No. 37

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Principles of Policy Making in Marketing

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From time immemorial the subject of first concern in agriculture, the aristocracy among issues in agricultural policy, has been the economics of production. The economics of marketing has been low caste.

Still today, production gets top billing. In most nations, and particularly most developing nations, improvement of production commands a great deal more attention than does improvement of marketing.

Granted, for the historical disparity there was good cause. Through most of history mankind was hard pressed just to get enough basic food to eat. Also, each family or each local subsistence unit, such as a tribe, produced most of the food it ate. In these circumstances there was little need to consider marketing, for it scarcely existed. Marketing was confined to such items as salt, and to luxuries for the nobility.

In some parts of the world the situation has scarcely changed.

On the other hand, wherever the agricultural economy is no longer organized on a self-sufficient basis, but is commercial, it is necessary to have an acceptable marketing system. More than that, a well designed marketing system can itself be an instrument of development.

To extend the contrast one step further, in the more industrial nations we now find highly sophisticated marketing systems. They are so sophisticated that they no longer concern themselves primarily with moving products efficiently from producer to consumer, which is the traditional objective of a marketing system. Instead, they engage in extravagant activity called "merchandising".

Agricultural Policy Course, Washington D. C., August 2-27, 1971.

Merchandising essentially aims at creating consumer loyalty to one's own branded, copyrighted products. It involves expensive research into finding or creating a product or service that has some feature distinguishing it from its competitors. The distinction may be genuine or only superficial. The new product is then surrounded by an aura of the adman's panegyrics. The potential consumer is made to believe that the new product, to use Dr. George Mehren's words, can "assure professional, social, athletic, amatory or even intellectual excellence."

My choice of language in describing this latest stage in "marketing" in developed economies may hint at my personal skepticism. One may well wonder if we in the U.S. are really clever when we overload our marketing system with more costs of promotion and advertising and other devices of "merchandising". Maybe we are outwitting ourselves. If the old wisdom still holds true, that the rich and the proud will let their wealth and pride lead them to self-destruction, it may apply to advanced industrial economies who waste their resources in costs of marketing that add little or nothing to the welfare of consumers.

But this is a digression. Aside from being a warning of what a nation ought not to do, it may present a picture that you may see in your own countries. Your firms that sell mainly luxury goods may adopt similar practices, and U.S. firms who are in business in your countries will often burden your economies with some of our bad habits.

More Marketing When Production Specializes. It is extremely difficult to offer generalized ideas about the economics of marketing in various countries of the world. Conditions differ so much, not only among countries, but among various parts of a single country. In the tiny jewel of Guatemala, for example, I found it necessary to outline not less than three separate agricultural sectors before I could offer any useful suggestions about marketing. These were the export sector, the small commercial farm sector, and the largely subsistence sector. As I will illustrate later, marketing policy differs among the three.

In writing a chapter in a book recently published I tried to find general principles of marketing that could be applied everywhere. The only one I could set forth was this: "Economic development universally involves attaining more specialization in economic enterprise than prevails in primitive economies."[1] To my knowledge this is indeed the only principle that can help us to understand the marketing economies of various nations. As an economy develops, an increasing number of the economic activities become specialized. Fewer of the farmers will produce solely for their own consumption. Even those who remain partly self-sufficient will sell more product into the market than they did before. Commercial farmers who formerly raised and sold many products begin to specialize and sell fewer. Moreover, they may begin to use more purchased inputs such as chemical fertilizer. As these changes take place, there is more need to make sure that a good marketing system is at hand -- and that it works well.

Thus, as development takes place the economics of marketing begins to steal a little of the spotlight from the economics of production.

Moreover, each degree of success in production itself forces an increased attention to marketing. The arithmetic of the situation makes this clear. If a farm, or a farming area, increases its production faster than its population grows, only part of the larger production is retained for local consumption. A sizable part is sold into the market. Thus if an area had been 80 percent self-sufficient and increases production 15 percent but keeps only a third of the increase for its own consumption, the marketable surplus expands a big 50 percent!

This simple calculation explains some of the consternation that has followed the so-called Green Revolution. Apparently few persons had fully understood how much the burden upon the marketing system would increase when Indian or Pakistanian

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[1] Harold F. Breimyer, "Influences of Rural Institutions on the Economic Development of Agriculture in Less Developed Countries: Product Markets," Institutions in Agricultural Development, Melvin G. Blase ed., Iowa State University Press, Ames, 1971.

farmers began to use the new, highly productive varieties of wheat and rice. Those persons now understand! They learned -- the hard way.

Two Missions of Marketing. Our mental picture of how much marketing increases when farmers learn to produce more grain or milk or wool nevertheless can mislead us. It suggests that the major task of marketing is to move a quantity of product through a sequence of transportation, storage, processing, and retailing until it reaches the consumer. This is indeed an important task. But it is only one of two.

Marketing has a second job to do. It also must function as a mechanism to guide the production, marketing and consumption of food and other products. In most countries it does so by means of the system of price. In an earlier lecture I remarked on the black-magic role price performs as it guides production and consumption. Now I want to add that it also acts as a signal system for the performance of marketing services themselves. Furthermore, it is noteworthy that price is itself a product of the marketing system. It is in marketing that price is "discovered" or "determined". This is true in all instances except where central government decrees the prices that shall prevail.

Even in Socialist countries the price of farm products is relied on to a large extent to direct their production and consumption and even, sometimes, their processing. However, in those countries price usually is determined by central authority, either in the planning agency of government or in the ministry of agriculture.

To repeat, in most countries the magic instrument of price is relied on to direct production, marketing and consumption. One exception is the direct controls that Socialist countries still employ in some instances. There is a second exception. The term for it is "vertical integration". This refers to arrangements whereby two or more steps in production and marketing are combined within a single business firm. The firm may exercise its control by means of ownership, as some U.S. companies have done in tropical fruit production in Central America, as an example. Or it may enter into contracts with its suppliers. In the U.S. and some other countries, firms that process fruits may obtain their fruits from farmers with whom they hold contracts. Contractual integration probably has progressed farther in the U.S. than other countries. We have it in broiler chickens, eggs, turkeys, fruits for processing, vegetables for processing, sugar beets, and several other products.

Having called attention to the alternatives to market price as the crucial instrument in a marketing system, I will confine my remarks henceforth to a price-based market system.

It should be clear that I regard the second task of a marketing system as equally as important as the first, if not more so. We have more difficulty making sure that the pricing mechanism works well than in building roads, storage bins, or wholesale market facilities.

In other words, very often the more difficult problems concern the institutions of a marketing system. I like to quote Collins and Holton, who write that development plans for a country typically "call for improved distribution facilities ... [when] more often the really critical need is a change in the organization and operation of the distributive sector ..." Further, "materials are notably more malleable than men ..."[2]

<u>The Tests for Good Price-Making</u>. How do we know whether a system for "making" or "discovering" price is working well? Everywhere, this question leads to argument. There are no easy and accurate tests. But we have a few guidelines to help us.

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[2] Norman R. Collins and Richard H. Holton, "Programming Changes in Marketing in Planned Economic Development," <u>Kyklos</u>, Vol. 16, Fasc. 3, August 1963, p. 124.

Sometimes we define a good pricing system in terms of its attributes. For example, a pricing system must bring many buyers and sellers into active competition. If that is done, we give the system a good mark. If there is any degree of monopoly (such as oligopoly or oligopsony, words that mean few sellers or few buyers) it is highly unlikely that prices will be fair to all persons.

Of, if too few buyers or sellers are present, we want the opposite parties to be nearly equal in bargaining strength. We argue long and loud about the meaning of bargaining power. It is like the wind; we may not be able to see it, but if it is present we certainly can feel it.

A good price-making system provides for means of fast and accurate communication. A standard nomenclature helps also. A code of rules of fair trading almost always is a part of a good system.

Another way to evaluate a pricing system is to examine its results. We look for stability; a market that jumps up and down is not good. Sharp fluctuations from season to season also indicate a poor system. Prices should be similar in various locations, differing only to the extent of the transportation costs from one to another. Prices must be uniform to all traders. Favoritism in trading is unethical and usually illegal.

It is difficult to know when prices are too high by virtue of monopoly. Yet we must be sensitive to any evidence of exorbitant pricing (too high for things farmers buy, or too low for those they sell).

A person who seeks to evaluate a pricing system often compiles prices at successive steps in marketing, calculating the differences between them. We call the data "price spreads" or "price margins". We usually say that the size of the margins does not of itself tell us whether some prices are too high or too low, or whether the marketing system gets too much of the consumer's dollar. We have no norm for making comparisons. Yet after declaring the weaknesses of the data, we usually compute them in order to know better just what the relationships are between prices to farmers and to consumers and where marketing costs are highest.

The Simple and the Complex. If marketing systems vary so widely from a near-subsistence to an export agriculture, our policies to improve them must be of equally diverse content. A price-based marketing system, charged with guiding an economy, is not merely an economic institution. It is a political one also. A system can be only as complicated, and can operate only as efficiently, as the capacity of the people and the political, cultural and social environment make possible.

Gunnar Myrdal put the case in solemn words:

> "In a stagnant community, with low levels of living and education, which has inherited a rigid and inegalitarian social and economic structure, the difficulties of building up institutions for self-government, collective bargaining, and cooperation are immense. The fundamentally different problem facing the state in under-developed countries is that it will have to build up such institutions."[3]

In my chapter referred to above, I wrote as follows:

> "A market exchange economy ... probably can work well only if the population is relatively literate, distribution of wealth is not too unequal, traditions of the citizens are conducive to responsible individual performance within large organizations, and central government is capable and enterprising."[4]

In a sector of a nation's agriculture that is still partly subsistence, the local markets may require only modest services. Village markets that dot all Latin America may be a rational institution. I am not critical of them. They usually employ labor in a way that seems wasteful, but if no other employment

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[3] Gunnar Myrdal, Beyond the Welfare State, Yale Univ. Press, New Haven, Conn. 1960, pp. 134-35.

[4] Breimyer, op. cit.

is available the practice is not objectionable. Some persons believe that local communication can often be improved, as by the use of blackboards for posting market information.

It has been reported that local markets sometimes are not as innocent of internal power contests as they appear. If they are crippled by guild rules or restrictions on access to stall space, they cannot be regarded as good markets. Practices of that kind in an Andean village are just as objectionable as collusive trading on a Chicago mercantile exchange.

More difficult to prescribe for are the markets for surplus that goes from remote regions to a distant city or even for export. In these circumstances the seller may be at a serious disadvantage. "This is where the money lender may dominate local marketing, where the itinerant trucker may take advantage of uninformed sellers... Yet the volume of trading may not make a sound market system profitable."[5]

Only two avenues for amelioration can be suggested. One is to develop farmers' cooperatives. The other is to require that the central government improve the markets or protect farmers from being exploited.

With regard to cooperatives, this is a subject of its own. The usual point of view is that they can accomplish great things, provided the farmers themselves understand what is required of them when they market cooperatively (without this understanding, the cooperative will fail); and provided further that the cooperative has skilled, dedicated leadership.

With regard to action by government, it will be expensive in the short run. But government action may be necessary in order to help the area to develop a more productive and more commercial agriculture.

The domestic commercial sector may present even knottier problems. Here we usually find the elements of a commercial marketing system but it may still

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[5] Breimyer, *ibid.*

be somewhat crude. Here we often can apply a scaled-down version of the institutions and practices used in more developed nations. For some commodities, a set of grades and standards may be helpful. Trade practice rules can be an aid. This sector may be plagued with too few buyers, such as food processors who hold a virtual monopoly. Again, cooperatives or direct action by government may be necessary, including some government enterprises for "yardstick" purposes (i.e., to provide competition with private firms).

Many nations have a large scale export agriculture that is almost isolated from the rest of its economy. Owners may live in the capital city or may be European or U.S. corporations. The marketing process is highly advanced, and producers, through their associations, provide some of the marketing services. The role of government may include inspecting products for quality before they are shipped abroad. The object is to protect the country's reputation in world markets. Government is usually active in political negotiation to keep trade channels open, or to establish or administer international commodity agreements.

Institutions and Infrastructure. In the above comments the emphasis has been placed on institutions for marketing rather than on the physical facilities for marketing (infrastructure). The reason, already given, is that most countries find it easier to see and correct deficiencies in infrastructure than in institutions. Nevertheless, we frequently find serious shortcomings in roads, storage facilities, central market space, and other kinds of infrastructure. I have seen colonization areas that lacked both access roads and local market institutions. One wonders what the government authorities expected the newly colonized farmers to do with their surplus products!

But institutions and infrastructure are not always opposite choices. Often they have to be developed together. The error in planning for colonization that I just named is a conspicuous example. The colony needed both roads and a "market." Another familiar instance is such commercial facilities as storage warehouses. Farmers or merchants may need public warehouses where they can store produce from a surplus to a deficit season. The lack of them is frequently deplored. Yet we found in the U.S. that commercial warehouses can be successful only if two institutional developments accompany them: the government must inspect each warehouse regularly to insure the integrity of the grain, cotton or other products that are stored in it; and banks must be willing to lend money on the stored products. Reciprocally, banks will lend money only if the government guarantees the integrity of the storage service. The interlocking relationship is evident. Similar interrelationships between institutions and infrastructure are found throughout the marketing system.

Wholesale and Retail Trade. I have said little about wholesaling and retailing. Many authors give almost exclusive attention to them. One may suspect that they do so because those operations are the most conspicuous. Or they may be struck by the spectacle that U.S. supermarkets have created worldwide.

It is my judgment that in most countries not retailing but earlier steps in marketing are the more deficient. I am not convinced that supermarkets are the wonderful boon in the U.S. that their publicists declare them to be. Definitely we have made greater strides in wholesaling than in retailing.

Whatever we may think about supermarkets in the U.S., we should be extremely cautious in advising massive transplanting of them to developing countries. As one reason for conservatism, supermarkets in our country serve all classes of the population except the lowest income families of the inner city. While in Latin America, for example, it seems to me, they serve principally the higher income classes.

Some U.S. advisers have almost a religious fervor for converting food retailing of Latin America to a supermarket system. I must confess to being an apostate.

In a larger sense, these remarks about supermarkets illustrate a basic principle that should be adhered to rigorously whenever comparisons are made between marketing systems in the U.S. and developing countries. It is that our U.S. resources are of a different composition than those of most developing countries. Not only are they greater, but they include much more physical capital relative to labor. The developing countries' greatest resource may indeed be the human one. Labor-saving devices that we have sought so assiduously in our country may be not only inapplicable in your countries, but intrinsically harmful. It is never in a nation's interest to economize on what is most abundant. It is pointless to save labor if workers have no other employment.

One of my customary, if barbed, remarks is that when I have had occasion to offer suggestions, cautious and modest, regarding the marketing system of a Latin American country, I spend much of my time toning down the recommendations my predecessor gringos have made. We from the U.S. need to be on guard lest we advocate that a country take actions that are more elaborate and costly, or more capital-using and labor-saving, than the country's economy justifies.

I nevertheless want to conclude on a positive note regarding improvements in marketing. Marketing has often been shortchanged in policy-making for agriculture. It has not received the emphasis it deserves. Improvements in marketing are needed in order to correct flaws and deficiencies that may readily be observed. They may be the subservience of a campesino to a local money lender, who not only charges high interest on the loan but insists on taking the crop at harvest and paying a low price for it. Only government action or a cooperative can correct this bad situation. Some areas may be desperately in need of an access road. A food processor may be a monopolist underpaying farmers and overcharging consumers. A new export market may be opening up, requiring sophisticated services of negotiation and of establishing tight quality control so that some irresponsible firm does not ruin the entire opportunity.

But in a less pragmatic and more development-planning sense, new and improved markets are needed wherever a nation's agriculture tries to grow and improve and commercialize. Growth comes with specialization, and **specialization** demands a more intricate structure of communication and service. Moreover, the marketing function will expand faster than production. A nation that fails to hearken to these facts and act accordingly will fail to follow through on the promises it has made to itself.