


# Marketing Efficiency

# Marketing Efficiency

- The term marketing efficiency can be broadly defined as the effectiveness or competence with which a market structure performs its designated function.


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- **Clark** - ME has been defined as having the following 3 components –
  - 1. The effectiveness with which a marketing service is performed.
  - 2. The cost at which the service is provided and
  - 3. The effect of this cost and the method of performing the service on production and consumption.

# Efficient Marketing

- Movement of goods from producers to consumers at the lowest possible cost, consistent with the provision of the services desired by the consumer, may be termed as EM.
- Change that reduces costs of accomplishing a function without reducing consumer satisfaction indicates an improvement in efficiency.
- Change with reduced costs that reduces consumer satisfaction need not indicate increase in marketing efficiency.


# Marketing Costs, Margin & Price spread

- Marketing functionaries move the commodities from the producers to consumers. Every function involves cost.
- In the marketing of agricultural commodities, the difference between the price paid by the consumer and the price received by the producer is known as price spread. This is also termed as gross marketing margin.


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- Gross margin includes –
  - 1. The cost involved in moving the product from the point of production to the point of consumption and
  - 2. Profits of the various marketing functionaries involved in moving the produce from the point of production to consumer.


# Factors affecting the cost of marketing


- 1. Perishability of the product
- 2. Extent of loss in storage and transportation
- 3. Volume of product handled
- 4. Regularity in the supply of the product
- 5. Extent of packaging
- 6. Extent of adoption of grading
- 7. Necessity or demand creation
- 8. Bulkiness of the product
- 9. Need for retailing
- 10. Need for storage
- 11. Extent of risk
- 12. Facilities extended by the dealers to the consumers
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- 1. Perishability of the product – Cost is directly related to the degree of perishability. The higher the degree of perishability the greater the cost of marketing and vice – versa.
  - 2. Extent of loss in storage and transportation – If the loss in the quality and quantity of product arising during the period of storage or in course of transportation the cost will go up.



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- 3. Volume of product handled – Larger the volume of product handled the less will be the unit cost of marketing.
  - 4. Regularity in the supply of the product – If the product is supplied through out the year the cost will be less.

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- 5. Extent of packaging – Cost is higher to the commodities need packaging.
  - 6. Extent of adoption of grading – Cost of marketing of ungraded product is higher than grading products.
  - 7. Necessity or demand creation – If advertisement is needed to create demand the cost will be higher.

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- 8. Bulkiness of the product – Cost of marketing is higher for bulky products than that of products which are not bulky.
  - 9. Need for retailing – Greater the need for retailing higher will be the cost of marketing.
  - 10. Need for storage – Commodities sold immediately without any storage attract lower marketing cost.

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- 11. Extent of risk – Greater the risk the higher is the cost of marketing.
  - 12. Facilities extended by the dealers to the consumers- Greater the facilities extended by the dealers to the consumers ( home delivery facility, supply of goods on credit, return facility for the product), the higher the cost of marketing.


# Reasons for higher marketing costs of farm products

- **1. Widely Dispersed Farms and Small Output per Farm**
- **2. Bulkiness of Agricultural products**
- **3. Difficult in grading**
- **4. Irregular Supply**
- **5. Need for storage and processing**
- **6. Large number of middlemen**
- **7. Risk involved**

# Reasons for higher marketing costs of farm products

- **1. Widely Dispersed Farms and Small Output per Farm:** The cost of assembling is high as there are innumerable producers of agricultural products and each producing small quantity.


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- **2. Bulkiness of Agricultural products** – Most of the agri products are bulky in relation to their value which results higher cost of handling, storage and transportation.

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- **3. Difficult in grading** – The sale or purchase by sample is not easy because an inspection of each lot of the product is required by reason of variation in their quality.



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- **4. Irregular Supply** – Seasonal production – glut – prices go down and the cost of marketing functions goes up.


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- **5. Need for storage and processing** – Greater need of storage because of seasonality of production. Losses in storage are high because of highly perishable.


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- **6. Large number of middlemen** – Larger the number of middlemen the higher the marketing costs.
  - No restriction on their entry in the trade.
  - Licensing, high risk and high capital make entry difficult in non-farm goods.


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- **7. Risk involved** –Risk of price fluctuation is high in agri products. Higher risk leads to higher risk premium which adds to marketing cost.

# How to reduce marketing costs

- There are various ways of reducing marketing costs.
- **1. Increase the efficiency of marketing** – The following are the areas in which efficiency may result in reduction in marketing costs –
  - **A. Increasing the volume of business** – By increasing the quantity to be handled at a time, group marketing by farmers can help in this regard.

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- **B. Improved handling methods** – Use of fast transportation means, development of cold storages, efficient use of labour, pre-packaging of perishable goods.

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- **C. Managerial control** – Constant monitoring of costs and returns at each stage of marketing may be adopted.
  - **D. Change in marketing practices and technology**
    - Such as sale of orange juice instead of orange, retailing food services through super markets.

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- **2. Reduce profits in marketing –**
  - Profits in the marketing of agri commodities are often the largest because of the risk at various stages of marketing.
  - The risk may be reduced by –
  - A. Improvement in market news service, grading.
  - B. Increasing the competition in the marketing of farm products.



# Marketing cost in India and other countries

- Lower than in developed countries.
- Share of farmer in the price paid by consumer is higher.
- Unprocessed in India – Ready to eat form in developed countries.
- Labour is relatively cheap.