (Dastagiri, 2013; Beckman, 1940).

Marketing efficiency can be divided into technical efficiency (operational) and economic efficiency (price). Technical efficiency means physical control on the product and includes the following matters: procedure, technical, and the scale of the operation (Binam et al., 2004; Thiam et al., 2001). The objectives of physical savings include reducing waste, preventing a decline in product quality, and saving labor. For economic efficiency, marketing margin is used as a measuring tool (Scopel et al., 2013; Chavas & Aliber, 1993).

From various efficiency indicators, the farmer’s share model of the price paid by a consumer is one of the most frequently used models (Suddin et al., 2020; Miedema, 1976). Farmer’s share has a negative relationship with marketing margin, meaning that the higher the marketing margin, the lower the share received by farmers.

2. RESEARCH METHOD

2.1. Data collection technique and samples

There are two types of data used in this study: primary and secondary data. Primary data is obtained from corn producers and traders who carry out marketing and distribution activities towards consumers.
Secondary data is taken from literature, books, and company documents as well as from related agencies (Vartanian, 2011; Boslaugh & Boslaugh, 2009). This data is used to provide information on the quantity of e.g., corn producers, the number of distribution channels, the demand, production of corn, and other data deemed necessary.

The number of respondents was 150 people consisting of 120 corn producers and 30 intermediary traders. A number of respondents refers to Boyd (2013) and Kline (2014) who offered 100 as an absolute minimum number of respondents. The distribution of the respondents is 50 people per the Province.

2.2. Method of analysis

This study applied a quantitative approach, namely a two-stage calculation to come up with efficiency analysis. Firstly, the study calculates the total production costs, which are obtained by analyzing costs incurred by producers during the production process. To analyze deeply the revenue gained by producers, the production costs are identified, analyzed, and grouped into two categories, which are variable and fixed costs. Secondly, the study calculates marketing costs spent along with marketing and distribution channels. During this stage, the study identifies and analyzes corn movement along with marketing and distribution channels, at the same time identifying numbers of intermediary traders within it. The findings are analyzed to judge whether the distribution channel accessed by farmers are long or short. The study analyzed the margin gained by each intermediary trader and calculated the marketing costs spent by each of them. Furthermore, marketing efficiency (EP) is calculated based on the total marketing costs divided by the value of marketed corn products. The smaller the EP value, the more efficient the marketing chain is. A detailed formula for each calculation is elaborated. Firstly, the study calculates revenue. To calculate the revenue, several steps are applied, firstly considering farmer’s income:

$$\pi = TR - TC,$$
(1)

where $\pi$ is the income, $TR$ is the total return (IDR), $TC$ is the total costs (IDR).

To calculate the total costs ($TC$), the following formula is used:

$$TC = TFC + TVC,$$
(2)

where $TC$ is the total costs (IDR), $TFC$ is the total fixed costs (IDR), $TVC$ is the total variable costs (IDR).

Farm revenue ($TR$) is obtained using the formula:

$$TR = P \cdot Q,$$
(3)

where $TR$ is the total revenue (IDR), $P$ is the total price (IDR/Kg), $Q$ is the quantity (Kg). Secondly, the study calculates marketing profit booked by an intermediary for each marketing and distribution channel available for corn producers. First, it is necessary to calculate the marketing profit equation:

$$\pi = Mp - Bp,$$
(4)

where $\pi$ is the profit of corn marketing, $M$ is the marketing margin of each corn marketing agency and the marketing costs of corn. Marketing margin is calculated as follows:

$$Mp = Pr - Pf,$$
(5)

where $Mp$ is the marketing margin, $Pr$ is the price at a consumer level (IDR), $Pf$ is the price at a producer level (IDR). Marketing costs are calculated as follows:

$$Bp = Bp_1 + Bp_2 + Bp_3 + \ldots + Bp_n,$$
(6)

where $Bp$ is the marketing costs for corn, $Bp_1$, $Bp_2$, $Bp_3$, until $Bp_n$ is the marketing costs for each corn marketing agency. The last is to identify the efficiency ratio between prices at a producer and consumer level. To estimate the cost proportion to total product marketed, the study applies the formula used by Suddin et al. (2020):

$$Ep = \frac{Total \ marketing \ costs}{The \ value \ of \ the \ product \ being \ marketed} \cdot 100\%,$$
(7)

where the higher $Ep$ value means the higher efficiency of a marketing chain (<1: Efficient, > 1: Inefficient).
Inefficient). With respect to marketing efficiency, the study uses the following equation (Suddin et al., 2020).

\[ FS = \frac{P_f}{P_k} \cdot 100\% \]  

(8)

where \( FS \) (Farmer’s Share) is the percentage of prices received by farmers (%), \( P_f \) is the price at a consumer level (IDR/Kg), \( P_k \) is a price at a farmer level (IDR/Kg).

3. DATA ANALYSIS AND RESULTS

3.1. Respondent characteristics

Based on the survey results, 70,84% of corn producers are in the age group of 31-50 years. A dominant education level is junior high school graduates – around 46,67%, senior high school –26,67%, and elementary school 25%. 47,50% are those producers who have 3-4 dependents, and 19,17% have 1-2 dependents. Generally, 45% of producers cultivate up to 1-2 ha land, and 28,33% have less than 1 hectare. 66,66% of producers have cultivated corn for more than 15 years.

Regarding the intermediary traders, they have slightly different characteristics. Traders are generally older and have a higher level of education. 83,33% of intermediary traders aged between 31 and 60 years. 66,67% are graduated from senior high school. Those traders who have 3-4 reached 46,67%, and 33,33% have 5-6 dependents. In general, 30% of traders have been in this business for 15 years and 23% – for 10-15 years. There are about 20% of traders who have been trading for 21-25 years. Their purchases tend to vary. The highest number of purchases reaches 11 to 20 tons per harvest by 40%. 43% are able to purchase up to 40 tons per harvest.

3.2. Corn farming business analysis

Results of corn farming business analysis are grouped into three stages, which are analysis of producers’ revenue, intermediary traders’ revenue and efficiency costs.

3.3. Analysis on corn producers

To analyze corn producers’ revenue, an analysis of total production costs must be done, namely variable and fixed costs must be estimated.

The results indicate that variable costs incurred by a farmer vary. It is about IDR 5,980,000 per planting season. These costs can be classified into three categories, namely production input costs, labor costs, and land rental costs. Infrastructure for production costs (Saprodi) include the cost of seeds, fertilizers, and pesticides. The last two costs mentioned, fertilizers and pesticides, used by farmers are Urea, SP-36, and NPK, as well as Gramoxone. Labor costs also cover various activities including land cultivation, planting, fertilizing, harvesting and transportation.

The findings also suggest that land rental costs account for the largest portion of the three cost groups followed by input and labor. For input costs, the largest contributor is the cost of seeds and urea fertilizer afterward. Meanwhile, for labor costs, the largest costs are harvesting and tractor processing, respectively.

Table 1. Average variable costs of land per ha/planting season

<table>
<thead>
<tr>
<th>No.</th>
<th>Variable costs</th>
<th>Average value (IDR/Ha)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Saprodi</td>
<td>1,936,573</td>
<td>32,34</td>
</tr>
<tr>
<td>2</td>
<td>Labor Costs</td>
<td>1,560,210</td>
<td>26,05</td>
</tr>
<tr>
<td>3</td>
<td>Land Rental Costs</td>
<td>2,491,596</td>
<td>41,61</td>
</tr>
<tr>
<td></td>
<td>Total Average</td>
<td>5,988,379</td>
<td>100,00</td>
</tr>
</tbody>
</table>

In fixed costs, costs spent by producers can be classified into two categories and both of them are non-cash costs that is in charge in several production seasons. With the use of the Straight-Line depreciation method, on average the total fixed costs spent by a producer was about IDR 131,790 per planting season. The highest fixed costs spent is equipment depreciation is about 69,65% and followed by sprayer 30,35%.
Using information of variable and fixed costs, the total costs of corn cultivation is calculated. The results indicate that the total average costs incurred by farmers in each season reach is about IDR 6,120,169, which consists of IDR 131,790 fixed costs and IDR 5,988,379 variable costs. This amount of total costs can be seen in the following table:

### Table 3. Total average costs of corn producers per ha/planting season

<table>
<thead>
<tr>
<th>No</th>
<th>Type of Cost</th>
<th>Average cost value (IDR)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fixed Cost (FC)</td>
<td>131,790</td>
<td>21.5</td>
</tr>
<tr>
<td>2</td>
<td>Variable Cost (VC)</td>
<td>5,988,379</td>
<td>97.85</td>
</tr>
<tr>
<td></td>
<td>Total Cost (TC)</td>
<td>6,120,169</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Based on the production costs analyzed above, income obtained by corn producers is calculated. Income is the difference between revenue and total costs incurred during one growing season. Using the information on total costs and sales, the average farmer income per ha/crop in a season is IDR 4,022,831. This amount is calculated from the average amount of production (3,220 per ha/kg) and a selling price at a producer level, which is assumed to be IDR 3,150/kg.

### 3.4. Intermediary trader analysis

To begin with an analysis of intermediary traders, the study provides the results of market channel distribution accessed by producers. Based on interviews and observations, it is found that corn movement within a marketing and distribution channel can be classified into three levels: two-level channel, one-level channel, and zero-level channels.

Two-level channels consist of farmers, merchant collectors, wholesalers, and the animal feed industry. It connects two traders only, which are merchant collectors and wholesalers. In this two-level channel, the merchant collector ensures the corn movement from producers to the wholesaler’s warehouse. In such a case, wholesalers bind merchant collectors since they are targeted to sell a certain amount of corn in a specific duration of time. These collectors are so-called active buyers since they intensely buy corn from producers with an undefined limit.

One-level channels involve farmers, merchant collectors, and breeders. This channel involves only one intermediary trader called merchant collectors. Different from the two-level channel, merchant collectors are passive. They buy corn from producers and keep it in their warehouses while awaiting consumers to buy it.

In a zero-level channel, producers directly sell their corn to breeders. Direct selling occurs when a number of producers bind themselves into a small group(s) to conduct a direct selling to breeders.

Concerning gross margin gained on each marketing and distribution channel accessed by producers, it is shown that each marketing channel has a different margin. These differences calculated from price differences between producers and end-users (breeders) without taking into account intermediary traders. The highest margin is gained by a two-level channel, which is IDR 500/kg or 16.20%. This marketing channel consists of merchant collectors and wholesalers, which earned a margin of IDR 250/kg or 8.33% for each of them. Secondly, it is marketing channel II that...
booked a total marketing margin of IDR 375/kg or 12.40%. The zero-level channel did not show a margin since producers conduct direct selling to breeders without an intermediary trader.

Taking into account traders in each marketing distribution channel, it is indicated that the marketing margin is different for each marketing channel as each trader within the channel has a different selling price. The highest margin is earned by intermediary traders within a one-level channel (marketing channel II), which is IDR 375. It is followed by a two-level channel (marketing channel I), which is 250/kg.

Considering costs spent by each intermediary trader, traders spend marketing costs. These costs are transportation and costs for loading and unloading of products from transportation vehicle to a warehouse. It is found that these costs vary by types of traders and marketing channels.

Merchant collectors spent slightly different costs in a different channel. In a two-level channel, these traders spent slightly higher amount of money compared with one-level. It is found that they spend about IDR 95/kg, while within a one-level channel they spent 85/kg only. These differences occur due to transportation, loading and unloading activity, when merchants within a two-level channel transport the corn to the warehouse of the wholesalers scattered suburb in the city.

Differently, the costs spent by wholesalers within a two-level channel only, showed the highest amount – that is IDR 110, or 44% of the gross margin. These traders spent less costs since they transport the commodity in the same district at most. Loading and unloading costs are lower in a city than in a district.

### Table 5. Average marketing margin in a corn marketing channel

<table>
<thead>
<tr>
<th>Marketing channel elements</th>
<th>Selling price</th>
<th>Purchase price</th>
<th>Average marketing margin</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value (Rp)/kg</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Marketing chain I (Two-Level)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Farmers</td>
<td>3,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2. Merchant Collector</td>
<td>3,250</td>
<td>3,000</td>
<td>250</td>
</tr>
<tr>
<td>3. Wholesalers</td>
<td>3,500</td>
<td>3,250</td>
<td>250</td>
</tr>
<tr>
<td>4. Animal Feed Industry</td>
<td>–</td>
<td>3,500</td>
<td>–</td>
</tr>
<tr>
<td>Total of Marketing Margin</td>
<td>–</td>
<td>–</td>
<td>500</td>
</tr>
<tr>
<td>Marketing chain II (One-Level)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Farmers</td>
<td>3,025</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2. Merchant Collector</td>
<td>3,400</td>
<td>3,025</td>
<td>375</td>
</tr>
<tr>
<td>3. Breeders</td>
<td>3,400</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total of Marketing Margin</td>
<td>–</td>
<td>–</td>
<td>375</td>
</tr>
<tr>
<td>Marketing chain III (Zero-Level)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Farmers</td>
<td>3,150</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2. Breeders</td>
<td>3,150</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

### Table 6. Average traders’ income within each marketing channel

<table>
<thead>
<tr>
<th>No.</th>
<th>Marketing channel</th>
<th>Intermediary traders</th>
<th>Marketing margin/kg (IDR)</th>
<th>Marketing cost/kg</th>
<th>Profit/kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>I</td>
<td>Farmers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Merchant Collectors</td>
<td>250</td>
<td>90</td>
<td>160</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wholesalers</td>
<td>250</td>
<td>110</td>
<td>140</td>
</tr>
<tr>
<td>2</td>
<td>II</td>
<td>Farmers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Merchant Collectors</td>
<td>375</td>
<td>85</td>
<td>290</td>
</tr>
<tr>
<td>3</td>
<td>III</td>
<td>Farmers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Breeders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>875</td>
<td>285</td>
<td>590</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td></td>
<td>291.67</td>
<td>97.67</td>
<td>196.67</td>
</tr>
</tbody>
</table>
Thus, net income gained by a trader within the marketing channel could vary in amount and type of traders. Merchant collectors book a higher margin compared to wholesalers. In two-level channels, these traders gain IDR 160. One-level channels showed bigger margin – IDR 290. In their turn, wholesalers book lower margin – IDR 140. However, wholesalers sell in big capacity to the industry within the same or different provinces. Thus, they earn more comparing to merchant collectors.

3.5. Marketing efficiency

Farmer’s share analysis is used to determine the marketing efficiency of corn. The results show that a zero-level channel has the highest farmer’s share value, followed by one-level and two-level channels respectively. Within a zero-level channel, a trader is not involved. Producers directly sell their corn to breeders. In such a case, the price at a producer and a consumer level is the same. In their turn, the other two channels involve intermediary traders. The channels certainly allow price differences. That is why the farmer’s share in a zero-level channel is 100% compared to other channels.

Table 7. Farmer’s share for each marketing channel in South Sulawesi

<table>
<thead>
<tr>
<th>Marketing Channel</th>
<th>Price at Farmer Level (IDR/kg)</th>
<th>Price at the Consumer Level (IDR/kg)</th>
<th>Farmer’s Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing Channel I</td>
<td>3.000</td>
<td>3.500</td>
<td>85.71</td>
</tr>
<tr>
<td>Marketing Channel II</td>
<td>3.025</td>
<td>3.400</td>
<td>86.43</td>
</tr>
<tr>
<td>Marketing Channel III</td>
<td>3.150</td>
<td>3.150</td>
<td>100</td>
</tr>
</tbody>
</table>

4. DISCUSSION AND IMPLICATION

This study is intended to analyze the welfare of corn producers based on marketing and distribution channel options available in South Sulawesi, which is one of the corn production centers in Indonesia. The findings show that the average income of corn producers per hectare in one planting season is substantially low. The income value obtained by producers per season on 1 hectare is IDR 4,022,831 only for 99-110 days or on average 4 months of earning. Considering 2 hectares managed by each individual producer, for 45% of smallholder farmers, as given by respondent results, this amount is equivalent to IDR 2,011,415.5. This monthly amount of income is substantially low when compared to the level of minimum wages regulated by the regional government of South Sulawesi in 2021, which is IDR 3,165,000. This low-income condition is detected in several developing countries, among them, that are in Vietnam (Zimmer et al., 2018) and in the Philippines (Afidchao et al., 2014). Thus, smallholder farmers are sensitive to selling price, technological adoption, and production costs (Otekunrin et al., 2019; Tambo & Abdoulaye, 2012; Salami et al., 2010).

Several factors determining low income of producers are high production costs spent by farmers. Variable costs contribute to 97.85%. Such variable costs as the costs of renting land, fertilizers, and pesticides (inputs) are dominant and comprise up to 67% of the total variable costs. These high input costs are also stated by researchers in Java (Asmara, 2017) and also occurred in developing countries, such as Kenya (Muraoka et al., 2018), Vietnam (Zimmer et al., 2018), and Mexico (Sánchez et al., 2017). It is suggested that to reduce production costs at a producer level, the government should provide fertilizers and seeds at lower prices and ensure their stock exists in the market so that the price is stable (Krismawati & Sugiono, 2020; Rahayu et al., 2020).

Apart from variable costs, production costs could be efficiently reduced, particularly fixed costs, when farmers manage to cultivate wider lands. Logically, depreciation costs for agriculture equipment will be the same and the depreciation occurs due to time. Hence, the fixed costs spent for a wider land will be the same as narrow land, but the equipment used is the same.

In addition, the selling price at a producer level also affects widely farmers’ welfare. One of the main reasons impacting price at a farmer level is market channel choice (Olwande et al., 2015). A wider channel distribution involves traders that lower the price at a farmer level (Nalini & Rohaya, 2015; Panda & Sreekumar, 2012). Each trader within a
marketing channel also earns profit, which in turn allows price differences. This condition is applied in agriculture products at most (Suddin et al., 2020; Naseer et al., 2019; Negi et al., 2018). When a marketing channel involves traders, the more traders are in the distribution channels, the lower the price at a producer level could be (Suddin et al., 2020). The reason is that the trader will push down the price to earn more profit and only a little possibility is available to drive up selling price since they are expecting demand from consumers (Onogwuet al., 2018). When the price is high, they are likely to face obstacles to stimulating the demand (Onogwuet al., 2018). This condition had been found in some areas of the Jeneponto Regency, where some of the producers access a two-level channel involving four layers (farmers, collectors, wholesalers, and breeders) with a selling price of IDR 3,000 / kg. In their turn, those producers who sell to an intermediary trader in a one-level channel could receive a slightly higher profit, which is IDR 3,025, while those who sell directly to breeders have a bit higher price, which is up to IDR 3,150.

Further, each individual trader is also likely to bear transportation, loading and unloading costs necessary for acquiring and selling the commodity (Shively & Thapa, 2017). These costs will push up the differences, particularly to inefficient spending (Onogwuet al., 2018). Hence, when involving traders, the more traders involved, the more costs are spent by all traders within the channel, which then allows to enlarge the price difference between producers and consumers. This condition has been studied by Masuku, Makhura and Rwelarmira (2001), Mmbando et al. (2016) in Tanzania and by Schipmann and Qaim (2011) in the case of sweet pepper in Thailand.

When taking into account end-users, the price at a consumer-level is high, which is up to IDR 3,500. This also may indicate that intermediary traders sell their products far away from production areas such as in border cities and cities even across the island. This condition is particularly true for a two-level channel that needs more than one trader to reach those particular consumers.

These findings also suggest that the direct selling to the consumers (breeders) does not increase substantially the welfare of farmers since the consumers (breeders) are likely to want to get a cheap price by making direct buying to producers. This also may explain, one of many other reasons such as volume and buying frequency, why only some producers prefer direct selling to breeders, not to an intermediary trader. This is in line with Schipmann and Qaim (2011).

The implication is that the low income generated from the corn farming in this province makes corn farming a side business (Nuryanti & Kasim, 2017). Farmers only plant corn once a year and only a small number of them cultivate it twice a year (Nuryanti & Kasim, 2017). Since it promises higher profits, rice is preferable (Awotide, 2016). This is especially valid during the rainy season. At the end of the rainy season, when the dry season starts, in some areas it is impossible to plant rice and farmers switch to corn (Nuryanti & Kasim, 2017).

The efficiency of a marketing channel is influenced by its length and shortness (Suddin et al., 2020). Marketing channels involving direct transactions between groups of farmers and consumers (breeders) have the highest efficiency value since the price level is the same for farmers and consumers (Hatima et al., 2020). When selling to an intermediary trader, it is also found that the price differences between farmers and consumers are not significantly different, which is why the efficiency is still high. It is supported by Suddin et al. (2020), who indicated that the farmer’s share of more than 50% is still efficient. Corn is a common commodity that is successfully grown in all of the districts within the province, which allows buyers easily access the price at a producer level. Further, small buyers accept price differences, but high-volume buyers are likely to establish contacts with producers. Since small buyers are high in numbers and some of them located far away from production centers, especially individual breeders and household breeders, they are likely to buy from wholesalers.

With respect to efficiency, even though the marketing and distribution channel is highly efficient, it does not affect farmer’s welfare since farmers only cultivate corn on limited and small land (maximum 2 ha per producer) so that the amount of revenue obtained in each season is low.
CONCLUSION

The study aims to examine marketing and distribution channels, as well as input costs spent by corn producers that could possibly affect their welfare. The study concludes that the average income earned by producers is substantially low when compared to minimum wage regulated in the province.

Two factors identified to influence adversely income level obtained by producers. Production costs, in particular variable costs, contributed to high total production costs. These input costs are contract land, fertilizers, and pesticides. Besides these costs, intermediary traders are also potentially pushing down selling prices at a producer level. Among three marketing channels accessed by producers, a two-level channel, a wider marketing channel, contribute to lower selling price at a producer level. It is followed by a one-level and zero-level channel. Marketing costs spent and the margin expected by each intermediary allows a wider-price difference between producers and consumers (breeders). The study also found that, even though these three-marketing channel affect income level obtained by producers, each marketing channel shows good efficiency.

To increase the income earned by producers, input prices such as variable costs for fertilizers and pesticides must be controlled by the government and be easily accessed by producers on the market to ensure stability of prices. Further, local government should allow producers to sell their corn to wholesalers, intermediary traders in the district level but not at a village level, who promise a higher selling price.

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