NATIONAL OPEN UNIVERSITY OF NIGERIA

COURSE CODE :AEM 616

COURSE TITLE:
AGRICULTURAL MARKETING AND COOPERATIVES

COURSE GUIDE

AEM 616
AGRICULTURAL MARKETING AND COOPERATIVES

Course Code	AEM 616
Course Title	Agricultural Marketing and Cooperatives
Course Developer/Writer	Prof. P.B Imoudu Dept. of Agricultural Economics & Extension, Federal University of Technology, Akure, Nigeria.
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Introduction

There is hardly a single, universally accepted definition of agricultural marketing. The concept has been defined in a variety of ways. It is often defined as the series of services involved in moving an agricultural commodity from the point of production to the point of consumption. This definition takes into account the activities of many organizations, and governments involved in commodity marketing in the developing world. However, this approach to agricultural marketing omits two key elements of any definition of marketing production to effuse the marketing concept: a customer orientation and inbuilt sustainability. In the light of this development, an alternative definition of agricultural marketing has emerged, which overcomes the problems posed by these two omissions. It has now been defined as a management orientation focusing all the activities of the organization on satisfying customer needs and wants thereby helping achieve the organization's long-term objectives.

The latter definition promotes both customer orientation and the organization's long-term sustainability. Thus, the marketing concept is that an organization achieves its goals through the provision of customer satisfaction. Agricultural marketing is also acknowledged as in integrative force that matches production to customer needs and satisfaction in the agricultural sector. It is instructive to note that the definition of agricultural marketing does not preclude non-profit organizations, including cooperatives. Therefore, agricultural marketing and cooperatives will be examined in a broad context in this course, highlighting their contributions to the agricultural sector.

The Course

This Course Guide tells you, in a nutshell, what you should expect, from going through this material. As individuals within a society become more specialized in their economic activities, they come to rely upon others, to supply at least some of the products and services which they need. Thus begins the process of exchange between buyers and sellers. As the economy develops and the number and types of exchanges expand, there is a corresponding need for increasingly specialized marketing services, including physical distribution, storage, grading, market information gathering, etc. The number of participants also increases, with many of the specialized services being provided by intermediaries between the seller and the ultimate buyer. The Course examines the concept of agricultural marketing, as well as its importance to the food and agricultural sector. It also highlights the marketing functions and various agricultural marketing agencies. The course discusses the role of market price in agricultural application of the theory of consumer behaviour to how buyers behave in demand for food commodities. It also examines basic qualitative and quantitative techniques in agricultural marketing. The course defines the concept of cooperatives and explores its genesis, as well as its role as a financing agent in rural development. It captures the problems of agricultural cooperatives in Nigeria and illustrates pertinent measures aimed at solving rural and agricultural production problems.

Course Aim

The aim of this course is to provide an understanding of agricultural marketing and cooperatives as well as their contributions to the agricultural sector. It also aims at examining the evolution, nature and scope of cooperative societies in Nigeria and their relevance to rural and agricultural development.

Course Objectives

This course, in addition to its aims, is set to achieve some objectives. At the end of this course, you should be able to:

- understand the relevance of marketing to the agricultural and food sectors
- explain the meaning of the marketing concept
- discuss the functions of marketing
- describe the nature and scope of agricultural cooperatives in Nigeria.

Working through the Course

In this course, you will be required to devote considerable time, reading through the material. The content of this material is very dense and it will require you spend great time studying it. This is the reason for the considerable efforts put into the development of this material in an attempt to make it very readable and comprehensive. You will however be required to put tremendous efforts in the reading and studying of the material. You should therefore avail yourself of the opportunity of being present during the tutorial sessions so that you would be able to compare knowledge with your colleagues.

Course Material

You are to be provided with two major materials, namely:

- Course Guide
- Study Units

The course, in addition, comes with a list of recommended text books. These text books are however not compulsory for you to acquire or read. They are necessary as supplement to the course material.

Study Units

This course is divided into five Modules and each Module is in turn divided into Units as follows:

Module 1 Concepts in Agricultural Marketing

Module 2 The Theory of demand and supply in Agricultural marketing

Module 3 Price Mechanisms in Food and Agricultural Commodities

Module 4 Commodity Marketing Systems

Module 5 Cooperatives in the Agricultural Sector

The first module introduces you to the concept in agricultural marketing. In it, you will be exposed to the various approaches to agricultural marketing. You will understand operational modes of agricultural and food marketing enterprises.

In the second module, you will be exposed to the theory of demand and supply in agricultural marketing. You will also be taken through the concept of agricultural market mechanism and its impact on both buyers and sellers.

In the third module, you will be familiar with price mechanisms in food and agricultural commodities. This module also introduces you to price dynamics in agricultural commodities, as well as pricing strategies.

In the fourth module, you will be exposed to commodity marketing systems. The module introduces you to stages in commodity marketing systems as well as related challenges. You will become familiar with different strategies in marketing various primary agricultural commodities.

The last module discusses the concepts and genesis of cooperative societies as an agent of rural and agricultural development. You will know the history of the cooperative movement and its relevance to agricultural production and rural development.

Text books

I shall like to recommend that you acquire more recent editions of these text books and read:

Kotler, P. (1988). *Marketing Management, Analysis, Planning, Implementation and Control*. Prentice Hall, New Jersey.

Gardeke, R.M. and Tootelian, D.H. (1983). *Marketing Principles and Applications.* West Publishing. Minnesota.

Kohls, R.L. and Uhl, J.N. (1990*). Marketing of Agricultural Products*. 6th edition. Macmillan Publishing, New York.

Abott, J.C. (1987). *Agricultural Marketing Enterprises for the Developing World.* Cambridge University Press, Cambridge.

Palmer, A. (2000). *Principles of Marketing*. Oxford University Press, Oxford.

Brown, S. (1995). *Postmodern Marketing*, London, Routledge.

Assessment

There are two components of the assessment for this course: Tutor Marked Assignment (TMA) at the end of each unit, and The End of Course Examination.

Tutor-Marked Assessment

As in many learning processes, where there is always a continuous assessment to keep the student refreshed of what has been learnt, the

TMA is a continuous assessment component of your course. It accounts for 30% of the total score you will obtain in this course.

End of Course Examination

The course is to be concluded by this examination. It constitutes 70% of the whole course. You will adequately be informed of the time of the examination. It should be noted that this examination may not coincide with the University semester examination. This and the tutor Marked Assignment will determine your final grade.

Summary

This intends for you to have an underlying knowledge of agricultural marketing and cooperatives. By the time you complete this course, you will be able to answer, convincingly, the following questions:

- ✓ Differentiate between the different concepts in agricultural marketing.
- ✓ What is the relevance of agricultural market to food production?
- ✓ What factors affect the demand and supply of agricultural commodities?
- ✓ What are the operational modalities of cooperative societies?
- ✓ What are the contemporary challenges of cooperative societies in Nigeria?

MAIN COURSE

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MODULE 1 CONCEPTS IN AGRICULTURAL MARKETING

UNIT 1 AGRICULTURAL MARKETING CONCEPT

CONTENTS

1.0 INTRODUCTION

Marketing is a discipline that is often misunderstood. Some people equate it with promotion, while others view it as a tool designed to 'sell things that people don't really want'. However, this misconception is changing, driven by contemporary business dynamics that recognize the strategic nature of marketing.

Marketing is essentially a concept that is applied to marshal the resources of an organization to meet the challenging needs of customers on whom the organization depends. Thus, customers' needs are the focal point for all marketing activity. Organizations therefore try to identify these needs and develop products that satisfy customers' needs through an exchange process. This approach to marketing has been adapted to the agricultural sector, allowing the free flow of goods and services to the rural economy.

2.0 OBJECTIVES

It is expected that at the end of this unit, you should be able to:

- develop a strategic awareness of agricultural marketing
- appreciate the elements of agricultural marketing
- understand the concept of agricultural marketing
- be able to impact such knowledge to others.

3.0 MAIN CONTENT

3.1 Agricultural Marketing as a Discipline

Agricultural marketing has evolved over the years as a separate discipline that studies the process of resource mobilization in the agricultural sector aimed at meeting the changing needs of customers. Agricultural marketing has developed into a system of interrelated component parts or sub-systems which have defined common goal. Thus an agricultural marketing system comprises all of the functions, and agencies which perform those activities that are necessary, in order to profitably exploit opportunities in the market place. Each of the components or sub-systems, are independent of one another but a change in any one of them impacts on the others, as well as upon the system as a whole.

3.2 Key Marketing Concepts

The marketing concept will be examined further in this section, with the definition of key concepts which lie at the heart of marketing. These include the concepts of needs, exchange, value, customers and markets.

3.2.1 Customers

Customers constitute a critical element of the marketing concept. They provide payment to an organization in return for the delivery of goods and services, becoming the focal point for an organization’s marketing activity. Customers can be described by many terms, including client, passenger, subscriber, reader, guest and student. The terminology depends on the nature of the relationship between an organization and its customers. A patient implies a caring relationship; a passenger implies an ongoing responsibility for the safety of the customer; while a client implies that the relationship is governed by a code of ethics (formal or informal). The customer is generally understood to be a person or organization which makes the decision to purchase a product and/or pays for it. Different customers within a market often have different needs, which they seek to satisfy. Thus, an organization would have to adapt its offering to meet the needs of each customer-consumer orientation or consumerism.

3.2.2 Needs

Customers are often motivated by the desire to satisfy complex needs. This should be the focal point of any marketing activity. Need refers to a mechanism which is deeply rooted in an individual's personality. How the individual goes about satisfying that need is usually conditioned by his cultural values. In some cultures, the need for self-fulfillment may be satisfied by a religious penance, while others may seek it from developing their creative talents. There is need to make clarification between needs and wants. Wants are culturally conditioned by the society in which an individual lives. Wants subsequently become effective demand for a product or service, where there is both a willingness and an ability to pay.

3.2.3 Value

For supplies of goods and services, value is usually represented by payment received. For customers, value is represented by the ratio of perceived benefits to price paid. Customers will evaluate benefits according to the extent to which a product or service allows their needs to be satisfied. Customers also evaluate how well a product's benefits add to their well-being, as compared to the benefits provided by competitors offerings. This process is placed in context in the following formula:

$$\text{Customer Perceived Value} = \frac{\text{Benefits derivable from a production}}{\text{Cost of acquiring the product}}$$

Customers often place value on a product offer which is quite different from the value presumed by the supplier. Business organizations succeed by adding value at a faster rate than they add to their own production costs. Value can be added by better specifying a product offer in accordance with customers' expectations, such as reassurance of effective after sales service.

3.2.4 Exchange

Societies differ in the ways they arrange for goods and services to be acquired. In some less developed societies, hunting for food or begging may be the norm. In centrally planned economies, the goods and services may be allocated to individuals and firms by central government planners. In modern market-based economies, goods and services are acquired on the basis of exchange. Exchange implies that one party makes some sacrifice to another party in return for receiving something which it values. The other party similarly makes a sacrifice and receives some thing that it values. In market-based economies there is a presumption that each party can decide whether or not to enter into exchange with the other, and each party is free to choose between a number of alternative potential partners. Exchange usually takes the form of a product or service being exchanged for money, although the bartering of goods and services is not uncommon in some trading systems. Exchanges should not be seen in isolation from the preceding and the expected subsequent exchanges between parties. Marketers are increasingly focusing on analyzing ongoing exchange relationships, rather than one-off and isolated exchanges, as depicted in figure 1:

Needs → Wants → Demand → $\boxed{\text{Exchange}}$ ← Offers for sale ← Research

Fig. 1.1: Relationship between Needs, Wants, Demand and Exchange

3.2.5 Markets

The term 'market' has traditionally been used to describe a place where buyers and sellers gather to exchange goods and services. However, the concept of market could be defined in terms of a more abstract concept of interaction between buyers and sellers. For example, the 'Nigerian Cattle Market' may be defined in terms of all buyers and sellers of cattle in Nigeria. Therefore, markets are defined with reference to space and time; so marketers may talk, for example, about sales of a particular type of grain in Nigeria's Middle Belt region in a given year. Also, various measures of the market are commonly used, including sales volume, sales value, growth rate, and level of competitiveness.

4.0 CONCLUSION

In this unit, you have been exposed to the concept of marketing, as well as the application of this concept in the agricultural sector.

5.0 SUMMARY

In this unit, you have learnt that:

- Marketing is the process of resource mobilization aimed at meeting the changing needs of the customer.
- The elements of marketing concept include needs, exchange, value, customers and markets.

6.0 TUTOR-MARKED ASSIGNMENT

i. What is the relevance of the study of marketing to the society?

ii. Mention the key concepts of marketing.

iii. What questions does marketing try to provide answers?

7.0 REFERENCES/FURTHER READING

Brown, O.S. (1995). *Post-modern Marketing*, London: Routledge.

Gronroos, C. (1989). 'Defining Marketing: A Market-Oriented Approach'. European Journal of Marketing, 23, 1, pp. 52-60.

Houston, F.S. (1986). 'The Marketing Concept: What it is and what it is not'. Journal of Marketing, 50, April, pp. 81-7.

UNIT 2 MARKETING SUB-SYSTEMS

CONTENTS

1.0 INTRODUCTION

It is common to find some companies adopting an ad.hoc approach to marketing, particularly when trading conditions become challenging. In well managed companies, however, marketing is an ongoing process, with no beginning or end. Ultimately, the aim of good marketing strategy is to allow a company to survive and produce at an acceptable level of profit. This process involves a sound marketing policy, including the ability to identify, anticipate, and respond to customers' needs. Therefore, a relationship marketing approach has been adopted by many leading firms, which starts by asking what customers need from a company and then proceeding to develop a response, which integrates all the functions of a business in a manner that evolves in response to customers' changing needs. This holistic approach to marketing therefore informs the emergence of various building blocks or sub-systems within the marketing framework.

2.0 OBJECTIVES

It is expected that at the end of this unit, you should be able to:

- demonstrate a deeper understanding of marketing strategies
- understand marketing sub-systems
- discuss marketing functions
- be able to impact such knowledge to others.

3.0 MAIN CONTENT

3.1 Marketing Sub-Systems

Marketing systems consists of four main sub-systems: production, distribution, consumption and regulatory, as depicted in Figure 1.1.

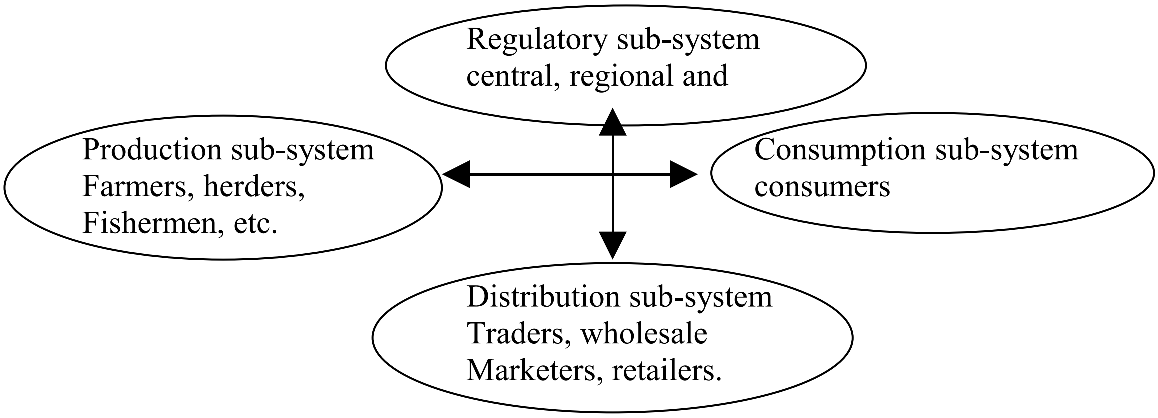


Figure 1.1: The Subsystems of a Marketing System

The key players in the chain of activities that connect the food and agricultural sector, for example, are the farmers, intermediaries, food processors and the consumer. The farmer's interest is focused on getting the best return from his produce, which usually equates the maximum price for unlimited quantities. Manufactures want least cost, best quality produce from the farmer, so that he can use it at competitive but profitable prices. Traders and retailers want high quality and reliable suppliers from the manufacturer or farmer, at the most competitive prices. Consumers, on the other hand, are interested in obtaining high quality products at low prices. Clearly, these scenarios present conflicting interests. This is against the backdrop of a strategic relationship that exists between these key players. It is obvious that, in the long run, any one of the four groups would find it difficult to survive, if the others do not.

3.2 Marketing functions

Three sets of functions are identifiable in marketing functions: exchange, physical and facilitating functions, as depicted in Table 3.1.

Figure 3.1: A Typology of Marketing Functions

A. Exchange functions	1. Buying 2. Selling
B. Physical functions	3. Storage 4. Transportation 5. Processing
C. Facilitating functions	6. Standardization 7. Financing 8. Risk bearing 9. Market intelligence

3.2.1 Exchange Functions

Exchange functions comprise two elements:

- **Buying:** The marketing concept holds that the needs of the customer are of paramount importance. A producer can be said to have adopted a market orientation when production is purposely planned to meet specific demands or market opportunities. Thus, a contract farmer who wishes to meet the needs of a food processor manufacturing sorghum-based malt drinks, for example, will only purchase improved sorghum seed. The processor will avoid any inputs likely to adversely affect the storage and/or processing properties of the sorghum and will continually seek new and better inputs, which will add further value to his product in the eyes of the customer. The buyer's motive is the opportunity to maintain or even increase profits and not necessarily to provide the best quality.

- **Selling:** Of the nine marketing functions listed earlier, selling is probably the one which people find the difficulty in associating with marketing. Indeed, to many, the terms marketing and selling are synonymous. This is hardly the case. Selling is part of marketing in the same way that promotion, advertising and merchandising are components, or sub-components of the marketing mix. These are all directed towards persuasion and are collectively known as marketing communications, one of the four elements of the marketing mix.

3.2.2 Physical Functions

These comprise storage, transportation and process:

- **Storage:** An inherent characteristic of agricultural production is its seasonality, while demand is generally continuous throughout the year. Hence, the need for storage to allow a smooth, and as far as possible, uninterrupted flow of product into the market.

- **Transportation:** The transport function is chiefly one of making the product available where it is needed, without adding, unreasonably, to the overall cost of the produce. Adequate performance of this function requires consideration of alternative routes and types of transportation with a view to achieving timeliness, maintaining produce quality and minimizing shipping costs.

- **Processing:** Most agricultural produce is not in a form suitable for direct delivery to the consumer when it is first harvested. Rather, it needs to be changed in some way before it can be used. However, it is for this very reason that processing ought to be included as a marketing function. The form changing activity is one that adds value to the product.

3.2.3 Facilitating Functions

The facilitating functions include product standardization, financing, risk bearing and market intelligence. Facilitating functions are those activities which enable the exchange process to take place. Marketing, in simple terms, is the act of supplying products to consumers in exchange for something perceived to be of equal or greater value. Facilitating functions are not a direct part of the exchange of a title or the physical movement of produce.

4.0 CONCLUSION

In this unit, you have been exposed to the various marketing sub-systems as well as marketing functions and relevant issues that concern these concepts.

5.0 SUMMARY

In this unit, you have learnt that:

- Marketing comprises a number of sub-systems, including production, distribution, consumption and regulatory.

- Marketing functions include exchange, physical and facilitating elements.

6.0 TUTOR-MARKED ASSIGNMENT

i. What are the main elements of marketing sub-systems?

ii. Describe the marketing function and their interrelationships

7.0 REFERENCES/FURTHER READING

Buttle, F. (ed.) (1996). *Relationship Marketing: Theory and Practice*, London, Paul Chapman.

Gordon, I. (1998). *Relationship Marketing: New Strategies, Techniques and Technologies to Win*, Chichester Wiley.

Achrol, R. (1991). 'Evolution of the Marketing Organisation: New Forms for Turbulent Environments', Journal of Marketing, Oct., pp. 77 – 93.

MODULE 2 THE THEORY OF DEMAND AND SUPPLY IN AGRICULTURAL MARKETING

UNIT 1 THE LAWS OF DEMAND AND SUPPLY

CONTENTS

1.0 INTRODUCTION

Demand and supply are fundamental elements of the market mechanism. They determine both price structure and movements in a free market. While demand is not just the desire of an individual to possess a product but also the ability to afford it; supply relates to the ability to produce a product at the prevailing market prizes. Therefore, there is a positive relationship between price and supply: the higher the price, the higher the quantity of a product supplied to the market. On the other hand, there is a negative relationship between demand and price: when the price is high, a lower quality of a product is demanded. The quantity demanded increases, however, when price reduces.

2.0 OBJECTIVES

It is expected that at the end of this unit, you should be able to:

- develop an awareness of demand and supply in the determination of prices
- appreciate the elements that determine the demand and supply of products and services
- understand the concept of elasticities of demand and supply
- be able to impart such knowledge to others.

3.0 MAIN CONTENT

3.1 The Theory of demand and supply

The theory of demand and supply provides the key to the market process as the prime determinant of prices. Price theory holds that all things being equal, as prices increase so demand falls and supplies increase. Figure 2.1 depicts the demand and supply schedules for a given product. For the purposes of illustration, assume that the product is kerosene. These schedules indicate the quantity of the product demanded and supplied at various prices within a given time period. At the intersection of these two curves is the point of equilibrium, the price at which the quantity supplied by sellers equates the quantity demanded by buyers. In this example, the equilibrium price is N100 per litre of kerosene. If however, producers were to supply more than 200 million litres into the market, then a new equilibrium point would be established at a lower price.

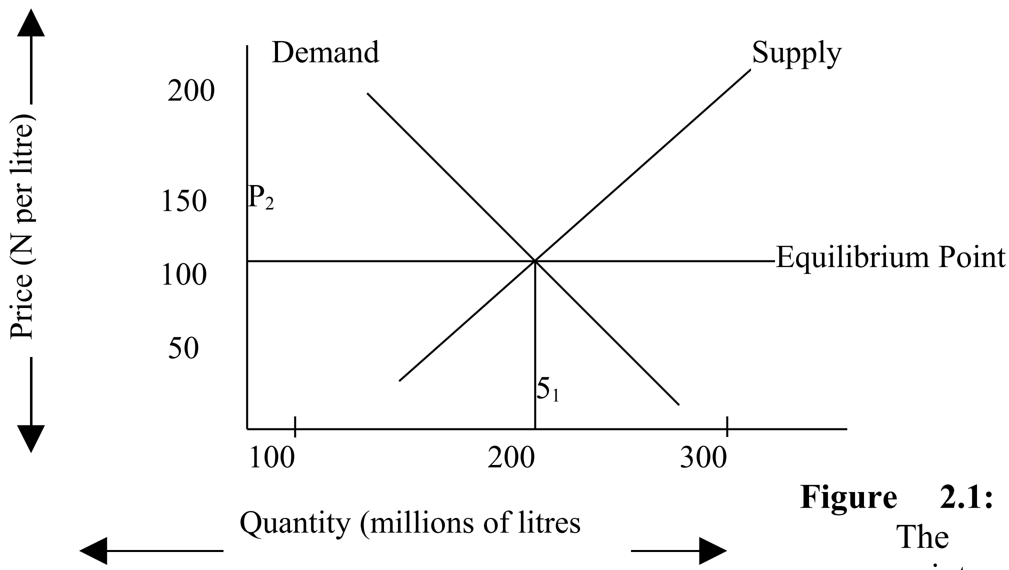
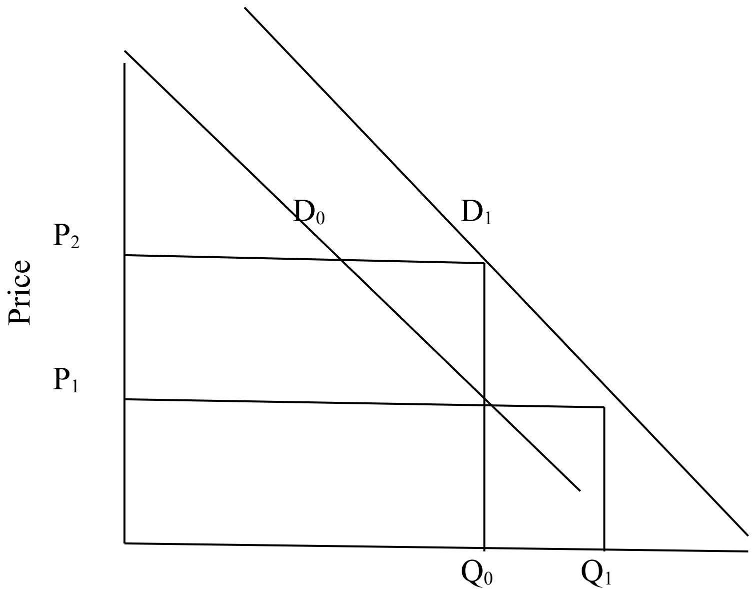


Figure 2.1: The point of Equilibrium in a Perfectly Competitive Market (for Kerozine.)

As discussed, a change in price of kerosene (other things being equal) will cause movement along these curves, but what if all other things are not equal? Suppose, for example, that one or more of the major determinants of demand, e.g. disposable income, were to increase, then the whole demand curve could shift to the right, as illustrated in figure 2.2. An increase in the price of a substitute product, such as domestic cooking gas, would have the same effect An increase in the price of complementary products would cause the demand for kerosene to shift to the right. Therefore, for instance, if the price of kerosene rises, then the increase in demand for complements, such as, cooking gas, would induce a shift in the whole demand curve for cooking gas from D_o to D_1 and demand would increase from Q_o to Q_1.



Q uantity of Cooking Gas

It is instructive to note that shifts in the supply curve also occurs and are a function of the product's own price, related product prices and non-price variables, which can bring about a shift in supply levels.

3.2 Elasticity of Demand and Supply

Elasticity of demand refers to the degree of change in demand, in response to a unit change in price of a commodity. A key question for many business organizations is how the level of demand for a product will change in response to a price change. For example, a farmer contemplating lowering the price of corn by 5 per cent will have to contend with the consequences of his action. While a 5 per cent reduction in price should attract more business for the farmer; provided the increased level of demand compensates for a revenue less in the reduction on price, the increase in demand may or may not compensate for the small margin per unit sold. Total revenue could either rise or fall, depending on how big the increase in demand is, in relation to the size of the price cut. Therefore, a 5 per cent increase in the price of corn is likely to result in the fall in the demand for the commodity. This impact of these events on total revenues, once more, depends upon the magnitude of the changes in demand, relative to the percentage change in price.

- A price cut will increase revenue only if demand is elastic and a price rise can only raise total revenue if demand is inelastic. Price elasticity of demand (or demand elasticity) is a measure of the responsiveness of buyers to price changes. The elasticity of demand is the percentage change in the quantity of a product demanded divided by the percentage change in its price thus:

$$\ell = \frac{\text{The percentage change in the quantity demanded}}{\text{The percentage change in the price}} = \frac{\%DQ}{\%DP}$$

- The price elasticity of supply of a product is the percentage change in the quantity of produce supplied, divided by the percentage change in its price. However, the question arises as to whether price and demand changes ought to be measured as percentages of their initial values or as percentages of their final values. A fall in the price of a litre of kerosene from, say, N50.00 to N40.00 could legitimately be reported as a 20 per cent reduction (N10/N50 x 100) or alternatively, viewed as a 25 percent decrease (N10/N40 x 100). To avoid confusion, and inconsistency in measuring elasticity, the average of the initial and final price or quantity demanded can be used as the basis for calculating the degree of price elasticity of demand, thus.

$$\text{Price elasticity of demand} = \frac{Q_2 - Q_1}{(Q_1 + Q_2)/2} + \frac{P_2 - P_1}{(P_1 + P_2)/2}$$

Where, P_1 and Q_1 denote the old price and quantity and where P_2 and Q_2 represent the new price and quantity, respectively.

- When the elasticity of demand or supply is greater than 1.0, that demand or supply is said to be elastic. A ratio of less than 1 indicates that demand or supply is inelastic. Elasticity will be zero, if the quantity demanded or supplied does not change at all, when price changes. The greater the elasticity, the bigger the percentage change in quantity demanded for a given percentage change in price.

What are the factors that influence the price elasticity of demand? They are as follows:

3.2.1. Availability of substitutes

Any commodity for which there are close substitutes is likely to have a highly elastic demand. Even relatively modest price increases are likely to bring about a size able fall in its demand, as consumers switch to substitutes. (This assumes that those substitutes continue to enjoy a price advantage over the commodity in question). Thus, the demand for corn is elastic because it has many substitutes: sorghum, millet, guinea corn, etc. Similarly, the demand for beef will be price elastic, where other meat products including poultry, lamb, goat and/or fish are available and perceived by consumers to be acceptable substitutes.

3.2.2 Number of uses to which a commodity can be put

The more uses a commodity has, the more elastic will its price tend to be. For example, modified starches can be used in a number of manufacturing processes, including paper production, adhesives, and a wide variety of processed foods. Therefore, a price reduction is likely to increase demand in several end-use markets and total demand could be dramatically affected.

3.2.3 Proportion of Income Spent on the Product

The larger the product's share of the consumer expenditure, the more sensitive will the consumers become to changes in its price. Consumers in developing countries, for example, spend in excess of 50 per cent of their disposable income on food, especially among the low income group, making the demand for most foods in poorer countries particularly more elastic than for comparable foodstuffs in developed economies.

2.2.4 Degree of commodity Aggregation

The price elasticity of demand will depend on how widely or narrowly a commodity is defined. The demand for beef is normally more price elastic than the demand for all meat. Similarly the price elasticity of all meat is likely to be more price elastic than the demand for all food. Commodity aggregation reduces the number of substitutes and increases the proportional share of the household budget.

4.0 CONCLUSION

In this unit, you have been exposed to the concept of demand and supply and their relationship in the market places. You have also been introduced to the price elasticity of demand and supply as well as the factors responsible to the elasticity of demand in the market place.

5.0 SUMMARY

In this unit, you have learnt that:

- Demand and supply are fundamental to the free market, determining both price structure and movements.
- Price elasticity refers to the degree of change in demand or supply to a unit change in the price of a commodity.

6.0 TUTOR-MARKED ASSIGNMENT

i. Define the concepts of demand and supply in a market economy

ii. Define price elasticity of both demand and supply.

iii. List the factors responsible for the price elasticity of demand.

7.0 REFERENCES/FURTHER READING

Dennett, A. (1997). *Macro-economic Environment*. Harlow, Longman.

Griffiths, A. and S. Wall (eds.) (1997). *Applied Economic: An Introductory Course*. 7th edition. Harlow. Longman.

Kay, J. (1996). *The Business of Economics*. Oxford. Oxford University Press.

UNIT 2 BREAKEVEN ANALYSIS

CONTENTS

1.0 INTRODUCTION

The Breakeven analysis is a tool for calculating that point in the sale of a product, where neither profit nor loss has been sustained. The breakeven point is therefore an indicator of the financial viability of a product. This information is particularly important for business organizations in establishing the price of a product, as well as determining its competitive position in the marketplace.

2.0 OBJECTIVES

It is expected that at the end of this unit, you should be able to:

- develop an understanding of the concept of Breakeven analysis
- the relevance of the breakeven analysis in the market environment
- be able to impact such knowledge to others.

3.0 MAIN CONTENT

The breakeven point is an important element in marketing goods. It is an important point for decision makers in an organization who are interested in establishing the point at which prices break even. The breakeven point is therefore where the number of units of the product sold, at a given price, is just sufficient to cover both the fixed and variable costs incurred. At sales volumes above the breakeven point, the firm moves into profit and at sales volumes below the breakeven point, the firm is making loss.

The formula for calculating the breakeven point is as follows:

$$\text{Number of Units of Breakeven} = \frac{\text{Fixed Costs}}{\text{Price-Variable Costs}}$$

Deducting the variable costs from the selling price gives the contribution each unit sold makes towards the fixed costs, as illustrated in the following example:
A fertilizer manufacturer's NPK Production facility carries fixed costs of ₦500,000.00. Assume that the variable cost of production, per bag of NPK, is ₦10.00 and that the company is considering selling to wholesalers at ₦20.00, it can be shown that, given these figures, the company needs to sell 50,000 bags of NPK before it breaks even.

$$\text{Number of units to breakeven} = \frac{₦500{,}000}{₦20 - ₦10}$$

$$= 50{,}000 \text{ units}$$

The breakeven analysis therefore establishes whether the size of the potential market, the prices of close competitors (if there are any) and elasticity of demand for their products is such that sales of this order can be achieved with relative ease.
Figure 2.2 depicts a graphical illustration of the above calculation..

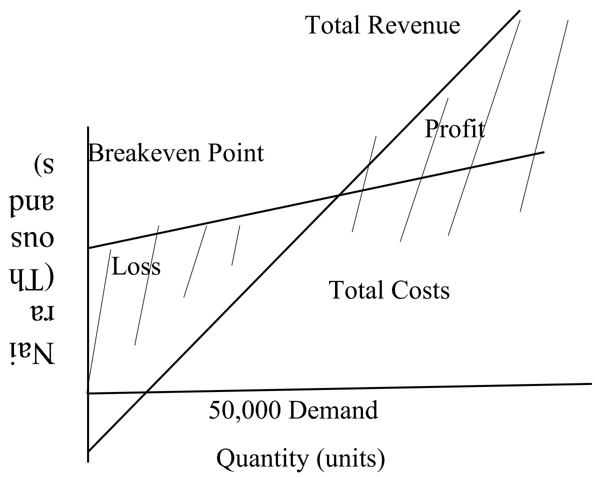


Figure 2.2: Calculating the Breakeven point.

In the aforementioned example, the firm will wish to estimate total sales, and therefore total profitability, at a selling price of ₦20 per bag. In many cases, marketing manager will repeat the same calculation for several possible selling prices.

Suppose that the demand for NPK fertilizer follows the conventional down ward sloping demand curve (i.e demand increases as the selling price falls) and that three possible wholesale prices are being considered: ₦15, ₦20, and ₦25. Table 2.1 shows the demand estimates at each of these prices and the corresponding breakeven points. As the selling price is raised the breakeven point falls and the per unit contribution to fixed costs increases. However it is achieving the right balance between the per unit contribution and demand. Thus, while the ₦25 price yields the best per unit contribution and the ₦15 price maximizes demand, it is the ₦20 price that gives the best profit.

Table 2.1: Estimating the Breakeven Points and Profits and Alternative Selling Prices.

Selling Price A (₦20)		Selling Price B (₦15)		(₦25)	
Demand	= 75,000 bags	Demand	= 125,000 bags	Demand	= 40,000 bags
Breakeven	= 500,000	Breakeven	=500,000	Breakeven	= 500,000
	20-10		15 – 10		25 – 10
Breakeven	= 50,000 bags	Breakeven	=100,000 bags	Breakeven	= 33,334 bags
Revenue	= N20 x	Revenue	= N15 x	Revenue	N25 x
	75,000		125,000		40,000
	= N1,500,000		= N1,875,000		= N1,000,000
Fixed Costs	= N500,000	Fixed Costs	= N500,000	Fixed costs	=N500,000
Variable	= N10 x	Variable	=N10 x	Variable	= N10 x
Costs	50,000	Costs	125,000	Costs	40,000
	= N500,000		= N1,250,000		= N400,000
Profit	= N500,000	Profit	N100,000	Profit	N100,000

The example serves to illustrate the point maximizing sales volumes and maximizing profits are not necessarily one and the same objective. It is equally useful in underlining the fact that maximizing sales revenues does not automatically provide the best profit out come. Breakeven analysis is therefore a tool which helps marketers evaluate the dynamic relationships between costs, volumes, revenues and profits with a view to making pricing decisions.

4.0 CONCLUSION

In this unit you have been exposed to the concept of breakeven analysis as well as its relevance in the marketplace. You have also been exposed to its application in establishing profitability, as well as the competitiveness of prices at which a given product could be sold in the market.

5.0 SUMMARY

In this unit, you have learnt that:

- The breakeven point is that point in sales where there is neither profit nor loss.
- The breakeven analysis is a tool that is used to determine the relative profitability of a product under different price scenarios.

6.0 TUTOR-MARKED ASSIGNMENTS

i. Define the concept of breakeven analysis.

ii. How does the concept assist marketers in determining the profitability of a product?

7.0 REFERENCES/FURTHER READING

Koller, P. (1997*).Marketing Management: Analysis Planning Implementation and Control*, 9th edition. Englewood Cliffs, N.J. Prentice – Hall.

Hildebrand, G. (1992). *Business Cycle Indicators: A Complete Guide to Interpreting the Key Economic Indicators*. Chicago. Probus Publishing.

MODULE 3 PRICE MECHANISMS IN FOOD AND AGRICULTURAL COMMODITIES

UNIT 1 ELEMENTS OF PRICING

CONTENTS

1.0 INTRODUCTION

Most of the decisions made by marketing managers involve spending their company's money-advertising, paying sales personnel, setting up distributor networks, new product development, etc. Price is therefore, the one element of the marketing mix, which directly affects the income that a company receives. In businesses with high turnovers and low profit margins, a miscalculation of selling prices can have a big effect on a firm's annual profit. If the company charges too little for its products, it may find that although it had achieved a very respectable level of sales, the low price charged is insufficient to give it any profit. Too high a price, on the other hand, may be unable to sell sufficient output to cover its fixed and cost overhead costs. It may also end up with unsold stocks of obsolete products. Consequently, pricing cannot be seen as an isolated element of a firm's marketing decision making. What the company is able to charge is closely related to, among other things, the quality of its products, the advertising images that it has created, and its distribution strategy.

2.0 OBJECTIVES

It is expected that at the end of this unit, you should be able to:

- understand the concept of pricing
- situate pricing as an element of the marketing mix
- appreciate other issues in product pricing
- be able to impart such knowledge to others.

3.0 MAIN CONTENT

For most firms, setting prices can be a difficult task, involving both scientific analysis and initiative trial and error. This is particularly true of new product launches, where a company has no historical precedent on which to base its expectations of how much customers will be prepared to pay.

3.1 Pricing strategy

This refers to the means by which an organization seeks to achieve its objectives. Strategic decisions about pricing can be strategic marketing decisions. For example, a strategy that seeks a premium price position must be matched by product development strategy that creates a superior product and a provisional strategy that establishes in buyers' minds the value that the product offers. Therefore, pricing strategies that embrace combinations anywhere along a line from high price/high quality to low price/low quality are sustainable strategic positions to adopt. On the other hand, a strategy that combined high price with low quality may be regarded by customers as poor value ad they are likely to desert such companies where they have a choice of suppliers. For most companies, such a strategy is not sustainable. A high quality (low price strategic position may also appear very attractive to buyers, but it too may not be sustainable. Many companies in their public pronouncements claim this to be their strategic position, but may pose certain problems:

1. Are they selling themselves short and failing to recover their full costs in their bid to please customers? Unless they are operating more efficiently than other companies in the sector there is the possibility that they are failing to make sufficient profits.

2. If a firm genuinely is able to offer lower prices for any given level of quality on the basis of greater efficiency, it must realize that its competitors may soon learn and copy its own levels of efficiency. Its prices will therefore no longer be the only sustainable low prices in the sector.

3.2 Pricing and the product life cycle

An effective marketing strategy must identify how the role of price is to function as a product goes through different stages in its life from the launch stage through growth to maturity. Where a company is supplying to a market where product differentiation is possible, it is able to take a long-term view on its price position. However, pressure on the product's price, and hence on its profitability will vary during the life of the product, as depicted in Figure 3.1.

Sales Volume

2

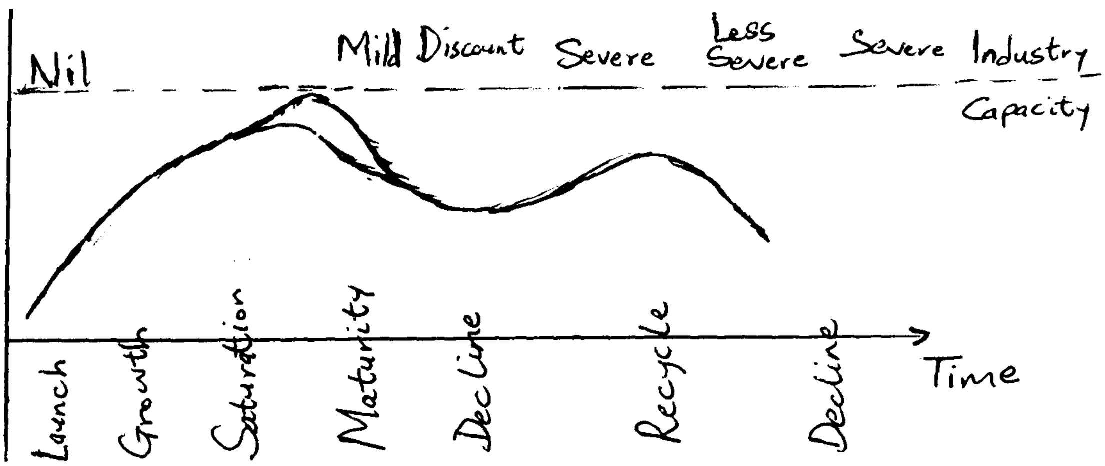


Figure 3.1: Pricing

Pressure and the Product Life Cycle

Lifetime pricing

Effective pricing is an integral part of marketing. This strategy is key to the development of on-going buyer-seller relationships which lie at the core of business. Rather than bargaining each transaction, companies usually try to view each transaction with a customer in the context of those that have gone before, and those that they hope will occur in future. Pricing levels with a prospective client may start off relatively low and build up progressively as both buyer and seller come to recognize the value of their relationship.

4.0 CONCLUSION

In this unit, you have been exposed to the concept of pricing, as well as pricing strategies. The issues have been discussed as an integral part of the marketing mix.

5.0 SUMMARY

In this unit, you have learnt that:

- Pricing is a key element of the marketing mix.
- Effective pricing is key to the determination of a company's profit profile.

6.0 TUTOR-MARKED ASSIGNMENT

i. How can pricing affect a company's income?

ii. Relate pricing to a product life cycle

iii. What are the main elements of an effective pricing strategy?

7.0 REFERENCES/FURTHER READING

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UNIT 2 PRICING DECISIONS

CONTENTS

1.0 INTRODUCTION

All the decisions with respect to the elements of the marketing mix are critical to the survival of any business organization. This is particularly so in the case of the price to ask for the product or service. The task of pricing is reiterative because it takes place within a dynamic environment: shifting cost structures affect profitability, new competitors and new products alter the competitive balance, changing consumer tastes and disposable incomes modify established patterns of consumption. This being the case, an organization must not only continually reassess its prices, but also the processes and methods it employs at arriving at these prices. Usually, a logical starting point is for an organization to clearly articulate what objectives it seeks to achieve through its pricing policies and then to evaluate the factors likely to impinge on the strategies which it seeks to adopt in pursuit of those objectives.

2.0 OBJECTIVES

It is expected that by the end of this unit, you should be able to:

- understand the process of making pricing decisions
- explain the wide range of objectives that organizations seek to achieve through their pricing decisions
- be able to impart such knowledge to others.

3.0 MAIN CONTENT

It is conventional practice for enterprises to have a hierarchy of objectives consistent with their vision and mission. At the apex of this hierarchy are the corporate objectives and it is from these that the organisation's marketing objectives could be derived. Price is acknowledged as an element of the marketing mix and therefore pricing objectives are defined in terms of their role within the marketing mix strategy, as illustrated in Figure 3.2:

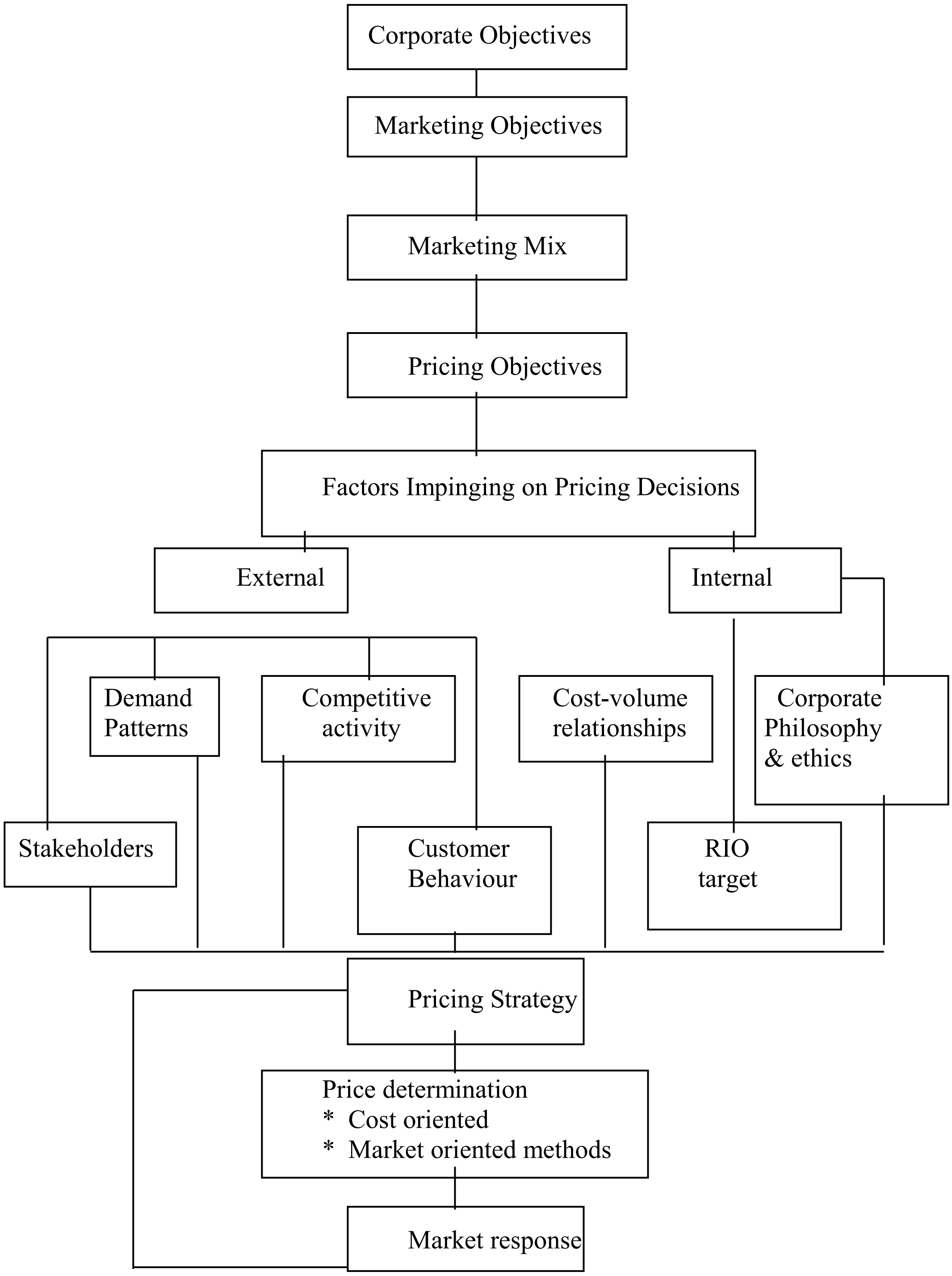

Figure 3.2: The Process of Price Determination

Whilst pricing objectives vary from one firm to another, they can be classified into six major groups: Profitability, volume, competitive, prestige, strategic and relationship objectives:

3.1 Profitability Objectives

Commercial enterprises and their management are assessed by their ability to produce acceptable profits. These profits may be measured in monetary values and/or as a percentage of sales and/or as a percentage of total capital employed. In addition to the overall profitability of the organization, the profitability of Strategic Business Units (SBUs), product lines and individual products are also monitored. The principal approach to ascertaining the point at which profits will be maximized is known as marginal analysis. Therefore, prudent managers are likely to take the strategic view when making pricing decisions. Often, they will not necessarily seek to maximize profits in the short-term at the expense of long-term objectives.

3.2 Volume Objectives

On occasion, the pricing decisions of managers have more to do with sales maximization than profit maximization. In these cases, organizations set a minimum acceptable profit level and then set out to maximize sales, subject to this profit constraint. This is common where, as a matter of policy, a company commits itself to mass marketing, as opposed to serving narrow market segments. Minimum sales volumes can be more important than profit maximization in another situation. Agricultural machinery manufacturers, for instance, will seek to keep volume up, even if it means sacrificing potential profits, if their factories and skilled work force are kept employed as a result. Another volume-related pricing objective is the maximization of market share. In this case the organisation's specific goals may be either to maintain its share of a particular market or to increase its market share.

3.3 Competitive Objectives

As with any other marketing decision, pricing decisions must take into account the current behaviour of competitors and seek to anticipate the future behaviour of those competitors. In particular, a company will wish to anticipate competitors' likely reactions if the pricing strategies and tactics it is considering are actually implemented. In some cases, competing firms will some times set out to match the industry leader's prices in a development that is known as 'Going-rate Pricing'. The net result is to take the emphasis away from price competition and refocus competition on to other elements of the marketing mix. In other cases, a firm will price its products with a view to discouraging competitors from entering the market or to force them out of the market. This is done by maintaining relatively low prices and profit margins.

3.4 Prestige Objectives

These are unrelated to profitability or volume objectives. These involve establishing relatively high prices to develop and maintain an image of quality and exclusiveness that appeals to status-conscious consumers. Such objectives reflect a recognition of the role of price in creating the image of an organization and its products and services.

3.5 Strategic Marketing Objectives

The objective of stabilizing prices is met in the same way as that of removing price as the basis of competition. That is, the company will seek to maintain its own prices at or around those of competitors. However, the aim is not to negate price as a possible marketing advantage, but to narrow the range of price differentials and fluctuations. Also, pricing decisions are often focused upon the aim of maximizing total profits rather than maximizing profits obtained from any single product within the portfolio. To this end, some products may be designated as loss leaders, whereby their price is set at a level that produces low or even negative returns in order to improve the sales and profitability of others within the range.

4.0 CONCLUSION

In this unit, you have been exposed to the processes of pricing decisions. The unit also comprised the objectives of pricing decisions made by business organizations to foster profitability.

5.0 SUMMARY

In this unit, you have learnt that:

- Pricing decision is a key determinant of profitability.
- Pricing objectives vary from one business organization to another designed to support their mission and vision.

6.0 TUTOR-MARKED ASSIGNMENT

i. How do business organizations make pricing decisions?

ii. Discuss the various forms of pricing objectives in business organizations.

iii. How does pricing decisions affect a business firm's profit level?

7.0 REFERENCES/FURTHER READING

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MODULE 4 COMMODITY MARKETING SYSTEMS

UNIT 1 CONCEPT OF COMMODITY MARKETING

CONTENTS

1.0 INTRODUCTION

The term 'commodity' is commonly used in reference to basic agricultural products that are either in their original form or have undergone only primary processing. Examples include cereals, coffee and cocoa beans, sugar, palm oil, eggs, milk, fruits, vegetables, beef, cotton, yam, cassava and rubber. A related characteristic is that the production methods, post-harvest treatments and/or primary processing to which they have been subjected, have not imparted any distinguishing characteristic or attributes. Therefore, within a particular grade, and with respect to a given variety, commodities coming from different suppliers, and even different countries or continents, are ready substitutes for one another. Agricultural commodities are also generic, undifferentiated products that compete with one another on the basis of price. Consequently, commodities contrast sharply with those products which have been given a trade mark or branded, in order to communicate their marketable differences.

2.0 OBJECTIVES

It is expected that at the end of this unit, you should be able to:

- understand the concept of commodity marketing
- discuss the elements of commodity marketing
- appreciate the main products involved in commodity marketing
- be able to impart such knowledge to others.

3.0 MAIN CONTENT

Commodity marketing is crucial to the success of the rural economy and is a key element in the development of the sector. In developing countries, commodity marketing has been undermined by a variety of factors, including a dearth of social and physical infrastructure, such as inaccessible roads and markets; lack of processing and storage equipment which exacerbates post-harvest losses, etc. This development has increased the risks associated with commodity marketing, playing a major role n the pricing of primary commodities in developing countries. Various countries also have policies relating to commodity marketing. Following national independence in many African and Asian countries, state agencies became the conduits for major commodities. They dictated prices and purchased commodities from farmers, often without recourse to market mechanisms. Over time, commodity prices offered farmers by state agencies were at variance with international market prices, prompting farmers to cut down production, or abandon their activities altogether. Consequently, production of commodities declined in many developing countries, undermining state revenue and impoverishing farmers, whose livelihoods have been undermined. However, in the early 1980s, many developing countries embraced economic reforms encapsulated under different economic frameworks including Structural Adjustment Programmes (SAPs). With economic reforms, most state-owned commodity agencies were abolished in a development that liberalized the rural economy in many countries. The advent of economic reforms permitted private entities and individuals to engage in commodity marketing under a deregulated framework. This development inspired competition, accompanied by favourable prices which encouraged farmers to produce more. Thus, production of commodities escalated in many countries, allowing rural farmers to benefit from international market prices, which was denied them prior to the 1980s.

3.1 Grain Marketing

Grains are an important element of agricultural commodities. Marketing of grains is therefore key to the success of many farmers and commodity marketing organizations. The principal players in grain marketing systems are producers, marketing boards (where they still exist), brokers, millers, livestock farmers, animal feed processors, other food manufacturers, grain exchanges and exporters. Figure 4.1 shows a typical grain marketing system.

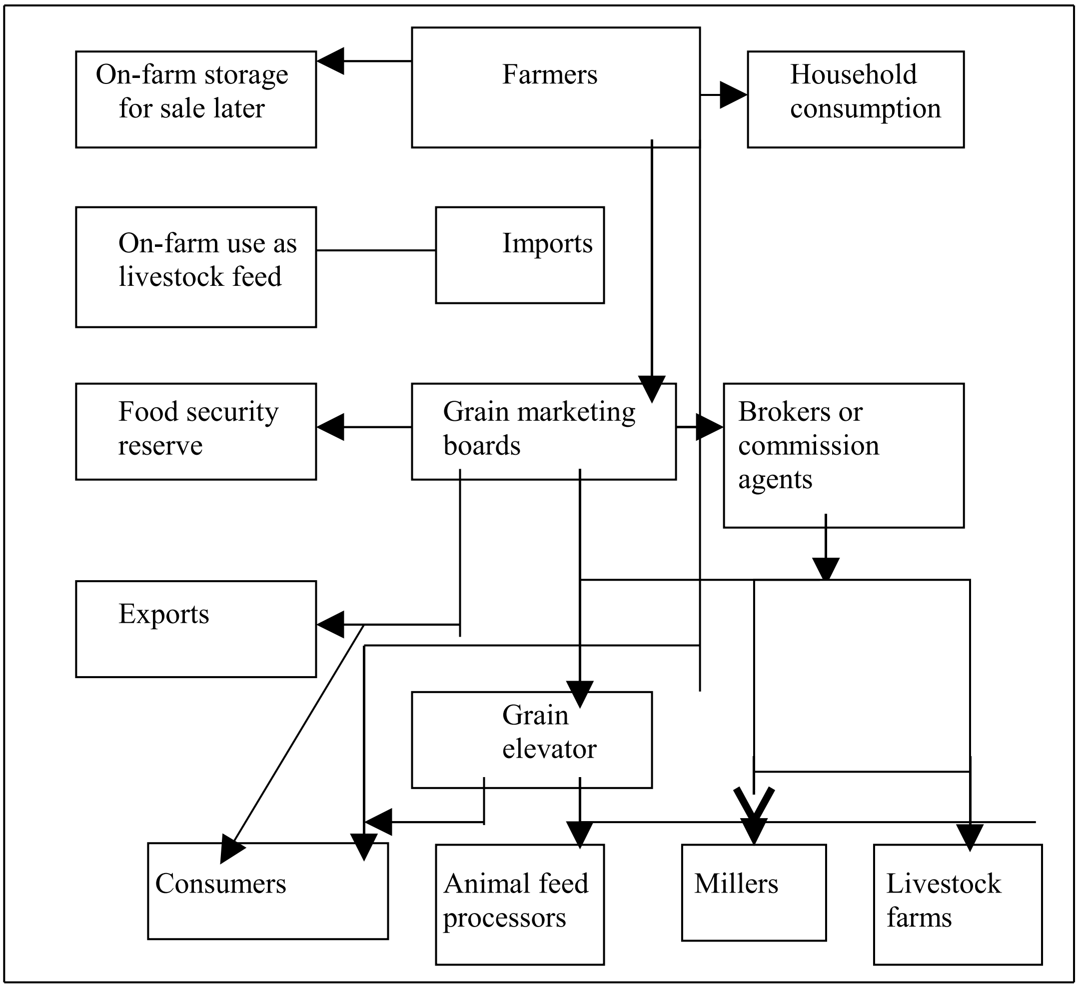
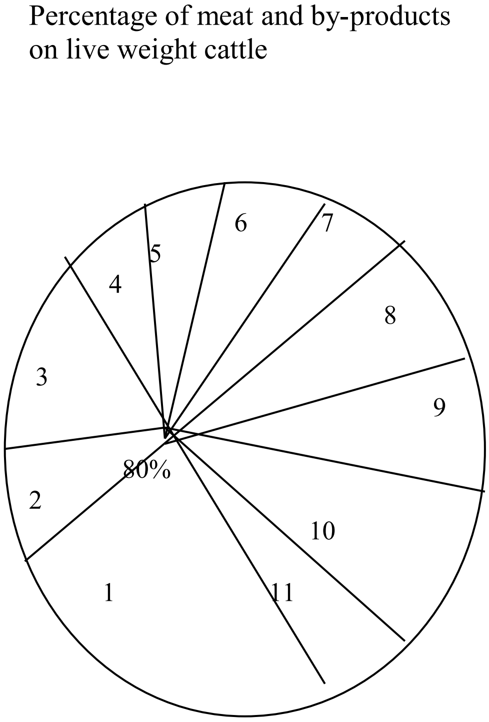


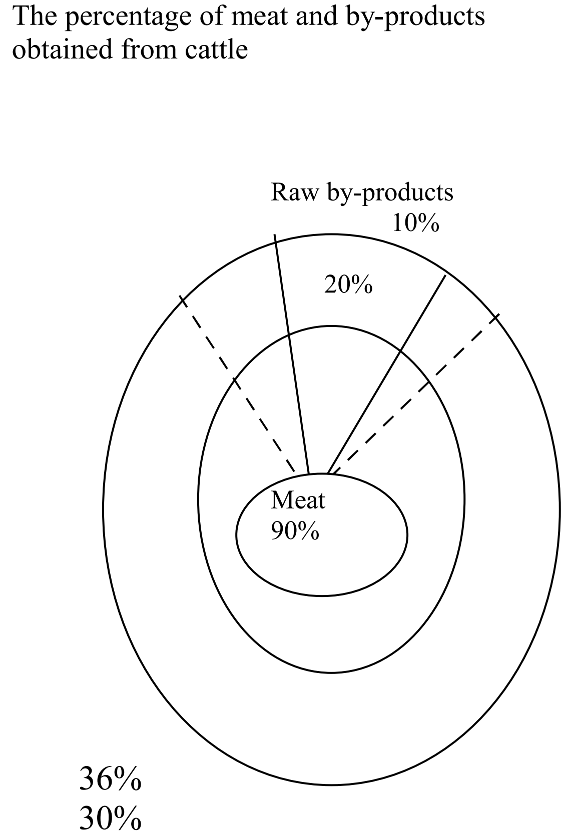
Figure 4.1: A Typical Grain Marketing System

The physical marketing system begins with the assembling and collecting points located in the rural areas close to the producers. The next stage involves the storage areas at the national grains marketing facilities owned by an appointed parastatal and/or private grain elevator, and the grain milling companies, which in some countries are privately owned and in others are government enterprises. Although the size and methods of operation differ from one country to another, the local assembling and collection points usually have grains brought to them either directly by farmer-producers themselves or by rural entrepreneurs. Thus, in the case of grain, the assembly and storage functions are typically combined at this marketing stage. A common feature of grain marketing systems is the co-existence of a government marketing agency and a parallel private marketing channel with a myriad of private traders. The second class of actors in the commodity marketing system is private agents. These include private individuals operating in the system as petty assemblers, traders, large scale merchants, millers (both large corporations and small rural operators), brokers and retailers of grain products.

3.2 Livestock and Meat Marketing

Livestock and meat marketing is important to both livestock farmers and meet marketing companies who trade in livestock and meat products. Figure 4.2 lists the most important categories of by-product and reveals that these account for almost two-thirds of the live weight of an animal. The recovery, processing and effective marketing of these by-products can make a significant difference to the level of returns to producers and, therefore, they are worthy of note.





1.	Meat	36%
2.	Green bones	30%
3.	Hide and trimmings	6.5%
4.	Blood	7.0%
5.	Horns and hooves	0.6%
6.	Small intestines	1.0%
7.	Large intestine and stomach	3.0%
8.	Ruminal contents	10%
9.	Glands and organs	4.5%
10.	Free fallow	1.5%
11.	Hair and other materials	0.9%

Figure 4.2: The economic importance of animal by-products

From the Figure, it is obvious that the meat component of an animal typically accounts for 80 percent of its value. In this context, livestock animals include cattle, sheep, goats and pigs. Producers attempt to adjust livestock product in keeping with demand often results in adverse market effects. The problem for livestock farmers is the inevitable lags between changes in demand and adjustments to supply. In order to expand meat supplies in response to anticipated increases in demand, livestock producers must channel animals into the breeding herd rather then the market. This pushes up meat prices over the short run. Conversely, when prices fall, farmers try to reduce production levels by selling off animals. The sell off increases meat supplies and further reduces prices over the short run. Profits are further squeezed by the increase in costs in the form of additional shortage and interest charges. This practice of adjusting future production according to present day prices results in marked output and price peaks and troughs. Often, livestock prices drop below production costs and thus retard the industry since producers become discouraged.

3.3 Poultry and Egg Marketing

Poultry farmers have three distinct types of birds from which to select their flocks:

* Hybrid Broilers: In addition to pure chicken breeds, specialized breeders sell chickens which are first crosses and multiple crosses. The latter are known as hybrids, gaining more weight quickly and lay more eggs than pure breeds and are therefore genetically used by poultry breeders. They are only suitable for commercial food production, having an excellent food/meat conversion ratio.

* Dual Purpose Birds: These give good carcasses when slaughtered but only moderate egg production. A mature female can be expected to weigh about 2.25kg. This type of bird has the advantage of rarely exhibiting cannibalism and is hardy against disease. However, they do tend to go broody and, consequently, egg production can decline.

* Light weight Birds: These are bred for egg production. Lightweights have excellent food conversion rates and rarely go broody. However, they do need good management and, therefore, are only recommended to experienced poultry farmers.

Poultry enterprises typically pass through distinct stages of development as outlined in Table 4.1.

Table 4.1: Development Stages of Poultry Enterprises

Item	1st Stage Backyard Poultry	2nd Stage Farm Flock	3rd Stage Commercial Poultry Farm	4th Stage Specialised Egg Production	5th Stage Integrated Egg Production
Sub-division of egg production	Day-old chick pullet growing feed production, mixed culled hens egg and manure integrated on farm	Hatchery production separate from poultry farming	Feed production separate from poultry farms	Chicken meat production becomes independent of poultry production in the form of the broiler industry	Separate enterprises re-integrated as a business
Main management characteristics	Natural hatching	Artificial hatching and sexing	Feed mixing	Egg processing plant	Controlled environment houses
Type of farming	Subsistence farming	Mixed farming	Joint egg and meat production	Egg industry (single commodity)	Egg complex
Labour	Part-time	Part-time	Full-time	Division of management of labour	Separate daily work and random work
Building	Free range	Water feeder	Water feeder	Manure disposal equipment	Egg belt automatically controlled house

Within the developing world, poultry and egg businesses may be found at all five stages of development although more commonly they are likely to be more at the first and second stages. Amongst peasant farmers; poultry are allowed to find their own food and water and roost where they can in the family compound. Under these conditions, it is not surprising that productivity is low and mortality rates among the birds are high. Commercial broiler and layer enterprises need to have a much higher level of technology and management. However, they too have their problems. In developing countries, commercial producers are relevant to varying extent, upon expensive imports of breeding stock, i.e. hatching eggs and/or day-old chicks, animal health products and vitamin and mineral additives for compound feeds.

3.4. The Marketing of Fresh Milk

Whilst milk can be converted to a range of dairy products, such as cheese, butter, yoghurt, dried powders, etc., these are not commodities. It is generally the case that the processing of milk into these products involves a measure of product differentiation. That is, the methods, techniques and technologies used in manufacturing dairy produce tend to impact unique characteristics to the finished product. Milk is extremely important human food. Not only is it a relatively cheap source of protein, it is also rich in minerals such as calcium and vitamins A, D and B2. The quality of milk is usually judged according to its butterfat content. In addition, buyers are also concerned that it should be free from diseases like tuberculosis. In all parts of the world, milk production is seasonal but the peaks and troughs are higher in the tropics. Production in the tropics peaks just after the rains, when there is lush pasture available and progressively declines the further into the dry season. As in the case of beef production, milk producers have to take into account the lengthy biological lags when trying to match the supply and demand for liquid milk. When there is an over-supply of milk, then it might be possible to channel some of the excess into making butter, cheese, yoghurt and other processed dairy products. However, the market for these products is finite too and although dairy products can be stored longer, higher levels of capital are tied up and interest charges are higher for storing these value added products, in comparison to milk.

4.0 CONCLUSION

In this unit, you have been exposed to the concept of commodity marketing, as well as its mechanisms. You have also been introduced to the market participants and the various products in commodity marketing.

5.0 SUMMARY

In this unit, you have learnt that:

- Commodity marketing relates to making available to consumers a variety of primary agricultural commodities.
- Commodity marketing involves many market players, including farmers, middlemen, and consumers.

6.0 TUTOR-MARKED ASSIGNMENTS

i. Define the concept of primary commodities.

ii. Describe major agricultural commodities, known to you.

iii. Compare and contrast grain marketing to poultry and egg marketing.

7.0 REFERENCES/FURTHER READING

Kohls,, R.L. and Ulo, J.M. (1990). *Marketing of Agricultural Products,* 6th edition, Macmillan Publishing, New York.

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UNIT 2 ELEMENTS OF COMMODITY MARKETING

CONTENTS

1.0 INTRODUCTION

A commodity marketing system encompasses all the participant in the production, processing and marketing of an undifferentiated or unbranded farm product such as cereals. Participants include farm input suppliers, farmers, storage operators, processors, wholesalers and retailers, involved in the flow of commodities from initial inputs to the final consumer. The commodity marketing system also includes all the institutions and arrangements that reflect and coordinate the successive stages of a commodity flow, such as government parastatals, trade associations, cooperatives, financial partners, transport groups and educational organizations related to the commodity. The commodity system framework includes the major linkages that hold the system together, such as transportation, contractual coordination, vertical integration, joint ventures, tripartite marketing arrangements, and financial arrangements. The systems approach emphasises the interdependence and inters relatedness of all aspects of agribusiness, namely: from farm input supply to the growing, assembling, storage, processing, distribution and ultimate consumption of the product.

2.0 OBJECTIVES

It is expected that at the end of this unit, you should be able to:

- understand the stages in a commodity marketing system
- discuss the linkages between the different stages in a commodity marketing system
- be able to impart such knowledge to others.

3.0 MAIN CONTENT

The marketing systems differ widely according to the commodity, the systems of production, the culture and traditions of the producers and the level of development of both the particular country and the particular sector of the economy in the country concerned. This being the case, the overview of the structure of the selected major commodities marketed, which, follows, is both broad and general. The major commodities whose marketing systems will be discussed herein are large grains, livestock and meat, poultry and eggs, cotton, fruit and vegetables and milk. Table 4.2 identifies the main stages of agricultural marketing in many countries.

Table 4.2: Stages In Agricultural Marketing

STAGE	EXAMPLES
Stage 1: Assembly	Commodity buyers specializing in specific agricultural products, including grain, cattle, beef, palm oil, cotton, poultry and eggs, milk.
Stage 2: Transportation	Independent transporters, transport companies, railways, airlines, etc.
Stage 3: Storage	Grain elevators, public refrigerated warehouses, controlled atmosphere warehouses, heated warehouses, freezer warehouses.
Stage 4: Grading and Classification	Commodity merchants or government grading officials
Stage 5: Processing	Food and fibre processing plants, including flour mills, oil mills, rice mills, cotton mills, wool mills, and fruit and vegetable canning or freezing plants.
Stage 6: Packaging	Makers of tin cans, cardboard boxes, film bags, and bottles of food packaging or fibre products.
Stage 7: Distribution and Retailing	Independent wholesalers marketing products for various processing plants to retailers (chain retail stores sometimes have their own separate warehouse)

In developing countries, government often plays a pivotal role in the marketing of farm products, particularly before the 1980s, when economic reforms were embraced in many countries. In recent times, however, the nature and degree of state involvement in commodity marketing defers, depending on the commodity and marketing functions. In general, government involvement is greatest in the case of grains, particularly rice and wheat, which are staple products in most countries. In some cases, government or state-owned enterprises are also directly involved in the marketing of specific industrial/commercial crops, including tee, rubber, sugar, palm oil and coconuts, which are major export commodities in many developing countries.

In general, governments in the developing world are particularly interested in influencing the production and marketing of staple crops since the price and level of variability of these commodities have impact on household food security and farm incomes. These, inturn, have implications for political stability and the extent to which there are inflationary pressure on wage rates. Also, government interest in export crops lies in the potential for foreign exchange earnings which are critical to economic growth and development in some of the world's poorest countries.

4.0 CONCLUSION

In this unit, you have been exposed to the elements of commodity marketing system, as well as the various stages in marketing of agricultural commodities.

5.0 SUMMARY

In this unit, you have learnt that:

- A variety of players are involved in the marketing of agricultural commodities.
- Marketing of agricultural commodities are in stages from the farm to the ultimate consumers.
- There are key linkages in the various stages of marketing agricultural commodities critical to the interests of farmers, middlemen and consumers.

6.0 TUTOR-MARKED ASSIGNMENTS

i. Discuss the major participants in the marketing of agricultural commodities.

ii. What are the different stages involved in agricultural commodities?

iii. Mention the significance of each sage in the marketing of agricultural commodities.

7.0 REFERENCES/FURTHER READING

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MODULE 5 COOPERATIVES IN THE AGRICULTURAL SECTOR

UNIT 1 THE NATURE OF COOPERATIVE ENTERPRISES

CONTENTS

1.0 INTRODUCTION

The Cooperative enterprise has its origins in the 19th century, in a development that has become one of the most ubiquitous examples of business/economic enterprise. Cooperatives exist in all countries of the world and operate under diverse political systems: from communism to capitalism. The majority of these cooperatives are, through their national apex organisations, ultimately in membership of the International Cooperative Alliance (ICA), the representative world body of all cooperative movements. The motivation to form cooperatives has three particular aspects:

1. The need for protection against exploitation by economic forces too strong for the individual to withstand alone.

2. The impulse for self-improvement by making the best use of often scarce resources.

3. The concern to secure the best possible return from whatever form of economic activity within which the individual engages, whether as a producer, intermediary or consumer.

4. It is often the belief that each of the above-mentioned aspirations can most advantageously be pursued and secured in concert with like-minded people that provide the stimulus to cooperative action. The underpinning principles that underlie the cooperative enterprise are those of self-help, voluntary participation, equity, democracy, and a common bond of common need and purpose. The cohesion of the group is maintained by ensuring that individual members cannot secure power or gain advantages at the expense of the others. Cooperatives reward participation in the cooperative venture, rather than rewarding capital. Self-interest is therefore a primary motivator in cooperative enterprises, with economic gain being the primary objectives.

2.0 OBJECTIVES

It is expected that at the end of this unit, you should be able to:

- understand the evolution and principles of the cooperative enterprise
- discuss the structure and organization of cooperative enterprises
- appreciate the advantages and limitations of cooperative ventures
- be able to impart such knowledge to others.

3.0 MAIN CONTENT

The cooperative movement has become an integral part of the rural economy in developing countries, characterized by the pooling of resources of subsistence farmers for the overall interest of members. In many developing economies, farm holdings are small, with farmers lacking in resources to earn sufficient income from their economic endeavours. In order to overcome endemic poverty in developing countries, individual farmers and rural organizations have embraced the concept of cooperative enterprise. They pool their resources to purchase farm inputs as well as marketing of agricultural products to take advantage of incentives inherent in economies of scale which cooperative enterprises present to their members.

3.1 Structure and Organisation of Cooperatives

There are two principal forms of cooperative enterprises: primary cooperatives and secondary cooperatives. The basic unit in the cooperative systems is the primary cooperative in which the shareholders are individuals, each of them having an equal share in its control.

3.2 The Control and Management of Primary Cooperatives

The control structure of cooperatives is made up of three tiers as depicted in Figure5.1. The General Meeting of Members makes policy and through this meeting members exercise control. In most countries, there is a legal requirement to hold an Annual General Meeting (AGM), which has the particular responsibilities of receiving and deciding upon an audited statement of account, as well as deciding how any surplus shall be used and distributed, and of electing a committee.

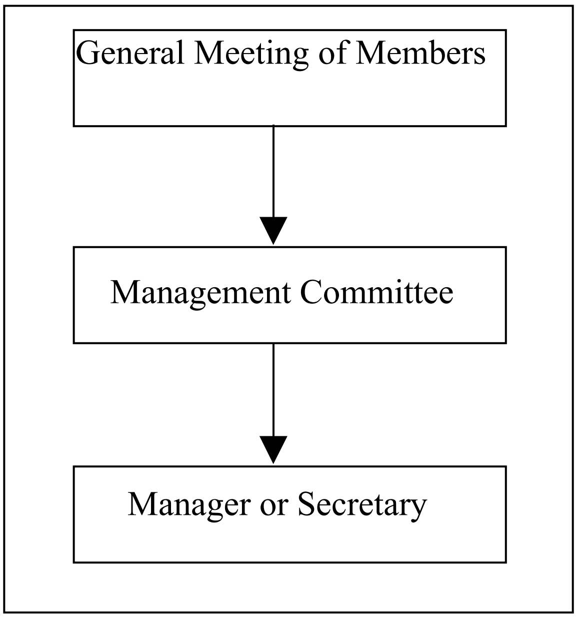

Figure 5.1: The Management Structure of Primary Cooperatives

The General Meeting of Members delegates the operational control of the cooperative to a management committee (or board of directors), which controls the works of the cooperatives on behalf of the members. One member of this committee is elected Chairman or President. A Manager (or Secretary) is appointed by the management committee as the chief administrative officer of the cooperative. He/She is responsible to the committee for the day-to-day control of the business.

3.3 The Control and Management of Secondary Cooperatives

The control and management of secondary cooperatives is similar in form to that of primary cooperatives. The shareholding members – the primary cooperatives – exercise policy control through the General Meeting and elect a management committee to act on their behalf. The Management committee in turn appoints a chief officer to manage the operation under its direction. The bye-laws of secondary cooperatives, as with the primaries, set down the organizational rules and procedures and are subject to the approval of the responsible local authority. The operating surplus of a secondary cooperative in also used and distributed, following the same principles as a primary cooperative. The secondary cooperative has, as its chief obligation, the provision of services to member cooperatives as indicated in Figure 5.2.

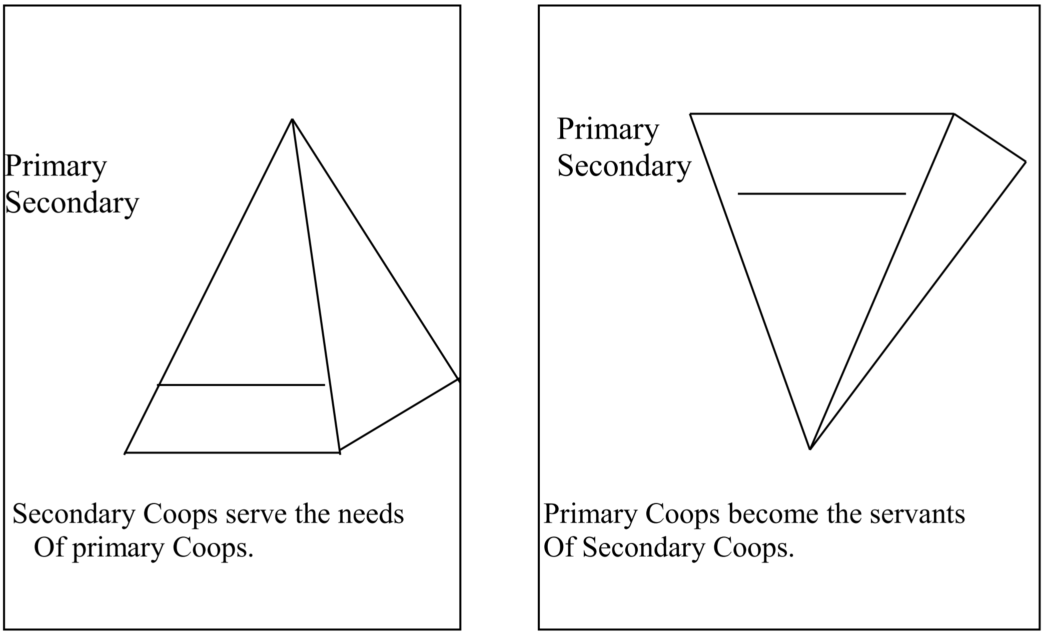

Figure 5.2: Primary and Secondary Cooperatives' Relationships

4.0 CONCLUSION

The economic potential of cooperatives is enormous. Cooperatives appear well suited to the economic, as well as social and institutional needs of development in the rural economy. Cooperatives can provide the mechanism to organize and mobilize people for self-help action in providing the services they need as a farming and rural community. As self-administered rural institutions, cooperatives have the capacity to reflect and to respond to the needs of their members; and, at the same time, to help foster attitudes of self-reliance and self-confidence within a framework of mutual aspirations and mutual action. In the delivery of services to their farmer-members, they can provide an essential support to the development objectives of both the farmers themselves, and of national development policy.

5.0 SUMMARY

In this unit, you have learnt that:

- Cooperative enterprises have enormous potential to contribute to the social and economic well-being of farmers.

- There are primary and secondary cooperatives.

- Cooperatives are veritable development tools to foster economic growth and poverty reduction.

6.0 TUTOR-MARKED ASSIGNMENTS

i. Trace the evolution of cooperative enterprises and their relevance to developing economies.

ii. Discuss the various types of cooperative enterprises.

iii. What are the inherent relationships between primary and secondary cooperatives?

7.0 REFERENCES/FURTHER READING

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UNIT 2 LIMITATIONS OF COOPERATIVE ENTERPRISES

CONTENTS

1.0 INTRODUCTION

The potential of cooperatives, and the extent of their development, has in many cases fallen far short of expectations. Low standard of performance, bad management, financial failure, corruption and misuse of funds, use of cooperatives for political ends, have been the common features of cooperative enterprise in many countries. Consequently, a great deal of understandable criticism has been leveled against the cooperative system, and many, including some members, have become cynical as to its ability to play an effective role in the development process.

2.0 OBJECTIVES

It is expected that at the end of this unit, you should be able to:

- understand the limitation of the cooperative enterprise
- the challenges that undermine the development and performance of cooperatives
- be able to impart such knowledge to others.

3.0 MAIN CONTENT

As business organizations, cooperatives have the capacity to act directly as development agencies. In their steady accumulation of business assets, the expanding range of their services, the acquisition and use of management skills, the employment of staff; they are involved in a positive and measurable development function. Despite the enormous potential of cooperatives, they are saddled with different constraints that undermine performance of this unique enterprise system. The constraints include the following:

1. Realism of Objectives: Objectives are expressions of purpose and expectation. Often members of cooperatives expect too much from their organizations. In many developing countries, there is a dearth of enabling environment for business to thrive.

2. Conflict between economic and social purposes: Economic success is basic to the achievement of cooperative societies. However, cooperatives in many countries have been misused for political ends in a development that undermines their performance.

3. Lack of good management: A major cause of failure amongst cooperative enterprises is the lack of management skills, which undermines economic performance.

4.0 CONCLUSION

In this unit, you have been exposed to the limitations of the cooperative enterprise, as well as the various constraints that undermine their performance.

5.0 SUMMARY

In this unit you have learnt that:

- Despite the enormous potentials of cooperatives they face a variety of constraints.

- The constraints undermine the capacity of cooperatives to foster development in low-income countries.

6.0 TUTOR-MARKED ASSIGNMENTS

i. What are the major attributes of cooperative enterprises?

ii. List the various constraints undermining the performance of cooperatives.

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