Direct selling in Italy: a marketing strategy to promote localized agro-food systems.

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Abstract: Direct sales are a traditional strategy used by farmers to retain a higher share of the final value of products. Far from being a way back to tradition, modern direct selling strategies are directed to capture new segments of demand, those interested in local and fresh food, and in more direct contact between consumers and suppliers. The aim of this work is to study the recent evolution of direct selling in Italy and the determinants of the adoption of this marketing strategy. The first part of the paper analyses the evolution of short supply chains in Italy. In the second part of the paper the analysis is focused on the determinants of the choice to selling directly. Specific attention will be devoted to empirically test whether the probability of using this marketing channel is influenced by the farm location in proximity to urban areas.

Keywords: localized agro-food systems, short supply chain, direct selling.

Introduction

Over the last decades the globalized agro-food system incurred in an increasing number of safety crises that mined the reputation of industrialized and standardized food. In addition to this, the reputation of globalized and industrialized agro-food system has been put under attack by criticisms to the environmental and social costs associated to a system relying on the concentration of production in increasingly larger units (in order to exploit scale economies) making use of industrial, capital intensive technologies and producing standardized food to better satisfy the requirements imposed both by the processing industry and by an increasingly concentrated marketing sector (supermarkets).

In reaction to this, consumers started to demand healthier, fresher and more tasteful food. Social movements have contributed to increase awareness on the environmental and health problems connected to the intensive use of chemicals in industrial food production, as well as to the environmental problems connected to long distances traveled by food products in the modern globalized agro-food system and to the large amount of wastes produced by supermarkets and, more broadly, by modern global distribution systems to deliver food from farms to consumers.

Social movements have also contributed to point out how the modernization of farming, based on one side on the concentration of production in large units and in more productive territories, and on the other side on the social and economic marginalization of disadvantaged territories, for example mountainous areas, and of small family farms, mine the viability of rural areas and of a still very large number of family farming units.

In reaction to all these problems a demand emerged for respatializing and resocializing the agro-food systems. This demand is particularly strong in urban areas, that is in those areas in which food demand is concentrated, where consumers have small or no alternatives to buy other than globalized and industrialized food offered by supermarkets, and where social movements are more represented and lively. In this sense urbanization is an important driver of rural restructuring (Jarosz, 2008 p.232).

Localized agro-food systems (SYAL) provide an answer to this demand. They can, on one side, satisfy the demand for safer, fresher food as well as preserving its territorial identity. On the other side, SYAL can create the opportunity to add values to local resources and facilitating the sustainable development of rural areas.
SYAL imply a reorganization of all the components of the systems from farming, to processing and marketing. In food production, both farming and processing, a territorial anchorage is advocated. This is because the inter-agent collaboration emerging from the implementation and promotion of a PDO or a TSG, for example, generate positive external economies (Muchnik, 2009; Canada and Macia Vazquez, 2005).

The reorganization involves not only production, but even marketing of food products. The “local” in SYAL can in fact be referred both to geographical and social proximity of producers to consumers. For example, small farmers in peri-urban settings can restructure their offer and dedicate it to supply urban consumers with seasonal food grown “close to home”. This kind of restructuring offers the chance to minimize transport distances, in this way saving oil and time, at the same time guaranteeing the freshness of produce sold to urban consumers. On the other hand, SYAL can engage in face to face interactions between growers and eaters. Bypassing middlemen in the distribution chain they may help to reduce marketing margins and retail prices and, at the same time, increase farmers’ income. This direct relationship may also engender trust and cooperation between local rural and urban communities, and it is also an important way to educate consumers about where their food comes from and in what way it is produced, including the environmental and social conditions of production (Jarosz, 2008 p. 234).

From the examples above it is already evident how SYALs imply a reorganization of resources and activities, and that this reorganization is not a “return to tradition”, in fact it reinvents the use of traditional resources. In other words, it implies a process of innovation (Muchnik, 2009).

In this paper we focus our attention on direct selling as an instrument within SYAL approach for linking elements in an agro-food system: producers and consumers, rural and urban areas. First, demand and supply reasons for the renewal of interest in this marketing approach are explored. Then the attention is focused on the evolution and state of art of direct selling in Italy. The Italian FADN-RICA data are used to explore the factors motivating farmers to engage in short supply chains. The attention is then concentrated to test whether proximity of farms to urban markets is a factor in the adoption of direct selling.

**The strategic aspects of the short chain from the supply and demand point of view**

Direct selling may refer to sales on the farm or in farmers’ markets, roadside sales, community supported agriculture (CSA)\(^1\), consumers’ buying groups, direct procurement to local shops, restaurants and schools. Their most important common feature is that they shorten the distance and favour a face to face relationship between producers and consumers. In this respect they are a structure alternative to globalized supply chains distributing industrialized and undifferentiated products.

As for farmers, direct selling can be interpreted as a diversification strategy that can lead to higher profits and better farm household incomes (Jarosz, 2008).

The local scale of direct selling help farmers first of all to minimize transport costs. Given the seasonal and territorial characteristics that distinguish direct sale, other cost savings may result from the reduced needs in terms of storage and packaging.

In addition to decreasing production costs, direct sales allow farmers to bypass middleman in the distribution chain. Hence, they allow farmers retaining more value added, without passing it on to the distribution sector.

Finally, direct selling of products to consumers is a form of diversification in which labour resources of the farm household are re-deployed into on farm activities different from traditional agricultural production. This redeployment can result in an increase of farm household income both because some labour resources available in the farm household, not previously employed on farm, can find a

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\(^1\) CSA means that consumers pay farmers at the beginning of the growing season and then receive weekly deliveries of seasonal produce throughout the growing season.
new form of employment in the marketing activity or because farm labour that took the form of disguised unemployment, can be shifted to an activity where returns are higher than from traditional agricultural production business.

As for consumers, direct sales offer first of all the chance to purchase high quality food at reasonable prices. The absence of intermediaries result in the above mentioned cost savings that, in turn, make high quality products moved by means of direct channels generally cheaper for consumers compared to those offered by traditional long food supply chains. The final decision in favour of direct purchasing is also affected by transaction costs that may offset the above mentioned savings. “Shopping requires more organizational efforts and it is more time demanding” because of the distance, the constraints in variety of products and delivery arrangements.

The existence of savings for consumers is supported, for example, by the findings of a recent survey made by the Italian Farmers Association (CIA), according to which when food is purchased directly from the producer, the savings for consumers are between 30 and 35%. Furthermore, there is greater transparency concerning the price creation process, which the consumer is able to assess; a factor that becomes more complicated in the case of a chain with a number of different intermediaries. For example, a recent analysis of the fruit and vegetable chain in Italy conducted by the National Competition Authority has shown that the mark-up on the final price ranged from 77% recorded in the case of a direct purchase to 300% when three-four intermediaries were involved (National Competition Authority, 2007).

The demand for low cost food coexists with an increased interest in diversity and distinctiveness in food, and even for higher quality and safe food (Verhaegen, Van Huylenbroeck, 2001; Higgins et al., 2008). For example, in Italy consumers search for quality, freshness and healthiness of the products is recorded among the main reasons for consumers to purchase directly from the grower (Coldiretti, 2007), and in some cases even more important then the search for lowest prices (Agri2000, Coldiretti, 2006).

Short distribution system put more emphasis on the quality and on the origin of the product. They re-localize food, in this way offering a closer connection with the point of production, thereby improving the quality of food and restoring public confidence and trust in food production (Higgins et al., 2008).

A part from economic determinants, there are environmental and social factors motivating consumers to engage in direct purchasing. The agro-industrial food system has a number of harmful environmental side-effects. For examples, growing concern has been recorded for the “food miles”, that is for the distance traveled from the place of production to the place of consumption, and for the large amount of waste and residue connected with the use of the packaging required by modern distribution. Direct purchasing offers a more environmentally friendly alternative to the traditional long supply chain. Furthermore, the direct sales channel often becomes the ideal instrument to diffuse organic and integrated agriculture products, hence to reduce another important environmental burden from agriculture. Finally, locally embedded short supply chain often becomes an occasion to re-discover the existence of seasonal cycles, regional identities, biodiversity, landscape but even of local eno-gastronomical traditions and, more broadly, the rural culture.

The calculation of the net sum of cost and benefits of shifting from long to short supply chains is complicated by the existence of transaction costs occurring both on the demand and supply side.

Besides the private economic benefits for farmers and for consumers, direct selling can represents a driver of rural restructuring in peri urban areas. It can be considered a tool to enhance the links between areas, urban and rural, and among activities (agriculture, cultural and social activities) in an agro-food system. The advantages derived from the proximity of markets must be analysed by examining all the exchange actions that the agricultural business might have with the socio-economic system (Pascucci, 2007). It refers to the process which has seen the physical and cultural distance

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2 Disguised unemployment refers to those cases in which marginal productivity is less than hourly wage. For more details, see Yasuoki Takagi, “Surplus labour and disguised unemployment”. Oxf. Econ. Pap..1978; 30: 447-456
being reduced between the urban and rural areas and which involve people, activities and territories. Farmers located in peri-urban areas may find convenient directly address their production towards the urban consumers, a target of consumers not satisfied by the traditional retailer or by the modern distribution (supermarkets) that are looking for quality and safe and fresh food. Farmer operating direct selling may exploit the existing physical infrastructures as well as the milieu provided by the city (markets, events), but at the same time they activate new relationships and opportunities to share information (knowledge), revitalize tradition and organize or participate to local events. In few words, direct selling may contribute to the reinforcement of the local identity of a territory. Finally, according to some authors (Cicatiello, Franco, 2008), direct selling can be a way for the farmer to regain the autonomy lost during the development of globalized agro-industrial systems and to become again the main actor within the food chain who can freely take decisions about what to grow and in what way to produce and market their products.

**Direct selling in Italy**

The possibility of Italian, agricultural farms performing direct sales was implemented through the Law of 2001 (the (Italian) Legislative Decree Law No. 228/01), according to which the agricultural entrepreneurs, who are registered in the Register of Companies, are entitled to sell the products that mainly come from their own farms and to perform activities such as processing, manipulation, conservation and enhancement. In 2007 there are some relevant interventions providing a new boost to direct selling: the Finance Act, establishing new rules concerning the income derived from the sale of farm products, until the legislation on trade is applied, thus, permitting the entrepreneurs to maintain the fiscal benefits inherent in the agricultural activities; the Mipaaf (Food and Forest Agricultural Policies Ministry) Decree, dated 20th November, establishing the conditions for instituting markets allocated for direct sales, such as specific standards and information for the consumers on the quality characteristics of the agricultural products on sale.

According to the surveys by the National Observatory on Direct Sales, created in 2005 by Coldiretti together with Agri2000, 57,530 farms practiced direct sales in 2007 in Italy. These account for 6.1 percent of all commercial farms, i.e. those enrolled in Register of firms of the Chambers of Commerce. The number of farms engaged in short supply chain is growing at very fast rates: it increased of 18 percent over 2005 and of 48 percent over 2001.

Direct selling is more widely diffused in the Northern (43%) and Central (34%) regions than in the Southern ones. At present, the regions in which direct selling is more widely diffused is Tuscany (16.8%), followed by Lombardy (10.6%) and Piedmont (10%) (see Figure 1). The very positive result recorded in Tuscany is partly due to the provision and calls for organization of farmers’ markets issued by the regional administration. Tuscany is the top ranking Region even diffusion frequency is calculated by dividing the occurrences by the total farms in the region.
Figure 1. Direct selling (n° of farms) in Italian regions in 2007.

Direct sales are concentrated mainly in the wine-and-grape sector (37.2% of the total), but an important share (27.7%) is also held by farms specialized in the production of fruit and vegetables and in the olive sector (19.5%). Other products moved by direct sales include milk and dairy (10.8%), meats and prepared meats (8.1%) and honey (3.4%). In dynamic terms, the greatest growth among various products between 2005 and 2007 affected cheese and honey, with three-figure increases in percentages of farms, +157% and +177% respectively. Olive oil and fruit and vegetables follow, with increases of 44.6% and 39.8%.

Figure 2. Farms share (in %) per sector in 2005 and in 2007.

Most farms sell directly on site, accounting for 63.4% of total sales, followed by direct sales in markets and local fairs (24%). A smaller percentage of direct sales are operated in farm shops (14%). Finally, the value of sales in Italy in 2007 is estimated at 2.5 billion euro, 4.1% higher compared with the previous year (+2% at constant values). Wine (47%) and fruit and vegetables (28%) make up 75% of total value for the channel. Next come animal products (meat, prepared meats and milk and dairy) which account for 12% of value.

The determinants of adoption of direct selling

We now analyze the determinants of Italian farmers’ choice of using direct selling by estimating a
discrete choice model\(^3\).

The decision on whether or not to make use of direct selling is considered under the general framework of utility or profit maximization. It is assumed that farmers sell directly only when the perceived utility or net benefit from using such a market channel is significantly greater than is the case without it. Although utility is not directly observed, the actions of farmers are observed through the choices they make. The Probit model is used for this analysis.

The dependent variable is the presence or absence of direct sales, thus defined as a dichotomous variable that assumes the value 0 where direct sales are absent and 1 elsewhere. This information is obtained from the FADN survey of 2006. There are 13,980 observations in the 2006 sample\(^4\), 3,471 (24.8\%) of which make use of direct sales. The FADN tends to overestimate the presence of direct selling respect to the National Observatory of Direct Sales, the difference is partly due to differences in the way in which the information is collected\(^5\).

Following the indications given in previous literature on adoption of innovation, the variables that are hypothesized to influence the engagement of Italian farms in direct sales can be divided into three types: a) farmer specific (gender, age, off-farm income); b) farm structural and economic characteristics (farm type, work units, standard gross margin); c) location of the farm (altimetric localization, Natura 2000 Network, regions). This set is enriched by variables referred to the use of multifunctional practices, for example the adoption of organic farming and low-impact techniques. These practices may be indicative of environmentally concerned farmer that may also be more prone to use direct selling than conventional farmers.

As for farm types, we expect greater probability of direct sales especially for wine, olives and fruit, both as primary products and processed products, for which consumers perception in terms of freshness and healthiness is more satisfied and for vegetable crops, which, in addition to that, can be distributed over a more extended period.

We started estimated the probit model exploiting all variables expected to have an influence on the probability of making use of direct (full model), to arrive successively, using the Likelihood Ratio test and applying AIC and BIC criteria, to a parsimonious model with a lower number of variables.

The results of this latter model are resumed in Table 1, in which for each variable is described if they have an impact on the probability of adoption of direct selling (VD column) and the degree of this impact, sign plus if it is positive and sign minus if it is negative (more plus or minus signs mean stronger impact).

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\(^3\) For a similar exercise applied to 2005 sample, see Aguglia L., Henke R., Salvioni C. (2009), Multifunctional Agriculture. Entrepreneurial behaviors and strategies in the search for diversification. ESI, Rome.

\(^4\) The sample does not include farms based in Emilia Romagna given the information about the use of direct selling is not collected in this region.

\(^5\) In the FADN survey farmers are whether they use direct sales without further information about frequency of activity, percentage of farm production moved through the short channel, or whether sales to cooperatives are included in direct sales.
As for variables referred to characteristics of farmers or family, results show that younger farmers are more engaged in direct selling than the elders. Among old farmers those with a pension are more interested in this practice.

The probability of direct selling is higher in farms operated with a large percentage of family labour force. This can be related to the possibility to absorb exceeding family labour in an activity different from farming in order to maximize the family employment and global income.

As for farm characteristics, we find that most of farm type (wine, olives, fruit) have a significant but negative impact on direct sales, while specialization in the production of vegetables increases the probability of adoption, likely due to the greater suitability of some crops for selling directly because they are available over long periods.

The presence of on farm processing has a positive and high impact on the probability of direct selling, confirming hypotheses according to which this activity increases the value added to the primary good without passing the additional economic benefits to other stages of the supply chain.

The positive coefficient of organic farming validates theories suggesting that the short channel is an ideal tool for moving products with a high information content and intrinsic value and, most of all, with low environmental impact. Organic farming and local product sales reducing transport pollution and waste are strictly related. Similar considerations apply to the positive high impact of EU payments for the use of extensive farming: interest for direct sales is wider among farmers making use of sustainable production techniques.

As for location variables, the positive coefficient of less favoured areas and of mountainous areas indicate wider adoption of direct sales. In these cases direct selling can be a way to complement and increase farm incomes that are low due to the marginality of the territory or to the existence of environmental restrictions in protected areas.

Finally, the estimated coefficient confirm the existence of regions characterized by socio-economic conditions that result more conducive to direct selling (Toscana, Molise, Puglia and Sardinia, but also in Friuli Venezia Giulia).

**Urban proximity and direct selling**

In this paragraph we test whether the proximity of farmers to urban areas has an influence on the adoption of direct selling.

We worked on a sample of 699 farms in the Lazio region recorded by the FADN; 191 of these farms have activated the direct selling. The region can be described by the presence of a large urban area, Rome, and of other four towns (chief of provinces) representing important food markets even if smaller than the Roman one (see Figure 3). Rome is a very big and attractive market for farms operating in the surroundings, most of food is purchased in supermarket, but the presence of very lively social and consumer movements have recently facilitated the diffusion of a demand for food grown “close to home” and for a face to face interaction between consumers and farmers.
To test the influence of urban proximity of farms on the uptake of direct selling, we estimated a probit model. The set of explanatory variable includes, in addition to farm and farmer’s characteristics, the distance of farms from the urban town markets. The results of this regional model are presented in Table 2.

Table 2. Probit model results for direct sales in Lazio region.

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<th>Variables</th>
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<td>dist_lt</td>
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<tr>
<td>Constant</td>
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<td>-1.117</td>
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*** p<0.01, ** p<0.05, * p<0.1

The influence of farmer characteristics are in line with what already found in the national model: the
higher the farmers’ age the lower the probability, but the uptake increases when the farmers receives a pension. These results are not in contrast one with the other if we think that there are two different trends: as long as the farmer is young, the age and the propensity to innovation lead to invest time and resources in organizing direct selling activities, as a new competitive strategy; in correspondence of an higher age, the incentive becomes the need to complement low retirement income.

As for farm structural characteristics, the adoption of direct selling is higher when the farm is small, located in hillside areas and when products are processed on-farm. As for farm types, only farms specialized in the production of arable crops have a statistically significant negative influence on direct selling.

As for proximity to urban markets, the statistically significant coefficients associated to distance observed in 4 out of the five controlled towns indicate that the territory and urban demand play a role in the process of adoption of direct selling. More specifically, the negative and statistically significant coefficients associated to the distance of farms from Rome and Frosinone indicate that these two towns have an attractive power in respect to direct selling, hence the closer the farm is to them, the higher the probability of direct selling is. The magnitude of these coefficients can be interpreted as an indicator of the intensity of the attraction power or influence of towns. The large coefficients of the distance from Frosinone indicates that a little increase in distance from this town rapidly reduces the probability of the uptake of direct selling in farms. On the contrary, the small coefficients of the distance from Rome indicates that the attraction power of the capital town is active even at very large distance. This is partly due to the fact that the Roman market is very large, but even to the presence in this town of many consumers groups concerned about how and where food is grown and distributed.

The positive sign of the coefficients for the distance from Latina can be related to the very specialized and industrialized agriculture of this area that makes farms operating in this province less interested in operating in alternative short supply chains. The positive coefficient of the distance from Rieti can in turn be explained by the difficulties of connections and transports related to the morphological characteristics of the territory (mountain).

**Conclusions**

Recently it has been recorded an upsurge of interest in direct selling as one of the possible tools to answer the increasing demand for re-localization and re-socialization of agro-food systems. Reducing the distance between farmers and consumers is thought to have a re-vitalizing effect on the rural community, at the same time benefiting local farmers and consumers’ health and the natural environment (Fonte and Grando, 2006).

Localized agro-food systems (SYAL) provide an answer to this demand. They can, on one side, satisfy the demand for safer, fresher food as well as preserving its territorial identity. On the other side, SYAL can create the opportunity to add values to local resources and facilitating the sustainable development of rural areas.

SYAL can engage in face to face interactions between growers and consumers. Bypassing middlemen in the distribution chain they may help to reduce marketing margins and retail prices and, at the same time, increase farmers’ income. This direct relationship may also engender trust and cooperation between local rural and urban communities, and it is also an important way to educate consumers about where their food comes from and in what way it is produced, including the environmental and social conditions of production.

In Italy, direct selling is very widespread in the territory and is a growing over time. Both large-scale and small family farm invest in this kind of diversification strategy to take advantage of the many benefits stemming from its adoption that range from reduction in production and distribution costs, to increases in efficiency in the use of family labour, hence in higher farm incomes.
In this paper we first examine the characteristics of farms involved in direct selling showing that they are concentrated in the wine and grape sector (around 40 percent), but an important share is distributed in the fruit and vegetables sector and in the olive sector as well. Farms with direct selling are located mainly in the Northern and Central regions of Italy. Their growth on the total Italian territory is definitely dynamic, considering that they increased of 18 percent in two years (2005-2007) and of 48 percent in the last six years.

We then explore the influence of farm and farmers characteristics on the adoption of direct selling in Italian farms. The findings have shown first of all that the probability of uptake of this marketing strategy is higher among multifunctional farms, for example among organic farms. It confirms the short channel as a successful marketing instrument to promote the sustainable production. Moreover, due to the strong linkage between sustainability and local production, direct selling results as a diversification strategy allowing farmers to emphasize the value of the local production. The emphasis refers not much as in terms of origin, but as freshness, healthiness and quality of products. This is shown by the positive results for the type of production (mainly vegetables) and the location of the production areas (less favoreud areas, mountains).

We then test on a regional sample the influence of proximity to urban areas on the adoption of direct selling. Our findings show that urban areas often have an attractive power in respect to the diffusion of direct selling. This attractive power appears to be partly related to the magnitude of the demand for food, hence to largeness of the urban population, and partly to the presence of social networks that fuel demand for seasonal and locally grown food. This indicates that the diffusion of direct selling is sensitive to characteristics of the territory in which farms are located. It also suggests that rural areas in proximity to urban areas may restructure their agro-food systems from agro-industrial forms of production to localized agro-food systems based on the presence of small scale family farms dedicated to supplying nearby cities.

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