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# *Marketing Policy in Relation to Agricultural Development**

## INTRODUCTION

Agricultural marketing has a problem of its identity as a subject for academic inquiry and agricultural economists have vastly differing perceptions of its appropriate subject matter. In broad outline, these perceptions range from the firm-orientation of the 'marketing concept' favoured by most business schools to a view of agricultural marketing as a branch of applied economics, most often neo-classicial in inspiration, directed towards the study of marketing functions and institutions. Since commentators on agricultural marketing appear to be unsure on questions of theory and methodology, it seems necessary to spend some time discussing these differences in outlook before attempting to address the difficult question of the importance of marketing policy to agricultural development. A useful starting point is to sketch out the introductory discussion on agricultural marketing contained in two (English language) review articles published during the 1970s (Breimyer, 1973; Bateman, 1976) and to comment on a change of emphasis between successive editions of a standard textbook on the subject (Kohls and Downey, 1972; Kohls and Uhl, 1980).

Breimyer categorized three different approaches to agricultural marketing: the 'what happens' school, the co-ordinating role of marketing, and market development. The 'what happens' view is essentially descriptive and is suggestive of the existence of a one-way flow of products along a marketing chain from producer to consumer. The second approach, the co-ordination role, potentially has more analytical content as it emphasizes that economic processes are at work in the distribution and transformation of agricultural products and it leads directly to the realization that marketing margins are the prices of marketing services, or collections of services, and not merely differences in prices between different points of the marketing chain. Marketing margins, and the performance of marketing functions, are therefore to be explained in terms of economic theories relevant to the

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behaviour of marketing firms and institutions. A refinement of the co-ordination concept of marketing was made by Phillips (1968) who stressed that economic research in agricultural marketing should be concentrated on the provision of information to market participants rather than the study of middleman functions, which Phillips regarded as problems in production and consumption of the various services performed in the marketing chain that do not require special methods of economic analysis. Phillips was critical of traditional definitions of marketing because they were too general to be useful and because they diverted attention from an important aspect of economic activity, that of obtaining information. The third approach, the 'market development' school, recognized by Breimyer, represents the attempt to apply merchandizing and promotion-based techniques of product differentiation, developed for the industrial sector, to problems of agricultural marketing. As discussed in the next section, it is prescriptive rather than descriptive or analytical.

Bateman, in his review of agricultural marketing, went a long way further towards accepting the marketing concept espoused by the industrial marketeers. Whilst Bateman gives a detailed treatment of traditional supply/demand analysis as it has been applied to agricultural marketing, his attitudes are far closer to the business marketing philosophy than would be the sympathies of most agricultural economists, or at least would have been until the 1970s, when a (minor) paradigm-shift seems to have occurred in the agricultural marketing literature. Changes like this are subtle and inherently hard to document. Business marketing is probably more influential inside large agricultural marketing organizations than would be suggested, say, by its formal representation in the professional activities of agricultural economists or their published literature. This influence seems to be growing and the reasons for it ought to be considered. It is interesting to note that the United States textbook by Kohls (co-authored with Downey and Uhl respectively, in its 1972 and 1980 editions) has always followed a standard approach in its introductory chapters, emphasizing functional and institutional approaches to marketing. The 1980 edition changes tack perceptibly. In fact, Kohls and Uhl describe the marketing concept glowingly as 'the third successive business philosophy of the Industrial Revolution' (p.42) following the production-engineer orientation and sales orientation of earlier periods. Such an extravagant claim is some justification for an attempt to explore the reasons for this changing emphasis in discussion of agricultural marketing.

## A CRITIQUE OF BUSINESS MARKETING

A central tenet of the philosophy of business marketing is the so-called marketing concept – 'the idea that the customer is not merely the person who happens to be at the end of the line but that his needs and wants should dominate the whole pattern of activity within the firm; firms should be market-oriented and not product-oriented' (Bateman p.172). In some ways, this is an example of a statement of principle without any content because it is not really a testable proposition that might provide a guide for action or an agenda for research, except in terms of market research to describe the characteristics of consumers. Most obviously, it is not clear how consumer wants could be determined or how conflicts of interest between consumers, or between consumers and producers, would be resolved. Arndt (1981) has pointed out that this prevailing ideology of marketing is based on a postulate of a lack of conflict of interest between consumers and producers and an instrumental view of the consumer.

The marketing concept has its particular focus on specific management problems of individual economic units engaged in marketing – be they farmers, commercial firms, co-operatives, State-sponsored marketing boards or governments. By its very nature it is not concerned with questions related to marketing policies for industries which involve wider issues relating to economic efficiency and equity. Consequently, the theory that is relevant to business marketing is most likely to be obtained from other areas of social science, in particular, various branches of psychology, rather than economics. It is only to be expected that the behavioural sciences will be more important if the emphasis is on consumer behaviour.

The most pervasive idea from economics that seems to be involved in much of the literature on business marketing is the concept of price discrimination. The real subtlety of marketing specialists is found in the sophisticated ways that markets can be segmented. It is obvious, however, that price discrimination can be a double-edged sword from the viewpoint of consumers, taken as a group, even if price discrimination is successful in raising aggregate revenue and/or reducing costs of distribution for producers. The claimed 'consumer' orientation of business marketing may be, in practice, more about getting more money out of them. The alleged consumer orientation of the marketing concept should not be confused with the sorts of impulses embodied in the doctrine of consumerism, which is more of a reaction to the cruder ideas of business marketing than an endorsement of its objectives and methods. Arndt (p. 298) has noted that: 'By natural instinct, marketing tends to be tempted to colonize further non-traditional marketing spheres under the flag of convenience of "Societal Marketing" or "Broadened Marketing"'.

In principle, there is nothing undesirable, or unusual, in a situation where different sub-disciplines exist to explain and elaborate phenomena at the firm and industry level. An analogous dichotomy between farm management and production economics was discussed by Longworth and Menz (1980). It is probably not sufficiently emphasized that both the theories of the firm and of the household were developed to explain how firms and households are linked to (and by) markets, and how output is distributed, rather than to derive insights into the individual behaviour of firms and households. There are few 'economic men', outside the ranks of economists, for traditional economics is not concerned with the behaviour of people but with the behaviour of commodities (Boulding, 1956).

The firm-orientation of business marketing is highlighted by the fact that its teachers and practitioners rely on case-studies to elaborate its methods. This is a sure sign that there are no general principles of marketing strategy that are based on a theoretical framework that is capable of consistent application. The lack of rigour in business marketing is further indicated by the following two quotations from a standard marketing text (Kotler, 1967):

> Creativity is a valuable ingredient in every facet of business but plays its most conspicuous role in the marketing area. The firm is pitted against other firms in a never ending struggle to win the attention and patronage of highly elusive customers. Conventional marketing is likely to lead only to conventional sales results. To achieve exceptional results, companies must develop creative ideas which, in the realm of products, advertising, merchandising, and sales presentation, distinguish their offerings from those of competitors (p.246).

> But certainly all the rules in the world cannot substitute for creative inspiration. And some of the best advertisements arise from breaking the rules (p.247).

Taken on their own, these statements are harmless enough but we are left in the dark, as ought to be expected, as to what 'creativity' actually is or what it means to make the jump from the 'conventional' to the 'exceptional'? What then is the attraction of business marketing to its adherents? In the first instance, the modern industrial economy has extreme specialization of economic functions and fine division of labour – even the most eclectic or superficial ideas about marketing may be preferable to no ideas at all. The sub-discipline of business marketing is oriented towards practical activities; it is in some ways ideal for a bureaucratic institution interested in the improved performance of well-defined functions but not wanting much basic questioning of its fundamental objectives. For example, marketing boards in many countries turn a blind eye to the fact that they have been established by governments in the 'public interest' when they advertise agricultural products: this may be in the interests of the producers of the particular product but it will be generally to the detriment of other producers, and consumers, unless the promotional activity results in lower costs of distribution. Although business marketing is easy to criticize, even to caricature, for its generality, one should not deny that it can be useful to intelligent practitioners. The saving grace of business marketing may be that its all-embracing view of economic behaviour, and its willingness to borrow methods freely from many sources, may be useful in particular problem-solving applications. The problem, however, as with all 'multi-disciplinary' or 'systems approach' attitudes to research or problem-solving, is to put empirical substance for the rhetorical shadow of 'marketing' and to restrain those who see it as some sort of panacea for farmers' problems, which may have altogether different causes and remedies. In its worst versions, business marketing is the obverse of the fundamentalist notions that middlemen are parasites and that the source of all value derives from the producer.

## CONVENTIONAL APPROACHES TO AGRICULTURAL MARKETING

In most countries agricultural marketing institutions and the serious study of agricultural marketing are both responses to measures that have been taken by governments given the problems of farmers caused by low agricultural prices. The most common reaction of farmers to economic difficulties is to blame the marketing system (Watson and Parish, 1982). Thus, there is considerable overlap between the subject-matter of courses in agricultural prices and agricultural marketing. A useful point of separation would be that price policy concerns the determination of absolute price levels; whereas marketing policy concerns the determination of price differentials, around the absolute price, that reflect location, time, quality and form characteristics of commodities.

Under competitive conditions, the theory of agricultural marketing would not be difficult, or very interesting, because the 'law of one price' is such a powerful idea in an exchange economy. This would still be the case if competition were restricted at some stages of production or distribution, because the various margins around administered prices may still be determined competitively by whatever means, and at whatever level, the flat, or absolute, price is established. The law of one price asserts that prices within a competitive market will be uniform after the costs of adding (or substracting) place, time and form utility are taken into consideration. Moreover, the process of competition is justified in orthodox theory because competition not only allows the use of known information on costs to establish prices, it is also asserted to be an efficient method of generating the economic information necessary to guide business decisions in a situation where, perforce, the economic 'facts' helpful to make those decisions are transient in nature (Hayek, 1978). The process of competition has to be considered both vertically, between marketing channels, and horizontally, between firms operating at the same stage.

Even if the theory of marketing were straightforward under competitive conditions, there is enough to interest the analyst of agricultural markets as they adjust continuously to new information concerning costs and demands for the various services that are provided. One consequence of this concept of 'one price' is that even though considerable caution will need to be exercised in applying theories of market economies to less-developed countries, there is considerable common ground in studying price relationships for the (external) trade of such countries.

The critical factor determining the development of agricultural marketing institutions in a mixed economy will be whether fiscal (subsidy/tax) or regulatory devices are used to achieve agricultural price and income objectives. This will be independent of the actual levels of protection (nominal or effective) that are achieved by intervention in price and marketing systems, but will be essentially determined by various features of the agricultural, political, financial and taxation institutions of individual countries. Thus, of the export-orientated agricultural economies, New

Zealand has extremely wide-ranging controls applied to the marketing system (Veeman, 1980), whereas the United States relies more on the price mechanism to co-ordinate marketing activities for its export trade. Australia and Canada are in a hazy, intermediate, position – in the former case, more because of the constraints on 'orderly marketing', brought about by the division of powers under the Australian Constitution, than a deepseated commitment to the economics of *laissez-faire.* Amongst the protected agricultural economies of western Europe, the United Kingdom is characterized more by marketing boards than its new-found partners in the European Economic Community where fiscal methods have long held sway as instruments for price and income support. This is largely because the taxation and social security systems of some European countries were unable to deliver the desired transfers to farmers in an agricultural system where the rates of adjustment of farm size and population were insufficient to achieve satisfactory urban-rural income relationships.

Conventional micro-economics is a powerful antidote to some of the more persistent fallacies that surround discussion of agricultural marketing. Mindless measurement of irrelevant indicators of marketing efficiency such as the 'farmer's share of the consumer's dollar', the dubious benefits of product promotion for farmers taken as a group and the massive waste of intellectual effort through econometric forecasting of prices are three obvious cases in point.

## MARKETING AND AGRICULTURAL DEVELOPMENT

There are substantial differences between the agricultural marketing systems of developed and developing countries. Although these differences are so marked as not to require detailed description, it is salutary to note that all marketing systems perform essentially the same physical and economic functions. A much more interesting question to consider is whether differences in marketing systems are an important cause of differences in rates of economic growth or whether they are mainly a symptom of economic prosperity. The former view is implicit in the more extreme versions of the philosophy of business marketing discussed previously in this paper, whilst the latter sentiment is consistent with the observation that almost invariably the demand for marketing services increases as incomes rise. The relationship between income and the demand for marketing services will, of course, be working in the other direction in a period of declining incomes.

An important link between marketing policy and the process of agricultural development is that the emergence of specialized marketing activities involves more division of labour as farmers substitute greater concentration on production activities for direct participation in marketing. The (theoretical) benefits of this division of labour are twofold: lower costs of production obtained through specialization and lower costs of providing the marketing services *per se.* Discussion of the advantages and disadvantages of the division of labour is as old as economics itself. Adam Smith claimed in the opening sentence of the *Wealth of Nations,* that 'The greatest improvement in the productive powers, and the greater part of the skill, dexterity and judgement with which it is anywhere directed, or applied, seem to have been the effect of the division of labour'. Smith stressed the importance of the division of labour for three main reasons: increased dexterity of labour, saving of time, and the invention of machines to assist labour (Groenewegen, 1977). These economic processes involve both learning and financial development that will allow production (and marketing) to proceed whilst labour is employed until output is forthcoming.

The distinction drawn by Adam Smith 'between productive and unproductive labour is probably the most maligned concept in the history of economic doctrines' (Blaug, 1970, p.56), but it is important to note that it had nothing to do with the traditional distrust of middlemen based on the view that the service industries are somehow less important than economic activities directed towards the production of tangible outputs. What was at issue was the difference between economic activity that results in capital accumulation and activity that services the immediate needs of households. The analysis of the process of economic growth envisaged by Smith has been formalized by Hicks (1965) in the following relationship:

$$g = k.p/w - 1$$

where $g$ is the rate of growth of output, $k$ is the proportion of productive labour (the savings ratio), $p$ is the productivity of labour and $w$ is the wage rate. In this simple model, productive labour is equivalent to what nowadays would be called gross investment whereas unproductive labour corresponds to the consumption sector. Productive labour is therefore labour that produces a surplus over and above the wages paid to it, and thus contributes to capital accumulation, and does not mean labour in particular occupations. In this 'growth' model, which is more a description of the growth process than a linked sequence of growth through time, the growth of the 'economy' depends critically on the productivity of labour, $p$, which Smith believed would be enhanced by the division of labour.

There is an important sense in which the development of specialized marketing institutions represents the mirror image of the development of a sophisticated financial system that will also aid the process of saving and capital accumulation that is necessary for agriculture to become more productive – this is consistent with the useful working definition that agricultural marketing is the study of the economic processes at work as agricultural products flow from the producer to the consumer and money moves in the opposite direction. Again, it is interesting to address a further 'chicken and egg' question as to which of these two phenomena needs to be acted upon first to encourage development, at least in the context of capitalist economic development. There would seem to be intuitive reasons for arguing that if the financial system can be 'got right' then the marketing arrangements will follow. McKinnon (1973) has argued a convincing case for the development of a financial system that encourages the holding of financial assets rather than a situation where:

> a significant proportion of the physical capital of the economy will be embodied in inventories of finished or semi-finished goods that are not used directly for production or consumption. A small farmer may keep unduly large rice inventories as the embodiment of his savings – a portion of which the rats eat every year (p.63).

The essence of McKinnon's theory is that real money balances and physical capital are complementary rather than competing assets because money can be thought of as a conduit through which accumulation takes place. Increasing the value of the real stock of money and increased real interest rates will encourage farmers, and other small savers, to shift from inefficient and inflexible self-financing to external financing as their savings become aggregated in an evolving financial system. This breaks down the fragmentation of the economic system with its extreme divergence in rates of return and calls forth new net saving and diverts investment from inferior uses.

## CONCLUDING COMMENTS

In an agricultural context, the most fruitful approach to marketing would seem to be to emphasize the co-ordination role of marketing, since this highlights the important role of prices in the organization of production and consumption. By its very nature, agriculture will remain a disaggregated sector in most conceivable economies. Appropriate marketing adjustments can be expected to follow, rather than to lead, the process of agricultural development, which will depend more on increases in output based on education, and investment in infrastructure and at the farm level.

Although the business marketing approach may contribute to the operational problems of private or public marketing organizations, it does not have much useful information to offer concerning those more fundamental economic issues affecting trade, development and the prices and incomes received by agricultural producers.

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## DISCUSSION OPENING – J.C. ABBOTT

In his introduction Professor Watson brought up some of the more provocative elements of his paper. I am going to leave it to his audience to respond to them.

Our theme is marketing policy and agricultural development. I would like to complement Professor Watson's paper by directing our thoughts more specifically to the kind of marketing needed to promote agricultural development at an earlier stage, and the influences that have had an effect on policy-making for this in the developing countries. The goal, there, has been to build a marketing infrastructure suited to the needs of small farmers and, by offering them easier access to favourable markets and to fertilizer and other inputs, to bring into the commercial economy the large number of family producers who continue to farm along semi-subsistence lines. The development instruments are better roads, market facilities and storage, provision of market information and implementation of guaranteed minimum prices for major agricultural products through marketing board and co-operative purchasing systems. Now some of these approaches are being questioned. The co-operative system was dismantled in socialist Tanzania as too costly. Last year the state agricultural marketing board of Senegal was summarily abolished. Considerable development effort may have been wasted. I should like to put forward two propositions:

1 The university teaching of developed countries, the visibility of their institutions and the attitudes of their aid agencies have been a significant distraction. Developing countries have been led into projects which they have not the resources to implement and maintain.
2 This distraction has been the more potent because of the social and informational gap between those who are actually engaged in agricultural

marketing in many developing countries and those who take official policy decisions.

Let us look at what can happen in practice. Aid and development agencies find a natural satisfaction in building roads in developing countries up to the standards of their own countries – but if afterwards they will not be maintained much of the original investment is wasted. There is one country where major roads have been built and rebuilt two or three times at ten to fifteen year intervals under successive aid programmes. Similarly, helping a country maintain a steady supply of spare parts and effective repair facilities may give much better returns than furnishing successive fleets of new transport vehicles to specialized institutions and projects. Fostering growth of a locally operated general carrier system with agencies established to organize return loads is a useful strategy for effective transport utilization. Construction of storage by public bodies with aid and development money has always been risky. Because their decisions tend to be taken centrally and in response to allocations of blocks of funds that must be spent, public organization investments in stores and other fixed facilities are often wastful. Fertilizer stores constructed for the extension service in Iran cost three times per ton capacity those put up by private distributors. A decade or two ago we were campaigning against the building of big silos where small scale multi-use hangars were much more appropriate. Even these can go wrong when built to meet standardized precepts under a big loan programme. Of those recently built for farmers bringing stocks to rural assembly markets in Northern India hardly any are being used by farmers in practice. The credit and handling procedures for this are just too cumbersome.

To fill gaps in existing marketing channels or to supply new inputs and product outlet needs governments have tended to set up new co-operative and state marketing systems with external assistance. In FAO we have maintained a specialized bibliography of material on marketing in the developing countries. Fifteen years ago the literature tended to present co-operatives and state enterprises as the panacea for all ills. The bibliography supplements of recent years are full of reports on the problems of such enterprises and how they can be resolved.

Commonly quoted as a justification for the focus on public and co-operative enterprise was the reluctance of private enterprise to accept the risks of innovation. Perhaps this should be restated as reluctance of the government and aid donors to give private enterprises the resources and incentive to take the risks and to let them begin on a small scale.

Until very recently, the role of the rural assembly market as an instrument for change and progress has been neglected. Affording access to large numbers of rural people the market can be an economical natural integrator of a range of development activities. Yet many development programmes would have nothing to do with these markets. In Brazil and India surveys have shown that increasing the density of organized rural markets attended regularly by wholesalers has stimulated a significant expansion of farm output within two or three years. This response, moreover, came almost entirely from the smaller farmers because they were the ones handicapped by distance from outlets for their produce where pricing and services would be competitive. Once we thought that setting up an official market news service where none existed was the first and minimum step in a programme to improve marketing infrastructure for producers and consumers. It was assumed to give high returns for a low cost. A disconcerting number of such services set up under aid projects have stopped rather soon after external assistance ceased – with only muted regrets. Again, I suspect, the need has been seen in developed country terms: coverage and presentation have not been adapted to local requirements. Provision of practical advice on marketing to the farmer is another essential service. In practice it is done best under production contracts for marketing and processing, with the contracting enterprise supplying the field staff and advice that is specific. The advice given to farmers under general extension programmes tends itself to be general, with the agent a post box for government policy rather than someone who can work out the best marketing strategy for individual farmers in their particular situation. Stabilization of prices to reduce producers' market risk is generally an effective generator of expanding ouput. Production economists still see the market risk as the greatest deterrent for the small farmer in India. The relative decline in production of pulses and oilseeds there as against rice and wheat is attributed very largely to this. Certainly the announcement before the planting season and effective implementation of guaranteed minimum prices to farmers for the two major crops has been strategic in building up production to match population growth.

Operation of a price stabilization system requires a very cool head. General awareness that the government is fixing the base price can attract great political pressure. Only too easily costs can be forced up to an uneconomic level or the intake specifications eroded to the point that heavy physical and quality losses are incurred on stocks in storage. This does not mean, however, that I have in any way lost my optimism that we can continue to make progress with marketing infrastructure as an instrument of agricultural development. My current project is to put together a set of case studies on marketing successes in the developing world – private, co-operative and public institutions.

## GENERAL DISCUSSION* – RAPPORTEUR: K.S. ARUN KUMAR

In the discussion on the paper by Murray Hawkins et al. the following questions were put:

1 Were there any limitations on the Board's activities?
2 What circumstances led to its success and is any empirical evidence available?
3 Was there any government subsidy and who pays for the cost of the operations?

*Papers by Hawkins, Leavitt and Norby, and Watson.

4 Are the needs of retailers met?
5 Is there any interference with exports or imports?

In reply Dr Hawkins said that the Marketing Council was generally ineffective in supervising the Board's activities which might adversely affect the interests of consumers. The circumstances which led to its success (and empirical evidence is available for use by the University of Alberta) include a concerted interest by producers to correct processor abuses in the marketing system, genuine improvements in operational efficiency, an improved market information system, and a sound financial position. Operating costs were paid by producers and there is no subsidy. Retailers co-operate actively with producers through the Board which has no powers concerning exports or imports.

He concluded that while marketing boards in Canada have met the objectives of producers, there is considerable discussion as to whether or not they have harmed the interests of consumers.

Regarding the paper by A.S. Watson, the comment was made that more thought should be directed towards the kind of marketing needed to promote agricultural development at an earlier stage. It was suggested that the rural assembly markets had been neglected and these were an essential instrument for change and progress. By affording access to large numbers of rural people, the market can be an economical natural integrator of a range of development activities.

Dr Watson, in reply, stated that he shared some of the scepticism expressed regarding the transfer of marketing institutions and felt that the FAO ought to consider documenting failure as well as success.

Participants in the discussion included M. G. Chandrakanth, R. R. Piggott and Robert Bohall.