UNIT 5 AGRICULTURAL PRODUCE MARKETS

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5.0 OBJECTIVES

After studying this unit, you should be able to:

- discuss the influence of socio-economic and micro-macro environmental forces on agricultural marketing system;
- express about the regulation of markets and its influence on marketing functionaries;
- discuss the concepts of marketing costs, price spread, and margins;
- define the marketing efficiency and market integration; and
- articulating the importance and types of market infrastructure.

5.1 INTRODUCTION

It is well-established fact that marketing activities do not take place in isolation from all external forces. In fact, all marketing operations are conducted in a highly complex, dynamic, and changing environment. There are many imperfections in the marketing system for agricultural commodities. To protect the interests of the various sectors of the economy, government intervention in the form of regulation of markets became necessary. The main objective of integration is to undertake closely related activities that will permit them to effectively meet the requirements of their customers. A change that reduces the costs of accomplishing a particular function without reducing consumer satisfaction indicates an improvement in efficiency.

5.2 INFLUENCE OF MICRO-MACRO ENVIRONMENTAL FORCES ON AGRICULTURAL MARKETING SYSTEM

The actors and forces outside marketing that affect marketing management ability to build and maintain a successful relationship with target customers are known as the marketing environment. The **environmental forces can** be divided into broad micro-environmental and macro-environmental components. The wise marketing manager knows that he or she cannot always affect environmental forces. However, smart managers can take a proactive, rather than reactive, approach to the marketing environment.

A. Micro-environment

The firm's microenvironment consists of six forces that affect its ability to serve its customers.

1. **The firm:** The first force is the firm itself and the role it plays in the micro-environment. This could be deemed the internal environment. In the firm, the marketing manager, in formulating plans, must take into account the other groups such as top management, finance, R & D, purchasing, manufacturing, and accounting. All these groups constitute a firm's micro-environment for planners. All departments must "think consumer" if the firm is to be successful.

2. **Suppliers:** Suppliers are firms and individuals that provide the resources needed by the firm to produce goods and services. They are an important link in the firm's overall customer "value delivery system." One consideration is to watch supply availability and another point of concern is the monitoring of price trends of key inputs. Rising supply costs must be carefully monitored.

3. **Marketing Intermediaries:** Marketing intermediaries are individuals/functionaries that help the firm to promote, sell, and distribute its goods to final buyers. It includes:

   Resellers are distribution channels that help the firm find customers or make sales to them. These include wholesalers and retailers who buy and resell the merchandise.

   Physical distribution firms help the firm to stock and move goods from their points of origin to their destinations. Examples would be warehouses (that store and protect goods before they move to the next destination).

   Marketing service agencies help the firm target and promote its products (such as marketing research firms, advertising agencies, media firms, etc.).

Financial intermediaries help finance transactions and insure against risks (such as banks, credit companies, insurance companies, etc.).

4. **Customers:** The firm must study its customer markets closely since each market has its own special characteristics. These markets normally include:

   i) **Consumer markets** (individuals and households that buy goods and services for personal consumption).

   ii) **Business markets** (buy goods and services for further processing or use in their production process).

   iii) **Reseller markets** (buy goods and services to resell them at a profit).

   iv) **Government markets** (agencies that buy goods and services to produce public services or transfer them to those that need them).

   v) **International markets** (buyers of all types in foreign countries).

5. **Competitors:** Every firm faces a wide range of competitors. These competitors have to be identified and monitored to gain and maintain customer loyalty. A company must secure a strategic advantage over competitors by positioning its offerings to be successful in the marketplace. Competitive advantage building depends on understanding the status, strengths, and weaknesses of competitors in the market. No single competitive strategy is best for all companies.

6. **Publics:** A *public* is any group that has an actual or potential interest in or impact on a firm's ability to achieve its objectives. A firm should prepare a marketing plan for all of their major public as well as their customer markets. Generally, publics can be identified as being: i). Financial publics, ii). Media publics, iii) Government publics--take developments into account, iv) Citizen-action publics, v) Local publics, 6) General public, and vii) Internal publics.

B. Macro-environment

All of the actors operate in a larger macro environment of forces that shape opportunities and pose threats to the firm. There are seven major forces in the firm's macro environment.

1. **Demographic Environment:** *Demography* is the study of human populations in terms of size, density, location, age, sex, race, occupation, and other statistics. It is of major interest to marketers because it involves people and people make up markets. Demographic trends are constantly changing. Effect of changes on the demographic environment is given below

   i) Age Structure of the Total Population and Its Changes: The number of different ages of people such as the number of children, teenage, youth, old person should be kept in mind at the time of doing marketing strategy because a product cannot be certified for every age of the customers.

   ii) Changed Family Life: Now a day's one can easily identify the changes in family lifestyle such as the growth of working-class women, income capability, urbanization, etc. These changes are important for doing marketing strategy. With the increasing number of working women, demand for ready to eat food has increased and the public goes to restaurants for food to save time but those things created a market for the product, and the marketers getting benefit from their work and growing rapidly.

iii) **Education and Profession:** Education rate and job distribution also be remembered at the time of doing marketing strategy. Because the taste, choice, habit, communicating process cannot be same of an educated and a non-educated person. These changes are very important for marketing strategy.

iv) **Geographical Shift in Population:** Geographically living and shift of population create an impact on marketing. For a lot of reasons, people tend to go to cities. For these reasons, peoples' lifestyle and their demand styles are changing. A change in their demand style has to be kept in mind to keep pace with the growing market.

2. **Economic Environment:** In the market, not only people but also their buying ability is needed. Because buying ability less market is for nothing. And buying ability rely on peoples' earning condition, price of a product, savings, and debt facilities. At the time of doing marketing strategy, one must remember the shift of earning as well as the spending. And by analyzing these one should make their marketing policy. How the economic environment affect marketing decisions are given below:

i) **Changing Income:** The per capita income is growing. This should be led by the distribution of income to all sections of society. The increase in farming products' prices should keep pace with the industrial product so the farmers' conditions get improved. For this reason, multinational companies are applying effective techniques for rural class people.

ii) **Changing Consumer Spending Patterns:** The spending patterns are the different basis on earning patterns so their buying patterns are also different. As family income rises, the percentage of expenditure on food declines. Changes in major economic variables such as income, cost of living, interest rates, and savings and borrowing patterns have a large impact on the marketplace. Marketers watch these variables by using economic forecasting.

3. **Natural Environment:** The natural environment involves the natural resources that are needed as inputs by marketers or they are affected by marketing activities. Environmental concerns have grown steadily in recent years. Marketers should be aware of several trends in the natural environment. Some trend analysts labeled the specific areas of concern:

- Shortages of raw materials,
- Increased pollution,

- Government intervention, and
- Environmentally sustainable strategies.

As an offset of the above environmental concerns, the Green Marketing trend has started. Marketers have started promoting eco-friendly products to cater to this need. Manufacturers are required to use the Ecomark label to inform customers that the products are environment-friendly.

4. **Technological Environment:** The *technological environment* includes forces that create new technologies, creating new products and market opportunities. Technology is perhaps the most dramatic force shaping our destiny. New technologies create new markets and opportunities. Marketers should be aware of the regulations concerning product safety, individual privacy, and other areas that affect technological changes.

5. **Political Environment:** Marketing decisions are strongly affected by development in the political environment. The form of government adopted by the country and political stability are important factors to be reckoned with by marketers. The *political environment* includes laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society. Various forms of legislation/ laws have been enacted to regulate business and marketing – to protect companies from each other, to protect consumers from unfair trade practices, to protect the larger interests of society against unbridled business behavior.

6. **Cultural Environment:** This type of environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviors. Culture is the unified result of factors like religion, language, education, and upbringing. The cultural values which affect marketing decision making are - the persistence of cultural value, shifts in secondary cultural value, people views of organization/ others, etc.

   Persistence of cultural values: People's core beliefs and values have a high degree of persistence. These are deep-rooted and do not change easily. **Core** beliefs and values are passed on from parents to children and are reinforced by schools, churches, businesses, and the government.

   Shifts in secondary cultural values: Since secondary cultural values and beliefs are open to change, marketers want to spot them and be able to capitalize on the change potential.

7. **Legal environment:** Marketers have to work within the legal framework prevailing in the country. There has been legislation passed in India to control or guide businesses and industries. There are legal regulations on products, prices, distribution, and promotion. There are legal measures to protect and control trade. Marketers have to understand the legal environment and adapt to its forces.

Check Your Progress 5.1

Note: a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit.

1) What do you mean by marketing environment?

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2) What are the macro-environmental forces affecting the marketing system?

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3) What is the relevance of customers to marketing?

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5.3 POLICIES RELATED TO DEVELOPMENT AND REGULATION OF AGRICULTURAL PRODUCE MARKETS

Agricultural Marketing is a process that starts with a decision to produce a saleable farm product and involves all aspects of market structure or system, both functional and institutional, based on technical and economic consideration. No doubt, agricultural marketing is a State subject; the Government of India has an important role to play in laying down general policy framework, framing quality standards, conducting survey and research studies, and providing guidance, technical and financial support to the State Governments. The Central Government is aided and advised by two organizations under its control, namely, the Directorate of Marketing and Inspection (DMI) and the National Institute of Agricultural Marketing (NIAM), Jaipur.

5.3.1 Directorate of Marketing and Inspection

On the recommendation of the Royal Commission on Agriculture, 1928, and the Central Banking Enquiry Committee, 1931, the Central Marketing Department was established in India in 1935. Later, on the recommendations of the Patel Committee, the Inspection Directorate of the Ministry of Food was merged with the Central Marketing Department and was renamed as the Directorate of Marketing and Inspection (DMI).

This Directorate of Marketing and Inspection has its head office at Faridabad (Haryana). The DMI maintains a close liaison between Central and State Governments through its Branch -Head Office at Nagpur, 11 regional offices, and 37 sub offices spread all over the country. The DMI also has a network of 22 Regional AGMARK Laboratories with central Agmark Laboratory at Nagpur as an apex laboratory. The Directorate of Marketing and Inspection implements the agricultural marketing programmes of the Union Government under the supervision and control of the Union Ministry of Agriculture and Farmers Welfare. It aims at achieving integrated development of marketing of agricultural and allied products in the country.

Besides these, the DMI is actively associated in rendering assistance, guidance, and advice to the State Marketing Departments regarding the framing of legislation and subsequent implementation of agricultural produce markets Acts for bringing about the regulation of agricultural produce markets. The DMI undertakes programmes of market research and surveys, training of market personnel, extension, and publicity. Between the Head Office, Faridabad, and Branch Head Office, Nagpur the sharing of responsibility in respect of these functions is as follows. The Head Office at Faridabad looks after: (i) administration of the Agricultural Produce (Grading and Marking) Act, 1937, rules and other related matters; (ii) administration of Meat Food Products Order, 1973; (iii) administration of Cold Storage Order; and (iv) Market regulation, development and extension.

5.3.2 National Institute of Agricultural Marketing (NIAM)

NIAM has started functioning at Jaipur (Rajasthan) with effect from 8th August 1988. to augment the agricultural marketing infrastructure of the country through programmes of teaching, research, and consultancy services; to design and conduct training courses appropriate to the specific identified needs of the personnel and enterprises and institutions that they serve; to undertake research to demonstrate and replicate better management techniques in the field of agricultural marketing; to provide consultancy services for formulating investment projects and for problem-solving advice, and to offer educational programmes in agricultural marketing for implementing the existing facilities.

5.3.3 Regulation of Agricultural Marketing

A regulated market is a wholesale market where buying and selling are regulated and controlled by the state government through the market committee.

It aims at the elimination of unhealthy and unscrupulous practices reducing marketing charges and providing facilities to producers and sellers in the market. Regulated markets have been established by State Governments and rules and regulations have been framed for the conduct of their business.

Objectives

The specific objectives of regulated markets are:

1. To prevent the exploitation of farmers by overcoming the handicaps in the marketing of their products;
2. To make the marketing system most effective and efficient so that farmers may get better prices for their produce and the goods are made available to consumers at reasonable prices;
3. To provide incentive prices to farmers for inducing them to increase the production both in quantitative and qualitative terms; and
4. To promote orderly marketing of agricultural produce by improving the infrastructural facilities.

Important features of regulated markets

Under the provisions of the agricultural produce market act, the state government gives its intention to bring a particular area under regulation by notifying market areas, market yard, main assembling market, and sub-market yard, if any, under the principle regulated market.

Main features of regulated markets:

1. Market Committee:
2. Area of Operation:
3. Methods of sales:
4. Licensing of Market Functionaries:
5. Market Levies or Fees:

History of Market Regulation

The Royal Commission on, Agriculture, in its report submitted in 1928, recommended the regulation of market practices and the establishment of regulated markets in India in view of the dismal conditions that were obtained in the agricultural produce markets. Its recommendations were subsequently endorsed by the Central Banking Enquiry Committee, 1931. In 1935, the Government of India established the office of the Agricultural Marketing Adviser (Directorate of Marketing and Inspection) under the Ministry of Food and Agriculture to look into the problems of the marketing of agricultural produce. The Directorate recommended to the State Governments that markets be regulated to safeguard the interests of the producers and to remove the prevalent malpractices in the markets. In 1938, the Directorate of Marketing and Inspection prepared a model Bill and circulated it among the States. Since then, State Governments have enacted legislation for the regulation of markets in their States. These are The Hyderabad Agriculture Market Act, 1930; the Central Provinces Cotton Markets Act, 1932; the Madras Commercial Crops Market Act, 1935; the Agricultural Produce Markets Act of Bombay, of Punjab and Mysore, 1939, of Madhya Bharat, 1952, of Orissa, 1957 and Rajasthan, 1961. In the meantime, Andhra Pradesh adopted the Madras Act, Gujarat and Maharashtra States inherited the Bombay Act and Delhi and Tripura passed legislation on the lines of the Bombay Model Act.

Regulation of markets for agricultural products was stressed by several Committees and Commissions from time to time. The Review Committees on the working of the Agricultural Produce markets from time to time have recommended for bringing all the agricultural products including horticulture, forestry, and livestock under the purview of Agricultural Produce Market Acts.

5.4 POLICIES FOR DEVELOPMENT OF AGRICULTURAL PRODUCE MARKETS

Some policies and legislative measures are discussed below:

Grading and Standardization

The Agricultural Produce (Grading & Marking) Act, 1937 empowers the Central Government to fix quality standards, known as "AGMARK" standards, and to prescribe terms and conditions for using the seal of "AGMARK". The Act of 1937 was amended from time to time to widen its scope, so that more commodities may be included under the changed circumstances. Initially, only 19 commodities were included for grading purposes, but now there are more than 202 commodities in the schedule for which grade standards are available.

Cold Storage Order

The Cold Storage Order, 1980 was uniformly applicable throughout the country except in the States of Haryana, Punjab, Uttar Pradesh, and West Bengal. This order in addition to ensuring hygienic and proper refrigeration conditions in a cold store also has a provision of rendering technical guidance for scientific preservation of foodstuffs in a cold store and prevailing exploitation of farmers by cold store owners. This has been repealed with effect from 27th May 1997 to remove the controls laid down in the said Order in the areas of licensing, price control and requisitioning of cold storage space, etc. and allow the functioning of free-market mechanism for demand-based growth of cold storage industry in the country free from all kinds of administrative interference.

Meat Food Products Order

The Meat Product Order, 1973 promulgated under section 3 of the Essential Commodity Act, 1955 became operative in July 1975. The objective of the act is to ensure quality control and hygienic manufacturing conditions of meat food products for domestic consumption and the order is applicable all over the country. The order prescribes the sanitary and other requirements to be observed in all establishments as well as the conditions to be observed by the manufacturers in handling, storage, transport, packing, marking, and labeling of containers. This order was repealed in 2006.

High Powered Committee on Agricultural Marketing, 1992 (Guru Committee)

In 1992, a High Powered Committee on Agricultural Marketing was appointed by the Government of India under the chairmanship of Shri Shankarlal Guru, the then Chairman of COSAMB and Gujarat State Agricultural Marketing Board to suggest improvements in the functioning of the market regulation scheme. The committee submitted its final report on 26th November 1992. The Committee in its report has suggested several changes in the existing market regulation programme and restructuring of the agricultural produce market committees and State Agricultural Marketing Boards.

The committee, in all, made 89 recommendations relating to various aspects of agricultural marketing like legal framework, marketing organizations, central assistance scheme, marketing credit, post-harvest technology, research, and education.

Expert Group on Agricultural Marketing (Acharya Group)

The Ministry of Rural Areas and Employment of the Government of India, in July 1998, constituted an Expert Group for suggesting measures to strengthen the Agricultural Marketing Division of the Ministry and to widen its scope to facilitate the development of marketing network as growth centers in rural areas.

The Expert Group recommended setting up a strong Division of Agricultural Marketing in the Union Ministry of Agriculture and making NIAM a professional body. The Expert Group submitted its report in August 1999, with 38 recommendations on the above aspects. As a follow-up, the Government of India decided to transfer DMI, NIAM, and their infrastructure to the Ministry of Agriculture with immediate effect.

Expert Committee on Strengthening and Developing of Agricultural Marketing (Guru Committee)

Under the chairmanship of Shri Shankar Lal Guru, (and S. S. Acharya as a member), this committee was appointed in December 2000. The Expert Committee submitted its report on 29th July 2001 giving 45 recommendations on the above seven aspects. One of the recommendations of the Expert Committee was to invest Rs. 270,000 crores in agricultural marketing infrastructure during the next 10 years (10th and 11th Five Year Plan), which was based on the detailed exercise done by a Working Group on agricultural marketing infrastructure constituted under the chairmanship of Dr. S.S. Acharya (a member of the Expert Committee).

New Model Act and Reforms in Agricultural Marketing

The new Model Agricultural Produce Marketing Act, circulated by the center to the states in 2003 has the following main provisions:

(i) New markets can be established by private entities or cooperatives.

(ii) Promotion of direct marketing (direct purchases by traders or processors from farmers).

(iii) Promotion of contract farming.

As per the Model Act, several state Governments/UTs have amended their Acts to reform the entire marketing scenario.

5.5 INFLUENCE OF REGULATIONS ON MARKETING FUNCTIONARIES

The influence of regulation on marketing functionaries is discussed below:

(i) Licensing of Market Functionaries: All the market functionaries, from the *hamals* to traders working in the regulated market, have to obtain a license from the market committee; after paying the prescribed fees, to carry on their business. The licensed traders have to keep proper records and maintain accounts in accordance with the bye-laws of the market committee. This facilitates the exercise of proper control on the accounts of the traders and the collection of the correct amount of the market fee by the market committee. Any violation of rules by middlemen may lead to the cancellation/suspension of the license by the market committee or the filing of challans in a court of law.

(ii) Method of Sale In regulated markets, the market functionaries cannot affect the sale of agricultural produce without involving the officials of the market committee. The sale is undertaken either by open auction or by the close tender method. By these methods, the sale is carried out under the supervision of an official of the market committee, and the signature of the buyer is taken as soon as the auction is over. The business is done during fixed hours.

(iii) Weighment of Produce: The weighman has to use only standard weights and a platform scale. This eliminates short weights and malpractices which arise out of weighing with a hand balance. Electronic weighing balances/machines have also been installed in selected markets.

(iv) Market Charges: With the regulation of markets, the market functionaries can not deduct the market charges in the name darmada*, charity, karda, dhalta* and *muddat.* Also they cannot deduct other market charges, such as commission, brokerage, *hamali,* and weighing charges, more than the specified norms by the market committee. The market functionaries can charge from the seller only for the activities undertaken before the sale of the produce, *i.e.,* for transportation, octroi, and *hamali* only.

(v) Payment of the Value: In unregulated markets, the payment of the price of the produce is made by the buyer after 3 to 15 days of the sale of the produce in accordance with local market rules. In the past, if the seller insisted on cash payment, the buyer would deduct *muddat* (cash discount) to make the payment. This practice has been stopped with the regulation of markets. Now it is obligatory for the buyer to make prompt payments for the purchased produce without deductions of any *muddat.*

(vi) Rules for the conduct of business: Prior to the establishment of regulated markets, the rules for the conduct of the business in the market were framed by traders without any consideration for the interests of other groups *i.e.,* farmers and consumers. In regulated markets, the conduct of business takes place under the supervision of the market committee. The market committee consists of representatives of all sections, *i.e.,* farmers, traders, co-operative marketing societies, co-operative or commercial banks, autonomous bodies (Panchayat Samiti and municipal board of the area), and governments officials. The composition of the market committee varies from state to state.

(vii) Sale slips: Before the regulation of markets, it was not necessary to provide sale slips of the produce sold to the farmers. Regulated markets have brought about a general awakening among producer-sellers. Now the commission agents are supposed to give sale slips of the produce sold to the farmers, showing the details of the quantity sold, the rate of sale, and deductions, if any. A copy of the sales slip is supplied to the market committee for purposes of checking.

(viii) Taking samples: Earlier the malpractice of the taking away of samples by the bidders was a very common practice. Now after the regulation of markets there is a restriction of taking samples by different functionaries.

Check Your Progress 5.2

Note: a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit.

1) What do you mean by the regulated market?

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2) How did the process of regulation of agricultural markets start in India?

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5.6 MARKET INTEGRATION

Market integration is a process that refers to the expansion of firms by consolidating additional marketing functions and activities under single management (Kohls and Uhl).

Examples of market integration are the establishment of wholesaling facilities by retailers and the setting up of another plant by a rice mill. In each case, there is a concentration of decision-making in the hands of single management. The extent of integration influences the conduct of the firms and consequently their marketing efficiency. Markets differ in the extent of integration and, therefore, there is a variation in their degree of efficiency.

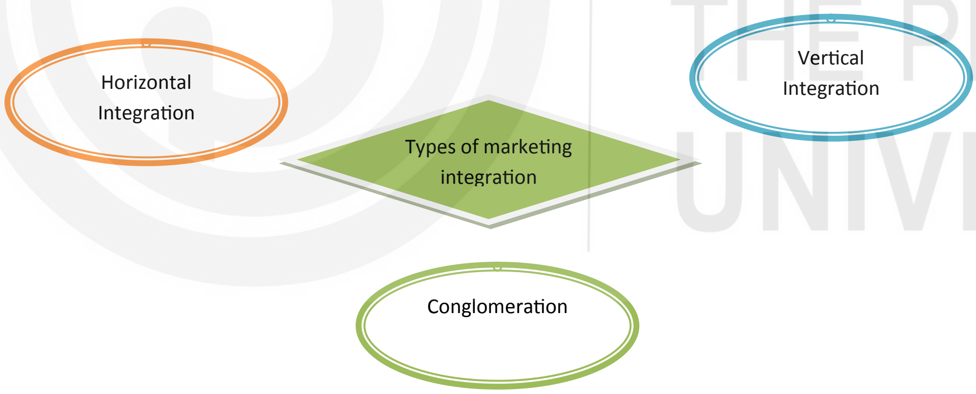

Fig. 5.1: Market Integration

Types of Market Integration

There are three basic kinds of market integration.

(i) Horizontal Integration

When a firm or agency gains control of other firms or agencies performing similar marketing functions at the same level in the marketing sequence is known as horizontal integration. In this type of integration, some marketing agencies (say, sellers) combine to form a Union to reduce their effective number and the extent of actual competition in the market. Horizontal integration of selling firms is generally not in the interest of the consumers or buyers.

(ii) Vertical Integration

This occurs when a firm performs more than one activity in the sequence of the marketing process. Vertical Integration is a linking together of two or more functions in the marketing process within a single firm or under single ownership. If a firm assumes the functions of wholesaling as well as retailing is an example of vertical integration. Another example of vertical integration is a rice mill that engages in wholesale of rice and retailing activity of rice as well.

Vertical integration leads to some economies in the cost of marketing. Vertical integration reduces the number of middlemen in the marketing channel. It is of two types depending upon the stage at which the integration occurs.

(a) **Forward Integration:** Forward integration occurs if a firm assumes another function of marketing that is close to the consumption function, for example, a wholesaler assuming the function of retailing.

(b) **Backward Integration:** This involves ownership or a combination of sources of supply, for example, when a processing firm assumes the function of assembling/purchasing the produce from villages.

Firms often expand both vertically and horizontally. For example, the modem retail stores are expanding both horizontally as well vertically. Retailing firms have grown horizontally by expanding either retail stores or a number of commodities they deal in. They have grown vertically by operating their own wholesale, purchasing, and processing establishment.

(iii) Conglomeration

Conglomeration type of integration occurs when a combination of agencies or activities not directly related to each other operates under unified management. Examples of conglomeration are Hindustan Lever Ltd. (processed vegetables and soaps), Delhi Cloth and General Mills (Cloth and Vanaspati), Birla Group, Jindal Group, J.K. Group, ITC, and NAFED.

Degree of Integration

There are two types of integration; based on the degree of integration.

(i) Ownership Integration

Ownership Integration occurs when all the decisions and assets of a firm are completely assumed by another firm. An example of this type of integration is a processing firm that buys a wholesaling firm or a retail chain.

(ii) Contract Integration

Contract Integration means an agreement between two firms on certain decisions, while each firm retains its separate identity. When *Rice* mills of an area jointly agree on the pricing of the *rice* and processed product, it is a case of contract integration.

5.7 MARKETING EFFICIENCY

Marketing efficiency is the ratio of market output (satisfaction) to marketing input (cost of resources). An increase in this ratio represents improved efficiency and a decrease denotes reduced efficiency. A reduction in the cost for the same level of satisfaction or an increase in the satisfaction at a given cost results in the improvement in efficiency.

Approaches to the Assessment of Marketing Efficiency

Traditionally, the efficiency of the marketing system has been looked at from the following two angles:

(i) Technical or Physical or Operational Efficiency

This aspect of efficiency pertains to the cost of performing a function. Efficiency is said to have increased when the cost of performing a function for each unit of output is reduced. This can be brought about either by reducing physical losses or through a change in the technology of the function *viz.,* storage, transportation, handling, and processing.

(ii) Pricing or Allocative Efficiency

Pricing efficiency means that the system can allocate farm products either over time, across the space, or among the traders, processors, and consumers (at a point in time) in such a way that no other allocation would make producers and consumers better off. This is achieved via the pricing of the product at different stages, at different places, at different times, and among different users and hence called pricing efficiency.

Whenever functions of transportation, storage, and processing are performed, the cost is incurred, value is added and the product is priced again. The efficiency of marketing is concerned with the extent to which the prices (after these functions are performed) deviate from what the cost of performing these functions warrant. The pricing aspect of marketing efficiency is affected by the extent of competition, dissemination of market information, and attitude of the functionaries.

The above two types of efficiencies are mutually reinforcing in the long run; one without the other is not enough.

Empirical Assessment of Marketing Efficiency

Some simple measures to assess the efficiency of the marketing system for agricultural commodities are:

(i) Ratio of Output to Input

Conceptually, the efficiency of any activity or process is defined as the ratio of output to input.

$$E = \frac{O}{I} \times 100$$

Where, ‘O’ and ‘I’ are respectively output and input of the marketing system and ‘E is the index of marketing efficiency.

A higher value of E denotes a higher level of efficiency and vice versa. When applied in the area of marketing, the output is the 'value added' by the marketing system, and 'input is the real cost of marketing (including some fair margins of intermediaries).

(ii) Shepherd Approach

Shepherd suggested that the ratio of the total value of goods marketed to the marketing cost may be used as a measure of marketing efficiency. The higher the ratio, the higher efficiency, and vice versa. 'This method eliminates the problem of measurement of value added.

$$ME = \frac{V}{C} \times 100$$

Where:

ME = Index of marketing efficiency

V = Value of the goods sold or price paid by the consumer (Retail price)

C = Total marketing cost or input of marketing.

(iii) Acharya Approach

According to Acharya, an ideal measure of marketing efficiency, particularly for comparing the efficiency of alternate markets/ channels, should be such which takes into account all of the following:

(a) Total marketing costs (MC), (b) Net marketing margins (MM), (c) Prices received by the farmer (FP), (d) Prices paid by the consumer (RP)

As there is an exact relationship among four variables, *i.e.,* a + b + c = d, any three of these could be used to arrive at a measure for comparing the marketing efficiency. The following modified measure is, therefore, being suggested by Acharya:

MME = FP + (MC + MM)

Where MME is the modified measure of marketing efficiency and MC and MM are marketing costs and marketing margins respectively.

5.8 MARKETING COSTS, MARGINS, AND PRICE SPREAD

Market functionaries or institutions perform various marketing functions to move the commodities from the producers to consumers. Every function or service involves cost. The intermediaries or middlemen make some profit to remain in the trade after meeting the cost of the function performed.

In the process of moving the commodities from the producers to consumers, the difference between the price paid by the consumer and the price received by the producer for an equivalent quantity of farm produce is often known as price spread. Sometimes, this is termed as gross marketing margin. The total or gross margin includes:

(i) The cost involved in moving the product from the point of production to the point of consumption, *i.e.,* the cost of performing the various marketing functions and of operating various agencies; and

(ii) Profits of the various market functionaries involved in moving the produce from the initial point of production till it reaches the ultimate consumer. The absolute value of the marketing margin varies from channel to channel, market to market, and time to time for a product.

Concepts of Marketing Margins

There are two concepts of marketing margins.

(i) Concurrent Margins

This concept stresses the difference between the prices prevailing at successive stages of marketing at a given point in time. For example, the difference between the farmer's selling price and retail price on a specific date is the total concurrent margin.

(ii) Lagged Margins

It takes into account the time that elapses between the purchase and sale by a party and between the sale by the farmer and the purchase by the consumer. A lagged margin is the difference between the price received by a seller at a particular stage of the marketing and the price paid by him at the preceding stage of marketing during an earlier period.

Estimation of Marketing Margins and Costs

Three methods are generally used in the computation of marketing margins and costs.

(i) Chasing of Lot Method

A specific lot or consignment is selected and chased through the marketing system until it reaches the ultimate consumer. The cost and margin involved at each stage are assessed.

This method is appropriate for such perishable farm commodities like fruits, vegetables, and milk because the lag between the time the commodity enters the marketing system and the time of its final consumption is very small.

(ii) Sum of Average Gross Margins Method

The average gross margin at each successive level of marketing is worked out by dividing the difference of the money value of sales and purchase by the number of units of the commodity transacted by a particular agency. The average gross margins of all the intermediaries are added to obtain the total marketing margin as well as the break-up of the consumer's rupee.

The following formula may be used to work out the total marketing margins:

$$M_T = \sum_{i=1}^{n} \left(\frac{S_i - P_i}{Q_i} \right)$$

Where,

M_T = Total marketing margin

S_i = Sale value of a product for the i^{th} firm

P_i = Purchase value of a product paid by the i^{th} firm 0_i = Quantity of the product handled by the i^{th} firm

i = 1, 2, n, (number of firms involved in the marketing channel)

(iii) Comparison of Prices at Successive Stages of Marketing

As per this method, prices at successive stages of marketing at the producers, wholesalers, and retailers' levels are compared. The difference is taken as the gross margin. The margin of an intermediary is worked out by deducting the ascertainable costs from the gross margin earned by that intermediary. This method is appropriate when the objective is to study the movements of marketing costs and margins in relation to prices and cost indices.

Various measures of the price spread and for the computation of marketing costs and margins have been given below:

Producer's Price

Producer's Price is the net price received by the farmer at the time of the first sale. This is equal to the wholesale price at the primary assembling center minus the charges borne by the farmer in selling her/his produce.

$$P_F = P_A - C_F$$

Where P_F is the producer's price, P_A is the wholesale price in the primary assembling market and C_F is the marketing cost incurred by the farmer.

Producer's Share in the Consumer's Rupee

It is the price received by the farmer expressed as a percentage of the retail price *(i.e.,* the price paid by the consumer). If Pr is the retail price, the producer's share in the consumer's rupee (P_s) may be expressed as follows:

$$P_s = (P_F + Pr)\ 100$$

Marketing margin of a Middleman: This is the difference between the total payments (cost + purchase price) and receipts (sale price of the middleman (i^{th} agency). Three alternative measures may be used. The three alternative measures which may be used in estimating market margins are.

(a) Absolute margin of i^{th} middlemen (Ami)

$$= P_{Ri} - (P_{Pi} + C_{mi})$$

(b) Percentage margin of ith middlemen (Pmi)

$$= \frac{P_{Ri} - (P_{Pi} + C_{mi})}{P_{Ri}} \times 100$$

(c) Mark-up of i^{th} middleman (Mi)

$$= \frac{P_{Ri} - (P_{Pi} + C_{mi})}{P_{Pi}} \times 100$$

Where,

PRi = Total value of receipts per unit (sale price)

PPi = Purchase value of goods per unit (purchase price)

Cmi = Cost incurred on marketing per unit.

The margin calculated above includes profit to the middlemen and the returns which accrue to him for storage, interest on capital, overheads, and establishment expenditure.

Total cost of marketing

The total cost incurred on marketing either in cash or kind by the producer seller and by the various intermediaries involved in the sale and purchase of the commodity till the commodity reaches the ultimate consumer may be computed as follows;

$$C = C_F + \sum_{i=1}^{n} C_{mi}$$

Where: C = Total cost of marketing of the commodity,

C_F = Cost paid by the producer from the time the produce leaves the farm till he sells, and C_{mi} = cost incurred by the i^{th} middleman in the process of buying and selling the product.

5.9 MARKETING INFRASTRUCTURE

The structure, conduct, and performance of the marketing system depend, apart from the regulatory measures, on the status of infrastructural facilities. The infrastructure consists of a combination of public and private assets, which sustain the addition of the place, time, and form utilities to the products and services. These include, apart from the institutions and organizations, roads, railways, warehouses, cold stores, processing units, research and training institutions, means of communication and transportation, and market yards and sub-yards.

Fig. 5.2: Prototype of improvised agricultural infrastructure

Image source: *https://kipfinancial.com/new-agriculture-marketing-infrastructure-scheme/*

Importance of Marketing Infrastructure

Market infrastructure is important not only for the performance of marketing functions and the expansion of the size of the market but also for the transfer of appropriate price signals leading to improved marketing efficiency. Infrastructural facilities lead to a reduction in marketing costs which is crucial for increasing the realization of farmers and reducing the costs to the consumers.

The basic rationale of any infrastructure is the sustenance it provides to production activity, income generation, and social service supplies. The relationship between agricultural development and investment in infrastructure has been long recognized. The benefits of commercialization and specialization to a great extent depend upon infrastructure and both have a push and pull relationship. The availability of infrastructure not only affects the choice of technology, reduces transportation costs, and produces powerful impetus to production but also affects income distribution in favor of small and marginal farmers by increasing their access to the market. The expansion of different infrastructural facilities has been instrumental in increasing the integration of spatially separated markets. The role of adequate infrastructure for accelerated growth of the agricultural sector and in turn of the entire economy has assumed great importance in recent years due to several developments *viz.,*

i) The growth of agricultural production depends almost entirely on the growth of productivity of land and the availability of modern technologies. Infrastructure development is necessary for the transfer of technologies, supply of modem inputs, and facilities for market clearance.

ii) The creation of adequate infrastructural facilities in a liberalized and market-driven economic environment is necessary, particularly in the rural area for minimizing economic disparities between rural and urban areas.

iii) The creation of infrastructure in rural areas is justified for reducing the migration of people from rural to urban centers; and

iv) The development of infrastructural facilities is also necessary to reduce the marketing costs for increasing the realization of farmers.

Types of Marketing Infrastructural Facilities

The infrastructural facilities for marketing can be classified in various ways:

One of the ways to classify marketing infrastructural facilities is physical and institutional.

(a) Physical Marketing infrastructure includes roads, railways, transport vehicles, electrification, storage structures, cold stores, cold chains, telecommunication, grading, packing, and processing units. The creation of physical infrastructures is a capital-intensive activity with a long payback period (PBP).

(b) Institutional Marketing infrastructure can be grouped into the following:

(i) Public sector organizations - Food Corporation of India, Cotton Corporation of India, Jute Corporation of India, Commodity Boards for tea, coffee, tobacco, spices, rubber, cardamom, coir, silk, etc; National Horticulture Board; National Dairy Development Board; Commodity Export Councils; State Trading Corporation; Directorate of Marketing and Inspection; Commission for Agricultural Costs and Prices; Agricultural Produce Market Committees; State Agricultural Marketing Boards and Council of State Agricultural Marketing Boards are some of the marketing institutions which have been created in the country during the last 60 years.

(ii) Cooperative Sector Organizations - Primary, Central and State level marketing societies/unions/Federations; Special Commodities marketing societies *viz.,* for sugarcane, cotton, and milk; Processing Societies *viz.,* for cotton, oilseeds, milk, sugarcane, fruits, and vegetables; National Agricultural Cooperative Marketing Federation (NAFED); and Tribal Cooperative Marketing Federation (TRIFED) are the marketing institutions created in the country in the cooperative sector.

The other way to classify the marketing infrastructure is based on capital requirements.

(a) Capital Intensive Marketing Infrastructure - Most of the physical infrastructure *viz.,* roads, storage structures, and processing plants require large initial capital investment and are included under capital intensive marketing infrastructure.

(b) Capital Extensive Marketing Infrastructure - The institutional infrastructure falls in this category. They require limited initial capital investment but their operational and maintenance cost is quite substantial.

The difference between capital intensive and capital extensive marketing infrastructure is of degree rather than of kind.

Check Your Progress 5.3

Note: a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit.

1) What do you mean by market integration?

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2) What do you mean by pricing or allocative efficiency?

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3) Define price spread.

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5.10 LET US SUM UP

The actors and forces outside marketing that affect marketing management ability to build and maintain a successful relationship with target customers are known as the marketing environment. The environmental forces can be divided into broad micro-environmental and macro-environmental components. The regulated market aims at the elimination of unhealthy and unscrupulous practices reducing marketing charges and providing facilities to producers and sellers in the market. Under the provisions of the agricultural produce market act, the state government gives its intention to bring a particular area under regulation by notifying market areas, market yard, main assembling market, and sub-market yard, if any, under the principle regulated market. Market integration refers to the expansion of firms by consolidating additional marketing functions and activities under single management. Marketing efficiency is the ratio of market output (satisfaction) to marketing input (cost of resources). There are two approaches to the assessment of marketing efficiency i.e. technical or physical or operational efficiency and pricing or allocative efficiency. The difference between the price paid by the consumer and the price received by the producer for an equivalent quantity of farm produce is often known as price spread.

5.11 KEYWORDS

Conglomeration This type of integration occurs when a combination of agencies or activities not directly related to each other operates under unified management.

Environment: This means the sum total of physical and social conditions that influence individuals and communities.

Horizontal Integration When a firm or agency gains control of other firms or agencies performing similar marketing functions at the same level in the marketing sequence.

Macro environment denotes those elements over which the marketing firm has no control and outside affair affect an organization.

Market area: The area from which the produce naturally and abundantly flows to a commercial center, i.e., the market, and which assures adequate business and income to the market committee

Market Integration refers to the expansion of firms by consolidating additional marketing functions and activities under single management.

Market yard: This is a specified portion of the market area where the sale, purchase, storage, and processing of any of the specified agricultural commodities are carried out.

Marketing Efficiency is the ratio of market output (satisfaction) to marketing input (cost of resources).

Marketing environment: The various external forces that can directly or indirectly affect the many activities of an organization.

Marketing Intermediaries: are individuals/ functionaries that help the firm to promote, sell, and distribute its goods to final buyers.

Micro-environment: denotes those elements over which the marketing firm has control.

Price spread: is the difference between the price paid by the consumer and the price received by the producer for an equivalent quantity of farm produce

Producer's Price net price received by the farmer at the time of the first sale.

Regulated market is a wholesale market where buying and selling are regulated and controlled by the state government through the market committee.

Suppliers: are firms and individuals that provide the resources needed by the firm to produce goods and services.

Vertical Integration This occurs when a firm performs more than one activity in the sequence of the marketing process.

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5.13 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 5.1

1. The marketing environment consists of all the actors and forces outside marketing that affect the marketing management's ability to develop and maintain successful relationships with its target customers. The **environmental forces can** be divided into broad micro-environmental and macro-environmental components.

2. The macro-environmental forces affecting the marketing system are **i)** Demographic Environment, ii) Economic Environment, iii) Natural Environment, iv) Technological Environment, v) Political Environment, vi) Cultural Environment, and vii) Legal environment

3. The firm must study its customer markets closely since each market has its own special characteristics.

Check Your Progress 5.2

1. Regulated market is a wholesale market where buying and selling are regulated and controlled by the state government through the market committee.
2. The Royal Commission on Agriculture, in its report submitted in 1928, recommended the regulation of market practices and the establishment of regulated markets in India. In 1935, the Government of India established the office of the Agricultural Marketing Adviser (Directorate of Marketing and Inspection) under the Ministry of Food and Agriculture to look into the problems of the marketing of agricultural produce.

Check Your Progress 5.3

1. Market integration is a process that refers to the expansion of firms by consolidating additional marketing functions and activities under single management.
2. Pricing efficiency means that the system can allocate farm products either over time, across the space, or among the traders, processors, and consumers (at a point in time) in such a way that no other allocation would make producers and consumers better off. This is achieved via the pricing of the product at different stages, at different places, at different times, and among different users and hence called pricing efficiency.
3. In the marketing of agricultural commodities, the difference between the price paid by the consumer and the price received by the producer for an equivalent quantity of farm produce is often known as price spread.