

# CHAPTER I. INTRODUCTION

## A. Background

Indonesia is widely recognized as an agricultural country, characterized by abundant fertile land and a tropical climate. This natural endowment positions the country as a significant player in the global agricultural landscape. The agricultural sector plays a pivotal role in addressing the nation's economic challenges and fostering long-term economic growth. In the second quarter of 2024, the agricultural sector contributed 13.78% to Indonesia's total Gross Domestic Product (Central Bureau of Statistics, 2024). Consequently, the agricultural sector necessitates meticulous governmental attention, particularly in the formulation of policies that can effectively harness the sector's potential.

The agricultural sector is comprised of five distinct subsectors: the plantation crops subsector, livestock subsector, forestry subsector, fisheries subsector, and food crops and horticulture subsector (Mubyarto, 2015). Pratiwi et al. (2020) have explained that the horticulture subsector plays a strategic role and has potential for further development. The horticulture subsector comprises the following sub-subsectors: ornamental plants, medicinal plants, vegetables, and fruit plants. Commodities produced from the fruit horticulture subsector are a daily necessity for the community, thereby creating an opportunity for the subsector to continue to be developed.

Among the various fruit plants, oranges represent a commodity of high economic value, with Siam oranges in particular being a primary focus in the national horticultural landscape. The significance of this commodity is evident in the export value data, which demonstrates a substantial increase. In 2021, the export value was recorded at USD 0.71 million. However, this figure surged by more than double to USD 1.51 million in 2022 and remained at a notably high level of USD 1.36 million in 2023 (Ministry of Agriculture, 2024). The data indicates a strong demand, thus emphasising the pivotal function of the most prevalent varieties in Indonesia.

Orange is one of the most popular horticultural fruit commodities due to its affordability, taste, and nutritional benefits. In addition to being rich in vitamin

C, oranges also contain fiber, potassium, calcium, carotenoids, and flavonoids that support immune function, digestion, and cardiovascular health (Abobatta, 2019). In Indonesia, oranges are classified into two distinct types: siamese (tangerines) and large oranges (Ministry of Agriculture, 2023). According to Directorate General of Horticulture in 2023, the total number of Siam orange crops in Indonesia reached 21.936.727 trees/year (Appendix 1), with a total production of 2.831.099,4 tons/year (Appendix 2).

In line with this high production, domestic orange consumption levels also show an interesting dynamic. Based on data from Ministry of Agriculture, 2023, per capita orange consumption in Indonesia demonstrated a strong recovery trend after experiencing a decline in 2020. From a level of 3.301 kg/capita/year, consumption increased consecutively to reach its five-year peak in 2022 at 4.826 kg/capita/year.

In 2023, the consumption figure slightly decreased to 4.223 kg/capita/year, the overall consumption level remained high and had even surpassed pre-pandemic levels. This indicates that domestic demand for oranges remains solid, which aligns with the previous argument on the heightened public awareness regarding nutrition. This sustained high domestic demand is one of the reasons why the orange commodity, and Siam oranges specifically, have become so important in the national horticultural landscape.

Among various orange varieties cultivated in Indonesia, Siam oranges hold a dominant position in terms of production and consumer preference (Ministry of Agriculture, 2023). Compared to large varieties such as Pontianak and Batu 55, Siam oranges are favored for their relatively short cultivation period, continuous fruiting cycle, and adaptability to diverse agro-climatic conditions (Hidayat & Winarno, 2019). Despite their potential, the cultivation and marketing of Siam oranges still face various issues, including price volatility, inefficient post-harvest handling, and limited access to modern marketing channels. Price fluctuations are particularly problematic during peak harvest seasons when oversupply leads to sharp price drops, ultimately reducing farmers income (Sari & Yuliana, 2021).

Agricultural commodities are distinguished by their unique characteristics in the marketing process, including their substantial physical size (weight), considerable spatial requirements (volume), and their susceptibility to rapid deterioration and decay (perishability). In addition to the seasonal nature of agricultural product output, the geographically dispersed nature of production locations, often situated distant from marketing centers, can contribute to unfavorable market price structures due to the perishable nature of these goods (Sugiarto, 2014). This scenario necessitates the implementation of a siam orange trading system to ensure the timely delivery of products to consumers, while maintaining the quality expected by consumers and generating profitable outcomes for farmers.

The unique characteristics of agricultural commodities, as described by Sugiarto (2014), introduce considerable complexities into the marketing process, particularly for fresh horticultural products like Siam oranges. Attributes such as their perishable nature, substantial physical size (bulkiness), and geographically dispersed production locations contribute to heightened risks and logistical costs throughout the supply chain. This perishability, specifically, necessitates an expedited and efficient post-harvest handling and transportation system to mitigate quality degradation and financial loss, the absence of which can lead to unfavorable price structures at the farm level.

The efficiency of the marketing system is a critical pillar of the agribusiness framework, determining the overall performance of the supply chain. Kohl and Uhl (2002) define marketing efficiency as the movement of products from producers to consumers at the lowest possible cost while providing maximum services. Within the agribusiness sector, this efficiency is particularly vital because agricultural commodities like siam oranges are highly perishable and seasonal, requiring a streamlined process to mitigate risks of quality degradation and financial loss. A failure to maintain this efficiency often results in unfavorable price structures that disadvantage both producers and consumers.

This context establishes the urgency of the present research. There exists a significant discrepancy between the commodity's high production volume and strong market demand on one hand, and the inherent marketing risks and

vulnerability faced by farmers on the other. An efficient marketing system is required to address this discrepancy. Asmarantaka (2014) state a key indicator of such efficiency is the provision of a fair share received by producer farmers (farmer's share). Therefore, it is imperative to analyze whether the existing marketing system in Bukit Kerman operates efficiently and equitably, particularly given the inherent challenges of the commodity, to ensure farmers receive a just portion of the final value.

## **B. Research problem**

Orange is a prominent agricultural product in contemporary Indonesia, and the Kerinci Regency of Jambi Province is a notable orange producing area. The regency is identified as a prominent orange producing area in Jambi Province in 2023, with a production of 45,314.1 tons/year (Appendix 3).

Jambi Central Bureau of Statistics (2024) state that siam orange production in Kerinci Regency has shown a significant upward trend over the last five years. The production volume increased from 15,775.7 tons in 2019 to 21,504.9 tons in 2020, and continued to rise to 32,120.8 tons in 2021. The production reached its peak at 68,575.2 tons in 2022, representing a surge of more than 330 percent from the 2019 level. However, in 2023, production declined by 34 percent, falling to 45,314.1 tons (Appendix 3). Currently, Kerinci regency accounts for approximately 83 percent of the total siam orange production in Jambi Province. Various agronomic factors often influence such fluctuations in agricultural output. As a reference, research conducted by Aldini (2024) on the Siam orange commodity in Lima Puluh Kota Regency found that variables such as land area, nitrogen fertilizer (N) application, and KCL fertilizer application had a very significant partial effect on production levels.

Kerinci Regency is a notable orange producing area, with orange cultivation being widespread across a majority of its districts (Appendix 4). Within this regency, the Bukit Kerman district has emerged as the dominant production hub, with a total output of 17,091 tons, making up a significant portion of the regency's total production. This dominance is further emphasized by the fact that, based on data in Appendix 5, nearly every village in the Bukit Kerman district is engaged in orange cultivation.

However, achieving high production levels does not necessarily guarantee economic prosperity for farmers if an efficient marketing system does not support it. The transition from preliminary survey data to actual field research data reveals a more complex price structure in the region. In the shortest marketing chain (Channel I), the farm-gate price is recorded at IDR 8,000 per kilogram, while the retail price reaches IDR 13,000 per kilogram. In contrast, longer marketing chains result in farmers receiving lower prices, specifically IDR 7,500 per kilogram for Grade A and IDR 4,500 per kilogram for Grade B, while consumer prices can reach up to IDR 15,000 per kilogram. This evidence directly supports the economic principle that the shorter the marketing channel, the lower the marketing margin, and consequently, the higher the farmer's share will be. In this study, the shortest channel yields the highest farmer's share at 61.54 percent, confirming that channel structure is a primary determinant of marketing efficiency in Bukit Kerman.

The length of the marketing channels involved primarily drives the high marketing margin. The presence of multiple intermediaries, such as wholesalers, traders, and retail markets, extends the distance between farmers and final consumers. Each intermediary adds its own costs and profit margins, ultimately leading to inflated selling prices. Furthermore, the involvement of many intermediaries increases the marketing costs passed on to consumers, while farmers receive only a small portion of the final price. This exacerbates the imbalance in the distribution of added value and margins between the actors in the marketing chain.

Moreover, the discrepancy between the price received by farmers and the price paid by consumers reflects a structural issue in the Siam orange trade system. Farmers only receive a tiny share of the final price, indicating a lack of bargaining power in the market. The low prices at the farm level not only affect farmers' welfare but also reduce their incentives to invest in improving the quality and quantity of their produce. Therefore, addressing this issue is crucial for improving the welfare of farmers and the overall efficiency of the marketing system for Siam oranges.

The presence of marketing channel institutions has been identified as a contributing factor to the escalating marketing costs. These institutions endeavor to perform marketing functions that enhance product value, thereby increasing marketing expenses. These costs are often passed on to producers and consumers, either through higher consumer prices or lower producer prices.

Marketing channels are a pivotal component of the broader marketing framework for Siam oranges. In light of the aforementioned background, researchers are interested in analyzing the marketing efficiency of siam oranges in the Bukit Kerman District, Kerinci Regency. The following research questions have been formulated to guide this study:

1. How is the marketing channel of Siam oranges in Bukit Kerman District, Kerinci Regency?
2. What is the margin, farmers' share, and efficiency of the Siam orange marketing channel in Bukit Kerman District, Kerinci Regency?

### **C. Research objective**

Based on the problem formulated above, the objective of this research are:

1. To analyze the marketing channel of Siam oranges in Bukit Kerman District, Kerinci Regency.
2. To analyze the margin, farmers' share, and efficiency of marketing channels of Siam oranges in Bukit Kerman District, Kerinci Regency.

### **D. Research benefits**

The benefits expected from this research are :

1. For farmers in Bukit Kerman District, it is hoped that it can be a reference for choosing a more profitable Siam Orange marketing channel to help farmers market their products.
2. Academic Benefits, this research is expected to be a source of information for interested parties, and can be a reference for the following analysis.
3. For the author, it is expected to increase insight and knowledge, especially about marketing channels, as well as train the author to see actual conditions in the field and connect them with the theories obtained during lectures.