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An Attempt Towards Identifying Marketing Problems

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Introduction

This paper has a single purpose: a trial at a systematic approach to identifying marketing problems. For my intentions here, marketing includes all activities involved in moving commodities from the producer to the consumer, i.e., all the exchange activities of buying and selling; all the physical activities designed to give the commodity increased time, place, and form utility; and all the auxillary activities of financing risk bearing and disseminating information to participants in the marketing process. In short order then, the marketing system* is a process for signaling those engaged in the production, distribution and consumption of agricultural activities: it is a communicating system in which the different market roles come together to change ownership of the commodity.

It is useful to conceptualize marketing activities as a functional system. This conceptualization of the marketing system guides the researcher into seeing how each activity is associated with others and how actions taken to affect one activity may affect some that have gone on before or are likely to follow afterwards within the system. The concept

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* The concept of a marketing system is applicable to a single commodity or to an array of foods that are consumed in the country, a single region or a city, or a country as a whole. A system for a single commodity could well, and should in fact, begin with its production and include its flows through different intermediaries and processes until it reaches the final consumer. It would be too complex to describe the entire flow of foods from producer to consumers but be that as it may, the movements of major commodity groups may be charted to indicate special facets of the marketing system such as places where loss and spoilage occur, or places where the commodities may be processed to make them more nutritious.

further suggests that although functions take place internally, there may be forces external to the system which influence its functioning -- thus, the possibilities for identifying points of leverage which may be useful for moving or reforming the system.

Delineation of Marketing Problems

In addition to defining what constitutes marketing, a systematic approach to identifying marketing problems should include: (a) a delineation of the objectives that might appropriately be set for it; (b) an analysis of the institutions within the marketing system; and (c) some evidence of how existent marketing activities are meeting those objectives.

Then, an approach to marketing analysis should require a checklist of:

(a) A definition of the objectives, i.e., what should the marketing system achieve and what groups are to be served.

(b) An identification of the system(s) relevant to achieving the objectives or overall goals, e.g., the entire agribusiness system or the marketing portion of it, or the rice marketing subsystem.

(c) A determination of the components of the system, e.g., a price stabilization agency within the rice commodity system; a market information network; an agricultural marketing cooperative or authority;

(d) A definition of the environment within which the systems to be studied operate, including the factors which restrict and condition the functioning of the system. The environment includes political, economic, social and cultural forces as well as the general levels of economic activity, managerial capability, and technology.

(e) A definition of the output of the system. This would include the measures of performance of the system (amount of product moved through commercial channels, the number of market channels

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at least two different sets of facts. Firstly, the problem of rice marketing of the northern cities cannot be divorced from the overall production - distribution system for rice throughout the country (and from the linkages to overseas supplies); secondly, focusing on rice and resolving the problems of availability of the grain in the northern cities leaves many other marketing problems unmet-- e.g. supplies to some rural areas; protein levels for the urban poor.

In as much as similar marketing problems will inevitably appear in different countries, there are a number of factors affecting food distribution systems and which consequently make it difficult, if not invalid, to generalize about marketing problems in the "less developed countries". Coming to mind immediately, are at least six factors which affect the pattern of marketing systems. In conjunction with an earlier mention regarding the environment of the marketing system, the social and economic structure of a country together with its ideological commitment to a particular political economy influences the climate for private investment and the easy entry into marketing enterprises. In addition, the marketing system is influenced by the technological level* in the production sphere as well as in the overall economic structure. How nearly the country is able to meet its food needs from domestic production, the extent to which a very few crops make up the bulk of people's food supply and the extent to which the country is dependent on external food aid is another major concern. Then of course, there is the influence of the demographic variable, i.e. the size of the country, the population distribution within it and the rate of population growth. This, in turn, has to be coupled with the level and distribution of income, not to mention the pattern of urbanization and the proportion of people who are dependent on a commercial marketing system.

This will no doubt induce the rate of agricultural growth

Market Functions Constituting problem Areas

Inasmuch as the approach to analysis is simplistic the kinds of marketing functions that can be characterized can be grouped together into a "core". And this core of functions do infact identify themselves in very many situations irrespective of socio-cultural and politico-economic difference. Dissimilarities arise not from different marketing systems having different types of functions, but from having different levels of the same types of functions.

(a) First on the list are those functions pertaining to transactions i.e. those problems resulting from exchange involving buying, selling and more importantly, pricing. In traditional markets, transactions are personalized and there is a good deal of bargaining, prices are not standardized, and there is price variation not only between markets, but within one market itself. Sellers offer different prices for the same commodity and prices vary during the day and with the season. Thus, the notion of an equilibrium price, while explaining the general market condition to an economist, is an unknown phenomenon to the people who are actually involved in active buying and selling in the market.

There are a number of reasons for basic price differences in traditional marketing system: it is always assumed that price variation results from the lack of any price communication. I contend that price variation in different market places stems from a more complicated set of reasons. First, wholesale prices might be different. A retailer who makes purchases in the morning before other assemblers and farmers have arrived in the marketplace may find that s/he has paid a higher price than someone else who waited until there was much of the produce being offered all at the same time, later on in the day. Wholesale prices for perishables, especially vegetables, also vary proportionately with the distance travelled by the assemblers or producers to the market. Time spent in the market, also affects the price structure. In very many of the marketplaces in developing countries the market vendors sell in open spaces with only minimal shade from the sun and the elements. They would thus like to spend as little time as possible in the marketplace. The only way then of disposing the inventory will be to aim for a smaller profit margin so as to initiate faster

sales. In general, those who are willing to spend a longer day at the market can afford to quote slightly higher prices because total sales are spread over a longer time period than someone else who cannot be in the market for the same length of time. When we are talking of traditional markets in developing countries we are basically dealing with perishable produce whose cost value decreases after the first day. What is not sold in the first day has to be disposed of by the second day, at the most. Thus the seller who cannct stay longer than a few hours in the market might have to aim for a smaller profit margin, i.e. a cheaper selling price.

At the same time, much of the food product is sold in amounts worth the smallest monetary unit (e.g. 10¢ for a bundle of spinach weighing about four ounces) and since weights are not standardized, prices actually vary because no two bundles of spinach will be the same in terms of quantity and quality. Then, there is always the socio-economic personalism which affects buying and selling prices.

For the above reasons. regulations on the quality of commodities entering into commerce are not a critical factor in product movement or consumption. The unit of sale as is the unit of purchase is very small, both in terms of quantity and monetary value. The demand, as such, is not strong for other marketing services--marketing services as packaging and processing.

Furthermore, because prices of food in these markets are fixed (i.e. 10¢ for the bundle of spinach) there is not much incentive for the farmer, to produce* more. Although the price of food produce is relatively low and relatively inelastic, foods, other than the staple grain, have very elastic demands dependent upon the amount of money the individual family has available to spend at the marketplace. There are also those social and cultural constraints which coerce families, not into nutritious food consumption, but into capital investment - gold jewelry, livestock and, items of conspicuous consumption.

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* Here of course I am making the simplistic assumption that land and labor capital is easily available to the farmer whose decision then to increase production is only dependent on prevailing high market prices for his produce

The related problem that we run into, then, is the problem of nutrition. The diet of much of rural Asia, for instance is starch heavy and there is severe malnutrition from vitamin and protein deficiency. Because of rather expensive costs of the agricultural inputs and the general scarcity of the factors of production, with the exception of labor, production possibilities are not maximized. This, when combined with produce seasonality, means alternating between a period of glut and periods of acute shortages. Ecological variability in all these countries does indeed allow for the same crop to be grown at different times in different areas. It would allow for a constant supply of the commodity but because of the lack if not costs of storage and transportational facilities, commodity flows are highly restricted.

The issue at hand pertaining to the function of market exchange is therefore complicated and made up of a whole series of inter connected considerations and leaves one with an equally long series of questions. If market prices are highly variable, should there be an attempt at making the prices uniform and confirming to the dictates of supply and demand? If selling prices are low would the introduction of support prices be an incentive to increase production? If production is increased, are facilities available for marketing? From the new point of the consumer, would a reduction in buying price improve nutritional levels? Balancing the trade-offs between farmer and consumer through the price system in developing countries is a difficult task; even if the economic analyses are sophisticated, there are no easy answers.

In the problem of exchange functions, we are not only handling the pricing structure but the very processes of buying and selling which then means that concerns have to be directed to not only the producer and the consumer, but to the many market vendors who are professional and full-time and are not producers themselves Attempts are sometimes made to eliminate the number of market roles and market intermediaries so that costs of transferring the commodities from one point to another, are cut back. But being the viscious circle it is, the problem hits back - unless alternative employment is found for the market roles which are sought to be eliminated, unemployment becomes a difficulty to be borne by the target group.

b. Anyway, the next set of market functions which constitute problem areas are primarily

physical functions of transportation, storage, processing and grading i.e. functions involving the movement of the produce from the point of production to the final consumer. Transportation is often a critical bottleneck. The magnitude of the task of transporting agricultural commodities grows more rapidly than production itself. It is not surprising to find, in developing countries, points of production being far removed from major systems of transportation. This results in higher costs of moving the produce to the consumer and shortages of the produce, especially food, in those areas where it is not cultivated, the urban areas and cities, for instance.

Animal transport no longer suffices when commercial farmers have greater quantities to sell and need to seek larger markets at greater distances. Hence, the need is for roads and transportation systems that can move more products, more rapidly, and at low cost. Greater speed and lower per-ton mile costs are vital since more commodities move greater distances. Transportation is a significant factor in the spread between prices the producer gets and the consumer pays for farm products. If the transport system is inadequate and contributes to increased spoilage, consumer and producer prices are likely to reflect the losses incurred.

When a significant portion of food needs among food deficit countries is met by imports from food surplus countries, commodities are unloaded at the ports and from there are moved directly to the larger coastal cities which, usually have at least a fairly connected network of roads. But such food gets into the interior only with difficulty. Similarly, manufactured items from the urban areas are very expensive in the rural areas. The problem becomes acute when chemical fertilizers and such production inputs are very expensive because they have to be brought in from the outside. If inputs are expensive, then costs of production are high and if the harvests cannot be moved out into areas where they are demanded, the entire production-distribution-consumption process becomes meaningless.

Among the issues raised by requirements for better transportation is which commodities or growing areas or consumer centers should get highest priority in a planned network of transportational facilities. How are policies and priorities for the transportation of agricultural commodities related to other sectors in the economy? And,

since transportation networks require considerable capital investment, how might such requirements, connected with domestic food movements, be weighed against capital requirements for such related facilities as building irrigation canals for production and setting up manufacturing enterprises to diversify the economy.

Storage is almost as pervasive an issue as transportation when commercial production of crops increases and significant amounts of grains and/or perishables are produced above immediate market requirements. There are several critical issues in attempting to meet storage requirements. First, which commodities should have priority access to storage? In many countries one or two food grains are involved and the storage for one commodity precludes the building of storage for another. A second issue is that of locating facilities - if the country is dependent on imported food then it might be better to have the facilities closer to the ports of entry; on the other hand, it might be more desirable to have storage facilities close to the production areas. This is particularly important where the storage is associated with cleaning, grading and milling operations. But the location of storage facilities may also determine which producing or consuming regions of a country are likely to be favored with more stable supplies and prices. And, at times, a particular location may favor large producers over small producers (or vice versa). The third issue pertains to ownership of the storage facilities: government agency, private trader or farmer organization. Ownership of storage facilities provides a measure of control over the price the farmer receives and the price the consumer pays. Private traders may incluence actual price by their interpretation of a commodity's quality (against government standards) so that even where there are minimum prices, the farmer may get something less. Traders may also influence prices paid by limiting the quantity of a commodity they will accept for storage or the terms under which acceptance is made. Ownership by farmer groups often means control by larger producers and may aggravate differences between them and the small farmer. Finally, capital and credit requirements for building and operation need also to be taken into account in policies.

Processing and packaging facilities are, more often than not, insufficient. Because supplies are never assured the private sector is not too enthused over setting up

processing plants which are fairly capital intensive investments especially if transportational and storage facilities are only minimal. If processing facilities cannot be located near the points of production because say, there has been no electrification of the area and the plant needs electricity, where else can the plant be located while freight costs and total costs are kept at a minimum? If the processing plant is located away from the place of production is there sufficient packing and transportational facilities to allow for the produce to be taken to the processing plant without being damaged or spoilt.

All these necessary kinds of physical functions needed for the efficient running of marketing systems need technical skills which might not be available among the local rural populace. At the same time, the traditional marketing system might indeed be running efficiently irrespective of what we consider to be difficiencies. The ultimate aim of an efficient system is to have the commodities circulated over a bigger area such that both the producer and consumer can benefit from a larger market. Ethnographic evidence from throughout the world provides proof enough to show that market maximization is not necessarily a function of sophisticated economic principles and analyses but a result of an intricate web of social relationships and kinships ties. There is an abundance of examples from Asia, Africa and New Guinea.

So, what should be of more concern for those of us involved in rural development are questions of equity-planning treating an effecient marketing system will not necessarily eliminate rural poverty; in some instances it might only be detrimental since a reallocation of economic resources in the name of development can only result in greater intensity of social and class differentiation. I will save this part of the argument till later and for now continue with what has to be done.

c. The final function of the marke ing system is truly in line with the needs of creating an efficient market where there is a high frequency of vertical coordination and market integration activities. The functions that I refer to here are facilitating functions or service functions -- functions involving financing and risk bearing, marketing information and news, demand creation and research. I am referring to a set of market functions that tend to be a problem area more so

in a sophisticated economic structure where there are all kinds of production specialization and where production is geared towards the market. It is unlikely that such problems will appear with much frequency in the marketing systems of developing countries but, be that as it may, we might want to provide thought about them.

The demand for more services in connection with commodity marketing arises not only from increased volume but also from the altered relationships among producers distributors and consumers. In many instances, the buying and selling is done by intermediaries and there is personal knowledge, understanding, and trust present in face-to-face transactions.

The need for better market news and information about prices and commodity flows increases as crops move greater distances and are shipped to alternative urban markets Informal information systems no longer suffice. At the same time, market news, to be meaningful, requires widely known and accepted standards of quality and containers for commodities being marketed. Such standards need not only have to be promulgated but policies have to be made to assure conformance and continuing confidence by all parties to the transactions. At issue then is not only the rules and regulations laid down but how widely they are known and adhered to.

The amount and kind of marketing services demanded is actually highly dependent on the economic structure of the targeted area: level and variety of commodities reaching the market; income level and expenditure pattern of the population; social and class structure of the population; the extent to which the population is concentrated in urban areas. Each commodity requires its complex services to facilitate transactions and movements. With higher incomes, people are likely to spend more on marketing services to increase the convenience or quality of the commodity. More wheat will be wanted as bread, more milk will be bought in pasteurized form and more fruits and vegetables might be eaten in lieu of food grains.

Thus far I have been concerned with the identification of marketing problems. In the following section, I would like to see what are the kinds of policy considerations and marketing system objectives that we should be thinking of in seeking a more positive role for marketing and what social, cultural and economic considerations need to be taken into account.

Policy Considerations and Marketing System Objectives

A few, concerned with economic development, have been arguing that marketing has a positive rather than an adaptive role in agricultural systems and the overall economic growth of a country. Rostow, in a widely cited paper (1965), notes that a national market is essential for economic growth in both agricultural and industrial goods, and that rural people must be brought into the money economy to make for national markets. His concern is with a market broad enough to purchase increased industrial as well as agricultural goods, and that rural people must be brought into the money economy to make for national markets. Some, like Drucker (1958), assert that marketing is a motivating force in economic development, that marketing provides innovative and entrepreneurial elements in the economy.

Collins and Holton contend that distribution can play an active role in economic development by holding down costs of food and increasing demand, thereby encouraging expansion in farming and related economic services (Eicher and Witt 1964). If there is an emple and low-cost supply of food, wages in manufacturing and other industries may be held down, thereby contributing to low production costs in other parts of the economy. The additional services involved in an expanded and modernized marketing system offer possibilities for new jobs. Moyer (1965) draws upon conclusions of other studies and lists a number of ways in which marketing can contribute to development.

The view of this paper is that although an efficiently functioning marketing system is a necessary factor for sustaining economic growth, more concern should be given to the questions of equity -- market development does not need to be correlated with agricultural commercialization; development is better accomplished if resources are more equitably reallocated and everyone participating in the economic system receives a fair share. If the goals of a development program are to eliminate rural poverty and to improve the standard of living of the target group, creating an efficient marketing system, while providing some input in the short-run can be disasterous over the long run, especially if the new efficient

marketing system benefits only those groups which have the capital resources and political power. The situation then can turn out to be disastrous with the small farmer refusing to increase production beyond the level of his needs because an increased production did not increase income; there were more expenses by way of taxes needed to maintain the new transportation and service facilities set up by the public sector in increasing the efficiency of the marketing system; cost of production inputs - e.g. land - could have gone up because of the increase in demand for such inputs but the cost of which cannot be afforded by the small farmer; the difficulty of obtaining production credit because informal social and familiar networks which were the traditional source of credit have been affected and banks need collateral securities, the kind of which the small farmer does not possess. The list is endless and we can keep on going, but I think that I have made the point that although questions of efficiency are significant their significance becomes meaningful only in relation to questions of equity which are more in line with the new mandates for rural development.

The manner in which the marketing system for food is organized in a country is influenced by its socio-economic objectives. These objectives are, in turn, shaped by normative traditions and diverse interests of society. National objectives reflect compromises within the society and some balance between internal (and external) forces at a given time -- the priorities accorded to national objectives and the manner in which a nation organizes its resources to achieve them is a function of many political, economic, and cultural factors.

Some of the policy considerations associated with food marketing systems and which are particularly critical are (1) the effects that changes in marketing may have on unemployment or the generating of jobs; (2) the extent to which non-traditional marketing channels can satisfy food and nutritional needs; (3) the extent to which real incomes and levels of hiring are enhanced

Against the background of the above outlined considerations, we should examine marketing systems and initiatives in terms of how they are able to assist the development of the small farmer and the rural poor. They are likely to require great care and assistance. This

means that we should evaluate a marketing initiative in terms of how it could help the small farmer: (1) obtain easier access to productive resources; (2) improve his production technology; (3) obtain credit on more favorable terms and; (4) raise his bargaining power on the market. And all this has to be done in spite of the farmer possibly being handicapped by a sense of social inferiority, by lack of economic resources and therefore, reduced ability to take risks, and by limited education and access to technical and economic information.