

INSTITUTIONAL ASPECTS OF A MARKETING STRATEGY FOR AVOCADOS

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ABSTRACT

An institutional structure for the marketing of avocados should be instrumental in solving basic marketing problems. A control board under the Marketing Act will not yield the desired results. The avocado industry needs an institution which can provide relevant parties with information that will help them to decide what is best for themselves. Some marketing functions can, however, be centralised. In order to be successful, the marketing strategy for avocados should be orientated towards the consumer.

INTRODUCTION

Increased production is not in itself a guarantee for increased welfare to producers. Goal-orientated marketing and more economic-scientifically justifiable marketing strategies are also indispensable, particularly over the longer term (Scholtz, 1971).

Marketing can be defined as the execution of all the activities needed to move and change products from the point and time of production to the point and time of consumption (Dahl and Hammond, 1977). Two essential characteristics of the process stand out clearly. Firstly, the marketing process involves movement; it is a sequence of activities. Secondly, a form of co-ordination in the sequence of activities is necessary to ensure the orderly flow of products.

The economics of marketing takes in more territory. It deals with three separate, but related problems: consumers' demands for farm products, the price system that reflects these demands back to distributors and producers, and the methods or practices used in exchanging title and getting the physical product from producers to consumers in the form that they want at the time and place desired (Shepherd and Futrell, 1982). These three broad agricultural marketing problems can therefore be identified as:

- keeping abreast of changes in demand;
- reflecting consumers' demands to producers; and
- getting the goods from producer to consumer at the lowest cost.

The marketing process involves people: the producer, the consumer and certain special agencies known as middlemen. Everyone sees marketing in a different light and conflicting interests exist. The producer wants to sell his produce at the highest possible price, the consumer wants to stretch his income as far as possible and the middlemen want to make the biggest profit possible.

The marketing concept was developed as business administrators recognised that marketing is vitally important to the success of the enterprise. This concept is based on three fundamental beliefs (Stanton, 1975):

- a) All planning, policies and operations should be orientated towards the consumer;
- b) profitable sales volume should be the goal of a firm, and
- c) all marketing activities in a firm should be organisationally integrated and co-ordinated.

In its fullest sense the marketing concept is a philosophy of business which states that the customers' want-satisfaction is the economic and social justification of a company's existence. Consequently all activities in production must be devoted first to determine what the customer wants and then to satisfy those demands while still making a reasonable profit. Marketing, therefore, is the creation of utility for the consumer: form, place, time and entitlement utility.

One approach in marketing studies is the functional approach. In this approach what is done (or should be done) and how it is done (or should be done) is emphasised. Another approach involves the product itself, while yet another concentrates on management aspects. If, however, the focus concentrates on who is (or should be) doing what, the accent shifts to the institutions involved in the marketing process. This is called the institutional approach.

This paper concentrates on general institutional aspects of a marketing strategy for avocados. The value of the institutional approach stems mainly from a frequent need to know why certain things happen, which in turn can be explained by looking at who controls things. The institutional approach, therefore, prevents the neglect of personal aspects.

The institutions involved in agricultural marketing in South Africa are, firstly, briefly outlined. This is followed by a discussion of their past performance and lessons that the avocado industry can learn from this. The paper concludes with institutional policy aspects for the marketing of avocados.

THE MARKETING OF CONTROLLED AGRICULTURAL PRODUCTS

In contrast with the marketing of manufactured consumer goods, the marketing of agricultural products is relatively complicated. In general the marketing process of agricultural products differs in two important aspects from manufactured goods:

- the accent of marketing in agriculture falls both on assembling and distribution activities, while marketing of manufactured goods concentrates on distribution only; and
- marketing of agricultural products is mainly a pull process, while marketing of manufactured goods is mainly a push process.

Factors that further complicate the marketing of agricultural products can be summarised as follows:

- a). Physical characteristics of agricultural products:
 - disadvantageous volume-value ratio;
 - perishability; and
 - quality differences.
- b). The supply of agricultural products is relatively price inelastic, indicating that the quantities produced are not very sensitive to price changes.
- c). Price fluctuations, resulting from the above-mentioned characteristics and risky production conditions.

The different circumstances involved in the demand and supply of agricultural products, and the unique product characteristics, require a different approach for agricultural marketing. This led to the adoption of the Marketing Act of 1937, which was replaced by the Marketing Act of 1968 (Act No 59 of 1968), which in turn has been amended annually since then.

The major objectives of the Marketing Act are threefold:

- a). price stability;
- b). smaller marketing costs; and
- c). higher productivity and efficiency in agriculture.

In order to achieve its objectives, the Marketing Act facilitates intervention in the marketing system, varying from very severe types such as one channel fixed price schemes and quotas the latter in some cases because of problems generated by other types of control (Groenewald, 1986) to mild measures such as export promotion. The following schemes are involved (see Table 1 for a summary):

One channel fixed price schemes

This type of scheme has the following characteristics:

- the products can only be sold to the marketing or control board in question;
- fixed prices according to class and grade are paid to producers;
- prices are determined by the Minister of Agriculture on recommendation by the relevant control board; and
- losses incurred by exporting surpluses are recovered from a stabilisation fund which is maintained by means of levies on sales.

One channel pool schemes

These schemes are characterised by the following:

- the product can only be sold to the control board in question or according to arrangements made by the board;

- producers do not receive a fixed price for their product, but an advance at delivery and a middle and/or final payment after the whole harvest has been sold and the pool account has been closed; and
- advances are based on the expected net realisation of sales.

Surplus removal schemes

These schemes theoretically intervene much less in the marketing mechanism than the one channel fixed price and pool schemes. Producers sell their products on the open market. The control board only intervenes if prices are too low. This is done by buying in products at a certain support price. In this way prices are stabilised at a certain floor level (support price). Supply is thus manipulated to remove surpluses. Costs are recovered by means of levies.

Supervisory schemes

These schemes are aimed at orderly marketing with a low level of price protection, proper grading and payment according to quality. Only minimum prices are stipulated.

Promotion schemes

The only task of the marketing board is to stimulate the demand for the product by means of promotion. Professional promotion practitioners are often used for this purpose.

TABLE 1 Percentage composition of the gross value of agricultural products according to marketing system, 1985

Marketing Scheme/Product	Date	Percentage of gross value of agricultural production	
Scheme according to Marketing Act			
(a) One channel fixed price			
– Maize	1938	17,96	
– Winter grain	1938	7,43	
– Dairy	1940	3,33	28,72
(b) One channel pool			
– Dried fruit	1938	0,25	
– Tobacco	1939	2,03	
– Decidious fruit	1939	3,53	
– Citrus	1939	2,06	
– Chicory	1939	0,13	
– Oilseeds	1952	2,91	
– Lucerne seed	1952	0,03	
– Rooibos tea	1954	0,04	
– Fresh milk	1956	6,03	
– Bananas	1957	0,30	
– Mohair	1965	0,83	
– Wool	1972	4,44	22,59
(c) Surplus removal			
– Meat	1945	18,86	
– Potatoes	1951	2,64	
– Eggs	1953	1,95	
– Dried beans	1955	0,75	
– Sorghum	1957	0,72	24,92
(d) Supervisory			
– Canned fruit	1963	0,81	
– Cotton	1974	0,68	1,49
(e) Promotion			
– Karakul pelts	1968	0,79	0,79
Control by specific act			
Sugar		6,23	
Lucerne		0,95	
Wine		2,64	
Bark (wattle)		0,30	
Ostrich products		0,16	10,28
Uncontrolled products			
Mainly vegetables and fresh fruit		11,21	100,00

Source: Processed from the *Abstract of Agricultural Statistics* (Directorate Agricultural Economic Trends, 1987)

THE INSTITUTIONAL STRUCTURE FOR THE MARKETING OF AGRICULTURAL PRODUCTS

The orderly marketing of agricultural products necessitates an institutional structure to execute the different marketing tasks. The advantages of specialisation and division of labour, imply that a specific activity can be performed cheaper and more effectively by certain specialised middlemen.

Institutions involved in the marketing of controlled agricultural products are the following:

- Minister of Agriculture
- National Marketing Council
- Advisory Consumers Council
- Agricultural control boards
- Land and Agricultural Bank of SA

- Buyers of agricultural products
- Agricultural Co-ops
- Producers of agricultural products

Figure 1 schematically shows how the different institutions fit into the marketing channel of controlled agricultural products.

The institutions responsible for the marketing of uncontrolled agricultural products (uncontrolled products consist mainly of vegetables and fresh fruit, amongst others avocados), are the following:

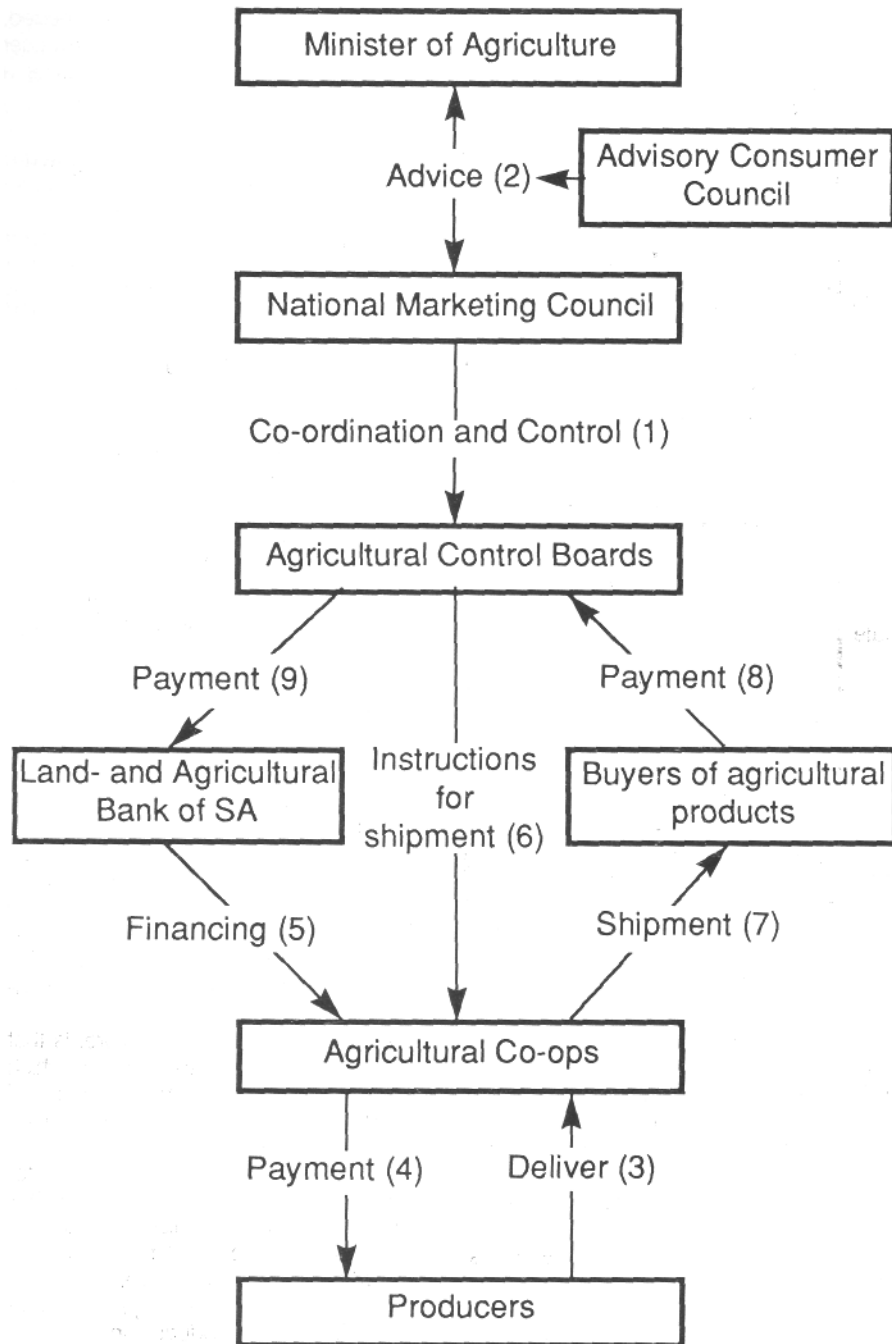
- the municipal market system;
- agents;
- wholesale and retailtraders; and
- hawkers.

Figure 2 shows a schematical representation of the distribution structure for fresh fruit and vegetables. A limited quantity is also sold directly to consumers at, for example, roadside stalls.

THE PERFORMANCE OF PAST AGRICULTURAL MARKETING POLICIES

Government intervention has become part and parcel of the economic life of every country and probably almost every economic sector within a country. The question is not whether there should be interference or not, it rather involves questions of the type and extent of interference. Absence of government intervention does not automatically imply a free and competitive market.

A free market and pure competition are not synonymous concepts. A free market simply means that firms are free to enter and conduct business, and leave industries as they wish, without legal and/or other institutional factors hampering their ability to do so. Pure competition, on the other hand, implies the absence of product or price differentiation and a large measure of uniformity. A modern economic reality clearly militates against this. A modern, free market will most probably have a completely different structure. Pure competition may possibly be found in a few small scale sectors, but the majority of sectors in a free market will be characterised by monopolistic or oligopolistic competition, with a limited number of competitors striving for differential advantage (Groenewald, 1986).



Note: Figures in brackets give an indication of the sequence of the different actions

Fig 1 Schematic representation of the institutions involved in the marketing of controlled agricultural products.

A protected industry is similar to a protected child, animal or plant: it loses its ability to compete, and even to survive in an unprotected, competitive environment. The lack of competition breeds lethargy and hence ineffectiveness and inefficiency.

The more control exercised by any organisation, the larger will be the personnel

involved, the more complex will be the nature of the controlling institution, and the higher will be the probability of substantial investments in managerial ego; the more complex will be management of the controlling institution; the higher is the probability of errors and the bigger and more serious are these errors; the more sensitive are those people who exert control about their own positions and to their own feelings; and the less sensitive are these controllers to positions and feelings of others.

It is now concluded that many policy measures and regulations have done more harm than good (Groenewald, 1986). The agricultural subsectors with the most stringent intervention have oscillated between artificially created periodic surpluses and shortages. Prices have ceased to act as market clearing devices and as signals leading toward optimum economic conditions (Groenewald, 1984).

Mercantilist type of protection carries within itself the seeds of increasing economic isolation. In terms of turbulence, it will render economic boycotts cheaper for participants thereof. It also causes further deviations from Pareto welfare, maximising equilibria.

Marketing control, particularly through fixed prices, has almost completely politicised some agricultural price decisions. At present, the Minister of Agricultural Economics and Marketing makes many decisions including price decisions. These decisions are made after discussions in a cabinet committee. The result provides strong reason to suspect that political motives may often weigh more than economic considerations. It has become a political decision in an era witnessing a decline in the commercial agricultural sector's relative political power. Power struggles between conflicting interest "groups within agriculture can be expected to increase in severity.

The question of who had been beneficiaries of state intervention becomes an interesting one. Those with little to sell the smaller producers could obviously not be the main beneficiaries. To the extent that the net effect as seems to be the case has been increased prices, consumers could not be beneficiaries either.

The list of main beneficiaries would include big sellers probably including the very large farmers the corporate units and the wealthy. It would also include those in agribusiness who benefited from monopoly formation and those who were able to expand in input-providing ventures under conditions where import tariffs, import control, or governmentally controlled price fixation eliminated competition. Beneficiaries would, furthermore, include bureaucratic personnel involved in administering and in many cases expanding control.

It can thus be argued that agricultural and commercial policy has in many respects contributed towards widening of economic inequalities. This must have contributed to increased rural depopulation and urban congestion.

MARKETING MANAGEMENT AND THE MARKETING OF AVOCADOS

The -main, consideration for future agriculture, commercial and economic policy for South Africa is one of direction.

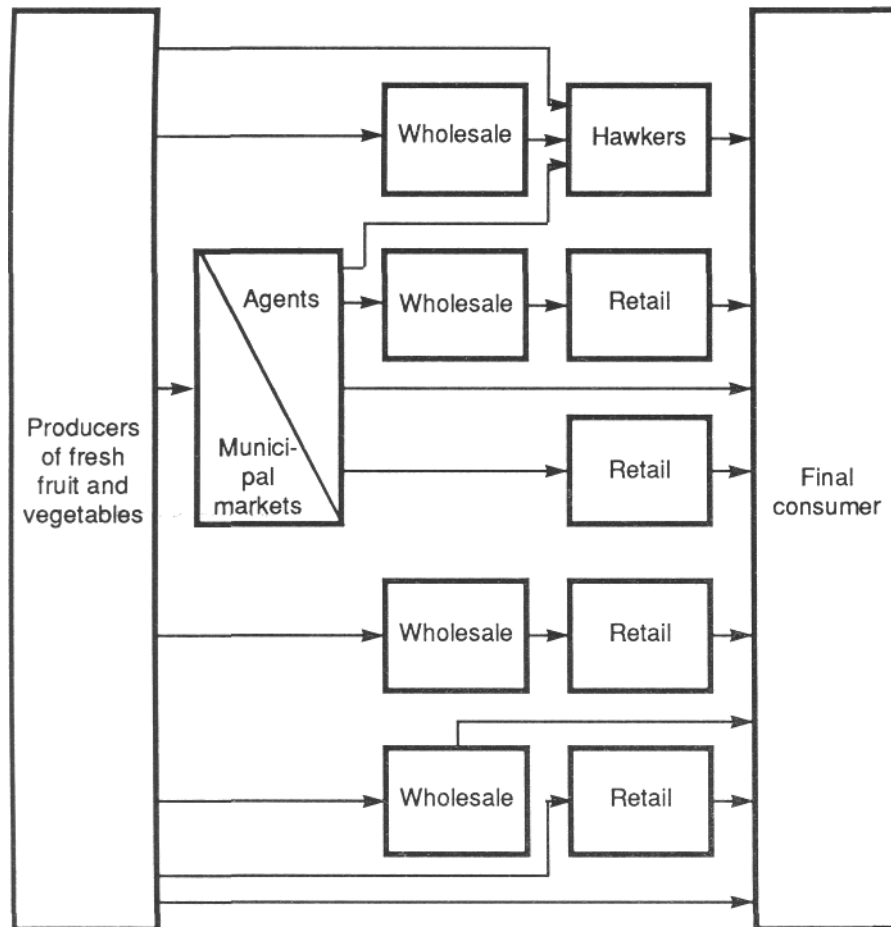


Fig 2 Schematic representation of the institutions involved in the marketing of fresh fruit and vegetables.

This is a matter of choice. The choice can be summed up as one between:

- more, or less intervention;
- less, or more market access for producers;
- a more closed, or more open economy;
- centralised, or decentralised decision making;
- more, or less monopolised business;
- bureaucratic, or entrepreneurial decision-making;
- a more socialist, or more capitalist economy.

This consideration also holds for the avocado industry. It has, however, been shown that most types of intervention, as experienced in South African agriculture, resulted in periodic surpluses and shortages, and also widespread discontent amongst all the parties involved. Supposed advantages became expensive costs. In this light one has to recommend that the avocado industry should steer clear of the Marketing Act and the intervention it facilitates. It can only harm the avocado industry in the long run if its

record with regard to other products is anything to go by.

It is also important to note that avocados are produced mainly for the export market, over which the state has little or no control. The challenge lies in market identification and market development the terrain of private enterprise, Government institutions and statutory bodies have a poor record in market development. Examples are the parastatal monopolies and the poor marketing performance relating to dried fruit in the RSA.

What the avocado industry does need, however, is an organisation like the South African Avocado Growers' Association, which can provide the relevant parties with vital information. Information is the key in solving most problems, especially the already identified basic marketing problems of keeping abreast of changes in demand, reflecting consumers' demands to producers and getting the goods (avocados) from producer to consumer at the lowest cost.

The nature of the information should be such that it can aid producers and those distributing avocados with their own marketing strategy and management. It should thus concentrate on the following:

- Quantitative and qualitative information about the South African avocado market and its different segments, to enable the producer to select the target market with the highest probability of realising his goals;
- With a specific market segment as target, market information is needed, so that the producer, producer groups and traders can formulate a marketing policy with regard to:

Product policy and strategy

- * product planning and development
- * product services
- * trademarks (brand names)
- * packaging

Pricing policy and strategy

- * market prices, target prices and actual prices
- * discounts and margins
- * credit facilities
- * pricing policy

Distribution policy and strategy

- * distribution channel and market coverage
- * storing facilities
- * inventory control

- *transport

Marketing communication policy and strategy

- *promotion

- *personal sales

- *supplementary marketing methods

- *publicity

Some of the above-mentioned marketing functions can be centralised, for instance uniform packaging and trade marks. Promotion can also be done by a central institution, for instance the South African Avocado Growers' Association. It can also be done individually, if the producer can gain differential advantage.

A basic requirement therefore, is that membership of an association which may have its own trademark (brand) and grading system etc, should be voluntary. This will to some extent ensure that the organisation will do what is best for the majority of its members. Once this objective has been realised, it will be a step backward to hand power over to the Minister of Agriculture, who frequently also has other objectives than the welfare of the producers in mind.

In order to be successful in the long run, any marketing strategy should be orientated towards the consumer. This also applies to the avocado industry. An institutional system for the marketing of avocados should therefore, focus on the needs and preferences of the consumer. Information regarding the target market is the key to higher profits and success,

CONCLUSION

An institutional structure for the marketing of avocados should be instrumental in solving the three basic marketing problems, namely consumers' demand for avocados, the price system that reflects these demands back to producers and the methods or practices used in exchanging title and getting the physical product from producers to consumers in the form they require, at the time and place desired.

A control board (or marketing board) under the Marketing Act will not yield the desired results. This will only bring politics and other undesired practices into the marketing process.

The avocado industry should rather have an organisation with voluntary membership, such as the South African Avocado Growers' Association, which can provide all relevant parties with quantitative and qualitative information regarding the different segments of the South African avocado market. With this information available the producer can decide for himself on an appropriate strategy.

Marketing activities which can be carried out centrally can include activities such as uniform packaging and grading under a specific trademark. Promotion can also be done by a central organisation. In order to be successful, a marketing strategy for avocados should however, be orientated towards the consumer.

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