

RECENT EVOLUTION OF URBAN WHOLESALE/RETAIL FOOD  
DISTRIBUTION SYSTEMS IN THE THIRD WORLD

by

KELLY HARRISON ASSOCIATES, INC.

Prepared for  
SIGMA ONE CORPORATION

PIO/T No. 6361292  
Contract No. DHR-1096-C-00-6037-00

Applied Research and Technical  
Assistance in Agricultural Marketing

December, 1986

RECENT EVOLUTION OF URBAN WHOLESALE/RETAIL FOOD  
DISTRIBUTION SYSTEMS IN THE THIRD WORLD

Table of Contents

PREFACE	1
THE URBAN WHOLESALE-RETAIL FOOD DISTRIBUTION SYSTEMS IN BROADER CONTEXT	3
A. The Agricultural Commodity Market System Defined	3
B. Economic Development Context	4
FORCES OF CHANGE	6
A. Paradigm of Evolution of Food Marketing System	6
B. Predictive Variables	8
C. Associated Attributes	12
TRANSFORMATION OF THE WHOLESALE-RETAIL MARKETING SYSTEM	14
A. Evolution vs Intervention	14
B. Appropriate Evolutionary Pattern	15
C. Signs of Disequilibria	20
INTERVENTIONS IN THE EVOLUTION OF THE MARKETING SYSTEM	23
A. Litany of Market Reform Measures	23
B. Criteria for Viability	25
LESSONS FROM THE RECORD OF INTERVENTIONS	27
A. Successful Examples from Latin American Experience	27
B. Examples to Avoid	30
C. Guidelines for Redesigning Market Interventions	33

REORIENTATION OF FOOD MARKETING RESEARCH AND PLANNING ACTIVITIES	35
A. Critical Issues for Additional Research	35
B. Opportunities for USAID in Light of the Evolutionary Process	36
C. Rapid Reconnaissance Methodology for Marketing Diagnostics	37

TABLES

Table 1: Paradigm of Urban Market Evolution	7
Table 2: Urbanization	9
Table 3: Per Capita Income	11

FOOTNOTES

40

## BREFACE

Nowhere in the literature of agricultural marketing does there exist a synthesis of the features of the wholesale-retail food distribution system as they evolve in developing economies. The recognition of this lacuna prompted the initiation of this paper. Having plunged into some of the relevant literature and having reviewed the last twenty years of endeavor in this sphere of enquiry has only heightened the author's awareness of the need for a complete text on the topic. This presentation is intended to serve as a basis of discussion for the kind of research which should be initiated now.

The exercise of having to put the observed features of the wholesale/retail system into an evolutionary perspective has increased the author's recognition of how important this basic understanding is to improving the interventions of marketing practitioners. At the same time this study has reinforced the impression that the most relevant literature on the topic remains the work which was written more than a decade ago and which focuses solely on the countries of Latin America. The Latin American Market Planning program at Michigan State University, and the related research projects undertaken by COBAL in Brazil and FIDEC in Mexico stand out as some of the few sources of relevant documentation today.

Most of the work on food marketing in Africa has focused heavily on rural or producer oriented issues. This includes the work done by William O. Jones, Carol Smith and William Skinner at Stanford University as well as the more recent work at Michigan State University.

The FAO, the IDB, and the IBRD have undertaken numerous public wholesale and retail market construction and reform projects which has generated a useful body of marketing literature. Few of these projects however have attempted to be master marketing plans for systemic change. One of the few examples of such a plan outside of Latin America which comes to mind is the case of Korea. Further documentation of that recent major undertaking will be welcomed. In general however, it is high time for a reconsideration of market planning as a discipline to respond to the woes of development in the Third World today.

The objective of this report is to help AID S&T/RD to develop a program of research and technical assistance activities in the area of urban wholesale/retail food distribution systems in less developed countries. It is to

provide the basis for critical discussion of key issues related to the evolution of the marketing system and appropriate interventions to facilitate the development of that system. If this paper provides the necessary spark to ignite interest in the outstanding issues of wholesale-retail market interventions, it will have been a success.

THE URBAN WHOLESALE-RETAIL FOOD DISTRIBUTION SYSTEM  
IN BROADER CONTEXT

To understand the functioning of the urban wholesale and retail food marketing system in Third World cities it is imperative that the system be seen in the context of the broader agricultural commodity marketing system of which it is a part.

A. The Agricultural Commodity Market System Defined

The market system for agricultural commodities consists of the series of transactions and associated activities and facilities which are responsible for moving agricultural products from the producer to the consumer. The range of possible transactions which may be required from farmgate to the consumer can be categorized according to conventional functional steps depicted graphically below.

PRODUCTION  
+  
ASSEMBLY  
+  
PROCESSING  
+  
WHOLESALEING  
+  
RETAILING  
+  
CONSUMPTION

"+" = TRANSPORTATION and STORAGE

Not all of the steps may be observable as discrete transactions in a given commodity system. The same functions may be performed without a high degree of specialization. In the simplest instance the producer performs all of these functions and sells directly to the consumer. The string of activities and facilities through which products must pass from producer to consumer varies to suit the particular product, place and complexity of the demand structure. The absence of discrete institutions identifiable as "assemblers", "wholesalers" or as "retailers" can be the case either for simple economies or in sophisticated vertically integrated marketing systems in which the differentiation is entirely internal.

It is important to understand the terms used to describe the distinct levels of exchange irrespective of the degree of differentiation of those functions. The following basic definitions will be useful throughout the discussion:

- ASSEMBLY: Collection and accumulation of the commodity into units of the most economical quantities, entailing collection, sorting, grading, and storage. While transportation is in fact a separate function, assemblers often perform this activity as well.
- BROCESSING: Any activity which adds value to the commodity through some physical transformation of the product. This includes simple activities such as slaughtering, cooling, cooking, drying or packaging.
- WHOLESALEING: Selling to intermediary merchants, but who do not sell principally to consumers. The intermediaries may be retailers, industrial or institutional users, or to other wholesalers.
- RETAILING: Selling to final consumers.

B. Economic Development Context

Economic development is essentially the process which results in increased resource productivity. This is achieved through increased specialization and the development of new technologies and institutions which permit greater returns to labor and capital through increased efficiency. The evolution of the urban food distribution system is best understood in this context.

In the early stages of development the most efficient marketing processes are simple and direct. Production and demand are relatively homogeneous with little regional specialization. Few opportunities exist to coordinate production with more profitable market opportunities.

As specialization proceeds, clusters of population form small urban areas where off-farm service or producer enterprises, government and administrative services, and financial and legal institutions concentrate. The demand of the urban population for agricultural products in turn creates a need for more highly specialized marketing services. The products required are both for direct consumption and as inputs for an increased number of processing enterprises.

The other important new tendency in the structure of demand as development proceeds is the creation of export industries which in the initial stages are often handled through parallel specialized

marketing channels. Those exports tend to be unprocessed raw materials, produced in response to the demands of foreign entities, which can be further processed for a profit in the importing country. As the national economy evolves toward higher incomes, increased urbanization, and improved marketing infrastructure, those products may play a larger role in the local economy and value added processing may emerge for both local consumption and for export. The implication is that the domestic marketing system is improved as the export marketing system becomes more efficient in a global market economy.

Varying levels of productivity in the urban clusters result in varying levels of income and therefore differing demands for agricultural commodities. As the process of specialization continues, and as labor productivity and demand for food increases, the market system must become more complex as well. The most notable shift in demand is away from starchy roots and direct consumption of grains to increased consumption of meat and indirect consumption of grains. Marketing channels must then evolve to respond to different streams of varying volumes, types and qualities of food products.

The two most dramatic changes in the behavior of urban dwellers as compared with their rural origins are the increased demands for convenience and for variety.

The trend towards a more varied array of food products has several causes. The population which concentrates in urban areas is itself from varied regional backgrounds with demands for products which are not familiar to all of those areas which serve the urban demand for agricultural products. Furthermore there are changes in the demand for products as the population acquires a taste for foods with which they were previously unfamiliar. Hence, the marketing system is expected to provide a wider assortment of products as development proceeds.

The trend towards demand for greater convenience is the result of the higher value of the consumer's time and of the greater distance which urban consumers generally must travel on a regular basis to maintain supplies of food items. This latter characteristic is especially pronounced in those cultures where there is a strong demand for various perishable commodities. The premium which is placed on the consumer's time in purchasing foodstuffs is mitigated to some extent by delegation of buying duties to members of the household or household employees who have a relatively lower cost associated with their time. Even so, over time the marketing system must respond to the desire for increased retail stores to appear in urban residential areas and for mobile vendors or street fairs to replace the consumer's daily trip to some central market plaza.

## FORCES OF CHANGE

The progression towards increasing productivity passes through a different path in each economy, often faltering and falling backwards. The host of problems associated with the development process are all too well known. Moreover the measures taken by governments to alleviate these afflictions often generate new and sometimes more pernicious problems. The purpose of this paper is:

- 1) To track and explain the generalized evolutionary course of events in the development of food marketing systems;
- 2) To analyze the interventions governments and development institutions have undertaken to assist that process; and
- 3) To direct additional research into marketing issues and design which will advance the development of the urban food distribution system.

As planners seek to foment development in their own societies or in less developed economies they attempt to assist, they typically seize upon efforts to increase efficiency in production technologies. These same planners tend to give little or no emphasis to labor productivity in the commercial sector. Attitudes towards the commercial sector frequently are shaped by the misperception that merchants are parasitic elements rather than productive elements whose enhanced efficiency would benefit consumers and producers.

### A. Paradigm of Evolution of Food Marketing System

Table 1 is a graphic depiction of the evolutionary process of the marketing system. The table traces the chief characteristics associated with the process of change from the rural economies which spawn the incipient urban marketing system to the most advanced marketing systems found anywhere. Those characteristics are divided into two categories. The first five are the predictive variables which may be properly considered as the "Forces of Change". There are however a number of important secondary characteristics which are associated with the progression but which evolve in response to the more fundamental predictive variables.

These two types of characteristics exhibit a complex interaction which makes determining causality difficult at times. Changes in the production system and in the marketing system are highly interactive. Producers become more market-oriented as the urban markets develop, but it is difficult to say that the change in the production system was the cause of the evolution of the marketing system. Rather the production system, product mix, and

TABLE 1:

## Paradigm of Urban Market Evolution

CATEGORY	PREF-URBAN	STAGE I	STAGE II	STAGE III
I. URBANIZATION & REGIONAL SPECIALIZATION	PREDOMINANTLY RURAL WITH LITTLE REGIONAL DIFFERENTIATION	DISCRETE URBAN CLUSTERS WITH INCIPIENT REGIONAL SPECIALIZATION	SUBSTANTIAL URBAN HUBS SURROUNDED BY DISTINCT AREAS ASSOCIATED WITH DIFFERENT TYPES OF AGRI & INDUST PRODUCTION	PREDOMINANTLY URBAN POPULATION, PRONOUNCED REGIONAL DELINEATION OF PROD'N CORRESPONDING TO COMPARATIVE ADVANTAGE
II. INCOME LEVEL	LOW INCOME	LOW & LOWER- MIDDLE INCOME	LOWER- MIDDLE & UPPER- MIDDLE	UPPER- MIDDLE, HIGH & INDUSTRIAL MARKET ECONOMIES
III. TRANSPORT & OTHER INFRASTRUCTURE	PATHS & CRUDE ROADS	MARKET ROADS & LIMITED URBAN INFRASTRUCTURE	CENTRALIZED WHOLESALE FACILITIES, GOOD REGIONAL & EXTENSIVE NATIONAL TRANSPORTATION	TRANSPORTATION INTEGRATED WITH INTERNATIONAL NETWORK
IV. COMMUNICATION INFRASTRUCTURE	LIMITED OUTSIDE LOCAL AREA	REGIONAL COMMUNICATION LIMITED, TELECOMM'N PRINCIPALLY IN CENTRALIZED FACILITIES ONLY	EXTENSIVE NATIONAL COMMUNICATION NETWORK INCLUDING TELECOMM'N	COMMUNICATION INTEGRATED WITH INTERNATIONAL NETWORK
V. GOVERNMENT INVOLVEMENT	SPORADIC GOVERNMENT INVOLVEMENT	REGULAR INVOLVEMENT WITH AT LEAST LIMITED EFFECT ON MOST ALL PRODUCTION & MERCHANDISING	COMMODITY POLICIES, SOME MARKETING BOARDS, EXTENSIVE INVESTMENT IN URBAN FACILITIES	SYSTEM OF TAXES/SUBSIDIES EFFECTING MOST COMMODITIES, GOVERNMENT OPERATION OF SOME FACILITIES BUT EXTENSIVE PRIVATIZATION
VI. PREDOMINANT TRADER INSTITUTION	HOUSEHOLD MEMBERS ONLY	RURAL PRODUCER- TRADERS & URBAN BUYERS	PROFESSIONAL MERCHANTS	MERCHANTS & SOME VERTICALLY INTEGRATED PROCUREMENT
VII. PRODUCTION SYSTEM	SELF SUFFICIENCY	MARKET SURPLUS PRODUCTION	MARKET ORIENTED PRODUCTION	GLOBAL MARKET ORIENTATION
VIII. PRODUCT MIX	PREDOMINANTLY GRAIN & STARCHY ROOT CROPS	SEASONAL FLUCTUATIONS STILL GREAT, GROWING IMPORTANCE OF HIGHER VALUE PRODUCTS	EXTENSIVE VARIETY, SOME IMPORT SUBST'N INCREASED PERCENTAGE LIVESTOCK & HORT. PRODUCTS, CONVENIENCE FACTOR GROWING	FULL GAMUT, HIGH PROPORTION PERISHABLES, MEAT, FISH, EGGS & DAIRY PROD. CONVENIENCE CONSIDERABLE IMPORTANCE
IX. FINANCIAL INSTITUTIONAL SUPPORT	LOCAL ONLY	LIMITED NON-LOCAL MONEY LENDING	DEPENDABLE FORMAL CREDIT	RELIANCE ON NATIONAL & INTERNATIONAL FINANCIAL INSTITUTIONS
X. MARKET COORDINATION	AUTONOMOUS	SPOT MARKET & IMPERFECT DEMAND ANTICIPATION	SOME FORWARD MARKETING	DYNAMIC EFFICIENCY RESPONDING TO GLOBAL MARKET INFORMATION
XI. SPATIAL ORGANIZATION OF MARKETS	DIFFUSE POINTS OF EXCHANGE	PERIODIC MARKETS	FIXED CENTRAL EXCHANGES	MULTIPLICITY OF CENTRAL PLACES & TARGETTED DIRECT BUYERS

predominant type of trader are characteristics which evolve in response to the more fundamental processes of urbanization, specialization, income growth and support of government institutions and infrastructure.

This schematic depiction is obviously an idealization of the processes which take place. The paths of no two marketing systems are identical. The fundamental distinction between the patterns traced by different developing economies is the differing rhythm of progression between the stages. Observing how the evolution of one category may lag behind the progression expected from the idealized paradigm can be useful for planners in diagnosing problem areas and designing interventions. The usefulness of this paradigm at present is as a first attempt at building a realistic yardstick which fellow marketing specialists can refine as a standard diagnostic tool.

## B. Predictive Variables

The following paragraphs characterize each of the rubrics used in the paradigm of market evolution depicted schematically in Table 1.

### 1. Urbanization and Regional Specialization

The best objective measure available to us for measuring urbanization is the World Bank Table showing urban population as a percent of total population for each country in the world. Table 2 reproduces that data for a wide spectrum of countries around the world. As a practical rule of thumb Stage I countries have up to one third of their population in towns and cities. Stage II has a level of urbanization between one and two thirds, while Stage III has more than two thirds of the population living in urban areas. The reader should be careful to note that the ranking in Table 2 is based on income levels rather than level of urbanization. However, there is a high correlation between income levels and degree of urbanization.

The concept of regional specialization follows our earlier discussion of the broader development process. As urban demand becomes more variegated, rural areas respond by developing according to their relative comparative advantages. This is a phenomenon which can be observed and measured. There is however no handy objective index of regional specialization. The level of urbanization will serve here as a surrogate for that index until more in depth work can be done.

	Urban population				Percentage of urban population				Number of cities of over 400 000 persons
	As percentage of total population		Average annual growth rate (percent)		In largest city		Over 400 000 persons		
	1985	1983	1985-73	1973-83	1980	1980	1980	1980	
Low-income economies	17	22	4.4	4.5	13	18	31	55	146
China and India	18	22	4.4	4.5	13	18	31	55	146
Other low-income	13	21	5.2	5.0	7	9	33	59	49
Sub-Saharan Africa	11	20	6.2	4.0	25	28	19	40	51
1 Ethiopia	8	15	7.4	5.0	30	37	0	37	1
2 Bangladesh	5	17	6.6	7.6	30	30	70	51	1
3 Mali	13	19	5.4	4.4	32	24	0	0	0
4 Nepal	4	7	4.3	5.2	41	27	0	0	0
5 Zaire	19	38	5.9	5.9	14	28	14	28	1
6 Burkina	5	11	5.5	4.8	41	31	0	0	0
7 Burma	21	29	4.0	3.9	23	23	23	23	1
8 Malawi	5	11	6.2	7.3	0	19	0	0	0
9 Uganda	6	7	9.3	0.3	38	52	0	52	0
10 Burundi	2	2	1.4	3.2	0	0	0	0	0
11 Niger	7	14	7.0	7.0	31	31	0	0	0
12 Tanzania	6	14	6.1	5.6	34	50	0	50	0
13 Somalia	20	33	6.4	5.5	24	24	0	0	0
14 India	18	24	4.0	4.2	7	5	26	29	12
15 Rwanda	3	5	6.0	6.6	0	0	0	0	0
16 Central African Rep.	27	44	4.4	4.6	40	36	0	0	0
17 Togo	11	22	6.4	6.6	0	0	0	0	0
18 Benin	11	16	4.5	4.7	0	63	0	53	0
19 China	18	21	5.0	5.0	6	4	42	45	28
20 Guinea	12	26	5.0	5.3	37	50	0	50	0
21 Mali	18	27	3.8	4.2	42	56	0	56	0
22 Ghana	26	38	4.5	5.3	25	25	0	48	0
23 Madagascar	12	20	5.3	5.5	44	36	0	26	0
24 Sierra Leone	15	23	5.0	3.3	37	47	0	0	0
25 Sri Lanka	20	25	3.4	2.9	28	16	0	16	0
26 Kenya	9	17	7.3	9.0	40	57	0	57	0
27 Pakistan	24	29	4.3	4.3	20	21	33	51	2
28 Sudan	13	20	6.3	5.5	35	31	0	31	0
29 Afghanistan	10	17	5.6	5.2	32	17	0	17	0
30 Bhutan	4	4	-2.1	4.6	0	7	0	7	0
31 Chad	9	20	6.9	6.6	39	39	0	0	0
32 Kampuchea Dem	11	11	3.4	3.4	0	0	0	0	0
33 Lao PDR	9	15	4.6	5.7	99	48	0	0	0
34 Madagascar	9	17	6.2	10.2	75	83	0	83	0
35 Viet Nam	6	20	5.5	2.4	32	21	32	50	1
Middle-income	36	44	4.5	3.9	28	29	35	48	54
Oil exporters	30	44	4.4	3.6	27	30	32	48	151
Oil importers	41	54	4.4	3.6	28	28	26	48	28
Sub-Saharan Africa	18	27	6.4	3.9	21	28	14	51	27
Lower middle-income	28	36	5.1	4.1	27	32	28	47	22
36 Senegal	27	34	4.3	3.8	53	55	0	55	0
37 Lesotho	2	13	7.8	2.1	0	0	0	0	0
38 Liberia	23	38	5.3	6.1	0	0	0	0	0
39 Mauritania	7	25	16.0	4.6	0	29	0	29	0
40 Bolivia	26	43	5.9	3.3	47	44	0	44	0
41 Yemen PDR	30	37	3.4	3.5	61	49	0	0	0
42 Yemen Arab Rep.	16	19	9.7	8.8	0	25	0	25	0
43 Indonesia	6	24	4.1	4.8	20	23	34	50	0
44 Zambia	24	47	7.6	6.5	31	35	0	35	0
45 Honduras	26	36	5.4	5.8	0	0	0	0	0
46 Egypt Arab Rep.	41	45	3.0	2.9	38	39	53	53	2
47 El Salvador	39	42	3.8	3.6	26	22	0	22	0
48 Ivory Coast	23	44	6.2	6.5	27	34	0	34	0
49 Zimbabwe	14	24	6.8	5.0	40	50	0	50	0
50 Morocco	32	43	4.0	4.2	16	26	16	50	1
51 Papua New Guinea	5	14	14.3	5.1	27	25	0	0	0
52 Philippines	32	39	4.0	3.8	27	30	27	34	1
53 Nigeria	15	22	4.7	5.1	13	17	22	58	2
54 Cameroon	18	29	7.3	9.1	26	21	0	21	0
55 Thailand	13	18	4.6	3.6	45	59	45	59	1
56 Nicaragua	43	55	4.4	5.2	41	47	0	47	0
57 Costa Rica	38	45	3.8	3.2	57	64	0	64	0
58 Peru	52	67	4.7	3.6	38	39	38	44	1
59 Guatemala	34	40	3.8	4.1	41	36	41	36	1
60 Congo, People's Rep.	35	55	4.4	5.5	77	56	0	0	0
61 Turkey	31	45	4.9	3.7	18	24	32	42	0
62 Tunisia	40	54	4.1	3.7	40	30	40	30	1
63 Jamaica	36	52	4.3	2.7	77	66	0	66	0
64 Dominican Rep.	35	54	5.6	4.7	50	54	0	54	0
65 Paraguay	36	41	3.2	3.3	44	44	0	44	0
66 Ecuador	37	46	3.9	3.9	31	29	0	51	0
67 Colombia	54	66	4.4	2.9	17	26	28	51	3
68 Angola	13	23	5.9	6.0	44	64	0	64	0
69 Cuba	58	70	2.8	1.9	32	36	38	32	1
70 Korea Dem Rep.	45	62	4.9	4.2	15	12	15	19	1
71 Lebanon	50	78	6.2	1.6	64	79	64	79	1
72 Mongolia	42	54	4.6	4.2	53	52	0	0	0
Upper middle-income	49	64	4.0	3.8	28	29	38	51	32
73 Jordan	47	72	4.7	4.8	31	37	0	37	0
74 Syrian Arab Rep.	40	48	4.8	4.2	35	33	35	55	1
75 Malaysia	26	31	3.3	3.5	19	27	0	27	0
76 Chile	72	82	2.8	2.4	36	44	38	44	1
77 Brazil	51	71	4.5	4.1	14	15	35	52	6
78 Korea Rep. of	32	62	6.5	4.8	35	41	61	77	3
79 Argentina	78	84	2.1	2.1	46	45	54	60	3
80 Panama	44	50	4.1	3.0	61	68	0	68	0
81 Portugal	24	30	1.2	2.5	47	44	47	44	1
82 Mexico	55	69	4.8	4.1	28	32	36	48	3
83 Algeria	38	46	2.5	5.4	27	12	27	12	1
84 South Africa	47	55	2.8	1.9	16	13	44	53	1
85 Uruguay	81	85	0.8	0.8	56	52	56	52	1
86 Trinidad	31	34	3.1	2.8	11	10	11	23	1
87 Venezuela	72	85	4.3	4.3	26	26	26	44	1
88 Greece	48	64	2.5	2.6	51	57	51	70	1
89 Israel	81	90	3.8	2.7	46	35	46	35	1
90 Hong Kong	99	92	2.1	2.7	100	100	100	100	1
91 Singapore	100	100	1.8	1.3	100	100	100	100	1
92 Trinidad and Tobago	22	22	0.6	1.0	0	0	0	0	0
93 Iran Islamic Rep.	37	53	5.4	5.1	26	28	26	47	1
94 Iraq	50	68	5.7	5.3	35	55	35	70	1
High-income	37	68	8.8	7.9	29	28	0	34	0
Oil exporters	4	25	10.8	17.6	0	0	0	0	0
95 Oman	29	61	8.9	8.1	57	64	0	64	0
96 Libya	29	71	8.4	7.4	15	18	0	33	0
97 Saudi Arabia	75	92	3.3	7.8	75	30	0	0	0
98 Kuwait	56	79	16.7	11.2	0	0	0	0	0
99 United Arab Emirates	56	79	16.7	11.2	0	0	0	0	0
Industrial market economies	71	77	1.7	1.0	18	18	48	55	104
100 Spain	61	76	2.5	2.0	13	17	37	44	5
101 Ireland	49	56	2.0	2.2	51	48	51	48	1
102 Italy	62	71	1.4	1.1	13	17	46	52	7
103 New Zealand	79	83	1.9	0.6	25	30	0	30	0
104 Belgium	68	89	0.9	1.3	17	14	28	7	2
105 United Kingdom	87	91	0.7	0.3	24	20	81	5	15
106 Austria	51	56	0.8	0.8	51	39	51	39	1
107 Netherlands	79	82	0.8	-1.1	9	9	27	24	3
108 Japan	67	76	2.4	1.3	18	22	35	42	5
109 France	67	80	2.0	1.2	25	23	34	34	4
110 Finland	44	60	2.8	1.9	28	27	0	27	1
111 Germany Fed Rep.	79	86	1.2	0.3	20	16	48	45	11
112 Austria	53	56	2.6	1.5	26	24	62	68	4
113 Denmark	77	85	1.3	0.7	40	32	40	32	1
114 Canada	73	75	1.9	1.2	14	18	31	62	2
115 Sweden	77	85	1.8	0.7	15	15	15	35	1
116 Norway	37	55	3.4	1.6	50	32	50	32	1
117 United States	72	74	1.6	1.2	13	12	61	77	40
118 Switzerland	53	57	1.9	0.7	19	22	19	22	1
East European	51	64	4.6	-2.2	9	7	23	32	36
119 Hungary	43	55	2.2	1.4	27	37	45	37	1
120 Albania	32	38	3.5	3.2	45	35	0	0	0
121 Bulgaria	46	67	3.2	2.1	27	18	23	18	1
122 Czechoslovakia	51	65	1.8	1.8	17	12	17	12	1
123 German Dem. Rep.	73	78	0.2	0.2	9	9			

## 2. Per Capita Income

Again the IBRD World Development Report provides readily available annual data which serve as an objective measure of income levels. The categories used by the World Bank correspond broadly to the different levels at which the observer expects to find various basic features of the system. Those categories are: Low Income; Lower-Middle Income; Upper-Middle Income; High (Petroleum Exporting Developing Economies); and Industrialized Market Economies. Referring to Table 3 the reader can see the World Bank data arrayed and divided. There is nothing intrinsically important about the absolute income levels, but the relative levels are convenient to show the correlation of predictive variables with the other attributes in the system.

	Population (millions mid-1983)	Households in square kilometers	Dollars 1983	Growth rate (percent) 1965-83*	Rate of inflation (percent) 1983-87	1983-87	1973-87	1961
<b>Low-income economies</b>	<b>2,325.4</b>	<b>31,603.7</b>	<b>280</b>	<b>2.7</b>	<b>1.4</b>	<b>5.4</b>	<b>5.9</b>	<b>59</b>
China and India	1,752.37	12,849.1	280	2.2	0.9	3.1	5.2	52
Other low-income	563.07	18,754.6	200	0.7	4.8	13.8	5.1	51
Sub-Saharan Africa	245.27	15,451.1	220	-0.2	3.9	17.5	4.8	48
1 Ethiopia	40.9	1,222	120	0.5	1.9	4.4	4.3	43
2 Bangladesh	95.5	144	130	0.5	7.3	9.6	5.0	50
3 Mal	7.2	1,740	160	1.2	7.6	10.3	4.5	45
4 Nepal	15.7	141	160	-0.1	5.9	8.1	4.6	46
5 Zaire	29.7	2,345	170	-1.3	18.7	48.2	5.1	51
6 Burkina	5.5	274	180	1.4	2.8	10.8	4.4	44
7 Nigeria	35.5	677	190	2.2	2.8	6.5	5.5	55
8 Malawi	5.6	118	210	2.2	4.5	9.8	4.4	44
9 Uganda	13.9	238	220	-4.4	5.6	62.7	4.9	49
10 Burundi	4.5	29	240	2.1	2.9	12.4	4.7	47
11 Niger	5.1	1,267	240	-1.2	4.0	11.8	4.5	45
12 Tanzania	20.8	345	240	0.9	3.2	11.5	5.1	51
13 Somalia	5.1	528	250	-0.8	3.8	20.1	4.5	45
14 India	733.27	3,788	250	1.5	6.3	7.7	5.5	55
15 Rwanda	5.7	26	270	2.3	7.7	11.2	4.7	47
16 Central African Rep	2.5	623	280	3.1	3.0	14.4	4.8	48
17 Congo	2.8	57	290	1.1	3.1	8.3	4.9	49
18 Benin	3.8	113	290	1.0	3.6	10.9	4.9	49
19 China	1,019.1	9,561	300	4.4	-1.0	1.7	5.1	51
20 Guinea	5.8	246	300	1.1	3.0	4.0	5.1	51
21 Hain	5.3	28	300	1.1	4.0	7.8	5.4	54
22 Ghana	12.8	229	310	-2.1	8.1	51.6	5.9	59
23 Madagascar	9.5	587	310	-1.2	4.1	13.9	4.9	49
24 Sierra Leone	3.8	72	330	1.1	1.9	14.7	5.8	58
25 Sri Lanka	15.4	56	330	2.9	5.1	14.5	5.9	59
26 Kenya	18.9	563	340	2.3	2.3	10.8	5.7	57
27 Pakistan	89.7	604	340	2.5	4.8	11.1	5.0	50
28 Sudan	20.8	2,508	400	1.3	7.2	18.0	18	18
29 Afghanistan	17.2	648	400	0.8	3.8	11.0	36	36
30 Bhutan	1.2	47	400				43	43
31 Chad	4.8	1,284	400		4.5	6.3	4.1	41
32 Kampuchea Dem	3.7	181	400				4.4	44
33 Lao PDR	3.7	237	400				4.4	44
34 Mozambique	13.1	902	400				4.4	44
35 Viet Nam	58.5	730	400				4.4	44
<b>Middle-income economies</b>	<b>1,185.21</b>	<b>10,325.1</b>	<b>1,310</b>	<b>3.4</b>	<b>5.2</b>	<b>29.3</b>	<b>8.1</b>	<b>81</b>
Off exporters	542.81	15,511.1	1,060	3.3	4.4	19.6	5.7	57
Off importers	622.81	25,014.1	1,530	3.5	5.7	34.4	8.4	84
Sub-Saharan Africa	148.27	3,822.1	700	1.9	4.8	12.4	5.0	50
<b>Lower middle-income</b>	<b>665.17</b>	<b>18,448.7</b>	<b>750</b>	<b>2.9</b>	<b>5.8</b>	<b>17.9</b>	<b>5.7</b>	<b>57</b>
36 Congo	6.2	198	440	-0.5	3.0	9.9	4.6	46
37 Iran	1.5	30	460	6.3	4.4	11.9	5.3	53
38 Liberia	2.1	111	480	0.8	1.5	7.2	4.9	49
39 Mauritania	1.8	1,031	490	0.3	4.9	7.8	4.9	49
40 Bolivia	5.0	1,099	510	0.6	7.5	25.2	5.1	51
41 Yemen PDR	2.0	333	520				4.4	44
42 Yemen Arab Rep	7.8	195	550	5.7			4.4	44
43 Argentina	155.7	1,919	560	5.0	43.0	18.0	5.4	54
44 Zambia	6.3	153	580	-1.3	5.2	10.3	5.1	51
45 Honduras	4.1	112	670	2.8	2.9	9.6	6.0	60
46 Egypt Arab Rep	45.2	1,001	700	4.2	2.8	13.2	5.8	58
47 El Salvador	5.2	21	710	-0.2	1.8	11.7	6.4	64
48 Ivory Coast	9.5	322	710	1.0	1.1	11.9	5.2	52
49 Zimbabwe	7.9	291	740	1.5	3.0	9.7	5.6	56
50 Morocco	20.8	447	760	2.9	2.0	8.4	5.2	52
51 Papua New Guinea	3.2	462	780	0.9	6.6	9.9	5.4	54
52 Philippines	52.1	300	780	2.9	8.8	11.7	5.4	54
53 Nigeria	92.8	924	770	3.2	10.3	13.3	5.4	54
54 Cameroon	9.8	475	820	2.7	5.8	12.8	5.4	54
55 Thailand	49.2	514	820	4.3	2.5	8.7	6.3	63
56 Nicaragua	3.0	120	880	-1.8	3.4	16.5	5.8	58
57 Costa Rica	2.4	31	1,000	2.1	4.7	23.2	7.4	74
58 Peru	17.9	1,285	1,040	0.1	10.1	52.3	5.8	58
59 Guatemala	7.9	109	1,120	0.1	1.9	19.9	6.0	60
60 Congo People's Rep	1.8	342	1,230	3.5	4.8	12.4	5.3	53
61 Haiti	47.3	781	1,240	3.0	10.5	42.0	6.3	63
62 Kenya	6.9	184	1,290	5.0	3.4	9.4	6.2	62
63 Jamaica	2.3	11	1,300	-0.5	5.9	18.0	7.0	70
64 Dominican Rep	6.0	49	1,370	3.9	2.7	8.5	6.3	63
65 Paraguay	3.2	407	1,410	4.5	4.3	12.8	6.5	65
66 Ecuador	8.2	284	1,420	4.6	6.2	16.6	6.3	63
67 Colombia	27.5	1,129	1,430	3.2	10.8	24.0	6.4	64
68 Angola	6.2	1,247	1,430	3.2	10.8	24.0	6.4	64
69 Cuba	9.8	115	1,430				4.3	43
70 Korea Dem Rep	19.2	121	1,430				5.5	55
71 Lebanon	2.6	10	1,430				5.5	55
72 Mongolia	1.8	1,565	1,430				5.5	55
<b>Upper middle-income</b>	<b>500.17</b>	<b>22,079.7</b>	<b>2,050</b>	<b>3.8</b>	<b>5.3</b>	<b>34.0</b>	<b>6.5</b>	<b>65</b>
73 Jordan	3.2	98	1,640	6.9	4.9	10.0	6.4	64
74 Syrian Arab Rep	9.6	185	1,760	4.9	3.1	12.7	6.7	67
75 Malaysia	14.9	330	1,880	4.5	1.2	8.5	6.7	67
76 Chile	11.7	757	1,870	-0.1	50.3	86.2	7.0	70
77 Brazil	129.7	8,512	1,880	5.0	23.2	63.9	6.4	64
78 Korea Rep of	40.0	98	2,010	6.7	15.5	19.0	5.7	57
79 Argentina	29.6	2,767	2,070	0.5	24.1	167.8	7.0	70
80 Panama	2.0	77	2,120	2.9	2.4	7.1	7.1	71
81 Paraguay	10.1	92	2,230	3.7	4.9	20.1	7.1	71
82 Mexico	75.0	1,973	2,240	3.2	4.8	28.2	6.6	66
83 Algeria	20.8	2,382	2,320	3.6	3.8	12.8	5.7	57
84 South Africa	21.5	1,221	2,490	1.6	5.8	13.3	6.4	64
85 Uruguay	3.0	118	2,490	2.0	5.1	51.0	7.3	73
86 Trinidad	22.8	258	2,510	4.7	10.9	22.8	6.9	69
87 Venezuela	17.3	912	2,840	1.5	3.3	11.7	5.8	58
88 Greece	9.8	132	3,320	4.0	4.4	18.8	7.5	75
89 Israel	4.1	21	3,370	6.2	8.2	73.0	7.4	74
90 Hong Kong	5.3	1	6,000	6.2	6.4	9.9	7.8	78
91 Singapore	2.5	1	6,620	7.8	3.1	4.5	7.3	73
92 Ireland and Tobago	1.1	5	6,850	3.4	5.7	15.6	5.8	58
93 Iran Islamic Rep	42.5	1,648	6,850		5.5		5.9	59
94 Iraq	14.7	435	6,850		3.2		5.9	59
<b>High-income off exporters</b>	<b>17.97</b>	<b>4,312.1</b>	<b>12,370</b>	<b>3.8</b>	<b>6.1</b>	<b>13.5</b>	<b>5.9</b>	<b>59</b>
95 Oman	1.1	300	6,250	6.5	7.1	17.9	5.3	53
96 Lina	3.4	1,780	8,480	-0.9	9.4	11.6	5.8	58
97 Arab Arab	10.4	2,150	12,230	6.7	5.1	16.5	5.8	58
98 Kuwait	1.7	18	17,580	0.2	4.6	10.2	7.1	71
99 United Arab Emirates	1.2	84	22,870				7.1	71
<b>Industrial market economies</b>	<b>728.97</b>	<b>30,925.1</b>	<b>11,060</b>	<b>2.5</b>	<b>5.2</b>	<b>8.0</b>	<b>7.6</b>	<b>76</b>
100 Spain	38.2	505	4,780	3.0	7.0	16.7	7.5	75
101 Ireland	3.5	70	5,000	2.3	8.5	14.5	7.3	73
102 Italy	56.8	301	6,400	2.8	5.1	17.4	7.6	76
103 New Zealand	3.2	269	7,130	1.2	7.2	14.2	7.4	74
104 Belgium	9.9	31	9,150	3.1	4.4	8.4	7.3	73
105 United Kingdom	56.3	245	9,200	1.7	6.2	14.3	7.4	74
106 Austria	7.5	84	9,750	3.7	4.5	5.4	7.3	73
107 Netherlands	14.4	41	9,890	2.3	6.4	6.2	7.6	76
108 Japan	119.3	372	10,120	4.8	6.0	4.7	7.7	77
109 France	54.7	547	10,500	3.1	5.3	10.8	7.5	75
110 Finland	4.9	337	10,740	3.3	7.2	10.6	7.3	73
111 Germany Fed Rep	61.4	249	11,430	2.5	5.7	4.3	7.5	75
112 Australia	15.4	7,687	11,490	1.7	9.7	10.5	7.4	74
113 Denmark	5.1	43	11,570	1.9	7.6	9.5	7.4	74
114 Canada	24.9	9,978	12,310	2.5	4.4	9.4	7.6	76
115 Sweden	8.3	450	12,470	1.9	5.3	10.3	7.6	76
116 Norway	1.1	324	14,020	3.3	6.3	9.7	7.7	77
117 United States	234.5	9,363	14,110	1.7	4.7	7.5	7.5	75
118 Switzerland	6.5	41	16,290	1.4	5.5	5.9	7.9	79
<b>East European</b>								
<b>Hammered economies</b>	<b>388.17</b>	<b>23,422.1</b>					<b>7.0</b>	<b>70</b>
119 Hungary	10.7	33	2,150	6.4	2.6	4.1	7.0	70
120 Albania	2.8	28	2,150				7.1	71
121 Bulgaria	8.							

### 3. Transport and Other Infrastructure

There is a basic relationship between the evolution of the transportation network and the development of trade. Other infrastructure has a supporting role which is usually associated with that infrastructure, especially electricity and water which become important in assembly, processing, and wholesale/retailing. There is no handy index of the extent of the transportation network available in the World Bank data cited above. Indices do exist and can be developed. Here the characterizations are based on relative terms of the extensiveness of networks.

### 4. Communication Infrastructure

The terms used to typify the development of the communication network are similar to those for transportation. The predictive relationship between communication networks and marketing networks is clear. Market information travels via communication systems to enable price formation to occur. Inefficiencies in communication lead to costly imperfections in that process.

### 5. Government and Institutional Development

The section devoted to government interventions details some of the ways in which the government can facilitate the development of the marketing system. The broader involvement of the government in the economy, through taxes, subsidies and other policies, affects all aspects of market interaction and development. We hasten to add that the government involvement could be a retardant to growth, but it is true that the level of penetration and institutional development is highly predictive of the extension of the marketing system.

## C. Associated Attributes

### 1. Predominant Trader Institution

This characterization refers to the type of trading institution, whether individual or corporate, which typically conducts wholesale business in the system. This ranges from producer-traders to sophisticated trading organizations in which each individual has a specialized function such as procurement, inventory control, financial management, or logistics.

### 2. Production System

The production system is the most fundamental attribute associated with the predictive variables. In fact, one might argue that production specialization is one of the predictive attributes

because of its interaction with other predictive variables. Each categorization refers to the market orientation of the producer. It says nothing for the type of commodities which are grown.

### 3. Product Mix

Product mix refers to the predominant commodity types which are traded in the system. This is significant since each type has distinct assembly, storage, transportation, and merchandising requirements.

### 4. Financial Institutional Development

The credit arrangements associated with each stage of the development of the market system is significant since access to credit is an essential condition to expansion. The different stages are broadly depicted from money-lenders to international financial institutions.

### 5. Market Coordination

Market coordination is a topic which could and has been the basis for tracking the evolution of the overall system itself. Coordination here refers to the types of linkages between each of the steps in the commodity system from producer to consumer. These steps are expressed here especially in terms of the agreements between buyer and seller.

### 6. Spatial Organization of Markets

This too is a measure of market development which has been the subject of important works by economic geographers. The most general description of the spatial pattern is traced here.

## TRANSFORMATION OF THE WHOLESALE-RETAIL MARKETING SYSTEM

### A. Evolution vs. Intervention

If the evolution from simple rural economies to more complex, productive and predominantly urban economies were a smooth progression along the various points of the developmental continuum, the only desirable interventions into the marketing system would be those to stimulate the process so that it would advance more rapidly. Instead the reality of the Third World urban market systems in transition is fraught with imperfections.

Yet an attitude prevails amongst many development planners that the market system works adequately for the most part. The market system seems to be working in some abstract sense since markets always "adjust themselves" through the price mechanism to the conditions which separate producers from consumers. Government interventions are preponderantly on the side of agricultural production as if the market system were separable from the productive enterprise.

The underlying optimism which leads to the neglect of marketing reforms seems to derive in no small measure from the neo-classical microeconomic notion of "perfect competition". Too many planners assume away the problems of the marketing system. Their faith in the market forces leads them to underestimate how far the real market may diverge from some ideal of perfect competition. In so doing they imply that the economic realities do not diverge substantially from the theoretical assumptions upon which the theory rests. A review of the basic underlying assumptions of that theory rests are helpful:

#### Perfect Competition

- 1) There are a large number of buyers and sellers trading homogeneous commodities. No single buyer or seller can influence the price of a commodity through his own individual actions or by conspiring with others;
- 2) No restrictions are placed on supply or demand;
- 3) Mobility of goods or services prevails. No barriers exist to exit or entry into the market.
- 4) Complete knowledge and perfect information flows concerning the conditions of demand and supply.

A note on what appears to be a basic shortcoming of the way in which perfect competition is defined concerns technology and management. The neo-classical definition addresses complete knowledge and perfect information, but it does not specifically qualify that there should be perfect mobility of technological and management innovations. The neo-classical preoccupation is with price-formation. The specific inclusion of the mobility of "know-how" enhances our appreciation for a crucial element of perfect competition from which the realities of developing marketing systems diverge in significant degrees.

The realities of the urban wholesale and retail system in the Third World diverge sharply from these ideal conditions. It would be utopian to expect the system to be free of major imperfections in relationship to the textbook ideal. What planners can expect, however, is some pattern of the expected imperfections at various stages.

Throughout the following characterization of various ideal stages, the reader must keep in mind one fundamental point. There coexists at any given time more than one stage in a developing economy's market. This fragmentation is typical. While the majority of the population lives, for example, in a system of regional surplus marketing associated with periodic markets even in cities, a segment of the population in the capital lives in a marketing microcosm which imports essential features of the most advanced marketing technology. These discontinuities are typical of the experience of the majority of developing economies today. For example, while food wholesaling/retailing in Stage II economies is typically dominated by central wholesale markets and satellite retail plazas occupied with many small scale narrow product line merchants and complemented by neighborhood stores in residential areas, "parallel channels" begin to appear with corporate chain stores served by a vertically integrated warehouse and some forward contract supply arrangements.

## B. Appropriate Evolutionary Pattern

### 1. Stage One: Regional Surplus Marketing

NB: As throughout this paper, masculine pronouns are used for convenience when referring to an indefinite person of either gender. Frequently, even predominantly in some countries, traders are in fact female.)

The "marketing firm" or institution characteristic of the typical initial stage of the urban wholesale-retail system is an individual entrepreneur. The merchant serves generally as a combined wholesaler-retailer who may well be involved in assembling the product as well. Usually the trader was previously more

directly involved in production. Such a trader has no special training, is commonly illiterate, and possesses only the most basic accounting skills. The trader provisions himself with products common to the regional market which are offered for sale in surplus. These products tend to be preponderantly starchy root crops and grains available as surplus production from largely traditional smallholders.

His marketing operation is financed primarily through family funds or on credit from local money-lenders. Little or no formal credit is available.

The urban area served may vary in size from tens of thousands to a substantial metropolitan area of one million inhabitants or more. Less than a third of the population of the country typically resides in towns or cities. Market roads connect periodic markets to population centers often with poor secondary roads for assemblers to reach the markets directly. Urban roads are sufficient but generally with a low level of maintenance. Telecommunications are available within urban areas but producer-market information is rarely transmitted between grower areas and the towns or cities. Most communication about overall trends is communicated informally.

Transactions are on a cash basis. Prices are determined through negotiation on the spot market with only a limited ability on the part of rural producers and traders to anticipate demand trends. While some retail sales are available in larger towns at any time, the system remains oriented toward periodic markets.

Even in those cities large enough to sustain constant trading and a clientele accustomed to the convenience, the supply of commodities and heaviest sales tend to be concentrated in two or three days each week. Convenience stores and private markets begin to develop as a complement to the principal marketing stream which remains in public market places. Mobile markets (sales from trucks) and spontaneous markets begin to crop up in response to new opportunities for a more diffuse urban marketing network.

Government involvement is already pervasive in the early stages of the evolution of the urban wholesale-retail marketing system. Public markets are overseen usually by municipal authorities. Official wholesale markets are frequently operated by national authorities in the capital city. Government controlled marketing boards are common, especially for key commodities or wherever food security issues are prominent. Subsidies and taxes effect a considerable number of commodities typically.

Thus the predominant wholesaler is in fact an individual wholesaler-retailer in this Stage I system. Specialization is beginning to evolve in the form of traders specialized in certain commodities. The predominant marketing area is still an open air market with some buildings and street trading available for some items continuously. They are provisioned either directly as they transport their lots with them in the countryside or purchase from rural assemblers and fellow vendors to create a greater assortment. Inventory management is simply to bring only as much as can be sold in a given selling period, usually one to three days a week. Even vendors of more storable commodities tend to maintain an inventory corresponding to the expected volume of a given weekly period.

Handling of loads is labor-intensive, though most products are transported to market by truck, bus, boat, or in some instances by individuals travelling by rail. Beasts of burden are only common for those travelling relatively shorter distances, though they are common in those areas. Handling in the market areas is principally manual, assisted by push cart or simple conveyances.

## 2. Stage Two: National Surplus Marketing

As the urban market for rural products develops, some producers begin to respond by tailoring their production to meet the changing composition and volume of the new demand. Traders play a vital role in making producers aware of the new opportunities. The emergence of professional traders usually coincides with the changing system of production. The most advanced producers and marketers become aware of import substitution opportunities which they can capture. New perishable commodities often are grown in the areas immediately surrounding urban hubs. Livestock production may remain in the traditional producer areas, particularly for large stock, but the marketing channels tend to concentrate in urban areas. Fish, poultry, egg, and dairy production begin to take on more significance as well, although the starchy tubers and grains remain the staple fare of the majority of the population. More dependable formal credit sources become available to merchants in this point of the development of the marketing system. Traders are thus able to carry larger inventory and trade over longer distances.

Substantial urban population hubs develop. Typically between one and two thirds of the population live in towns and cities. The principal flows of commodities now pass through centralized wholesale facilities close to transportation hubs. An extensive national transportation network serves these hubs.

Improved regional roadways facilitate the assembly of rural products to feed into the national grid. Simultaneously the communication network expands increasing the flow of market information passing directly between producers and marketers.

More direct communication results in a higher degree of coordination. Rather than rely generally on spot market prices and to be subject too their volatility, merchants and producers begin to share the risk through the introduction of forward contracts. Whether formalized into a contract or not, established trading partners evolve. The more homogeneous and widely produced is the commodity, the greater the tendency toward forward contracting. Simple agreement evolve for other commodities, such as perishables, which tend not to be sold by contract. Along with the central wholesale facilities come regular trading in markets which operate with a much less pronounced periodic pattern.

Government authorities operate a growing range and complexity of marketing facilities. These include central wholesale, storage, cooling and many transportation facilities. The Government initiates publicly run marketing boards, subsidized urban outlets and other policy inspired marketing institutions.

Stage II is thus typified by a much greater differentiation in functions between wholesaler and retailer. Broadline wholesaling is beginning to emerge, wholesalers specializing in providing a convenient and economical assortment of products in order to reduce transaction costs associated with retailers buying from large numbers of narrow line wholesalers. Inventory management becomes much more crucial as inventory is carried over longer periods even if the wholesaler sales outlet is still predominantly a market with a distinct periodicity. The emergence of more services to retailers and institutional buyers occurs, with credit, transport and related advantages offered to maintain a more stable buyer-seller relationship. This relationship may become more formalized to include forward contracting. Financial management and bookkeeping of various accounts is more rigorously pursued. Merchandising techniques also become more sophisticated as the intermediaries begin to target their markets more and more accurately.

### 3. Stage Three: Global Surplus Marketing

The most advanced stage of development of the urban food distribution system found in developing economies is comparable to the predominant system found in more advanced economies. The differences are a question of degrees rather than nature of the system. The most sophisticated marketing

systems found in post-industrial economies today achieved the basic characteristics after 1950 and now refine their human and technological resources.

The individual merchant is no longer the dominant institution managing the urban wholesale-retail system. Commercial marketing organizations with specialized functions oversee the movement of the greatest volume of products while individual merchants serve smaller or more specialized niches in the system. Families continue to operate at the retail level and at the wholesale level for specialized product lines.

The production base which supplies the market is no longer confined to regional or national boundaries. As price conditions change around the world the marketing mechanism is able to import items to respond to the structure of demand. All types of food products are available. Urban demand for high value perishable horticultural and livestock products increases disproportionately as income levels rise. Demand for products with a higher convenience or service component follow the same pattern. Merchant groups have access to national and international lines of credit. Financial management requires a greater proportion of the firm's overall management time.

Less than a third of the total population resides in rural areas. Transportation necessary for both internal marketing and international import and export is integrated. The network is extensive. The communication network is similarly complete. Most market information is transferred by telephone or telex.

Vertical integration from the farm to the consumer becomes more common within private farming/marketing firms. Independent growers also contract or develop strong agreements for specific markets at specified times. Market information is globalized such that firms can source their products at long distance to respond to cycles or irregularities of supply. Various private wholesale facilities operate, some in centralized government or cooperative exchanges. Producers can channel their product through a variety of exchanges in various locales.

There is widespread prevalence of vertically integrated chain store arrangements. The earliest appearance of this coordination arrangement between wholesaling and retailing is the individual company which owns retail stores, the wholesale warehouse and procurement operations supplying those stores. Typically as competition from that more profitable arrangement puts pressure on other retailers and wholesalers there is a tendency for traditional broad line wholesalers to organize

voluntary chain store systems among their customers to emulate the corporate chains in management style and procurement arrangements. Finally, individual retailers may feel the competitive pinch from both corporate chains and voluntary chains and organize their own cooperative chains.

Direct and indirect Government involvement in commodities is pervasive, but direct Government control of marketing facilities is less important than in earlier stages of development.

Those individuals and institutions which emerge to operate in this stage of the evolution of the urban food distribution system perceive themselves and are perceived by others as part of a distinct profession. Differentiation is no longer simply between wholesale and retail functions, but further specialization within functional subcategories. Procurement is one such function, buyers comparing alternative sources on a global basis, no longer limited to local production. Suppliers may thus change with changing price conditions and product differentiation, but buyer-supplier agreements tend to be quite stable, adjusting to the competitive environment to maintain that stability. Inventory management entails accurate accounting of levels of supply and fluctuations to coordinate buying to maintain stock. Handling and storage facilities tend to become more capital intensive in this stage as the value of the time of the employees increases.

The typical sales outlet tends to be one which offers increased convenience and variety to the public. This can take on many forms, including supermarkets, open air shops, convenience stores, or retail warehouse outlets to cut overhead expenses to obtain a competitive edge.

Advertising takes on much greater significance in that sort of environment, making full use of a wide range of communications media.

### C. Signs of Disequilibria

The idealized stages of market evolution are useful for comparing what is observed in a particular food distribution system with the paradigm. Divergences from the expected pattern are not necessarily significant however, since marketing systems are constantly in transition. When these divergences coincide with signs of stress in the system, then they can prove helpful in analyzing how the system may be awry.

Analysts need to identify the symptoms of disequilibria which are likely to prove significant. Observers of the market system then need to recognize these telltale signs. Impressions may be gathered through rapid reconnaissance of a market system. The development of this and other methodologies will serve those who have become sensitive to the concept of market evolution and coordination.

Here are some of the most commonly observed failures of the urban wholesale/retail systems to evolve harmoniously:

- \* Producers who wish to market their products yet find irregular opportunities to do so and encounter difficulties reaching those urban consumers with unmet demand for their products.
- \* Credit is infrequently available to merchants through advantageous formal channels. Traders either forego opportunities which would increase their revenue and the overall efficiency of distribution, or they are obliged to pay excessive rates of interest which further impede their rate of growth.
- \* Shortages and gluts occur frequently.
- \* Vendors find they cannot communicate with other vendors and customers with ease.
- \* Congestion and physical barriers separate vendors, transporters, and customers.
- \* Marketing channels are complicated. Many transactions must be made for the product to pass from assembly to retail.
- \* Administration of markets and government marketing boards is ineffective in many cities throughout the Third World.

Market places are often situated in ways and places where they should not be, resulting in abandoned or under-utilized facilities. Simultaneously retail outlets abound in areas for which they were not provided.

- \* Consumers encounter major impediments to shopping efficiently. Transportation and transport infrastructure constitute major obstacles.

- \* Alternative transportation, packaging, handling or other management practices can be identified which would clearly increase profitability of implementing firms.
- \* Alternative institutional or policy provisions can be identified which will clearly improve the economic performance of the entire system in terms of efficiency, equity and progressiveness.

INTERVENTIONS IN THE EVOLUTION OF  
THE MARKETING SYSTEM

A. Litany of Market Reform Measures

For all the dearth of marketing projects relative to production projects in the Third World, there exists a fairly substantial menu from which planners have chosen over the past few decades. The types of projects noted here are categorized by their "hardware" and "software components". They are further classified here according to which segment of the food distribution system in which they intervene.

MARKET INFORMATION

Hardware: The "hardware" component of market information projects is generally limited to the purchase of computers and database management systems.

Software: Market information services establish market data collection systems and train personnel to analyze, report and disseminate that information.

ASSEMBLY

Hardware: Grading stations, storage warehouses and assembly centers (centros de acopio in Latin America) are the usual physical facilities. The assembly centers may include initial processing functions or may go so far as to package product for direct export.

Software: Marketing boards, whether governmentally operated or autonomous, are often introduced at the assembly level. Cooperatives or Farmer Associations may be promoted.

The implementation of grades, standards and classification systems can be introduced.

Storage management and post-harvest handling programs are instituted in association with storage facilities.

PROCESSING

Hardware: Processing facilities covering a wide technological and product gamut may be introduced, including the most simple cleaning, cutting, or cooling processes or more mechanized preparation and packaging equipment.

Software: Technical assistance corresponds to all the different types of processing.

#### TRANSPORTATION

Hardware: Market roads, urban infrastructure, vehicles are the most common capital investments in transportation.

Software: Transport brokerages may be introduced. Logistical support is also associated with marketing boards once they are set up.

#### WHOLESALE

Hardware: Public warehousing is a possible intervention. The most usual are public markets, set up either entirely as wholesale facilities or as wholesale/retail markets with particular features important to the wholesalers.

Software: Warehousing receipts are a legal innovation associated with warehousing operations. Some market administration and management training programs complement any public market constructions.

Auctions are a particular sort of wholesale innovation which occasionally is introduced.

Various programs are used to promote vertical integration of wholesale functions among commercial marketing chains: Corporate (or mixed capital) Chains; Voluntary Chains; Cooperative Chains; or Consumer Cooperatives.

#### RETAILING

Hardware: The most usual facilities are those already mentioned in conjunction with wholesale/retail markets. These include a great array of physical structures and plazas.

Software: While these programs are much too rare, there exist training programs for all aspects of the retailing trade from procurement and inventory control to bookkeeping and financial management. Retail merchandising and layout training is still more rare.

## B. Criteria for Viability

Judging whether a particular market reform is an apt intervention must first of all be determined through basic profitability analysis. While the notion seems simple-minded, the appalling lack of profitability analysis of many market projects in the Third World reminds us that this basic principle cannot be repeated too often. What little profitability analysis is performed is generally limited to physical infrastructure projects. Rarely is a social or private profitability appraisal considered for human resource development projects of which there is such a dearth in the first place. The desire to upgrade appearances and to create the outward impression of modernity greatly influences reformers of urban food distribution systems.

Profitability analysis refers in the first instance to a simple appraisal as to whether a particular investment will generate a profit. These projections are most straightforward in the case of physical facilities. Will the facility be used? Will it generate enough revenue to pay for the operating and fixed costs? Is the investment more lucrative than making no intervention at all? Would a less elaborate facility be more profitable? A simple sensitivity analysis should also be performed to consider how dependent the anticipated profitability is on certain basic assumptions. If conservative assumptions about occupancy levels and throughput do not still show an acceptable profit margin, then the risk of failure is probably too high.

A simple yet highly revealing question to raise in the case of these same physical facility appraisals is "If the proposed service appears profitable, why is it that no individual entrepreneur or group of investors has come forward to realize those profits?" The question is not rhetorical. There are legitimate answers to the question which are compatible with going ahead to implement the project under consideration. It may be that the technology is unfamiliar to prospective investors. It may be that the capital required surpasses the means of local investors. If these situations have arisen, then planners should seriously consider promoting the innovation for private investment from other segments of the economy or outside investors. Shifting the responsibility to the private sector in cases where private profitability is asserted by project analysts not only shifts the burden of investment costs but assures the interested management of the parties at risk.

It may be that the innovation is of a nature which requires that all firms in the channel adopt it simultaneously (e.g. improved packaging, grading, bulk handling of grains). If

planners consider that significant positive externalities exist, then they may have a legitimate case for public intervention. The justification of their proposed improvements may be that no single entrepreneur or firm is able to capture the economic rents from the venture. It may be, as in the case of improved market information, that there are public good aspects to the improvements. This is a case for social profitability analysis. This is precisely the procedure used by international financial institutions before committing to assist a marketing project. They insist that a social cost benefit analysis be undertaken. The principal stream of benefits which flow from a given market intervention may well be lower consumer prices and other reductions in marketing costs. Under such circumstances, a social profitability analysis is indeed in order. Even within the scope of large public projects however, any subcomponents which can be subjected to screening from the perspective of private profitability should be evaluated on their clear business merit.

## LESSONS FROM THE RECORD OF INTERVENTIONS

The dearth of case studies on the experience of wholesale/retail market interventions around the world has obliged the author to draw upon Latin American experiences, both from direct personal participation and from the literature largely published by Michigan State University. While it is lamentable to be obliged to have such a Latinocentric view of marketing interventions, the recognition of this shortcoming should serve to emphasize the importance of the recommendation to develop case study materials which can assist AID and other development institutions in approaching problems worldwide.

Both one of the best examples, CORABASTOS, and one of the worst examples, Calvario ("Calipuerto"), come from the well documented experience of Colombia. The ongoing experience of the West Kingston Market Development project offers an often intriguing positive response to the problems faced by most large urban areas of the Third World. An ongoing effort in Peru provides an exemplary case of an unfortunate approach to be avoided.

Despite the geographic limitations of the examples documented, the essential lessons are abundantly clear as to what is to be adopted and what should be eliminated from market planning. Some of the "golden rules" from the good and the bad experiences are distilled in a concluding section. Some of the underlying myths and biases which tend to haunt the conceptualization of marketing problems in the Third World are highlighted here as well.

### A. Successful Examples from Latin American Experience

#### 1. CORABASTOS

During the 1970's the residents of Bogota became acutely aware of the pressures that population growth were exerting on the food distribution system. The population had quadrupled in two decades. The marketing system was slow to catch up with the changes wrought by demography and income growth and redistribution. The response of the market designers and planners was a the most complete system-wide market diagnosis, planning, and implementation program which may have been attempted anywhere to date. While the program suffered in later years from losses due to overextending itself in areas outside of its original scope and purpose, the market innovations were and are categorized as some of the most successful on record. The system will continue to benefit from further reform to increase efficiency and participation in the distribution system, but the basis for continued success remains in place.1/

The principal features of the CORABASTOS scheme were a central wholesale market facility, a market information system, a training program for assemblers, wholesalers and retailers, an applied research and extension program on packaging and handling of perishables, development of a grain exchange providing for both spot and futures trading and a voluntary chain of neighborhood stores for distribution.

The key elements to the CORABASTOS approach which are responsible for its success may be summarized as follows:

- 1) The institutional impetus for the program came from a group which had a cooperative rather than an adversarial approach to the principal participants in the old marketing system.
- 2) Community workers laid the groundwork to successful implementation of the project by working with the concerned public on anticipating the reforms.
- 3) The location of the wholesale facilities was consistent with the spatial orientation of established trading patterns.
- 4) The management of the CORATIENDAS retail outlets were guided by individual entrepreneurs whose decisions were based on rational first hand response to demand rather than on a centrally planned masterplan.
- 5) Planners took a highly pragmatic approach to all the designing process led by well-established principals of commercial facilities.
- 6) Training of marketing and merchandising personnel was instituted in conjunction with the realization of physical facilities.

## 2. West Kingston Market Development Project

Severe chronic unemployment for the past decade and more have caused the deterioration of the area of Kingston which remains the principal public market for Kingston and the terminal wholesale/retail hub for all of Jamaica. The ranks of "higglers" (Jamaican vendors) have become bloated by the underemployed population attempting to eke out an existence thus disrupting the functioning of both the wholesale and retail patterns of trade.

The response of the Urban Development Corporation (UDC) of Jamaica was to design an integrated urban development program which addressed the problem of urban roads and related infrastructure, community development and housing, as well as the overhaul of the entire wholesale/retail market complex (Coronation Market and its immediate satellites.) The innovation which most distinguishes the West Kingston market project from other efforts to renew an urban wholesale/retail public facility is the concept of a Third World shopping center.

The shopping center concept is one developed by retailers in advanced marketing systems, principally designed to market consumer durables and only secondarily for food distribution. The concept has been adapted to the West Kingston context to layout the food and non-food vending operations to maximize their complementarity. The beauty of the approach is that it accommodates an economy in transition between the original surplus supply marketing and the demand oriented marketing systems.

At present they have received funding from the IDB to implement the project, after considerable reconsideration of the original marketing interventions. The success of the project is judged by the sound planning process which resulted in the approval of the loan. Clearly the case study of the implementation is yet to be written as construction is just beginning.

The considerable merit of the project consists of the following elements:

- 1) The problem of the urban markets was correctly perceived as an inextricable part of an overall urban planning problem which could never be resolved piecemeal.
- 2) The planners formed an interdisciplinary team which had to reach a consensus between the pragmatic concerns of design, construction, urban sociology, agricultural marketing, and economic and commercial feasibility.
- 3) The physical facilities were technologically appropriate based on the requirements for low-cost, durability under intense use, flexibility and compatibility with the style of higglering practiced in Jamaica.
- 4) The traders were brought into the planning process from an early stage through higgler and transporter associations to assure their understanding and agreement. The designers

modified their schemes in response to specific practical feedback and observation. 2/

B. Examples to Avoid

1. CAVASA Wholesale Market of Cali

The situation which led up to the construction of the CAVASA wholesale market outside of Cali, Colombia was a series of events familiar to urban areas throughout the Third World. As in the case of West Kingston, the "Zona Negra" area around the old Calvario market became a terrible morass stricken with every form of urban blight. Crime, health hazards, intense congestion, decay of the infrastructure, all the familiar pattern as an area is relegated to the poorest most disenfranchised elements of the population. The motivation for market reform was mostly a cry for eradication of the public eyesore.

Before the Government proceeded with its ultimate "white elephant", as it has been characterized, various groups of market planners attempted to put forth plans to reform the old system in ways which might well have worked. The first of the lessons from this debacle refers as much to frustrated projects which will never be implemented as to those which are eventually implemented in unfortunate ways.

- 1) Understanding the overall political context and the implementing organization's relationship to it is crucial to successful planning.
- 2) An old, even greatly afflicted, central wholesale or public market should not be destroyed until the new alternative is in place. Rotating relocation schemes can be devised to reconstruct portions of facilities if the new facility is on the old site.
- 3) Satellite markets are insufficient to supplant the role performed by an old central system during interim periods before a new central system is in place.
- 4) Prematurely imposed separation of wholesale and retail functions should not be forced before the functional specialization has already developed.
- 5) A central market site cannot survive if it is too far from the center of commercial activities. If a location is not already a central place and if it is not easily accessible, no amount of

artificially induced services can make the new location a central place. 3/

- 6) The pressures for urban renewal tend to supersede sound market planning. The zeal to clean up areas such as the Zona Negra is misguided. Closing the market does little to redress the conditions which perpetuate such areas. Planners should furthermore recognize that part of that zeal arises from a basic prejudice against petty traders.
- 7) Failing to consult with the interested groups (vendors) can be a fatal error. Organized vendor groups can effectively undermine implementation, even when the authorities are willing to use force.
- 8) Planners must be careful to follow a market-led approach to the determination of necessary facilities. They must especially beware of prematurely capital-intensive approaches which adopt signs of modernity borrowed out of inappropriate (U.S. or European) contexts e.g. refrigerated slaughterhouse, loading and unloading equipment.
- 9) The use of force to get a market "working", other than in supportive enforcement of a generally accepted system, is a losing battle.
- 10) Forcibly diverting commercial traffic is self-defeating. The barriers will simply tend to divert the commercial activities into alternative market channels in ways which are not necessarily efficient for the overall food distribution system.

## 2. BROCOMBRA

During the late 1970's the Government of Peru concluded that the national marketing system, suffering from various inefficiencies, required a fundamental restructuring. They undertook a most ambitious integrated agricultural marketing scheme (BROCOMBRA) through massive financing from the government of Spain. The program was to create a vertically integrated system from rural packing and assembly centers, to central wholesaling facilities, and to "People's Supermarkets" (Mercados del Pueblo) to distribute food in urban areas. 4/

Several turnkey assembly and wholesale centers had been completed by 1985 and remained idle. As of this writing, the latest chapter of this case has yet to be written, however it is abundantly clear that BROCOMBRA was tragically flawed. Its existence could only be salvaged by some heavy handed measures to artificially perpetuate the project.

The lessons to learn in order to avoid similar disasters in other marketing systems are summarized below:

- 1) The Government assumed that the operation of the intermediate facilities (assembly and wholesale) would be undertaken, neither having demonstrated that they were profitable nor having identified specifically who the operators would be.
- 2) The marketing technology chosen for the project was dictated by the foreign financier and was entirely inappropriate to the type of marketing operation needed. In other words, the technology was borrowed out of context from a Spanish Stage III type of operation for application to a Peruvian predominantly Stage II situation.
- 3) The scale of operations was similarly inappropriate to the country, assuming much higher volume packing and much more extensive refrigerated space than was demanded.
- 4) No pilot stores nor assembly centers were ever launched before committing the massive program to implementation.
- 5) The overall planning process was characterized by insufficient communication with the public and the merchants.

A few comments on the widely held myths and biases about the agricultural marketing system and its participants serve to elucidate a general lesson to be learned about the evolution of the marketing system. Unless the planners fully understand the distortions which these myths and biases introduce to the food distribution system, the wholesale/retail sector will tend to drag behind the rest of the economy in its development and reinforce non-progressive attitudes towards commerce and trade in general. The perpetuation of these attitudes introduces inefficiencies in the overall agricultural economy which stifle growth and the distribution of income.

Several intertwined preconceptions about trade summarize the overall distortion:

- 1) Production Is More Important Than Marketing
- 2) Merchants Are Opportunistic, Parasitic Elements of Society
- 3) Traders Hoard and Exploit the Public and the Producers Through Speculation

Growers, consumers, and an unfortunate number of policy planners put production development before market development. They reason that production precedes marketing biologically and that it should economically. They suffer from failing to progress in their mentality from a simple society in which self-sufficiency is the primary goal, and where trading is only necessary in order to supplement their needs, to the demand oriented systems which evolve in later stages. Supply and demand only make economic sense in concert. Separating one from the other is a fundamental fallacy. At present the marketing system, and therefore the whole economy, suffers from this fallacy.

The same growers, consumers and planners tend to attribute little importance to the skills or costs involved in moving the product from the farmgate to the consumer. They minimize and often deride intermediaries as parasitic elements who add virtually nothing to the product which the farmer has nobly produced.

A related prejudice is that merchants take control of the channels of supply unfairly to manipulate the price to their advantage. The value their services offer in terms of credit, storage, handling and transportation are not examined critically. The implied assumption is that price formation is not competitive and that merchants tend to exert monopoly powers. Time and again empirical studies have shown that these notions are generally ill-founded. The resentment of those who receive the grower's product or who take the consumers cash seems to be too deeply rooted to subject it to reason.

#### C. Guidelines for Redesigning Market Interventions

The following points summarize some key guiding principles for avoiding the pitfalls of many previous market designs:

- 1) SIZE. The size of facilities must correspond to the realistic needs of traders in the particular region for which it is designed. Oversized halls, stalls and storage facilities are a recurrent problem throughout Third World projects.

- 2) COST. Architects frequently are too ambitious relative to the cost of facilities which can be realistically expected to be amortized.
- 3) STYLE. The marketing technology and layout must be adapted to the particular trading conditions of each place. Plans which have been drawn up for one country or region should be carefully reexamined before reproducing them in a new setting.
- 4) LOCATION. Original periodic and early stage permanent markets tend to arise in the optimal location, but frequently outgrow the location as urbanization occurs. Relocation should be carefully designed to separate the hub of transportation from the hub of commercial activity.
- 5) DECENTRALIZATION. Once an urban area becomes too large to serve the majority of the population adequately from one central location, satellite markets should be promoted. The vitality of the central wholesale-retail facility must still be assured, though encouraging the specialization of the wholesale function. Rules of thumb for what constitutes "too large" are either a population of a million or more, or a significant concentration of population more than one half hour from the central market using customary mode of transport.
- 6) TRADER ASSOCIATIONS. Traders should be involved in the planning process to the extent possible. Whether through formal trader associations or announced gatherings, wholesalers and retailers should, at a minimum, be apprised of major initiatives which will effect them. Their cooperation can be the determining factor in the success of the design and implementation of major reforms.
- 7) OPERATING FEES. Operating fees should at least cover the actual operating costs of any market facility. Often the fee structure becomes as antiquated as the physical structures they are to maintain. Realistic fees are moreover a positive force in the apportionment of space utilized by merchants.

REORIENTATION OF FOOD MARKETING RESEARCH  
AND PLANNING ACTIVITIES

A. Critical Issues for Additional Research

The outline of this paper could serve as the basis for the text which is yet to be written on the course of wholesale-retail development in the Third World. The issues which have been touched upon all deserve an in-depth treatment. The following points summarize some of the major research issues suggested by the preceding discussion.

1. Testing Hypotheses

Understanding where a particular economy's marketing system fits into the evolutionary scheme of things postulated here is more than an academic exercise. To see how different aspects of the system are lagging behind or how they are being pushed prematurely out of the context of an appropriate course of development is extremely important before daring to intervene in a marketing system.

The different stages and evolutionary pattern which have been put forth here should be regarded as hypotheses that require further testing. Marketing specialists need to gather empirical data to corroborate or refute the objective criteria set out here as causal variables and associated attributes of the evolution of given markets. What other objective criteria can be generated to serve as measures of the developmental status of food distribution system?

2. Repertoire of Innovations

What are the key innovations which have been developed in certain parts of the world which remain to be attempted elsewhere? Additional research and analysis is needed to compile a true repertoire of innovations. Where else have the feiras of Brazil or the "Mercados Sobre Ruedas" of Colombia and Mexico been attempted as innovative schemes to adapt to the need for greater flexibility of location and timing? Under what conditions have broad line wholesalers, voluntary, corporate and cooperative chain organizations been successful?

3. Profitability Analysis

What are the proper institutional vehicles for screening market interventions. Training of technicians in the development of business plans and profitability analysis is imperative if planning is to be professionalized. The skills of business analysts and economists trained to plan and execute substantial projects in the commercial sector are rarely tapped by the public

sector when it comes time to assess the advisability of a new project. Market planning has become the domain of any who would deign to consider themselves responsible. Decisions are made by political authorities with little objective inputs from those who have been trained to systematically evaluate projects.

Entrepreneurs who are capable of undertaking the sort of analysis required for proprietary projects are rarely called upon to assist in screening public projects, projects which often have a definite impact upon the commercial activity of those same entrepreneurs

Private profitability analysis is a necessary but insufficient condition for improving the professional evaluation of projects. The necessary complement is the kind of social cost benefit analysis which is indicated whenever significant externalities exist or economic rents which individual entrepreneurs cannot capture.

#### 4. Promoting Progressiveness

What sorts of policy interventions are likely to create the kind of dynamic environment which is likely to generate marketing innovations? Merchants as a group tend to suffer from a low self-image which reinforces their unwillingness to venture into new and uncharted commercial practices. Low professional esteem is the basis for much of the traditionalism which acts as a brake to innovation. Yet individual merchants, in their bid to establish a competitive advantage over other traders of similar commodities, are the source of most of the important marketing innovations anywhere. Further exploration is warranted of the policy support which governments can lend to nurture progressiveness amongst merchants.

#### B. Opportunities for USAID in Light of the Evolutionary Process

If there were a single conclusion which the program designers of AID would retain from reviewing the evolution of the wholesale/retail food distribution system, that conclusion should be that human resource development is the neglected complement to improvements in physical facilities. The single greatest opportunity for AID to intervene in the evolutionary process is to recognize what human resource development means in the food distribution system.

The types of "software" components which can be selected to complement the construction of marketing hardware has been presented above (Section IV. "Litany of Market Reform Measures".) These are necessary projects which correspond to needs in different functional areas at different stages of the development process.

What is missing is a basic training program for traders and food distribution specialists.

Three different course levels should be developed for hands-on training in the basic skills of wholesale/retail marketing and market planning:

- 1) Procurement;
- 2) Inventory Management;
- 3) Layout and Merchandising;
- 4) Handling and Storage; and
- 5) Bookkeeping.

Because of the prevailing negative public attitudes toward middlemen in most developing countries, it is extremely difficult for the sector to attract the brighter and more progressive individuals into the business. A policy environment needs to be created which says that the private food marketing system is important and has the blessing of government and political leaders. The Corabastos program in Bogota was initially successful because of that type of governmental and political support. Unfortunately the leaders there were unable to resist the temptation in later years to use the program for political demagoguery. Nevertheless, AID and other donor institutions are in a position to provide marketing system support programs which will alter the treatment of food marketing through policy dialogue, education and training programs and other action programs. A worthy objective is to lift the stature of food system entrepreneurs at all levels.

It is also suggested that AID consider creating a clearinghouse for information on appropriate marketing institutional forms, management and technology for countries at different stages of food system evolution. The clearinghouse would systematically obtain and catalogue information on different types of institutional as well as technological and managerial arrangements used in developing country food systems. The emphasis might be on preparing case studies to illustrate under what conditions certain innovations appear to work well from the standpoint of improving marketing system performance.

C. Rapid Reconnaissance Methodology for Marketing Diagnostics

Clearly the rapid reconnaissance methodology described by Holtzman is an appropriate approach for use in early stages of diagnostic research of urban food distribution systems. It must be

recognized, however, that the paper does not and is probably not intended to provide the reader with everything he needs to carry out such diagnostic research. Missing is some set of expected norms against which to measure the urban system being diagnosed. This, of course, has always been the dilemma of marketing researchers. Section III of Holtzman's paper provides a useful review of the literature on the subject and highlights some of the general approaches developed by marketing researchers. But it doesn't really give the reader much in the way of specific guidance in developing those norms. The present paper is aimed specifically at that issue.

While the Holtzman urges the researcher to formulate hypotheses to guide his ORR efforts, there is too little illustration of how to do that. This, of course, is related to the point of the foregoing paragraph. It would be useful to have one or two case illustrations of how a researcher might go about developing ORR hypotheses and to indicate the types of research questions which might evolve for a study of urban distribution and another for a commodity subsystem.

On another closely related issue, Holtzman says that the objective of the ORR effort is to identify what Shaffer has dubbed "unexploited opportunities" for improving the performance of the marketing system. But he has not given the reader a clear illustration of what that means. The suggestions provided in the foregoing paragraphs go part way toward correcting that problem but to make closure it is suggested that the paper develop the concept of focusing on preparing "bankable" 5/ projects. After all, the ultimate objective of the effort is to provide a justification for the allocation of someone's scarce resources to activities that will improve the performance of the system.

One manifestation of improved performance will probably be increased profits to reward the risk taker. Hence, profitability analysis at the firm level is appropriate. Is there a reasonable chance that an individual entrepreneur can reap enhanced profits by undertaking certain activities identified by the diagnosis? If so, then it will be possible to get a "banker" to help finance the activity.

Another manifestation of improved performance is enhanced profitability for all or most participants in some part of the marketing system. The researcher should set his sights early on identifying and quantifying those collective benefits because the "banker" will want to be satisfied of their tangibility before committing his resources.

And finally, there are social benefits related to the kinds of marketing system performance objectives listed on page 16 of the

Holtzman paper, i.e. equity, progressiveness, environmental protection, employment, and nutritional issues. Quantification of those benefits is much more difficult and yet they are equally, if not more, important to society in the long run than efficiency gains. Nevertheless, the researcher must somehow help the "banker" to justify the allocation of his resources to activities that will achieve those objectives.

FOOTNOTES

- 1/ Alvaro Silva, Evaluation of Food Market Reform: CORABASTOS-Bogota, Phd Thesis, Michigan State University, 1976.
- 2/ Kelly Harrison Associates, West Kingston Development Project Market Consultancy, May, 1985.
- 3/ Ray Bromley, "From Calvary to White Elephant: A Colombian Case of Urban Renewal and Marketing Reform", Development and Change, Vol. 12, 1981, No. 1 pp. 77-119.
- 4/ Ministerio de Agricultura, "Proyecto Integrado de Comercialization de Productos Agrarios", Unpublished Documents.
- 5/ The term "bankable" means that some investor or "banker" who has available resources is given sufficient evidence regarding a given activity to justify his allocating those resources to said activity. The term "banker" in this context, therefore, is used to denote any individual or institution with resources which might be allocated to marketing system interventions.

URBAN FOOD DISTRIBUTION SYSTEMS IN  
DEVELOPING COUNTRIES

By

Erdener Kaynak  
Division of Business Administration  
Pennsylvania State University at Harrisburg

Most of the studies conducted on the food distribution/marketing system of developing countries conducted in the last two decades have been descriptive, exploratory in nature rather than causal. With the exception of some doctoral thesis, empirically oriented analytical studies are lacking in the literature. Most of the studies are cross-sectional in nature; relatively few are longitudinal. This study also suffers from the same shortcoming. A common body of knowledge has, so far, been developed with the efforts of Latin American Market Development Center(LAMP) studies in Latin America and Food and Agriculture Organization(FAO) studies in the Near East and Asia. We are now in a position to go a step further. What kind of food marketing systems have been successful in what type of countries and environments? Are there certain commonalities we can work on? With the exception of Lessons from the Record of Interventions starting on page 27, the preceding part is a summary of the existing literature.

The author tries to trace the path of development of the urban food distribution system at different stages of economic development of developing countries. He uses commodity approach in his analysis. To me, a commodity approach to food marketing development seems no longer suitable. Problems of coordination between concerned agencies may lead to the creation of separate boards and institutions to deal with each commodity. Although, this may sometimes be convenient to producers of food products, food consumers may find it difficult because for them, each of these commodities is one commodity called "food". Three groups of commodities can be treated separately namely cereals, raw materials, and perishable food items.

Dr. Harrison proposes two groups of forces namely predictive and associated variables as impinging upon the evolution of food

marketing systems. What we need is measurable correlates of these two groups of variables and relate them to the development of urban food marketing systems of developing countries. Otherwise, we will not have any actionable type of data and information to work on. For instance, rapid rate of urbanization has certain effects on the urban food marketing system of developing countries. It is pointed out by Mitterdorff(1) that comparatively high rates of urban growth are expected in Africa and in Asia where the urban population is expected to increase between 1970 and 2000 by 1,120 million or by 200 percent. It is further stated that these are the regions of the world where marketing infrastructure is already inadequate and out of date so that the population growth will make the food distribution problems more acute unless some drastic actions are taken to improve the situation. In cities of developing countries, the demand for food has doubled over a period of a decade, which necessitates a doubling of the capacity of food marketing facilities. A second consequence of this dramatic urbanization process is the low income levels of the majority of the population in developing countries because of serious unemployment and underemployment. It is estimated that in most cities of the developing world the numbers of impoverished people living in slum areas will grow rapidly in 1980s and beyond, creating additional problems for the existing food marketing system of urban areas of developing countries.

Per capita income of a country is not a good predictor of the food marketing system development. Instead, per capita expenditures on food may be a better predictor. As well, cost-benefit analysis is needed on the governmental efforts to facilitate the development of the food marketing system.

Under transformation of the wholesale-retail marketing system, there is an underlying assumption that when the system becomes more complex it will become more productive and efficient. This may not be so as

1. Hans-Joachim Mitterdorff, "The Challenge of Organizing City Food Marketing Systems in Developing Countries", Zeitschrift für ausländische Landwirtschaft, Vol.17, No.4, October-December 1978 pp: 323-341

proven by per square foot turnover figures of small versus large food stores in developing countries.

How do we determine at what stage a particular developing country is on the so called appropriate evolutionary pattern of development? Might there be differences among the different food product categories in the way of development? The role of central wholesale markets changes as economic development takes place and as the food retail structure changes. Mittendorf(2) identified three different food distribution stages that are in harmony with the state of economic development of a developing country. These stages are summarized below(see Figure 1).

Stage I:The predominance of many small retailers and hawkers characterizes this stage. Wholesaling and retailing activities are undertaken by one enterprise. Example: tropical Africa.

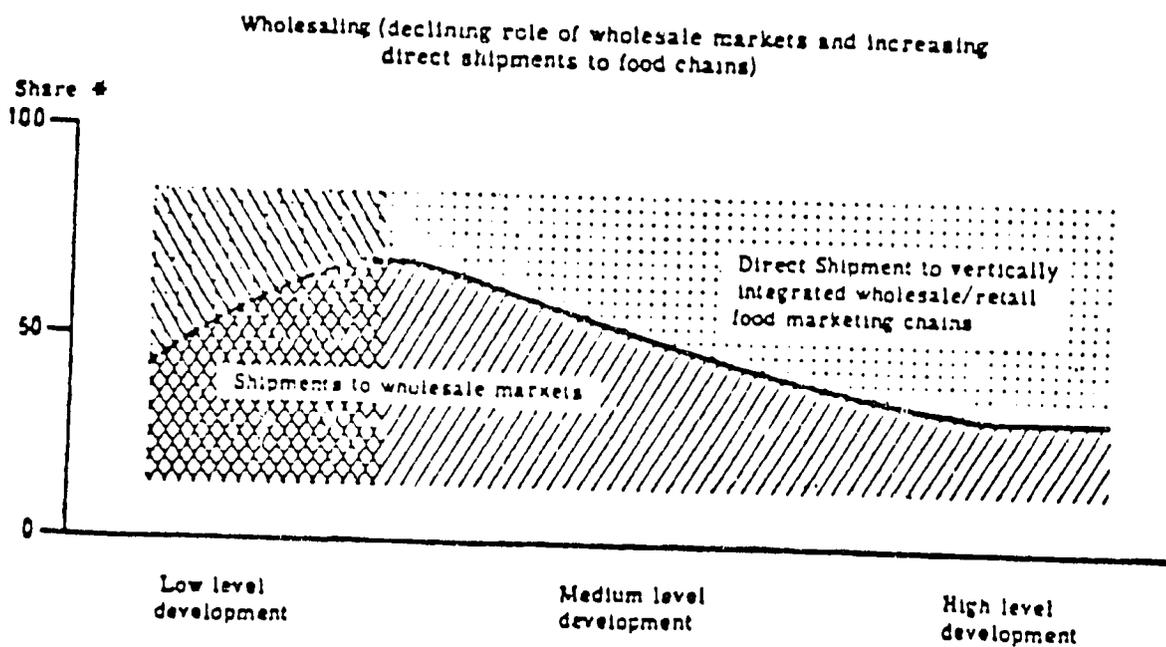
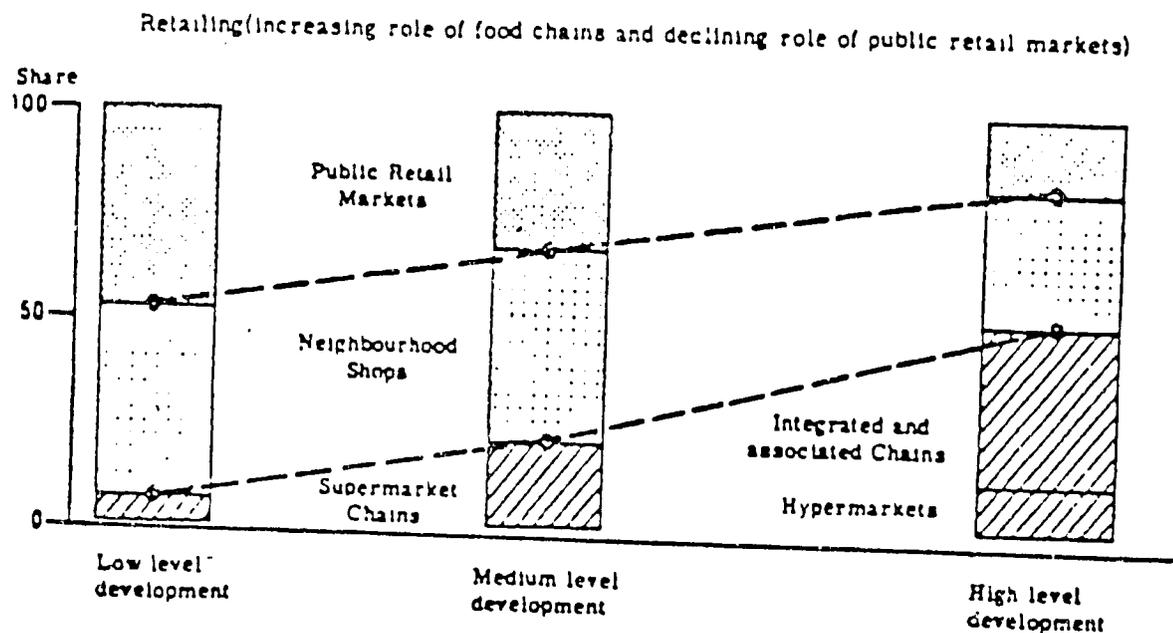
Stage II:At this stage of development there are well-established traditional wholesalers who have an important function in the distribution of fruit, vegetables, and fish to a larger number of specialized retailers with a higher level of operation than what prevails in Stage 1. Example: many urban centers of Latin America, Mediterranean countries, and more highly developed Near and Far Eastern cities.

Stage III:Associated with increased consumer income and GNP is the development of integrated and associated food chains. An increasing proportion of fruit and vegetables are purchased directly from packing stations and sent directly to the wholesale depots of food chains for redistribution directly to supermarkets, without passing through the wholesale market. At this stage, the traditional wholesale markets perform only a supplementary function in supplying highly seasonal and perishable food but not the bulk of the fruit and vegetables distributed.

Traditional food retail markets still dominate most developing countries. For instance, more than 50 percent of total food sales are made in traditional food retail markets in Asia, Africa and the Near East. The principal problems of public retail markets in

2. same reference as of 1

# Changes in Food Retailing and Wholesale in the Course of Economic Development in Developing Countries



■ Share of Food passing through wholesale markets and direct shipments to food chains

Sources: Hans J. Mitternort, "The Challenge of Organizing City Food Marketing Systems in Developing Countries", *Zeitschrift für Landwirtschaft*, Vol. 17, No. 4, October-December 1975, pp. 211-217.

these countries are mainly of an organizational and management nature, consisting of finance problems, management problems, and problems of lack of planning concept. Most of these problems are aptly presented by the author on pages 21 and 22.

Before any work is undertaken food marketing systems of developing countries under study should be compared. To this end, the framework presented in Table 1 can purposefully be utilized. As pointed out before we have a common body of knowledge on Latin American countries. Successful as well as unsuccessful examples of interventions from Latin America need to be carefully examined for application in other parts of the globe, particularly in Asia and Africa for orderly decision making purposes in food marketing and distribution.

Food marketing system planning with the main accent on physical facilities is not sufficient. As pointed out before human, institutional and operational aspects of the food marketing system have also to be considered. Smooth and effective coordination between the government and non-government agencies concerned is of paramount importance. For instance in vegetable and meat and livestock marketing, several Ministries are involved but they often have divergent interests; the result is to penalize both producers and consumers.

Food marketing system planning should be thought of when production is planned and not only at the stage when a surplus of production is experienced. Thus, one can not actually separate marketing from production. They go hand to hand at each stage of the economic development process of developing countries as depicted in Table 2. Food marketing system planning must be carried out at three different levels which are interrelated to each other, if properly done necessitates certain structural, institutional and behavioral changes in the system. Lets now look at the areas where planning can help then examine the type of changes for improving food marketing systems in developing countries.

#### Service Improvement:

How to improve and strengthen the services of food marketing systems for the benefit of consumers, farmers and channel intermediaries in

Table 1  
Comparison of Food Marketing Systems in Developing Countries

STEP 1:	Look at the General Economic/Political History of the Countries and Development Paths of their Economies
STEP 2:	Discern Similarities and Differences in Marketing Environments
STEP 3:	Food Marketing Operational and Managerial Effectiveness
STEP 4:	Food Distribution Efficiency *Types and number of institutions *Integration and concentration *Location *Assortment policy *Pricing and credit policy
STEP 5:	Food Marketing System Efficiency * Food marketing system performance * Productivity * Cost * Profitability * Efficiency

Table 2  
Stages in the Marketing System during the Economic Development Process

<i>Participants</i>	<i>Predominant types of markets</i>	<i>Marketing inputs</i>	<i>Production inputs</i>
Peasant producer-consumer	Local marketplace	Labor intensive	Labor intensive
Peasant producer-middlemen-consumer	Local marketplace and distribution fair	Labor intensive	Labor intensive
Peasant producer-middlemen-wholesaler and consumer	Distribution fair with increased growth in local marketplace	Increased capitalization through wholesaling	Labor intensive
Peasant producer-wholesaler-consumer	Distribution fair and urban consumers' market	Increased capitalization on all levels of distribution	Labor intensive
<i>Alternatives</i>			
a) Large-scale producers-wholesaler-consumers	Urban consumers' market	Capital intensive	Capital intensive
b) Peasant producer-wholesaler-middlemen-consumers	Marketing cooperatives for urban areas	Capital intensive	Capital intensive
c) Large scale producers-peasant producer-wholesaler-consumer	Urban consumers' market	Capital intensive	Capital intensive through voluntary cooperation

Source: Shepard Forman and Joyce F. Riegelhaupt, "Market Place and Marketing System: Toward a Theory of Peasant Economic Action," *Comparative Studies in Society and History* 12 (1970): 208. Reprinted with permission.

the food marketing system to reach the major objective of a marketing system to become a major dynamic force for socio-economic development.

#### Cost Reduction:

How to reduce losses, particularly for fruits and vegetables. Implementation of standardized procedures for products, packages and for other marketing activities.

#### Structural Changes:

What is the most suitable type of food marketing enterprise to be promoted? What should be the most suitable marketing structure for different situations?

#### Marketing of Strategic Food Products:

In most developing countries a few of staple food products (i.e: rice, wheat etc), special attention should be focused on how far the distribution system for these strategic products could be improved, particularly under conditions of scarcity.

There are three types of changes namely structural, institutional and behavioral which foster improvements in the food marketing systems of developing countries. Lets look at these in more detail.

#### Structural Changes

1. Provision of marketing infrastructure (roads, transportation systems, market places etc.)
2. Development of standardization and grading processes for food products.
3. Government ownership of and/or participation in food retailing, food production and food allocation (government serves as a counter-vailing power).

#### Institutional Changes

1. Integration of food marketing system either vertically (that is integration through ownership or contact)
2. Integration of food marketing system through horizontal coordination (that is formation of chain store form of organization).
3. Retraining or education of food marketing system members.
4. Introduction of innovative food marketing techniques.

### Behavioral Changes

1. Change of behavior of consumers, farmers and the intermediaries through education and introduction or control of marketing strategies (e.g. price controls, store locations, licensing, product assortments, packaging, etc.)

### Agenda For Research in Food Marketing System in Developing Countries

We need to build on past conceptual as well as empirical studies. To this end, critical issues for additional research suggested by the author on pages 35-39 will be helpful. Additional insights may be gleaned from the following:

- a) Development and testing of Universal models of structural and institutional changes within food marketing system of developing countries.
- b) Cross-national studies of urban and rural food distribution and marketing.
- c) Comparative studies of food marketing system goals, actors and efficiencies in developing countries.
- d) Development and application of yardsticks for assessing and measuring food market system productivity and efficiency in developing countries.
- e) Development of normative yardsticks for the evaluation and measurement of food marketing system performance in developing countries.
- f) Critical factors affecting food marketing system development at three different levels namely production, marketing and consumption. Are there differences among different developing countries? Are there differences among different food product categories?
- g) What kind of institutional arrangements have been successful in the marketing system of developing countries? Can the successful institutions be transferred from one developing country environment to another?

COMMENTS ON  
"EVOLUTION OF URBAN FOOD DISTRIBUTION  
IN THE THIRD WORLD" BY KELLY HARRISON ASSOCIATES

Bruce Gardner  
Department of Agricultural & Resource Economics  
University of Maryland

The issues as addressed in this paper largely involve "imperfections" -- departures from the competitive norm in urban food marketing. Undoubtedly they exist, but how to pinpoint them? What constitutes evidence for them?

A helpful starting point is the "squeaky wheel" principle. This sort of problem is detectable by any sensible observer. Of course the difficulty exists that the political system typically is organized so as to apply grease according to such a rule. The economic squeaks are quite distinct and different; indeed a prime cause of untreated marketing problems is the grease applied to stop politically sensitive squeaks, for example, the shortages associated with food price controls.

This paper as well as several others at this conference conclude that governmental intervention in marketing has tended to create more problems than it solves, and is in this sense counterproductive. The fact that government action is counterproductive suggests either that the analytical problem is difficult, so mistakes are made, or that the objective of government is inappropriate from the economic viewpoint. If the latter is the case -- a "political" problem -- then as economists we do not have much to say about it. We can just count up the costs of achieving the political ends. Let's suppose that if we can identify problems or imperfections in markets, and propose investments to improve things, there is a reasonable chance that the investments will be made. The hard part then is to identify where the bottlenecks and inefficiencies are.

The closest approach the Harrison paper makes to doing this is the list of "signs of disequilibria" (p. 21). I didn't find these helpful, however. They indicate when a marketing system is not evolving according to a pattern expected a priori, but this is not necessarily a problem to be remedied. The items that do indicate problems, like shortages and gluts, are not clearly linked to the evolutionary framework -- they would be a problem at any stage.

This raises the general question of whether in analyzing problems of marketing in developing countries it is helpful to adopt any a priori approach, model, or paradigm? For example, the structure-conduct-performance framework from the study of industrial organization could be applied to agricultural marketing in developing countries. The benefit of this is that it leads one to ask certain questions that might otherwise be forgotten. In investigating food retail outlets in an urban area, a natural first step is to count up the different outlets and calculate their market shares. But knowing that we also have to consider conduct -- how these outlets interact with one another, set prices, share market segments -- prevents us from stopping our investigation too soon. Even when we know how the industry behaves, we are impelled by the structure-conduct-performance framework to push further and inquire about outcomes. Performance here involves the prices at which products are delivered to consumers, and the quality, variety, and reliability of marketing services.

Yet I believe it would be a mistake to base a whole research project or a whole paper on a topic like urban food distribution systems on the structure-conduct-performance framework, and I am glad that the Harrison paper did not do this. The reason is that such a framework or model inevitably leaves out some features of the problem. For example, income distribution issues might be neglected. The way to use these models or

framework is to raise questions to be addressed, but then forget the model. Besides structure-conduct- performance, examples are: a "systems" approach, which is helpful because it forces one to think not only about a market in isolation but how it fits in with other market. It opens the possibility for the suggestion implicit in Mr. Arizo-Nino's comment that a good investment for improving food marketing might be a reliable and cheap telephone system. A neo-classical approach is helpful because it forces one to think about adjustment at the margin, and marginal benefits and costs resulting, and distinctions between fixed and variable factors; even a Marxian approach, which makes one think about winners and losers and who controls the state, can be helpful.

The Harrison paper, and those generally at this conference, adopt an evolutionary approach of which I have not seen the benefit. In fact, I found the least valuable part of the paper was pp. 14-15 where notions of evolution and perfect competition are brought in together. The paper attributes "neglect of marketing reforms" to belief in perfect competition. I find this an unlikely risk, and believe that one is more likely to err by ignoring the elements of competition that exist. We don't need "perfect" competition, but only free entry and slight enough market power that supply-demand analysis is applicable.

The author claims that the idea of taking an evolutionary perspective has been helpful (preface), but it is not clear why. The issue is how such an approach helps us to investigate what problems now exist in food distribution systems and how to provide remedies. There might be a temptation in an evolutionary perspective to be too impressed with the fact that whenever a change is observed, it occurs for a reason; this is a recipe for papering over problems, or discovering those problems which have already

been solved. The other side of the methodological argument is given in the last paragraph of p. 20 but I didn't find it convincing. Still this approach does make us justifiably sceptical of "easy answers" to perceived problems.

Where the paper provides its most useful information is in the case studies of intervention, pp. 27 ff. The main lessons I draw from this is that planners should investigate the ramifications of a proposed project or intervention very carefully, in depth and breadth, before acting. One has to pay attention to the specifics of a problem, and not rely on a general model or pattern of what should work.

The main single conclusion of the paper is that "human resource development is the neglected complement to improvements in physical facilities" (p. 36). I don't see exactly how this conclusion comes out of either the evolutionary schema or the case studies, but I agree with it and the discussion in the paper does somehow support it. Seeing that the issues in marketing are complex, yet yield to systematic thought and inquiry, indicates that skills are required, and the existence of unsolved problems and mistaken solutions suggests that the skills aren't available or aren't being used.

On what the salient problems are, or the promising investments to solve them, the paper is not so helpful. The guidelines for redesigning market interventions (pp. 33-34) and the "reorientation" proposals (pp. 35-39) are sensible. To move toward application, however, more is needed.

First, we need better criteria to indicate when a problem exists, and how severe it is. This point has been mentioned several times already, but may merit another repetition because it is important.

Secondly, there should be more specific discussion of the criteria for success of an intervention. What do we look for in the data to judge whether

^ an attempt to improve marketing has been successful? In the cases described on pp. 27-34, it is not clear enough how it was determined whether they are successes or failures.

BG:asv/evolutio/11/86