ON MARKET DEVELOPMENT FOR FOOD PRODUCTS*

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INTRODUCTION

With the industrialization that has been occurring in the agricultural sector, various agricultural commodity interests are increasingly recognizing the need for an organization for marketing [2, 3]. Once formed, commodity organizations commonly wish to develop markets for their product but likely lack the expertise to evaluate alternatives open to their organization for market development. In addition, no comprehensive statement of the market development concept has appeared in the literature. This situation lends impetus to the need for a definition and description of market development along with the alternatives which may exist for various marketing institutions.

This article proposes both a definition and description of market development for food products. After the definition is developed, market development is described by relating it to the various institutional levels within the marketing channel. Finally, an example of the definition applied to a commodity organization is cited.

Throughout the article the concept of market development is considered only for frequently purchased products, namely food products and general merchandise sold by retail grocers. It is not directly transferable to other products (consumer durables) without appropriate modification.

THE CONCEPT OF MARKET DEVELOPMENT

There have been several approaches to the "theory of marketing" such as commodity, institutional, managerial, functional, and systems approaches. The newest of these is the systems approach which has gained favor during the past decade. Of these approaches, only two have the potential of providing a theoretical base for marketing -- the functional and systems approach [4, p. 10]. Also, these approaches have been shown to be amenable to synthesis and convergent in terms of generalization [4]. If one accepts that these approaches are the only ones which have the potential of providing a theoretical base for marketing, that they complement each other and can be synthesized, then the concept and definition of market development should be integrated with them.

The Neoclassical Functional Approach

Lewis and Erickson [4] propose what could be termed the neoclassical functional approach to marketing. In the L-E paradigm, only two FUNCTIONS of marketing exist: (1) obtaining sales and (2) servicing sales. These functions are inherent in the marketing process, define marketing's role as distinct from production and finance, are self-explanatory, and identify the purpose of marketing.

To determine how marketing accomplishes these functions, a set of activities may be defined which are appropriate to each function. In addition, a third set of activities which are not unique to function (i.e. transpermeate functions) can be defined. The functions are complementary since the ability of a firm to service sales may determine how successfully the function of obtaining sales is performed. Also, any particular firm need not necessarily perform all the activities related to both functions. For any particular firm or product, the activities related to obtaining sales which are economic to perform

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depend upon the nature of demand for product or firm's output [5].

The Definition of Market Development

Utilizing the neoclassical functional approach as a base, market development can be defined as that set of activities appropriate to the function of obtaining sales. Conceptually, market development activities represent the vehicle for accomplishing this marketing function. In this context, sales are "obtained" in two ways: (1) increase market share within the geographic region currently being served and/or (2) expand the geographic region. Market development then is primarily constituted of non-price competition components (such as product differentiation, product proliferation, market segmentation, and advertising - promotion) aimed at increasing market share or geographic penetration, both ultimately obtaining sales.[1] Price competition is also a market development activity aimed at increasing market share.

This definition of market development hinges upon the intended goals of the activities. The definition differentiates among all possible activities which are performed in marketing since activities such as warehousing, inventory management, transportation, or order processing are not market development activities. The transpermeating activities are peripherally related to market development since these activities do facilitate the obtaining sales marketing function.

MARKET DEVELOPMENT ACTIVITIES BY INSTITUTIONS

Market development then is defined as that set of activities aimed at obtaining sales and, therefore, influencing the purchase decision of either intermediaries or final consumers. After so defining market development, an explicit statement of these activities and their relationship to institutions at various levels in the marketing channel can be developed. Of all possible activities which could be included as market development activities, varying degrees of control and/or appropriateness exist by institutional level within the marketing channel.

Suppose the marketing channel is viewed as composed of three broad categories of institutions: (1) retailer, (2) wholesaler, and (3) processor and/or manufacturer. At each institutional level market development activities that can be controlled and/or performed differ, although there is a significant amount of overlap (Tables 1, 2, and 3).

Even though the same market development activity may appear under two or all three institutional levels this does not imply that this activity would be performed with equal frequency at all levels for all products or for the same product. For example, "repack" as an activity appears under both the retail and wholesale segment, but when repacking is done, it may be done most commonly at the retail level for some particular product (e.g. grapefruit). Conversely, other products may be repacked most frequently by the wholesale segment (e.g. onions).

The possible market development activities for each institutional level are mostly self-explanatory. The only situation which needs additional exposition is the transpermeating activities listed for the wholesale and processor-manufacturer levels (Tables 2 and 3). The general activity of "account servicing" applies to both marketing functions. Here the complementary nature of the activities to the functions make them impossible to separate by function.

A Classification of Market Development Activities

A useful classification of these possible market development activities is the dichotomous distinction of "pull type" or "push type." The "pull type" activity is some stimuli directed primarily toward the ultimate or final consumer whereas the "push type" is some stimuli directed primarily toward an intermediary. The same market development activity may be either push or pull type depending on the institution which performs it. Others are clearly one type or the other.

As an example of the former situation, specialty advertising may be performed by either the wholesaler or manufacturer and directed toward either the retailer or final consumer. To illustrate the latter situation, consignment can be a potent market development activity for a manufacturer but is clearly of the push type.

This classification results in the conclusion that all market development activities controlled and/or performed by the retailer are pull type activities. However, at the wholesaler or processor-manufacturer level, marked development activities may be either push or pull type. For example, price competition as a market development activity performed at the retail level is pull type. Price competition at any other institutional level may be pull or push type depending

[1] Note that the goal of increasing market share is a general one. Even if actual market share is declining, for whatever reason, the goal of market development activities then would be to slow the rate of decline in market share. This would be interpretatively equivalent to the goal of increasing market share.

Table 1. POSSIBLE MARKET DEVELOPMENT ACTIVITIES AT RETAIL LEVEL

Non-price Competition
- 1. Merchandising
  - a. quality and quantity of display space
  - b. point-of-purchase material
  - c. packaging
    - 1. special labeling
    - 2. repack (including retail meat merchandising)
    - 3. private labeling
- 2. Advertising and promotion
  - a. mass media
  - b. hand bills (direct mail to delivery)
  - c. trading stamps
  - d. couponing
  - e. in-store demonstration
  - f. specialty advertising
  - g. in-store feature (similar to 1.a)

Price Competition
- 1. Loss leader
- 2. In-store feature
- 3. Division or chain-wide feature

Table 2. POSSIBLE MARKET DEVELOPMENT ACTIVITIES AT WHOLESALE LEVEL

Non-price Competition
- 1. Merchandising
  - a. point-of-purchase material
  - b. packaging
    - 1. special labeling
    - 2. repack
- 2. Advertising and promotion
  - a. media advertising
    - 1. mass
    - 2. trade
  - b. specialty advertising
  - c. couponing
  - d. in-store demonstration
  - e. tie-in arrangements, advertising allowance, or cooperative advertising

Price Competition

Transpermeating

Account servicing
- a. credit (terms of sale)
- b. shelf stocking (rack-jobber function)
- c. delivery
- d. capital equipment subsidies, direct or indirect

Table 3. POSSIBLE MARKET DEVELOPMENT ACTIVITIES AT PROCESSOR - MANUFACTURER LEVEL

Non-price Competition

1. Merchandising
    a. point-of-purchase material
    b. packaging
        1. sizes
        2. quality
        3. labeling
    c. display contests or other non-price retailer incentives such as:
        1. manufacturers' coupons for dealers
        2. department store redemption program
        3. partial liquidation programs
    d. real product differentiation
    e. product proliferation - market segmentation - new product development
2. Advertising and promotion
    a. media advertising
        1. mass
        2. trade
    b. specialty advertising
    c. couponing
    d. in-store demonstration
    e. tie-in arrangements, advertising allowance, or cooperative advertising

Price Competition

Transpermeating

Account servicing

a. delivery
b. capital equipment subsidies, direct or indirect
c. terms of sale
    1. credit
    2. consignment
d. shelf stocking (rack-jobber function)

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on whether or not that competition affects the absolute level of retail price, only the margin, or both.

Combinations of Activities

One of the questions facing any particular institution in the marketing channel wishing to develop a product's market is what combination of push and pull activities should be employed. This suggests the minimization of:

(1) $P_H Q_H + P_L Q_L$

subject to:

(2) $S^* = f(Q_H, Q_L)$

where Q_H and Q_L are quantities of push and pull activities, P_H and P_L are unit prices of push and pull activities, respectively, and S^* is some fixed level of sales response. By introducing the Lagrange multiplier λ, the function becomes:

(3) $P_H Q_H + P_L Q_L - \lambda[f(Q_H, Q_L) - S^*]$

and the minimum cost combination of push and pull activities subject to a given sales response is:[2]

(4) $(P_L / P_H) = (\partial f / \partial Q_L) / (\partial f / \partial Q_H)$

In this case, the expansion path defined by condition (4) traces out the least-cost combination of push and pull activities for various levels of sales response or the combination of push and pull activities which will maximize sales response for various levels of expenditures.

Some Hypotheses About Combinations

This analytic framework produces some interesting hypotheses which have importance for marketing strategy. Assume that, for a new product, exposure of the product (e.g. familiarity among wholesale-retail buyers and/or shelf space) is the most critical factor to initial success, then time has a direct bearing on the isoquant map. This leads to the first hypothesis framed in a comparative statics context: If

[2] For expository convenience, the optimization problem is stated as if there are only two activities. Of course, since Q_H and Q_L are actually complex sets of market development activities, equation (3) could be stated as $\sum_{i=1}^{n} P_i X_i - \lambda[f(X_1, X_2, \ldots X_n) - S^*]$ where X_i is the i^{th} market development activity (either push or pull) and P_i is its price.

t is some initial time period beginning at product introduction, then a product's expansion path for push and pull activities (with push activities on the vertical axis) at time t will lie above and to the left of the expansion path at time t + 1. P_L and P_H are assumed to remain unchanged from t to t + 1. This hypothesis stems from the lemma that the parameters of equation (2) are such that, at time t, Q_H has a relatively larger effect on S* than does Q_L but that these parameters change to be relatively more favorable to Q_L as the product moves through its life cycle.

The second hypothesis which has implications for agricultural producers concerns activity combinations for generic versus branded products. Assume that generic products are relatively less responsive to pull-type market development activities than are branded products since consumer identification of these products through brand image is lacking. This leads to the second hypothesis: The generic product's expansion path for push and pull activities (with push activities on the vertical axis) will lie above and to the left of a branded product's expansion path. Similar to the first hypothesis, this hypothesis stems from the lemma that the parameters of (2) are such that Q_H has a relatively larger effect on S* than does Q_L for a generic product compared to its branded counterpart.

The implications of these hypotheses are most important. Given that the first hypothesis is correct, then during the initial stage of a product's life cycle the optimum combination of push and pull activities will be composed of more push activities than the optimum combination at some later stage. The posited link between product life cycle and the appropriateness of various market development activities obviously would influence marketing strategy.

The second hypothesis has particular significance for agricultural producer groups which support market development activities for their commodity since these are often in the generic category. The second hypothesis, if correct, implies that the optimum combination of market development activities for these groups should be weighted more toward push activities than (say) a corporation with the same market development budget for a branded product.

AN EXAMPLE

The Texas Valley Citrus Committee has had a budget of approximately six hundred thousand dollars annually for market development during the past several seasons. Over ninety percent of this budget has been spent for mass media advertising and point-of-purchase material [1]. Thus, expenditures have relied on pull type market development activities, almost to the exclusion of push type.

According to Connolly, one of the more severely limiting factors in the market development success of the industry has been the lack of recognition among wholesale and retail buyers in some Midwest markets that Texas fruit was available [1]. In this regard, the market development problem for Texas citrus, to a large degree, has been to expand the geographic region in which the product is marketed. Lack of familiarity with product availability among intermediaries clearly indicates that a larger budget allocation should be made on push activities. Field representation for the industry has been lacking in most markets. All of these problems have culminated in lack of display space for Texas fruit in several markets where Texas has a transportation advantage.

Given the definition of market development and the classification of activities as outlined earlier, the conceptualization of the industry's problem is that market development activities have not been optimally combined for the goal of expanding geographic region. The theoretical combination of activities as previously determined [equation (4)] is, of course, difficult if not impossible to quantify. However, this does not prevent application of the theory by observation. The implication is that a greater proportion of the industry's relatively fixed budget should be directed to push activities. This would, at least, be a more nearly optimal allocation of their budget.

CONCLUSIONS AND IMPLICATIONS

The definition of market development and the description of the activities comprising market development as given above lead to these conclusions or implications: (1) market development is not a marketing function but rather a set of activities appropriate for increasing market share and/or expanding the geographic region for a product, (2) the set of possible market development activities varies by institutional level within the marketing channel, (3) the same market development activity may be either push or pull type depending on the direction of the stimuli conveyed while others may be of only one type, (4) push type market development activities do not exist for the retail segment (by definition), these can be performed only by the wholesaler or processor - manufacturer segments and finally (5) determination of the optimum combination of push and pull type activities obviously has importance for firm strategy although quantification of the variables necessary for determining the optimum in most instances is difficult.

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