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Agrekon

VOL. 14 No. 3

JULY 1975

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Articles in the field of agricultural economics, suitable for publication in the journal, will be welcomed.

Articles should have a maximum length of 10 folio pages (including tables, graphs, etc.) typed in double spacing. Contributions, in the language preferred by the writer, should be submitted in triplicate to the Editor, c/o Department of Agricultural Economics and Marketing, Pretoria, and should reach him at least one month prior to date of publication.

The Journal is obtainable from the distributors: "AGREKON", Private Bag X144, Pretoria.

The price is 25 cents per copy or R1 per annum, post free.

The dates of publication are January, April, July and October.

"AGREKON" is also published in Afrikaans.

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2001

MARKETING POLICY INSTRUMENTS WITHIN AGRICULTURAL ENTERPRISES

by

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INTRODUCTION

The possibilities of a management approach to the marketing of agricultural products have been discussed in two previous articles in *Agrekon*. In the first article attention was given to the need for a management approach, the advantages of such an approach and the fundamental content of the marketing management concept. One main part of the marketing management concept was seen as a "philosophy", comprising in its turn, three core elements, namely, a profitability aim, consumer orientation and an integration aim. The other main part of the concept covers the management task, with effective decision-making on a product policy, distribution policy, price policy and promotion policy as the fundamental problem. In the second article the structural characteristics and objectives of the South African control system were discussed. From the nature of the control structure and the objectives which were aimed at in controlled marketing at the beginning of the present decade, it was concluded that a form of micro-marketing management was possible at national level. Within the national structure it was found that individual management units could in various ways apply micro-marketing management in agricultural enterprises.

Because of the variety of products produced in agriculture, a full account of marketing management, or even of only the marketing instruments within agricultural enterprises is not possible within the scope of this single article. Consequently, the marketing management task is approached fundamentally, with particular reference to possible guidelines which, taking into consideration the circumstances of the individual agricultural enterprise or firm, may serve to amplify the concept of agricultural marketing management.

Whereas in the previous articles the emphasis fell on the concept of marketing management, the structural characteristics of the control system, the national objectives of control and the sharing of management roles, the object of this article is to indicate, against the background of some fundamental characteristics, the

possibilities of a product policy, distribution policy, price policy and promotion policy which can be applied in the form of a combination of controllable marketing instruments at enterprise level.

In considering the marketing instruments, the possible sharing of management roles and the resultant delegation of tasks which may occur within enterprises will be taken into account throughout. In addition, Lazer's statement regarding the combination of the marketing instruments is endorsed: "The marketing mix pivots on planned, focused, and controlled marketing activity dedicated to the satisfaction of customer wants and needs at a profit. It embodies a master marketing plan and the development of operational plans in each of the areas ..." ¹ However, the planning procedure to be followed in an enterprise is not discussed in the article. Under the discussion of the promotion policy mention is nevertheless made of the successful management procedure followed by one of the boards of control.

PRODUCT POLICY

In general literature on marketing management the product policy is mostly discussed in detail by considering such aspects as the product concept (mainly the content and nature of the product), supply and demand considerations, packaging policy, branding policy and product development ². On the other hand, it is known from the traditional commodity approach to marketing that the marketing of agricultural products is especially influenced by aspects of quality, quantity and time ³.

Furthermore, from some authors' contributions it may be concluded that two basic product policy altern-

1. Lazer, W. *Marketing management: a systems perspective*. New York, John Wiley & Sons, 1971, p. 18
2. For instance McCarthy, E.J. *Basic marketing: a managerial approach*. Homewood, Illinois, R.D. Irwin, 1971, Chapters 10 — 14.
3. See Rädcl, F.E., & Reynders, H.J.J., (Eds.). *Inleiding tot die bedryfseconomie*. Pretoria, J.L. van Schaik, 1971, Chapter 23.

atives have possibilities for application in agricultural marketing, namely specialisation versus diversification⁴. Inasmuch as the considerations regarding both general products and agricultural products may be broken down as a conceptual aspect, quality aspect, quantity aspect, time aspect or basic alternative, attention to these aspects promises a satisfactory coverage of the most important consideration regarding product policy.

The generic content usually assigned in marketing literature to the concept "product" implies, on the one hand, the importance of full acknowledgement of production circumstances with a possible influence on the marketing of a particular agricultural product. On the other hand, it is necessary to understand the fact that some of the most important determining factors regarding the total content of the product are to be found in the needs of consumers and the demand conditions. The aim should be to make a product the bearer of desired services. In competing for the provision of a desired service, products of a divergent nature and origin come to the fore. Hence the fact that the market for maize is, rightly, no longer considered as a homogeneous demand for maize as such, but as a heterogeneous and complex local and foreign demand for a foodstuff with a high content of proteins, calories, energy and fats, which can be utilised in various ways for human and animal consumption. Citrus competes in the local and foreign markets with other bearers of good taste, appetising qualities, refreshment, health, colour, energy, thirst quenching properties, fragrance and pleasure.

In addition to knowledge of the particular product and production circumstances, information is also required on consumer preferences, competition and other mainly uncontrollable factors. Market segmentation has become a requisite for the efficient adaptation of the product to the market and the planning of a fitting marketing policy. More knowledge, from the marketing point of view, of the product in every agricultural enterprise offers the possibility of new, more realistic, product classifications than the traditional production-orientated distinction between horticultural products, field crop products and pastoral or animal products⁵. With regard to quality, we find good grading, packaging, quality inspection

and the prevention of decay as well-known product policy measures in almost every branch of agriculture in South Africa. On the other hand, an activity such as a product or production extension service, rendered either directly or on a delegated basis by the main marketing management body in an enterprise, may be seen as an important quality aspect which is in danger of not being recognised as such or of being underrated.

The adaptation of product quantities to changes in the quantities required by consumers is a difficult problem in agriculture. Although equilibrium in supply and demand is seldom or never obtained in the long run, this is no reason why the problem of desired product quantities should not be approached systematically. Among the already known short-term measures to regulate quantities, mention may be made of the periodic fixing of delivery quotas in the citrus, slaughter stock and other industries, the planned redistribution of surplus quantities in the potato industry and the manipulation of stocks in the wool industry.

The question which arises is to what extent a fully integrated marketing management approach would have long-term implications in any well-organised branch of the agricultural industry. Traditionally, an increase in the supply of an agricultural product has been welcomed from the macro-economic point of view and concern has been expressed when the rate of increase was disappointing. From the agricultural technical point of view the emphasis has been placed on the need to produce according to the natural potential. From the point of view of the individual producer's management programme, a long-term increase in the supply is to be welcomed within the macro-framework only if the demand for a product justifies the increase to the extent that the producer's net income from the particular product keeps pace with the alternative possible ways of utilising factors of production. In the event of greater management orientation, the long-term planning and adjustment of a product's supply will consequently depend to a large extent on —

- (i) the relative importance of traditional influences, such as macro-economic incentives aimed at the utilisation or reservation of the natural potential;
- (ii) the extent to which chosen target markets are competitively exploited, the integrated marketing effort succeeds in acquiring or ensuring product confidence and loyalty, the uncertainties of traditional selling methods are reduced and more accurate forecasting of the market becomes possible; and
- (iii) in the case of controlled marketing, the extent to which the responsible management organisations succeed in motivating producers in their decision-making towards production adjustment.

Although less obvious than in the case of the manufacturing or trading firm, the basic alternatives of product policy, *specialisation versus diversification*, are possible at two levels within any agricultural enterprise, namely, at the producer level and at the marketing level. It is to be expected that the producer's

4. Cundiff and Still distinguish seven more product policy alternatives between specialisation and diversification. Cundiff, E.W. and Still, R.R. *Basic marketing: concepts, decisions and strategies*. Englewood Cliffs, N.J., Prentice-Hall, 1971, Chapters 10 and 11.

5. Compare in this respect the contribution of Miracle, who, in succession to Copeland, Holton, Bucklin and Aspinwall, developed a classification of consumer goods by considering a range of marketing and product characteristics. Miracle, G.E. Product characteristics and marketing strategy. *Journal of Marketing*, Jan. 1965, pp. 18 — 24.

choice will be influenced to a large extent by such factors as the natural resources at his disposal, the fact that production is locality bound, farm size, product uses, and management information on the long-term marketing possibilities.

At the marketing level the total collection of a controlled or co-operatively marketed product constitutes a selection group consisting of a variety of product types, classes or grades. The available variety corresponds to a certain extent to the diversified product range of a manufacturing firm. For the influencing of the total product collection and the planning of the most suitable supporting marketing policy, the management unit must, in particular, acknowledge efficient market segmentation as an important prerequisite. Furthermore, the encouragement of diversification of processable products is still possible in the end product form by means of sustained research and the development of a variety of end product uses.

Time considerations, for instance the possibilities offered by the storage function in combating seasonal influences, are of fairly obvious importance in planning a successful product policy, but also deserve acknowledgement as an element of a physical distribution policy whereby a satisfactory customer service level at the lowest possible distribution cost is aimed at. The same applies in respect of a purposeful policy to change or delay, for instance, the production or delivery season of an agricultural product by means of new methods of production.

Direct methods of product development and innovation, by means of new methods of packaging, the growing of new cultivars and the breeding of new breeds, are practices already known to various branches of South African agriculture. Furthermore, in the case of processable products, a policy directed at the development of end products by means of research and the introduction of new product uses is an acknowledged measure in a more indirect way. The contribution of these measures toward a management concept of agricultural marketing, however, still awaits wider recognition as an integral part of a planned product policy and overall marketing policy aimed at creating a new enlarged product image with existing and potential customers. Among the further possibilities for product innovation are management efforts to create, in a positive way, a more favourable relationship between processed and unprocessed product quantities.

GENERAL DISTRIBUTION POLICY

According to Lazer⁶ the marketing organisation's distribution decisions are aimed at combining, supplementing, or modifying the decisions of other organisations, in order to form channels that will ensure the most efficient distribution policy for the leading organisation. The basic choice of the producer is one of direct or indirect distribution.

6. Lazer, W., *op.cit.*, Chapter 12.

The economic justification for the use of intermediaries stems from their ability to render their services more efficiently than any other person or institution. In addition to decision-making on the type and number of intermediaries required, Kotler⁷ also emphasises the importance of deciding on the particular marketing tasks entrusted to intermediaries and the conditions and mutual responsibilities of the producer and intermediaries.

Determining the nature of a distribution policy in an agricultural enterprise at times requires historical comparison. For example, before the reconstitution of the South African Wool Board in 1972 the distribution policy in the wool industry was characterised by an approach of minimum interference with the flow of wool and the activities of brokers and buyers. To conclude that in actual fact no distribution policy existed would be wrong. Compared with the first decades of the twentieth century and earlier, when buyers to a large extent bought wool on the farms or in production areas, the development of co-operatives and the channelling of wool through the auction market prove the existence of a definite distribution policy. After reconstitution, and in striving towards more integrated marketing management, the Wool Board was confronted with more far-reaching policy considerations, namely the future distribution role of the auction market, the role of brokers and distribution in foreign countries.

Direct participation in processing in cases where private initiative is disappointing, the allocation of stocks among auction markets and alternative channels, the selection of agents and distributors and the location of decentralised marketing offices appear to be some of the most important distribution considerations in the marketing of an agricultural product. In these considerations it is necessary to guard against two possible misconceptions indicated by Bell⁸. A limited marketing horizon (shipping platform approach) exists when the marketer concentrates too much on the first link in the distribution channel, resulting in a short-circuit between the producer and consumer. Attaching too much value to product characteristics as determinants of the type of distribution channel (product feature approach) can be just as wrong. In formulating a general distribution policy, a combination of factors should be taken into consideration. Factors such as the requirements of market segments, consumer habits, availability of alternative channels, financial resources, skill and available services are not to be ignored.

PHYSICAL DISTRIBUTION POLICY

An effective physical distribution policy necessitates taking decisions on the number, location and size

7. Kotler, P. *Marketing management: analysis, planning and control*. Englewood Cliffs, N.J., Prentice-Hall, 1972, p. 569.

8. Bell, M.L. *Marketing concepts and strategy*. London, MacMillan and Company Limited, 1966, pp. 456 — 458.

of warehouses, the transport policy and supply of stocks. Among the product and production circumstances with a special influence on the physical distribution policy are the degree of perishability of a product, the diversity of qualities and quantities in which products are usually offered for sale, delivery times, handling during delivery and the location and concentration of production. With regard to the purpose of use or destination of a processable or exportable agricultural product, the additional, often larger, number of handling steps, the timely supply of stocks where needed and the balancing of the product flow to the needs of local and foreign markets are considerations.

Traditionally, much attention has been paid to physical distribution matters in agriculture. Nevertheless, it would appear to be useful under greater management orientation to take the following aspects into consideration:

- (i) A total cost approach is important. Conventional accounting information does not provide a full account of physical distribution costs, partly because the cost items are distributed over several independent organisations and partly because out-of-stock costs and the cost of lost sales are not recorded by conventional accounting systems. The competitive ability of a product, on the other hand, is to a large extent determined by the combined distribution effort of all the organisations concerned, irrespective of their own identity, as well as by timely availability at the points of consumption.
- (ii) Physical distribution is not only a cost matter, but can also serve as a measure to stimulate demand. The most important output of a physical distribution system is a satisfactory level of customer service, with as its most important elements the availability of the product, the order cycle, the in-stock position, frequency of delivery and reliability of deliveries.
- (iii) The spatial and other subaspects of physical distribution can easily be over-emphasised. An effective physical distribution policy requires an integrated total systems approach. In addition to the spatial aspects, particular attention should be paid to time aspects such as the ability of the distribution system to transmit the stock requirements of customers in good time to the supplying firm.
- (iv) The starting point of physical activities is the production apparatus of the producer. The farthest point is the final consumer. In agriculture interesting arrangements of a physical nature await inclusion in a management concept of the physical distribution task. In this respect, consider the spatial arrangement in the maize industry, where full control is exercised in respect of approximately 95 per cent of the production in area A, partial control in area B and no control in the other areas. In the citrus industry, thanks to the pool system, a pattern of transport exists which is aimed at the most fav-

ourable total advantage, but with due acknowledgement of divergent individual circumstances.

PRICE POLICY

In a particularly fundamental discussion of the policy considerations related to the price instrument, Rädels⁹ gives recognition to various contributions in Anglo-American, Continental and South African marketing literature, as well as to the requirements of actual practice. From this it is clear that theoretical price-forming models tend to create the impression of exactness, but are of limited practical value when making price decisions. The models are nevertheless very valuable as a conceptual background. At the one extreme, the individual producer faced with a purely competitive market has no pricing jurisdiction. He cannot influence the pricing process. His pricing discretion increases the nearer he comes to a purely monopolistic situation. The pricing discretion of the monopolist is limited in the long term by only two basic factors, cost and elasticity of demand. In the case of the more common intermediate market forms, monopolistic competition and oligopoly, the producer has to consider cost and elasticity of demand and the competition offered by substitute products.

In any price situation allowing pricing discretion within certain limits the producer of a variety of related products will usually determine a *basic price* in the form of an imaginary average of the prices of different products. From the basic price it becomes possible to determine *differentials* on the basis of the particular circumstances of the product or market.

With the aid of the principle of marginal utility and the consumer surplus concept, Albaums¹⁰ succeeds in relating the principle of market segmentation to the price policy. The value of a product should be measured by the utility of the product. Consequently, pricing is a continuous process of adjusting to the last potential buyer's fluctuating utility concept of the product and is directed at persuading this interested buyer to purchase. When estimating demand for a product the market has to be stratified, necessitating the determination of the number of potential buyers willing to buy at different price levels. At the ultimate prices the last potential buyer in each group is supplied with an amount of "utility" equal to the particular price asked, while the other buyers in the same group receive a "surplus" amount of utility.

In practice, unfortunately, a single correct price is impossible to find. In addition to cost, demand and competition, pricing decisions have to be taken in the light of the application of the non-price instruments and the specific price is to a large extent also influenced

9. Rädels, F.E. and Reynders, H.J.J. *op. cit.*, Chapter 31.

10. Albaums, G. Price determination and administration, in Westing, J.H. and Albaums, C., (Eds.), *Modern marketing thought*. New York, The MacMillan Co., 1969, pp. 346 — 359.

by the total marketing programme. Thus a prohibitively high price at times leads to consumer resistance, a particular price may be dependent on good bargaining ability, or an extraordinarily low price may be preferred by virtue of possibilities of market development.

Basic price considerations, price differentials and the possibilities of market segmentation are observable in South African agriculture in respect of a fixed-price scheme, a pool scheme and a floor-price scheme and in the case of uncontrolled marketing. Under a fixed-price scheme certainty of price is obtained only at an early stage, mainly on account of the fact that prices are announced before the producers' delivery programme commences. Under a pool scheme producers have to take the risk of price fluctuations up to the moment of the final pool payment. Under a floor-price scheme the risk is reduced mainly in respect of the minimum price level. The producer marketing under no control takes the risk of price changes according to individual circumstances. A well-formulated management concept of agricultural marketing, on the other hand, offers the possibility of more perspective on the market forms that may exist in any enterprise, the particular factors significant in individual market segments, the role of stabilisation funds, the importance of cost considerations, the Government's share in determining prices and the constraining influence of obligations towards consumers and intermediaries that have to be met. More attention should be given in management literature and in practice to the more precise principles and enterprise implications of the pool system as an important price-stabilising alternative and a valuable technique in the pursuit of the most favourable total marketing effort, but recognising individual differences in quality, quantity, time and distance.

PROMOTION POLICY

The fairly uniform pattern on which the scope of a specific promotional effort is usually outlined in marketing literature is reflected by McCarthy¹¹.

In addition to advertising and personal sales promotion, the promotional effort can be supported by publicity, public relations and the other marketing instruments. Well-formulated promotion objectives, in accordance with the requirements of efficient communication and the needs and preferences of target markets, are given as prerequisites for finding the ultimate combination of personal and impersonal methods of promotion. A particular promotional "mix" is then seen as dependent on the availability and budgeting of funds, the stage in the product life cycle, the promotion objective, the nature of the market and the nature of the product. The measuring of advertising effectiveness is highly subjective and the most common method

is to design cost yardsticks for different media. Special emphasis is laid on the value of obtaining the specialised services of advertising agencies, doing marketing research, pre-testing advertising messages and planning the promotional programme thoroughly.

Kotler warns against an important misconception found at times, namely that personal promotion is unimportant when marketing to final consumers and advertising when marketing to industrial firms¹². Instead of pointing out in the traditional manner the factors with an influence on the promotional mix such as available funds, product life cycle, nature of the market, type of customer and type of product, Cash and Crissy¹³, in a more fundamental approach, reduce the relationship between advertising and personal promotion to the influences before, during and after the transaction. Advertising is an important influence in the pre-transactional phase and may also contribute in the post-transactional phase to the rationalising process of the buyer. The transaction itself is only in exceptional cases the direct result of advertising. Personal selling, on the other hand, is important in all the phases, but especially at the time of the transaction.

In South Africa the informative ways in which orderly selling of foodstuffs and fibres is promoted with the help of recipes, personal demonstrations, education and advertising, are well known and, in principle at least, responsible promotional methods. In the local and foreign markets the promotional methods applied in the marketing of products such as citrus, deciduous fruit, products of the vine, dried fruit, wool, mohair and karakul pelts already deserve high regard. Nevertheless, a clearly formulated marketing management concept ought to further the aim of applying a selection of methods most efficiently with a view to the conclusion of transactions in the long run. Furthermore, the already refined management procedure according to which institutions such as the Wool Board draw up their promotional plans and allocate, use and control their funds lends itself to much wider application, both in respect of the other marketing instruments and within other agricultural enterprises¹⁴.

CONCLUSION

With due regard to the contributions found in marketing literature and the circumstances within agricultural enterprises, the basic aspects of a product policy, distribution policy, price policy and promotion policy deserving inclusion in an agricultural marketing

11. McCarthy, E.J., *op. cit.*, Chapters 20 — 22.

12. Kotler, P., *op. cit.*, pp. 655 — 659.

13. Cash, H.C. and Crissy, W.J.E. Comparison of advertising and selling, in Kotler, P. and Cox, K.K. (Eds.). *Readings in marketing management*. Englewood Cliffs, N.J., Prentice-Hall, 1972, pp. 334 — 335.

14. Du Toit, C.M. 'n *Bedryfsekonomiese ondersoek na wolbemarking in Suid-Afrika met spesiale verwysing na bestuursbeplanning, -organisasie en -besluitvorming*. Unpublished D.Com. thesis, Potchefstroom, 1973, pp. 327 — 333.

management concept may be summarised schematically.

ferent market segments are important prerequisites for determining a basic price and differentials. A success-

POLICY INSTRUMENTS AT ENTERPRISE LEVEL IN AGRICULTURE			
Product	Distribution	Price	Promotion
Product concept	Channels	Market form	Mix
Quality	Physical service level		
Quantity	Warehouses	Utility concept	Budget
Time aspects	Stocks	Basic price	Allocation
Specialisation/diversification	Transportation	Differentials	Control
	Handling		

Under the heading of product policy attention should be given to the content of the product concept, quality aspects, quantity aspects and time aspects and the basic alternatives of specialisation versus diversification. For the planning and execution of a distribution policy thought should be given to the various channels to be used, the physical customer service level to be maintained, warehouses, stocks, transportation and handling. Under the price policy knowledge of the market forms relevant to a specific enterprise and the utility values established in respect of the product's dif-

ful promotion mix is dependent on selecting the most favourable combination of personal and impersonal promotional methods, budgeting rationally the amount required for the promotional programme, allocating the budgeted funds, and checking the methods applied.

The further identification or application of the marketing instruments within branches of the agricultural industry present interesting challenges to everyone with an interest in agricultural marketing management.