MARKETING ALTERNATIVES - DEFINED

by

John O. Early

A. E. Extension Series 373

MARKETING ALTERNATIVES - DEFINED

by

John O. Early*

A marketing alternative is defined as a procedure, mechanism, or system through which producers may sell or influence the terms of trade of his product. Marketing alternatives are not mutually exclusive and several may be operational for any commodity at any time. In selecting among marketing alternatives, the producer is striving to obtain the highest long term net returns possible from his production and marketing ventures.

Marketing alternatives cover a wide range of options involving varying degrees of producer action and government involvement. Some of these systems are already in existance, others are yet to be developed.

1. Direct Marketing

This form of marketing has been emphasized by government programs in the past 10-15 years and is especially applicable to fruit and vegetable processors. Roadside stands, where local producers exhibit their produce and consumers come to buy, are prime examples. Farmer's markets had been held in many cities years ago, and then faded out as supermarkets etc. took over food retailing. This type of market is gaining popularity again in smaller cities and large towns as part-time farmers dispose of excess fruit and vegetables.

---

*Extension Economist in Marketing, Department of Agricultural Economics, University of Idaho, Moscow, Idaho.

A. E. Extension Series 373. Informal notes for presentation to Agribusiness Leadership Conference, Spokane, Washington, June 22-26, 1981.

Direct marketing appears to fit into the farming operation where family members' labor can be used in the selling. Small farm operations seem most adaptable for this alternative. Pick-your-own operations also fit under this marketing alternative.

2. Open Spot-Markets

The local auction market is a prime example of this alternative, where buyers view the commodity and bid in open competition for the offered products. Competition may be keen if a sufficient number of buyers are present and collusion does not occur. The prices established will be representative of the supply and demand conditions for that locality and time for the offered product.

When buyers are few or collusion occurs, the product may be sold at prices below the market value. A buyer need not raise his bid if another bidder does not bid either through lack of need for the product or withholding a bid to keep down prices -- collusion.

The terminal markets -- stockyards -- are an example of an open spot-market on a large scale. Livestock prices quoted nationally were bid at terminal yards.

A number of livestock auctions are currently quoted widely, but these markets no longer represent the bulk of the livestock being sold. A large portion of the most desirable livestock are sold directly for slaughter through private treaty or forward contracts. Much livestock moving through the "yards" and auctions are odd-lots and those culled out of the private treaty sales and so do not represent the better product.

3. Forward Contracts

Many producers sell a product before it is produced, i.e., grain is sold on contract to a local elevator on a price-later basis or with the price specified. Under the price-later contract, only the market outlet is chosen; a market is assured the producer and the buyer is assured the product. Under the fixed price contract, both price and market outlet are specified.

With increased price risk and uncertainty, forward contracts that specify price are becoming increasingly prevalent. More often than not such contracts are hedged by the buyer against the futures market or another forward contract with a buyer at the next market level.

4. Forward Deliverable Contract Markets

The futures market might not be considered by some people to be a marketing alternative because delivery usually does not take place. One can visualize the development of a market for forward contracts where delivery is expected or required. Producers could initiate a contract on forward deliverable contract markets, rather than as in current forward contracts where buyers initiate the contract.

The feasibility of a viable market in forward contracts increases as the use of forward contracts expands within and across a number of agricultural commodities. A forward deliverable contract market would involve a central exchange for trading standardized contracts where delivery is expected. It would provide a market alternative to individual producer, private treaty arrangements, bargaining organizations, etc.

5. Electronic Spot-Markets

The application of electronic technology can improve pricing in the spot-market as well as in the forward deliverable contract markets. A unique feature of electronic markets is that they do not require buyers, sellers, and product to be physically assembled in one location. Products are described by size of lot, grade, weight, and other quality attributes over an electronic communication system. The electronic system may be as simple as a telephone or as complex as a computer hooked to the telephone system. Buyers place bids through the same system.

After the product is sold, information on the sale becomes immediately available to all buyers and sellers. Electronic markets offer the opportunity to revitalize open spot-markets in agriculture.

6. Commodity Futures Market

The futures market is an organized exchange through which standardized contracts for future delivery of commodities are traded. Just as with a forward contract, buyers and sellers of futures contracts commit themselves to a future course of action when they enter into a futures contract. The committments are normally offset by opposite transaction before delivery. Offsetting transactions are used because delivery is not a convenient option for most producers or buyers.

The main use of the futures market is to reduce the risk of a price change. Producers who choose to use the futures market but do not deliver are faced with the critical marketing decision of where and when to sell.

7. Exclusive Agency Bargaining

Bargaining power for farmers has been suggested from time to time as a solution to the farmers plight. More often than not, producer interest in bargaining has failed because producers were divided on the issues. A large proportion of the producers did not join the movement, the costs of bargaining were not equally shared, or surplus supplies of products existed.

Bargaining agencies have had the greatest success where forwarding contracts are widely used, such as in processed fruits and vegetables. Even here, producer fragmentation, so-called free riders or splinter groups, some times cause the effort to fail.

Designated producer representatives must have the right to bargain on behalf of all producers, with the costs of bargaining shared equally. Decisions made in such negotiations would be binding on all producers and all buyers. The ability to control production may be required to make the system truly effective as a means of measuring production returns in the long run.

8. Vertical Integration Through Ownership

To integrate means to combine 2 or more stages in the production-processing-servicing-marketing complex under one management. Direct producer access to advanced product markets such as those for export or branded products has traditionally been limited. As agribusiness firms integrate, the problem becomes even more complex.

Some contend that producers will have to build their own marketing systems with direct access to advanced markets. Most producers do not have the resources to do this on their own, so the alternative is to form a cooperative. Successful cooperative activity in advanced markets requires assurance that the cooperative will receive its members' production. This means a contractual commitment or marketing agreement between the producers and the cooperative.

Pooling of marketing receipts is increasingly suggested as a requirement to give the cooperative flexibility in pricing and marketing. The overall purpose is to develop producer integrated systems that can compete with the major food companies in both domestic and export markets.

9. Marketing Agents-In-Common

Marketing agents-in-common involve horizontal combinations of producer marketing organizations to coordinate the marketing of their products. Producers who are members of a cooperative typically market their products to a cooperative serving their area. If the cooperative serves a relatively small area, it is frequently affiliated with a regional coop. such as Farmarco, Land O'Lakes, or Illinois Grain Cooperatives. These regional cooperatives are marketing agents-in-common.

One alternative for producers who use cooperatives is to encourage regional cooperatives to form marketing agents-in-common which serve all regionals in common marketing functions. Such marketing agents could serve as a central sales desk for either domestic or export sales. They also could engage in market, product and/or brand development and in research activities on behalf of their members.

10. Joint Ventures

Some suggest that the producer investment requirements for successful producer integration are too high. They see the balance of marketing and management expertize so strong on the side of major food companies that it is suggested that there is no hope for producers to penetrate their markets either individually or as a cooperative. Why not join hands with them instead? Why not share investments, risks, and profits from marketing? This is the joint venture concept.

The concept may make good economic sense in many situations but success is not automatic. The basic problem is one of arriving at an equitable agreement and maintaining equity from the standpoint of both parties. They must have a mutual interest in making the system work.

11. Marketing Orders

Marketing orders provide a mechanism by which producers receive government assistance to collectively regulate their product marketing. Orders may be used to establish prices, make grading mandatory, limit the size of the product marketed, regulate pack or container used to market products, regulate the time of product-to-market flow, allocate products among markets, hold product in reserve, control marketings, or collect funds for research and promotion. Orders may be based on either state or federal law.

Marketing orders, to date, have been used only in milk and various fruits and vegetables that flow to the fresh or dried product market. Only milk marketing orders establish minimum prices.

Orders could potentially be expanded to additional products. The specific use and usefulness of an order would depend on the characteristics of the product. Normally, orders are most adaptable to products which have more than one use and have relatively localized markets. There is talk of a market order for potatoes, but one criteria for a successful order is missing -- the localized market.

12. Marketing Boards

Marketing boards are producer oriented organizations established under government legislation to control certain marketing functions. The use of marketing boards in other countries covers vertually all of the functions preformed under marketing orders plus important additional functions, such as production control, which gives the board long-run price-setting capability. They are not currently used in the U.S.A.

To distinguish marketing boards from marketing orders, their use is extended to such functions as:

(a) exclusive marketing agent in domestic and/or foreign markets

(b) implementing public utility-type regulation in industries such as milk

To preform such marketing functions effectively on behalf of producers, however, many functions such as grade and size regulations may be necessary as a part of a marketing board's activities.

13. Reporting of Marketing Information

Despite attempts to improve market reporting many believe that in certain commodities the quantity and quality of available market information has actually declined. Many reasons can be cited, such as increased direct marketing, increased prevalence of forward contracting, increased vertical integration, and increased disparity in both farm and marketing firm size.

Regardless of the cause, ineffective price discovery and inequity among producers results.

Market information reporting in the U.S. is essentially voluntary except under market orders. That is, producers and marketing firms, if asked, are not required to supply the information on sales or purchases. Some believe the existing market system would operate better if market reporting were mandatory and if the resulting information were made immediately available to all producers and market participants.