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MARKETING EFFICIENCY OF DIFFERENT CHANNELS FOR POTATO IN SELECTED AREAS OF BANGLADESH

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ABSTRACT

The present study attempts to examine the marketing efficiency for different potato marketing channels by using six performance indicators. The study revealed that local marketing channel-II (Farmer - *Bepari* - Consumer) was efficient while the channel which supply potato to the major consuming area i.e. channel-VI (Farmer - *Aratdhar* - *Paiker* - Retailer - Consumer) was more efficient. The channel-VI by which farmers sell potato through local *Aratdhar* need to be encouraged. By the indication of producers' share to consumers' price (62 to 85 per cent) and other performance indicators, potato market can be considered as efficient.

I. INTRODUCTION

An efficient marketing system is a prerequisite for stable and remunerative prices to producers, which alone can provide the necessary incentive to increase production. To maintain the tempo and pace of increased production through technological development, an assurance of remunerative prices to the farmer is a prerequisite, and this assurance can be given to the farmer by developing an efficient marketing system.

One of the important features of agricultural marketing especially in underdeveloped countries is the existence of a number of intermediaries (*Faria*, *Bepari*, *Aratdhar*, *Paiker* and retailer) between the producer and consumer. The nature of these intermediaries is often exploitative. They charge a high price from the consumer, but share only a small part of it with the producer. However, their role in marketing the produce cannot be undermined (De and Bhukta, 1994 p. 36).

By channel of marketing we mean the way in which the produce moves from the producers to the ultimate consumer. In a particular geographical area different channels of marketing are seen for any particular product. Apparently, it may seem that a channel in which the number of intermediaries is minimum is the best one for the healthy development of the

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market. But it may not be true at all time, for the channel in which the number of intermediaries is the least may not necessarily be the best remunerative to the producer. Thus, it is important to know what should be the reasonable rates of the services of these intermediaries and also to know the appropriate channel of marketing of a particular product. For this, a study of marketing costs and margin of various channels and the level of net income of the producer at these channels is essential. Therefore, the present study is an attempt to examine the marketing efficiency of different marketing channels for potato.

II. METHODOLOGY

Selection of the Study Area, Sources of Data and Sampling Technique

Potato farming is done in all areas of Bangladesh either in large quantity or smaller proportion. In terms of output production, three areas, namely - Munshigonj, Comilla and Bogra are at the top of the list. The collective contribution of the three areas towards national output is 47% and at the same time these three areas represent about 36% of the total area under cultivation (BBS, 2004 pp.110-111).

Cultivators of potato were selected from the above selected areas through simple random sampling technique. The list of potato growers was prepared through a preliminary short survey, after which they were selected by using random table. Intermediaries were selected from different points of the marketing channel. A large number of intermediaries were involved in potato marketing. After growers, intermediaries involved in potato marketing channel were: the *Faria*¹, *Bepari*², *Aratdlaar*³, *Paiker*⁴ and retailer⁵.

Marketing related data were collected from selected 108 (36 for each selected area) potato growers. For intermediaries, 9 *Farias*, 30 *Beparis*, 9 *Aratdhars*, 6 *Paikers*, 3 stockist and 25 retailers were selected from the above selected areas including major consuming area Dhaka and Gazipur. The reference period for the survey was a full calendar year of 2001.

Marketing Efficiency

Marketing efficiency is usually segmented into two forms, 'technical efficiency' and 'economic efficiency' and since these concepts are frequently confused, it seems necessary to clarify the difference between them. Technical efficiency concerns the effectiveness or competence with which the physical aspects of marketing are performed. Economic efficiency requires the realisation of maximum output in money terms or of a given output with minimum resources. In other words, to be technically efficient, a marketing system would have to utilise with maximum effectiveness the best technology available for every marketing job, regardless of cost. On the other hand, to be economically efficient a marketing system would have to employ the methods of performing marketing jobs that were most profitable.

Prior to determining the methodology for computation, it is imperative to have an indication about the determinants of marketing efficiency. The six performance indicators of efficiency were: (i) per cent of product which flows out through the channel (ii) producers' share to consumers price, (iii) relative marketing costs, (iv) level of middlemen's margin, (v) peak period price variability and (vi) lean period price variability [indicators (ii) to (vi) are adopted from Rajagopal, 1986 pp.583-590].

The producers' share was derived by the ratio of net average price received by the producers to the weighted average price of potato. It was calculated using the following formula:

$$\text{Percentage of producers' share} = \frac{P_p}{P_r} \times 100 \dots\dots\dots(1)$$

where, P_p = producers' price (farm gate price)

P_r = weighted average price of potato at the retail level, where the weights were quantity sold at each price

The cost of marketing was calculated in taka and the channel having lower marketing cost was ranked 1. The same approach had been followed in ranking the margin of middlemen in each channel. The seasonal movement of price had been studied by applying the simple standard deviation (δ) formula. The formula used in the study was as follows:

$$\delta = \sqrt{(1/T) \sum W_t (\bar{P}_t - \bar{P})^2} \dots\dots\dots(2)$$

where, δ = seasonal price variability index,

\bar{P} = average farm gate price of potato of the season in each channel,

\bar{P}_t = average farm gate price of potato for the crop year

T = total months in the season,
sales during the month in a channel (S_t)

W_t = sum of the sales during the month in all channels (Σ_i Σ_i S_{it})
t stands for time (month) and i stands for channel.

The total season had been divided into two periods, peak and lean periods. Peak period represents the immediate post-harvest period spanning up to three months. Period subsequent to these three months was the lean season. The δ was estimated separately for each period. A lower value of δ implies that the farmers' prices were not affected by seasonality and vice versa.

The final ranking of all the six indicators for all the channels was computed by the composite index formula:

$$I = \sum I_i / N \dots\dots\dots(3)$$

where, I refers to the individual rank, i = 1,.....,6 and N was the number of individual ranks used.

III. RESULTS AND DISCUSSIONS

Marketing Channel

In the context of the country, different intermediaries had some extent overlapping works. For example wholesaler (*Bepari/Paiker*) sometimes performed retail business. When they sold to the retailer was considered as one channel, and when sold to the consumer was considered as other channel.

In the present study, average total sell of the farmers was considered 100 per cent. Then for an intermediary, portion of that 100 per cent he purchased from different source (farmers or other intermediaries) was calculated. After that the intermediaries sold to different buyers. The above procedure was followed to estimate the percent of product run through different channel.

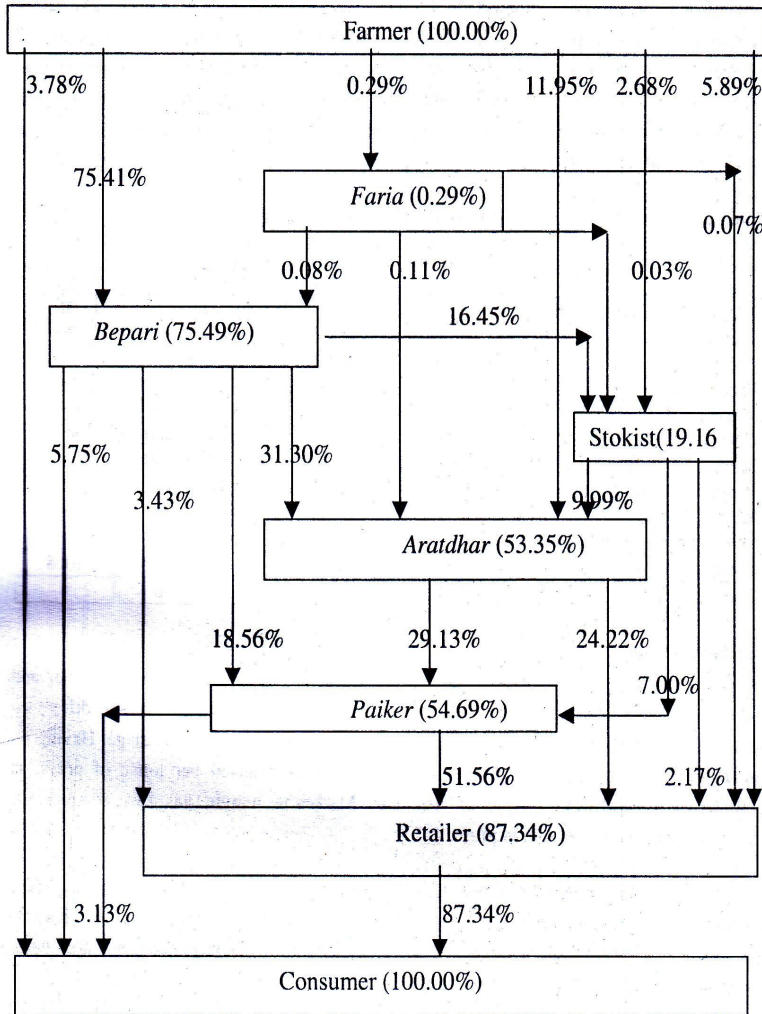
In the marketing of potato twenty five marketing channels were identified (Appendix 1). Fig.1 showed a picture of marketing channel of potato. Out of these twenty five channels, six channels were important, by which 66 percent potato flow out from producer to consumer (Table 1). In channel-IV, *Aratdhars* presence was found in the producing area.

It was evident from Fig.1 that farmers mainly used to dispose of their potato through *Bepari*. Based on quantities of potato marketed through different channels, it was noticed that the highest quantities were routed through channel-III, there by indicating prominence of channel-III in the study area.

Table 1. Major Marketing Channel in the Study Area

No.	Channel	Percent of product run	Rank (I.)
I	Farmer-Retailer-Consumer	5.89	5
II	Farmer-Bepari-Consumer	5.75	6
III	Farmer-Bepari-Paiker-Retailer-Consumer	17.48	1
IV	Farmer-Bepari-Aratdhar-Retailer-Consumer	14.19	3
V	Farmer-Bepari-Aratdhar-Paiker-Retailer-Consumer	16.09	2
VI	Farmer-Aratdhar-Paiker-Retailer-Consumer	6.15	4
	Total	65.55	

Fig. 1. Marketing Channels in the Study Area



Marketing Cost of Potato

Knowledge about marketing costs at various intermediaries is very important for improving the efficiency of marketing system. Nature and extent of marketing cost varies from traders to traders. The marketing cost included is the cost of transportation, rent, packing, loading, unloading, market tools etc. for traders.

Channel-wise marketing cost was given in Table 2. Channel-V (*Farmer-Bepari-Aratdhar-Paiker-Retailer-Consumer*) obtained the highest marketing cost Tk 1395/tonne followed by channel-IV (*Farmer-Bepari-Aratdhar-Retailer-Consumer*) Tk 1207/tonne, whereas channel-II (*Farmer-Bepari-Consumer*) obtained the lowest marketing cost Tk 83/tonne. Commission paid to *Aratdhar* and high cost of transportation was the main reason for higher marketing cost. Channel to channel variation of cost was mainly due to number of intermediaries involved in the channel and transportation cost.

Table 2. Cost of Marketing for Different channel (Tk/tonne)

	Channel					
	I	II	III	IV	V	VI
Loading/Unloading/Coolie	24	24	132	84	132	96
Transportation	36	36	397	368	397	288
Assorting/Grading	6	6	78	30	78	48
Packing(Sacks)	4	4	113	113	113	113
Market tools	3	3	78	32	78	54
Commission		-	-	500	500	400
Damage/Wastage	-	-	14	9	14	14
Personal expenses	2	2	37	27	37	12
Rent of the shop	14	7	39	40	39	39
Other (electricity, Ph. etc.)	1	1	7	4	7	4
Total cost	90	83	895	1207	1395	1068
Rank (I ₂)	2	1	3	5	6	4

Marketing Margin

Generally marketing margin is the difference between the price paid by consumer and price received by the producer. Besides, in a particular stage of marketing, the difference between purchase price and selling price is called marketing margin at that stage. Having no purchase or selling price at *Aratdhar* stage, commission received per tonne of potato is considered as marketing margin of *Aratdhar*. Marketing margin has two components, marketing cost and net margin or profit.

The costs and margin for different traders and price spread in different channels were worked out and presented in Appendix 2 to Appendix 7. To calculate price of potato for whole year, quantity of potato sold by sample farmers in different months were taken into account as the same lot at different stage of marketing.

Producers sold their entire potato from the field or from farm household and in the local market. For the above reason, the price received by the producer did not differ much for each channel. They got Tk 4020/tonne to Tk 4240/tonne from different channels (Table 3). Sometimes *Bepari* also performed retail business along with their wholesale business, they Purchased small quantity of potato from the local market and sold direct to the consumer. For this reason producers' price in channel - II and I were same. In channel -- III *Bepari* purchased

comparatively large quantity from the farmers' field or household and this was the reason for producers' price was different for channels - II and III. Channels - II and I supply potato to the adjacent of producing area, and channel-III to channel VI supply potato to the major consuming area of other district (Dhaka and Gazipur). Net margin was highest in channel-III (Tk 1615/tonne) and lowest in channel-II (Tk 807/tonne). Net margin also varied for the number and type of the intermediaries.

Table 3. Producers' Share, Marketing Cost, Margin and Profit for Different Channel

	Channel					
	I	II	III	IV	V	VI
Producers' price (P_p) (Tk/tonne)	4140	4140	4020	4020	4020	4240
Weighted average price at the Retail level (Tk/tonne)	5060	5030	6530	6460	6530	6530
Percentage of producers' share	82	82	62	62	62	65
Rank (I_3)	1	1	3	3	3	2
Total marketing cost (Tk/tonne)	90	83	895	1207	1395	1068
Rank (I_2)	2	1	3	5	6	4
Marketing margin (Tk/tonne)	920	890	2510	2440	2510	2290
Net margin (Tk/tonne)	830	807	1615	1233	1115	1222
Rank (I_4)	2	1	6	5	3	4

The producers' share in the consumers' price was 62 to 82 percent, which may be considered reasonable. Traders except *Aratdhar* received substantial margin for buying and selling potato. *Aratdhars'* margin may be consider as high against their service rendered. Net marketing aids in determining the return a trader gets for his capital and service.

Seasonal Price Variability

The seasonal variation in prices of potato for the peak season in different channels was showed in Table 4 and lean season in Table 5. The lowest variation in prices was found in channel-VI for peak season and channel-II in lean season.

Table 4. Channel-wise Seasonal Price Variability Factors for the Peak Season

	Month	Channel					
		I	II	III	IV	V	VI
$W_i (P_i - \bar{P})^2$	1	0.00236	0.00230	0.00448	0.00363	0.00412	0.00554
	2	0.02804	0.02738	0.12042	0.09776	0.11084	0.02141
	3	0.04561	0.04453	0.13537	0.10989	0.12460	0.03742
	4	0.03584	0.03498	0.13231	0.10740	0.12179	0.02844
	5	0.02644	0.02581	0.10635	0.08633	0.09789	0.01998
	6	0.01039	0.01014	0.05679	0.04610	0.05228	0.00630
\sum		0.14868	0.14514	0.55571	0.45111	0.51152	0.11908
T							
σ		6	6	6	6	6	6
Rank(I_5)		0.15741	0.15553	0.30433	0.27420	0.29198	0.14088
		3	2	6	4	5	1

Table 5. Channel-wise Seasonal Price Variability Factors for the Lean Season

	Month	Channel					
		I	II	III	IV	V	VI
$W_i (P_i - \bar{P})^2$	7	0.00009	0.00009	0.00566	0.00460	0.00521	0.00121
	8	0.02264	0.02210	0.04910	0.03986	0.04520	0.03188
	9	0.13076	0.12766	0.31387	0.25480	0.28891	0.15548
	10	0.13076	0.12766	0.32808	0.26633	0.30199	0.15548
	11	0.15268	0.14905	0.40386	0.32785	0.37174	0.17983
	12	0.15458	0.15090	0.40386	0.32785	0.37174	0.18194
$\sum W_i (P_i - \bar{P})^2$		0.59152	0.57746	1.50443	1.22128	1.38480	0.70582
T	6	6	6	6	6	6	
σ		0.31398	0.31023	0.50074	0.54116	0.48042	0.34298
Rank(I_6)		2	1	6	4	5	3

Marketing Efficiency

In the present study, marketing efficiency was measured by six performance indicators (Table 6). The results showed that channel-II (Farmer - *Bepari* - Consumer) possesses the highest marketing efficiency followed by channel-I (Farmer - Retailer - Consumer) and channel-VI (Farmer - *Bepari* - *Aratdhar* - Retailer - Consumer).

Table 6. Efficiency of Marketing Channel

Performance indicator	Channel					
	I	II	III	IV	V	VI
I_1	5	6	1	3	2	4
I_2	1	1	3	3	3	2
I_3	2	1	3	5	6	4
I_4	2	1	6	5	3	4
I_5	3	2	6	4	5	1
I_6	2	1	6	4	5	3
Composite index ($\sum I_i/N$)	2.5	2.0	4.2	4.0	4.0	3.0
Final ranking	2	1	5	4	4	3

By the indication of producers' share to consumers' price and other performance indicators, potato market can be considered as efficient.

IV. CONCLUSION

The study revealed that marketing channel-II (Farmer-*Bepari*-Consumer) was efficient channel, which was a local channel. From the marketing point of view, it is more important to supply potato to the non-agricultural sector that is major consuming area. Among the channels which supply potato to the major consuming areas, channel-VI (Farmer-*Aratdhar*-*Paiker*-Retailer-Consumer) was more efficient. The channel-VI by which farmers sell potato through local *Aratdhar* need to be encouraged. By the indication of producers' share to consumers' price (62 to 85 per cent) and other performance indicators, potato market can be considered as efficient.

It would be better for the farmers in the area if they would organise in a body and perform group marketing. As an organised body they would also acquire a better bargaining power for their products over the powerful middlemen that manipulate and control the price of potato in the marketing system. These will increase farmers' interest/profit considerably.

If competition creates among the wholesale businessmen in the intensive potato growing area through increase the number of wholesaler and volume of their business, farmers will get more profit. This can be done with the easy availability of institutional credit facilities.

Development of market infrastructure like road communication and transport media will be helpful to decrease marketing cost, thus marketing efficiency will increase.

Fote Notes:

¹ **Faria:** *Faria* is a petty trader who purchases potato from the producer in the village or in the local market and offer the same to the *Bepari*. Sometimes he sells his produce directly to the local consumer.

² **Bepari:** *Bepari* is a professional wholesale trader who make his purchase from producer at the local market, bring their consignment to the urban wholesale market and sell them to the *Paiker* and retailer through *Aratdhar* (commission agent). Occasionally, he goes to village for his purchase and sometimes buys potato from the *Faria* in local market.

³ **Aratdhar:** *Aratdhar* is commission agent who has a fixed establishment and operate between *Bepari* and retailers, or between farmer and *Paiker*, or between *Bepari* and *Paiker*.

⁴ **Paiker:** Wholesaler in consuming area is known as *Paiker*, who purchase potato from *Bepari* through *Aratdhar* and sell those to the retailer or consumer.

⁵ **Retailer:** The retailer, the last link in the marketing channel, buys potato from *Aratdhar* or wholesaler and sells these to the consumer. Retailer is independently organised and has permanent shop in the market.

(Definitions of intermediaries are taken from Elias and Hussain, 1994 pp.45-49).

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Appendix 1. Marketing Channels in the Study Area

No	Channel	Percent of product run
1	Farmer-Consumer	3.78
2	Farmer-Retailer-Consumer	5.89
3	Farmer-Faria-(Bepari / Stockiest / Aratdhar / Paiker)-Consumer	0.29
4	Farmer-Bepari-Consumer	5.75
5	Farmer-Bepari-Retailer-Consumer	3.43
6	Farmer-Bepari-Paiker-Consumer	1.06
7	Farmer-Bepari-Paiker-Retailer-Consumer	17.48
8	Farmer-Bepari-Aratdhar-Retailer-Consumer	14.19
9	Farmer-Bepari-Aratdhar-Paiker-Consumer	0.98
10	Farmer-Bepari-Aratdhar-Paiker-Retailer-Consumer	16.09
11	Farmer-Bepari-Stockiest-Retailer-Consumer	1.85
12	Farmer-Bepari-Stockiest-Paiker-Consumer	0.34
13	Farmer-Bepari-Stockiest-Paiker-Retailer-Consumer	5.66
14	Farmer-Bepari-Stockiest-Aratdhar-Retailer-Consumer	3.89
15	Farmer-Bepari-Stockiest-Aratdhar-Paiker-Consumer	0.27
16	Farmer-Bepari-Stockiest-Aratdhar-Paiker-Retailer-Consumer	4.42
17	Farmer-Stockiest-Retailer-Consumer	0.30
18	Farmer-Stockiest-Paiker-Consumer	0.06
19	Farmer-Stockiest-Paiker-Retailer-Consumer	0.92
20	Farmer-Stockiest-Aratdhar-Retailer-Consumer	0.64
21	Farmer-Stockiest-Aratdhar-Paiker-Consumer	0.04
22	Farmer-Stockiest-Aratdhar-Paiker-Retailer-Consumer	0.72
23	Farmer-Aratdhar-Retailer-Consumer	5.43
24	Farmer-Aratdhar-Paiker-Consumer	0.37
25	Farmer-Aratdhar-Paiker-Retailer-Consumer	6.15
	Total	100.00

Appendix 2. Marketing cost and margin for channel I (Tk/tonne)

Particulars	Retailer	Total of the channel
Loading/Unloading/ <i>Cooly</i>	24	24
Transportation	36	36
Packing (Sacks)	6	6
Market tools	4	4
Damage/Wastage	3	3
Personal expenses	2	2
Rent of the shop	14	14
Other (electricity, telephone etc.)	1	1
Total cost	90	90
Purchase price	4140	4140
Sell price	5060	5060
Marketing margin	920	920
Net margin	830	830

Appendix 3. Marketing cost and margin for channel II (Tk/tonne)

Particulars	<i>Bepari</i> (local sell)	Total of the channel
Loading/Unloading/ <i>Cooly</i>	24	24
Transportation	36	36
Packing (Sacks)	6	6
Market tools	4	4
Damage/Wastage	3	3
Personal expenses	2	2
Rent of the shop	7	7
Other (electricity, telephone etc.)	1	1
Total cost	83	83
Purchase price	4140	4140
Sell price	5030	5030
Marketing margin	890	890
Net margin	807	807

Appendix 4. Marketing cost and margin for channel III (Tk/tonne)

Particulars	<i>Bepari</i>	<i>Paiker</i>	Retailer	Total of the channel
Loading/Unloading/ <i>Cooly</i>	36	48	48	132
Transportation	288	109	-	397
Assorting/Grading	30	48	-	78
Packing (Sacks)	107	-	6	113
Market tools	24	50	4	78
Damage/Wastage	-	5	9	14
Personal expenses	25	10	2	37
Rent of the shop	-	13	26	39
Other (electricity, telephone etc.)	3	3	1	7
Total cost	513	286	96	895
Purchase price	4020	4980	5740	4020
Sell price	4980	5740	6530	6530
Marketing margin	960	760	790	2510
Net margin	447	474	694	1615

Appendix 5. Marketing cost and margin for channel IV (Tk/tonne)

Particulars	<i>Bepari</i>	Retailer	Total of the channel	<i>Aratdhar</i>
Loading/Unloading/ <i>Cooly</i>	36	48	84	-
Transportation	288	80	368	-
Assorting/Grading	30	-	30	-
Packing (Sacks)	107	6	113	-
Market tools	24	8	32	-
Commission	300	200	500	-
Damage/Wastage	-	9	9	-
Personal expenses	25	2	27	20
Rent of the shop	-	40	40	30
Other (electricity, telephone etc.)	3	1	4	12
Salary	-	-	-	38
Guard	-	-	-	8
Total cost	813	394	1207	108
Purchase price	4020	5340	4020	-
Sell price	4130	6460	6460	-
Marketing margin	1320	1120	2440	500
Net margin	507	726	1233	392

Appendix 6. Marketing cost and margin for channel V (Tk/tonne)

Particulars	Bepari	Paiker	Retailer	Total of the channel	Aratdhar
Loading/Unloading/Cooly	36	48	48	132	-
Transportation	288	109	-	397	-
Assorting/Grading	30	48	-	78	-
Packing (Sacks)	107	-	6	113	-
Market tools	24	50	4	78	-
Commission	300	200	-	500	-
Damage/Wastage	-	5	9	14	-
Personal expenses	25	10	2	37	20
Rent of the shop	-	13	26	39	30
Other (electricity, telephone etc.)	3	3	1	7	12
Salary	-	-	-	-	38
Guard	-	-	-	-	8
Total cost	813	486	96	1395	108
Purchase price	4020	5040	5740	4020	-
Sell price	5040	5740	6530	6530	-
Marketing margin	1020	700	790	2510	500
Net margin	207	214	694	1115	392

Appendix 7. Marketing cost and margin for channel VI (Tk/tonne)

Particulars	Paiker	Retailer	Total of the channel	Aratdhar
Loading/Unloading/Cooly	48	48	96	-
Transportation	288	-	288	-
Assorting/Grading	48	-	48	-
Packing (Sacks)	107	6	113	-
Market tools	50	4	54	-
Commission	400	-	400	-
Damage/Wastage	5	9	14	-
Personal expenses	10	2	12	20
Rent of the shop	13	26	39	15
Other (electricity, telephone etc.)	3	1	4	6
Salary	-	-	-	38
Guard	-	-	-	-
Total cost	972	96	1068	79
Purchase price	4240	5740	4240	-
Sell price	5740	6530	6530	-
Marketing margin	1500	790	2290	400
Net margin	528	694	1222	321