



A guide to MARKETING COSTS and how to calculate them

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS



For further copies of this publication
and for information on FAO's activities
related to agricultural marketing
please write to:

Agricultural Management, Marketing and Finance Service
Rural Infrastructure and Agro-Industries Division
Food and Agriculture Organization of the United Nations
Viale delle Terme di Caracalla
00153 Rome, Italy

AGS-Registry@fao.org

<http://www.fao.org/ag/ags/subjects/en/agmarket/agmarket.html>

A guide to MARKETING COSTS and how to calculate them

Prepared by
Andrew W. Shepherd

Agricultural Management, Marketing and Finance Service
Rural Infrastructure and Agro-Industries Division

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
Rome 2007

First printed 1993
Reprinted 1996

Revised and
Reprinted 2007

The designations employed and the presentation of material in this information product do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

All rights reserved. Reproduction and dissemination of material in this information product for educational or other non-commercial purposes are authorized without any prior written permission from the copyright holders provided the source is fully acknowledged. Reproduction of material in this information product for resale or other commercial purposes is prohibited without written permission of the copyright holders. Applications for such permission should be addressed to the Chief, Electronic Publishing Policy and Support Branch, Communication Division, FAO, Viale delle Terme di Caracalla, 00153 Rome, Italy or by e-mail to copyright@fao.org

Foreword

The intention of this Guide is to explain basic concepts of agricultural marketing costs and marketing margins. It identifies the main types of marketing costs, provides brief advice on how to calculate them and discusses the interpretation of marketing margins.

An understanding of costs and margins is essential for all those involved with agricultural marketing. Farmers seeking to produce new crops need to be aware not only of their likely production costs but also of the costs of marketing these crops. Extension workers need to be able to advise farmers and farmers' groups on such matters. Wholesale and retail traders must, of course, be fully aware of their costs if they are to trade profitably. Finally, government officials concerned with monitoring the efficiency of agricultural markets need to have a full understanding of marketing costs and margins and need to be able to monitor these on a regular basis if they are to propose viable improvements, such as new markets.

In part, the aim of this Guide is to correct some of the widely held misunderstandings over marketing costs.

Traders' margins are often looked upon as being excessive; frequently this is because the observer lacks a full appreciation of all the costs involved.

This Guide should be particularly useful to marketing officers and extension workers who are called upon during their work to advise farmers on marketing and prices. It is hoped that it will be used by agricultural training colleges for their courses in agricultural marketing. The Guide can be used together with other guides in the FAO Marketing Extension Guide series.

Contents

Foreword	
Introduction	1
1 What are marketing costs and why do they vary?	7
2 Produce preparation and packaging costs	13
3 Handling costs	19
4 Transport costs	23
5 Product losses	29
6 Storage costs	37
7 Processing costs	43
8 Capital costs	47
9 A marketing cost calculation	51
10 Marketing margins	55
Endnotes	59

Figures

1	Calculating packaging costs	17
2	Calculating transport costs	27
3	Calculating the cost of product losses	32
4	Calculating weighted average selling price	35
5	Calculating storage costs	39
6	Calculating storage costs over time	41
7	Calculating processing costs	45
8	A cost calculation	52
9	Calculating marketing margins	56