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Vol. 16 No. 3
July 1977

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Agrekon

QUARTERLY JOURNAL
ON AGRICULTURAL
ECONOMICS

Issued by the Department of Agricultural Economics and Marketing, Pretoria

MANAGEMENT CONTROL AS A BUILT-IN ELEMENT OF AGRICULTURAL MARKETING

by

C.M. DU TOIT
University of Port Elizabeth

INTRODUCTION

The term "management control", as used in the title of this article, refers to one element of the management task, in this case the *marketing* management task, in agriculture. Other elements that can be distinguished in the functional analysis of the management task after the control element are planning, organisation, commanding and co-ordination.¹ Management control must be distinguished from the more physical control made possible in the marketing of an agricultural product by legislation such as the South African Marketing Act. Although management control and physical control have the same objective, namely marketing efficiency, physical control has to a large extent become synonymous with a government grip on the operation of the marketing mechanism. Control as a management element, on the other hand, has the nature of a management procedure according to which actual marketing achievements are evaluated in terms of predetermined efficiency norms or standards and corrective action is taken or suggested.

The importance of attention to management control in agricultural marketing is emphasised by the fact that one aspect or another of agricultural marketing is so often questioned in various ways. In South Africa we find evidence of this in the discussions at agricultural congresses, the development of splinter organisations among producers and the various commissions of inquiry that investigate agricultural marketing problems from time to time.

A possible built-in mechanism according to which the management efficiency of agricultural marketing could be controlled on a continuous basis is naturally difficult to achieve for various reasons. Three circumstances in particular obstruct the achievement of such an ideal:

1. Sustained control is a difficult task in any form of marketing, even in the marketing of manufactured goods. Marketing is an economic activity that is subject to many and sudden changes.

2. In agriculture particular circumstances contribute to further complicating the management task. A large number of producers produce various agricultural products under dissimilar circumstances each with distinctive complicating circumstances.

3. In contrast with general marketing literature, agricultural marketing literature is short of information on the control of a marketing programme. This lack must to an important extent be put down to a backward position regarding information on a management approach to agricultural marketing. In contrast with the clear description of the management approach for the sectors outside agriculture, the literature on agricultural marketing is still fragmented in nature, as Breimyer says:

"The many current studies published in the US, Canada, Australia and Europe testify to the current need to amalgamate the fragmented knowledge about agricultural marketing so as to guide the structuring or restructuring of markets."²

The purpose of this article is to look more closely at the complicating factors mentioned and, taking these factors into account, to suggest a control process for agricultural marketing.

THE VARIABLES IN ANY MARKETING PROGRAMME

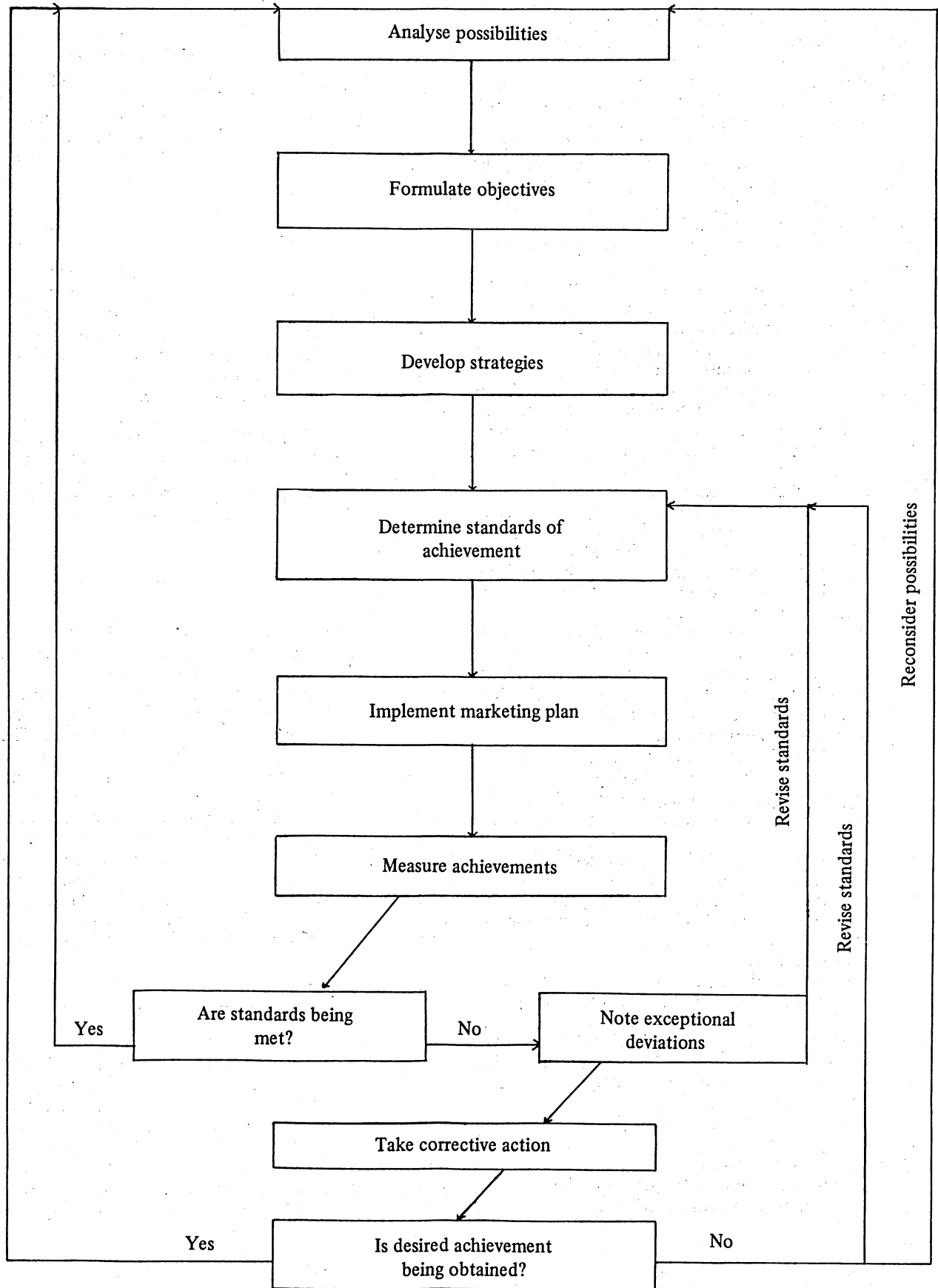
Any management concerned with the planning, implementing and control of a marketing programme tries to find, in the midst of different, largely uncontrollable, environmental factors, an optimal combination of various more controllable marketing policy instruments. The large number of variables that are difficult to quantify that influence the decisions on a combination of instruments are obviously an important reason why marketing control sometimes receives less attention in management literature than other forms, such as production control, financial control and quality control.

Even in the works on management control the control element receives varying and divergent comment. Those authors who do emphasise marketing control are nevertheless usually at one on the close connection between the control element and the other management elements, in particular planning. This connection is illustrated in Diagram A.

In planning the marketing programme for a period to come possibilities and limitations are considered, objectives formulated and decisions made on product, distribution, price and promotion

DIAGRAM A *

THE MARKETING CONTROL PROCESS



* SOURCE: Adapted from Dalrymple, D.J. and Parsons, L.J. *marketing management: text and cases*. Santa Barbara, John Wiley & Sons Inc., 1976, p.590

strategies. Then achievement standards in the form of sales quotas, levels of service, sales to cost ratios and other control yardsticks are determined. Next, the marketing plan is implemented over a period and achievements measured periodically against the standards set. If the desired achievements are obtained, the information serves as a basis for the subsequent process of planning and control. If the achievements show extraordinary deviations, corrective action is taken and if the desired achievement is then still not obtained, the standards are revised and the possibilities reconsidered.

Narrowly seen, the marketing control process appears to be a procedure within the enterprise connected only with the preparation and implementation of the annual plan. As against this, in a broader connection it is possible to distinguish, after the control of the annual marketing plan, two other levels of control.³

Under strategic control the top management of the enterprise periodically orders an investigation into the whole marketing line in order to establish whether the most favourable possibilities in respect of markets, products, distribution channels, stimulation of demand and satisfaction of needs are being exploited. The method by which strategic control is obtained is known as a marketing audit. Various scientific and rational principles form the basis of the marketing audit:

- A marketing audit should take place periodically. No marketing programme is so good that it cannot be improved every few years, or at least be confirmed as the best under the circumstances. In this way the principles of development (change) and verification are recognised.
- A marketing audit is a logical procedure in accordance with which one after the other critical marketing factor is thoroughly investigated at the strategic level. The principles of method and distinguishing basic (critical) elements are recognised.
- The ideal is that an independent person or body undertakes the marketing audit. In this way the principles of objectivity and expertise based on specialisation and repetition are recognised.
- In a marketing audit possibilities and actual circumstances are evaluated against the principles of efficient marketing management. Problem solving and the optimisation of combinations of factors are important considerations.
- The economic justification of a marketing audit rests on the supposition that the additional cost of the audit is more than compensated for by the additional income and satisfaction of needs obtained. The incremental economic principle therefore holds as an important basis.

Marketing control at the third level, namely profitability control, may be regarded largely as a consequence of the periodical strategic control and annual planning control. An official in the enterprise's marketing or marketing information

division is responsible for profitability analyses by function, product, marketing area, distribution channel and/or order size.

THE SPECIAL CIRCUMSTANCES OF AGRICULTURE

The scope of a single article does not allow a full discussion of the special circumstances of agriculture with an influence on the marketing task. From the point of view of a management approach to agricultural marketing it is nevertheless possible to reduce the special agricultural circumstances to two basic circumstances, namely, dependence on nature and an organisational or management division of roles.

1. Dependence on nature

An agricultural marketing programme, like other marketing programmes, is subject to a greater or lesser extent to common environmental influences, such as technological development, general economic conditions, legislation, politics, competition and consumer preferences. An important additional complication, on the other hand, is the climatic and other natural conditions. Unlike the usual case with manufactured products, the changeability of nature, which makes the supply of agricultural products uncertain, is one of the most powerful environmental influences which must be constantly taken into account in agricultural marketing.

2. Organisational and management division of roles

The particular product, production and consumer circumstances that the dependence on nature results in for the producer are the reason why state support and action and also special organisational arrangements characterise agricultural marketing throughout the world. The marketing efforts of the individual producer are supplemented in numerous ways by organised and government actions, including co-operative, marketing orders, national programmes and control legislation. The formulation of a control procedure for agricultural marketing consequently has as a prerequisite greater clarity on a management approach to agricultural marketing that takes into account adequately the organisational arrangements and divisions of roles between individual enterprise and the State.

A MANAGEMENT APPROACH TO AGRICULTURAL MARKETING

Notwithstanding the unusualness in marketing literature of concepts such as "agricultural marketing management" and "a management approach to agricultural marketing", the fundamental aspects of such a management approach under South African conditions have already been discussed in a series of four articles in *Agrekon*. In addition to the attention given in those

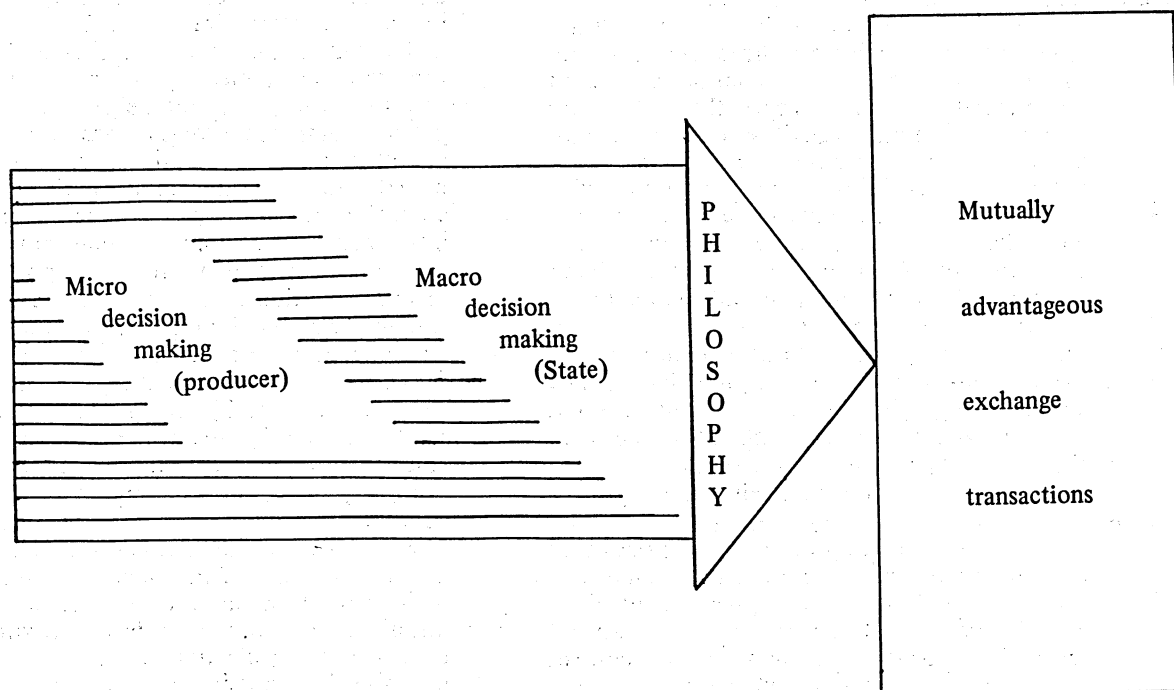
articles to the possibilities of a management approach in South African agriculture, consideration was given to the way in which the control board system complicates a management approach and to the special characteristics of the product, distribution, price and promotion policies within individual agricultural enterprises. The discussion of the fundamental aspects was concluded with attention to the co-ordination of the marketing policy instruments in South African agriculture.⁴ From a study trip to the United States of America and the European Economic Community the author was able to obtain further confirmation of the practical possibilities for application of a management approach to agricultural marketing, even on a wider basis than South African agriculture only. It consequently also became possible to define agricultural marketing management in the broader context and to present it schematically.

embodied in the agricultural producer or a producer representative body and that of the macro decision maker as embodied in the government body or bodies who make a contribution to the marketing effort at the macro level.

Normatively regarded, the micro and macro marketing decision makers in agriculture are motivated by a positive marketing philosophy of generally conscious consumer orientation and profitable results and direct their efforts towards mutually advantageous exchange transactions. The large number of horizontal lines in the arrow shaped sketch represent the variety of regulations under which producers and/or producer bodies make micro marketing decisions in agriculture. The longest line at the bottom of the sketch represents the simplest case. Here the individual producer relies very little, if at all, directly on the macro marketing effort of the State or other central body. An example of this is the rural vegetable or fresh

DIAGRAM B

SCHEMATIC PRESENTATION OF MICRO AND MACRO MARKETING MANAGEMENT



Agricultural marketing management may be defined as the planning, co-ordination, implementing and control of the marketing policy instruments by or on behalf of one or more agricultural producers and taking into account the marketing environment in order to bring about mutually satisfactory exchange transactions in or with chosen target markets.

Agricultural marketing management may be schematically presented as in Diagram B. Two basic roles are distinguished in respect of participation in the marketing management task in agriculture: that of the micro decision maker as

milk producer who, without any State support worth mentioning, can plan, co-ordinate, implement and control on his own a product, distribution, price and promotion policy. The shortest line on the other hand, represents a case where various aspects of the integrated marketing policy are "delegated" to the State or central government body. In South Africa we find the situation, for example, in the maize and wheat enterprises where the so-called single-channel fixed-price schemes are applied. The marketing success achieved by the agricultural producer individually or through his co-operative or marketing council is in both these enterprises to an

exceptionally high degree dependent on the macro marketing effort of the State. The macro marketing effort includes decision making on matters such as the provision of marketing information, the development of markets and products, the authorisation of control measures, the establishment of grading regulations, the quality inspection of products, the provision of product and production extension and also the supporting of prices, storage and transport. The lines between the longest and shortest lines in the sketch represent a series of in-between arrangements with varying divisions of roles between the producers and the State.

From the control point of view, the management approach to agricultural marketing offers various possibilities:

- The unambiguous way in which the management approach recognises both the micro point of departure of the agricultural producer and the macro contribution of the State enables the marketing auditor to communicate in clear language with the micro or macro decision maker in accordance with the valid point of departure during evaluation and reporting. This not only ensures greater efficiency, but promotes understanding in the individual who had to delegate a part of his marketing decision-making powers to others.
- A management approach to agricultural marketing is in principle the same approach as that endorsed for the manufacturing and commercial sector, except that it takes account of the special circumstances of agriculture. In both cases decisions are taken within the possibilities and limitations of a particular marketing environment on the more controllable marketing instruments. An extension of the management approach to agricultural marketing should cultivate a clearer understanding of agricultural marketing in the agricultural producer as well as the manufacturer and merchant. The common approach should lead to more equal opportunities and freer competition between the producers in the various sectors. A more competitive situation in itself means greater control of efficiency.
- A management approach to agricultural marketing creates the conceptual framework for accommodating and applying control as an integral component of agricultural marketing. Recognised management control norms and standards become more accessible to the agricultural marketer. Existing annual planning control, as already applied by some marketing bodies in South African agriculture,⁵ and the auditing procedures already followed by management consultants in respect of fruit enterprises,⁶ can be applied on a wider and more regular basis. The type of basic control procedure that could be proposed consequently deserves attention.

A BASIC PROCEDURE FOR MARKETING CONTROL IN AGRICULTURE

Because of the special circumstances of

agriculture a well-designed and comprehensive marketing audit at the strategic level is the right method to consider as the key to a basic control procedure. An efficient auditing procedure will automatically produce the necessary recommendation concerning the establishment or adaptation of planning and control procedures and profitability control measures.

Taking into account the principles concerned and the special circumstances of agriculture, a marketing audit may be defined as follows:

The marketing audit is a periodical, comprehensive, systematic and independent investigation into the producer's marketing body's type of activity, differential advantage, marketing environment, marketing policy instruments and marketing management system in order to identify problem areas and recommended corrective action for greater efficiency.

The sort of questions that could be asked in the marketing audit and the norms that should apply to the various questions are given in the checklist in the accompanying table. The following remarks are made with reference to the checklist:

- In drawing up the list an attempt was made to meet the requirements of periodical, comprehensive, systematic and independent action. In the agricultural situation it may be expected that the frequency of the investigation will vary according to product and other circumstances. A first audit could, for example, require repetition after two years and thereafter only once every three or four years. Comprehensiveness was sought in the checklist by distinguishing five main steps, namely: the situation analysis; the marketing environment analysis; the marketing instrument evaluation; the marketing system evaluation; and the report and recommendations. A systematic procedure is sought by beginning with the special circumstances, possibilities and limitations that hold for the marketing organisation(s). This is followed up by evaluating the marketing policy instruments before giving consideration to the system required to carry out the policy and the report is eventually submitted.
- The contents of the checklist are based on the assumption that an independent person, body or organisation undertakes the audit. The questions and norms are designed with a view to universal application, even in the case of organisations outside agriculture. The body that undertakes the audit can consequently be a division of a government department, a university institute, a private enterprise or any other suitable body.
- Unlike the case with existing literature on the marketing audit, the norms against which the information can be tested are stated explicitly. The norms are as far as possible based on recognised principles of rational marketing management. The first question on the type of activity that is relevant, for example, is based on the requirement that the management of an enterprise will use a broad definition of requirements.⁷ For example, a management involved in the marketing of raw wool sees its

type of operation, among other things, as a contribution to the satisfaction of the needs of fibre processors as well as the final consumer's requirement for social acceptance and the wool producer's requirement for a satisfactory standard of living. The second question on the way in which the marketing task may be divided between micro and macro decision makers has a co-ordinated marketing management effort as its norm. Examining the division of roles between the producer, the co-operative, the control board and the State, for example, makes possible the identification of responsibilities in respect of the planning, implementing and control of co-ordinated marketing programmes. In the same way rational decision making after weighing up all possible alternatives serves, for example, as the norm in the eleventh question on the management efficiency of the micro and macro marketing systems. In the South African situation any control board scheme and the micro and macro organisational structures that go with it will be weighed against the other South African and foreign comparable alternatives.

- In the marketing audit provision is made for the extension of the comprehensive strategic audit to the more detailed follow-up of deserving aspects, annual plan particulars and profitability ratios. Questions 7(d), 8(e), 9(d) and 10(b), for example, are aimed at identifying possible gaps in profitability control. Question 14, dealing with the extent to which the marketing system meets the requirements of the marketing concept, may

require a further penetrating investigation into the way in which consumer and marketing requirements are integrated, that is to say, reach and are observed by the producers. For some products such an investigation might require surveys among consumers, dealers, manufacturers, marketing bodies and producers.

CONCLUSION

In the preceding discussion the factors that complicate control as a built-in element of marketing management were noted. In addition an attempt was made to give guidelines on overcoming the complicating circumstances. The periodical, comprehensive, systematic and objective marketing audit method was put forward in more detail as the key to a control procedure for the agricultural marketer. Although the most important relevant aspects were touched on as far as possible, the discussion cannot be said to be complete. Various aspects deserve further follow-up and finalisation.

One important aspect that deserves further investigation involves the proper body that should undertake the marketing audit on a regular basis. A choice from the most obvious possibilities, namely, a government department, a university institute, a private enterprise and any combination of the bodies mentioned would be influenced by various considerations. The most obvious considerations in this connection are the relative cost advantage ratio, expertise and objectivity in the case of the various possibilities.

Checklist for a marketing audit

	Control item	Norm
A.	Situation analysis	
	1. What type of activity is involved?	Broad definition of requirements Co-ordinated management effort Characteristics of special marketing area Real competitive advantages Surveyable examinations
	2. What division of roles occurs in the marketing task?	
	3. What particular characteristics should be taken into account?	
	4. What differential advantages deserve attention?	
	5. Any other important preliminary information?	
B.	Marketing environment analysis	
	5. What is the nature of the information system with which the environment is examined?	Constant flow of information for rational decision making Possibilities and limitations are identifiable
	6. Nature of marketing environment:	
	(a) Markets?	
	(b) Clients?	
	(c) Competitors?	
	(d) Economy?	
	(e) Technology?	
	(f) Legislation?	
	(g) Special factors?	
C.	Marketing instrument evaluation	
	7. Product policy:	
	(a) What range	Broad product concept. Quality according to consumer requirements. Quantities in accordance with demand
	(i) can a producer produce?	
	(ii) is marketed?	
	(b) How do the marketed products fit the market and other environmental requirements:	Broad product concept. Quality according to consumer requirements. Quantities in accordance with demand
	(c) What attention is given to product renewal and elimination?	
	(d) Are cost and income data calculated per product?	Taking into account time elements and all possible product market strategies Profitability

Control item	Norm
8. Distribution policy:	
(a) What channels of supply and intermediaries are used?	Specialised services and facilities
(b) What attention should be given to additional alternatives?	Systematic decision-making procedure
(c) Are adequate services rendered to intermediaries?	Efficient maintenance and co-operation
(d) Does the physical distribution system function efficiently?	Optimal input-output ratio
(e) Are cost and income data calculated per area?	Profitability
9. Price policy:	
(a) What market types or scheme regulations apply for the various products?	Flexibility of price discretion
(b) To what extent are cost, demand and competition taken into account in basic price policy?	All relevant factors deserve consideration
(c) What are the objectives of basic price determination?	Particular product and market circumstances
(d) What bases hold in the determination of differentials?	Particular product and market conditions
(e) How do consumers interpret the prices psychologically?	Psychological influences
(f) Is price policy handled in conjunction with the other instruments in the combination of instruments?	Principles of substitutability and synergism
10. Promotion policy:	
(a) Do the personal and non-personal methods correspond with what can be expected under the enterprise's circumstances?	"Optimal" promotion combination
(b) Do the personal and non-personal promotion activities correspond with the promotion objectives?	Objective and task method and good management practices
(c) Do the promotion estimates correspond with the tasks set?	Incremental (marginal) principle
(d) Is the relationship with the advertising agency/agencies satisfactory?	Recognised code of conduct and specialised services of agencies
(e) Is the choice of media satisfactory?	Combination factors according to circumstances
(f) How is the result of the personal and non-personal promotion monitored?	Importance of feedback
D. Marketing system evaluation	
11. Do the micro and macro marketing systems meet management requirements?	Rational decision making after consideration of all possible alternatives
12. Is the marketing plan in accordance with the enterprise circumstances?	Rational decision making
13. Do the marketing organisation and staff policy correspond with the requirements for implementing the marketing plan?	Rational decision making
14. Does the marketing system meet the requirements of the marketing concept?	Consumer orientation, integration and profitability under free initiative
15. Is the marketing programme efficiently controlled?	Rational decision making
E. Report and recommendations	
16. What aspects of the complete audit report should receive special attention in the more detailed control of the annual plan and profitability?	Completeness

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