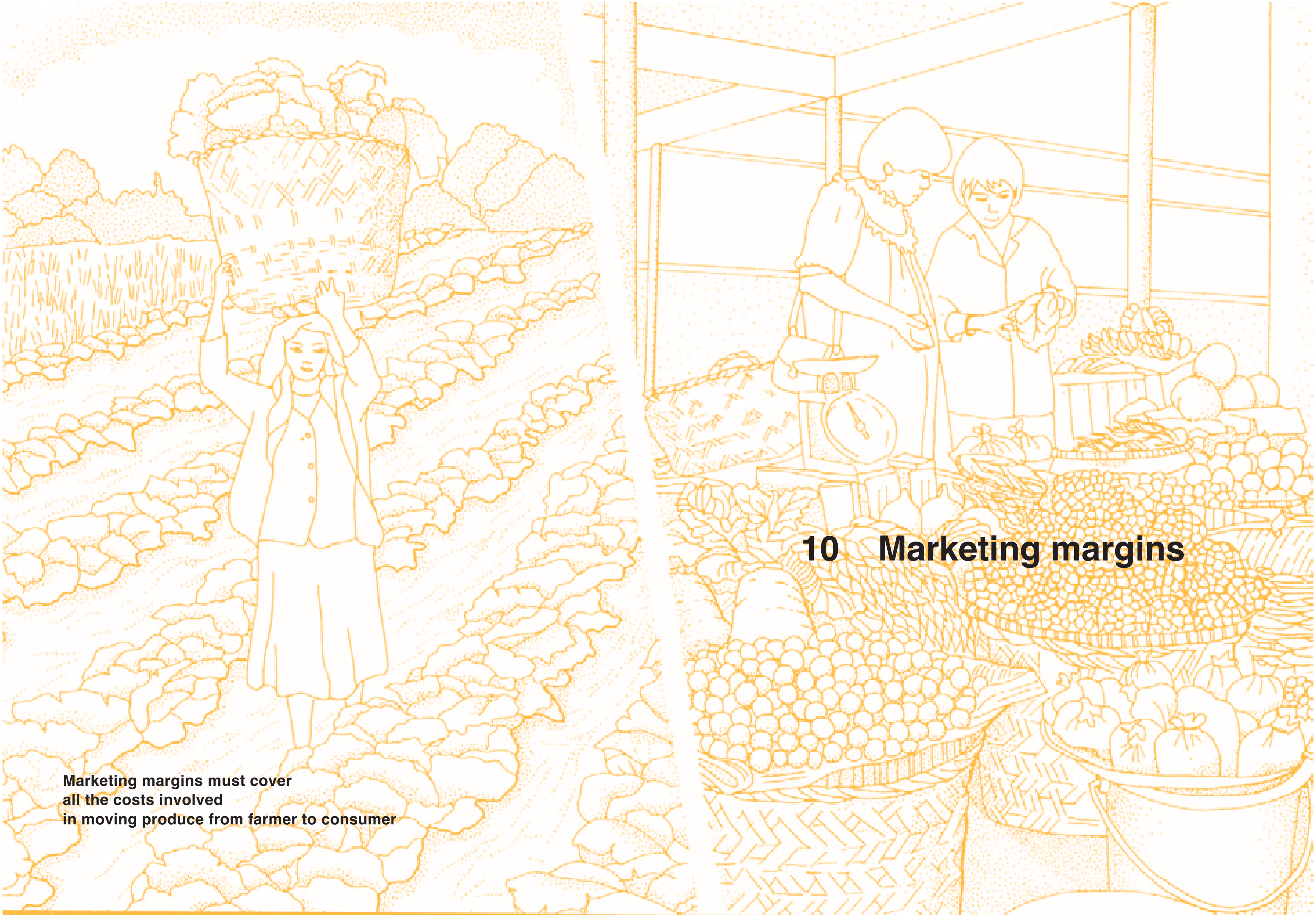

Marketing margins must cover
all the costs involved
in moving produce from farmer to consumer

10 Marketing margins

A marketing margin is the percentage of the final weighted average selling price taken by each stage of the marketing chain. The margin must cover the costs involved in transferring produce from one stage to the next and provide a reasonable return to those doing the marketing. An example of a margin calculation is shown In Figure 9.

"Margins" are often used in the analysis of the efficiency of marketing systems. Often they are misused even if they are calculated correctly. The presentation of a trader's share of the final selling price in percentage terms can give a totally misleading impression

Figure 9

Calculating marketing margins

These calculations are based on figures given in the previous chapter, that is, where the buying price from the farmer is \$0.50 per kg, the weighted average wholesale selling price is \$0.90 per kg and the weighted average retail price is \$1.17 per kg (see Figure 8).

Share to the producer	\$0.50 ÷ \$1.17	=	0.427 or 43%
Wholesale margin	(\$0.90 – \$0.50) ÷ \$1.17	=	0.342 or 34%
Retail margin	(\$1.17 – \$0.90) ÷ \$1.17	=	0.230 or 23%
	Total margin	=	0.572 or 57%

Looking at margins and changes in margins cannot tell you that there is a problem. It can only suggest that there may be a problem which requires further investigation by studying the marketing costs. For example, in recent years many countries have reduced the role of grain marketing boards and increased private trader involvement in grain marketing. A comparison of margins under the old system with those under the new marketing channels may show that marketing margins are higher under private traders. A little knowledge is a dangerous thing, so on the basis of this margin comparison, people may argue for a return of the marketing board. They may think that traders are making excessive profits. But, the marketing board was probably making a loss every year. Its margins were low because its costs were not fully reflected. The government may have had to write off the loss made by the board, something which would not be done for the private sector. Also, changes from government to private marketing have often been part of "Structural Adjustment Programmes" which have frequently led to rapid rises in interest rates. The marketing board may have used subsidised low interest loans, the private traders now have to pay the full cost of capital. Moreover, under structural adjustment, currencies have often been devalued heavily. This puts up the cost of capital items, such as trucks, and inevitably leads to higher marketing costs.

unless you know the costs involved. Often people who research marketing costs and margins start out with the assumption that traders exploit farmers. When they look at the margins they may think they have found the proof. The calculation in Figure 9 could, for example, be written up as “traders keep more than half the income from tomato sales.” Such analysis could then be used to try to justify government intervention in marketing, whether it be to establish minimum prices or to start a marketing board. Yet, as we see from Chapter 9, it is quite possible to arrive at such margins with reasonable costs and very small *net profits* for the two traders invoved.

Because margins are expressed in percentages they appear to be high. And because a “reasonable” marketing margin may have been estimated at some time there is a tendency not to accept that such margins can and must change. For example, some governments have, in the past, announced that cash crop farmers will get a certain percentage of the export price. This percentage may have been established when prices for the cash crop were high; it no longer remains useful if prices fall. If the farmer gets 80 percent of the export price of coffee when the on-ship price is $2000 a ton this permits a marketing margin of $400 a ton. If the world market price then collapses so that the on-ship price is $1000, an insistence that farmers get 80 percent will mean that the margin will not be enough to cover costs. With the exception of operating capital costs, which will fall as the price goes down, marketing costs will stay more or less constant in money terms. Therefore, marketing margins will rise in percentage terms although staying constant in monetary terms as the price falls.

As is explained in the box on page 57, increases in marketing margins due to increases in marketing costs may not mean increases in profits made by those doing the marketing. Moreover, where farmers receive only a comparatively small share of the selling price this does not necessarily mean that they are being exploited. Total margins will depend on the length of the marketing chain, the extent to which the product is stored or processed, and the level of post-harvest losses. *To know whether margins are reasonable you need to understand the costs.*

Endnotes

1. For detailed suggestions on cost calculation see *Costs, Margins and Returns* by Lawrence Smith, Marketing and Agribusiness Development Paper No. 1, FAO, Rome.

2. For more information relating to horticultural crops see *Prevention of Post-Harvest Food Losses - fruits, vegetables and root crops,* FAO Training Series No. 17/2, Rome, 1989.

These documents can be requested by
e-mail to AGS-Registry@FAO.org

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The following is a list of booklets published in the MARKETING EXTENSION GUIDE series:

A guide to MARKETING COSTS
and how to calculate them
1993, 59 pp. (E F S)

A guide to MAIZE MARKETING
for extension officers
1999, 111 pp. (E F)

Understanding and using
MARKET INFORMATION
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HORTICULTURAL MARKETING
2005, 131 pp. (E S)

Available in: E – English
F – French
S – Spanish

Series editor: Andrew W. Shepherd

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

The Guide explains in a simple way the concept of marketing costs. It provides brief advice on how to calculate such costs. Marketing margins are also discussed. In part, the aim of the 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. The Guide should also be particularly useful to marketing officers and extension workers who are called upon to advise farmers on marketing and prices

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