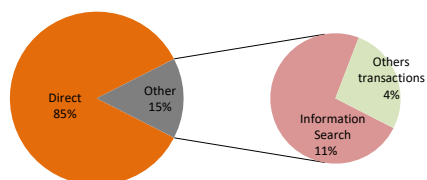


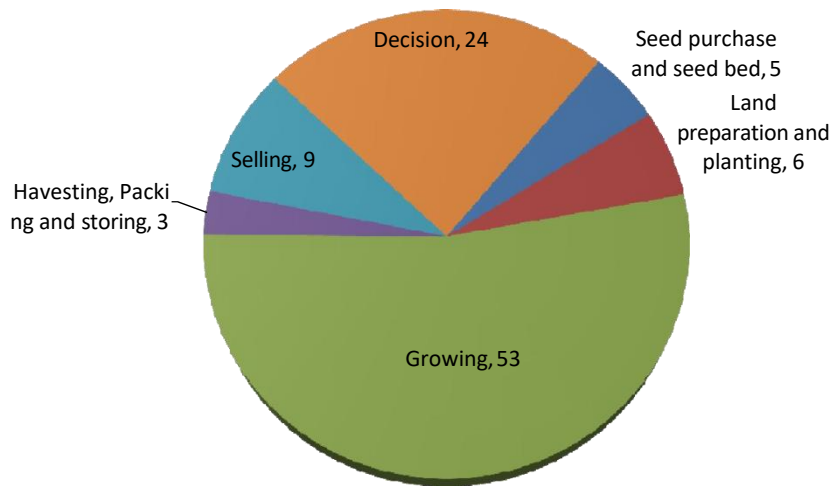
Cost, Price & Margins

Costs

- Production
 - Direct
 - Indirect
 - Decision making & Information search
 - Other transactions



Cost - Search Cost by Stages



Cost - Marketing Costs

- Produce preparation costs.
- Packaging costs.
- Handling costs
- Transport costs
- Product losses
- Storage costs
- Processing costs
- Capital costs
- Other Costs

Cost - Marketing Costs

- Produce preparation
 - Cleaning
 - Trimming
 - Sorting
 - Grading
 - Waxing

- Cost high but return too is high

Cost - Marketing Costs

- Packaging
 - Convenience in handling and transporting
 - Protection to produce
 - Presentation
 - Quality identification
 - Product differentiation
 - Checking adulteration
 - Consumers' convenience

Cost - Marketing Costs

- Handling cost
 - Farmer or labourer loads produce on to cart
 - Labourers unloads produce at assembly market and it is weighed
 - Wholesaler or his employees repackages the produce in wholesaler's containers
 - Produce is carried to and loaded on wholesaler's truck
 - Produce is unloaded at wholesale market and weighed
 - Produce is repacked and transported in retailer's containers
 - Produce is unloaded and repackaged at retailer's store

Cost - Marketing Costs

- Transport cost
 - Using hired service v/s that of self
 - One commodities v/s different commodity
 - Why high cost?

Cost - Marketing Costs

- Product losses
 - How much it reaches next level is always less than what it was at earlier one
 - Losses are both quantitative and qualitative
 - Harvesting and post harvesting technologies are important

Factors Affecting Marketing Costs

- Perishability
- Losses in storage and transportation
- Volume of the product handled
- Regularity in supply : Cost less; Irregular in supply – cost is more
- Packaging : Costly (depends on the type of packing)
- Extent of adoption of grading
- Necessity of demand creation (advertisement)
- Bulkiness
- Need for retailing : (more retailing – more costly)
- Necessity of storage
- Costly finance
- Facilities extended by dealers to consumers.
 - (Return facility, home delivery, credit facility, entertainment)

Marketing Costs

- Storage Costs
 - It extends availability period but involves costs
 - Cost related to actual operations
 - Blocking of capital
 - Physical losses of produce

 - Calculating costs - hired vs. own facilities
 - Efficient when we use full capacity of storage facility

Marketing Costs

- Processing costs

- Capital costs

- Fees commission and unofficial payment

Marketing Costs

Price paid by eventual customer =

Price paid to farmers

+

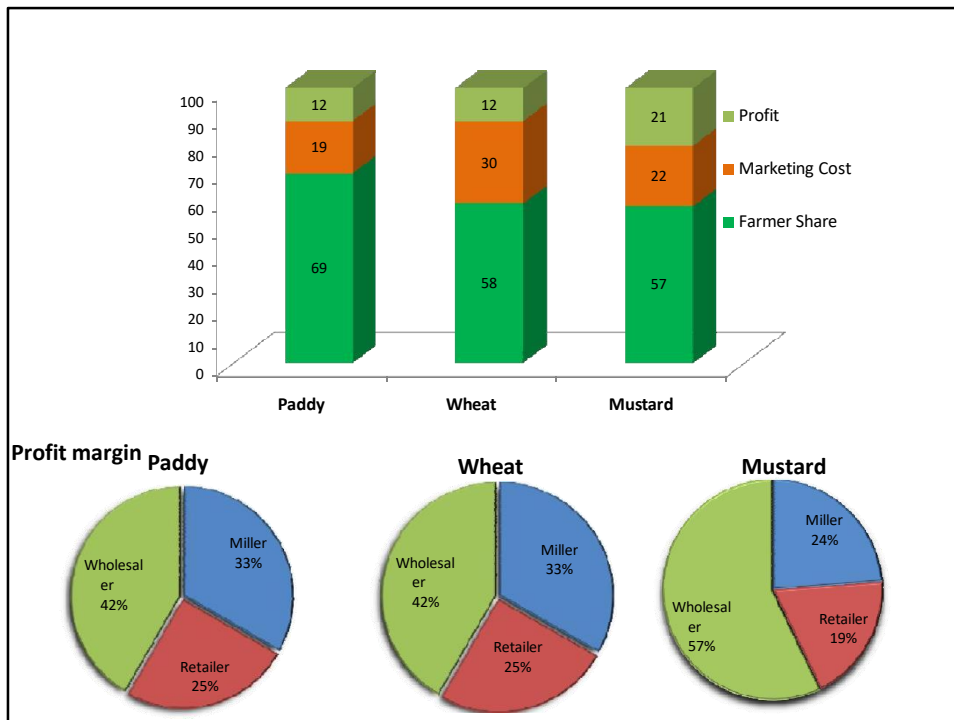
All the costs involved in getting it to the consumer in
the form in which he or she desires it

+

A reasonable return (Marketing Margin) to those doing
the marketing and processing for carrying out these
functions

Marketing Margins

- Margin
 - The profit at each stage of the value chain.
 - A marketing margin is the percentage of the final weighted average selling price taken by each stage of the marketing chain.



Bacon 1 lb.  Retail: \$5.33 Farmer: \$0.84	Top Sirloin Steak 1 lb.  Retail: \$8.99 Farmer: \$1.93	Bread 2 lbs.  Retail: \$3.99 Farmer: \$0.11	Fresh Carrots 5 lbs.  Retail: \$4.59 Farmer: \$1.41	Wheat Bagel 1 - 4 oz. bagel  Retail: \$0.90 Farmer: \$0.01
Cereal 18 oz. box  Retail: \$3.49 Farmer: \$0.05	Tomatoes 1 lb.  Retail: \$4.59 Farmer: \$0.36	Eggs 1 dozen  Retail: \$1.79 Farmer: \$0.48	Flour King Arthur, 5 lbs.  Retail: \$4.29 Farmer: \$0.40	Boneless Ham 1 lb.  Retail: \$4.99 Farmer: \$0.84
Lettuce 1 lb.  Retail: \$2.89 Farmer: \$0.20	Milk 1 gallon, fat free  Retail: \$4.59 Farmer: \$1.55	Fresh Apples 1 lb.  Retail: \$2.89 Farmer: \$0.39	Fresh Potatoes Russet, 5 lbs.  Retail: \$3.99 Farmer: \$0.56	Soda 2 liters  Retail: \$1.19 Farmer: \$0.05

Farmer's share derived from USDA, NASS "Agricultural Prices," 2019. | Prices based on May 2019 data.
 Retail prices based on Safeway (SE) brand except where noted. | *Figure according to U.S. Department of Agriculture Economic Research Service

July 2, 2019

Example

The bitter gourd buying price from the farmer is ` 0.50 per kg,

The weighted average wholesale selling price is ` 0.90 per kg and

The weighted average retail price is ` 1.17 per kg.

Calculate

Share to the producer ($\frac{0.50}{1.17}$) = 0.427 or 43%

Wholesale margin ($\frac{0.90 - 0.50}{1.17}$) = 0.342 or 34%

Retail margin ($\frac{1.17 - 0.90}{1.17}$) = 0.230 or

23% Total margin = 0.572 or 57%

Shrinkage rates & MC and MM

- A farmer sells tomatoes at ` 4 per kg. These are then sold by a retailer at ` 6 per kg but 10 per cent of the quantity purchased is lost in the marketing process. The only identified costs are wages which amount to ` 1 per kg of product purchased from the farmer. Since 10% (0.1 kg) of the purchased tomatoes is lost, 1 kg of them will produce only 0.9 kg of the **reference product**.

What is the **Gross margin** and **Net margin** when the retailer sells 1kg of tomatoes.

- Gross margin:
- Net margin:

By-products and MC & MM

- A miller purchased paddy at - ₹ 18.20/kg.
- Milling % - 60.
- Selling price
 - By-products - ₹ 6.00/kg and
 - Edible rice - ₹ 45.00/kg.
- The total identified marketing costs* - ₹ 5/kg of paddy.
- The reference product is 1 kg of edible rice.

Calculate the following if 100kg of rice is sold

- Total marketing costs
- Gross margin
- Net margin

* (packaging, milling, storage, transport etc.)

- If 1 kg of rice is sold then the quantity of paddy is

$$X \text{ kg} \times 60\% = 1 \text{ kg} = 0.6X = 1 \text{ kg} = X = 1/0.6 = 1.67 \text{ kg Paddy}$$
- The quantity of By-product = $1.67 \times 40\% = 0.668 \text{ kg}$
- The cost of paddy = $1.67 \times \text{Rs } 18.2 = \text{Rs } 30.33$
- The identified costs per kilogram of paddy is $\text{Rs } 5.00 \times 1.67 = \text{Rs } 8.33$
- Total Marketing Costs = Rs 8.33
- Selling price Value of Rice = $\text{Rs } 45.00 \times 1 = \text{Rs } 45.00$
- Value of By-Product = $\text{Rs } 6 \times 0.668 = \text{Rs } 4.00$
 Total = $\text{Rs } 49.00 = \text{Rs } 49.00$
- Gross margin = Selling price – purchase price of paddy – value of by-products
 $= \text{Rs } 45.00 - (\text{Rs } 30.33 - \text{Rs } 4.00) = \text{Rs } 10.67$
- Net margin = Gross margin, net of by-products – total marketing costs
 $= \text{Rs } 10.67 - \text{Rs } 8.33 = \text{Rs } 2.34$

Price

- Point of compromise between the buyers and sellers desire for lower and higher prices
- Selection between alternatives
- Prices thus transmit
 - Orders &
 - Directions . . .

- Relative price
 - Ratio
 - Signal for changing market choice

- Demand
 - Law of demand
 - Law of diminishing marginal utility
 - Demand schedule
 - Effective demand

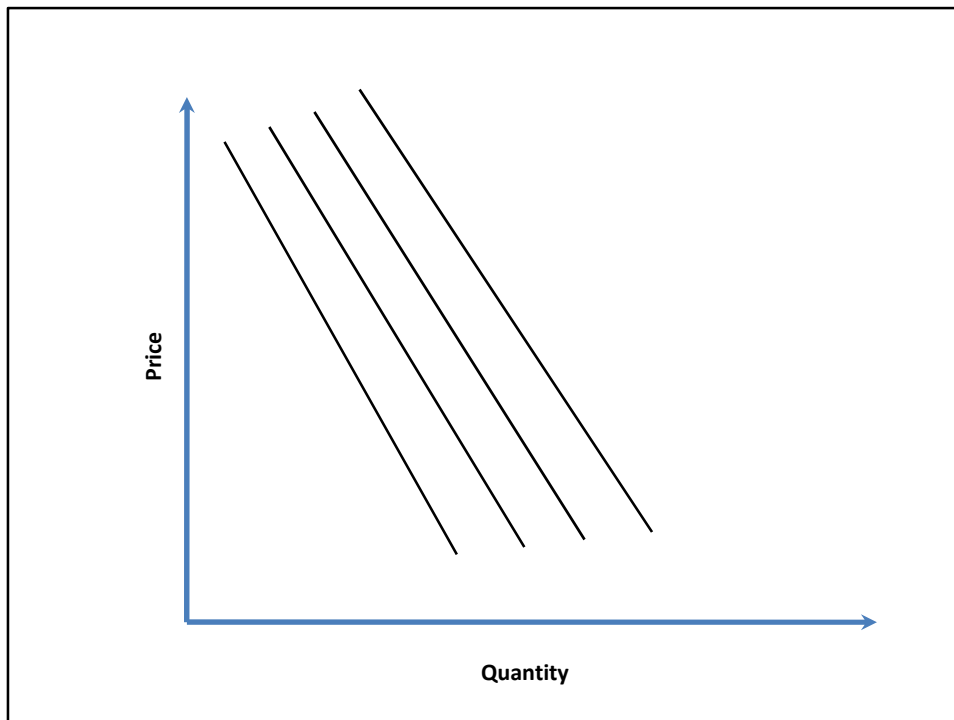
- Income effect of price change

- Derived demand

- Supply
 - Law of supply
 - Buyers market
 - Sellers market

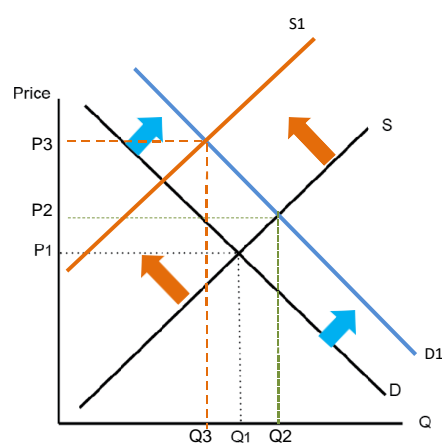
- Income effect of price change

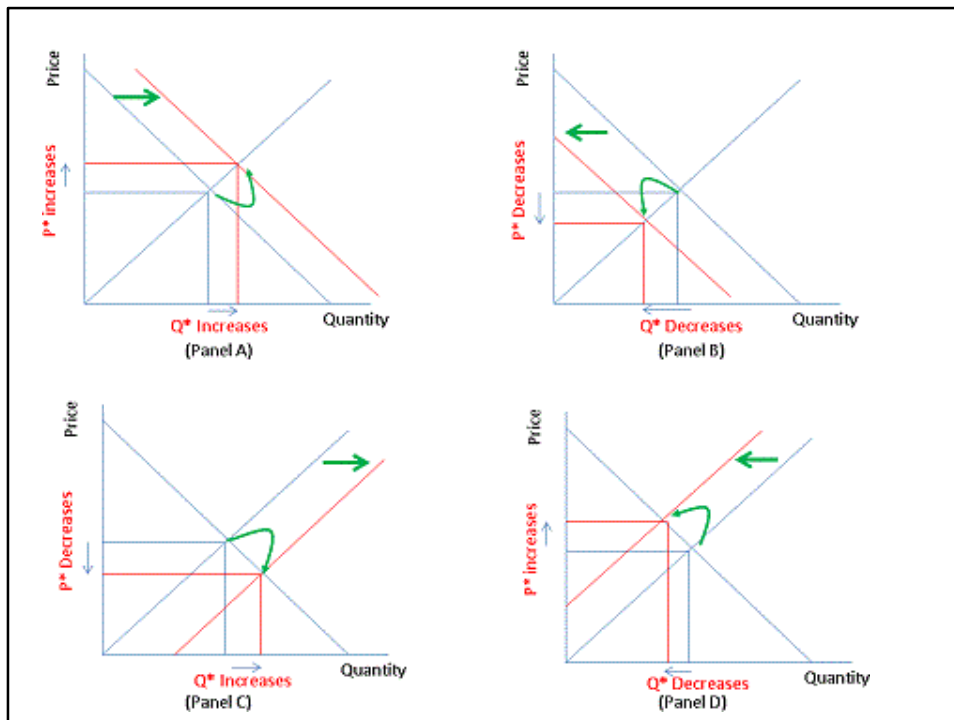
- Derived demand



Demand & Supply Curves

- Change in number of buyers
- Change in purchasing power
- Change in taste & preferences
- Change in price of related products
- Input prices/cost of prodn.
- Storage
- Future prices





Elasticity of Demand

- Unit change in quantity demanded for a unit change in the price.

$$E_p = \frac{\text{Proportionate change in demand}}{\text{Proportionate change in price}}$$

- Types
 - Price
 - Income
 - Cross
 - Advertising

Types of Price Elasticity of Demand

- Perfectly Elastic Demand
- Perfectly Inelastic Demand
- Relatively Elastic Demand
- Relatively Inelastic Demand
- Unitary Elastic Demand



Pricing Strategies

- Premium pricing
 - The product has one or more unique characteristics
- Value pricing
 - A bit lower than premium
- Cost/plus pricing
 - Markup+break-even price
- Competitive pricing
 - price its product according to competitors
- Penetration pricing
 - Aggressively low

Pricing Strategy

Strategy	Substitutes	Entry barriers	Price sensitivity	Economies of scale	Goal
Premium	None	Very high	None	None	High per unit margin
Value	Few	High	Low	Low	Profit
Cost/plus	Some	Medium	Medium	Medium	Market share and profit
Competitive	Many	Low	High	High	Protect market share
Penetration	Many	Low	High	High	Market growth and leadership

Pricing Objectives

- Profitability,
- Volume,
- Competition,
- Prestige,
- Strategic and
- Relationship objectives