

7. Distribution (business) and Agricultural marketing

7.1 Distribution

Product distribution (or place) is one of the four elements of the marketing mix. Distribution is the process of making a product or service available for use or consumption by a consumer or business user, using direct means, or using indirect means with intermediaries.

The other three parts of the marketing mix are product, pricing, and promotion.

7.1.1 Channels and intermediaries

Distribution of products takes place by means of channels. Channels are sets of interdependent organizations (called intermediaries) involved in making the product available for consumption. Merchants are intermediaries that buy and resell products. Agents and brokers are intermediaries that act on behalf of the producer but do not take title to the products.

7.1.2 Channel design

A firm can design any number of channels. Channels are classified by the number of intermediaries between producer and consumer. A level zero channel has no intermediaries. This is typical of direct marketing. A level one channel has a single intermediary. This flow is typically from manufacturer to retailer to consumer.

Intensive distribution The producer's products are stocked in the majority of outlets. This strategy is common for basic supplies, snack foods, magazines and soft drink beverages.

Selective distribution Means that the producer relies on a few intermediaries to carry their product. This strategy is commonly observed for more specialised goods that are carried through specialist dealers, for example, brands of craft tools, or large appliances.

Exclusive distribution Means that the producer selects only very few intermediaries. Exclusive distribution is often characterised by exclusive dealing where the reseller carries only that producer's products to the exclusion of all others. This strategy is typical of luxury goods retailers such as Gucci.

7.1.3 Channel mix

In practice, many organizations use a mix of different channels; in particular, they may complement a direct sales-force who typically call on larger customers with agents who cover the smaller customers and prospects. In addition, online retailing or e-commerce is leading to disintermediation. Retailing via smartphone or m-commerce is also a growing area.

7.1.4 Managing channels

The firm's marketing department needs to design the most suitable channels for the firm's products, then select appropriate channel members or intermediaries. The firm needs to train staff of intermediaries and motivate the intermediary to sell the firm's products. The firm should monitor the channel's performance over time and modify the channel to enhance performance.

7.1.5 Channel motivation

To motivate intermediaries the firm can use positive actions, such as offering higher margins to the intermediary, special deals, premiums and allowances for advertising or display. On the other hand, negative actions may be necessary, such as threatening to cut back on margin, or hold back delivery of product.

7.1.6 Channel conflict

Channel conflict can arise when one intermediary's actions prevent another intermediary from achieving their objectives. Vertical channel conflict occurs between the levels within a channel and horizontal channel conflict occurs between intermediaries at the same level within a channel.

7.2 Agricultural marketing

Agricultural marketing covers the services involved in moving an agricultural product from the farm to the consumer. Numerous interconnected activities are involved in doing this, such as planning production, growing and harvesting, grading, packing, transport, storage, agro- and food processing, distribution, advertising and sale. Some definitions would even include "the acts of buying supplies, renting equipment, (and) paying labor", arguing that marketing is everything a business does. Such activities cannot take place without the exchange of information and are often heavily dependent on the availability of suitable finance.

Marketing systems are dynamic; they are competitive and involve continuous change and improvement. Businesses that have lower costs, are more efficient, and can deliver quality products, are those that prosper. Those that have high costs, fail to adapt to changes in market demand and provide poorer quality are often forced out of business. Marketing has to be customer-oriented and has to provide the farmer, transporter, trader, processor, etc. with a profit. This requires those involved in marketing chains to understand buyer requirements, both in terms of product and business conditions.

In Western countries considerable agricultural marketing support to farmers is often provided. In the USA, for example, the USDA operates the Agricultural Marketing Service. Support to developing countries with agricultural marketing development is carried out by various donor organizations and there is a trend for countries to develop their own Agricultural Marketing or Agribusiness units, often attached to ministries of agriculture. Activities include market information development, marketing extension, training in marketing and infrastructure development. Since the 1990s trends have seen the growing importance of supermarkets and a growing interest in contract farming, both of which impact significantly on the way in which marketing takes place.

7.2.1 Agricultural marketing support

In the United States the Agricultural Marketing Service (AMS) is a division of USDA and has programs for cotton, dairy, fruit and vegetable, livestock and seed, poultry, and tobacco. These programs provide testing, standardization, grading and market news services and oversee marketing agreements and orders, administer research and promotion programs, and purchase commodities for federal food programs. The AMS also enforces certain federal laws. USDA also provides support to the Agricultural Marketing Resource Center at Iowa State University and to Penn State University.

In the United Kingdom support for marketing of some commodities was provided before and after the Second World War by boards such as the Milk Marketing Board and the Egg Marketing Board, but these were closed down in the 1970s. As a colonial power Britain established marketing boards in many countries, particularly in Africa. Some continue to exist although many were closed down at the time of the introduction of structural adjustment measures in the 1990s.

In recent years several developing countries have established government-sponsored marketing or agribusiness units. South Africa, for example, started the National Agricultural Marketing Council (NAMC) as a response to the deregulation of the agriculture industry and closure of marketing boards in the country. India has the long-established National Institute of Agricultural Marketing (NIAM). These are primarily research and policy organizations, but other agencies provide facilitating services for marketing channels, such as the provision of infrastructure, market information and documentation support. Examples include the National Agricultural Marketing Development Corporation (NAMDEVCO) in Trinidad and Tobago and the New Guyana Marketing Corporation.

Several organizations provide support to developing countries to develop their agricultural marketing systems, including FAO's agricultural marketing unit and various donor organizations. There has also recently been considerable interest by NGOs to carry out activities to link farmers to markets.

7.2.2 Agricultural marketing development

Well-functioning marketing systems necessitate a strong private sector backed up by appropriate policy and legislative frameworks and effective government support services. Such services can include provision of market infrastructure, supply of market information (as done by USDA, for example), and agricultural extension services able to advise farmers on marketing. Training in marketing at all levels is also needed. One of many problems faced in agricultural marketing in developing countries is the latent hostility to the private sector and the lack of understanding of the role of the intermediary. For this reason “middleman” has become very much a pejorative word.

7.2.3 Agricultural advisory services and the market

Promoting market orientation in agricultural advisory services aims to provide for the sustainable enhancement of the capabilities of the rural poor to enable them to benefit from agricultural markets and help them to adapt to factors which impact upon these. As a study by the Overseas Development Institute demonstrates, a value chain approach to advisory services indicates that the range of clients serviced should go beyond farmers to include input providers, producers, producer organizations and processors and traders.

7.2.4 Market infrastructure

Efficient marketing infrastructure such as wholesale, retail and assembly markets and storage facilities is essential for cost-effective marketing, to minimize post-harvest losses and to reduce health risks. Markets play an important role in rural development, income generation, food security, developing rural-market linkages and gender issues. Planners need to be aware of how to design markets that meet a community's social and economic needs and how to choose a suitable site for a new market. In many cases sites are chosen that are inappropriate and result in under-use or even no use of the infrastructure constructed. It is also not sufficient just to build a market: attention needs to be paid to how that market will be managed, operated and maintained. In most cases, where market improvements were only aimed at infrastructure upgrading and did not guarantee maintenance and management, most failed within a few years.

Rural assembly markets are located in production areas and primarily serve as places where farmers can meet with traders to sell their products. These may be occasional (perhaps weekly) markets, such as haat bazaars in India and Nepal, or permanent. Terminal wholesale markets are located in major metropolitan areas, where produce is finally channelled to consumers through trade between wholesalers and retailers, caterers, etc. The characteristics of wholesale markets have changed considerably as retailing changes in response to urban growth, the increasing role of supermarkets and increased consumer spending capacity. These changes require responses in the way in which traditional wholesale markets are organized and managed.

Retail marketing systems in western countries have broadly evolved from traditional street markets through to the modern hypermarket or out-of-town shopping center. In developing countries, there remains considerable scope to improve agricultural marketing by constructing new retail markets, despite the growth of supermarkets, although municipalities often view markets as sources of revenue rather than infrastructure requiring development. Effective regulation of markets is essential. Inside the market, both hygiene rules and revenue collection activities have to be enforced. Of equal importance, however, is the maintenance of order outside the market. Licensed traders in a market will not be willing to cooperate in raising standards if they face competition from unlicensed operators outside who do not pay any of the costs involved in providing a proper service.

7.2.5 Market information

Efficient market information can be shown to have positive benefits for farmers and traders. Up-to-date information on prices and other market factors enables farmers to negotiate with traders and also facilitates spatial distribution of products from rural areas to towns and between markets. Most governments in developing countries have tried to provide market information services to farmers, but these have tended to experience problems of sustainability. Moreover, even when they function, the service provided is often insufficient to allow commercial decisions to be made because of time lags between data collection and dissemination. Modern communications technologies open up the possibility for market information services to improve information delivery through SMS on cell phones and the rapid growth of FM radio stations in many developing countries offers the possibility of more localized information services. In the longer run, the internet may become an effective way of delivering information to farmers. However, problems associated with the cost and accuracy of data collection still remain to be addressed. Even when they have access to market information, farmers often require assistance in interpreting that information. For example, the market price quoted on the radio may refer to a wholesale selling price and farmers may have difficulty in translating this into a realistic price at their local assembly market. Various attempts have been made in developing countries to introduce commercial market information services but these have largely been targeted at traders, commercial farmers or exporters. It is not easy to see how small, poor farmers can generate sufficient income for a commercial service to be profitable although in India a new service introduced by Thompson Reuters was reportedly used by over 100,000 farmers in its first year of operation. Esoko in West Africa attempts to subsidize the cost of such services to farmers by charging access to a more advanced feature set of mobile-based tools to businesses.

7.2.6 Marketing training

Farmers frequently consider marketing as being their major problem. However, while they are able to identify such problems as poor prices, lack of transport and high post-harvest losses, they are often poorly equipped to identify potential solutions. Successful marketing requires learning new skills, new techniques and new ways of obtaining information. Extension officers working with ministries of agriculture or NGOs are often well-trained in horticultural production techniques but usually lack knowledge of marketing or post-harvest handling. Ways of helping them develop their knowledge of these areas, in order to be better able to advise

farmers about market-oriented horticulture, need to be explored. While there is a range of generic guides and other training materials available from FAO and others, these should ideally be tailored to national circumstances to have maximum effect.

7.2.7 Enabling environments

Agricultural marketing needs to be conducted within a supportive policy, legal, institutional, macro-economic, infrastructural and bureaucratic environment. Traders and others cannot make investments in a climate of arbitrary government policy changes, such as those that restrict imports and exports or internal produce movement. Those in business cannot function if their trading activities are hampered by excessive bureaucracy. Inappropriate law can distort and reduce the efficiency of the market, increase the costs of doing business and retard the development of a competitive private sector. Poor support institutions, such as agricultural extension services, municipalities that operate markets inefficiently and export promotion bodies, can be particularly damaging. Poor roads increase the cost of doing business, reduce payments to farmers and increase prices to consumers. Finally, the ever-present problem of corruption can seriously impact on agricultural marketing efficiency in many countries by increasing the transaction costs faced by those in the marketing chain.

7.2.8 Recent developments

New marketing linkages between agribusiness, large retailers and farmers are gradually being developed, e.g. through contract farming, group marketing and other forms of collective action. Donors and NGOs are paying increasing attention to ways of promoting direct linkages between farmers and buyers within a value chain context. More attention is now being paid to the development of regional markets (e.g. East Africa) and to structure trading systems that should facilitate such developments. The growth of supermarkets, particularly in Latin America and East and South East Asia, is having a significant impact on marketing channels for horticultural, dairy and livestock products. Nevertheless, “spot” markets will continue to be important for many years, necessitating attention to infrastructure improvement such as for retail and wholesale markets.