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Agricultural Marketing (Definition and Scope)

Marketing is as critical to better performance in agriculture as farming itself. Therefore, market reform and marketing system improvement ought to be an integral part of policy and strategy for agricultural development. Although a considerable progress has been achieved in technological improvements in agriculture by the use of high-yielding variety seeds and chemical fertilisers, and by the adoption of plant protection measures, the rate of growth in farming in developing countries has not attained the expected levels. This has been largely attributed to the fact that not enough attention was devoted to the facilities and services which must be available to farmers if agriculture is to develop.

Agricultural marketing was, for many decades, not fully accepted as an essential element in agricultural development in the countries of Asia and Africa. Although opinions differ as to the extent and precedence, there was general agreement till 1970 that the question of markets for agricultural commodities had been neglected¹. Agricultural marketing occupied a fairly low place in agricultural development policies of developing countries. The National Commission on Agriculture (1976) and Farmers Commission (2007) had emphasised that it is not enough to produce a crop or an animal product; it must be satisfactorily marketed.

CONCEPT AND DEFINITION

The term *agricultural marketing* is composed of two words—agriculture and marketing. Agriculture, in the broadest sense, means activities aimed at the use of natural resources for human welfare, i.e. it includes all the primary activities of production. But, generally, it is used to mean growing and/or raising crops and livestock. Marketing connotes a series of activities involved in moving the goods from the point of production to the point of consumption. It includes all activities involved in the creation of time, place, form and possession utility.

Philip Kotler² has defined marketing as a human activity directed at satisfying the needs and wants through exchange process. American Marketing Association defined marketing as the performance of business activities that directs the flow of goods and services from producers to users.

The interest of scholars and development thinkers in marketing of agricultural commodities began with a focus on food or foodgrains marketing and on marketing

of agricultural raw material (cotton, jute etc.). In early 1970s, Moore, Johl and Khushro³ conceptualized foodgrains marketing as business activities involved in moving foodgrains from farmers to consumers through time (storage), space (transport), form (processing), and transfer of ownership at various stages in the marketing channel. Later, Kohls and Uhl⁴ defined foodgrains marketing as the performance of all business activities involved in the flow of food products and services from the point of initial agricultural production until they are in the hands of consumers.

According to Thomsen⁵, the study of agricultural marketing comprises all the operations, and the agencies conducting them, involved in the movement of farm-produced foods, raw materials and their derivatives, such as textiles, from the farms to the final consumers, and the effects of such operations on farmers, middlemen and consumers. This definition does not include the input side of agriculture.

Agricultural marketing system in developing countries including India can be understood to compose of two major sub-systems viz., product marketing and input (factor) marketing. The actors in the product marketing sub-system include farmers, village/primary traders, wholesalers, processors, importers, exporters, marketing cooperatives, regulated market committees and retailers. The input sub-system includes input manufacturers, distributors, related associations, importers, exporters and others who make available various farm production inputs to the farmers.

Agricultural marketing is the study of all the activities, agencies and policies involved in the procurement of farm inputs by the farmers and the movement of agricultural products from the farms to the consumers. The agricultural marketing system is a link between the farm and the non-farm sectors. It includes the organisation of agricultural raw materials supply to processing industries, the assessment of demand for farm inputs and raw materials, and the policy relating to the marketing of farm products and inputs.

According to the National Commission on Agriculture (XII Report, 1976), agricultural marketing is a process which starts with a decision to produce a saleable farm commodity, involves all the aspects of market structure or system, both functional and institutional, based on technical and economic considerations, and includes pre- and post-harvest operations, assembling, grading, storage, transportation and distribution.

However, as Acharya⁶ has described, in a dynamic and growing agricultural sector, the agricultural marketing system ought to be understood and developed as a link between the farm and the non-farm sectors. A dynamic and growing agricultural sector, requires fertilisers, pesticides, farm equipments, machinery, diesel, electricity, packing material and repair services which are produced and supplied by the industry and non-farm enterprises. The expansion in the size of farm output stimulates forward linkages by providing surpluses of food and natural fibres which require transportation, storage, milling or processing, packaging and retailing to the consumers. These functions are variously performed by non-farm enterprises. Further, if the increase in agricultural production is accompanied by a rise in real incomes of farm families, the demand of these families for non-farm consumer goods goes up as the proportion of income spent on non-food consumables and durables tends to rise with the increase in real per capita income. Several industries, thus find new markets for their products in the farm sector.

Agricultural marketing, therefore, can be defined as comprising of all activities involved in supply of farm inputs to the farmers and movement of agricultural products

(food, feed and fibre) from the individual farms to the ultimate consumers. According to this definition, agricultural marketing system includes the assessment of demand for farm-inputs and their supply, post-harvest handling of farm products, performance of various activities required in transferring farm products from farm gate to processing industries and/or ultimate consumers, assessment of demand for farm products and public policies and programmes relating to the pricing, handling, and purchase and sale of farm inputs and agricultural products.

NEED FOR UNDERSTANDING

A decision on an appropriate strategy, the evolution of a proper policy and a choice of policy instruments calls for a continuous flow of advice, information and assessment of the existing system. Every system generates impulses as a result of environmental changes. These impulses have to be observed, recorded, analysed and interpreted for the benefit of the policy-makers.

A study of the agricultural marketing system is necessary for an understanding of the complexities involved and the identification of bottlenecks with a view to providing efficient services in the transfer of farm products and inputs from producers to consumers. An efficient marketing system minimizes costs, and benefits all the sections of the society.

The expectations from the system vary from group to group; and, generally, the objectives of various groups are in conflict. The efficiency and success of the system depends on how best these conflicting objectives are reconciled.

- *Producers:* Producer-farmers want the marketing system to purchase their produce without loss of time and provide the maximum share in the consumer's rupee. They want the maximum possible price for their surplus produce from the system. Similarly, they want the system to supply them the inputs at the lowest possible price.
- *Consumers:* The consumers of agricultural products are interested in a marketing system that can provide food and other items in the quantity and of the quality required by them at the lowest possible price. However, this objective of marketing for consumers is contrary to the objective of marketing for the farmer-producers.
- *Market Middlemen and Traders:* Market middlemen and traders are interested in a marketing system which provides them a steady and increasing income from the purchase and sale of agricultural commodities. This objective of market middlemen may be achieved by purchasing the agricultural products from the farmers at low prices and selling them to consumers at high prices.
- *Agro-Processors:* Those who are engaged in processing of agricultural commodities are interested in farm products (raw material) which are suitable for processing and able to give higher output of processed products with least wastage. They want these products at lower prices.
- *Agri-Exporters:* Exporters of agricultural commodities expect the marketing system to provide them the farm products which meet the international quality standards at minimum and reasonable prices.
- *Government:* The objectives and expectations of all the three-groups of society—producers, consumers and market middlemen—conflict with one another. All the groups are indispensable to society. The government has to act as a watch-dog to safeguard the interests of all the groups associated in marketing. It tries to provide

the maximum share to the producer in the consumer's rupee; food and other farm products of the required quality to consumers at the lowest possible price; and enough margin to market middlemen so that they may remain in the trade and not think of going out of trade and jeopardise the whole marketing mechanism. Thus, the government wants that the marketing system should be such as may bring about the overall welfare to all the segments of society.

The overall objective of agricultural marketing system in a developing country like India should be to help the primary producers viz., the farmers in getting remunerative prices for their produce on the one hand and to provide right type of goods at the right place, in the right quantity and quality at a right time and at right prices to the processors and/or ultimate consumers on the other.

SCOPE AND SUBJECT MATTER

Agricultural marketing in a broader sense is concerned with the marketing of farm products produced by farmers and of farm inputs and services required by them in the production of these farm products. Thus, the subject of agricultural marketing includes product marketing as well as input marketing.

The subject of output marketing is as old as civilization itself. The importance of output marketing has become more conspicuous in the recent past with the increased marketable surplus of the crops and other agricultural commodities following the technological breakthrough. The market orientation of farming has increased. Input marketing is a comparatively new subject. Farmers in the past used such farm sector inputs as local seeds and farmyard manure. These inputs were available with them; the purchase of inputs for production of crops from the market by the farmers was almost negligible. The importance of farm inputs—improved seeds, fertilizers, insecticides and pesticides, farm machinery, implements and credit—in the production of farm products has increased over time. The new agricultural technology is input-responsive. Thus, the scope of agricultural marketing must include both product marketing and input marketing. In this book, the subject-matter of agricultural marketing has been dealt with; both from the theoretical and practical points of view. It covers what the system is, how it functions, and how the given methods or techniques may be modified to get the maximum benefits.

Specially, the subject of agricultural marketing includes marketing functions, agencies, channels, efficiency and costs, price spread and market integration, producer's surplus, government policy and research, training and statistics on agricultural marketing and imports/exports of agricultural commodities.

NEW ROLE OF AGRICULTURAL MARKETING

The new role of agricultural marketing system is evident from the fact that Indian agriculture is increasingly becoming more commercialized and market-orientation has gone up. This is a very positive transformation of Indian agriculture, in which agricultural marketing system and policies have contributed in the past but have to play an increasing role in times to come. The farmers are producing for the market and marketed surpluses have gone up. There is a greater use of purchased inputs and services by farmers. They are shifting towards high value crops and nutritionally rich products. The main drivers of increasing commercialization of Indian agriculture are

better market prices, changing demand preferences of consumers towards high-value nutritive farm products, availability of new agricultural technologies, increased investment in agriculture, expansion of export opportunities and support from favourable policies and programmes, including incentives.

Indian agriculture is also gaining increasing corporate attention. Traditionally seen as unorganized and fragmented, Indian agri-business has now become a hot sector. As the market for processed foods with better quality is expanding, it is being considered as hot entrepreneurial activity. Agribusiness in areas like farm inputs, logistics, warehousing, processing and marketing of dairy and food products is scaling-up and attracting investment from a plethora of risk capital investors. Branded food products are particularly attracting the investors. Western food chains are also flocking to India.

These apart, India has embarked on second Green Revolution which is reflected in accelerated target growth of agriculture (4% during 12th Five Year Plan), increased attention to eastern India, increasing the availability of high value crops and nutritionally-rich livestock products, and enhancing the output of oilseeds and pulses for reducing dependence on imports. The role of an efficient agricultural marketing system is quite critical in achieving the goals of second green revolution. In addition, there is one other factor that underlines (both as a cause and effect) the role of agricultural marketing system is the increase in rural household incomes, diversification of rural economy, increase in rural wages and shifts in demand patterns of rural households (towards safe and quality food, processed and branded products and more nutritionally healthy diets).

In 2016, Government of India launched a mission to double the farmers' income within six years. This is a distinct departure, in the approach to agricultural and rural development, from production-enhancing to farmers' income-enhancing approach. Farmers income is directly related to the size of marketed surplus (out of the harvested produce) and the prices farmers are able to realize. In this connection, the importance of the access of the farmers to an efficient marketing system hardly needs any emphasis. Without appropriate market linkages, higher production by the farmers does not automatically translate into higher returns to farmers and neither are the benefits of higher production fully passed on to the consumers.

Therefore, the framework under which agricultural produce markets function and the factors which influence the prices received by the farmers now need to be understood in a different perspective compared to that in the past. The role of marketing now starts right from the time of decision relating to what to produce, which variety to produce and how to prepare the product for marketing rather than limiting it to when, where and to whom to sell.

It may be noted here that there is a considerable difference among various groups of agricultural commodities as regards the marketing requirement. Agricultural commodities from this perspective can be understood to compose of foodgrains (cereals and pulses), oilseeds, fibres (cotton, jute, mesta etc.), sugar crops (sugarcane etc.), plantation crops (tea, coffee, rubber etc.), horticultural crops (fruits, vegetables, flowers), and livestock products (milk, meats, eggs, and fisheries). The perishability of horticultural and livestock products is very high as compared to other agricultural commodities. The post-harvest losses are substantial for these commodities. According to the Working Group on Agricultural Marketing for the 12th Five Year Plan (2012–17), the post harvest losses are 3.9% (sorghum) to 6% (wheat) for cereals, 4.3% (chickpea)

to 6% (gram) for pulses, 2.8% (cotton seed) to 10.1% (groundnut) for oilseeds, 5.8% (sapota) to 18% (guava) for fruits, 6.8% (cauliflower) to 12.4% (tomato) for vegetables, 3.9% (black pepper) to 7.4% (turmeric) for spices, and 0.8% (milk) to 6.9% (inland fisheries) for livestock products. But these estimates are only up to the first point of marketing by the farmers. If all the losses, till the produce reaches the final consumer, i.e. the losses in the entire value chain, are considered, these are considerably higher than the Working Group estimates mentioned above. These are around 30% of the total production in the case of fruits and vegetables. Our estimate is that total value of agricultural products lost in the entire marketing chain is currently at around ₹ 1 lakh crore (₹ 1 trillion). Inadequacy of technology-aided farm-to-market logistics contributes to high food losses in the case of perishables.

Agricultural marketing has to play a special role in handling perishable farm products, which are also high-value commodities. The demand for horticultural and livestock products is increasing and farmers in several areas are shifting to the production of such commodities, which is helping in increasing the farmers' incomes. But these products require special facilities to handle and market them. Horticultural and livestock products have some special characteristics, which are distinctly different than other farm products.

DIFFERENCES IN MARKETING OF AGRICULTURAL AND MANUFACTURED GOODS

The marketing of agricultural commodities is different from the marketing of manufactured commodities because of the special characteristics of the agricultural sector (demand and supply) which have a bearing on marketing. Because of these characteristics, the subject of agricultural marketing has been treated as a separate discipline—and this fact makes the subject somewhat complicated. These special characteristics of the agricultural sector affect the supply and demand of agricultural products in a manner different from that governing the supply and demand of manufactured commodities. The special characteristics which the agricultural sector possesses, and which are different from those of the manufactured sector, are as follows:

(i) Perishability of the Product

Most farm products are perishable in nature; but the period of their perishability varies from a few hours to a few months. To a large extent, the marketing of farm products is virtually a race with death and decay. Their perishability makes it almost impossible for producers to fix the reserve price for their farm-grown products. The supply of agricultural products is irregular; the price of the crop therefore fluctuates both during the year and from year to year. The extent of perishability of farm products may be reduced by the processing function; but they cannot be made non-perishable like manufactured products. Nor can their supply be made regular.

(ii) Seasonality of Production

Farm products are produced in a particular season of the year; they cannot be produced throughout the year. It leads to intra-year seasonality in prices. In the harvest season, prices of farm products fall. But the supply of manufactured products can be adjusted or made uniform throughout the year. Their prices therefore remain almost the same throughout the year.

(iii) Bulkiness of Products

The characteristic of bulkiness of most farm products makes their transportation and storage difficult and expensive. This fact also restricts the location of production to somewhere near the place of consumption or processing. The price spread in bulky products is higher because of the higher costs of transportation, handling and storage.

(iv) Variation in Quality of Products

There is a large variation in the quality of agricultural products, which makes their grading and standardization somewhat difficult. There is no such problem in manufactured goods, for they can be produced of uniform quality.

(v) Irregular Supply of Agricultural Products

The supply of agricultural products is uncertain and irregular because of the dependence of agricultural production on natural conditions. With the varying supply, the demand remaining almost constant, the prices of agricultural products fluctuate substantially more than that of manufactured goods.

(vi) Small Size of Holdings and Scattered Production

Farm products are produced throughout the length and breadth of the country and most of the producers are of small size. This makes the estimation of supply difficult and also creates problems in marketing as well as in discovery of prices.

(vii) Product Pricing

Apart from the problem in estimation of total supply in a small-farm agriculture, an individual farmer faces a typical marketing situation. As his share in total supply is very small, he cannot influence the market supply. Further, owing to the inelastic nature of demand for most of the farm products, the market price for his product is determined independent of his supply. It is in this context that an individual farmer is supposed to be operating in a buyer's market. Contrary to this, most of the manufacturing firms, owing to their large share in the market, can control, to some extent, the supply and thus influence the price of the product they sell. All the manufacturers who sell their products in the packaged form, are required, by the law, to inter alia, display the maximum retail price (MRP) on the packages. However, it does not mean that producers of non-farm goods can fix the prices of their produce at will. Even a monopoly seller cannot do that. His choice of selling price is determined by the nature of demand curve faced by him. If he fixes a higher price, he can sell only a lower quantity of his product and vice versa. He can decide either the quantity he wants to produce and sell or the price he wants to charge and not both of them simultaneously.

(viii) Processing

Most of the farm products need some kind of processing before their consumption by the ultimate consumers. This processing function increases the price spread of agricultural commodities. Processing firms enjoy the advantage of monopsony, oligopsony or duopsony in the market. This situation sometimes creates disincentives for the producers and may have an adverse effect on production in the next year.

The characteristics of agricultural commodities mentioned above make their marketing system complex and different than that for manufactured goods. These are illustrated in Chart 1.1.

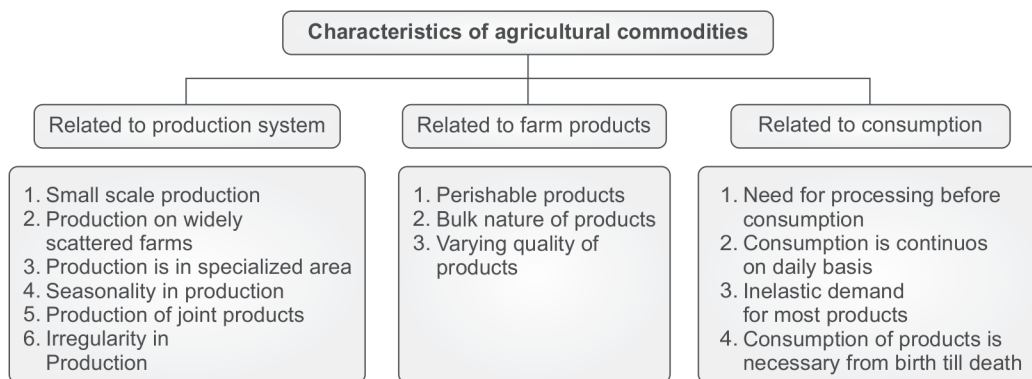


Chart 1.1: Some distinguishing characteristics of agricultural commodities that make their marketing system complex and different

PLAN OF THE BOOK

The subject-matter of agricultural marketing in this book has been presented in eleven chapters. The first chapter covers the concept, definition, need for understanding, scope and subject-matter of agricultural marketing and the major differences in the marketing features of agricultural and manufactured goods. The basic theory and some concepts of market and market structure, which are necessary for an understanding of agricultural marketing, have been presented in Chapter 2. Some common terms used in the field of marketing have also been explained in the chapter. The relevance of agricultural marketing in economic development has been described in Chapter 3. It covers the importance, history and growth of agricultural marketing, the issues related to marketed surplus, the characteristics of an ideal marketing system, and the need for the modernization of agricultural markets in India.

Fourth chapter gives a description of different marketing functions with special reference to farm products. This chapter also includes marketing infrastructure. Marketing agencies, institutions and channels, involved in marketing of farm products are discussed in Chapter 5. Marketing of agricultural inputs has been given a special treatment in Chapter 6. The government intervention in agricultural marketing has been analysed in Chapter 7. This chapter covers market regulation, role of marketing organizations, procurement and public distribution of foodgrains, quality control, the price policy, government sponsored national organizations, salient features of the legislative measures, new initiatives for improving agricultural marketing in India, alternative marketing systems and second phase of agricultural marketing reforms. Basic concepts of cooperation and the role of cooperatives in agricultural marketing and processing have been dealt in Chapter 8. The issues related to market integration, marketing efficiency, costs, margins and price spread in marketing of farm products have been analysed in Chapter 9. Tenth chapter deals with the status and requirements of training, research, extension and statistics on agricultural marketing in India. Some aspects of external trade (imports and exports) in agricultural commodities and India's share in the world trade have been brought out in Chapter 11. International trade

regime for agricultural commodities has also been dealt in this chapter, which includes GATT, WTO and implications for Indian agriculture. A broad survey of the literature on agricultural marketing has been presented in the Bibliography at the end. Some common abbreviations in agricultural marketing have been also given at the end.

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