

Agri Output and Food Marketing

Scope

- Marketing of Agricultural Produce
 - Commodities
- Marketing of Food
 - Raw material for processors
 - Processed food for consumption
 - International trade

Market & Marketing

- **Market**

- Exchange function

- Organisations

- Facilitating

- Questions?

- Location

- Product

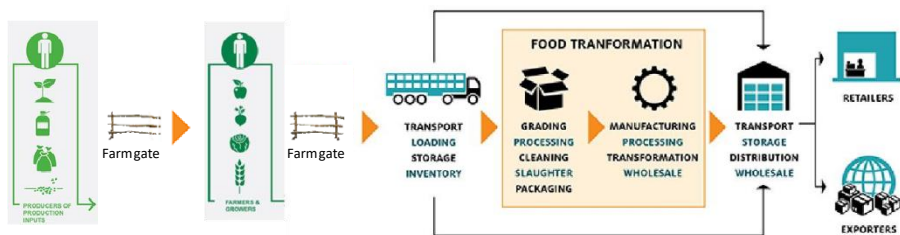
- Time

- Institution etc

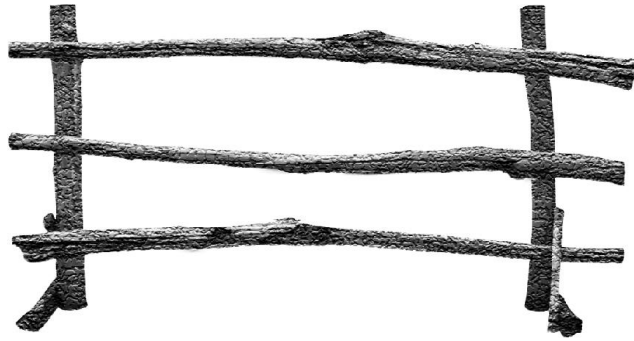
What / When / How / How much /
Where / Who / How to distribute

Market & Marketing....

- **Marketing**



Dividing Line



The Farm gate

Stakeholders



Characteristics

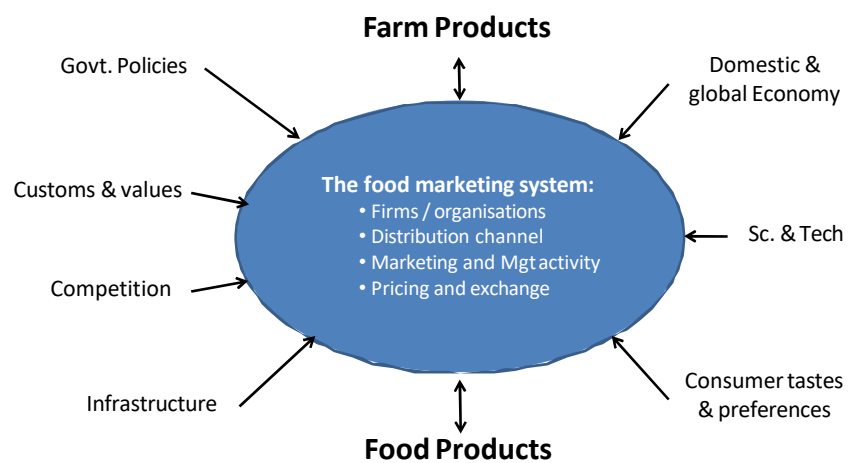
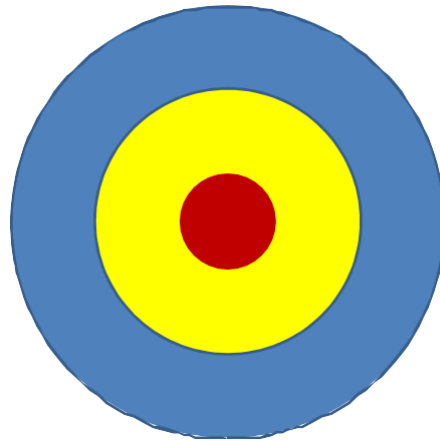
- Seasonal
- Variation in quality
- Variations
 - Annual
 - Seasonal
- Bulky
- Perishable
- Geographic concentration

Types of Markets

- **Periodicity**
 - Daily market
 - Weekly market
 - Monthly market
- **Product**
 - Grain
 - Fish
 - Fruit
 - Vegetable
- **Functions**
 - Assembling
 - Wholesale
 - Retail
- **Location**
 - Local
 - Regional
 - Terminal

Analysing the Market

- Functions
- Agencies
- Behavior



The Functional Approach

- Three functions:
 - Exchange function
 - Physical function
 - Facilitating function

Exchange functions...

- Buying
 - By inspection
 - By sample
 - By brand/certificate
 - Selling
 - Personal selling
 - Try/test and then buy
- Information
Competition
Negotiation

Physical Functions..

- Storage
- Transportation
- Processing

Facilitating Functions...

- Standardisation →
- Financing
- Risk bearing
- Marketing Intelligence

Outcomes

- Helps in mapping value additions...
- Understanding the costs components
- Improve the performance of marketing

Implications...

- Affect
 - the cost of marketing food
 - value of food products to consumer

“Value added by the function may be more or less than the cost of performing the function”

Implications...

- The functions can't be eliminated, however, the cost may be reduced
- These functions are quite flexible

Implications...

..additional function should be performed until the cost exceeds the value added.

Farmer Fred, Consumer Connie and Middleman Mike were seated next to each other one morning at the coffee shop. The farmer overheard Connie complain to her friend, "isn't it terrible how high the food prices are?", "Yes", said her friend. "Farmers and middlemen are charging us too much". Farmer Fred leaned over and said, "Excuse me ladies, but you should criticize farmers with your mouths full. I don't set the price of my products, prices this year are not covering my costs of production, and we farmers get only 22 % of the money that you spend on food. The middlemen take the other 78% of your food dollar. "Spilling his coffee, Middleman Mike jumped into the conversation to defend himself. "food prices are not our fault. We just give the consumers what they want, including ready to eat, safe, wholesome, packaged, processed and high quality products the year round. This costs money, but our food system is so efficient that Americans are well fed and only spend 11% of their income on food, the lowest level in history of the world".

Who is wrong here? Why?

Bill was angry and fed up. He had just delivered his hogs to the local buyer and learned that the prices he received didn't even cover his costs of production. His wife Kathy, sympathized with him saying, "I was just in the supermarket and the prices of pork has gone up." "There is something wrong here, they agreed." next day they met with a number of unhappy pork producers to discuss the problem. "It's the middlemen," one of them said. "they buy low, sell high and pocket our profits," what can we do about it?" said Bill. "We need to eliminate these greedy middlemen by operating our own marketing facility and selling direct to consumers," one of them said. "That way we would get 100% of the consumers dollar." but Bill cautioned. "That would cost a lot of money wouldn't it? Are you sure we want to get into the food processing, wholesaling and retailing business? That is not our business." "It's the food business isn't it, and who knows more about food business better than farmers?" said Kathy. "I don't know" said Bill. "It sounds risky and complicated."

How would advise...

Institutional Approach

- Middlemen
 - Merchant middlemen
 - Agent Middlemen

Institutional Approach

- Agent middlemen
 - Brokers
 - Commission agent
 - Speculative middlemen
 - Processors and manufacturers
 - Facilitative organisations

Institutional Approach

- Merchant middlemen
 - Wholesalers
 - Retailers
 - Itinerant
 - Fixed
 - » Small
 - » Large
 - Shops
 - Departmental stores
 - Retail stores
 - B2B

Implications...

- Lead to division of labor and specialisation
- Such marketing institutions add for the economies of scale
- Middlemen reduce the cost of marketing for consumers and producers.

Implications...

- *...specialised middlemen will perform the marketing functions when their efficiency in doing so is more than that of farmers and consumers.*

Behavioral Approach

- Market is dynamic
- People
- Maximisation approach
- Power centers
- Communication
- Adaptive behavior

Agriculture to Agribusiness

Old Concept

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New Concept

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Options

- Delivery
- Storage
- Transport
- Form
- Marketing
- Pricing

	Forward Contract	Futures Contract
Definition	A forward contract is an agreement between two parties to buy or sell an asset (which can be of any kind) at a pre-agreed future point in time at a specified price.	A futures contract is a standardized contract, traded on a futures exchange, to buy or sell a certain underlying instrument at a certain date in the future, at a specified price.
Structure & Purpose	Customized to customer needs. Usually no initial payment required. Usually used for hedging.	Standardized. Initial margin payment required. Usually used for speculation.
Transaction method	Negotiated directly by the buyer and seller	Quoted and traded on the Exchange
Market regulation	Not regulated	Government regulated market (the Commodity Futures Trading Commission or CFTC is the governing body)
Institutional guarantee	The contracting parties	Clearing House
Risk	High counterparty risk	Low counterparty risk
Guarantees	No guarantee of settlement until the date of maturity only the forward price, based on the spot price of the underlying asset is paid	Both parties must deposit an initial guarantee (margin). The value of the operation is marked to market rates with daily settlement of profits and losses.
Contract Maturity	Forward contracts generally mature by delivering the commodity.	Future contracts may not necessarily mature by delivery of commodity.
Expiry date	Depending on the transaction	Standardized
Method of pre-termination	Opposite contract with same or different counterparty. Counterparty risk remains while terminating with different counterparty.	Opposite contract on the exchange.
Contract size	Depending on the transaction and the requirements of the contracting parties.	Standardized
Market	Primary & Secondary	Primary

Market Indicators

Market Performance

- Market structure
- Market conduct

Market structure

- Market structure is best defined as the organisational and other characteristics of a market.
 - The number of firms
 - The market share of the largest firms
 - The nature of costs
 - The degree of vertical integration
 - The extent of product differentiation

Characteristic	Perfect Comp	Oligopoly	Monopoly	Contestable Market
No of firms	Many	Few dominant firms	One with pure monopoly; Effective duopoly in many cases	Many
Type of product	Homogenous	Differentiated	Limited	Differentiated
Entry barriers	None	High	High	Low
High short run profits	Yes	Yes	Yes	Range
High long run profit	No	Yes	Yes	
Pricing power	Price taker	Price maker but interdependent behaviour	Price maker - constrained by demand curve and possible regulations	Price maker - but actual and potential competition limits pricing power
Non price competition	No	Yes, Imp	Yes	Yes, Imp
Economic	High	Low allocative	Low allocative	High

Market Conduct

- Market conduct –the behaviour of the players for achieving their objectives.
 - Driven by regulations and policies
 - Price determination,
 - Sales promotion tactics and
 - The regulatory activities of government

Market Performance

- Price level,/price spread
 - Trends in the real price levels for consumer over time
- Profit margin,
- Level of investment
 - Reinvestment of profit
- Investment in R&D and Innovation
- Trends in labour productivity
- Environmental indicators

Market Efficiency

Market Efficiency

- Operational efficiency
- Pricing efficiency
 - Price level/price spread
 - Trends in the real price levels for consumer over time
 - Profit margin
- Level of investment/Reinvestment of profit
- Investment in R&D and Innovation
- Environmental indicators

Market Efficiency

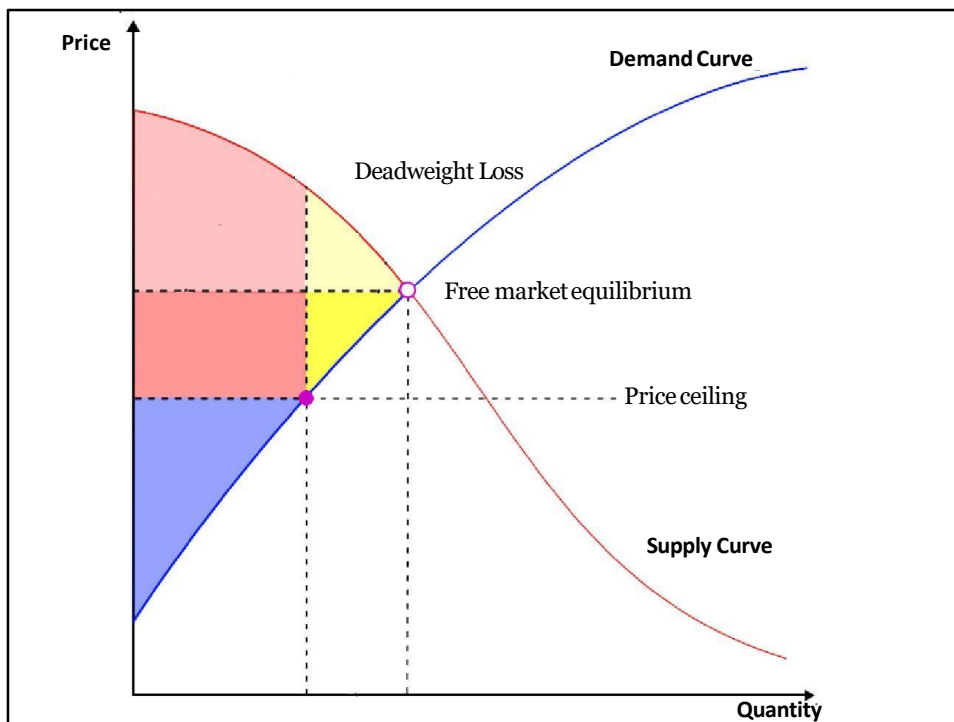
ME - The degree to which market prices reflect all available, relevant information.

Does the actual conduct of the market give rise to efficient outcomes..

- Prices relative to MC –Allocative efficiency
- Unit costs in short and long run –Productive efficiency
- Pace of innovation and product quality –Dynamic efficiency
- Accounting for externalities –Social efficiency

Pricing Efficiency

- Pricing /Allocative efficiency
- Price Spread
- Affected by
 - The relative need of the parties to a transaction to buy or sell
 - The perceived qualitative condition of the asset.
- Measuring Pricing Efficiency



Price Spread and Marketing Efficiency

Marketing Efficiency

- **Price Spread**
 - Price spread is the difference between the price received by the producer and the price paid by the consumers for a commodity at a point of time.
 - It is expressed as percentage of consumer's price.
 - Lesser the difference; more efficient is the market system

Estimation of Price Spread

$$\text{Price spread} = \frac{(\text{Consumer price} - \text{Net price of producer})}{(\text{Consumer price})} \times 100$$

$$PS_{ij} = PP_{ij} - P_i \quad PP_{ij} = P_i - (HC_{ji} + TC_{ji} + AS_{ji})$$

PP_{ij} - **parity price** of one unit in the ith market in relation to jth market,
P_i - the actual **retail price** of one unit of the article at the ith market,
HC_{ji} - **handling** costs involved in moving one unit from the jth to the ith market
TC_{ji} - **transport** cost for moving one unit from jth to the ith market, and
AS_{ji} - **assembler's** charge in moving one unit from the jth to the ith market.

Estimation of Price Spread

- 1. Lot method:** Tracing the lot from production point to consumption point.
- 2. Sum of average of gross margin method:** Sum of gross margins/Total no of persons involved
- 3. Comparison of prices** at different levels of marketing

Marketing Efficiency

$$ME = \frac{\text{Output}}{\text{Input}} \times 100$$

or

$$\frac{\text{Benefit}}{\text{Cost}} \times 100$$

Where,

output = value added / utility &
Input = marketing cost
(production/processing/marketing)

and, value added = price paid by consumer – price at the farm level

Estimation of Marketing Efficiency

1. Conventional method:

$$ME = \frac{(\text{Net price received by farmers} - \text{Consumer's price})}{\text{Marketing Cost}}$$

2. Shepherd's formula:

$$ME = \frac{\text{Consumer's price}}{(\text{MC} + \text{Marketing margin})}$$

3. Acharya approach:

$$ME = \frac{\text{Net price received by farmers}}{(\text{MC} + \text{MM})}$$

Price Spread and Marketing Efficiency

- Price spread $\propto \frac{1}{\text{Market Efficiency}}$
- Performance \propto Market Efficiency

What should be the farmer share of the price spread for proper function of the market.

Marketing Efficiency

Let there is two markets (or channels) A and B, for a commodity.

Particulars	Market A	Market B
Price at the farm level (Pf)	200	200
Price at the retail level (Pc)	800	1700
Total marketing cost (MC)	300	500
Marketing Efficiency (ME) = (Pc-Pf)/MC x 100	200	300

Marketing Efficiency

- Should take care of the followings:
 - Total marketing costs (MC)
 - Net marketing margin (MM)
 - Price received by farmers (Pf)
 - Price paid by consumer (Pc)

Marketing Efficiency

Particulars	Market A	Market B	Market C
Consumer Price (Pc)	1000	1000	1000
Total Marketing Cost (MC)	300	500	300
Total net margin of intermediaries (MM)	200	100	400
Farmer's Price (Pf)	500	400	300
Value addition	500	600	700
Marketing Efficiency $ME = (Pc - Pf) / MC$	1.67	1.20	2.33

Marketing Efficiency

Particulars	Market A	Market B	Market C
Consumer Price (Pc)	1000	1000	1000
Total Marketing Cost (MC)	300	500	300
Total net margin of intermediaries (MM)	200	100	400
Farmer's Price (Pf)	500	400	300
Value addition	500	600	700
Marketing Efficiency $ME = (Pc - Pf) / MC$	1.67	1.20	2.33
Marketing Efficiency $ME = Pf / (MC + MM)$	1.00	0.67	0.43

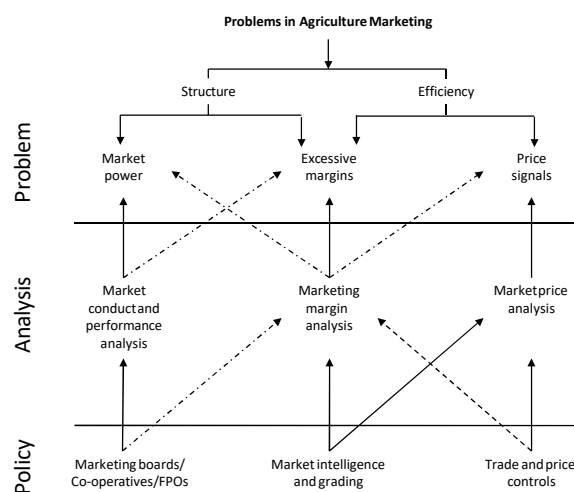
Efficient Marketing

- Reduces the costs without reducing consumer satisfaction indicates an improvement in the efficiency.
- Higher consumer satisfaction at a higher marketing cost
- Good production years do not coincide with low revenues to the producers
- Consumers derive the greatest possible satisfaction at the least possible cost.

Marketing Problems

- Control of produce
 - Quality and
 - Quantity
- Inability to change and adjust
- Cost –Price squeeze
- Better bargaining power of buyers
- Changing market pricing efficiency
- Orientation
 - Farmer –commodity
 - Trader –merchandise

Other Issues



Market Integration

- Integration shows the relationship of the firms in a market.
 - Integration as a process which refers to the expansion of firms by consolidating additional marketing functions and activities under a single management.
 - Integrated markets are those where prices are determined interdependently; which is assumed to mean that price change in one market will be fully passed on the others.
- Types of Market Integration
 - Horizontal Integration
 - Vertical Integration
 - Forward
 - Backward
 - Conglomeration
- Degree of Integration
 - Ownership Integration
 - Contract Integration

Paddy will be classified into Grade 'A' and 'Common' groups.

SCHEDULE OF SPECIFICATION

S. No	Refractions	Maximum Limit (%)
1.	Foreign matter a) Inorganic b) Organic	1.0 1.0
2.	Damaged, discoloured, sprouted and weevilled grains	5.0*
3.	Immature, Shrunken and shrivelled grains	3.0
4.	Admixture of lower class	6.0
5.	Moisture content	17.0

* Damaged, sprouted and weevilled grains should not exceed 4%.

SCHEDULE OF SPECIFICATION

S. No	Refractions		Maximum Limit (%)	
			Grade A	Common
1.	Brokens*	Raw	25.0	25.0
		Parboiled/single parboiled rice	16.0	16.0
2.	Foreign Matter**	Raw / Parboiled / single parboiled rice	0.5	0.5
3.	Damaged # / Slightly Damaged Grains	Raw	3.0	3.0
		Parboiled/ single parboiled rice	4.0	4.0
4.	Discoloured Grains	Raw	3.0	3.0
		Parboiled/ single parboiled rice	5.0	5.0
5.	Chalky Grains	Raw	5.0	5.0
6.	Red Grains	Raw/Parboiled/Single parboiled rice	3.0	3.0
7.	Admixture of lower class	Raw/Parboiled/Single parboiled rice	6.0	-
8.	Dehusked Grains	Raw/Parboiled/Single parboiled rice	13.0	13.0
9.	Moisture content @	Raw/Parboiled/Single parboiled rice	14.0	14.0

- * Not more than 1% by weight shall be small broken.
- ** Not more than 0.25% by weight shall be mineral matter and not more than 0.10% by weight shall be impurities of animal origin.
- # Including pin point damaged grains.
- @ Rice (both Raw & Parboiled/Single Parboiled) can be procured with moisture content upto a maximum limit of 15% with value cut. There will be no value cut upto 14%. Between 14% to 15% moisture, value cut will be applicable at the rate of full value.

[Signature] *****

