

Agricultural Marketing and Pricing Analysis

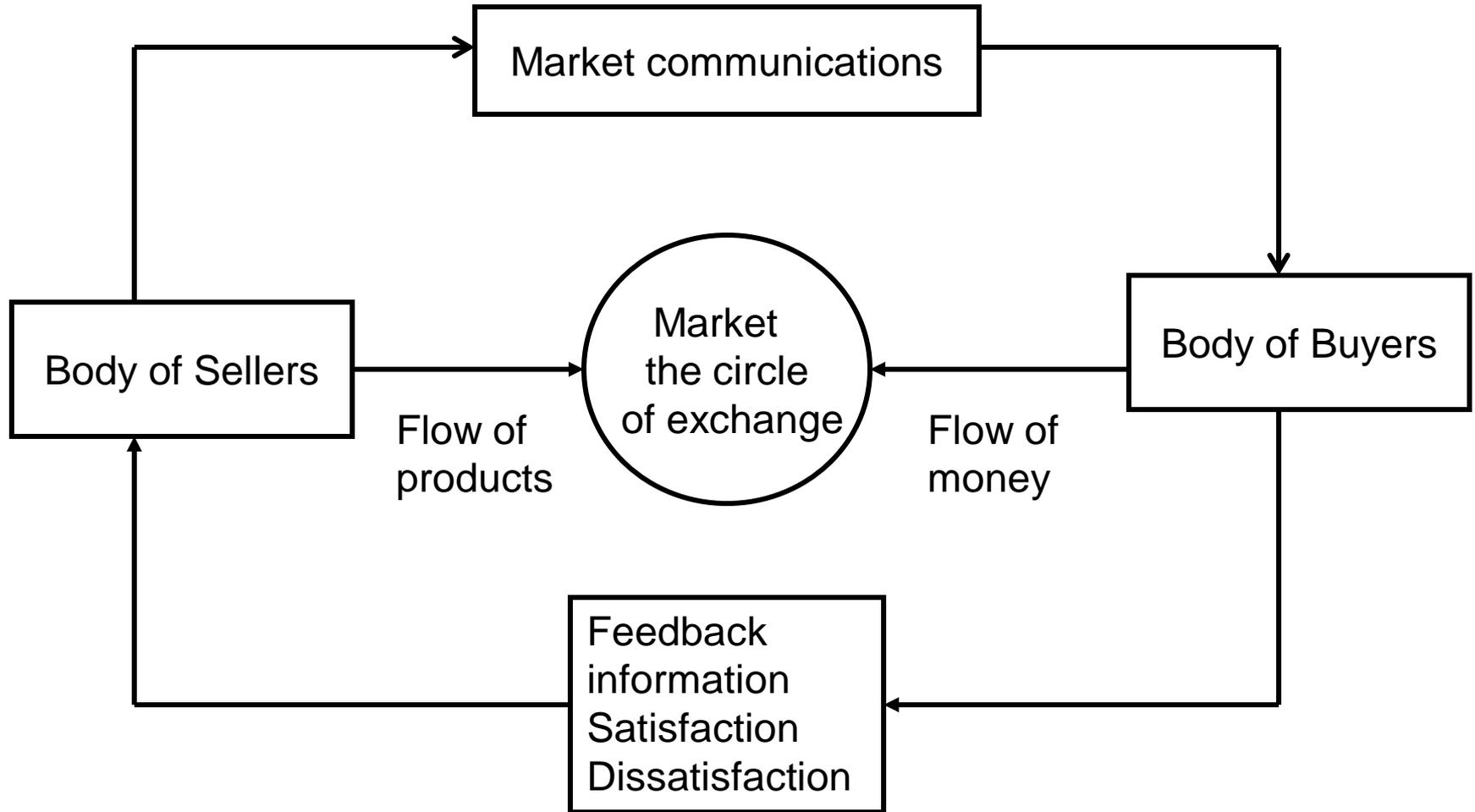
Markets, Marketing and Agricultural
Marketing

Market and Marketing - What is market?

- Aggregate demand of the potential buyers for a product/service.
- An area for potential exchanges.
- The economic institution which enables sellers and buyers of a defined good or service to negotiate the legitimate transfer of the good or service between them and over space and/or time.

Market and Marketing

The market II



Three concepts of Market

- Place concept
 - Market is a convenient meeting place for buyers and sellers to conduct buying and selling activities.
 - Mercato, Segno Gebeya, Robit.
- Area concept
 - The sphere or area within which price making forces of demand and supply tend to operate freely through the modern means of communication and where informed buyers and sellers can establish close and continuous relations to carry on exchange of goods and services without face-to-face meeting or direct contact.
 - Here a place, a particular site or hall as a central meeting place for buyers and sellers, is not essential or important. It is only a matter of convenience.
 - Global coffee market, flower market, meat market.

Three concepts of Marketing

- Demand concept
 - Market represents an **aggregate demand** of the potential buyers of a commodity.
 - Also means people with needs to satisfy, the money to spend, and the will or desire to spend that money to satisfy their wants.
 - Our wants are unlimited and this **process of want satisfaction is never-ending**. Thus, market means consumer demand for product or service. E.g., teenage market, ladies market, automobile market, etc.

Essential features of a market

1. Meeting place for exchange is a matter of convenience.
2. Buyers (demand) and sellers (supply) are the two sides of the market.
3. The meeting of minds is more important than face-to-face meeting in order to create a market, wherein we have one single price for an article of exchange - the price determined by the free play of demand and supply.
4. It is presumed that there is free competition in the market among the sellers and among the buyers.
5. Usually money acts as the medium of exchange and the act of exchange involves transfer of ownership and possession from a seller to a buyer in the market.

Characterizing Markets – Buyers' market

- Happens when we have abundant supply of goods and relatively limited demand for goods.
- In such markets:
 - There is **keen competition among sellers** to capture the available demand.
 - The **buyers being few** dominate the market and can dictate their will to the sellers.
 - **Sellers cannot charge higher prices, offer lower quality or poor services.**
 - The emergence of a buyers' market due to mass production of machine-made goods brought about a **radical change in the concept of marketing** – from product to customer-oriented marketing.

Characterizing Markets – Sellers' market

- Happens when we have limited or scarce supplies of certain goods, particularly essential goods, and relatively enormous demand for those goods.
- In such markets:
 - There is **excess demand and limited supply**.
 - There is **keen competition among buyers** to capture the available limited supply of goods.
 - **Sellers can charge very high prices, offer lower quality and poor services to their customers, who are naturally at the mercy of sellers who dictate the market.**
 - In addition to rising prices, we have **unfair trade practices** such as hoarding, black marketing, adulteration, misbranding and profiteering.
 - All devices of **promotion become superfluous**.

Classification of Markets

1. Classification based on area covered
 - a. Local market
 - b. Regional market
 - c. National market
 - d. World market
2. Nature and volume of business
 - a. Wholesale market
 - b. Retail market
3. Nature of Trade Dealings
 - a. Spot market/physical market
 - b. Forward market/futures market

Classification of Markets

4. Subject-matter of sale
 - a. Commodity market
 - b. Money/capital market
 - c. Securities (stock) market
 - d. Foreign exchange market
 - e. Bullion market
 - f. Services market
 - g. Labor market
5. Time interval involved
 1. Short-term market, e.g., money market
 2. Long-term market, e.g., capital market

Classification of Markets

6. Basis of rules and regulations
 - a. Organized and regulated market
 - b. Unregulated unorganized market
7. Seller's position
 - a. Primary or local market
 - b. Secondary or central market
 - c. Terminal market
8. Economic Concept
 - a. Perfect market
 - b. Imperfect market
 - c. Monopoly market

Marketing

- Selling of goods and services.
- All business activities involved in the determination, creation and satisfaction of human wants at fair prices.
- A group of business activities in order to create and promote consumer demand and to direct the flow of goods/services from the original producer to the final consumer in the process of distribution.

Marketing

- Modern definition:

- ☐ – A continuous process of discovering and translating consumer wants into appropriate products and services, creating demand for these products under keen competition, and serving the demand with the help of channels of distribution.
- The art of earning profit through profitable sales, i.e., sale of right products to the right people at the right price and through the right channels and by the right promotion.

Marketing

- Covers three basic activities
 - Discovery of consumer needs and desires revealing the marketing opportunities which can be exploited by a firm.
 - Matching the organizational resources and limitations (competition, government regulations, etc.) with the product.
 - Formulating and implementing the marketing program - marketing mix – to accomplish the twin objectives of profitability and consumer satisfaction.

Features of modern marketing

- Recognizes the consumer's supremacy in the marketing universe
- Begins with marketing research to generate adequate information of current consumer needs and ends with offering complete service and satisfaction (including post-purchase satisfaction).
- Begins before production as well as it succeeds production.
- Adopts the systems approach to marketing.

Aims of Marketing

1. Creation of utility

a. Place utility

- i. Movement of goods from producers to consumers

b. Time utility

- i. Making goods and services available at the time when they are required by the public.

c. Form utility

- i. Adds value by processing goods and services to make them readily consumable.

d. Possession utility

- i. Transfers ownership and possession of goods and services.

e. Information utility

- a. Promotion and advertisement

Aims of Marketing

2. Cost reduction

- a. Aims at reducing the cost to give the benefit to both sellers and buyers.

3. Price stability

- a. Aims at stabilization of prices.
- b. An efficient marketing machinery must eliminate wide price fluctuations and maintain uniform prices in all markets.

Commercial Marketing Vs Social Marketing

- Social marketing identifies human needs in non-competitive economies and/or sectors of society and defines the means of delivering products and services to meet these needs.
- The marketing mix of social marketing strategies is evaluated using quite different criteria from those employed in assessing purely commercial marketing strategies.
 - Criteria such as the percentage of the target population reached with the technology, products, processes or services, quantities produced and distributed and uptake of the product, service or technology are more often employed.

Social Marketing

- Benefits are measured in terms of development goals, such as improved nutritional status or increased rural incomes. The use of economic criteria is usually limited to the latter and to selecting the least-cost strategy to achieve a quantitative goal.
- However, the criteria used to evaluate commercial marketing strategies should not automatically be eliminated, because these improve the efficiency of some aspects of social marketing strategy without preventing the attainment of social objectives.

Marketing and marketing systems

- Marketing is just as relevant to development projects, aid agencies, extension service organizations, and the like, as it is to commercial enterprises.
- Thus, the marketing concept is that an organization achieves its goals through the provision of customer satisfaction.
- Marketing is not an activity to which an organization turns its attention at the end of the production phase of operations.

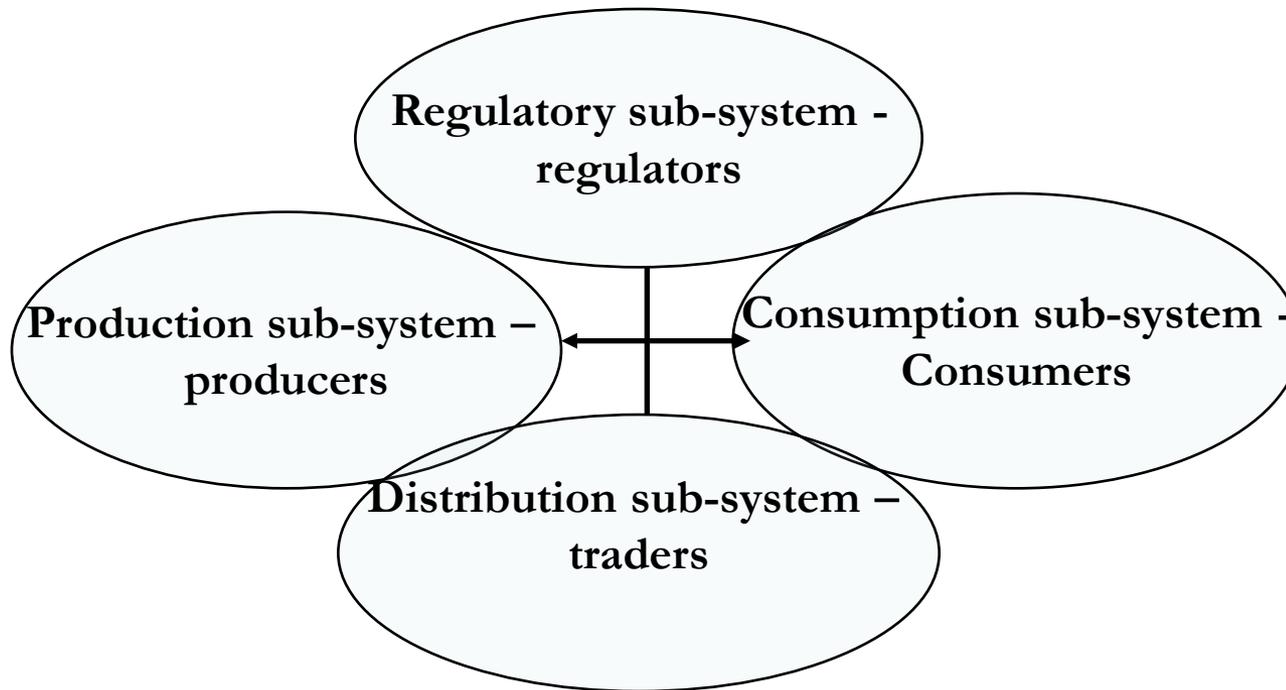
Business/Market Philosophies

- Product orientation
 - Exploitation of a technical capability
 - E.g. natural environment suitable for *tcf*—let's grow *tcf*.
 - Objective: profits through supplying markets where task is one of allocating supplies.
- Selling orientation
 - Promoting the consumption of a product that the organization is able to produce.
 - E.g., Let's move as much of this *tcf* as possible
 - Objective: profits through persuading people that what the organization happens to have is what they really wanted.

Business/Market Philosophies

- Market orientation
 - Identifying wants and needs and matching these to organizational resources
 - E.g., incomes have increased and people want meat, and flower – let's diversify our supply.
 - Objective: Profits through the provision of customer satisfaction by meeting their needs and wants.

Marketing Sub-systems



- The **key players** in the chain of activities that connect food and agriculture are **the farmer**, (or other ‘producers’ such as fishermen), **intermediaries**, **the food processors**, and **the consumer**.
- In practice they each see the agricultural/food marketing system from a perspective of self-interest and these **interests are sometimes in conflict**. Illustrative examples of some of the conflicts which typically arise are given in table below.

Conflict of interest in agricultural/food marketing systems

Key Players	Interests
Farmers	Maximum price, unlimited quantities
Manufacturers	Low purchase price, high quality
Traders and retailers	Low purchase price, high quality
Consumers	Low purchase price, high quality

Marketing Functions

A. Exchange Functions	1. Buying
	2. Selling
B. Physical Functions	3. Storage
	4. Transportation
	5. Processing
C. Facilitating Functions	6. Standardization
	7. Financing
	8. Risk Bearing
	9. Market Intelligence

Each of these functions add value to the product and they require inputs, so they incur costs. As long as the value added to the product is positive, most firms or entrepreneurs will find it profitable to compete to supply the service.

Marketing Functions

- Buying – should be clear.
- Selling
 - Most firms practice the selling concept when they have over capacity. Their immediate aim is to sell what they can make rather than to make what they can sell.
 - Whereas selling might create a consumer, marketing is about creating a customer. The difference is that marketing is about establishing and maintaining long term relationships with customers.
 - Selling is part of marketing in the same way that promotion, advertising and merchandising are components, or sub-components of the marketing mix. These all directed towards persuasion and are collectively known as marketing communications; one of the four elements of the marketing mix.

Marketing Functions

- Storage
 - agricultural production is seasonal whilst demand is generally continuous throughout the year.
 - allows a smooth, and as far as possible, uninterrupted flow of product into the market.
 - In agriculture, and especially in LDCs, supply often exceeds demand in the immediate post-harvest period. The glut reduces producer prices and wastage rates can be extremely high. For much of the remainder of the period before the next harvest, the product can be in short supply with traders and consumers having to pay premium prices to secure whatever scarce supplies are to be acquired.
 - The storage function is thus one of balancing supply and demand.

Marketing Functions

- Transportation
 - Effective transport management is critical to efficient marketing.
 - Transportation has to be carefully managed - including
 - cost monitoring
 - operations on different road types
 - fuel and lubrication consumption and
 - scheduled and remedial maintenance and repair.
 - Transport managers also have to weigh the advantages and disadvantages of owning, hiring or leasing transport.

Marketing Functions

- Processing

- The processing function is sometimes not included in a list of marketing functions because it is essentially a form changing activity.
- The form changing activity is one of that adds value to the product.
- How the form of produce is to be changed and the method to be used in bringing about such changes are marketing decisions.
 - Examples
 - Producer of fresh fruits may have pulping and/or canning facilities but if potential buyers want the flexibility of using the fruits in a variety of ways, then these stages of processing serve to reduce utility and value, rather than increasing them.

Marketing Functions

- Processing
 - Processing is not the only way of adding value to a product.
 - Storing products until such times as they are needed adds utility and therefore adds value.
 - Transporting commodities to purchasing points convenient to the consumer adds value.
 - In short, any action which increases the utility of the good or service to prospective buyers also adds value.

Marketing Functions

- Facilitating
 - includes product standardization, financing, risk bearing and market intelligence.
 - Facilitating functions are not a direct part of either the exchange of title or the physical movement of produce.

Marketing Functions

- **Standardization**

- is concerned with the establishment and maintenance of uniform measurements of produce quality and/or quantity.
- simplifies buying and selling as well as reducing marketing costs by enabling buyers to specify precisely what they want and suppliers to communicate their propensity to supply with respect to both quantity and quality of product.
- In the absence of standard weights and measures trade either becomes more expensive to conduct or impossible altogether.

Marketing Functions

- Among the most notable advantages of uniform standards, are:
 - price quotations are more meaningful
 - the sale of commodities by sample or description becomes possible
 - small lots of commodities, produced by a large number of small producers, can be assembled into economic loads if these supplies are similar in grade or quality
 - faced with a range of graded produce the buyer is able to choose the quality of product he/she is able and willing to purchase.

Marketing Functions

- Need for standardization in agricultural marketing
 - Quality differences in agricultural products arise for several reasons
 - May be due to **production methods** and/or because of the **quality of inputs** used.
 - Due to **technological innovation** can also give rise to quality differences.
 - A **buyer's assessment** of a product's quality is also often an expression of personal preference.
 - Thus, for example, in some markets a small banana is judged to be in some sense 'better' than a large banana; long stemmed carnations are of 'higher quality' than short stemmed carnations; etc.

Standardization

- Need for standardization in agricultural marketing
 - It matters not whether the criteria used in making such assessments are objective or subjective since they have the same effect in the marketplace. What does matter in marketing is to understand how the buyer assesses ‘quality’.

Marketing Functions

- Financing
 - In almost any production system there are inevitable lags between investing in the necessary raw materials (e.g. machinery, seeds, fertilizers, packaging, flavorings, stocks etc.) and receiving the payment for the sale of produce.
 - During these lag periods some individual or institution must finance the investment.
 - The question of where the funding of the investment is to come from, at all points between production and consumption, is one that marketing must address.

Marketing Functions

- Risk bearing
 - In both the production and marketing of produce the possibility of incurring losses is always present.
 - Risk bearing is often a little understood aspect of marketing.
 - Risk bearing must be acknowledged as a cost since what is uncertain is not whether they will occur, but when they will occur.

Marketing Functions

- Market intelligence
 - Marketing decisions should be based on **sound information**.
 - Is the process of **collecting, interpreting, and disseminating information relevant to marketing decisions**.
 - Is essentially **to reduce the level of uncertainty in decision making**. Through market intelligence the seller finds out what the customer needs and wants.

Agricultural Marketing (AM)

Agricultural Marketing (AM)

- Improvement in marketing efficiency is an integral part of policies and programs directed towards raising agricultural production.
- Marketing of agricultural goods is much **more elaborate** than the marketing of manufacturing goods and natural raw materials.

The importance of agricultural and food marketing to LDCs

- Agriculture is the biggest single industry in LDCs.
 - In LDCs the consumer frequently spends in excess of fifty percent of the household's income on basic foodstuffs - much of which is inadequate both in quality and nutritional content.
 - By contrast
 - Americans spend approximately 12% of their total disposable income on food. In Western Europe the figure ranges from about 16 to 19% of disposable income.
 - the scale of poverty in most LDCs is such that the commercial marketing system must be relied upon to perform the task of food distribution to poor and not-so-poor alike.

The importance of agricultural and food marketing to LDCs

- As countries experience economic growth, their rate of urbanization tends to increase substantially.
 - In LDCs, whereas the rate of population growth averages around 3% per annum, their cities and towns are increasing their populations at about 4% per annum.
 - This means that the number of people, in urban areas, needing to be fed by rural people, will double within 16 years. This has clear implications for agricultural production and the marketing systems that direct that production and distribute the output to the points of its consumption.
 - Subsistence farming is likely to diminish in importance as farmers respond to the increased opportunities that development and urbanization create; farms are likely to decrease in number whilst increasing in size; and agriculture will probably become less labor intensive and more capital intensive.

The importance of agricultural and food marketing to LDCs

- Agricultural and food marketing contributes towards attempts to improve rural incomes in developing countries.
- Rurally based enterprises, including small-holdings, can greatly improve their earning potential by adopting a market orientation.
 - They can be encouraged to add value to commodities by adding to their utility. Value added products normally carry a higher margin than raw commodities.

The importance of agricultural and food marketing to LDCs

- Another development which has in recent times increased interest in marketing practices is the trend, in many developing countries, towards market liberalization as part of economic structural adjustment programs (ESAPs).
 - The view that direct and indirect government participation in production and distribution had brought about structural distortions in economies has become widely accepted.

Cont...

- Measures intended to correct these distortions include
 - a return to market prices for all products and resources,
 - the encouragement of a competitive private sector and
 - the commercialization, and sometimes privatization, of all or some of the functions of marketing parastatals.
- All of this requires a better understanding of marketing practices and processes within the country implementing ESAPs, in general, and within the agricultural marketing parastatals affected, in particular.

Links between agriculture and the food industry

- Food manufacturers will have particular expectations of agriculture as a supplier of their raw materials, including:
 - **Quality**
 - To build a profitable business, food manufacturers seek to establish a preference for their products by differentiating those products in some way which is meaningful to consumers.
 - Then, in order to enable consumers to recognize the differentiated product, manufacturers brand that product. Manufacturers can then work on building consumer loyalty to these brands.

Links (Cont...)

– Quality

- Brand loyalty is normally only established by delivering high quality consistently.
- As disposable incomes rise, the market tends to develop more sophisticated needs and the quality of the raw material becomes even more critical. Where agriculture is seeking to serve a food industry, that itself is seeking to meet these more sophisticated needs and wants, it can expect to face increasing emphasis on quality.

Links between agriculture and the food industry

- **Cost**

- With an increased capability to search the world for raw materials, the food industry is able to find the lowest cost source for any given level of quality.
- For the food manufacturer, the country in which he/she manufactures, or markets, need no longer be the source of agricultural produce.
- This is a significant change in the competitive environment of agriculture which the farming community has to realize, because farmers have, hitherto, been largely cocooned in their respective domestic markets.

Links between agriculture and the food industry

- **Non-seasonality**

- Agricultural products have traditionally been seasonal in their production and supply.
- Modern technology and husbandry practices mean that food manufacturers need not have their production schedules dictated by the seasons.
 - Apparently, the capital intensive food industry cannot afford to incur the high costs of under utilizing its capacity.

Links between agriculture and the food industry

- **Reliability**

- A manufacturer who has invested heavily in building up his brand will be very keen to get reliable supplies in terms of quality, timing and cost.
- Producers of agricultural produce will be increasingly judged on their reliability in all of these respects.

Links between agriculture and the food industry

- **Processing**

- Ease of processing will become an increasingly important expectation of the food industry.
- Farmers who can do part of the secondary processing and/or performing functions such as the post harvest treatment of the crop or transporting will be adding another advantage.
- Crops that are specially bred or designed to facilitate processing (e.g. seedless fruits, featherless chickens, coffee beans without caffeine, low cholesterol meats) are another type of advantage that the food industry could expect from agriculture.
- The competitive advantage will rest with those able to add most value and can differentiate what they are offering from that of other suppliers.

Links between agriculture and the food industry

- **Product differentiation**

- In competitive brand marketing, the food industry has to innovate continuously to create new products that are different from and superior to existing ones of their own or competitors.
- The scope of innovation has traditionally been at the processing stage. Whilst this will continue to be an important area for innovation, manufacturers will increasingly tend to look for innovative changes in the agricultural produce itself.
 - This may be in terms of novel tastes, improved texture, more attractive shapes, etc.

Links between agriculture and the food industry

- **Health aspects**

- In the more sophisticated food markets, **healthy eating** can become a priority among consumers.
- There are **two aspects of health** to be taken into account.
 - First, consumers may be **interested in the food itself** i.e. low fat, low/no sugar or low/no salt. It would be a mistake to think that health issues are confined to the more sophisticated food markets or to the wealthier segments of the community.

Links between agriculture and the food industry

- **Health aspects**

- Second, the consumer may be more, or equally, concerned about the **food production methods** i.e. the avoidance of chemicals like herbicides, pesticides etc.

- This may mean a change to the farmer's husbandry practices with implications for the costs of production. **The consumer and the food industry will expect the farmer to produce without potentially dangerous chemicals, but at no extra cost to them. This will be another challenge for agriculture.**

Problems in Agricultural Marketing

1. Agriculture is a mode of life

- Farming is a way of life.
- The farm is the home, a source of food, and it furnishes a 'job' to the farmer and his family.
- Most of the farmers do not regard themselves as businessmen.

2. Concentration of agricultural produce

- In AM, assembling of agricultural produce has special significance.
- There is a longer channel of distribution and multiple middlemen between primary producer and ultimate consumer.

3. Seasonal demand on marketing services

- Agricultural production is seasonal but consumption of agricultural produce is continuous and regular.
- Demand for marketing services is in the busy season.

Problems in Agricultural Marketing

4. Varying qualities

- Varying quality due to variations in climate, soil type, production methods, and technological innovation.

5. Lack of adequate aids to trade

- Lack of adequate and specialized aids to trade such as facilities of finance, transport and storage in the process of marketing of agricultural goods.

6. Lack of standardization and grading

- Grades and standards should be there.

X'cs of Agricultural goods vis-à-vis marketing problems

Characteristics of agricultural goods

Production X'cs

1. Small scale
2. Scattered
3. Specialized
4. Seasonal production

Product X'cs

1. Bulky but less value
2. Perishable
3. Varying quality and quantity
4. Elastic supply

Consumption X'cs

1. Continuous
2. Regular and in small quantity
3. Inelastic demand

Problems of AM in Ethiopia –Some Specifics

- **Lack of effective competition**

- Very young private sector with limited experience in AM
- Market domination by few traders (A study in 1998 showed that the largest 10% wholesalers handled 43% of grain traded at wholesale level)
- Limited supply of grain (79% of the grain sale is immediately after harvest) and livestock (for export)
- Limited access to information
- Lack of adequate storage facilities
- Limited access to credit

Problems of AM in Ethiopia

- **Inadequate market information**
 - Limited access of poor and remote market participants to MIS
 - Lack of strong analytical skills to interpret or analyze MIS
 - Duplication of efforts
 - Supply driven information
 - Emphasis on price formation
 - Sustainability issue
 - Monitoring and evaluation
- **Lack of training**
- **Presence of too many unlicensed traders**

Problems of AM in Ethiopia

- **High income tax and unsystematic income tax assessment**
 - 5% sales tax
 - 40% income tax
- **Storage problems**
- **Transportation constraint**
- **Lack of credit facilities to traders and small farmers**
 - The working capital of traders in both the surplus and deficit areas in Ethiopia is very low.
- **Weak participation of the marketers in policy formulation and implementation**

Problems of AM in Ethiopia

- **Lack of research**
 - Little is known on how to identify and assess accurately the deficiencies in marketing, how to determine their causes and how to design appropriate policies for incentives, institutions, and investments.
- **Inadequate market facilities**
- **Institutional constraints**
 - The private sector is doubtful about the legal system to enforce contractual disputes.

Problems of AM in Ethiopia – Livestock specific

- Reliance on supply derived from subsistence oriented livestock production system,
- Lack of a well-coordinated livestock supply chain that links many producers and buyers,
- Lack of mechanism for abattoirs to monitor their purchasing system regularly,
- Problem of access to untapped areas which are characterized by poor road infrastructure,

Problems of AM in Ethiopia - Livestock specific

- Insecurity and frequent conflicts in pastoral areas
- Unavailability of water and feed resources in the trekking routes,
- Lack of efficient mechanism for delivering market information to the producers and traders in local markets on issues related to seasonal prices, demand, and quality requirements in different markets, and
- Lack of partnership and linkages (team working from producers to processors).

Marketing of Agricultural and Manufactured Goods - Comparison

Manufactured goods	Agricultural goods
Equal attention on production and marketing	Agriculturist is purely a producer.
Manufacturer has major voice in marketing & channel choice.	The farmer has practically no voice in marketing and channel choice
Middlemen cannot usually exploit manufacturers	Middlemen at liberty to exploit farmers through many mal-practices
Assembling has no special importance as goods are produced on a mass-scale	Assembling plays a very important role
Effective control over quality and quantity of goods	No effective control over quantity or quality of agricultural produce

Marketing of Agricultural and Manufactured Goods - Comparison

Manufactured goods	Agricultural goods
Promotion plays a very important role in marketing	Demand creation activities are not paying as demand is inelastic
Marketing process not very complicated	Marketing very elaborate and complicated-host-of middlemen
Product differentiation, branding, advertising, and sales promotion are common	Are rare in agriculture. Agricultural goods can be graded.
Manufacturer is the creator of his brand and thus reputation.	Products are brought only on the basis of real quality and not on the basis of producer's reputation.
Cost of transport and ware housing are not excessive	Due to perishability these costs are very high.

Market Orientation and Value Addition in Agriculture

Digression!

Terminologies

- Selling Vs Marketing
 - **Selling**: Many small farming families engage in selling almost as an afterthought, a way of handling any production left over after fulfilling food needs and social obligation.
 - **Marketing**: As agriculture becomes more commercialized, farmers need to become increasingly concerned with marketing per se. **Marketing involves producers finding out what consumers want and as a result producing a product that satisfies those needs in the expected quality, time and place.**

Market orientation

- The genesis

Product (quantity) orientation



Sales (quality) orientation



market (consumer preference) orientation.

Market orientation

Cont...

- **Building concepts**
 - Transformation
 - Diversification
 - Commercialization
- **These are highly overlapping concepts.**

Transformation



- Continuous process of adapting to the opportunities and constraints of the changing socio-economic and bio-physical environment.
- The process of converting household-oriented, subsistence type structures to commercial units that have highly efficient linkages to the urban and world economies (Timmer, 1992).
- Structural change in the production system to address the changing objectives and priorities.
 - From subsistence to commercial mode of production - implies overall changes to deal with the new objective of profit making instead of the previous objective of producing enough food.

Transformation

Cont...



- Goal - to get the per capita income of people in the rural economy to levels that are commensurate with the per capita income levels of people in the urban community.

Transformation

Stages

1. Getting agriculture moving

- Increasing productivity of agriculture

2. Agriculture as a contributor to economic growth

- Making the rise in productivity contribute to economic growth

3. Integrating agriculture into the macroeconomy

- make the factor markets work better, speed up the process of adjustment, and improve the flexibility of rural decision making to integrate agriculture

4. Agriculture in industrial economies

- Implications on world commodity markets of industrial countries' interventions in their domestic agriculture.

Transformation

- The agricultural transformation will require an active role on the part of the government.
- To make agriculture a successful part of the economic transformation, to successfully transform agriculture itself, and thereby successfully transform the economy, will require active involvement on the part of the government.
- The problem, of course, is that African governments have to stop doing what they're doing. They have to stop doing the wrong things and they have to start doing the right things.
- There are three steps that will define the successful solution. They're going to have to provide growth. They're going to have to provide stability. And they're going to have to provide equity.

Diversification

- A change in business activities based on flexible and differentiated response to changing opportunities created by new production technology or market signals (World Bank, 2004).
- Change in product (or enterprise) choice and input use decisions based on market forces and the principles of profit maximization (Pingali and Rosegrant, 1995).
- Means more than adjusting to the existing environmental context – also implies establishing the flexibility and capacity to continually adapt products and the process of production to continually evolving circumstances (von Braun, 1995).

Diversification

cont..

- Can occur at
 - **Farmers level**: change in the underlying characteristics of the farm system such that farm practices and products are more aligned with the social, environmental, and economic contexts, as well as the constraints and opportunities that exist.
 - **Community level**: Establishing a dynamic optimal mixture of farm production alternatives capitalizing on between – farm heterogeneity in terms of resource availability and qualities.

Implications of diversification

- Initially, diversification implies the addition of other crops and other enterprises at the farm household level. As the level of commercial orientation increases, however, one observes mixed farming systems giving way to specialized production units that are designed to rapidly respond to market price and quality inputs.
- Diversification at the agricultural sector level is therefore consistent with specialization at the farm or unit of production level.

What causes diversification?

- Changing consumer demands
- Increased volatility of supply and demand
- Technological advances in production and marketing
- Relative commodity prices and profitability
- Changing relative input prices

What causes diversification? Cont..

- Supply chain integration
- The changing architecture of international trade
- Trade liberalization
- Changing role of government
- Expanding role of the private sector
- Management of natural resources

Commercialization

- Implies movement of agriculture from traditional self – sufficiency to an activity where farm output is more responsive to market trends.
- Means more than the marketing of agricultural output, it means that product choice and input use decisions are based on the principles of profit maximization (Pingali, 1997).
- Leads to greater market orientation of farm production; progressive substitution out of non-traded inputs in favor of purchased inputs; and the gradual decline of integrated farming systems and their replacement by specialized enterprises of crop, livestock, poultry, and aquaculture products (Pingali and Rosegrant, 1995).

Commercialization

cont...

- Commercialization of agricultural systems can be expected to lead to substantial changes in the organization of production.
- At the regional, national and provincial levels, product choices could be determined more by a comparative advantage than by food needs of the particular political/administrative unit.

Commercialization

cont...

- Commercial reorientation of agricultural production occurs for the primary staple cereals as well as for the so-called high value cash crops.
 - The so-called traditional food crops are frequently marketed to a considerable extent, and the so-called cash crops are retained, to a substantial extent, on the farm for home consumption.
- Commercialization and specialization are usually introduced for commodities whose demand is elastic – often as a means of bypassing the problem of inelastic demand faced by traditional commodities.

Commercialization

cont...

- Commercialization of agricultural systems is a universal phenomenon that is triggered by economic growth.
- Commercialization trends require a paradigm shift in agricultural policy formulation and research priority setting.
- Future emphasis of agricultural policy ought to be on maximizing farm household incomes rather than on generating food surpluses.

Commercialization

cont...

- While leading to an increase in the diversity of marketed products at the national level, also leads to increasing regional and farm – level specialization.
- Should not be expected to be frictionless process, and significant equity and environmental consequences should be anticipated at least in the short to medium term, particularly when inappropriate policies are followed.

Forms of commercialization

- Can occur on the **output side** of production with increased marketable surplus.
- Can occur on the **input side**: with increased use of purchased inputs.

Note:

- Commercialization of agriculture is not identical with commercialization of the rural economy (Pingali, 1997).

Subsistence Vs Commercial

Subsistence	Commercial
Non-marketed output	Marketed output and purchased input
Own consumption	Profit maximization
Diversification at farm level	Specialization at farm level
Limited items for export	Various items for export
Risk averse	Risk taking

Market orientation – the catch all

- The **production** of goods and services with the required quantity and quality level **as determined by the demand in the market**.
- Implies
 - dynamic,
 - developed,
 - demand driven,
 - high quality,
 - profit maximizing,
 - high input, and
 - diversified production system.

Why re-orientation?

- The global environment is changing, and new forces, such as integrated food chains, are shaping the way in which food is produced, distributed, and consumed throughout the world.
- Producers have to orient toward meeting the changing demands, rather than selling the output that they have traditionally produced.
- There is a need to transform existing production systems to new systems that are more aligned with this dynamic environmental context.

Patterns of the move to market orientation

Asian experience (Pingali, 1997)

- The abandonment of highly drought prone environments, especially in areas where the opportunities for groundwater exploitation are limited;
- The shift from small subsistence farms to mechanized cultivation of large farms;
- Where dry season water supplies are available, increased areas under vegetables, feed grain, and fodder crops, and other high valued crops.

Market orientation

Trends and structure

- Commercialization in low income countries will generally grow over the coming decades due to urbanization and incentives for regional and farm specific specialization in the context of diversifying rural economies.

Market orientation

Trends and structure

cont...

- Opportunities for commercializing African smallholder agriculture
 - ☞
- Spatial Market tiers
 - Local markets
 - National markets
 - Intra-regional markets
 - Inter-regional markets
 - Continental market
 - International market
 - Niche markets

Market orientation

Trends and structure

cont...

- Marketable commodities
 - Traditional market (export) crops
 - Staple food crops
 - high-value crops

Market orientation

Trends and structure cont...

- **Potential challenges for smallholders**
 - **Market failures - high transaction cost**
 - **Agricultural treadmill – late access to new options**
 - **Inadequate support from the government – bad policies**
 - **Transformability of the fully or partially subsistence agricultural systems**
 - **Enterprise choice**

Market orientation

Trends and structure cont...

- **Potential challenges for smallholders**
 - Input supply systems controlled by a small number of companies.
 - Efficient use of water , land, and other resources in response to changing prices
 - Efficient land markets and secure property rights
 - Access to rural credit and finance and the dissemination of technology and good practices in water use.

Driving forces of market orientation

- Dealing with the risky environment farmers are facing.
- Conducive macroeconomic environment
- Non-distortive trade policies
- Transportation and communication infrastructure and market development to facilitate integration of the rural economy
- Legal and contractual environment in which farmers and processors may operate efficiently.

Driving forces of market orientation

cont...

- Human population dynamics
- Investment in agricultural research and extension to increase farmer flexibility and reduce possible environmental problems from high input use, and
- Establishment of secure rights to land and water to reduce risks to farmers and to provide the incentives for investment in sustaining long-term productivity.

Driving forces of market orientation

cont...

- **Endowment of natural resources,**
- **Development and liberalization of financial and capital markets**
- **Continuous investment on upgrading the sanitary and phytosanitary laboratories,**
- **Development of support services (including health and nutrition programs).**
- **Farm-level investment (though often with some lag before payback),**

Driving forces of market orientation cont...

- Availability of specialized inputs, and investment in the processing level,
- A conducive regulatory environment for commercial undertaking,
- Knowledge of export markets, and
- Having an established reputation (trust) in export markets.
- Globalization
 - Rapid growth of world trade
 - Internationalization of production by multinational corporations,
 - Declining informational and communications costs associated with information technology.

Research and market orientation of agriculture

- Market orientation requires research efforts to develop innovative solutions to new problems associated with alternative and unknown production enterprises.
- Key to success is rapid adjustment of the producers to changing national and international market opportunities.

Research and market orientation

cont...

- Successful commercialization therefore requires
 - efficient **information** flow,
 - quick identification of **opportunities**,
 - development of appropriate **technologies**, and
 - **fast adoption** of these technologies on the producers' fields and factories.
 - These require efficient back-and-forth **flows of information from researchers to extension agent to farmers.**

Research and market orientation cont...

- Decentralized research and participatory extension systems, well harmonized and democratically organized farmer organizations, and an efficient private sector are important ingredients.
- The agriculture information and knowledge system should necessarily contain data on:
 - prices,
 - cost,
 - grading system,
 - sanitary and phytosanitary requirements,
 - alternative sources of supply and their cost structure, and
 - available technologies for production, transport, and processing.

Research and market orientation cont...

- A continuous flow of information between farmers and researchers will allow for any adjustment in technologies and institutional arrangement necessary to fully benefit from the identified or changed opportunity.
- Wide-ranging research agenda focusing on various crops and commodities, production system, and processing technologies in various environments according to the site-specific needs of the farmers is a basic requirement for market orientation.

Research and market orientation

cont...

- Contractual research and extension systems are another way to meet the wide array of research needs of commercialization and make the research output relevant to the needs of small farmers.
- The primary objective of the research system during the process of market orientation remains to generate new technology that improves productivity and farmer income.

Research and market orientation cont...

- In responding to the demands of the process, research shouldn't shift abruptly from an almost exclusive focus on one set of commodities to another set of commodities.
- In addition to the productivity objective, the focus of research should be to provide farmers the flexibility to make enterprise choice decisions and to move relatively freely between enterprises.
- Both substantial commodity specific research and system level research effort will be required to provide farmers the flexibility of enterprise choice.

On what should research focus?

A generalization!

- The institutional changes
- The new technologies
- Building a market structure
- Incentives for farmers
- Investments in rural infrastructure.

Value – Added: What is it?

- Value-added is simply the act of adding value to a product, whether you have grown the initial product or not. It involves taking any product from one level to the next (Fleming, 2005).
- For farmers, value-added has a particular importance in that it offers a strategy for transforming an unprofitable enterprise into a profitable one.
- The farmer is not only involved in production of a raw commodity but also takes part in processing, and distribution of the product. This is known as vertical integration (MSU, 2005).

Value – Added: What is it? Cont...

- Refers to **increasing the customer value** offered by a product or service (MSU, 2005).
- **Adds features to a raw agricultural, marine, aqua cultural, or forestry material used to make a product.**
 - Examples of value added agriculture is food processing, drying, canning, juicing, handcrafting, unique packaging, labeling and marketing.
- It is an innovation that enhances or improves (**in the opinion of the consumer**) an existing product, or introduces new products or new product uses. This **allows the farmer to create new markets, or differentiate a product from others and thus gain an advantage over competitors.**

Value – Added: What is it? Cont...

- Value added activities are ones that add value to a product or service from the buyers' perspective.
- Value added activities are essentially meant to add utility:
 - Form utility
 - Time utility
 - Place utility
 - Information utility
- This implies - a broad set of activities adds value by improving the usefulness of the commodity or product to the customer.

Value – Added: What is it? Cont...

- Value added marketing is a relatively new concept to many traditional producers, and involves significant capital, teamwork, and integration of diverse segments of the food industry.
- If the farmers can move up the food chain by engaging in manufacturing and direct marketing, rather than just selling their raw commodities to a local dealership, then they would realize higher returns on their investment.
- By engaging in value added agriculture farmers are expecting to increase their net farm profits that would otherwise go to the middlemen in the food chain. The value added concept transforms growers from 'price takers' to 'price makers'.

Value – Added: What is it? Cont...

- Vertical expansion of a farm operation through direct selling or a move to on farm processing shortens the distance between farmer and consumer, and is often cited as a means to add value to the farm operation.
- Adding value does not necessarily involve altering a product; it can be the adoption of new production or handling methods that increase a farmer's capacity and reliability in meeting market demand.
- Value-added can be almost anything that enhances the dimensions of a business. The key is that the value-adding activity must increase or stabilize profit margins, and the output must appeal to the consumer.

Value added - example

- Coffee grower can sell
 - The cherry on the plant
 - Collect the cherry and sell it 'as is'.
 - Remove the cherry pulp and wash and dry the coffee beans to create the 'parchment'.
 - Mill the parchment and sell it to roasters.
 - Roast and pack at the farm and sell.
 - Open the farm to visitors who can tour and learn about the whole process of growing, harvesting, pulping, drying, milling, grading, roasting, packaging and, ultimately, tasting coffee.
 - The amount of value to be added to a farm product is limited only by imagination.

Why Value added ?

- The move to value-added agriculture is fundamentally market-driven.
- Value added activities are born from the necessity to adapt to the sweeping changes affecting the agriculture and agri-food industry.

Why Value added ?

Cont...

- These changes stem from:
 - the brisk expansion of agricultural trade, and the resulting concentration in the agri-food industry;
 - an increasingly segmented consumer base;
 - shifting consumer preferences;
 - changing demographic and income profiles;
 - innovation in food and non-food uses of agricultural products; and
 - trade related issues, including border closures, in an increasingly integrated global market.

Challenges for farmers in V-A

- It requires sound marketing savvy.
- Getting a new product into the highly competitive retail market is very difficult.
- Consideration of the following is crucially important:
 - Market Research
 - Business Structure
 - Business Plan
 - Liability
 - Regulations
 - Technology
 - Food Safety
 - Packaging Materials
 - Labeling Rules
 - Trade Names, Patents, Copyrights

Sources of Market information in Ethiopia

Raw data sources

- Central Statistical Authority
- Ethiopian Grain Trade Enterprise
- Early Warning System of MoARD
(formerly DPPC)
- Ministry of Agriculture
- Others - NGOs

Information/processed data sources

- Agricultural Research Centers
- Higher Learning Institutions
- EU/Local Food Security Unit
- Others – NGOs and private firms