

WOLLO UNIVERSITY
COLLEGE OF AGRICULTURE
DEPARTMENT OF Agricultural Economics SCIENCE
Livestock and livestock products and by-products marketing handout
For 3rd year Animal Science students

Course description:

Definition of marketing and the necessity of farm product marketing; nature, problems of marketing farm products and approaches to study marketing; types of markets; market information systems; marketing channel and promotion; approaches to study animals products marketing; properties of animal's products, live animals and animals products marketing; the price of farm products and value chain analysis.

Course objectives

At the end of his course students will be able to Understand:

- marketing and the necessity of farm product marketing;
- approaches to study animal's products marketing;
- problems of marketing farm products and simplified view of marketing;
- types of markets, market information systems, marketing channel and promotion;
- live animals and animal's products marketing; and
- Price of farm products and value chain analyses

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CHAPTER 1

DEFINITION OF MARKETING AND THE NECESSITY OF FARM PRODUCTS MARKETING

Many people think of marketing only as selling and advertising. Today, marketing must be understood not in the old sense of marketing. The old sense of marketing is a sale - “telling and selling”. Marketing is not only restricted to selling and advertising as is perceived but is more than it. The new sense of marketing is satisfying customer needs (customer oriented). The word market comes from the Latin word „marcatus,, which means merchandise or trade or a place where business is conducted. Word „market_ has been widely and variedly used to mean

- ❖ a place or a building where commodities are bought and sold,
e.g., super market
 - ❖ Marketing is the performance of all business activities involved in the flow of goods and services from the point of initial production until they are in hands of the ultimate consumer.
 - ❖ Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of goods and services to create exchanges that satisfy individual and organizational objectives.
 - ❖ It is the means by which two or more parties give something of value to one another to satisfy felt needs (utility).
- ☛ Utility: - Is the want-satisfying power of a product or service. Marketing in this has been defined as all the activities involved in the creation of place, time, and possession utilities. Marketing consists of those efforts which effect transfer in ownership of goods and care for their physical distribution.

Agricultural marketing

In light of the above definitions of marketing, we can now define agricultural marketing as follows.

The term agricultural marketing is composed of two words- agriculture and marketing. Agriculture in broadest sense, means activities aimed at the use of natural resources for human welfare, i.e., it includes all the primary activities of production. But, generally, it is used to mean

growing and/or raising crops and livestock. And, marketing connotes a series of activities involved in moving the goods from the point of production to the point of consumption.

- It includes all the activities involved in the creation of time, place, form, and possession of utility from agricultural products.

☞ So, agricultural marketing covers the activities involved in moving an agricultural product from the farm to the consumer. Numerous interconnected activities are involved in doing this, such as planning production, growing and harvesting, grading, packing, transport, storage, agro- and food processing, distribution, advertising and sale. Some definitions would even include “the acts of buying supplies, renting equipment, (and) paying labor”, arguing that marketing is everything a business does. Such activities cannot take place without the exchange of information and are often heavily dependent on the availability of suitable finance.

Components of a Market:

For a market to exist, certain conditions must be satisfied. These conditions should be both necessary and sufficient. They may also be termed as the components of a market.

1. The existence of a good or commodity for transactions
2. The existence of buyers and sellers;
3. Business relationship or intercourse between buyers and sellers; and
4. Demarcation of area such as place, region, country or the whole world.

The necessity of livestock products marketing

Generally, livestock products are useful and valuable, either as items of food contributing to human diets, or as materials such as hides and skin or wool and other fibers, used to make clothing or other household goods. As such they contribute to subsistence production. However, very few households are self-sufficient in all the various types of livestock products, so markets are developed and these commodities are bought and sold within the community.

1.2. Nature and problems of marketing livestock products

Nature of marketing livestock products

Farm products like milk and milk products, fish, egg, meat etc are high in their nutritive value because they constitute an important source of vitamins, minerals and amino acids. As a general fact most livestock products are highly perishable and needs due attention.

Animal products should be seen as an important supplement to complement the diet of poor people, which is frequently based on one or two food crops. Marketing of livestock products is an important activity all over Ethiopia. Farmers' sale livestock products to cover their house hold cash expenses and purchase crop inputs. Generally, marketing of livestock products such as milk, meat and egg is considerably high.

Problems of agricultural marketing

The existing system of agricultural marketing in different countries, especially in developing countries, is defective in many ways. The farmers are not paid expected share of their produce. The major problems faced by the farmers in marketing of their produce are as under:

- 1) **Lack of organization:** due to scattered production, lack of regional specialization and predominance of village sales, there are no collective organizations among the farmers. The farmers are exploited by the village itinerant dealers and other middlemen like brokers.
- 2) **Lack of financial facilities:** the farmers want money to perform various marketing services. The farmers borrow money from land lords and commission agents, village traders, etc. at higher rate of interest. The farmers are forced to sell their produce at cheaper rates to these financing agents. The high rate of interest leads to a rise in the cost of marketing with the ultimate result the producer's share in consumer's price is reduced.
- 3) **Forced sales:** mostly, farmers after the harvesting are forced to sell to the village traders at cheaper rates. These middlemen generally, advance loan to the farmers for production of crops and in line of that they take the produce from them at cheaper rates. Due to their poverty and indebtedness/obligation, lack of staying power, and the need for money, the produce is sold soon after the harvest with low price.
- 4) **Excessive supply of produce just after harvesting:** due to lack of retailing capacity of the farmers there is abundance supply of the commodities soon after harvesting, which leads to product deterioration. The farmers get less amount of their produce.
- 5) **A long chain of intermediaries:** there is a long chain of the middlemen in between producer and consumer. Malpractice brokers, village assemblers, itinerant dealers gain excess profit by cheating farmers.

- 6) **Absence of proper grading and standardization of agricultural produce:** majority of farmers dispose of their produce without proper grading. The produce is sold together in one lot.

In the absence of certain standard grades the producers get the ordinary market rate. The un-graded of mixed quality has reduced the reputation of the agricultural produce in the world market. What is difference between grading and standardization?

- 7) **Lack of efficient transport:** inadequate and inefficient transportation of harvested crops from field to threshing floor and produce from village to the market is very poor and defective. The road in rainy season becomes difficult to transport the commodities from farm gates to the marketing areas. Due to lack of modern means of transportation like automobile, airplanes, rail ways, quick and safe transport of agricultural products cannot be afforded. Then, farmers will be forced to use the traditional means of transportation like cart, camel, donkey, horse that cause a loss and deterioration of products there by decreasing the market price of the good and in turn reduce the income of farmers from marketing.
- 8) **Adulteration:** dirty or foreign matter, stones, non-food grains, other varieties of food grains and other matters are mixed with the produce. Due to this the market price of the produce will fall for which farmers will get less amount income.
- 9) **Lack of standard weights and measures:** the weights and measures made of stones, bits of iron, sticks, grass material, etc. are very common in villages. Kilogram, 500g, 200g, 100g and 50g etc. are used for weighing the produce by market functionaries and farmers. The weight of these weights and measures vary from place to place. The multiplicity of weights and measures afford greater opportunities for cheating the farmers.
- 10) **Inadequate storage and warehousing facilities:** in the villages the farmers store their commodities in traditional storing materials. These indigenous methods of storage do not adequately protect the produce from dampness (wetness), weevils, and spoilage. In the absence of proper storage and warehousing facilities, farmers are unable to store their produce for a longer period of time. Thus they do not get the proper price of their produce.
- 11) **Multiplicity of market charges:** the farmers pay various marketing charges in the marketing of produce. These charges reduce considerably the return to the producers from the sale of their produce.

Costs of weighing, loading and unloading, for impurities of produce, and possible loss of weight will cause a deduction of the expected benefit from the produce of the farmers.

12) **Lack of market intelligence:** absence of up-to-date information about the markets is another defect. The farmers do not get accurate and timely information regarding prices of the product. They mostly depend on information of village trader/broker about prices and charges for marketing services

How to solve these problems?

The following recommendations or solutions can solve the agricultural marketing to some extent.

- ☞ Improvement of transport facilities including rural communications
- ☞ Establishment of regulated market: a good number of regulated markets should be set up in the country for removing exploitative practices.
- ☞ Standardization of weights and measures
- ☞ Adoption of measures to secure improved quality of produce by organization among buyers and traders and to guard against adulteration of products.
- ☞ Good quality of produce: the produce of good quality enjoys a universal market. It should be well processed pure and unadulterated. In the processing of different commodities more than one operation are sometimes needed.
- ☞ Capacity to hoard: another pre-requisite relates to the holding capacity of the farmers. They should be able to wait for times when they could get better prices of their produce. In a sense they may not dispose of their surplus produce immediately after harvesting their produce.
- ☞ Transportation facilities: farmers should have cheap and adequate transport facilities so that they may be able to take their surplus to the market instead disposing it at the village level.
- ☞ Adequate information: farmers should have adequate information of the prevailing market conditions so that they may not be cheated. There should be organized and regulated markets when they can directly sell their produce.
- ☞ Fewer intermediaries: the number of intermediaries should be small so that the profits of middlemen may be reduced. This in turn will increase the returns of the farmers.

- ☞ Staying power: producers or seller must have staying power in order to command fair and better prices for their commodities.
- ☞ Fixation of standards and grades of commodities
- ☞ Promotion of co-operative sale societies and suitable organizations for purpose of sale
- ☞ Holding of auction sales by the agricultural department of the country to ensure increased price to the cultivators who produce improved varieties
- ☞ Carrying out marketing survey
- ☞ Appointment of expert marketing officers
- ☞ Building of godowns and warehouses by co-operative society: agricultural cooperative societies should be formed throughout the country for developing a better marketing structure.

The above mentioned basic facilities have the advantage of the efficient marketing of agricultural produce. Efficiency literally can be defined as the ability to do something well or achieve a desired result without wasted energy or effort. Marketing efficiency means the movement of the produce from the producers to the final consumer at the lowest possible cost.

Differences in marketing of agricultural and manufactured Goods

The following characteristics of farm sector are responsive for difference between in marketing of farm products & products from non-farm sector:

1. Perish ability of the Product: most farm products are perishable in nature. The marketing processes of farm inputs must be completed in a very short period, before their quality gets deteriorated or else these products should quickly reach for processing activity.
 - Producers of farm products, thus, cannot afford to fix reserve price or make the supply regular. Producers of manufactured goods, on the other hand, can regulate supply in tune with demand & can afford to fix reserve price for their Products.
2. Seasonality of Production: the production of farm products is possible only in a particular season, where as their demand is more or less equitably distributed.
 - This phenomenon is responsible for marketed fluctuation in price. On the other hand, the production of non-farm goods is not season specific & hence intra-year fluctuations in their prices are not to be seen.

3. Bulkiness of Products: most of the farm products are bulky in nature which makes their storage & transportation difficult & expensive.
 - This characteristic of farm Products also necessitates the closeness location of production, consumption & processing.
4. Variation in quality of Products: The quality of farm products significantly varies due to various agro-climatic, technological and managerial reasons.
 - This feature of farm products makes their grading, standardization & quality control very difficult. Non farms Products do not have any such problems..
5. Small size of Holding & Scattered Production: farm products are produced throughout the length & breadth of the country & most of the producers are of small size.
 - This makes the estimation of supply difficult & creates problems in marketing in terms of infrastructure requirement, & price policy.
- Processing: most of the farm Products are raw in nature & need to be processed before consumption. This increases the price spread of farm products

Importance of Agricultural Marketing

- Agricultural marketing plays an important role not only in stimulating production & consumption, but in accelerating the pace of economic development. The importance of agricultural marketing in economic development can be well explained based on the parameters of economic development as indicated here under:
1. Optimization of resource use & output management: an efficient marketing system leads to the optimization of resource use & output management.
 - An efficient marketing system contributes to an increase in the marketable surplus by cutting down losses in the process of storage, transportation, & processing.
 - Efficient distribution & allocation of modern farm inputs results in faster rate of growth in agricultural sector.
 2. Increase in Farm Income: an efficient marketing system results in elimination of unnecessary market intermediaries, & malpractices; rationalizing market margins, & thereby increasing farmers share in consumer price. The efficient input marketing system offers farm inputs at reasonable prices which enhance higher utilization of farm inputs, resulting in increased productivity, increased production, & thus increased marketable surplus.

- Both these dimensions contribute to improvement in farm income.
3. Expansion of markets: a well-developed marketing system expands the market for the products by taking them to remote corners i.e. to areas far-off the production points.
 - The widening of market coverage contributes to the expansion in demand & there by increase higher income to the farmers.
 4. Growth of agro-based Industries: an improved system of agricultural marketing stimulation the development of input manufacturing & marketing organization, as well as the development of many industries using farm products as raw material.
 5. Price signals: an efficient agricultural marketing system transmits price signals to farmers, input supply firms, as also to consumers & processing industries to enable them to make rational decisions in resource & budget allocation.
 6. Adoption & spread of new technology: an efficient marketing system provides input to farmers to accept & adopt quickly the new technology, developed by farm scientists.
 7. Employment: the agricultural marketing system provides employment to millions of persons engaged in various activities such as packaging, storage, transportation, & processing. Persons like commission agents, brokers, traders wholesalers, retailers, weigh men, packagers, & resulting staff are directly employed in the system. This apart, several others find employment in supplying goods & services required by the market's systems.
 8. National income & poverty reduction: market's activities a demand value to the product & there by contribute to increase in country's gross national product, net national product, & the per capita income.
 - An efficient agricultural market's system aims at reducing food prices, earning more foreign exchange, cutting economic wastes, & there by increasing the purchasing power of people or diminishing poverty.

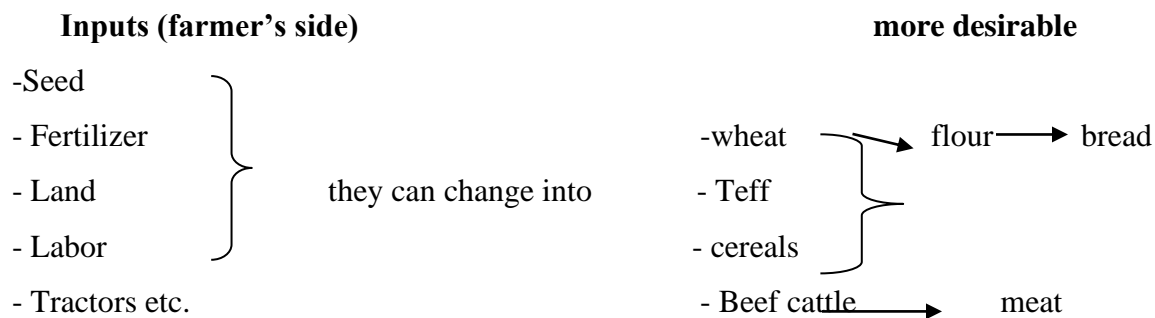
9. Creation of utility

Agricultural marketing is productive by creating utility. Though, many people consider the marketing system and those engaged in various marketing activities as parasite to producers and/or farmers.

Farmers and processors complain about the profit the middlemen make because they consider that they alone produce the final product.. Many things should be done to the farm products like transport, processing, transfer, storage etc. thus the middlemen can also be productive. They can

create utility which is defined as the power of goods or services to satisfy human wants. There are four classes of utility, these include:

A. Form utility- is the utility that occurs due to the changing of product forms through processing into more desirable and useful products.



B. Place utility:- the utility that a product has due to its location, as for instance, when coffee is transported from surplus areas to deficits areas, it means creating place of utility.

C. Time utility:- refers to the utility created by changing the time of use of the product, E.g., storing during excess surplus and moving into trade channels during the period of scarcity. Agricultural products are mostly seasonal in the Ethiopian condition because it is like 4 months surplus and 8 months deficit. Thus storing grain or freezing meat for instance, adds time utility which is more desirable and useful.

D. Possession utility:- utility is created by moving finished products into the hands of the consumers. This meant for changing ownership at different chain

Farmers → assemblers → wholesalers → Retailers → Consumers

Farmers → Processors →wholesalers → Retailers → Consumers

Growth of agricultural marketing

- In past, say a century ago, farmers used to consume most of what they produced; but now, most of the farmers produce more than what they consume & thus exchange the surplus produced for the other things which they require.
- This tendency increased their dependence on marketing, which has resulted in the overall development of the market mechanism.
- Following factors have led to the growth in agricultural marketing:
 1. Production specialization: the tendency towards production specialization by farmers in order to increase productivity & efficiency resulted in self-sufficiency of the farm households' increase farm production & marketable surplus which is the base for growth of market's & in turn of the economy.
 2. Technological change in agriculture: technological growth in farm sector in terms of evolution of high yield crop varieties & livestock breeds, increase use of productivity enhancing farm inputs-fertilizer, agro-chemicals, animal feed, mechanization of farming, & development of better packages of practices, resulted in substantial increase in farm production.
- The increased coverage of agricultural markets obviously contributed to the growth of agricultural marketing system.
 3. Transportation & communication: the increasing facilities of transportation & communication have expanded the market for farm inputs & farm products.
 - The increased coverage of agricultural markets obviously contributed to the growth of agricultural marketing system.
 4. Urbanization: most of the developing countries are experiencing faster urbanization. i.e. movement of people from rural to urban area.

Thus, the demand for farm products is now largely coming from the urban area. This has necessitated a faster growth of agricultural marketing.

1.3. Approaches to study marketing: Approaches to the study of marketing are many.

In **commodity approach of marketing** we study the flow of a certain commodity and its journey from producer to consumers or buyers. We can have a complete picture of the field of marketing.

Institutional approach focuses on the marketing institutions or agencies like wholesalers, retailers, transport undertaking, banks and insurance companies etc who generally participate in discharging their marketing responsibilities during the movement of distribution of goods.

Functional approach attention is draw towards specialized services or functions or activities performed by the marketers.

System approach is a set of interacting or interdependent components or groups coordinated to form a uniformed whole and organized marketing activity to accomplish a set of objectives; we have the objective, inputs, processors, outputs and feedback.

Decision making or management approach combines some features of the commodity, institutional, functional approaches and seek to relate them from the decision making view point. Areas of marketing decisions are product, distribution, pricing and advertising.

CHAPTER 2

Types of Markets

1. Rural Markets

The links between producers and consumers, often direct in rural markets, are more likely to be extended through a chain of intermediary traders to reach urban markets. Within the market chain, products are transported from one location to another, and processed from one form into another.

Benefits of rural markets

Formal markets in rural areas play an important role in improving agricultural marketing. They can provide a location at which farmers can meet with traders (location for trade), increase retail competition by providing a convenient place where farmers can meet with consumers (retail facilities); make marketing a more pleasurable activity; and provide a focal point for rural activities.

Location for trade: traders who buy product from farmers for transport to urban markets experience significant costs in travelling from farmer to farmer to buy small quantities. This is not a major problem if farmers are situated close to major roads and traders simply drive along the road buying from each farmer. When farmers are at the end of poor quality local roads, traders lose considerable time. Costs are also high because traders often use the same large vehicles that they use for journeys to urban areas, and poor road conditions may damage those vehicles.

Farmers are also at a disadvantage because they are more or less forced to accept the price the trader offers. They cannot compare the price they are offered with the prevailing **local** urban price because there is no local market. Even if they have access to information about the prices in urban markets they cannot really use that knowledge to negotiate with traders because they have no realistic idea of the costs faced by the traders in travelling to their farm or village.

Retail facilities: markets provide a location where all buyers and sellers can meet. Consumers can see the range and prices of product on offer and make choices based on their preferences and income. Sellers can take their product to one location and see how much of a particular product is on offer, compare the quality of their product with that of other sellers, and set their prices accordingly.

Provide a rural focal point: retail markets frequently play an important social function. Farmers usually prefer to take their own produce to market rather than sell it to traders. The visit to the rural center provides them with the opportunity to buy items unavailable in their villages and to catch up with local news. In many countries markets function as more than just trading places. They are the focal point of a rural center and provide an important place where people can meet. Markets that are attractive places to do business draw buyers and sellers alike. Competition is promoted amongst sellers and at the same time the sellers have a large number of potential customers.

Market channels in rural areas

The most common transactions in rural areas are farm-gate purchases, local (primary) markets, assembly markets and direct sales to urban markets

Farm-gate purchases: Purchase of produce may be on an individual basis at the farm gate. Buyers go to the farm, usually at a pre-arranged time. In some cases, such as with fruit crops, the produce can be sold “on the tree” or “in the field” and the buyer arranges for its harvesting. In other cases the sales may be through marketing groups or cooperatives. The farmers in this case may wait for the trader at collection centers.

Local (primary) markets: These markets are usually for direct sales of small quantities of product by farmers to village traders and rural consumers. Rural primary markets often form part of a network arranged on a periodic basis, such as on a specific day of each week. They are commonly organized at a central place in a village or district center or beside a village’s access road. In some instances, markets in small towns also provide an assembly function.

Assembly markets: Larger rural markets are found where greater quantities of products are traded, either by the producers themselves or by traders. These “assembly” markets (gathering product in larger quantities for onward sale to outside buyers) are often combined with local rural markets and are normally situated on main highways or other local main roads. Traders or

collection agents working on behalf of urban wholesalers normally purchase product. The market operations may be year-round or seasonal, depending on the types of products being marketed.

Direct sales to urban markets: Farmers may also take their produce directly to urban areas, either to a retail market or to a wholesale market.

2. Urban markets

Large towns and cities are market foci, where demand for most livestock products is concentrated, as is the supply of manufactured goods and public services. Access to urban markets, by rural livestock producers, depends upon the existence of an infrastructure including communications and transport, intermediaries, market places and processing facilities. The main consumer markets for livestock products are found in these market centers, where the rapid growth of urban populations and incomes account for much of the growth in consumer demand. Urban markets are the conduits for international trade, which has increased at an accelerating rate over time.

Market Classification

⇒ There are 10-dimensions, used to classify the market:-

- | | |
|---------------------------|----------------------------------|
| 1. Location | 7. Degree of competition |
| 2. Area or coverage | 8. Stage of marketing |
| 3. Time span | 9. Extent of public intervention |
| 4. Volume of transactions | 10. Type of population served |
| 5. Nature of transactions | |
| 6. Nature of commodities | |

1. Location

- On the basis of the place of location or operation, markets are the following types;

I. Village market

- Located in small villages where transactions take place among the buyers & sellers of the village itself.
- Limited business activity, limited no. of commodity, function also limited.

II. Primary market

- Located in big villages or small towns near the centers of production of farm commodities.
- Transaction takes place b/n producer & traders.
- > 70% taken from this market.
- In these markets, a major part of the produce is brought for sale by the producers-farmers themselves.

III. Secondary market also known as wholesale market

- These markets are well equipped with marketing facilities- transport, storage, communication with functionaries like commission agents, brokers, weigh man, etc.
- Located in big towns or cities.
- A bulk of commodities arrival in to 2⁰ markets is from primary market via traders.
- Producers contribution here is <10%.
- All business activates are taken place here.
- Traders —→wholesalers (transaction of commodities takes place normally in bulk.

IV. Terminal market – also known as ‘consuming centers.’

- Whether for export or domestic markets.
- Transaction is takes place b/n wholesalers or processors or consumer’s or assembled for export.

V. Seaboard market: located near the seashores and are mainly for import and export of goods.

2. Area or coverage

- On the basis of the area from where buyers & sellers usually come for transaction, markets are of the following types:-

I. local market

- Buyers & sellers confined/drawn/ from the same village or nearby village.
- The marketing of highly perishable products are carried out largely in local markets.

II. Regional market

- A market in w/c buyers & sellers of a product are drawn from a larger area (the same region) than the local markets.
- These markets are exists for usually grain markets (less-perishable-products.)

III. National market

- Commodities w/c are produced & consumed in the country.
- markets found for durable goods like tea, sugar

IV. Global market

- Exchange among or b/n the countries. e.g. coffee, cotton, rice than (one)
- Markets in w/c buyers & sellers are drawn from more than one country.

3. Time span

- Based on the basis of periodicity of markets, markets are classified as follows:-

i. Short-period Market

- Largely, highly perishable products are transacted in this market.
- The business confined not daily; & for a couple of hours may be in the morning or evening of a day with in once or twice a week.

ii. Long period market

- Markets have not only long duration for business transactions but also have high frequency of conduct.
- Less perishable and can be stored for some periods such as food grains and oilseeds

iii. Secular-Period market

- Permanent types of market, there are permanent structures & transactions are largely in durable commodities.
- Duration also very high.

4. Volume of Business Transaction

I. wholesale Market

- 'Bulk' → large quantity; markets generally located in big towns or cities & are well equipped in terms of storage, transportation, communication & other required marketing facilities.
- Transactions are takes place among traders/ link between primary market & terminal markets (retailer).

II) Retailer market

- Small quantities, products are bought by consumers in small quantity, as per their requirements. Obviously, these markets are near to consumers.
- Transaction b/n traders & consumers.

5. Nature of transaction

i. Spot or cash market

- A market in which goods are exchanged for money immediately after the sale is called the spot market.
- The transaction is made deliberately.

ii. Forward /Future market

- A market in which the purchase & sale of a commodity is negotiated much before the actual physical transactions of the commodity.
- Negotiation takes place at least once & transactions take place in the future deliberately.

6. Nature of commodities / Products/

i. commodity market

- A market which deals goods & raw materials such as wheat, seed etc.
- raw materials industry or consumption

ii. Capital market

- A market in which bonds, shares, security, & money are bought & sold.
- Credit market (domestic market), share market(stock market), foreign exchange market(international market)

iii. Bullion market

- Precious metal are being transacted “Gold”& like

7. Degree of competition

i. Perfect competition market

- Large no of buyers & sellers;
- All have perfect knowledge about the market;
- No restriction on entry & exit;
- Products are homogeneous;
- Price variation at point of time is almost uniform.

ii. Imperfect market

- One or more features of perfect Competition are lacking.
- Monopoly, monopsony, duopoly, duopoly, oligopoly, monopolistic competition.

8. Stage of marketing

i. producers market: largely concern on assembling the commodities for future distributed to other markets.

- Largely come from farmers-producers

ii. Consumers market; goods are finally distributed to consumers.

9. Extent of public intervention

- Based on the extent of intervention of government in the conduct of business, markets may be of the following 2- types:-

I. regulated markets

- Markets in w/c business activities are carried in accordance with the rules and regulations formed by the legal market organization.

- How the price is fix, method of pricing of the wholesalers. E.g. in India almost 99% is regulated market.

II. Unregulated market

- Markets in w/c business are conducted without any set rules & regulations. Traders frame their own rules for the conduct of business.

10. Types of population served

I. urban market: - a market w/c largely serves the people living in urban areas.

II. Rural market: - a market catering, largely to the demand for rural people.

CHAPTER 3

Market Information Systems

Market Information System or Market Information Service?

The terms market information system and market information service are sometimes used to mean the same thing. But it is useful to distinguish between them:

- **A market information system** is the process by which information is collected, processed and disseminated.
- **A market information service** is what the service provider offers to the user: for example, information on markets, delivered via a mobile phone or other channel.

They may expand beyond market-related information to a wide range of other products and services including weather updates, production tips and services for users.

Why are market information systems useful?

- ✓ The more information people have, the better decisions they can make.
- ✓ Farmers can choose what products to produce, and when, where and to whom to sell.
- ✓ Traders can decide the best time and place to buy.
- ✓ Processors can plan their purchases and activities.
- ✓ The government can detect food insecurity problems quickly.

The existence of market information reduces market risk. Market information in almost all parts of Ethiopia is commonly classified as underdeveloped and traditional. Hence, the heavy reliance of farmers on informal sources exposes them to possible price manipulation and exploitation.

The major constraints causing the poor state of market information systems are:

- ✚ inadequacy of current market information system
- ✚ absence of a public market information system
- ✚ low density of communications infrastructure
- ✚ lack of market transparency
- ✚ lack of knowledge of user requirements

3.1. Types of market information

There are two types of market information namely primary and secondary. Primary marketing information (data) consists of information collected for the specific purpose at hand. Secondary data consists of information that already exists somewhere, having been collected for another purpose.

Agricultural Information Systems

Information systems are knowledge infrastructures which facilitate the dissemination of information for risk awareness, market decisions, and policy decision-making. Information

systems in agriculture can be classified as two main categories: Market Information Systems, and Weather Forecast and Early Warning Systems. For developing countries, enhanced agricultural information systems represent a valuable option to reduce uncertainties about the agricultural sector and increase awareness about price, weather, and other hazard risks, and thereby enable governments and the private sector to better plan their actions and allocate budget where is most needed.

An information system is a combination of information technology and human capacity to transform basic data into usable information. Information is different from data in two important dimensions: it is context specific and decision-focused, whereas data are context specific but cannot directly be used for decisions without being first interpreted through an analytic process. Most often there is a communication gap between data specialists who use technical language and the final users. For instance, most farmers do not have the necessary knowledge to process raw data or interpret complex information. Therefore, it is of basic importance to provide them with analysis and possible implications to support understanding and decisions. Consequently, a clear understanding of user needs and capacities is a precondition for a useful information system.

1. Market Information Systems

Market Information Systems (MIS) are services used in gathering, analyzing and disseminating information about agricultural prices, quantities and other relevant information of widely traded products from rural assembly, retail and wholesale markets. In order to guarantee a well-functioning service, market information should be collected and disseminated on a regular basis, with the higher possible frequency (at least weekly) and should be channeled through various means to reach different types of audience.

2. Weather Forecast and Early Warning Systems

While MIS are mainly thought to serve farmers and traders' needs, Early Warning Systems (EWS) are more targeted at governments, institutions and international organizations. Indeed, a EWS collects analyses and disseminates timely and effective information about hazards, allowing actions to avoid or reduce risks and prepare an effective response. Preconditions for well-functioning EWS are: data accuracy, clear risk assessment and definition of system' objectives, context-based indicators, timeliness warnings, and easy-to-use information.

3.2. Market Information Management

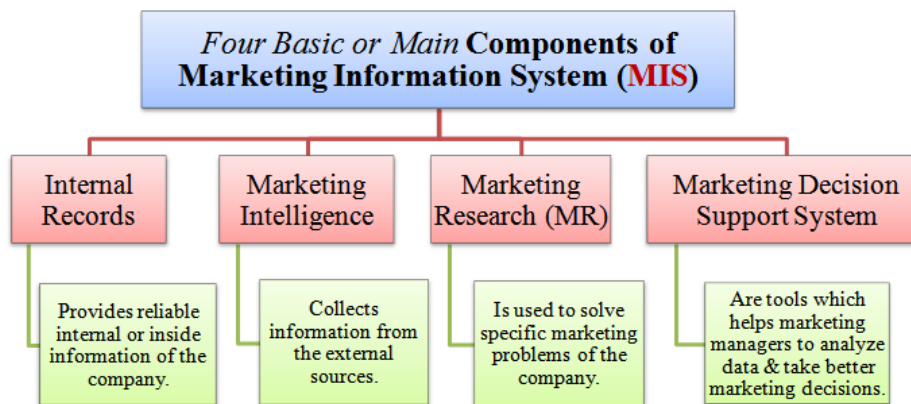
In market information management there is collection, analysis and dissemination of market information. If a marketing organization is to produce superior value and satisfaction for customers, marketing managers need information at almost every turn. Information is needed about customers such as resellers, end-users (who tend to be called consumers), as well as competitors, governmental and other forces in the marketplace.

The role of MIS is to identify (find out) what sort of information is required by the marketing managers. It then collects and analyzes the information. It supplies this information to the marketing manager at the right time. MIS collects the information through its subsystems. These subsystems are called **components**.

The four main components of Marketing Information System (MIS) are:

1. Internal Records,
2. Marketing Intelligence,
3. Marketing Research (MR), and
4. Marketing Decision Support System.

The basic components of MIS are depicted and explained below.



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1. **Internal records** : The first component of MIS is 'Internal Record'. Marketing managers get lots of information from the internal-records of the company. These records provide current information about sales, costs, inventories, cash flows and account receivable and payable. Many companies maintain their computerized internal records. Inside records help marketing managers to gain faster access to reliable information.
2. **Marketing intelligence** :

- a. The second component of MIS is 'Marketing Intelligence'. It collects information from external sources. It provides information about current marketing-environment and changing conditions in the market. This information can be easily gathered from external sources like; magazines, trade journals, commercial press, so on. This information cannot be collected from the Annual Reports of the Trade Association and Chambers of Commerce, Annual Report of Companies, etc. The salesmen's report also contains information about market trends.
 - b. The information which is collected from the external sources cannot be used directly. It must be first evaluated and arranged in a proper order. It can be then used by the marketing manager for taking decisions and making policies about marketing.
 - c. So, marketing intelligence is an important component of MIS.
3. **Marketing research:** The third important component of MIS is 'Marketing Research'. MR is conducted to solve specific marketing problems of the company. It collects data about the problem. This data is tabulated, analyzed and conclusions are drawn. Then the recommendations are given for solving the problem. Marketing research also provides information to the marketing managers. However, this information is specific information. It can be used only for a particular purpose. MIS and MR are not substitutes of each other. The scope of MIS is very wide. It includes 'MR'. However, the scope of MR is very narrow.
4. **Marketing decision support system:** The fourth component of MIS is 'Marketing Decision Support System'. These are the tools which help the marketing managers to analyze data and to take better marketing decisions. They include hardware, i.e. computer and software programs. Computer helps the marketing manager to analyze the marketing information. It also helps them to take better decisions. In fact, today marketing managers cannot work without computers. There are many software programs, which help the marketing manager to do market segmentation, price fixing, advertising budgets, etc.

Why do we conduct marketing research?

Marketing research provides information for aid in making decisions, to identify opportunities to generate & refine actions. Marketing research helps to reduce risk inherent in decision-making; provides an important link to customers and enables managers to identify & understand stakeholders' needs; and to develop appropriate strategies to meet these needs.

Marketing research

Marketing research is the systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization. The marketing research process consists of five steps: defining the problem and research objectives; developing the research plan; collecting information; analyzing the information; and presenting the findings.

Marketing research should be carefully planned and each step of the process analyzed before the actual research begins. The first step is to clearly define the purpose of the research and the objectives. The objectives must be measurable, quantifiable and attainable. Costs of the research must be carefully evaluated and budgeted and the time duration considered.

Research approaches

Some of the research approaches in marketing are observational research, survey research and experimental research.

Observational research: information is gained by observing relevant people, actions, and situations. However, some things such as feelings, attitudes, motives, and private behavior cannot be observed.

Survey research: is the gathering of primary data by asking people questions about their knowledge, attitudes, preferences, and buying behavior. Survey research is best suited for gathering descriptive information. Survey research is the most widely used form of primary data collection. The major advantage of this approach is flexibility while the disadvantages include the respondent being unwilling to respond, giving inaccurate answers, or unwilling to spend the time to answer.

- **Market survey**

Market survey is the survey conducted among consumers about present products and its supply, their needs and expectation, their satisfaction, their income and purchase capacity, etc. the survey analysis gives about the consumers demand and also his acceptance or satisfaction about the product. Generally surveys are helpful to know the consumer demand about a particular product, the price of product at which they can afford of purchase, consumer expectation and requirements in the products, the quality of the products when it reaches the consumer, any difficulties in distribution and selling persons and any improvement needed for the product.

Experimental research: involves the gathering of primary data by selecting matched groups of subjects, giving them different treatments, controlling related factors, and checking for differences in-group responses. This form of research tries to explain cause and effect relationships. Observation and surveys may be used to collect information in experimental research. Generally, some of the major uses of the marketing research in an organization is as a measurement of market potential, analysis of market share, sales analysis, product testing, forecasting and studies of competitors' products.

3.3. Market information service development

3.3.1. Market information services

Market information is defined as a service, usually operated by the public sector which involves the collection on a regular basis of information on prices, and in some cases quantity, of widely traded agricultural products from rural assembly markets, wholesale and retail markets. This service also involves the dissemination of market information on a timely and regular basis, through various media, such as radio and newspapers, to producers, traders and consumers. Market information will enable producers and traders to produce and trade based on what markets require.

Marketing information services can help in the following ways:

- 1) Improve bargaining between producers and traders
- 2) Risk reduction: producers who have reliable and timely information, and who can interpret it, for example, can decide to which market they want to send their products in order to maximize returns. Information reduces transaction costs by reducing risks.

Risks can be classified into two broad categories, namely **physical risks** and **market risks**. Physical risks are those which occur from destruction of the product itself by fire, accident, earthquakes, cold and heat, etc.

Market risks, on the other hand, are those which occur due to the changes taking place in product prices. Risks of changes in market demand are reduced through accurate sales forecasting and market research. Such risks can also be reduced through aggressive programme of advertisement and personal selling. Market intelligence is also helpful in minimizing the agricultural market risks. As the risk component is controlled, the marketing of agricultural products will become more efficient.

- 3) Identification of markets: it is unlikely that producers and traders will consign products to a distant market unless they are reasonably confident of being able to sell at a profit. Market information can help in taking such a decision.
- 4) Allocation of productive resources: information on market price fluctuation over a period of time can help a producer decide whether to expand or keep production constant. This information allows the producer to allocate production resources more efficiently.
- 5) Storage decisions: storage implies costs. Producers and traders need to obtain a price that covers possible storage costs. Information on seasonal price trends is important for producers and traders.
- 6) Trade development: marketing information not only alerts producers to production possibilities, but can also give information on trading opportunities. This can lead to an increase in market outlets for the producers and make them more competitive.
- 7) Facilitating contractual agreements: contractual agreements between producers and traders usually carry a set price agreement for a period of time for the products supplied. Market information can help set a fair price in the contractual agreement and thus avoid disputes.

3.3.2. Formal sources of market information systems in Ethiopia

Currently ministry/bureau of Agriculture, Ministry/bureau trade and industry, Central statistics authority (CSA), and Disaster prevention and preparedness commission (DPPC) can be taken as the sole formal source of market information service.

The Bureau/ministry of Agriculture through its branch offices at Zonal and Woreda level collects market and price information for most of the agricultural commodities. Processing, analysis and dissemination of these data to concerned users, however, is minimal. Even organization of the data in formats that enhance immediate use has not yet been achieved.

The Bureau/ ministry of trade and industry similarly collect and disseminates market and price data of industrial and agricultural products. The collected data is processed and broadcast through the newspaper and the radio.

The central statistics authority (CSA) collects data on livestock prices at both producer and retail levels. However, The CSA lacks a system for rapid dissemination of price information, and there is generally a long lag in the publication of data.

DPPC is responsible for collecting information from a variety of sources for the purposes of alerting government and donor agencies of the location and need for famine relief. Data on rainfall, crop condition, and nutrition are also incorporated into the early warning system. DPPC collects monthly price data on major food crops and livestock in the more vulnerable areas of Ethiopia.

CHAPTER 4-

Marketing Channel and Product Mix

4.1. Marketing channel

When marketing a particular product, the producer must not only take into consideration how much it will cost them to produce it but also the costs of getting it to market.

The major types of marketing channels or selling options are:

- Direct sells/marketing (farm gate or sales from the farm; farm/road side stall (producers' markets); door to door; larger buyers (sales to local retail shop)
- Sales to dealers, processors, exporters
- Sales through urban markets using agents, merchants or auction
- Contract farming (production)
- Co-operative or communal marketing

4.1.1. Direct sells

A) Farm gate marketing

As the name implies this marketing is done by farmer at the place where the product is produced from the “farm gate”. Consumers come to the farm to buy produce.

Advantage of farm gate marketing:

- No transaction costs
- Can be marketed by the farming family, thus costs are reduced
- Better suited to the small scale farmer

Disadvantages of farm gate marketing:

- Farming family must accept the local price for their produce which may be lower
- Farm may not be well located to market the product
- Once the local market’s demand is supplied, the farmer has to look to more distant markets

B) Farm stall / road side marketing

This channel is a further development of marketing from the farm, as it goes some way towards taking the product to the consumer. Farm stall may be operated by a farming family or farmer group marketing their own produce.

Advantages of farm stall marketing:

- Minimal transport costs
- Larger markets can be exploited
- Farmers can advantage of more favorable prices
- Price fluctuations are generally small

Disadvantages of farm stall marketing:

- The quality of the produce may need to be higher as the consumer in the market may be more demanding
- A constant supply of produce may be available to satisfy the needs of the market
- Farmers must be flexible on pricing the produce

C) Door-to-door marketing (vending)

With door-to-door marketing, producers market their product directly to consumers at their households.

Advantages of door-to-door marketing:

- Can be sold and promoted by the farmers themselves

- Marketing margins can be reduced, meaning a higher price for the product can be obtained

Disadvantage of door-to-door marketing:

- Transport is essential and may be difficult or expensive
- Time required for marketing may be longer than if the farmer sold through other channels
- Usually requires a supply of a range of products available on a regular basis to build up customer interest

D) Too larger buyers

This can include sales to institutional buyers (feeding large numbers e.g. hospital, army, university, police), hotels and resorts, restaurants, guest houses, apartments, supermarkets and stores.

Advantages:

- An assured outlet for the farm production
- Usually is a local sale so transport into expensive
- Usually a consistent demand

Disadvantages:

- One farmer may not be able to meet the demand throughout the year
- Usually a range of products is required and the buyer may prefer to deal with only one supplier
- A high standard of product is required
- Usually an informal contract which can be varied at short notice resulting in some production unsold.

4.1.2. Sales to dealers, processors, exporters

There are usually dealers in any area willing to buy product directly from farmers. These may be merchants who sell to exporters or large institutional buyers or to urban markets. In some cases they may be acting as agents for a processor

Advantages

- Product can be delivered locally so transport is less
- Larger volumes can be sold
- Farmers does not have to spend time in marketing
- Production can be of only one or few commodities

Disadvantage

- Price will be less than direct sales to consumers as the dealers profit margin and handling and transport costs will be reflected in lower prices offered

4.1.3. Sells through urban markets

Urban markets in larger centers mainly provide for the marketing of different farm products. Urban markets may be retail and wholesale markets.

Retail markets: selling directly in smaller lots to consumers. This can be either producer selling their own produce or traders who have their own produce together with produce bought from producers’.

Wholesale markets: producers selling mainly in wholesale quantities to wholesalers who in turn sell to retailers who in turn sell the product at retail elsewhere. Selling options include:

- **Agents:** sales by market agents on commission are one of the most common methods of trade. With this system the producer or producer group send their product to the agent at market, who sells for the best price and takes a commission fee as a percentage of gross receipts. The agent never takes ownership of the product and it remains the property of the producer until it is sold. For the commission fee the agent usually handles the product in the market and sells it.
- **Merchants:** in merchant or dealer transactions ownership of the produce transfers from the producer to the dealer or merchant usually on delivery. The transport risk to delivery is that of the producer. The price received by the producer is by “private treaty” i.e. agreement often by phone or e-mail.

Advantages of urban marketing

- The market is able to market large quantities of producer’s product
- The producer can employ the services of an agent to perform the task of marketing
- Producers or producers group can take advantage of higher prices in times of short supply, if they have produce available

Disadvantages of urban marketing

- Market information is important to enable farmers to make the right decisions, and this is often is not available
- Prices fluctuate
- Markets are often far from the point of production

- To get the right price, the time of harvesting is critical

Export markets

Small farmers and small groups of farmers are advised to sell export product through established exporters or traders rather than attempting to export them. Hence, quarantine (depending on the product), consistent supply of high quality product as well as consistent and regular supply of product is essential for export.

4.1.4. Contract marketing

With contract marketing, the producer markets directly to a buyer under a contract arrangement. Arrangements may be informal or formal (written contract). The formal contract arrangement usually covers the quality requirements of the buyer as well as the quantity, timing, method of delivery and packaging.

In the usual informal arrangement the following obligations can apply:

i) Produce's obligations under contracts

- ◆ To deliver stated product of a commodity of specified quality, grading and packaging at specified times and for specified prices
- ◆ Contract could specify an obligation to make up any deficit to a stated quantity or penalties (usually price reductions) for not making the required grades or time tables

ii) Buyer's obligations under contracts

- ◆ to buy specified quantities of a commodity at a specified prices against required grade and quality standards and at specified times
- ◆ contract may give the right to review price i.e. in the event that a reference market price in a market report goes below a specified price

Advantage of contract marketing

- ◆ Marketing margins can be reduced, meaning that the producer can obtain a higher price for the product
- ◆ The volume of sales is guaranteed to the producers

Disadvantages of contract marketing:

- ◆ Producer must have sufficient product of acceptable quality to supply the customer or retailer
- ◆ The quality of the produce must be consistently high

- ◆ If the producer cannot meet the needs of the retailer, they will have to buy product from other producer to make up the order of quantities required

4.1.5. Communal or co-operative marketing

In such type of marketing farmers' associations or cooperatives market their produce in a formal or urban market

Advantages of communal or co-operative marketing

- Wider market opportunities
- Lower cost per unit for transportation and post-harvest handling
- Lower marketing cost overall
- Better prices and smaller price fluctuations
- Builds solidarity among farmers

Disadvantages communal or co-operative marketing

- Returns may only be as good as the management of the group (co-operative)
- The farmer does not have as much say on final markets and prices
- Constant supply is needed and Prices must be flexible

4.2. The four Ps (Marketing Mix)

The marketer delivers value to the customer basically through his market offer. He takes care to see that the offer fulfils the needs of the customer. He also ensures that the customer perceives the terms and conditions of the offer as more attractive vis-à-vis other competing offers.

Marketing mix is the set of marketing tools that work together to satisfy customer needs and build customer relationship. Marketing Mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market. It is the sole vehicle for creating and delivering customer value. The classified the marketing mix variables under four heads, each beginning with the alphabet 'p'. Product, Price, Place (referring to distribution), Promotion

- **Product:** The most basic marketing mix tool is product, which stands for the firm's tangible offer to the market including the product quality, design, variety features, branding, packaging, services, warranties etc.
- **Price:** A critical marketing mix tool is price, namely, the amount of money that customers have to pay for the product. It includes deciding on wholesale and retail prices, discounts, allowances, and credit terms. Price should be commensurate with the perceived value of the offer, or else buyer will turn to competitors in choosing their products.
- **Place:** This marketing mix tool refers to distribution. It stands for various activities the company undertakes to make the product easily available and accessible to target customers. It includes deciding on identify, recruit, and link various middlemen and marketing facilitators so that products are efficiently supplied to the target market.
- **Promotion:** The fourth marketing mix tool, stands for the various activities the company undertakes to communicate its products' merits and to persuade target customers to buy them. It includes deciding on hire, train, and motivate salespeople to promote its products to middlemen and other buyers. It also includes setting up communication and promotion programs consisting of advertising, personal selling, sales promotion, and public relations. Marketing mix or 4 Ps of marketing is the combination of a product, its price, distribution and promotion. It must be designed by marketers in such a manner that these four elements together must satisfy the needs of the organization's target market, and at the same time, achieve its marketing objectives.

CHAPTER 5

Marketing Infrastructure

5.1. Need identification

Human needs are states of felt deprivation. They include basic *physical* needs for food, clothing, warmth, and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. These needs are basic part of the human makeup. Generally, the need identification should include the required facilities and design of market building.

5.2. Infrastructural requirement of markets

Market infrastructure can be broadly ascribed to two categories:

1. Hard infrastructure

- Transportation (roads, ports, airports)
- Post-harvest and value adding facilities (processing, packaging)
- Marketplaces (assembly, wholesale and retail)
- Communication

2. Soft infrastructure

- Market information systems
- Public and private standards, certification and inspection infrastructure
- Traceability systems
- Risk management systems

Adequate and efficient market infrastructures can contribute to raise domestic and international competitiveness of developing countries' agricultural and food products through several mechanisms.

Hard infrastructure facilitates the integration of producers into markets. Access to transportation infrastructure (roads, ports, and airfreight) and post-harvest facilities reduces delivery costs and enables producers to preserve product quality through storage, cooling and timely delivery. In particular, storage infrastructure allows for the better preservation of perishable products and gives farmers opportunities for time arbitrage. The increase in physical and informational connections reduces costs caused by information asymmetry from the supply of inputs to the negotiation of prices. At a time it enhances product quality and customer-orientation in that producers get access to market information and interact timely with traders and exporters.

Access to information on market prices helps to preserve producer's margins by enabling transparent and fairer price negotiations. Information on quality requirements as well as certification and inspection infrastructure is crucial for inclusion in high-value domestic or global value chains. The capacity to provide both evidence of quality and a consistent supply of quality products is a prerequisite to the sustainability of agricultural exports and the competitiveness of local products in modern urban retail outlets, such as supermarkets.

The key infrastructure is roads and paving, drainage and solid waste disposal. Water supply is also important, particularly if there are fish sales. The design of the infrastructure will depend on materials that are easily and economically available locally.

Water supply: the water supply should be on an individual basis for butchers and fishmongers; however, to reduce costs a water point can be provided on a group basis.

Sewerage: it is important that toilet provision is not made without there being an integral or nearby water supply for washing hands. There should also be provision for some form of on-site treatment of effluent (such as a septic tank). It is vital to ensure that the treatment is carefully located to minimize any potential contamination of ground water sources

Garbage disposal: as waste in rural markets is mainly organic, it does not usually create major problems. However, arrangements must be made for its collection and disposal. The provision of small, easily cleaned containers throughout a market area is advisable.

Electrical supply and street lighting: the supply of electricity is not affordable in most rural markets, except those located in important rural towns. Lighting for market buildings is relatively easy as fittings can be suspended from the roof structure. Long-life, low-energy fittings are highly appropriate for market buildings. Traders selling meat, fish or dairy products may need an individual electrical supply to run a small refrigerator or chiller cabinet. Separate metering (electric meter) is essential in this case, unless a special charge for power use is included in the stall rent.

Fencing and gates: the market site may require fencing for security purposes, using walls of buildings around the perimeter, close-timber fencing, brick walling or chain-link fencing. Gates can be made from timber, steel or framed chain-linking.

5.3. Marketing management

Marketing management is the art and science of choosing target markets and building profitable relationships with them. Marketing management is the process allocating the resources of the organization toward marketing activities.

The marketing managers' aim is to find, attract, keep, and grow target customers by creating, delivering and communicating superior customer value. These can be met by designing a customer driven marketing strategy. To design the strategy, the marketing manager must answer two questions: What type of customer will we serve? (What is our target market?), *and* How can we serve these customer best? (What is our value proposition?).

Generally, customer driven marketing strategy will focus on selecting customers to serve and choosing a value proposition.

Value proposition: is the set of benefits (values) we promise to deliver to consumers to satisfy their needs.

CHAPTER 6

Animal Product Marketing

6.1. Properties of animal's products

Animal products such as meat, milk, butter, cheese, eggs, etc., are all perishable. These products require chilled transport if moved over large distances. Transport costs are considerably higher, per ton, than they are for live animals. Since transport costs also vary with distance to the market, the producer prices net of transport costs are much lower in remote production areas, than in locations close to the main markets. For similar reasons the costs of new inputs, supplied from urban areas are more costly for livestock producers in remote areas. Generally, small scale producers are at a particular disadvantage, due to the high unit costs of moving small consignments.

Livestock market types

Livestock markets in Ethiopia function at three levels consisting of primary, secondary, and terminal markets. The primary markets have been identified as village level markets with a supply of less than 500 heads of cattle/week where primary producers (farmers and pastoralists) sell small number of animals to small traders, other farmers (replacement animals), farmer or pastoralist-traders and in some cases to consumers and local butchers. Such markets are not fenced, have no scales, and no feeding and watering facilities. Purchasing is done through 'eye ball' negotiations. A good majority of the livestock markets in Ethiopia belong to this group. In primary markets, livestock is bought or sold for the purposes of stock replacement, slaughter or collection for resale at larger regional markets.

In secondary markets the average volume is 500 – 1,000 head per week consisting of finished, breeding and draught stocks. They are located mainly in regional capitals. Secondary markets serve local consumers to some extent but mainly feed the terminal markets. Hence, these markets also supply live animal exporters and meat processors. In secondary or redistribution markets the main sellers are traders and the main buyers are butchers or traders. Livestock is bought or sold at these points for slaughter or resale at terminal or national markets.

The terminal markets are located in large urban centers such as Addis Ababa, Dire Dawa, Dessie, Bahir Dar, Gondar, Nazareth and the coffee growing regions of Sidama and Gideo. Medium to large-scale traders and butchers dominate these markets. Average volume of cattle brought to these markets may exceed over 1,000 heads/week. In these markets, animals are bought for the purposes of slaughter or export.

6.2. Live animals marketing

Livestock marketing involves the sale, purchase or exchange of products such as live animals, milk, butter, wool, hides and skins for cash or goods in kind. When sales (purchase) are made in cash, the price paid to (or by) the producer is known as the market price.

The main reasons for livestock sale are to buy industrial commodities; to buy other animals; to pay taxes, farm input loan repayment; household food supply purchase; for wedding, funeral, and other cultural dues.

Types of market participants

Livestock producers can buy and/or sell cattle and/or shoats. Based on the various combinations of sales and purchases transactions in which the livestock producers might be engaged, there are four mutually exclusive and exhaustive market participation regimes or categories to which one livestock producer can belong: those who only sell; those who only buy; those who both sell and buy; and those who neither sell nor buy.

Generally, the list of major participants of live animal trade includes mainly producers, traders (rural and urban traders; part time and full time traders) butchers and processors.

6.2.6. Data to collect in marketing studies

Some of the types of data to be collected in market studies are sales rate and off take data.

Sales rate

When outflows are measured in terms of sales, the sales rate (or commercial off take rate) is used for purposes of comparison. It is defined as:

$$\text{Sales rate in period (t) (\%)} = \frac{\text{Livestock sales in period (t)}}{\text{Total herd or flock size at start of period(t)}} * 100$$

OFF TAKES

Gross off take

At the herd or flock level, the total voluntary disposal of animals by sale, slaughter, exchange and/or giving is known as gross off take. It is an absolute measure which, for a given time period (t), is defined as:

$$\text{Gross off take in period (t)} = \text{sum of sales} + \text{slaughters} + \text{exchanges} + \text{gifts during period (t)}$$

The measure thus includes disposals for commercial and non-commercial purposes. It can be calculated at the individual herd/flock level or aggregated (summed) for an area as a whole (e.g. region, district, nation). When aggregated, gifts and exchanges between producers within treated as transfers which cancel out. They are therefore excluded from the equation. Strictly speaking, all exchanges and gifts to producers outside the area should be included. However, they are usually extremely difficult to measure and are, therefore, commonly ignored.

Gross off take rate

For the purposes of comparison, gross off take should be expressed in relative, not absolute, terms. To do this, the gross off take rate is used, which, for a herd or flock, is defined as:

$$\text{Gross offtake rate in period (t) (\%)} = \frac{\text{Gross offtake in period (t)}}{\text{Total herd or flock size at start of period (t)}} * 100$$

Gross off take rate in period (t) is often termed as the off take rate. It only measures outflows and takes no account of acquisitions or inflows into the herd, flock or area.

Note: - the size of the herd or flock at the beginning of the year is commonly termed the “opening number” and the size at the end of the year is known as the “closing number”.

Net off take rate

When acquisitions (i.e. purchases, exchanges or gifts) are significant, the “net off take rate” or ‘net disposal rate’ should be used, which is defined as:

$$\text{Net offtake rate in period (t) (\%)} = \frac{\text{Gross offtake} - \text{Acquisitions in period (t)}}{\text{Total herd or flock size at start of period (t)}} * 100$$

Example

A household holds 50 head of cattle at the beginning of the year. During the next 12 months, five head are sold, one is given away, one male castrate is exchanged for a heifer and one is slaughtered. In addition, two breeding cows are purchased from a neighboring producer. The

gross off take rate (GOR), sales rate (SR) and the net off take rate (NOR) for the 12 month period are:

$$\text{Gross of take rate (GOR)} = [(5 + 1 + 1 + 1)/50] \times 100 = 16\%$$

$$\text{Sales rate(SR)} = (5/50) \times 100 = 10\%$$

$$\text{Net off take rate (NOR)} = [(5 + 1 + 1 + 1 - 1 - 2)/50] \times 100 = 10\%$$

Why we calculate the off-take rate?

The main reason for calculating the off-take rates is to estimate the size of live animal supply to the market. In specialized commercial herds animals are raised for disposal and off-take is usually defined as a percentage of sale or slaughter at the end or during a production cycle to the initial stock. In smallholder mixed farming systems and also in pastoral systems, animals are kept for multiple functions, and sale or other forms of disposal are not regular phenomenon; rather sales are sporadic based on immediate cash needs.

In this regard, one of the key questions to ask is: what proportion of the live animals from such herds will leave the livestock herders for off-farm slaughter or export or other kind of uses?

Under smallholder mixed farming and under pastoral systems

Off-takes under smallholder mixed farming system & pastoral systems

Two types of off-takes are estimated for cattle and shoats produced under smallholder mixed farming and under pastoral systems, namely gross and net commercial off-take rates.

Gross commercial off-take rate

The gross commercial off-take rate is given as the total sales as a percentage of the average stock of a household is computed as:

$$\text{Gross Commercial Offtake Rate} = \left(\frac{\text{Sales}}{0.5 (\text{Opening Stock} + \text{Ending Stocks})} \right) * 100$$

The denominator is the average stock, which is computed as a half of the sum of opening stock and ending stock over one year period. The gross commercial off-take involves animal sales and excludes other outgoings and incomings such as transfers, exchanges, gifts and purchases. Slaughters, gifts and exchanges are on-farm while the sale of animals could be to others or just among livestock owners. Some transactions like buying and selling of animals for herd replacement, breeding and draught use do not lead to a net transfer of animals from the farming community though for an individual household these constitute net transfer.

When the interest is in the number of livestock that actually leaves the livestock owners and enter the market for slaughter, other exchanges such as on-farm transfers, on-farm exchanges and on-farm slaughters need to be netted out for off-take computations. Thus, from the point of view of assessing the supply of live animals by the households to the market, net commercial off-take rather than gross commercial off-take is a more relevant parameter to be estimated.

Net commercial off-take rate

Net commercial off-take rate is given as the sales minus purchases made by the households as a percentage of the average stock. Thus, the net commercial off-take rate is given as follows:

$$\text{Net Commercial Offtake Rate} = \left(\frac{\text{Sales} - \text{Purchases}}{0.5 (\text{Opening Stock} + \text{Ending Stocks})} \right) * 100$$

The net commercial off-take could be negative for net buyers, zero for those whose sales and purchases are equal or for those who are not engaged in the market, and it is positive for net sellers.

6.2.1. Live cattle markets infrastructure

Some of the infrastructures needed for live cattle markets are fencing and gates, office, cattle shade (simple, open sided), weigh scale, water supply, power supply, storm drainage channels, manure pit, septic tank and secondary waste water treatment..

Office: a veterinary room, sales shed for simple items such as veterinary medicines and feeds. The facility would also act as an information point for farmers, with posters and leaflets advertising veterinary and farming products and giving advice on animal husbandry. In areas where livestock selling price information is available, this would also be displayed on a notice board.

Simple, open sided, cattle shade: constructed along one side of the market square with water troughs, rails and feed bins for cattle.

Weigh scale: with a print-out facility for voluntary use by farmers and dealers.

Water supply: from a well or a city main supply system

Power supply: from the city main power supply system

Storm drainage channels: to drain effluents and waste water

Septic tank and secondary waste water treatment: for markets with a daily capacity of more than 500 head of cattle.

Manure pit: to collect, and sell, accumulated manure /dung to farmers.

Fencing and gates: the market site may require fencing for security purposes, using walls of buildings around the perimeter, close-timber fencing, brick walling or chain-link fencing. Gates can be made from timber, steel or framed chain-linking.

Depending on the involvement of the market intermediaries in live animal marketing from the producer to the consumer, the following are the major livestock marketing channels:

- ❖ Producer - - > Consumer
- ❖ Producer - - > Local Assembler - - > Consumer
- ❖ Producer- - > Local Assembler - - > Retailer- - > Consumer
- ❖ Producer - - > Retailer - - > Butcher- - > Consumer
- ❖ Producer - - > Butcher - -> Consumer

Livestock trading constraints in Ethiopia

Livestock trading constraints in Ethiopia are inadequate market infrastructure, absence of market information system, absence of market oriented livestock production system, inadequate number of exporting firms with low level of capacities, inadequate knowledge of international trade, low level of quarantine facilities and procedures, prevalence of various diseases, repeated bans, excessive cross-border illegal trade and stiff competition are the major challenges that hinder the smooth livestock trade in Ethiopia.

CHAPTER 7

Product Pricing

7.1. The importance of pricing

All profit and nonprofit organizations set prices on their products and services. Price goes by many names (rent, tuition fee, fare rate, interest, toll, premium, etc.). Price is the amount of money charged for a product or service. Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible elements of the marketing mix. Unlike product features and channel commitments, price can be changed quickly.

7.2. Factors affecting pricing decisions

Factors that affect pricing are both internal firm and external environmental factors.

A. The internal factors affecting pricing decisions

Internal factors are internal to organization and, hence, are controllable. These factors play vital role in pricing decisions. They are also known as organizational factors. Manager, who is responsible to set price and formulate pricing policies and strategies, is required to know adequately about these factors.

1. Top Level Management

Top-level management has a full authority over the issues related to pricing. Marketing manager's role is administrative. The philosophy of top-level management is reflected in forms of pricing also. How does top management perceive the price?

How far is pricing considered as a tool for earning profits, and what is importance of price for overall performance? In short, overall management philosophy and practice have a direct impact on pricing decision. Price of the product may be high or low; may be fixed or variable; or may be equal or discriminative depends on top-level management.

2. Elements of Marketing Mix:

Price is one of the important elements of marketing mix. Therefore, it must be integrated to other elements (promotion, product and distribution) of marketing mix. So, pricing decisions must be linked with these elements so as to consider the effect of price on promotion, product and distribution, and effect of these three elements on price.

For example, high quality product should be sold at a high price. When a company spends heavily on advertising, sales promotion, personal selling and publicity, the selling costs will go

up, and consequently, price of the product will be high. In the same way, high distribution costs are also reflected in forms of high selling price.

3. Degree of Product Differentiation:

Product differentiation is an important guideline in pricing decisions. Product differentiation can be defined as the degree to which company's product is perceived different as against the products offered by the close competitors, or to what extent the product is superior to that of competitor's in terms of competitive advantages. The theory is, the higher the product differentiation, the more will be freedom to set the price, and the higher the price will be.

4. Costs:

Costs and profits are two dominant factors having direct impact on selling price. Here, costs include product development costs, production costs, and marketing costs. It is very simple that costs and price have direct positive correlation. However, production and marketing costs are more important in determining price.

5. Objectives of company:

Company's objectives affect price of the product. Price is set in accordance with general and marketing objectives. Pricing policies must the company's objectives. There are many objectives, and price is set to achieve them.

6. Stages of product life cycle:

Each stage of product life cycle needs different marketing strategies, including pricing strategies. Pricing depends upon the stage in which company's product is passing through. Price is kept high or low, allowances or discounts are allowed or not, etc... depend on the stage of product life cycle.

7. Product quality:

Quality affects price level. Mostly, a high- quality- product is sold at a high price and vice versa. Customers are also ready to pay high price for a quality product.

8. Brand image and reputation in market:

Price doesn't include only costs and profits. Brand image and reputation of the company are also added in the value of product. Generally, the company with reputed and established brand charges high price for its products.

9. Category of product:

Over and above costs, profits, brand image, objectives and other variables, the product may be imitative, luxury, novel, perishable, fashionable, consumable, durable, etc. similarly, product may be reflective of status, position, and prestige. Buyers pay price not only for basic contents, but also for psychological and social implications.

10. Market share:

Market share is the desired proportion of sales a company wants to achieve from the total sales in an industry. Market share may be absolute or relative. Relative market share can be calculated with reference to close competitors. If company is not satisfied with the current market share, price may be reduced, discounts may be offered, or credit facility may be provided to attract more buyers.

External factors:

External factors are known as environmental or uncontrollable factors. Compared to internal factors, they are more powerful.

Pricing decisions should be taken after analyzing following external factors:

1. Demand for the product:

Demand is the single most important factor affecting price of product and pricing policies. Demand creation or demand management is the prime task of marketing management. So, price is set at a level at which there is the desired impact on the product demand. company must set price according to purchase capacity of its buyers.

Here, there is reciprocal effect between demand and price. i.e., price affects demand and demand affects price level. However, demand is more powerful than price. So, marketer takes decision as per demand. Price is kept high when demand is high, and price is kept low when demand of the product is low. Price is constantly adjusted to create and/or maintain the expected level of demand.

2. Competition

A marketer has to work in a competitive situation. To face competitors, defeat them, or prevent their entry by effective marketing strategies is one of the basic objective organisation. Therefore, pricing decision is taken accordingly.

A marketer formulates pricing policies and strategies to respond competitors, or sometimes, to misguide competitors. When all the marketing decisions are taken with reference to competition,

Sometimes, a company follows strong competitors pricing policies assuming that the leader is right. Price level, allowances, discount, credit facility, and other related decisions are largely imitated.

3. Price of raw materials and other inputs.

The price of raw materials and other inputs affect pricing decisions. Change in price of needed inputs has direct positive effect on the price of finished product. For example, if price of raw materials increases, company has to raise its selling price to offset increased costs.

4. Buyers behavior:

It is essential to consider buyer behavior while taking pricing decision. Marketer should analyze consumer behavior to set effective pricing policies. Consumer behavior includes the study of social, cultural, personal, and economic factors related to consumers provide a clue to set an appropriate price for the product.

5. Government rules and restrictions:

A company cannot set its pricing policies against rules and regulations prescribed by the governments. Marketing manager must set pricing within limit of the legal framework to avoid unnecessary interference from the outside

6. Ethical consideration or codes of conduct:

Ethics play a vital role in price determination. Ethics may be said as moral values or ethical codes that govern managerial actions. If a company wants to fulfill its social obligations and when it believes to work within limits of the ethics prescribed, it always charges reasonable price for its products. Moral values restrict managerial behavior.

7. Seasonal effect:

Certain products have seasonal demand. In peak season, demand is high; while in slack season, demand reduces considerably. To balance the demand or to minimize the seasonal- demand fluctuations, the company changes its price level and pricing policies. For example, during a peak season, price may be kept high and vice versa. Discount, credit sales, and price allowances are important issues related to seasonal factor.

8. Economic condition:

This is an important factor affecting pricing decisions. Inflationary or deflationary condition, depression, recovery or prosperity condition influences the demand to a great extent. The overall health of economy has tremendous impact on price level and degree of variation in price of the

product. For example, price is kept high during inflationary conditions. A manager should keep in mind the macro picture of economy while setting price for the product.

7.3. The pricing methods

Product costs set a floor to the price; consumer perceptions of the product's value set the ceiling. The company must consider competitors' prices and other external and internal factors to find the best price between these two extremes.

Companies set prices by selecting a general pricing approach namely *cost-based approach* (cost-plus pricing, break-even analysis, and target profit pricing); the *buyer based approach* (value-based pricing); and the *competition-based approach* (going-rate and sealed-bid pricing).

Cost-based pricing approach

i) Cost-plus pricing

Cost-plus pricing is adding a standard **markup** to the cost of the product. It is the simplest pricing method. For example, construction companies submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers, accountants, and other professionals typically price by adding a standard markup to their costs.

Example: Suppose a manufacturer had the following costs and expected sales:

Variable cost.....5 birr
Fixed cost.....100,000 birr
Expected unit sells.....5,000

Then the manufacturer cost per unit of product is given by;

$$\text{Unit cost} = \text{Variable cost} + \frac{\text{Fixed cost}}{\text{Unit sales}} = 5 + \frac{100,000}{5,000} = 25$$

Now suppose the manufacturer wants to earn a 20 % markup on sales:

The manufacturer's markup price is given by:

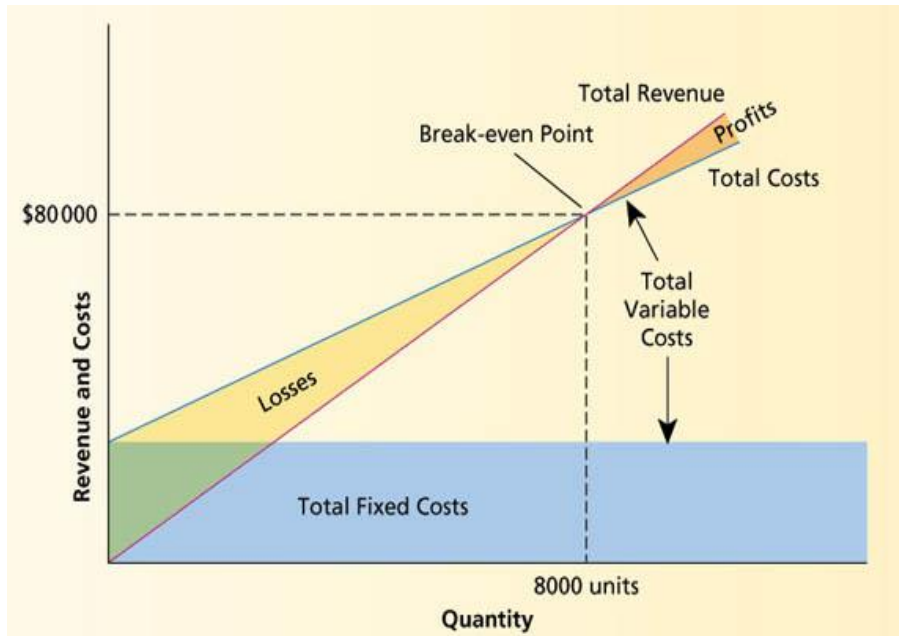
$$\text{Markup cost} = \frac{\text{Unit cost}}{1 - \text{Desired return on sales}} = \frac{25}{1 - 0.2} = 31.25$$

The manufacturer would charge dealers 31.25 birr a product and make a profit 6.25 birr per unit (31.25 birr – 25 birr). The dealer, in turn, will markup the product. If the dealer wants to earn 40 % on sells price, he will markup the product to **52.10** (31.25 + 40 % of 52.10).

$$\text{Markup price} = \frac{\text{Unit cost}}{1 - \text{Desired return on sales}} = \frac{31.25}{1 - 0.4} = 52.10$$

ii) Break-even analysis

Break-even pricing is setting price to break even on the costs of making and marketing a product; or setting price to make a target profit. The organization tries to determine the price at which it will break even or make the target profit it is seeking.



Break even chart for determining target price.

This pricing method is also used by public utilities, which are constrained to make a fair return on their investment.

$$\text{Break even volume} = \frac{\text{Fixed cost}}{\text{Price} - \text{Variable cost}}$$

Fixed costs are same regardless of sales volume. Variable costs are added to fixed costs to form total costs, which rise with volume. The total revenue curve starts at zero and rises with each unit sold.

Buyer based approach

i) Value-based pricing

Value-based pricing means that the marketer cannot design a product and marketing program and then set the price. Price is considered along with the other marketing mix variables *before* the marketing program is set.

Value pricing strategy is offering just the right combination of quality and good service at a fair price.



Value based pricing

Cost-based pricing is product driven. The company designs what it considers to be a good product, totals the costs of making the product, and sets a price that covers costs plus a target profit. Marketing must then convince buyers that the product's value at that price justifies its purchase. If the price turns out to be too high, the company must settle for lower markups or lower sales, both resulting in disappointing profits.



Cost-based pricing

Competition-based pricing

Consumers will base their judgments of a product's value on the prices that competitors charge for similar products. One form of **competition-based pricing** is *going-rate pricing*, in which a firm bases its price largely on competitors' prices, with less attention paid to its own costs or to demand. The firm might charge the same, more, or less than its major competitors. Competition-based pricing is also used when firms *bid* for supplying of products. Using *sealed-bid pricing*, a firm bases its price on how it thinks competitors will price rather than on its own costs or on the demand. The firm wants to win a contract, and winning the contract requires pricing less than other firms.

Marketing costs of livestock products

Marketing costs will vary according to the method of marketing chosen. The main operating expenses for marketing of livestock products include packaging and storage, handling, transport, product losses, fees, taxes, and unexpected costs.

Packaging and storage costs: costs for packaging include the materials used for packaging, which may vary from a simple basket to a carton made of plastic, and labeling. The cost of storing the eggs must also be considered.

Handling costs: the cost of packaging, putting them into storage, loading them for transport and unloading them at their destination must all be calculated as handling costs. Each individual handling cost may not amount too much; however, the sum total of all such handling costs can be significant.

Transport costs: costs for transport will vary according to the method of transport used and the distance covered.

Product losses: product can be lost during the marketing period. There are two types of losses i.e. quality and quantity. Products like milk and eggs exposed to heat with consequent deterioration are an example of quality loss. Breakage of eggs during transport on a bumpy road is an example of quantity loss.

Fees and taxes: fees have to be paid to a local authority for the use of a market stall, taxes have to be paid and all these costs must be considered.

Unexpected costs: it is always important to calculate expenses for unexpected events that may raise costs. For example, it could happen that a road is closed and this may result in a longer distance to be covered to consign products. This will raise costs.

CHAPTERS 8

Value Chain and Value Chain Analysis

Value

Value is the amount a good or service is worth of in the market. There are three types of value, namely form, time and space values. Form value is associated with the change of the form of a raw material (production, processing), time value is related with availing at another period of time produce produced at a period of time (storage) and space value is related with availing at another location product produced in one location (transport).

Value addition

Value adding process is the set of quality control activities which transform an input into an output that is valuable to customers.

8.1. Value Chain

The value chain encompasses the full range of activities and services required to bring a product or service from its conception to sale in its final markets. Value chain includes input suppliers, producers, processors and buyers. They are supported by a range of technical, business and financial service providers. The goal of a value chain is to increase profits for all value chain partners, as they capitalize on market opportunities and deliver a quality product that consumers demand.

A value chain entails the addition of value as the product progresses from input supply to production to consumption. Value chains are also the conduits through which finance (revenues, credit, and working capital) moves from consumers to producers; technologies are disseminated among producers, traders, processors and transporters; and information on customer demand preferences are transmitted from consumers to producers and processors and other service providers.

8.2. Value Chain Mapping

Value chain mapping is the process of developing a visual depiction of the basic structure of the value chain. Value chain map is a flow chart from input stage to output. A value chain map illustrates the way the product flows from raw material to end markets and presents how the

industry functions. It is a compressed visual diagram of the data collected at different stages of the value chain analysis and supports the narrative description of the chain.

Objectives of value chain mapping

The Objectives of value chain mapping are to:

- Gain basic overview of the value chain to guide the full value chain analysis to be undertaken
- Identify constraints and possible solutions at different levels in the value chain
- Visualize networks to get a better understanding of connections between actor and processes
- Demonstrate interdependency between actors and processes in the value chain
- Create awareness of actor to look beyond their own involvement in the value chain

What Does a Value Chain Look Like?



8.3. Value Chain Actor Identification

During actors identification we will identify the actors involved in each of the segments of the chain (main stakeholders involved in the value chain) and their interrelationships with other players; the value they add to the product; and the constraints and opportunities they face. Both the public and the private sector are seen as critical actors of commodity value chains.

8.3.1. Live Animals Value Chain Actors

Live animals' value chain actors are producers, collectors, feed lots (large and small feedlot operators), traders, cooperatives, brokers/middlemen and live animal exporters.

Producers: The largest share of meat and live animals for export are produced by lowland pastoralists: they account for 90% of all such production in Ethiopia. However, there is a growing share of highland animals entering the export supply chain. Producers rear cattle, shoats, and camel, in order of importance. They are often located in rural areas where access to market and infrastructure is insufficient. Market and pricing information is difficult and often impossible to come by. Hence, pricing received by the producers, when they go to market, is either the previous week's price or not the best price they could obtain if they had access to better and more timely information. Large animal herds are considered signs of affluence and prestige, especially in pastoral areas, so many producers only go to market when they encounter financial difficulties or face drought. Not only does this keep product off the market and represents sub-optimal production management, but it also limits the ability of the producer to set a favorable price because he/she is either selling into a distressed market or he/she is not in a position to negotiate a fair price.

Collectors: These important market agents collect animals, usually from remote locations and gather animals to the producer areas where watering points are found. They are mostly independent operators who use their local knowledge and social relationships, family, clan and friends to collect animals. In turn, they become an important source for big and small scale traders and livestock trading cooperatives, which lack the local knowledge and relationships. They are usually constrained by a financial capacity that limits their operations and keeps them within a narrow geographic range. The collectors are not always good sources of market information, and they may take advantage of a producers' limited knowledge of the markets. This can lead to distortional pricing, almost always benefiting the collector.

Designing and implementing dependable information dissemination mechanisms is essential in order to develop significant levels of trust and cooperation among producers and other market actors in remote areas. Collectors may also operate as agents for exporters and traders usually on a fixed-fee or commission basis.

Feed lots: The feedlot/fattening operations include small scale private feedlots and those that operate larger facilities aimed at animal exporting. Some operate according to generally accepted Sanitary and phyto-sanitary requirements (export livestock testing and certification to meet international standards) and rules and regulations of animal quarantine, while others, particularly the smaller ones, do not. Feedlots purchase livestock through their own purchasing agents from traders or from cooperatives on occasion. Feedlots generally purchase cattle; both young and older animals, fattening young animals primarily for sale to export abattoirs and older animals (more than five years old) for the domestic market. Feedlots are primarily located in and around urban areas (around cities and towns). The current challenge facing feedlot operation is that lack of enough land for animal feed production; rising costs of animal feed and infrastructure such as roads, electric power and water are inadequate. The primary reasons for the increased animal feed prices are the inflated costs of the inputs.

i) Large feedlot operators

Have large facilities and herd sizes ranging from 350 to 5,000 cattle and are mostly located in the growth corridors. These operators buy feed both roughage and concentrate, hire workers, take care of the animal health issues like de-worming and spraying against internal and external parasites respectively and vaccinate their animals. They fulfill the sanitary and phyto-sanitary requirements and regulations of the countries to where they export. Estimated age of animals destined for export market is 2 to 3 years and mostly sourced from pastoralists in the lowlands.

ii) Small to medium feedlot operators

Target the domestic market and make an attempt to synchronize the cycle of fattening with holiday markets like New Year, 'Meskel' and Easter. The animals used for this purpose usually come from the highland and are often older i.e. more than 4 years of age.

Traders: There are both animal traders buying on average 100 animals per week and small traders (usually buying on average 15 animals per week) in the market. Large traders, which are few in number, are those who are permanently operating in the live animal and meat value chain business and are known for purchasing large numbers of animals from a variety of sources in order to supply their key buyers (abattoirs and live animal exporters). Usually just one or two big traders will operate in a certain area and they'll often divide the markets among themselves,

thereby reducing competition and increasing prices. The larger traders will use their own capital and act as a source of funding to their collectors. Most big traders are indigenous to the area in which they operate and they have extensive experience in the market in these areas.

Smaller traders, on the other hand, are large in number relative to big traders. At times, they are the only outlet to markets that many smaller collectors have. Unlike the larger traders, small traders have little working capital which results in their collecting limited numbers of animals on a weekly or even biweekly basis. They often use rented vehicles to transport the animals to abattoirs. Some small traders have relations with the larger traders and will often feed animals into the larger traders' networks; especially for the export market. The small traders lack access to the detailed market information that large traders possess, thus creating a situation where the small traders do not have accurate market information which further compounds the problem of limited market information.

Cooperatives: Livestock cooperatives are located throughout the livestock production areas in Ethiopia; however, few exist in highland areas. Most of the livestock cooperatives operate in the shoats market because of the low financial requirement of shoats compared with cattle and camel. Livestock trading cooperatives have been established primarily to operate as a marketing arm for their members; they rarely work as a backward link for input suppliers to producers, although it was observed that some cooperative have begun attempting to work on input supplies. A number of problems plague livestock cooperatives including dysfunctional organizational setup and management systems, dependence on few buyers, a shortage of working capital, lack of market information, inadequate training and conflicts of interest by cooperative directors, many of whom are also livestock traders themselves. The cooperative do not have an equal level of business skill; most of them lack entrepreneurial skills required to compete in the market with individual traders.

Brokers/Middlemen: An important feature of the livestock marketing system in most of the livestock markets in Ethiopia is the involvement of brokers/middlemen in many segments of the marketing chain. They match buyers.

Most of these middlemen were simply aggregators. This could be eliminated if proper wholesale markets or auction houses were established, nullifying the need for producers and other brokers

to sell into larger pools of animals. In some market areas, particularly in remote rural locations, brokers not only provide an important service but are critical links to the markets for small holders. On the contrary in most urban settings, brokers do not play as important of a role, however, they are still often involved in many transactions.

Brokerage fees are dependent on a number of factors including relation of the broker to the seller, location, how active a particular market area is, etc. In some places, buyers must pay a broker's fee of ETB 50-100/head of cattle whether or not a broker helped mediate the deal. This is assumed to be an assurance for a buyer that the seller will take a responsibility of finding the animal in case it is lost during trekking. For instance, after two parties agree on the terms of sale, the broker takes the money from the buyer. After taking his fee, the broker pays an amount to the seller that is less than what the buyer thought he was paying. In essence, the broker is 'representing' both sides of the deal. In this situation, the broker is not providing much in the way of value added, yet he is extracting rent from a value chain system that can barely afford the added costs.

In most parts of Ethiopia, livestock are sold through 'eyeballing' between the seller and the buyer making the role of the broker limited to facilitation and counseling for the traders who are new to a particular market place and traders who are infrequent visitors or not familiar with the local situation.

Live Animal Exporters: There are hundreds of legal live animal traders and exporters operating throughout Ethiopia. They are also some of the most highly paid actors along the value chain, garnering profit margins ranging on average between ETB 2000-3000 per cattle. Animals are supplied mostly by traders or small scale fatteners while sometimes animals are purchased directly from producers. The primary export markets for live animals are Egypt, Somalia, Djibouti, Somaliland, Yemen, Saudi Arabia and Sudan, whereas meat is exported to a number of Middle East and African countries, mostly through formal channels, supplied mostly by small scale fatteners. In most cases importers come to Ethiopia and buy the animals.

Formal and informal trade

Through both formal and informal trade channels, Ethiopia is a major supplier of live animals to Somalia, Djibouti, Kenya, and Sudan as well as to Saudi Arabia. Ethiopia is the largest livestock

exporter in Africa, followed by Namibia. In terms of revenue live cattle exports have tremendous income for the Ethiopian economy. Although it is near impossible to capture the numbers and amounts of informal trade, by most estimates, the informal trade in live animals from Ethiopia accounts for 75-80% of all live animal trade.

There are a number of key factors that contribute to informal trade in Ethiopia. They include:

- Formal exporters must obtain an export license and pay 15% VAT to the Government of Ethiopia for the export of live animals
- Informal traders do not need to meet the Government regulation that bans the export of cattle weighing less than 320 kg body weight
- Informal trades usually involve lower transaction costs because there is no costs for quarantine and related sanitary and phyto-sanitary (SPS) expenses and lower transport costs because most of the informal trade is conducted near the border requiring less transportation
- Informal traders do not need to follow quarantine requirements

8.4. Value chain analysis

Value Chain analysis was first suggested by Michael Porter (1995) as a way of presenting the construction of value as related to end customer. **Value chain analysis** is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation. Value chain analysis describes the activities within and around an organization, and relates them to an analysis of the competitive strength of the organization. Therefore, it evaluates which value each particular activity adds to the organizations products or services.

Potential objectives of value chain analysis

The potential objectives of value chain analysis are identification of leverage points to improve chain performance; analysis of agriculture-industry linkages; analysis of income distribution; analysis of employment issues; analysis of economic and social impacts of interventions; analysis of environmental impact of interventions; guide collective action for marketing; guide research priority setting and conduct policy inventory and analysis.

How to conduct a value chain analysis?

Value chain analysis consists of a four step process i.e. data collection and analysis; chain mapping (actors, functions and relationships) and end market analysis; analysis of opportunities and constraints; and validating the findings of the value chain analysis through stakeholders forum.

Step One: Data Collection

Good value chain analysis begins with good data collection, from the initial desk research to the targeted interviews. Both qualitative and quantitative data are required for the value chain analysis. The qualitative data are collected using participatory rural appraisal (PRA) tools such as: focused group discussions, Key Informant interview, personal observations, etc. Quantitative data are collected using structured questionnaire survey

Tools to be used

- **Review of relevant literature:** reports, documents, databases, and websites relevant for the study will be reviewed. The aim is to familiarize the team with the industry, its market and the business environment in which it operates, as well as to identify sources for additional information.
- **Secondary data:** which will be collected from CSA, , woreda and zonal offices, and other relevant sources e.g.; price and marketing data, number of different market actors in the specific rural markets, credit provided, technology supply and distribution, storage and transport facilities, information on processing, packaging and grading will be collected.
- **Participatory rural appraisal** tools to be used are Focused group discussions, in-depth key informant interview and Visits.

Step Two: Value Chain Mapping

Value chain mapping is the process of developing a visual depiction of the basic structure of the value chain. A value chain map illustrates the way the product flows from raw material to end markets and presents how the industry functions. It is a compressed visual diagram of the data collected at different stages of the value chain analysis and supports the narrative description of the chain. A two phased process for developing the value chain mapping is recommended

- a) **Initial basic mapping** based on the information derived from desk research and knowledge at the outset of the analysis, and
- b) **Adjusted mapping** that includes revisions based on interviews and feedback from firms and individuals brought into the analysis process

Step Three: Analysis of Opportunities and Constraints Using the Value Chain Framework

The process of chain analysis requires the use of the **value chain framework** to identify opportunities and constraints along the chain. The framework is a useful tool to identify systemic chain level issues rather than focus on firm level problems. While interviews give the value chain team the chance to gather information from individual firms, the value chain framework helps to organize this information in such a way that the analysis moves from a firm-level to a chain-level perspective. If the chain cannot be competitive, the success of individual firms is compromised.

Step Four: Validating the Findings of the Value Chain through Stakeholders Forum

Vetting findings uses value chain analysis through a structured event(s) like a workshop(s) to facilitate discussion with and among selected participants. The objective of these events is to bring participants together who are responsible for critical market functions, service provision, and the legal, regulatory and policy environment. The goal is to have these participants - who have an incentive to drive investments in upgrading - to develop and assist in implementing a private sector led competitiveness strategy. To develop this strategy, the stakeholders will need to prioritize the opportunities and constraints identified during the value chain analysis.

Note:

- Value chain analysis requires expertise in more than one area
- Value chain analysis can be developed for the product as it relates to end customers
- Value chain analysis can be developed for an entire industry or individual competitors

8.5. Value chain development

Participatory and market oriented commodity value chain development approach will help boost production and productivity of smallholder farmers. The approach is holistic in that it considers input supply, production, agricultural services, marketing, and business support services as necessary building blocks of commodity development. It stresses business principles (including market demand and cost/benefit considerations) as the driving force for production decisions.

Value chain development

- Agricultural extension : building skills and sharing knowledge
- Marketing interventions: introduced different marketing interventions, facilitation of linkages with new market partners, provision of price information, strengthening local private/cooperative processing and marketing capability, quality improvement
- Production interventions: use of improved materials, site/ product management,
- Input supply and service provision interventions
- Marketing channel and promotion; the price of farm products and value chain analysis.