AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

BIBLIOGRAPHIC INPUT SHEET

FOR AID USE ONLY
Batch 66

1. SUBJECT CLASSIFICATION

A. PRIMARY: Food production and nutrition — AE70-0000-G302

B. SECONDARY: Distribution and marketing--Latin America

2. TITLE AND SUBTITLE

Marketing processes in developing Latin American societies

3. AUTHOR(S)

Slater,C.C.

4. DOCUMENT DATE	5. NUMBER OF PAGES	6. ARC NUMBER
1968	20p.	ARC

7. REFERENCE ORGANIZATION NAME AND ADDRESS

Mich. State

8. SUPPLEMENTARY NOTES *(Sponsoring Organization, Publishers, Availability)*

(In J. of marketing,v.32,no.3,p.50-55)

9. ABSTRACT

10. CONTROL NUMBER

PN-AAE-266

11. PRICE OF DOCUMENT

12. DESCRIPTORS

Latin America
Organizations

13. PROJECT NUMBER

14. CONTRACT NUMBER

CSD-786 Res.

15. TYPE OF DOCUMENT

AID 590-1 (4-74)

Marketing Processes in Developing Latin American Societies

CHARLES C. SLATER

Past economic development efforts have overemphasized production problems and neglected marketing problems. The thesis of this article is that marketing "barriers" exist which impede economic growth in developing Latin American societies. The author describes a systems approach for inducing national market development and facilitating economic progress through selective reforms.

Journal of Marketing, Vol. 32 (July, 1968), pp. 50-55.

IN MANY underdeveloped areas of the world the lower two-thirds of the income groups in most urban areas spend two-thirds or more of their income on food. As much as half of this expenditure provides assembly, processing (including the waste and loss in transit), and distribution services to bring food from the rural areas to the cities. Cities in Latin America are growing at explosive rates in many underdeveloped areas as a result of migration from rural areas as well as population expansion within the cities. Yet, while these cities expand, the marketing systems often remain ancient and apparently inefficient. Thus, it appears that the expenditure of one of the largest "chunks" of disposable income in the urban areas of underdeveloped areas of Latin America is to be found in the food marketing system and manufactured nonfood consumption goods marketing system serving large urban areas.

Scholars studying the role of marketing in development have underscored the need for interdisciplinary approaches.[1] To date, however, relatively few large-scale systematic studies of *marketing's role in development* have been conducted.[2] This paper offers a way of describing internal marketing processes based on research done in Puerto Rico; La Paz, Bolivia; and Recife, Brazil.[3]

The proposition considered was that "barriers" exist along the channels by which farm products reach consumers and, similarly, "barriers" inhibit market participants from increasing the supply of farm inputs and nonfood consumption goods to rural areas. Study of the marketing systems can identify ways in which selective reforms can enhance market participation and lead to increased production and increased real income throughout the developing countries. The paper attempts to relate the development problem to internal market processes, then develops the relation of "barriers" to improved market performance, and finally presents a program to induce internal market integration.

Internal National Market Processes

The development process often consists of increasing the income of a region by utilizing the surplus agricultural product to create

[1] Berthold F. Hoselitz and Wilbert E. Moore, editors, *Industrialization and Society* (Paris: UNESCO, 1963), p. 364.

[2] John R. Wish, *Economic Development in Latin America: An Annotated Bibliography* (New York: Praeger, 1965), particularly Chapter 3, pp. 33-60.

[3] The results of these studies conducted at the Latin American Market Planning Center are expected to be published later this year. Also see *Proceedings* of the American Marketing Association (Fall, 1965), pp. 30-37, for a preliminary report of this research.

specialized capital-intensive tools, primarily for use in the urban sector. Wyn Owen, for example, has asked:

> How can peasants be encouraged to produce a cumulative surplus of food and fibers over and above their own consumption, and how can this surplus largely be channeled to investment activity in the nonfarm sector without requiring in exchange an equivalent transfer of productive value to the farm sector?[4]

Professor Owen also pointed out that, broadly speaking, there have been two models of development, the "Marx-Leninist" model and the "Mill-Marshallian" model. The former is characterized by direct intervention of the state in production planning, in the imposition of a first claim upon the output, and finally, in the rationing of the surplus in order to foster selected urban development goals. The "Mill-Marshallian" model is characterized by a family farm operating unit in which a large part of the output is exchanged for direct satisfaction of the producer's wants, as opposed to subsistence. These two ideal types of development models are rarely found in the pure state. Some degree of regulation hampers competition; also, market farming exists in most socialist agricultural areas. Some areas have experimented first with one and then with the other of these models. Yugoslavia has shifted from the "Marx-Leninist" model back to the "Mill-Marshallian" model. As reported by Fleming and Sertic, a "profit oriented" Yugoslavian farm production system has enabled the nation to achieve a domestic saving rate of about 29% of the total social product.[5]

Owen concludes:

> . . . in the developing countries the emphasis clearly should be placed, not on immediate equity between farm and non-farm incomes, but on the maximization of the growth rate in agriculture and the maximum immediate diversion of the resulting increments to the protection and support of the emerging nonfarm sector and of the generally differentiated and interdependent features of a more highly developed economy. That is, the identified Mill-Marshallian model has been described not primarily to show how agriculture tends to be an unduly exploited sector in economically advanced countries, but rather to identify a tested and relatively painless method whereby the inevitably "painful" or sacrificial process of domestic capital accumulation can be set in self-sustaining motion and progressively accelerated in a traditional agrarian economy. But, first must come the will and the wit to effect those structural reforms which are necessary in most underdeveloped countries to condition the application of this method of accumulation.[6]

Walt W. Rostow probably has had the most influence in crystallizing understanding of the problems of reforming the marketing institutional structures of developing economies. In his book *The View from the Seventh Floor*, Rostow summarized his notions on the national market development process. He suggests:

> . . . that there are four major jobs that must be done, and they should be done simultaneously as part of a conscious national strategy, shared by the public and private authorities. The four elements are these: a build-up of agricultural productivity; a revolution in the marketing of agricultural products in the cities; a shift of industry to the production of simple agricultural equipment and consumers' goods for the mass market; and a revolution in marketing methods for such cheap manufactured goods, especially in rural areas.[7]

Rostow's thesis stresses that unless the dynamic process is brought into operation, the transference of resources can affect income distribution but has little growth result. Without careful attention to the exchange process, for example, little has been gained by some land reform projects, resettlement programs, and colonization programs.[8]

The Critical Sequence to the Internal Development Process

For the past two and one-half years a series of studies of the role of marketing in the development

[4] W. F. Owen, "The Double Developmental Squeeze on Agriculture," *American Economic Review*, Vol. LVI (March, 1966), pp. 43-44.

[5] J. M. Fleming and V. R. Sertic, "The Yugoslavic Economic System," *International Monetary Fund Staff Papers* (July, 1962), pp. 202-223.

[6] Same reference as footnote 4, p. 67.

[7] W. W. Rostow, *View from the Seventh Floor* (New York: Harper and Row, 1964), p. 136.

[8] "Factors Associated with Differences and Changes in Agricultural Production in Underdeveloped Countries," Development and Trade Analysis Division, U. S. Department of Agriculture (January, 1965).

• ABOUT THE AUTHOR. Charles C. Slater is at present Director of the Latin American Marketing Planning Center at Michigan State University. The Center is now engaged in large-scale studies of internal market processes of Bolivia and Northeast Brazil. Full reports on these studies will be released approximately one year from this publication date. Dr. Slater is a Professor in the Marketing and Transportation Administration Department, Graduate School of Business, Michigan State University. Previously he served as head of Arthur D. Little's Consumer Marketing Section and Vice President of Supermarket Foods, a subsidiary of Omar, Inc.

He has contributed to various professional journals and has served as a consultant to business firms and government agencies.

of San Juan, Puerto Rico; Recife, Brazil; and La Paz, Bolivia as well as a series of other more limited surveys of market institutions in other Latin American areas have been conducted. Based upon these studies, a process of inducing internal market development can be described as follows:

1. *Map Market Channels*

The first step of this process requires a careful mapping of the essential flow of products through channels for important domestically produced food products. This mapping is useful to describe the quantities, the grading, the processing, and handling contributions as well as costs and prices at each step in the assembly and distribution cycle. Then as the products are observed moving through the market channel, the channel operators are induced to reveal the critical risks they see as the limiting factors or "barriers" which inhibit their accepting responsibility for more products being brought through the market channel. Some observers have suggested that the key barriers are the future price expectations; others seemingly are uncertain as to the level of demand relative to supply in distant markets. In short, there appears to be a lack of information about some marketing conditions and lack of insurance against market uncertainties. These market defects tend to minimize the market exposure or risk the market channel operators are willing to tolerate, given the sometimes stringent limits of their capital resources.

Studies in Puerto Rico have revealed that the most favorable effects upon the output rates of commodities occur when the risks are reduced or spread back up the channel, starting at the retail level and working backward up the supply channel. When market risks are reduced, producers and distributors seemingly are more willing to expand their output.[9]

It is relatively important to be assured that the risks along the channel are not removed "down" the market channel first (for example, producer first, then distributor), for the production responses which might occur would run into the still-existing market blocks further along the channel. Once frustrated, the producers and assembly market operators would then be very reluctant to expand output a second time after market failure the first time. Morton Paglin observed:

> Since the farmer with a relatively large holding can eke out a moderate income without the trouble of hiring a high per cent of nonfamily labor, or the risk of borrowing additional working capital for other inputs associated with intensive cultivation, he frequently seems to prefer the low-effort, low-risk, low-output package to the higher-risk, higher-profit, higher-output combination.[10]

Mellor has described this preference for a minimum risk production option as a "low aspiration" pattern of behavior.[11]

2. *Institute Selected Market Reforms*

The second step in the process of inducing internal national market development is to inaugurate selected market reforms that will begin to provide assurances of market demand for products starting with retailer and going back up to the producer. When market reforms have spread or reduced risks, then added capital and options to utilize technology that will yield greater output may be more welcomed by innovators.

Again, it seems important at this stage to recognize innovators and to focus energies upon these more likely candidates for production and market channel expansion. In efforts to understand the differences in willingness to accept market risks, concepts of the diffusion of innovation developed by Everett Rogers and others can be useful.[12] The critical finding from these efforts to understand the diffusion of innovation is that there seem to be explainable and important differences in the rate of adoption of marketing innovations by retailers as well as others back up the commodity channel.[13]

3. *Expand Market Channel Capacity to Match Expanded Flow*

The third event or step in the process is to adjust to the increased output that will likely enter the market channels if efforts to minimize perceived market risks have been successful. Thus, a second generation of market channel reforms may involve credit expansion and price supports to accommodate the almost certain stresses that will be put on the existing marketing system. Often storage and handling facilities have to be expanded to match the higher output—or at least indemnification provided until storage and handling facilities are expanded.

Often, legal reforms are needed as production expands. For example, a turnover tax on value added

[9] Kelly Max Harrison, "Agricultural Market Coordination in the Economic Development of Puerto Rico" (Unpublished Ph.D. dissertation, Department of Agricultural Economics, Michigan State University, 1966), p. 112 ff.

[10] Morton Paglin, "'Surplus' Agricultural Labor and Development: Facts and Figures," *American Economic Review*, Vol. LV (September, 1965), pp. 815-834.

[11] John W. Mellor, "The Use and Productivity of Farm Family Labor in Early Stages of Agricultural Development," *Journal of Farm Economics*, Vol. 45 (August, 1963), pp. 517-534.

[12] Everett M. Rogers, *Diffusion of Innovations* (New York: Free Press of Glencoe, 1962).

[13] John R. Wish, "Food Retailing in Economic Development: Puerto Rico 1950-1965" (Unpublished Ph.D. dissertation, Department of Marketing and Transportation Administration, Michigan State University, 1967), pp. 144-188.

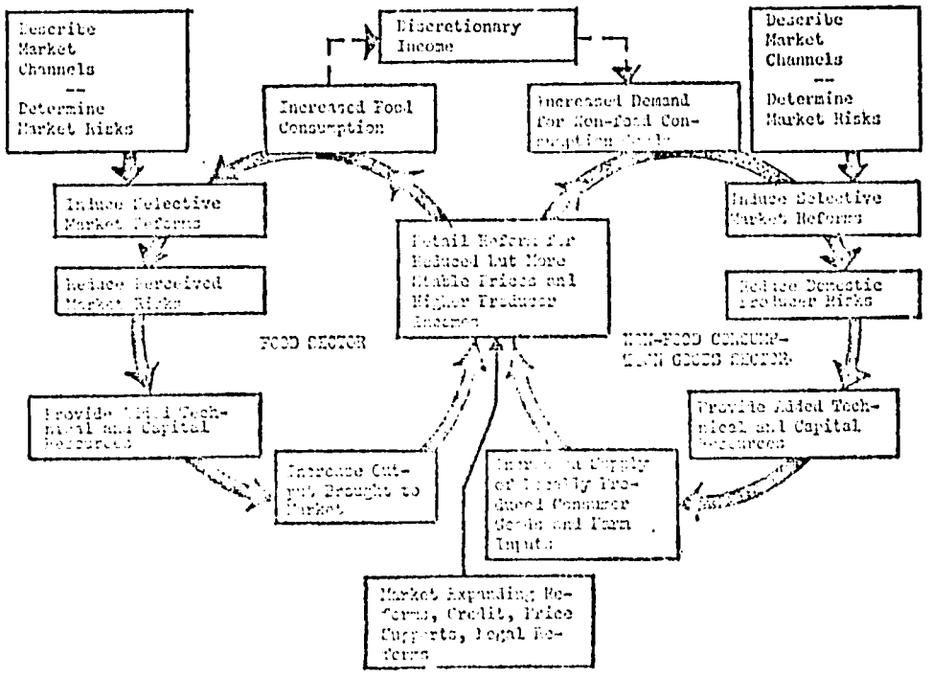

FIGURE 1. Inducing internal national market development.

is applied in Brazil. In the state of São Paulo marketing cooperatives are usually taxed the full 15%, while small independent merchants sometimes sell cooperative members' output without paying full taxes. Thus, because of collection differences, a tax scheme is penalizing cooperative marketing programs which are supported by other government programs.

The impact upon producers of the higher output at lower prices is usually to increase their higher gross, and often higher net, incomes. The lower prices have to be understood as necessary for the expansion of effective demand. The marketing of milk by producers in Puerto Rico is a case where output expanded at lower but more stable prices than producers had reasonably achieved prior to the installation of effective milk marketing programs.[14]

4. *Retailing Reforms to Create Multi-Product Outlets with High Turnover-Low Margin Operations*

A critical step in the process of reform of agriculture and food channels must take place at the retail level. Most developing societies are characterized by a multitude of small specialty merchants in public markets, who often sell small amounts daily at low margin, but do little to encourage suppliers by offering to buy large quantities of products of uniform quality at stable prices.

What appears to be needed are a few large multi-product merchants selling "lead" items at low margins to gain traffic and then gain profits from selling other, less frequently bought items at higher prices. Such large-scale retail operations need not cater only to the upper-income families. There are a few cases where such retail operations are affecting the marketing efficiency of communities.[15]

5. *Expansion in Demand Due to Lowered Prices and Greater Discretionary Income*

Finally, if the process has been organized appropriately, the increased consumption of food in the urban area yields higher levels of nutrition and productive energies. Of equal importance are the income elasticity effects. Robert D. Stevens found that in India the income elasticity for food was approximately 0.7.[16] Thus, while a larger stock of food at lower prices would induce increased consumption of food, it would also increase the discretionary income with the concomitant increases in demand for nonfood items. Therefore, a parallel analysis and planning task is needed to foster expansion of nonfood production and consumption based on a reduction in the perceived market risks faced by marketers of the locally-processed nonfood consumer goods and farm inputs.

The cycle of events can be illustrated schematically. (See Figure 1.) The task is one of identifying

[14] For a discussion of this problem of producer response to changes in price levels see Kelly M. Harrison, "Vertical Coordinations and Selected Product Markets 1950-1965," Robert Nason, editor, *The Role of Food Marketing in Economic Development of Puerto Rico: A Seminar Summary* (East Lansing: Latin American Studies Center, 1966), pp. 55-66.

[15] Same reference as footnote 13.

[16] Robert D. Stevens, *The Elasticity of Food Consumption Associated With Changes in Income in Developing Countries*, Foreign Agricultural Economic Report No. 23, Economics Research Service (Washington: U. S. Department of Agriculture, 1965).

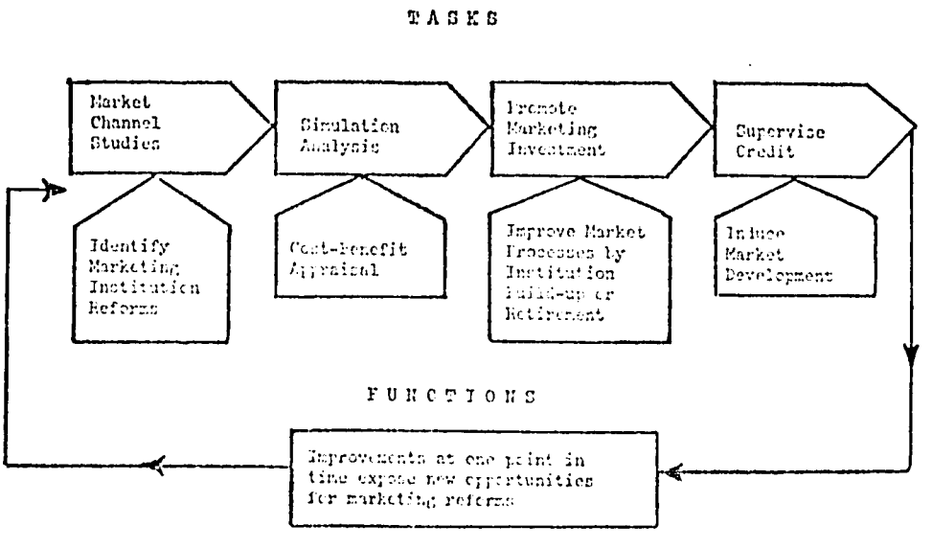

FIGURE 2. Organization for continuing marketing development effort.

the appropriate sequence of risk reductions or "barrier" removals that will induce expansion of output. Price elasticity of demand will result in income gains for the producing sector, while income elasticity will result in increased discretionary income to foster growth in the nonfood sectors of the economy. This description is, of course, an over-simplification of the process. Quite likely, there are several discontinuities and, in some situations, disfunctional features apparent in the kind of change outlined above. This description of market processes seems useful in understanding communities as varied as San Juan, Recife, and La Paz. The barriers to growth in income are, however, different in each of these communities, though the techniques of identifying them are similar. Three broad problem areas may be encountered.

First, the lags in the diffusion of innovation can seriously reduce the effective response to the risk reductions fostered by the changes in the marketing system.[17] Consumers and distributors, as well as producers, have to adapt to changes in the marketing reforms.

Second, the transfer of resources as a result of changes in marketing institutions is neither automatic nor necessarily trouble-free. Of great importance is the fact that the food marketing systems of underdeveloped areas are usually very labor-intensive, and most reforms reduce the proportion of labor needed to carry forward the marketing tasks. Usually, the market people have few alternative occupational opportunities, and they are a vocal, urban group. Thus, marketing reforms may not automatically receive a welcome from those now responsible for the traditional marketing system. It is, therefore, important to know: 1) the extent of increased consumption due to income effects; 2) the amount of discretionary income diverted to nonfood consumption expenditures as a result of the lower-priced but more plentiful foods; and 3) the extent and timing of displacement and unemployment caused by the marketing institutional reforms. Some of these market reforms can be expected to displace labor, even though gross product changes may more than offset the unemployment. Therefore, coordinated labor-absorbing activities may be needed as reforms are implemented.

A third problem is that the cycle of effects outlined above requires the government to have some way to compare the costs and benefits that such a development approach would entail. Without such a basis for evaluation, competing priorities for development could break the cycle outlined above. For example, the short-term balance of payments problem could very well induce high short-term priorities to be placed upon export crops such as sugar in the Northeast of Brazil. Against this shift in resources must be weighed the import substitution effects of greater domestic production of farm and nonfarm products that the efforts to expand internal national markets would induce. Similarly, import tax structures may be such that needed equipment for fostering more stable domestic production is denied entry on otherwise economically sound terms.

Conclusions and Problems of Application

The development efforts of the past have overstressed the production problems of development at the expense of solving the various exchange problems. This appears to be correcting itself to some extent. There also appear to be the beginnings of

[17] R. Vincent Farace, "A Tentative Conceptual and Research Framework for the Analysis of the Economic Exchange in Developing Countries," paper presented to the International Communication Division, Association for Education in Journalism (Iowa: August 30, 1966).

a theory of national market development, which is generally consistent with the observations of economists—such as Owen, Paglin, and Rostow—who point out the need for new social and quantitative research skills to deal with exchange institution reforms. The interdisciplinary team approach is making some limited headway in making the theory operational. Finally, there is a growing recognition that a systems approach, utilizing computers to assist in simulating complex processes, may be needed to appraise costs and benefits of alternative developmental strategies.

The question of how to proceed becomes important, for there is as yet no sustaining tradition to implement national marketing development. Internal national market processes seemingly need to be institutionalized. The critical problem is how to utilize government resources to foster the appropriate private sector growth. Here a page from the experience of Puerto Rico might be helpful. A series of development agencies "fomented" change. Observations "ex post" suggest a pattern which could be installed as a continuing task-oriented program. A four step program is shown in Figure 2.

The four steps can be described as follows:

1. Identify market development needs or opportunities by sustained research into marketing channels and the risks and bottlenecks seen by operators.
2. The costs and benefits attributable to the new (or continued) marketing institutional reforms can be evaluated—possibly using a simulation model as part of the decision processes of government and financial development officers.
3. For those projects that appear to have immediate merit, seek out and promote the participation of potentially interested investors and entrepreneurs. Here a different set of skills is needed because personnel evaluation and promotional efforts are not usually part of the marketing researchers' skills.
4. Finally, if the program is launched, supervised credit can be an important tool to foster the development goals and insure that operators (at least those who are in debt to the development agency) follow the desired rules of business operation. It is useful to bear in mind that some marketing institutions will need to be "retired"—and the use of development funds to "retire" inefficient institutions may be cheaper and faster than political techniques.

Internal market processes, described as outlined in this paper, permit development planners to identify specific reforms to foster market integration. Further, this approach allows planners to foster private sector development.