

MARKETING PROBLEMS

by

John O. Early

A. E. Extension Series 372

MARKETING PROBLEMS

by

John O. Early*

Alternative marketing systems are designed to solve one or more specific problems. For many producers, the problem of marketing revolves around price. It is a question of how they can obtain a price which returns their cost of production plus a reasonable return to labor, capital, and management.

The problem of the level of price and income in agriculture is deep rooted. It is in part a result of excess production capacity, variability in weather conditions, and the fact that resources do not move out of agricultural production rapidly in response to price changes.

Frankly, the marketing alternatives discussed here will do little about producer price and income problems resulting from these sources.

Many price and income problems, however, result from deficiencies in our marketing system. The marketing alternatives we will be talking about can address or remove many of these discrepancies.

What are these problems or deficiencies?

1. Imperfect Competition

Imperfect competition exists when buyers or sellers are few enough in number or large enough in market share to influence price. The power

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

Producers may establish a power base of their own through exclusive agency bargaining, ownership integration, marketing agents-in-common, marketing orders, and marketing boards.

2. Imperfect Pricing Mechanisms

Marketing institutions are slow to change. Producers marketing alternatives may be limited because marketing institutions have not changed with the times, i.e. terminal markets continue to be an important livestock pricing base despite the fact most livestock are marketed through other means. The "Yellow Sheet" National Provisioner continues as an important pricing institution in the wholesale meat trade despite extensive criticism.

Agricultural prices have traditionally been established in open spot-market transactions. Yet in an increasing number of commodities such as eggs, butter, cheese, oranges, and grapes, a smaller proportion of the commodities are moving through open markets. The problem is becoming increasingly critical in commodities where contracts are prevalent. Such contracts frequently base their prices on the open markets.

Transfer prices in joint ventures or vertical integrations are sometimes based on the open market price. With a small proportion of a commodity moving over such open markets, the use of the open market price as a basis for the price in other transactions can cause major problems. Some new market mechanisms such as forward deliverable contract markets, electronic spot-markets, and exclusive agency bargaining have the potential to improve the price discovery process.

Ownership integration and joint ventures provide an excellent opportunity for producers to participate in earnings from more advanced branded product markets where prices are generally more stable. Marketing orders and marketing boards have the potential for stabilizing prices through more orderly flow of products to market.

The ability of any one of these devices to remove price risk from agriculture should not be over estimated. None can measurably reduce the risk of year to year price and income fluctuation unless there is a companion ability to control production. Even government programs have a variable record of success in production control efforts. Such programs also run counter to the efficiency and inflation concerns of the general public.

5. Inadequate Coordination of Production with Markets

Coordination refers to the extent to which products are produced in accordance with market needs. It includes the production, processing, and movement of products to buyers at the time and in the quantity, quality, and form needed by the market.

The inability of producers to manage production in accordance with market need is, in fact, one of the root causes of the price and income problem. A major barrier to improved prices and income can be overcome if production were more nearly coordinated with market needs. The drive for improved coordination has created pressures for such marketing alternatives as forward contracting, ownership integration, joint ventures, marketing agents-in-common, and marketing orders and boards.

and corporate ownership integration will become more prominent and family farm agriculture will be put under severe pressure and gradually diminish in importance.

Devices to assure an open-spot market such as electronic markets and forward deliverable contract markets can improve market access. Ownership integration and marketing agents-in-common provide a potential basis for competing with major business firms. Industrial restructuring is a government solution to maintaining or restoring a decentralized structure.