Unit 5: Marketing of Agricultural Commodities

Objectives:
• Define agricultural marketing.
• Describe agricultural marketing channels, agencies, institutions and support services.
• Describe agricultural marketing systems and their functions.
• Explain agricultural marketing systems using functional, institutional and behavioural approaches.
• Explain marketing cost, marketing margins and marketing bills.
• Explain the classification of utilities, value addition and the concept of consumer sovereignty.
1. Agricultural Marketing Definition

- Def: Agric Marketing is the connecting link between farm producers and consumers. The link involves two activities:
  - Physical distribution: Concerned with physical handling, processing, transfer of raw and semi finished or finished goods from the point of production to the point of consumption.
  - Economic exchange: Concerned with the exchange and price setting processes during the marketing stage or system.
Marketing definition by different people

- Consumer: Shopping trip to the supermarket.
- Farmers: May associate marketing with loading of cows into pickup truck to send to market.
- Food middlemen: E.g. Retailers, wholesalers and processors view marketing as a process of gaining competitive advantage over rivals, improving sales and profits.
Def: Agriculture Marketing

- Agric marketing is the performance of all business activities involved in the flow of food products and services from the point of initial agricultural production until they are in the hands of the consumers.
  - Definition has the following implications:
    - **Farm gate:** Before production there should be a market thus, marketing begins at the farm gate.
    - **Interdependence:** Between farmers, middlemen and consumers.
**Def: Agric Marketing**

- **Decision-making:** This implies decision making process. The effectiveness and quality of decision making influences the efficiency of the food marketing system.

- **Inclusion of farm supplies:** Farm input supply industry is the resource base of the food industry. Farm input form part of the marketing system.

- **Conflicts in the food marketing system:** Consumer interested in the lowest possible price while farmers wants to charge the highest possible prices for their product and marketers seek to earn the greatest possible profit. Food marketing system by definition tend to reconcile these conflicting demands.
What is a market

A market can be defined as an area for organising and facilitating business activities and for answering the following basic economic questions:

- What to produce?
- How much to produce?
- How to produce?
- How to distribute production?
What is a market............

Therefore, marketing or a market may be defined by:

- A location (e.g. Windhoek market)
- A product (e.g. The grain market)
- A time (e.g. August peanut market)
2. The marketing process

- The Agric Marketing system starts with the farmer and his production and ends with the consumer. But between these two, is the marketing system composed of:
  - **Business firms:** Engaged in physical and technological activities and run by people who make decisions.
  - **Exchange organisations:** Whose activities establish the selling prices, the various arrangements, the contracts etc.
The marketing process

The marketing system operates within the social capital on one hand and social rules and norms on the other hand.

- **Social capital:** Resources created by society. Large and efficient marketing system will not be possible without a well developed transport and communication system.

- **Social rules and norms:** Marketing system is influenced by the norms and rules that exist in society. E.g. Firms cannot hire children.
Different Forms of Utility in the Marketing Process

- **Form utility:** Farmers who produce cows and MeatCo that slaughter and processes them into meat cuts, add form utility, i.e. They change the form of raw material into something useful.

- **Place utility:** The railroad and truckers add place utility by moving the meat cuts from MeatCo in Windhoek to wholesalers, retailers, and consumers all over the country, making sure the product is accessible, bring it to the customer, or have it in a convenient place.
Different Forms of Utility in the Marketing Process

- **Time utility:** The meat processors may freeze and store some of the meat cuts and supermarkets may also hold inventory for future use. These are the time utilities. Making sure the product is available when people need it.

- **Possession utility:** Commission agents normally seek out meat processors who need meat and help transfer the cows from the farmer to the meat processors. A wholesaler also seeks out a retailer who will formally sell the meat to the consumer. These people are said to add possession utility. letting the customer have the product, usually after they pay, they can "possess" it and hold it, transport it etc. Possession utility is the value consumers put on purchasing a product and having the freedom to use the product as it was intended or finding a new use for the product.
3. Approaches to the Study of Agricultural Marketing

There are three main ways to study agricultural marketing. These are:
- The Functional approach
- The Institutional approach
- The Behavioural approach
The Functional Approach

- The marketing process can be broken down into functions.
- Marketing functions can be defined as major activity performed in accomplishing the marketing process.
- There are three major functions in this process listed below.
  - (a) Exchange functions
  - (b) Physical functions
  - (c) Facilitating functions
The Functional Approach

- **Exchange Functions** – Buying (procurement, finding source of supply) and selling (merchandising, promotion packaging and advertising).

- **Physical Functions** – involves handling, movement and physical change of the product – Storage (making good available at desired time), processing (manufacturing activities) and transportation.

- **Facilitating functions** – Financing (to carry out the marketing), risk bearing (accepting possibility of loss in Marketing of product e.g. physical and market risks)- insurance provision, standardization (measurement and maintenance of quality).

- **Market intelligence**: Is the function of collecting, interpreting and dissemination of market information.
Advantages of Functional Approach

- This approach is useful in analyzing marketing costs and studying the differences in costs between commodities.
- Three characteristics of the functional approach
  - Functions are costly but add value
  - Can’t eliminate the functions, thus the costs
  - Functions can be performed anywhere in the marketing systems

Middlemen of marketing – assemblers, wholesalers, brokers, retailers, order buyers, information providers, etc.

Uses of institutional approach

- help to look at specialization due to efficiencies such as:
  - division of labor and specialization
  - economies of scale and size
  - reduced market search and transaction costs due to middlemen
Behavioural Approach

- Studies agricultural marketing from a systems approach such as:
  - I/O system
  - power system
  - communications system, etc.
4. Consumer and Food Marketing

- The economic doctrine that the consumer is Queen or King in the marketplace that is driven by consumer demand is known as **Consumer Sovereignty**.

- This is the concept that each consumer decides independently what to buy and that the combined individual decisions directs all production and marketing activities in the economy.

- **But consumer demand is influenced by effective Advertising and Promotions**.
5: Marketing Cost and Marketing Bill

Food Marketing Doesn't Cost - It Pays!
Questions

- Does food marketing cost too much?
- Why are marketing costs so high and rising?
- How do marketing costs affect farm and retail food prices?
- How could food marketing costs be reduced?
- Are food marketing profits excessive?
Marketing Margin

- **Marketing Margin**: portion of the consumer’s food dollar that goes to marketing firms; difference in what the consumer pays for food and what the farmer receives

- Price of all utility added by marketing firms and includes all expenses and profits
Who Pays For Rising Marketing Costs??

Payment to Farmer

Farm Supply

Retail Demand

Payment to Marketing

Farmer 100%

Retail Price

Farm Price

Price

Quantity
Marketing Margin Myths (Misconception)

- Small marketing margins denotes efficiency
  If this were true, then, direct sales from farmers to consumers or roadside sales by farmers where the market margin is zero, will denote high marketing efficiency. But the fact is, efficiency cannot be judged solely by the size of the marketing margin.
Marketing Margin Myths

- Large marketing margins reflect “too many” middlemen

  ‘too many’ middlemen in the marketing chain causing high margins, and that margins can be reduced by eliminating middlemen. The fact is, middlemen can be eliminated but not their marketing functions which are the direct cause of high margins.
Marketing Myths

- Large marketing margins cause low farm prices
  
  The fact is, marketing functions add both value and cost to the farm products. Thus an increase in marketing margins can increase retail value and prices of food as a result of cost of marketing functions. But of course, some ads, and promotions obviously increase retail prices which may not be necessary.
Marketing Myths

- Marketing margin reflects profits to marketing firms

Both farmers and consumers cooperatives have been established in anticipation of reducing margins and profits. But the fact is, marketing margins consist of both cost and profits, and there is no guarantee that farmers or consumer cooperatives will perform without cost or perform marketing functions as efficiently as marketing firms.
Marketing Bill

- **Marketing Bill**: difference between consumer expenditures for all domestically produced food products and what producers receive for equivalent farm products.
- It is calculated p/a and serve as a measure of marketing margin.
Trends in Food Spending, Marketing Bill, and Farm Value, 1970-2000

billion dollars

current dollars  constant (deflated) dollars

Total consumer expenditures
Marketing Bill
Farm Value

In the 1990’s about 75% of total national consumer expenditure of food products went to marketing firms while 25% went to farmers. Farmers receive 25% of consumer food expenditure, whereas food marketing firms receive 75%.

To many, this ratio of 75:25 seem both unfair and an underestimation of the contribution that agriculture makes to society. But the fact is, the marketing bill does not tell us nothing about the Farm Value of farm prices or the marketing margin, nor is it an indicator of costs or efficiency in either the farm or marketing sector.

We need more information to evaluate the marketing bill in order to determine whether it is ‘fair’ or not.
Reasons For High and Rising Food Marketing Bill

- Increased population growth: As a result of population growth, the quantity of food that is marketed has increased, raising the total expenses of food.
- Increased income which increases Demand for marketing services (packaging, convenience, etc.)
- Rising costs of marketing: Rising labor and energy costs in food marketing have added to the rising cost of marketing food.
Cost Component of Marketing Bill

- LABOUR COST !!!
- Packaging
- Interest & repairs
- Transportation
- Advertising
- Depreciation
- Taxes
- Energy
Components of the Food Marketing Bill

- Depreciation, Rent, Interest: 16%
- Profit: 5%
- Taxes: 5%
- Advertising: 5%
- Energy: 4%
- Transport: 5%
- Packaging: 10%
- Labor: 48%
Profits in Food Marketing

- Increasing over time
  - Differentiated products
  - Diversified companies
  - Plant operation efficiencies
How Can We Reduce Food Marketing Costs?

- Reduce Food Marketing Services??
  - Advertising
  - Packaging
  - Etc.
- Increase Competition, Reduce Profits
- Reduce Inflation
- Improve Efficiency
The end!!