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8 The Need for Market Research in Agriculture*

by

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INTRODUCTION

The first step in evaluating market research is to define its sphere. Market research may be described as research into the organisation of activities involved, and the methods employed in the transfer of ownership and the physical handling of produce in its natural or processed form. Marketing is part of the wider economic field concerned with the distribution of produce suitable for sale so that the needs of consumers may be satisfied as efficiently as possible; and the distribution of the proceeds derived from production. As far as the agricultural industry is concerned marketing is, sometimes, whether one likes it or not, closely involved in the distribution of the proceeds of sales.

Before defining the field of market research more closely and indicating certain problem spheres, it is desirable to review the present stage of this research in South Africa objectively.

THE PRESENT POSITION OF MARKET RESEARCH

Market research is undertaken among others, by the Division of Agricultural Economic Research, the National Marketing Council, the Board of Trade and Industries, control boards and similar organisations like the Wool Board, and the K.W.V. and by various private institutions. There is no doubt that meritorious studies in numerous fields are produced. Nevertheless up to the present market research creates an impression of fragmentation.

The result is that there is a lack of co-ordination and integration. A possible solution would be the establishment of a central body not only to co-ordinate research, but to undertake part of it. The benefits of having research specialists, the exchange of ideas and efficient facilities are obvious.

The functions of such a body would amongst others include the following:

- (a) Co-ordination of market research.
- (b) Research directed to assist public bodies in formulating agricultural policy and in preparing and evaluating policy measures. Research must be conducted to a point where specific recommendations can be made.
- (c) Research directed to the practical execution of control schemes and any other specific marketing problems which might arise.
- (d) Forecasts of future production, marketing possibilities and price tendencies, and the transmission of this information in plain words to farmers and other interested parties.
- (e) The advancement of the methods of research which can be shared by control boards, co-operatives, commerce and the manufacturing industries. This body can render assistance or give advice depending on circumstances but will not necessarily undertake all market research deemed essential by the Department, the control boards and others.

THE FIELD OF MARKET RESEARCH

Before defining the field of market research in more detail, it might be desirable to enquire exactly what use can

*Part of an address delivered at the fourth conference of the Agricultural Economic Society of S.A., Pretoria, October, 1965.

be made of the knowledge acquired. Here the agricultural economist must keep three objectives in mind. Firstly the needs of consumers must be satisfied at the lowest possible cost. Secondly the maximum possible income combined with stability must be secured for the agricultural producers. It is recognised that the solution of the basic agricultural problems, namely instability and periods of low income along with the uneven distribution of income, cover far more than an efficient marketing and price policy. Thirdly the middlemen in the marketing structure must receive fair remuneration for their services.

Logically market research may be divided into two aspects. The first is concerned with the relationship between demand and supply, and covers the determination of consumers' needs and effective demand and the transmission of this information to everyone involved in supplying products and rendering market services, namely, farmers, the manufacturers and the various sections of the trade handling agricultural produce. The functioning of the price mechanism is important. Account must also be taken of the fact that the consumer has the money in his pocket and that the systems of production and marketing must be directed towards satisfying the consumer's needs. The second aspect relates to the costs incurred in moving the produce from the producer to the consumer in the form, at the place and at the time desired by the consumer.

These aspects will accordingly be reviewed.

DEMAND AND SUPPLY AND THEIR INTER-RELATIONSHIP

The major shortcomings in market research are undoubtedly to be found in this field.

It is high time that the marketing of agricultural products be orientated towards the consumer. Research into the present and potential demand in all its facets both domestic and foreign must be determined.

The study of demand curves is no easy task neither in terms of statistical analysis nor in terms of economic interpretation. In South Africa the heterogeneous composition of the population makes such studies even more difficult. It is, nevertheless, necessary to endeavour to determine the elasticity and other characteristics of the demand curve for various products. Consumer studies must be used to determine the nature of demand in respect of volume and quality, and in form, place and time. Demand curves are not fixed and the factors which cause shifts must be established. Some of these factors are population growth and composition in terms of race and age; buying power and its distribution and consumer preferences. Substitution of products must also be taken into account. Studies in demand further involve investigations into patterns of spending by consumers and the determination of the income elasticity of demand for various agricultural products. This is very important in the light of the development of the non-White population groups.

The nature and elasticity of supply curves must also be investigated. The elasticity of supply curves vary depending upon the period involved, and if account is taken of the nature of production of each commodity, the studies would have to be undertaken for various periods of time to determine reactions. As for the demand curves factors which cause shifts in supply curves must be studied. Here we may refer to expansion of agricultural land, labour supply, formation of capital in agriculture as well as external financing, technological development and the application of technical knowledge to agriculture; tendencies in costs of production and prices of complementary and competitive products.

Prices must indicate consumer demand to producers and supply prospects to consumers. This information should be made available with the least delay. Refined methods of analysing prices exist, but there might be a lack of basic data.

Research into demand, supply and prices must not be merely historical.

The lack of reliable forecasts might be the main single shortcoming in the present South African marketing set-up. Forecasts in respect of all the factors mentioned should be undertaken for the maximum number of commodities.

What can be accomplished with these research results? Firstly, it is essential in determining agricultural policy. In South Africa there is extensive control over the marketing of agricultural produce, and as many decisions as possible should be based on the results of empirical investigations instead of random tests. To what extent, for example, is policy relating to marketing, prices and income for specific products based on accurate data derived from the form and elasticity of demand and supply curves. The effects of limiting or stimulating production on income and other implications cannot be established without knowing the nature of the demand curves.

The information envisaged can be used in planning by farmers, the trade, manufacturers and consumers. A knowledge of patterns of consumption, buying habits and preferences of consumers will assist all suppliers in guiding production in the right direction.

The development of markets for agricultural produce is frequently a means of disposing of surpluses. New markets locally and abroad and new uses of products are investigated and developed. The expansion of markets and sales promotion of agricultural produce must, however, not stop with surplus removal. Research into the demand for known products and the potential demand for new products as well as the effects of expanding the sale of one product, on other commodities as a basis for general development, will benefit all sections. Consumers must be educated in the various uses and methods of preparation of products and the value of the various products from which they can choose.

MARKETING COSTS

Exorbitant sales margins may be the result of inefficiency in undertaking the marketing functions or of excessive pro-

fits taken by middlemen because of a lack of effective competition. Services rendered and profits are the two aspects to take into account.

In the past numerous investigations into marketing costs have been undertaken in South Africa and research methods are well developed. For the present it would seem that there is not a great need for further cost investigations. Marketing costs must, however, be kept under constant review and from time to time investigations will have to be undertaken when excessive profit margins are suspected. Cost investigations can serve as a useful guide in determining the nature of other market investigations.

(a) Service rendered

The object of cost studies in this connection is to establish the factors which determine efficiency in practical terms and to indicate how greater efficiency and lower costs may be brought about. The execution of marketing functions cover a wide field and only a few are mentioned, to indicate where investigations might prove useful.

Aspects relating to the economics of individual undertakings regarding situation, optimum turnover, composition of products and policy regarding stocks and methods of sale.

Lack of capital or initiative or both in an industry.

Lack of education in undertaking marketing functions.

Economic implications in undertaking functions like transport, storage, handling, grading and manufacture.

The presence of decreasing unit costs with an increase in turnover and the consequences thereof.

Marketing systems are dynamic. The economic implications of technological developments resulting in new products, and new uses, grading, packaging, preserving and manufacture have to be studied. Consumers demand more services

and abnormal price increases must be avoided.

(b) The profit aspect

Ineffective competition may be found in various forms like monopolies of many kinds, product differentiation, and price agreements. It does not necessarily mean that excessive profits are being made and in some instances such action might in the long run prove advantageous to all interests. Investigations must, however, be undertaken to uncover cases where excessive profits are made. In judging market structures it would appear that the criterion of perfect competition should be discarded in favour of effective competition.

Future investigations should be concentrated on two aspects. Firstly instances should be traced where unaggressive price policies have a detrimental effect on marketing costs and prices.

Secondly the implications of the increase in horizontal and vertical integration in the market structure must be investigated. Integration at various levels in commerce and manufacturing industries is universal, while farmers are also becoming involved in the production of broilers, vegetables and fruit, to mention

only a few. The future part which agricultural co-operatives will play in vertical integration in marketing agricultural produce has not been defined and deserves attention. The harm which might result from concentration in the market structures, in so far as harm is experienced in practice, must be weighed against the benefits resulting from decreasing unit costs with increase in turnover, the benefits derived from the elimination of destructive price wars and the possibilities of technical progress in an industry.

CONCLUDING REMARKS

Thus far attention has been directed towards research in the marketing of agricultural products. The provision of farming requisites also has an important bearing on the agricultural industry and marketing investigations in this field should be considered.

The agricultural economist cannot view the marketing of agricultural products in isolation or as his own domain. There must be co-operation with specialists and investigators in other branches of science, like economics, industrial economics, accounting, sociology, psychology, ethnology, domestic science and the physical sciences. Mutual understanding and combined action can accomplish a great deal.