

# KEY SUCCESS VALUES IN RELATIONSHIP MARKETING OF AGRICULTURE PRODUCTS

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## ABSTRACT

*In Indonesia, agriculture is still one of the business activity that involves many stakeholders with a unique relationship, ranging from farmers as producers, various intermediaries that act to move the product on the retailers who ultimately sell to end consumers. What are the key values connecting between actors to guarantee the continuity of business and how the model linkage or relationship marketing that happens, is the main goal in this paper. The results showed, commitment and trust are the dominant two aspects that underlie the emergence of co-operation as well as the assurance of financial benefit. Another interesting fact revealed by this study is the relationship marketing that occurs not just based on the transactional aspects alone, but there is also a social aspect that binds relationships. This aspect even leads to another fundamental goal, namely the existence of convenience between the parties cooperate. Although both of these goals cannot always be achieved simultaneously due to the strata of different decision-making power, but in reality they complement the ongoing collaboration.*

*Keywords: Commitment, Trust, Transactional and Social Marketing, Leisure*

## ABSTRAK

*Di Indonesia pertanian masih merupakan salah satu aktifitas bisnis yang melibatkan banyak stakeholder dengan hubungan yang unik, mulai dari petani sebagai produsen, berbagai pihak perantara yang berperan memindahkan produk pada pengecer yang akhirnya memasarkan pada konsumen akhir. Nilai-nilai kunci apa yang menghubungkan antar pelaku untuk menjamin kelangsungan bisnis tersebut serta bagaimana model keterkaitan atau hubungan pemasaran yang terjadi, merupakan tujuan utama dalam tulisan ini. Hasil penelitian menunjukkan, komitmen dan kepercayaan merupakan dua aspek dominan yang mendasari timbulnya kerjasama dan sekaligus sebagai jaminan akan adanya keuntungan secara finansial. Fakta menarik lain yang terungkap dari penelitian ini adalah hubungan pemasaran yang terjadi bukan sekedar didasarkan atas aspek transaksional semata, namun juga terdapat aspek sosial yang membalut hubungan yang terjadi. Bahkan aspek ini mengantarkan pada tujuan lain, yakni adanya kenyamanan antar pihak yang bekerjasama. Meski kedua tujuan ini tidak selalu dapat diraih secara bersama karena adanya strata kekuatan pengambilan keputusan yang berbeda, namun dalam realitanya keduanya saling melengkapi terjadinya kerjasama yang berkelanjutan.*

*Kata Kunci: Komitmen, Kepercayaan, Pemasaran Transaksional dan Sosial, Waktu Santai*

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## INTRODUCTION

### Background

Agriculture has the uniqueness to the production of largely perishable. On the other hand the quality of agricultural products always vary from season to season, as well as from one center of production to another. Other properties owned by the agricultural products are seasonal, so varied and unstable supply from time to time, even the amount of production is difficult to determine, (Gumbira and Intan, 2001). Because of its perishable and seasonal, this has an impact on several aspects, such as the presence of post-harvest handling so that products can last a long time. Another aspect that affected with the trait is a marketing aspect, which should acts to help farmers to move product from producer to final consumer, considering the perishable nature of the product, the agribusiness marketers must be able to work quickly so that the product may arrive in time to the end.

In general, agri-business market is the site of interaction between supply and demand for both goods and services products. Activity includes transactions that occur agreement ranging from price, quantity, product specification, how to deliver, receipt, and payment. Considering that there are many actors' acts as intermediaries between producers and final consumers, and then it is worth to explore what factors are the key linkages between agribusiness so that the transfer activity of these products can occur.

A latest approach called relationship marketing or customer relationship is an approach that involves all actors in a system of marketing, as well as reviewing various values of the reference or a key factor that links between actors in the system. Relationship marketing implemented through the active involvement of all actors marketing, and oriented to rethinking of all policies and strategies relating to the marketing mix. The essence of relationship marketing is to put the customer at the center of the overall marketing activity.

Trust is the belief of the parties on the reliability, durability, and integrity of other parties in the relationship and confidence that his actions are the best interests and will produce positive results for a trusted party. In general, generate trust relationship commitment (Morgan and Hunt, 1994; Dwyer and Tanner, 2002; Peppers and Rogers, 2004); customer loyalty expressed by Palmatier et al. (2006), Brady (2007), (Grégoire et al. 2009) and Barnes (2001).

Various previous research show that trust and commitment are very important in a business before performing a partnership, for that purpose we select several studies related to the research to be carried out. Beginning in the trust and commitment, Palakshappa and Gordon (2005), followed by Baglieri, Croom and Secchi (2006), which concentrates on the relationship between companies and their suppliers, while Akrouf and Akrouf (2007) describes the state of the relationship of trust between buyers and suppliers of industrial in the context of three components: the perception of trust, confidence and trust behavior.

The value of relationships, cooperation and the variables affecting conducted by Walter et al. (2000), then Canning and Lloyd (2001) with the research title of Building Trust and Commitment in Buyer-Seller process of Adaptation. Bloombaeck (2006) examines the impact of relationships and networks, while Smirnova and Kushch (2006), examine process of value creation relationships in the industrial market from the perspective of suppliers. Smith (2008) examined the Conceptual Model Retailer-Vendor Relationships Based on Commitment-Trust Theory, and Wang (2009), which examined the effects of trust and commitment relationships between customers and distributors. Last, Salmiah and Anvari (2010), developed a model in which aspects of the product, relationships management activities, and market variables simultaneously differentiated and considered as the work attitude of work-related to behaviors.

In Indonesia relationship marketing in agribusiness in particular cases have not been much studied if not arguably very rare. Therefore, this study tried to uncover the values applicable in it and know the pattern or model that occurred in the marketing relationship.

### Research Objectives

The purpose of this study is to explore and identify the key factors that play a role in determining the occurrence of relationship marketing of agricultural products, build (modified) model of relationship marketing of agricultural products as well as verify model development in accordance with the local conditions.

## LITERATURE REVIEW

Kotler and Armstrong (2008) defines marketing as a process in which companies create value for customers and build strong relationships with customers, with

the aim of capturing value from customers in return. Agricultural marketing system is a whole sequence of marketing functions, to facilitate the flow of agricultural products from producers to consumers and otherwise facilitate the flow of money, the product created by the productive activities undertaken by marketing agencies, from the hands of end consumers into the hands of producers early in a system of commodity (Gumbira and Intan, 2001).

Complexity of the agricultural sector implies for the complexity of the marketing system of agricultural commodities. This is due to the nature of products, production systems, as well as market structure and characteristics of a typical agricultural products such as the nature prone to breakage, especially for fruits, vegetables and meat of livestock, has the a pile of large size and the quality varied. Seasonal nature, the supply of products varies and is not stable from time to time, the amount of productions are difficult to determine and vary due to the production centers geographically. One of the values of the company is the relationship, and relationship capital is the customers, employees, suppliers, distributors, dealers, and retailers. In addition, the company's relationship capital is the sum of knowledge, experience, and credentials of the company towards its customers, employees, suppliers and distribution partners.

The shift towards relational marketing that does not mean leaving the transactional marketing at all. Most companies must operate with a mix of transactional and relational marketing approach. Companies that sell in large consumer market have a greater percentage of the Transactional Marketing while companies with the smaller number of customers have a higher percentage of Relational Marketing.

McGarry (1951) argues that having long-term relationship, constantly between buyers and sellers develop a bond of common-interest, confidence and respect can reduce marketing costs between 10-20 percent. In this view, long-term cooperation and collaboration between buyers and sellers seen as a mechanism for improving marketing efficiency from the perspective of the seller. McGarry (1951) also discussed the function of marketing Contractual form the basis of cooperation and collaboration between the sellers and buyers.

Gummesson (1999) defines relationships marketing in terms of relationships, networks and interact, he identifies 30 types of relationships (30Rs) in certain

markets, including relationships with customers, competitors, governments, investors, employees, media, and other supply chain. According to Jackson (1985), in the industrial market a commitment to play an important role in building long term relationships with customers.

Relationship marketing is a concept to develop a sustainable long-term contact with the clients or customers. The advantage for suppliers is the repetition of the business. Partnership is one way of relationship marketing. The concept of partnership is the aiming of to develop appropriate marketing concept in B2B market, especially in the services sector. Relationship marketing can achieve this because it contains strategies that inform not only the sales process, but also delivery of all contractual and management structure for a company.

In relational marketing, trust is very important and the basis for the formation of strategic partnerships. Without trust, a relationship will not be able to walk in the end, because the relationship formed from the mutual trust that is very valuable to those who commit to it. Similarly, Sheth and Parvatiyar (1995) regard "relational marketing as an orientation to develop close interactions with the selected customers, suppliers and competitors for value creation through cooperative efforts."

Confidence is an important element in inter-organizational relationships that contribute to launch the transaction, encourage cooperation between the larger organizational, and reduce transaction costs. Thus according to the statement of Morgan and Hunt (1994), which states that the commitment is influenced by trust, trust is the confidence in the reliability and integrity of the exchange partners. Each party must look at are last of interaction was good and confident that the actions of the partnership in the future can be more constructive. They must feel that they can be a harmonious partner, if the relationship develops the content build social norms that will guide the behavior of partners.

Collaborating is about moving away from open competition. It is more about moving toward a strategy of cooperation, but it does not mean that cooperation is balanced or equal. The emphasis of procurement means that the client is maintaining the position of ruling. Gray (2004) explains that the partnership in the literature there are four major themes to describe the performance of the partnership are, (1) relational exchange view are argues

that successful partnerships result from relationships that demonstrate commitment to characteristics such as trust, cooperation and communication (e.g. Dwyer, Schurr, and Oh, 1987; Morgan and Hunt, 1994) and relationships of an enterprise is a valuable corporate resources (Hakansson, 1987). (2) The relationship of an enterprise provides benefits for companies such as through the provision of valuable functions, the creation of resources and access to resources and competencies. (Hakansson and Snehota, 1995). (3) The competency-based view argues that successful companies operate the alliance has developed core competencies and the organization has the ability to secure, develop and manage alliances. (Lambe et al. 2002). (4) Display the competitive advantage argues that successful companies of the alliance than competitive, can produce the best value or reduce costs. (Hunt and Morgan 1997. Dyer and Singh, 1998).

Characteristics that underlie all of these views are the competency or capacity needed to facilitate successful partnerships. In each view the above there are a number of specific either the relationship manager and / or organizations to facilitate the success of such partnerships must own the competency. Hunt (2002)

explains that a business alliance or partnership is defined "broadly as a cooperative effort between two or more companies that gather their resources in an effort to achieve common goals are compatible that they can not achieve alone only".

## FRAMEWORK

Based on previous research studies on the relationship of sellers and buyers, the conceptual framework of research can be formulated as illustrated in Figure 1. The model will be developed, is a combination of several models that have been studied previously, namely: (1) Trust and Commitment in Business Relationships collaborative involving the Company in New Zealand (Palakshappa and Gordon, 2005). (2) Understanding the role of ability relational in the relationship the buyer and the seller (Smirnova and Kushch, 2006). (3) Belief in the relationship between private buyers and sellers in the B2B (Akrouit and Akrouit, 2007). (4) Conceptual model for the retailer and vendor relationships based on trust and commitment theory (Smith, 2008), and (5) the direct relationship of trust and commitment among the sellers, distributors, and customers (Wang, 2009).

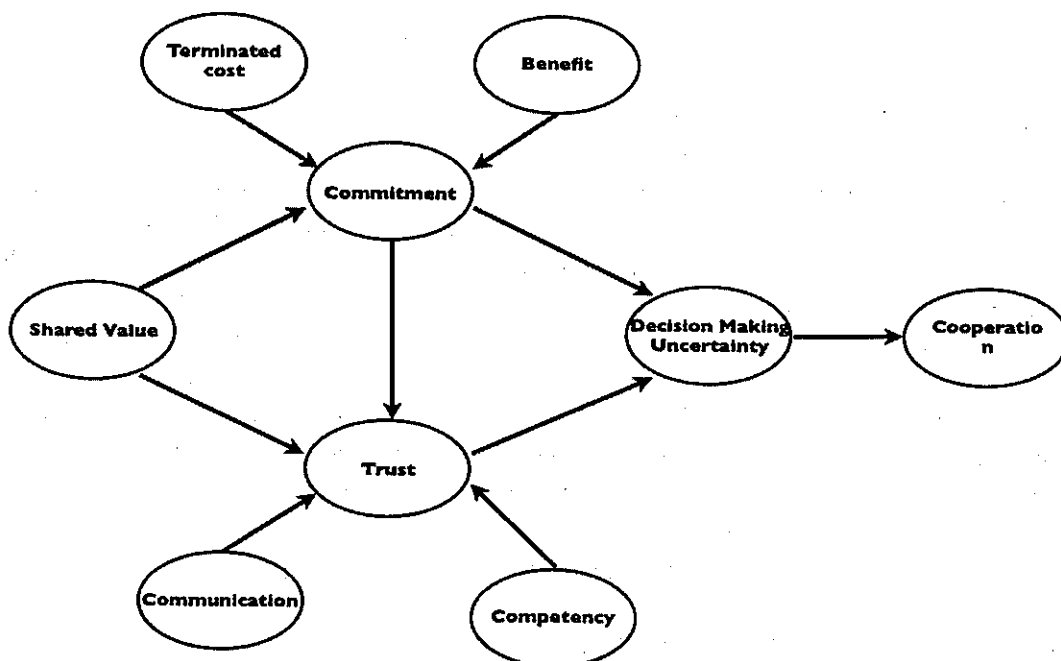


Figure 1. Conceptual Research Model

The model above can be explained as follows: trust and commitment are the foundation of a business relationship. This has become a power base to stimulate the emergence of shared values and strengthen the decision-making uncertainty. Indirectly the emergence of common values will reinforce the decision-making in uncertainty.

A bond of trust and commitment between partners indicates that the touch will work mutually beneficial in the long term and build a positive foundation to a productive relationship. When viewed the relationship between trust and commitment completely then it will increase the chances of a long-term cooperation or a strategic partnership to achieve a goal that can deliver value and profit for the company and its partners.

Trust is the basis of shared attitudes or expectations of the parties are partnering, trust is not a things just show up, but it was built by the competence and communication capabilities of the parties who partner. Feeling that their partners have the technical capabilities needed to do a good job, including the ability to interact with a satisfactory communication in order to maintain and develop relationships. While it built by the benefits of relationship commitment and relationship termination costs, where the cost of termination of economic risks that have resulted in disruption of partnership commitment.

## RESEARCH METHOD

The research was conducted in West Java and Jakarta and surrounding areas. Site selection is done intentionally (purposive) on the grounds in the research area has sufficient objects to be studied on Producers, Suppliers and retailers for agricultural commodities.

The study conducted using a survey method that is depth interviews (face to face interview) with the guidance of a structured questionnaire. The study involved 205 respondents as source of information, selection of respondents who will be interviewed in this study is that a person or head of the firm Producers (farmers or ranchers), Suppliers and retailers of products of fruits, vegetables, and chicken broilers.

In this study netted 17 modern market involved in the chain of commerce relationship marketing for the three type of commodity, meanwhile there are 9 traditional market as a commodity retailers. From the consumer group there are 9 restaurants, hotels, and

catering businesses, who became the ultimate goal of relationship marketing. There were 11 institutions and or individuals as suppliers in the marketing chain.

Based on structural models that have been proposed in the framework, to know the value of the coefficient model or a contribution of each latent exogenous variable against endogenous latent performed coefficients estimates by using rule of Un-weighted Least Square (ULS).

The hypothesis tested in this model (H0) is the matrix of the covariance population same as covariance sample matrix ( $\Sigma = S$ ), while his match hypothesis (H1:  $\Sigma \neq S$ ). Expectation of this hypothesis testing is to accept H0. That is, the model structure (diversity model) could be used to estimate the structure (diversity of population). To test this hypothesis used two statistical tests (Joreskog, 1998) that are statistically Chi-Square ( $\chi^2$ ) and RMSEA. H0 is accepting when the P-value ( $\chi^2$  test) greater than 0.05 or RSMEA value has less than 0:08.

Each of the main variables will be elaborated according to the variables that are relevant indicators, the scale of the data used in the measurement of the indicator variables was performed using the rules of the Likert scale of 1 to 5, where 1 indicates the level of disagreement and 5 indicates strongly agree level.

In this study, the analytical methods used include Descriptive Analysis and Structural Equation Model (SEM). Descriptive analysis aimed to gain an overview of the characteristics of respondents (profiles and behavioral research respondent relationships). Frequency analysis and cross tabulation analysis (cross tabulation) is used to process the data. The results displayed in chart form processing (pie chart and bar chart) and percentage values. While SEM used to validate the model built.

## RESULTS AND DISCUSSIONS

The study involved 205 respondents as source of information that consists of three business groups namely vegetables, fruits and chicken pieces as shown in Figure 2.; Responses obtained with depth interviews and structured questionnaires describing patterns of relationships of all latent variables in full how the relationship is going on and how much influence on the performance of farm businesses involved in the relationship marketing. Test results yield a P-Value

= 0.000 and RMSEA = 0073. That is, the overall empirical model can be adopted in accordance with the criteria required by Joreskog (1998), although the P-value less than 0.05. From this it can be conclude that the coefficients of the model used as a probe size of contributions or the influence of exogenous latent variables to endogenous latent, although the overall model has not been too good. Coefficient estimates and test results illustrated in Figure 3, as follows.

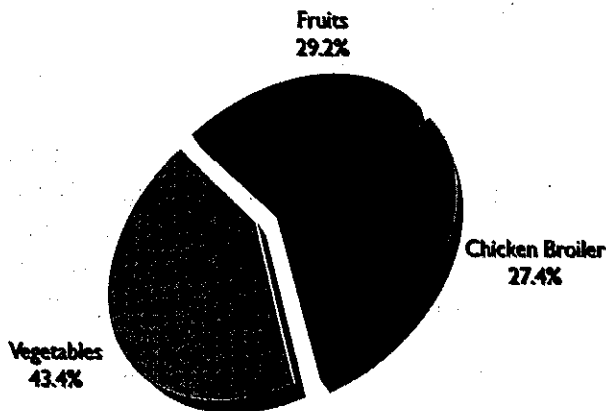


Figure 2. Percentage of Business

In studying the relationship marketing of agricultural commodities, then the direct and indirect, will be relate to market structure in which the commodity traded. Based on the results of the identification of market structures that occur in the agricultural commodities concluded that the form that comes closest to the

field conditions is monopsony market. Important information related to relationship marketing in the agricultural commodities trade system is a pattern that is common today. The pattern of trade system describes the process of migration of a commodity from producer to final consumer. Each pattern of commodity trade that occurred in the studied succession described as follows.

Hasan (2009) says that the marketing channel is the basis for operational and administrative office location that has strategic value to expedite and facilitate the delivery of products from producer to consumer through trade transactions. Between producers and consumers there is a group of intermediaries who distribute the product among them. Intermediary often called the marketing channel. Marketing channels are interdependent and organizations involved in the process of making products and services become available for use or consumption by consumers (Coughan et al, 2001). Kotler and Armstrong (2008) warned that the marketing channels are not only serving the market but also creating a market.

In Figure 4 described the displacement groove vegetables and fruits from producers or consumers to the outlet end.

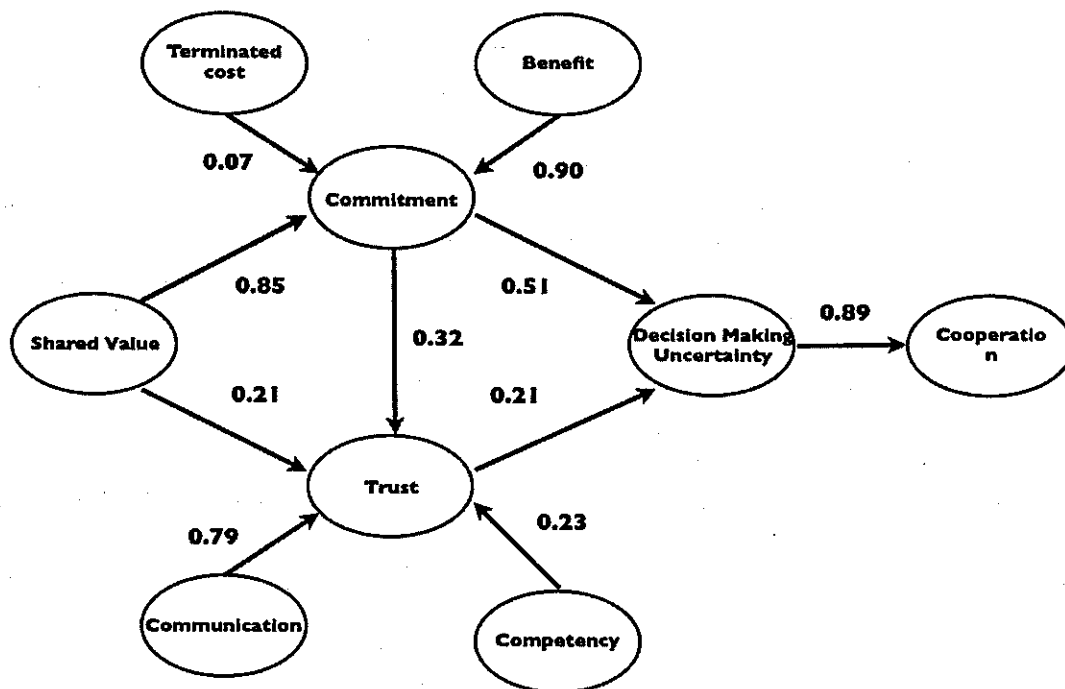


Figure 3. Coefficient of Structural Equation Model of Marketing Relationships

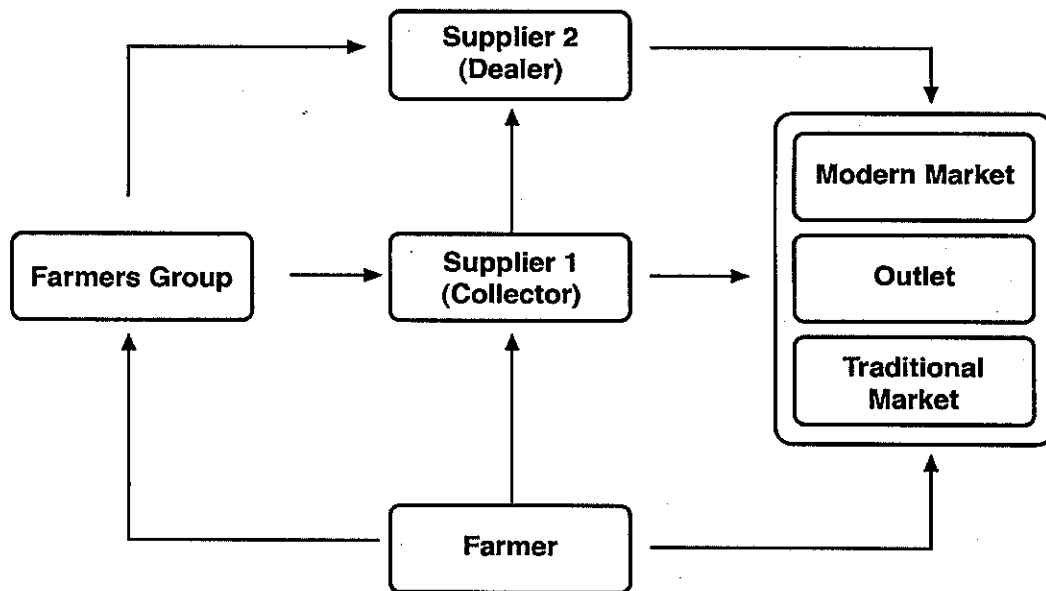


Figure 4. Vegetables and Fruits Commercial Chain

Collectors around are purchase of commodity crops from farmers who are willing to sell with specified price. Suppliers who have access to traditional markets in general have a relationship with container traders in those markets. Through this container merchant, vegetables or fruits distributed to retailers for sale to end consumers.

The basic fabric of collaboration is trust and commitment in addition to the margin of price expectations as a source of mutual benefit between supplier 2 ( usually called “Bandar”, big collectors who has access, power, and capital), “supplier 1” (called “pengepul” or collector) and retailers. This is due to container merchants often do not buy with cash to suppliers, and suppliers are also doing the same with the farmers but there is a grace period until a few days. A similar thing happens when the dealer supplying to the modern market, the payment system has a time limit in accordance with a written cooperation agreement has been agree.

Based on the fact that a supplier who can supply to the traditional and modern markets is that suppliers have the competence, either in the form of facilities and infrastructure, human resources, strong capitalization, knowledge and good communication skills to secure and run their business as well as its commitment to farmers and other suppliers on the one hand.

Please note that the supply of agricultural commodities to the modern market, the supplier 2 is handling the sorting and packaging in accordance with the agreement. When the agreed commitment is violated

or not met, then this might decline the confidence level in the outlet (the modern market) and could results a reduction of supplies number to the termination of cooperation.

## CONCLUSIONS AND SUGGESTIONS

### Conclusions

From the results of field observations and analysis has been done related to relationship marketing that occurs in agricultural products, it can be concluded that:

1. The results showed commitment and confidence to shape and influence the Shared Values.
2. Commitment, trust, shared values, and uncertainty decision-making affects resulting in collaboration
3. Cooperation, market orientation and creation of relationships value help to achieve good performance.
4. In agricultural, a pattern was found where emotional, social and physiological aspects are more ultimate then financial.

### Suggestion

Formal institutions such as cooperatives, farmer groups (Gapoktan) or Financial Institution to be further investigated to uncover the Role and Contribution in the wider Marketing Relations.

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