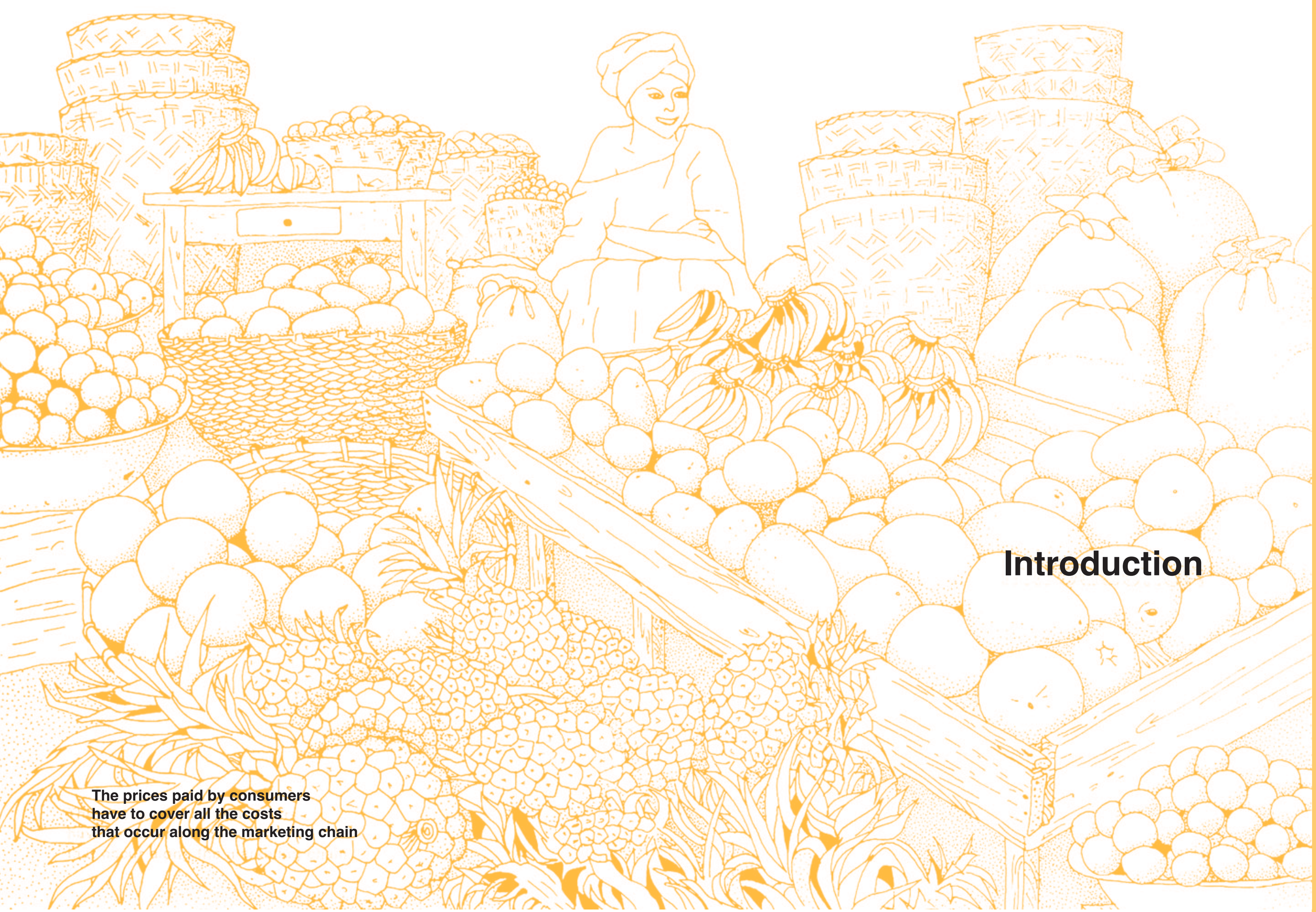
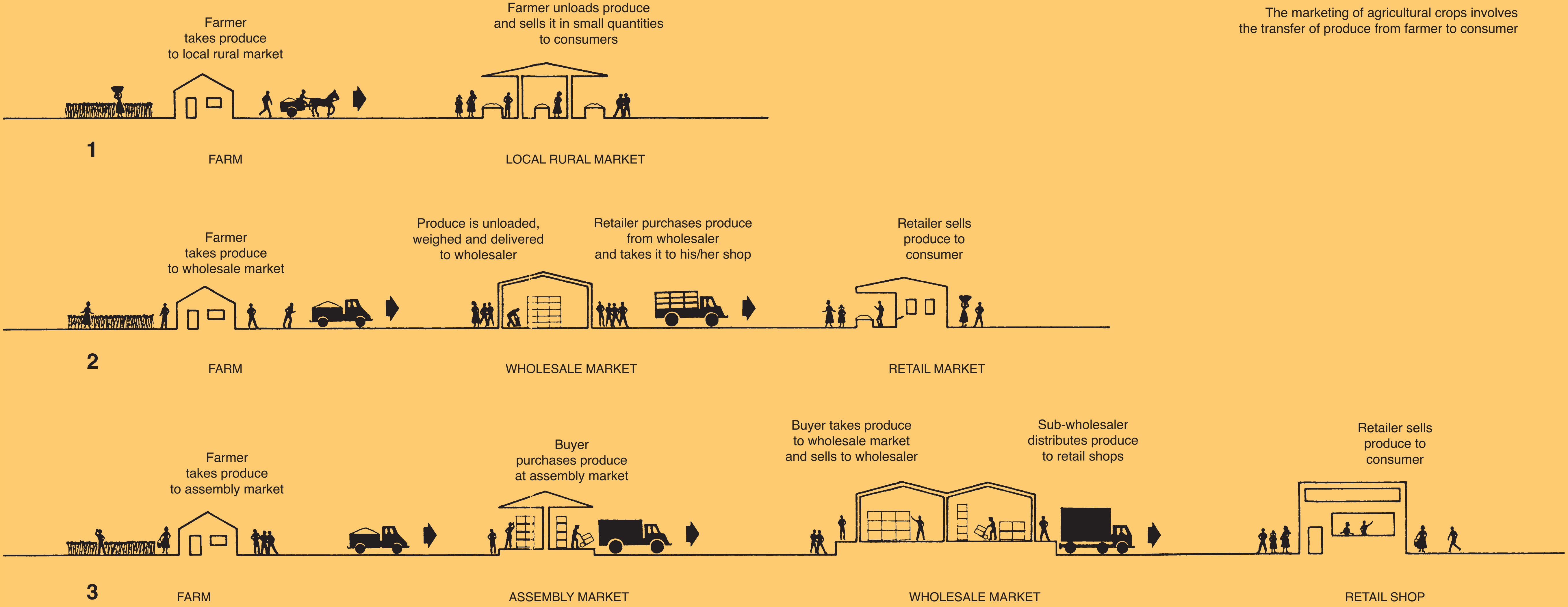


Introduction

The prices paid by consumers have to cover all the costs that occur along the marketing chain

Marketing chains vary in length and complexity – three simple examples are shown here

The marketing of agricultural crops involves the transfer of produce from farmer to consumer



The sequence of stages involved in transferring produce from the farm to the consumer is generally referred to as a marketing chain. Examples of marketing chains are shown on the opposite page.

The consumer could be as close to the producer as the same village or could be a consumer of cash crops living on the other side of the world. All transfers involve marketing activities in some form or other. All activities involve costs. At the simplest level the cost involved may just be the time taken by a farmer to walk to a nearby market and stay there until all his or her vegetables are sold. At the most complex level a product may be stored for lengthy periods, transported long distances and processed several times before reaching the form in which it is finally sold.

Why is the price of a product in a shop or retail market often so much higher than the price paid to the farmer? The costs involved with marketing are not always fully understood. We can understand that traders or processors spend money on transport or packaging or on fuel for a rice or maize mill but there are many other, less obvious, costs. Because these costs are not always visible, those doing the marketing are often accused of making unreasonable profits. People look at prices paid to farmers by traders and compare them with the prices consumers pay for the same product and assume that the farmers and consumers are being exploited. Sometimes, of course, traders do make very high profits but on other occasions they make small profits or even losses. Clearly, unless they make a reasonable profit traders will not want to take the risk of continuing in business, to the disadvantage of both consumers and farmers.

Generally, the more complex and lengthy the marketing chain the higher are the marketing costs. Thus simple comparison of farmer prices with retail prices is a poor indicator of marketing efficiency as it does not take into account the costs involved in moving produce along the marketing chain from farmer to consumer. If farmers live 20 km from a market they will normally receive a higher share of the final price than those who live 200 km away, because of lower transport costs. A producer of a perishable crop, such as tomatoes, is likely to receive a lower share of the final price than the producer of a non-perishable crop, such as coconuts, because some of his or her crop may be unsaleable by the time it reaches the market. A farmer who grows apples may receive a lower share of the retail price than one who produces pineapples, because apples can be stored for several months to take advantage of higher prices later in the year, while pineapples cannot, but storage costs money. Similarly, an onion farmer may get less of the final retail price than a cauliflower farmer because onions can be stored for several months. Thus, in comparing farmer and consumer prices, we need to be fully aware of all the costs involved. Only then can we see if excessive profits are being made, if the marketing system is inefficient or if the high costs are justified.

This Guide briefly explains the concept of marketing costs and their calculation. Marketing margins are also discussed. The Guide will be particularly useful to marketing officers and extension workers who are called upon to advise farmers on marketing during the course of their work. Sometimes, for example, it may be in the interests of farmers to work together as a group to jointly market their produce. However, before this is done, someone, such as the extension officer, needs to be able to calculate the costs involved so that farmers can be sure they would be better off using a different marketing procedure.

Marketing practices vary so much around the world and according to the type of produce that this Guide can only identify possible costs and indicate ways of calculating them. In one country farmers may themselves take their produce to the wholesale market; in

Produce being sold by the roadside ...

... roadside selling and buying is often the beginning of the marketing chain

Before the produce is laid out for the consumer ...

... a great many things may have happened en route

another, produce may be handled by two or three traders before it reaches the market. Differences in marketing methods even occur within countries. It is therefore impossible to provide a simple methodology for evaluating costs. For the same reason, it is clear that there is no such thing as a "reasonable" marketing cost for a crop, which extension workers could use to compare with costs in their area. The costs of marketing any one product depend on the circumstances in the country and in the area concerned.

Senior government officials who wish to go into more depth about cost calculation methods may like to refer to *Costs, Margins and Returns in Agricultural Marketing,* a publication which is available from FAO.*

The first chapter of this Guide briefly summarises the main costs associated with agricultural marketing and explains why they can vary so much. Subsequent chapters consider each individual type of cost (for example, packaging, handling, transport) in more detail. The Guide then discusses how to put together all of the individual costs in order to determine the total marketing costs involved in moving produce from the farmer to the consumer. A final chapter looks at marketing margins, how they are calculated and how to interpret them.

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