

**Response to: REQUEST FOR INFORMATION
RELATING TO THE
FRESH PRODUCE MARKET INQUIRY
(CASE NUMBER: 2022APR0051)**

Dated 15 June 2023

Compiled by: FARMERS AGRI-CARE (Pty) Ltd

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APPENDICES:

Attached as separate documents

APPENDIX 1: Data for RFI

APPENDIX 2: Annual Financial Statements – 2023

APPENDIX 3: Distribution Agreements

OPENING NOTES:

1. **Paragraph 6 of the 'RFI to Farmers Agri-Care' document states:**

Where possible kindly limit your responses to only the commodities identified in the Terms of Reference and Statement of Issues. These are repeated here for completeness as follows:

- 6.1. **Fruits:** apples, citrus (particularly oranges and soft citrus), bananas, pears and table grapes; and
- 6.2. **Vegetables:** potatoes, onions, carrots, cabbage, tomatoes and spinach.

Accordingly, answers, explanations and figures provided herein will pertain to the Fruits and Vegetables crop segments noted above (also referred to as 'fresh produce' elsewhere in the RFI document). Further:

- Fruits: apples, pears and table grapes are not grown in Farmers Agri-Care's area of operation. Information will therefore relate to citrus and bananas only.
- Vegetables: All the crops noted above are grown in Farmers Agri-Care's area of operation; information will relate to all of these crops.

2. **Paragraph 7 of the 'RFI to Farmers Agri-Care' document states:**

All responses to data requested in this document should be provided for the period 2017 to 2022 ...

Accordingly, answers, explanations and figures provided herein will pertain to these dates.

3. **As indicated in the Contents, this response is divided into 5 parts, being the main headings in the original RFI document.**

- 1.3. Structurally, Farmers Agri-Care has 24 Agents based in the rural agricultural production areas of this region. Their function is to visit and interface with farmers and crop producers, with two objectives:
- To inspect the farmer’s crops and diagnose if pest and nutrition problems exist.
 - And then provide the technical recommendations and products required to enable those crops to achieve their optimal yield potential. As such, on-farm crop support is a key function of the service that Farmers Agri-Care Agents provide.

1.4. Farmers Agri-Care provides:

- Over 1948 crop protection products (including different pack sizes),
- Sourced from nearly 95 suppliers,
- To 1489 farmers in the above geographic areas.

NOTE: Information from company ERP system, 04 July 2023.

1.5. See website for more information: <http://www.agricare.co.za/>

2. **If Agri-Care operates multiple businesses, provide the most recent organogram depicting the companies directly and indirectly controlled by your parent company and all its subsidiaries.**

Farmers Agri-Care does not operate multiple businesses or have any subsidiaries.

3. **Indicate if Agri-Care or related operating companies are owned and controlled by Historically Disadvantaged Persons (“HDPs”).**

As above, Farmers Agri-Care has no related operating companies.

4. **Provide a list of products sold by Agri-Care in South Africa.**

See Appendix 1: Worksheet Q4 in the MS Excel document – list of products sold by Farmers Agri-Care in the Fruits and Vegetables crop segments.

5. **Provide the most recent audited annual financial statements (AFS) for the South African operations of Agri-Care.**

[Redacted]

6. **To the extent that it is not contained in the AFS, provide a detailed financial breakdown of both revenue sources and operational costs of the firm for the most recent financial year (April-March Basis, if not, indicate).**

[Redacted]

7. **Provide illustrative examples of any monthly management reports on key metrics used to track the performance of Agri-Care's business. If no such reports exist, then provide a list of the key performance metrics that management uses to track the performance of the business.**

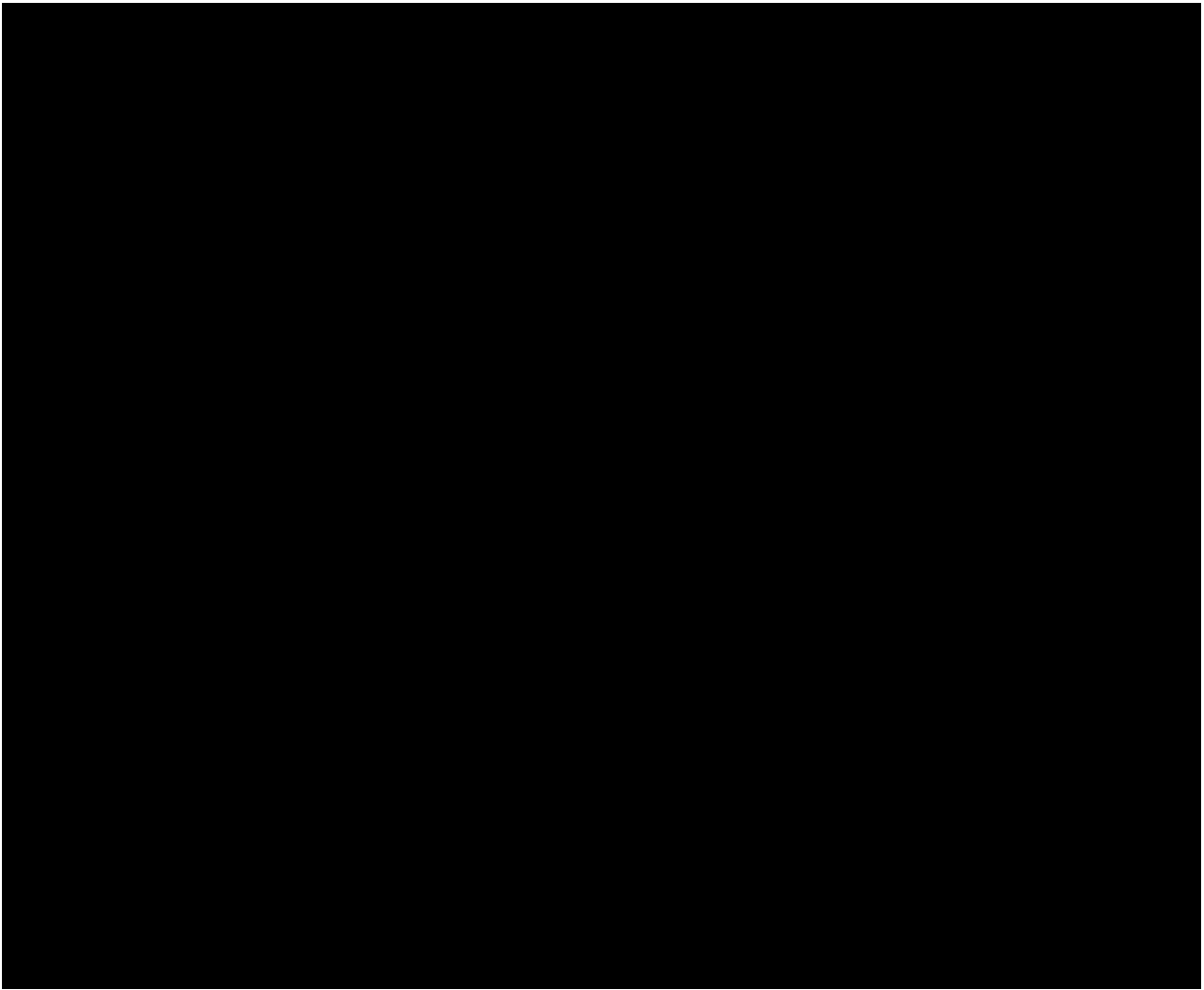
Management uses the following key performance metrics to track the performance of the business:

1. Turnover vs Budget and Prior year
2. Turnover per Agent
3. Debtors Days
4. Stock Days
5. Income statement actual vs budget
6. Cash flow
7. Retention loans repayable to Agents

8. **Provide investor or any other presentations that describe Agri-Care's current business and business model. If no investor presentations exist, provide internal documents describing the business model.**

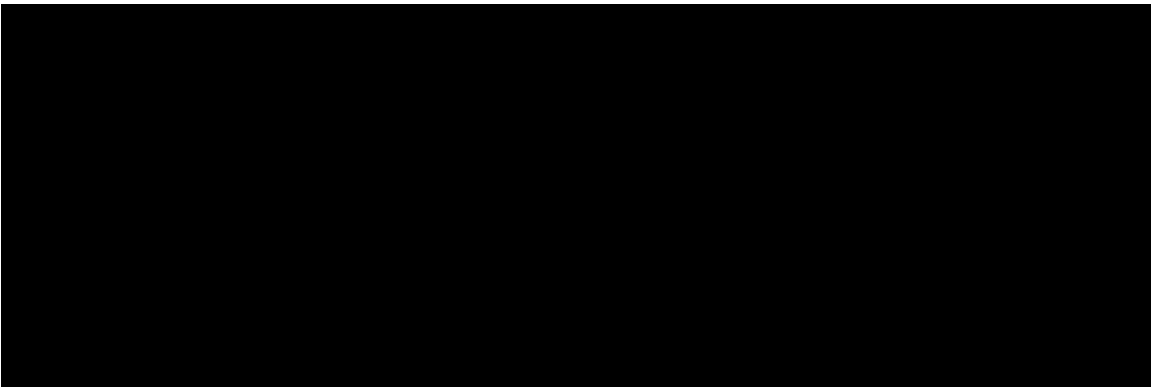
[REDACTED]

[REDACTED]



9. Provide all internally and externally commissioned research and/or studies conducted in the past three years on the consumer side of the business, and the market position of your business relative to competitors.

9.1. [Redacted]



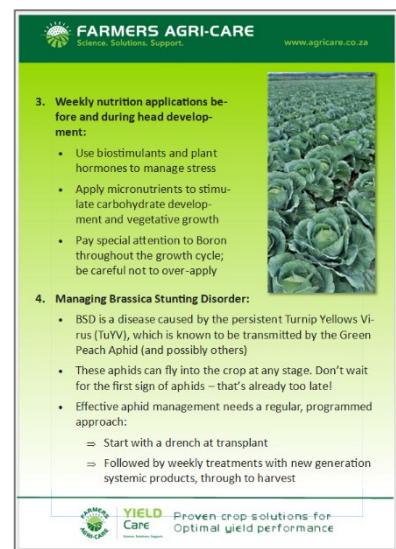
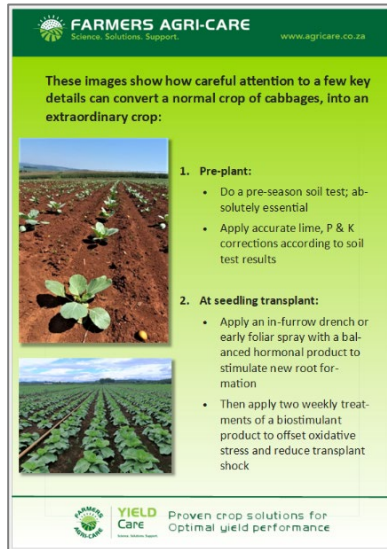
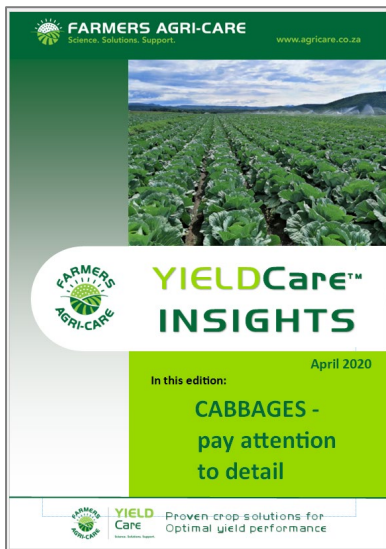


Fig 6: Marketing Material Example 2

A 3-page technical information document sent to cabbage growers. Farmers Agri-Care produces ≈10 such documents per year, to share pest information, crop solutions etc. with growers. They are distributed by WhatsApp.

11. Provide copies of Agri-Care’s latest marketing materials targeted at consumers.

None:

- As indicated in the flow diagram in Question 14. later, ‘consumers’ in the context of Farmers Agri-Care’s definition, are the end Crop Production Value Chain, i.e.: those who consume food.
- As per this definition, Farmers Agri-Care has no marketing programme targeted at ‘consumers’.

12. Provide the historic prices for your top 10 relevant products sold within the fresh produce industry from January 2019 till March 2022.

See Appendix 1: [Redacted]

12.1. Provide the most recent price lists issued by Agri-Care for each of these products.

[Redacted]

13. **Kindly provide the names and contact details of the following customers within the fresh produce industry:**
- 13.1. **The 10 largest customers by sales in the last financial year.**
 - 13.2. **The 10 smallest customers by sales in the last financial year.**
 - 13.3. **The 10 most recent potential customers who engaged with Agri-Care but did not end up using Agri-Care (either because they did not meet the Agri-Care’s requirements or on their own accord).**

See Appendix 1: [REDACTED]

PART 2: MARKET DYNAMICS

14. Explain your understanding of the value chain for agricultural inputs (all levels and players), the various activities of key role players at the different levels and indicate where Agri-Care fits within the value chain.

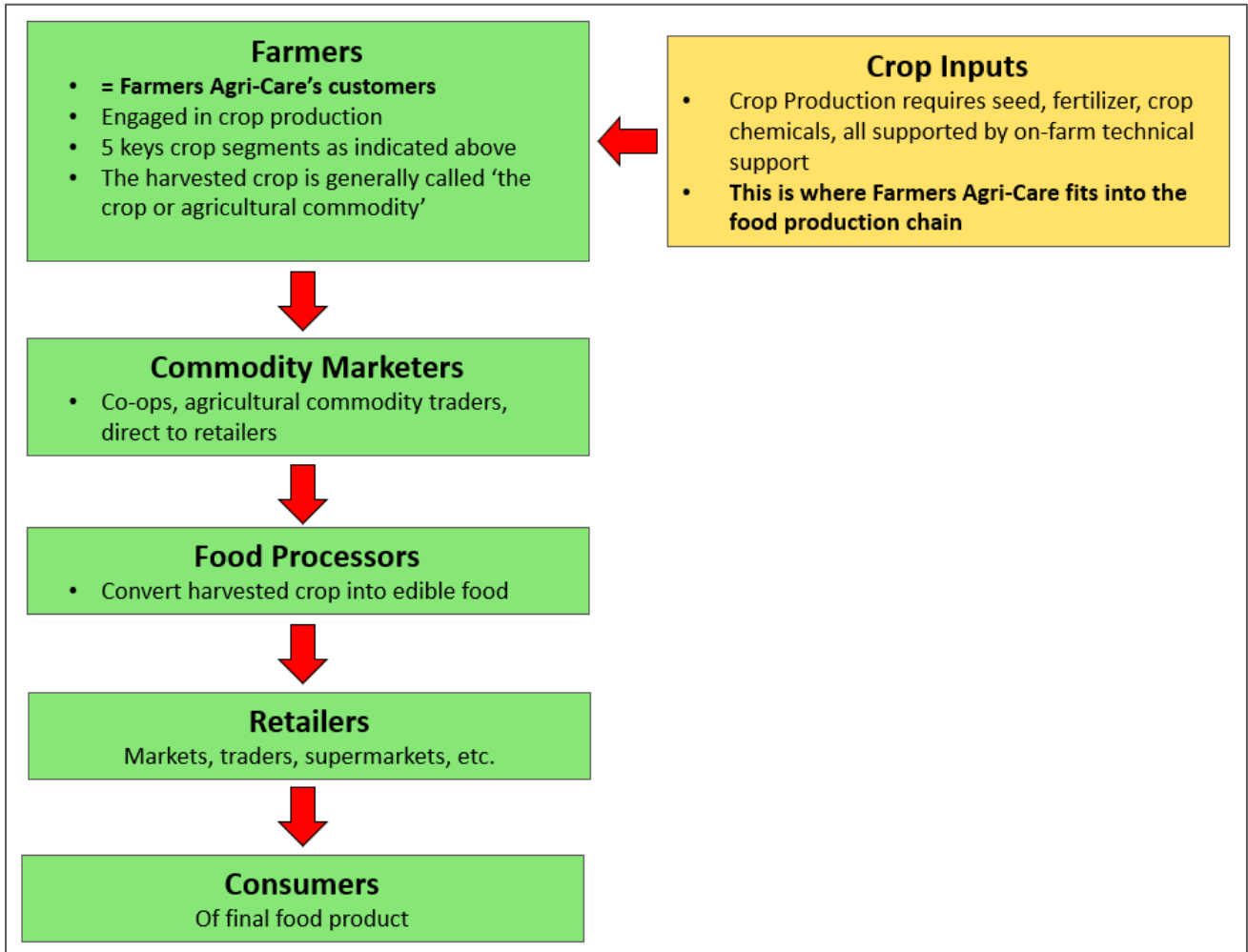


Fig 7: Diagram of the Crop Production Value Chain, from Farmer to Consumer. The position and role performed by Farmers Agri-Care is shown on the right.

15. Identify and estimate the sizes of the manufacturers of agricultural inputs (seeds, fertilizers, agrochemicals (herbicides, fungicides and pesticides)) for the past 5 years up to and including 2022. The estimated market size should be based on value of sales, volumes, and revenues. This information should be based on all areas where Agri-Care is active either as a manufacturer or distributor and ignore areas where Agri-Care is not active as either manufacturer or distributor.

See Appendix 1: [REDACTED]

16. Explain the price setting mechanisms which pertain to agricultural inputs (seeds, fertilizers, agrochemicals (herbicides, fungicides and pesticides)). In your response refer to:

16.1. The methodology and factors considered when determining price;

- [REDACTED]
- [REDACTED]
- [REDACTED]

16.2. The use of international bases for price including the use of import and export parity pricing in the determination of local pricing;

[REDACTED]

16.3. The main drivers of cost;

- [REDACTED]
- [REDACTED]

16.4. Certification costs in relation to seeds;

[REDACTED]

17. Provide the following information about agricultural inputs that you sell and/or distribute (seeds, fertilizers, agrochemicals – herbicides, fungicides, and pesticides) for the past 5 years up to and including 2022. This information should be provided in Microsoft Excel:

- 17.1. Total volume sold,
- 17.2. Average selling prices,
- 17.3. Rand and percentage markups,
- 17.4. Rand and percentage gross profit margins, and
- 17.5. Rand and percentage nett profit margins.

See Appendix 1: [REDACTED]

18. Provide a list of the top 10 customers (per product) of Agri-Care in terms of revenue for the past 5 years up to and including 2022. In your response, please include the average selling prices, discounts and/or rebates applicable per product per customer, and their HDP status.

See Appendix 1: [REDACTED]

19. Provide a list of the bottom 10 customers (per product) of Agri-Care in terms of revenue for the past 5 years up to and including 2022. In your response, please include the average selling prices, discounts and/or rebates applicable per product per customer, and HDP status.

See Appendix 1: [REDACTED]

20. Where Agri-Care is appointed as a distributors of input products, kindly provide a list of (i) top 10 suppliers and (ii) bottom 10 suppliers and indicate the products that Agri-Care has been appointed to distribute. In your submissions, also provide information about revenue, average prices, discounts/rebates where applicable.

[REDACTED]

See Appendix 1: [REDACTED]

21. Provide distribution Agreements that Agri-Care has entered into with (a) top 10 suppliers and (ii) bottom 10 suppliers in terms of revenue generated.

[REDACTED]

See Appendix 3: [REDACTED]

22. Provide the volume of sales of agricultural inputs which are generated through the “Khula! Inputs App” or any similar or competing online sales platform(s), in the past 5 years. In your response, please include the volume of these sales expressed as a percentage of total sales for agricultural inputs, average selling prices, discounts and/or rebates applicable per product per customer, and HDP and SMME status of these customers.

Farmers Agri-Care does no business via on-line trading platforms. This includes the ‘Khula! Inputs App’ noted above. Farmers Agri-Care has never been approached by them to do business, and is not aware of any such market presence in the area in which Farmers Agri-Care operates.

23. What are the barriers to entry for agricultural input distributors? In your response refer to:

23.1. Capital and infrastructure costs;

The distribution model in the SA crop chemical industry is made up of independent, third-party companies, like Farmers Agri-Care. As the structural diagram in 8.1 shows, some of these businesses are made up of Agents, who are independent and autonomous and responsible for their own business affairs. NOTE: They may have different business structures and models to

that of Farmers Agri-Care. However, Farmers Agri-Care is one of the oldest such distribution companies in the SA industry, now in its 32nd year of operation.

Internally, an appointed Agent in Farmers Agri-Care will either set up his own business in an allocated area, or purchase a going concern from an existing Agent who is leaving. As such, the capital and infrastructure costs are typically in the order of R3- to R5-million.

23.2. Time required to recoup the costs of investment;

Payback for a start-up in the Farmers Agri-Care system is typically around 5 years.

23.3. Other sunk costs; and

None.

23.4. Scale economy advantages.

None.

24. Kindly identify and list any new entrant that has entered the market for the distribution of any of the agricultural inputs that you distribute in the past 3 - 5 years in competition with Agri-Care.

As mentioned on the answer to Question 1, Farmers Agri-Care's area of operation is restricted to KwaZulu Natal, the southern parts of Mpumalanga, and the north-eastern parts of the Eastern Cape:

- Other than Nulandis changing its name to AECI Plant Health, there have been no new large entrants since then.
- The group labelled 'Independents' are individual operators who are not associated with a formal distribution company like Farmers Agri-Care or AECI Plant Health. There have been several new entrants in this section, and others leaving. However, these are small, localized operations and at 8% of the total market, do not justify comment in the context of this analysis.

25. Kindly identify and list any firm that has exited the market for the distribution of any of the agricultural inputs that you manufacture in the past 3 - 5 years.

- There have been no changes to the larger distribution organizations over the past 3 to 5 years. A few independent operators have entered or exited, but these do not require comment in the context of this analysis.
- The competitor profile of the crop chemical and speciality nutrition business in the area in which Farmers Agri-Care operates has been substantially unchanged over the period 2017 to 2022.

26. In relation to producers/growers as customers of agricultural inputs, provide a breakdown of the costs of agricultural inputs (disaggregated please) expressed as a percentage of your total costs. In your response indicate:



26.1. Whether any increase in these costs is absorbed by the growers or if they are capable of being passed down the value chain.



26.2. To what extent Agri-Care is able to procure from local suppliers or manufactures and the price and quality of locally produced agricultural inputs compared to imports.



26.3. The extent which volume purchases have on the pricing of agricultural inputs.



26.4. **The role (or lack thereof) of cooperatives and public sector agricultural support in the provision of competing inputs.**

- [REDACTED]

27. **Provide a broad overview of the role cooperatives play in markets for fresh produce. In your response kindly refer to:**

As indicated in the answer to Question 9, the Fruit and Vegetables (fresh produce) segments in Farmers Agri-Cares area of operation is small. Accordingly, in the context of the RFI, there are no cooperatives that specifically service growers small-scale/emerging producers in the Fruits and Vegetables crop segments.

However, recognised cooperatives in Farmers Agri-Cares area of operation are:

1. **Coastal Farmers' Cooperative:** Primarily services growers the Sugar crop segment, but also and Fruits and Vegetable (fresh produce) crops that they may grow. Understand carefully however, that Coastal Farmers does not buy inputs for its members; it merely processes accounts between its members and upstream suppliers.

See <https://www.coastals.co.za/>

2. **TWK Agri:** Services growers in the Row Crops segment, which is where most of the Fruit and Vegetables segment lies. A true cooperative in that they actually buy products from Farmers Agri-Care through the conduit of its Agents, and sell on to their members.

See <https://www.twkagri.com/>

27.1. **The ability of cooperatives to lower costs for producers/ growers (especially in the small-scale/emerging producers/growers segment);**

As per the examples above, Cooperatives can be divided into 2 groups:

1. Those that purchase the inputs, and then sell them on their members. To some extent, this group can leverage their size and negotiate for better prices, but they still have to add their costs of operation. Products would be available at market-related prices to small-scale/emerging producers, provided they are members.
2. Those that do not purchase the inputs, and merely process transactions on behalf of their members. *Inter alia*, they merely pass on prices from upstream suppliers to their members. Products would be available at market-related prices to small-scale/emerging producers, provided they are members.

27.2. **The ability of cooperatives to create access to input markets for growers/produces (small-scale/emerging segment);**

As noted above, cooperatives do act as a link between input suppliers and growers. But it should also be understood that the role played by cooperatives in the provision of inputs is not as significant as it was in past years. Today, most growers in Farmers Agri-Cares area of operation buy their crop chemical and speciality nutrition inputs directly from input suppliers (such as Agents of Farmers Agri-Care).

27.3. The ability of cooperatives to ensure better pricing and service outcomes for growers/producers.

Again, cooperatives no longer play a major role in the provision of inputs to growers in SA agriculture. The prices they offer to their members/ growers is neither consistently nor significantly cheaper than if the grower were to buy directly from input suppliers. Their main role is to provide consistent supply, and ease of access through their local branches in growing areas.

27.4. Provide a list of the top 10 producer/grower cooperatives that have bought agricultural inputs from Agri-Care for the past 10 years up to and including 2022. In your response, please include value of sales, volume of sales, and discount rate/rebates whichever applicable. Provide this information in Microsoft Excel format.

As explained above, there is only one cooperative that purchases products from Farmers Agri-Care for the Fruit and Vegetables crop segments, and that is TWK Agri. Understand again, that products they purchase from Farmers Agri-Care, through the conduit of its Agents, for these two crop segments are not significant.

See Appendix 1: [REDACTED]

27.5. Provide a list of the bottom 10 producer/grower cooperatives that have bought agricultural inputs from Agri-Care for the past 5 years up to and including 2022. In your response, please include value of sales, volume of sales, and discount rate/rebates whichever applicable. Provide this information in Microsoft Excel format.

Because there is only one cooperative that buys directly from Farmers Agri-Care, this needs no response.

28. In relation to growers as customers of agricultural inputs, to what extent has changes in climatic conditions or any other changing dynamics impacted on:

28.1. The need to source more complex agricultural inputs;

The crop protection and speciality nutrition products that Farmers Agri-Care supplies and services can be described as dynamic, with ongoing investment in R&D by upstream innovation companies into new technology. Therefore, the recommendations and crop solutions that Farmers Agri-Care Agents provide to growers is constantly changing. Whilst these ongoing changes are not specifically a result of climate change or any macro factors, these are crop inputs that are probably most exposed to changes and improvements in terms of technology.

28.2. The increase in costs of agricultural inputs, particularly for small holder farmers;

To date, in Farmers Agri-Care's view, climate change has had no effect on the cost of crop protection and speciality nutrition products, specifically on increasing costs.

28.3. The extent to which access to improved seeds and intellectual property around seed varieties has created market barriers and high input costs for smaller farmers and growers; and

Farmers Agri-Care is not involved in the supply of seed to growers.

28.4. The extent to which access to more advanced fertilizers, agrochemicals (herbicides, fungicides and pesticides), and farming equipment has created market barriers and high input costs for smaller farmers and growers.

As with any sector, advances in technology requires payback for investment in R&D. The constant improvements to crop protection and speciality nutrition products is no different: patented new products that provide better crop performance cost more than old technology.

This cannot, however, be described as a barrier, because older (and cheaper) products and programmes are still available to growers. Typically, these are off patent generics, which are provided by a much broader number of registration holders. The market for these generics is therefore highly competitive, with lower prices than new, patented products.

So, whilst smaller farmers and growers may not be able to afford the cost of latest technology, there are cheaper options available to them. If anything, the costs of these older products has come down as new (and typically more expensive) technology is brought to market.

PART 3: DISCRIMINATION ON INPUTS

29. Explain the factors that are considered in determining the pricing of the major key inputs?

Factors determining prices of crop protection and speciality nutrition products to growers are covered in the answer to Question 16.

30. Do small-scale/ emerging producers/growers have access to similar trading terms (e.g., quality, price, discount, rebates etc.) as those of large-scale farmers? In your explanation, provide supporting documents.

- As mentioned in the answer to Question 26.3, volume discounts in the Fruits and Vegetable crop segments do not play a significant role in pricing, because these segments are so small.
- Prices to growers are determined by the Agents, as explained in the answer to Question 16. This includes growers that fall into the 'historically disadvantaged' segment.

31. What are the commercial terms offered by Agri-Care to large-scale farmers that may not be accessible to small-scale farmers?

Neither Farmers Agri-Care nor its Agents discriminate between 'small-scale/emerging growers' and 'large-scale growers' in any way or form, including whether such growers fall into the description of 'historically disadvantaged background.'

32. Provide the factors that are considered when determining the retail prices for the key input (seeds, seedlings, fertiliser, pesticides, herbicides)?

Covered in answers to Questions 16.

33. What are the main factors that are considered when determining discounts, rebates, and pricing policies for key inputs? Provide documentary evidence and also indicate the extent to which you may offer a discount for each key input product sold, where applicable.

Covered in answers to Questions 16. Again, in relation to the restricted area in which Farmers Agri-Care operates, the Fruits and Vegetables crop segments are small, and discounts do not play a significant role in pricing to the grower.

34. What are the local and international pricing dynamics that affect growers and how these can be managed best?

- Factors determining 'local pricing' are covered in the answer to Questions 16.
- Farmers Agri-Care does not import any of the above products, so 'international pricing dynamics' has no relevance.

35. Are there any barriers that emanate from the pricing dynamics across the input level of the fresh produce markets?

There are no barriers relating to pricing of the crop protection and speciality nutrition products that Farmers Agri-Care provides to growers in the Fruits and Vegetables segments.

PART 4: ACCESS TO FINANCIAL SUPPORT

36. Does Agri-Care have policies/support mechanisms to assist SMEs and/or firms owned and controlled by historically disadvantaged persons? If yes, provide documentation which details the support provided. If no such documentation exists, please describe the nature of the support provided.

- Farmers Agri-Care has no financial support mechanisms or tools to assist SMEs and/or firms owned and controlled by historically disadvantaged persons. Farmers Agri-Care provides speciality crop inputs, not financial solutions and support.
- Farmers Agri-Care does, however, offer a comprehensive range of products in small pack sizes that will suits small growers from a practical perspective.

PART 5: INQUIRY SCOPE AND ISSUES

37. **Are there any additional areas of inquiry into the market for fresh produce not contained in the Terms of Reference that you believe are important for the Inquiry to cover as part of its work. If so, identify the specific area of inquiry or issue and the reasons why the Inquiry should include it in the scope.**

Nothing to suggest or add.

38. **Are there any other features of the market for fresh produce and the participation therein in South Africa of relevance to the Inquiry and which has not been traversed in the questions above? If so, please provide details as to the feature and the relevance for the Inquiry.**

Nothing to suggest or add.

39. **Are there any other submissions Agri-Care would like to make of a general nature?**

Nothing to suggest or add.

40. **Should you have any queries with regard to this request for information, do not hesitate to contact Derrick Bowles at derrickb2@compcom.co.za or Ruin Mare at ruanm@compcom.co.za.**