

***Central European Initiative & CEI Wholesale Market  
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**“The role of wholesale markets in developing farmers’  
cooperatives / associations and strengthening links  
between cooperatives and agricultural wholesale markets;  
the proactive role of wholesale market in small farmer market-  
ing support and development”**

**“Cooperations in Germany”**

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# **“Cooperations in Germany“**

## **Table of Contents**

<b>1. INTRODUCTION</b>	<b>1</b>
<b>2. THE MARKETING OF FRUIT AND VEGETABLE IN GERMANY</b>	<b>2</b>
2.1 The Food Retail Trade	2
2.2 The German Marketing- and Service Cooperatives	3
<b>3. THE STRUCTURE OF A GERMAN PRODUCER ORGANISATION FOR FRUIT AND VEGETABLE</b>	<b>4</b>
3.1 Tasks and Objectives, Legal Forms	4
3.2 Membership	4
3.3 Rights and Duties of the Members	5
<b>4. THE MANAGEMENT OF THE PRODUCER ORGANISATION</b>	<b>6</b>
4.1 Leading of the Producer Organisation	6
4.2 The Supervisory Board	6
4.3 The General Meeting	7
4.4 Prices, Investments, Packing, Services	8
<b>5. GRADING FROM LONG STANDING EXPERIENCE</b>	<b>10</b>

## 1. INTRODUCTION

For many centuries, Croatia is a country which is shaped by European history, culture, religion and economics.

- Croatia was part of the communist Eastern Europe and will in the next years become member of the European Union.
- The people in Croatia live in freedom, affirm and live the democracy and in the economical field follow the targets of the social market-economy.

Based on these values and targets, the task is to organise the society and the economy in such a way that the acting people appropriately feel the organisation forms e.g. for the marketing of fruit and vegetable, and identify themselves with it.

For the solution of the Croatian problems, Western European or German organisation forms can serve as examples or even models but they do not have to.

The history of the last centuries has shaped the people differently – something we have experienced and learnt after the reunion in Germany.

I will now introduce to you the settings in the German fruit- and vegetable sector and will try to deliver inspirations for your special status in Croatia and Eastern Europe.

## **2. THE MARKETING OF FRUIT AND VEGETABLE IN GERMANY**

The marketing structures usually are a reflection of the producer structures. In the age of globalisation and with the development of the distribution systems they are both standing under a massive pressure to adapt to the retail trade.

### **2.1 The Food Retail Trade**

The following chart no. 1 shows the development of the purchasing places for fresh fruit and – vegetable in Germany.

**Please see chart 1**

The chart is very clear/indisputable.

The middle retail trade, with shops of about 300 square meters of sales area, has slumps in sales from 15 % to 11 % in the total market for fruit and vegetable.

But also the consumer markets and supermarkets of about 800 square meters have lost approximately 3 % market share from 1998 to 2002.

The fruit and vegetable shops, weekly markets and the producer sales are stagnating and slightly declining.

The profit makers of this development are the big discounters in Germany (Aldi, Lidl, Penny, Plus) which in the meantime have reached a market share of almost 50 %. Together with the super- and consumer markets, the discounters in Germany sell approximately 75 % of the fruits and vegetables.

With 96 %, the whole food market is dominated by the top 20 of the branch which are: 1. Metro, 2. Rewe, 3. Edeka, 4. Aldi, 5. Lidl, 6. Tengelmann etc.

**Please see chart 2**

## **2.2 The German Marketing- and Service Cooperatives**

From 1950 to 2003, the number of the German cooperatives declined from almost 24.000 to 3.286

In the same time, the sales of these cooperatives increased from 3,5 milliards Euro to 37,5 milliards Euro. With 120.000 employees presently working for these enterprises, they are very important employers in the rural area.

The vast structural change to bigger enterprises resulted from the technical progress and from the above shown development on the sales markets.

Chart 3 gives an overview on the different production lines.

**Please see chart 3**

From 117 cooperatives working in the fruit-, vegetable- and horticulture sector, 57 are associated to the fruit- and vegetable sector and are approved by the EU as producer organisations. It is said that they reach a turnover of about 1,5 milliards Euro.

Also in this case, more than 60 % of the sales concentrate on the 10 biggest producer organisations.

### **3. THE STRUCTURE OF A GERMAN PRODUCER ORGANISATION FOR FRUIT AND VEGETABLE**

Having almost worked 30 years as a manager for a German producer organisation - the "Centralmarket Rhineland" – I am speaking to you from practice about this subject.

#### **3.1 Tasks and Objectives, Legal Forms**

The task of a producer organisation is to sell at best price the fruits and vegetables of the members.

To reach this objective all resources have to be made available:

- the summarisation of the offer,
- the provision of technical resources as cold storage houses, vehicles etc., and
- the necessary finance.

The producer organisations are mainly organised in the legal form of the cooperative, but also other legal forms as public limited company, limited liability company or economic association are possible. For the formation, at least seven members are necessary, who constitute a statute and register it.

#### **3.2 Membership**

Persons and legal persons or capital companies can become members by submitting a written declaration of membership.

The management of the producer organisation will then decide on the admission and the entry in the list of members.

The membership ends with dismissal, death, exclusion or transfer of the business balance to a successor.

Every member has the right, to resign with the end of a business year. In the statute it is regulated at which time the business relations are definitely finished.

### **3.3 Rights and Duties of the Members**

Every member has the right - according to the regulations of the statute – to demand the services of the producer organisation and to influence the decisions in the enterprise.

The member participates in:

- the elections of the management,
- the passing of the balance,
- the annual profit and other capital distributions,

The preceding three only show the most important decisions.

The duties of the members are also constituted in the statute and are primarily:

- the deposit of the share of the business,
- the compliance with the delivery duties in terms of quality and quantity.

## **4. THE MANAGEMENT OF THE PRODUCER ORGANISATION**

A producer organisation has three levels of management:

- board of directors / management,
- supervisory board,
- general meeting or corporate meeting.

### **4.1 Leading of the Producer Organisation**

The board of directors leads the producer organisation in autonomy and has to observe the laws and the statute.

The board of directors is obliged to duly operate the businesses as well as to market at best the delivered products of the members.

In order to guarantee a proper course of business, the board of directors also has to draw up the balances and inventories, to decide on the contracting of the membership and to organise the necessary personal and relevant conditions.

The board of directors consists of at least two persons, who have to correlate among each other.

The board of directors has to report all essential official businesses to the supervisory board and partly - according to the regulations of the statute – to obtain the approval of the supervisory board.

### **4.2 The Supervisory Board**

The supervisory board has to monitor (control) the management of the board of directors

The supervisory board can appoint committees that are to control single business divisions, such as:

- the sale of the products,
- the finances of the producer organisation, or
- the payment of the staff.

The supervisory board and the board of directors jointly decide about important strategical decisions of the undertaking like the:

- closing of parts of firms,
- purchase and encumbrance of plots of land,
- accession to associations,
- granting of procuration,
- appointment of managers,
- determination of quality regulations and the change of sales- and delivery conditions.

### **4.3 The General Meeting**

The board of directors at least calls the general meeting once per year.

The most important decisions of the general meeting concern the:

- change of the statute,
- ascertainment and passing of the balance,
- elections of the members of the supervisory board,
- affiliation (fusion) with other enterprises.

The members have the right to obtain information on the business matters of the producer organisation.

As only the general meeting can change the statute, it decides about the amounts of the shares in a business that every member has to pay in,

The amount of the business assets usually is oriented at the members' turnover – the "Centralmarket" has the following solution:

10.000 € turnover	1.000,- € amount of business
over 10.000 € turnover	2.000,- € amount of business
over 50.000 € turnover	4.000,- € amount of business
over 80.000 € turnover	6.000 € amount of business

etc.

10 % of these business assets have to be paid in by the members, the remaining 90 % are booked from the cooperative's surpluses to the members' account until the full amount is paid in.

Furthermore the general meeting decides on the balance and therewith on the application of the cooperative's profits.

So far about the statute and the formal side of a cooperative.

#### **4.4 Prices, Investments, Packing, Services**

In the day trade, the prices form themselves by supply and demand.

For many years the auction was the dominant sales instrument; the electronic clocks determined the price according to the demand of the buyer (trader) and according to the supply of the producers. At present, the price is being negotiated between seller and buyer.

The achieved price is being paid off to the producer - minus a marketing fee (6 – 8 %) and minus the costs for packing.

The producer organisation covers the costs with the fees and tries to achieve surpluses for investments and capital formation, but also to distribute the refunds to the members. Herewith the assets are being restocked or the contributions are being distributed to the members.

Three times a month the members get a settlement of accounts and the benefits for the sold products is being paid out.

For each product the “Centralmarket” fixes minimum prices. Under these prices no sales will be made. At the same time it also has to be mentioned that the minimum prices are very low, so the harvesting of the products is not worthwhile.

The producer daily reports the quantity of goods which can be harvested the following day. Only when the “Centralmarket” confirms these quantities, the producer can harvest and deliver. So the “Centralmarket” sells the goods before the harvest and only confirms, when the goods are sold.

The “Centralmarket” buys the whole packaging and offers cold-storage rooms to rent for producer and buyer. Further services offered are advisory services, purchase and sale of fertilisers, plants, young trees etc.

The members can concentrate on the production and the “Centralmarket” organises all that is necessary to sell the goods.

## **5. GRADING FROM LONG STANDING EXPERIENCE**

In Western Europe, in producer organisations with more than 20 members, the legal form of the cooperative worked satisfactorily, since it is democratically set-up:

- The most important decisions are made by the members.
- The supervisory board backs and monitors the board of directors and or the management.
- Quick decisions can be taken as the board of directors and or the management is fully responsible for the day business.
- The members can enter or resign without bigger problems and are therefore quite flexible.
- The cooperatives in Western Europe are based on the absolutely free decision of the members and are not standing in any connection to the enforced institutions of the communist time in Eastern Europe.

The necessity, to use or to set-up such producer institutions for common marketing, in my opinion is without any alternative, when small and medium enterprises are dominating. This especially applies for big united arable lands with many family enterprises which can not sell their products alone on small markets or in the town located next to them.

The supplying of bigger food trade enterprises in the country and in the export sales is only possible, when corresponding organisations are set-up.

The sole sale to wholesalers is very dangerous for medium producers as the financial dependence involves too many risks.

The sale of fruit- and vegetable products via producer organisations will never be the only way, but it should be in a dominant position and therefore it is being supported with EU-money.

For the export business the German producer organisations have set-up an association which is solely responsible for this business.

This association is primarily active on the Russian market and organises the flow of goods and - above all - the finance in the Russian business.

Producer organisations are necessary and meaningful supplements for the sale via wholesale markets.

The task of the wholesale market is to supply the country with fresh products like fruits, vegetables, fish, meat etc.

These freshness centers can only solve the export problem to a limited extent as in the meanwhile they are standing in keen competition with the big cash & carry markets.

Western Europe therefore pursues a marketing policy which is to reach as much as possible market segments.

- The big enterprises of the food trade like Metro, Rewe, Aldi etc. are directly being supplied through the producer organisations or the wholesalers, who are standing in close business relations with the producer organisations.
- The specialist shops, the restaurants and weekly markets are covered via the wholesale markets. On the wholesale markets, producers are selling directly or producer organisations are running stalls (Hamburg, Stuttgart, Munich).
- In densely settled regions and bigger industry locations, producers are directly selling to the consumer, above all: asparagus, strawberries or apples.

It follows from the above, that also in Western Europe a ready-made solution and an uniform way are missing. The saying "Many ways are leading to Rome" - which means there isn't just one way of doing it - is still applicable. However, there are certain principles that one should consider, when thinking about the setting-up or the change of marketing structures in the area of fresh fruits and fresh vegetables.

- In the first place, the market situation, the market in the country and the export business are to be analysed.
- In the second place, production structures and their development are to be precised.
- In the third place, the concerned people have to stand behind a solution, they have to take the responsibility, to protect their rights and to assume duties.

The situation in Eastern Europe does not differ from the situation in Western Europe - even if at present the state of development is different.

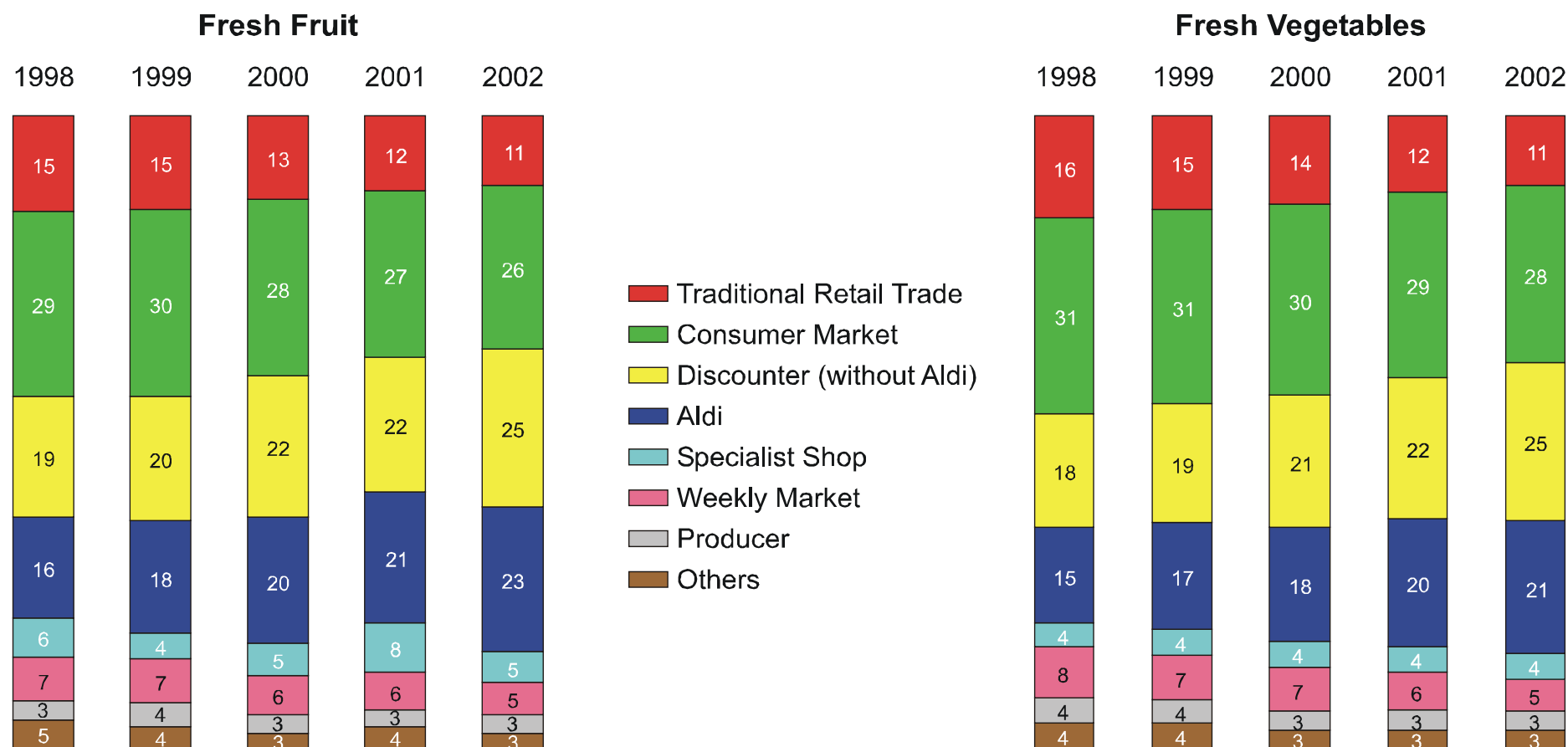
The in the beginning demonstrated development of the cooperatives in Germany has shown – I have witnessed and helped to form it – that small village cooperatives have become big marketing enterprises with a turnover of 100 million Euro - and even more - and who built a counterweight to the concentrated trade.

I think, you should observe this development accurately and develop – or get developed - concepts for the problems of **your** country and to convince the people of the rightness of the approach – your fruit- and vegetable producers will then be successful.

# Croatia Wholesale Market Project

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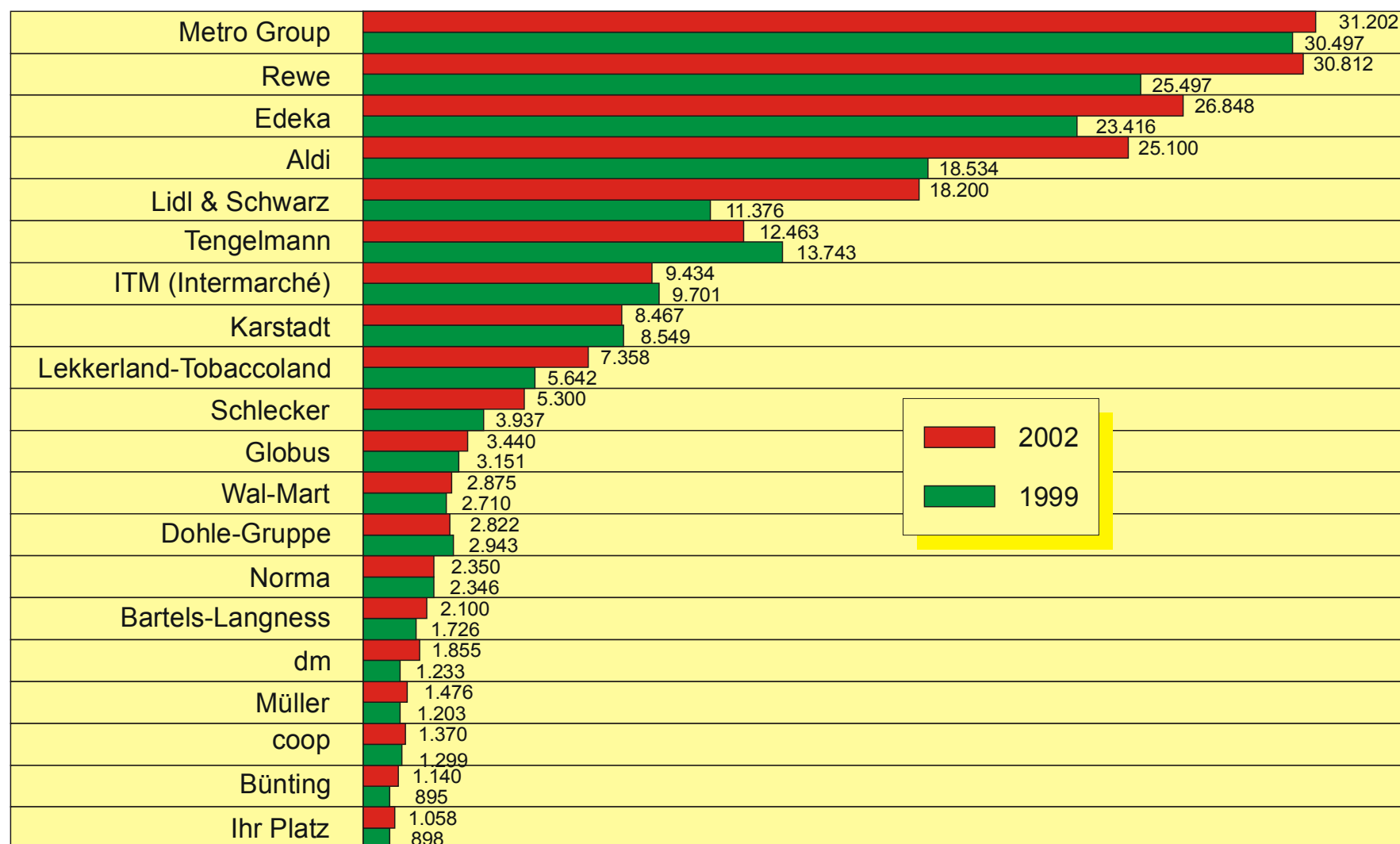
Chart 1



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Chart 2



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Chart 3

