CHAPTER 15

WHAT IS MARKETING?

A brief introduction to marketing for participants in the MAP industry

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Abstract. Marketing is a concept that is often only partially understood by participants in the academic or research branches of the Medicinal and Aromatic Plants industry. This paper is a brief introduction to the vocabulary and main concepts of marketing as practiced today in forward-looking companies.
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Marketing is a concept that is often misunderstood by participants in the academic or research branches of the Medicinal and Aromatic Plants (MAP) industry. This paper is a brief introduction to the concepts of marketing and business practice as it applies to business in general and to the horticulture industry in particular.

The basis for much of the discussion to follow is derived from the work of Michael Porter, the C. Roland Christensen Professor of Business Administration at Harvard Business School. Porter is one of the foremost thinkers in business science today and he writes with great clarity. His classic books are: *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (1980), *Competitive Advantage: Creating and Sustaining Superior Performance* (1985), and *The Competitive Advantage of Nations* (1990). These were critically updated in 1998 with *On Competition* (1998). The vocabulary that Porter popularized in these books is used throughout the business world today and these books are most useful when read in chronological order.

Supplementing Porter's work are many good marketing textbooks. One of the better known is Thompson and Strickland, *Strategic Management: Concepts and Cases* (1995). This textbook has run to many editions but those from the mid-1990s are easier to use than the current editions and are often much cheaper.

A fundamental concept of business is that marketing and selling are distinctly different operations. Marketing staff and sales staff are usually in different departments of a large firm. They have different skills and job descriptions.

R.J. Bogers, L.E. Craker and D. Lange (eds.), Medicinal and Aromatic Plants, 213-221.

Marketing is a thought process, selling is a transaction. That is, marketing is the way that the company approaches customers and selling is the way that the company interacts with the individual customers that are attracted.

It is a truism in horticulture that an effective marketing activity is the equivalent to doubling crop yields. Plant scientists know that doubling yields is very difficult and expensive, so marketing is a critical investment in modern horticulture.

Consumption of MAP still seems to be haphazard and based on fads, and so companies invest more money on sales campaigns than they do in long-term marketing efforts. This will likely change as the industry matures.

To begin the discussion on marketing it is useful to introduce some basic concepts.

Figure 1 (see Chapter 5, Figure 1, on colour pages elsewhere in this book) represents a typical marketing system for horticulture products or MAP.

Farmers are here presented at the bottom but they could also be placed at the top. Products move through various channels from the farmer to the consumer. The product is transformed in many ways during the process – it is sorted, graded, cleaned, disinfected, packaged and sometimes processed before it reaches the consumer.

In fresh-market horticulture, we can identify a basic 15 market channels between growers and consumers. (The list can be expanded to over 50 channels if group and individual efforts are separated.) A summary of these is presented in Table 1. There is little difference between the market for fresh fruits and vegetables and for MAP.

Not all of these marketing channels are present at each place and time, but development of an industry requires that all of these channels eventually be available to producers and buyers.

One of the most intriguing concepts and one that is difficult to explain quickly, is that increased competition, fostered by the proliferation of marketing channels and increased participation in each, means more profit for more people. Of course, monopolies are wonderful when you are in them, but they are terrible when you are not. Government monopolies that persist in many countries are generally the most ineffective way to organize trade.

Increasing competition among buyers in the market place is the best way to maximize and distribute profits and to promote fair dealing because more buyers means wider opportunities for distribution of goods. More sellers offering a range of products (if the means for diversification exists) means a wider range of choice for buyers. More buyers offering different prices and terms of trade means a wider choice for sellers. More participants in the market place means cartels are harder to form and maintain. More participants talking to each other means that market intelligence (market information of all sorts) moves more quickly to more people. The free flow of information helps remove distortions in the market caused by information imbalance.

Table 1. *Marketing channels for fresh, perishable produce*

Channel	Description	Location of transaction
Home consumption	Nutritionally and economically important. Home consumption saves cash resources for other uses.	On or near farm
Barter	Exchange product for product. Local or regional. Sometimes international.	Any location but more commonly local
Street vending: retail sales to consumers without prior formal relationship	Producers and resellers carry products around city streets or set up informal vending sites.	Within three hours of farm (any available transport)
Markets and fairs	Intermittent. Originally based on seasonal, local production patterns and imports of non-perishables. Fairs are held less often than markets.	Within three hours of farm
Retail sales route: direct retail sales with continuing relationship between producer and buyer (Also: Direct sales to greengrocers and restaurants)	A regular delivery schedule is set up but there is no prior contract between seller and buyer. May be a combination of self-produced and bought-in products.	Within three hours of farm
Wholesale to local groceries, greengrocers and restaurants without prior contract	Producer and buyers develop on-going relationship but there are no standing orders.	Within three hours of farm
Wholesale using brokers and resellers: wholesale transaction	Individual producers or cooperatives sell to brokers or resellers who in turn resell retail or wholesale.	Anywhere
Small-volume wholesale markets and auctions	Producers bring small loads to a central location to sell to buyers who want small volumes.	Within three hours of farm
Large-volume wholesale markets: terminal markets, regional wholesale markets	Often no retail trade permitted. Operate year-round with the inclusion of products transported from other regions. May be auctions but are more often brokered or competitive sales.	Anywhere
Preferred-supplier arrangements without prior contract	Supermarket and other large institutions buy products on an ongoing basis	Anywhere

Table 1 (cont.)

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Channel	Description	Location of transaction
Contract sales to supermarkets, institutional buyers and processors	Buyers and producers contract for specific products on a specific schedule at a fixed price. Contracts have exacting specifications.	Anywhere
Producer-managed farm stands, farm shops and entertainments	Producers offer products at a sales outlet on their own property or nearby. Usually based on seasonal local production patterns. In the absence of regulation, reselling will occur.	Very close to farm
Pick-Your-Own (PYO)	Buyers travel to the farm to harvest for their own consumption, although community canning or distribution groups may use PYO. Narrow range of seasonal products at each site.	Customers usually travel about an hour in each direction
Community-Supported Agriculture (CSA): direct sale on the basis of a prior contract	Buyers and producers contract for a weight or volume of products to be available on a fixed schedule at a price intended to share risk.	Customers generally travel less than an hour
E-commerce, E-brokering, Electronic auction	Recent commercial innovations based on electronic transactions in which persons or institutions offer to sell or buy at fixed or negotiable prices. Producers advertise and consumers respond, a form of direct marketing lacking face-to-face interaction. Producers may sell to brokers or retailers who in turn resell retail or wholesale, electronically or physically. Some times buyers advertise and producers respond. Prices are fixed or auction.	Anywhere

	Offer at the lowest possible price	**Offer at the highest possible price**
Offer something many people want	Offer your product at the lowest possible price	Build a brand name for your product or your company
Offer something only a few people want	Make a special product that no one else makes and save money by not diversifying	Make a superior product at a very high price

Figure 2*. Generic business strategy*

Two concepts that underpin strategic business analysis are Comparative Production Advantage: advantage based on factors of production, and Competitive Advantage: advantage based on developing a balance of business activities that yields the best results. Strategy is generally presented as a choice among 4 approaches (Figure 2). Each of these choices entails a particular kind of risk. What if a new process allows a competitor to manufacture more cheaply? What if tastes change and people do not want your expensive product? How will your firm identify and service the special customers you rely on?

The decision as to which of these strategies to pursue (Porter writes that attempting more than one is a sure way to business failure) is based on an industry analysis (Figure 3).

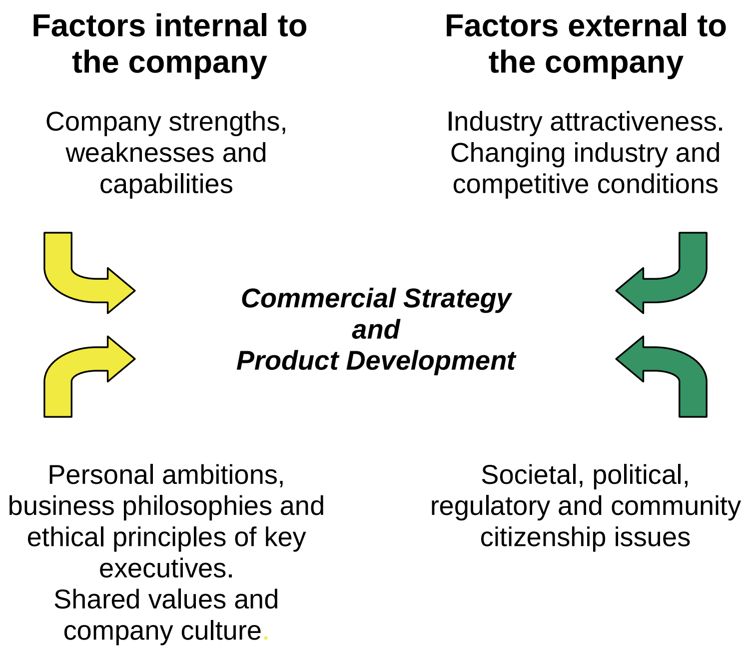

Figure 3*. Factors shaping the choice of company strategy (adapted from Thompson and Strickland, Strategic Management (1995))*

Analysis of industry characteristics involves looking into details of competing businesses, local business structures, competition from imported products, and patterns of the current exporting. The analysis must identify barriers to industry entry, analyse the overall competitive climate, and evaluate available and potential market channels. What is the current regulatory environment and how responsive is it to consumer and industry concerns? What fees, licenses and taxes are required? What are the customary industry practices? Is the industry viewed with favour by lawmakers? Are there informal regulatory mechanisms that must be considered?

Analysis of cultural considerations requires a broad view of the society as a whole and an analysis of how the industry functions within history and custom, the political climate, and cultural diversity. The consumers of the industry's products and services can be classified by demographics and shopping preferences. Preferences will be influenced by shopper affluence and their physical or electronic access to shops.

Cultures differ in their willingness to experiment; their tolerance for change, openness to new ideas and public attitudes toward change affect the way that customers respond to new products and services.

These two components of the industry analysis are outside of the control of the firm.

The trends identified in the industry and cultural analysis in turn influence the directions taken during the analysis of personal goals, skills and aspirations of the firm's managers and staff and the physical and financial resources the firm can bring to bear on the proposed business activity. These components are largely within the control of the firm's managers.

The results of the industry analysis lead to a decision on the strategic approach that the firm will take and the decision on products and services to be offered. Numerous individual research questions must be answered before the firm begins work on a product. EACH POTENTIAL PRODUCT REQUIRES A SEPARATE ANALYSIS!

- What is the competition doing?
- What communication channels are available or needed?
- What kinds of packaging are currently in use?
- How will the firm access the marketplace?
- What public-relations strategy will be used?
- What advertising approaches will work best for each customer segment?
- How will the product be distributed?
- How will the supply chain be managed?
- Are there any international opportunities for sales or manufacturing?
- How will price targets be set?
- How will we know if the business is proceeding successfully?
- What is the implementation schedule?

A word you will often hear today is 'positioning' as in 'positioning the company' or 'positioning the product'. Positioning means identifying and using unique selling points to turn the mind of the customer toward your company and your products. Positioning follows from the above analyses, it does not lead it. Ideally, the analyses identify market niches or holes in the industry (as it is currently configured) that will enable the company to provide a product or service that no one else does.

The key factors in positioning are:

- What do customers need?
- What are the competitors doing?
- What can our company do very, very well?

When those questions are answered, managers will know whether there is a basis for a profitable business. If there is no basis for a business then the analysis is conducted again using a different configuration of customers, products and services.

Porter links positioning to strategy, not to advertising, and says that positioning comes from the firm's long-term strategy and affects every aspect of the structure of the firm. Porter positions the firm in the industry and then positions products based on the firm's position.

What does positioning mean for the firm's managers? It drives them to adjust the firm's functions in each of the nine activities of the firm's value chain[1] (Figure 4) and negotiate relationships between their firm and their suppliers so as to conform to the chosen strategy and to maintain profitability.

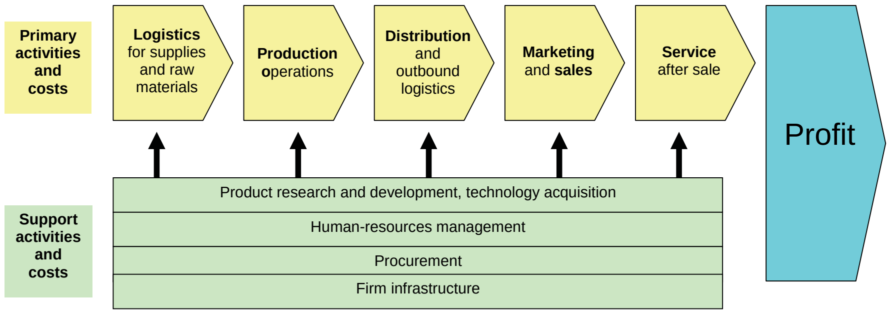

***Figure 4**. The value chain (Michael Porter)*

In accounting terms, profit is the difference between the gross revenues and the total cost of doing business (including maintaining reserves for future investment). To calculate profit all costs must be known – salaries, raw materials, manufacturing, advertising, taxes, fees, every cost that can be attributed to doing business. The total of expenditures is subtracted from gross receipts from all sources. It is possible to allocate costs in various ways to assess the relative costs and revenues of individual products and services. Because business is complex, the accounting descriptions of these activities are also complex and accounting standards differ between countries and industries[2].

A low-cost, high-volume producer will seek to minimize costs throughout the value chain, focusing especially on supply logistics, manufacturing and distribution. Service functions will be minimized. Research and development investments will focus on making a better product at a cheaper price. Think of Ford as an example of a company that pursues a mass-market approach. Ford certainly provides after-sales service but no better than industry standard.

At the other extreme is Lamborghini. While cost efficiency is important, the low-volume, high-price strategy permits the company to build each car by hand, customized for each individual buyer. Investment in exotic raw materials and personalized customer service is a normal approach to assuring customer satisfaction.

The lesson here is that profit is the remainder after subtracting the costs from the revenues in all 9 activity areas in the value chain, but it is company position that directs the proportion of investment the firm gives to each of them. Failure to understand this fundamental concept is the source of many business disasters.

In agriculture and MAP, the concept of the value chain and the links between positioning and investment are not well understood. Agriculture economists are generally ‘productivists’, sociological jargon that describes the push to produce the greatest volume at the lowest cost that was at the centre of economics until the 1970s. It is extremely difficult to convince old-school economists, in particular agriculture economists, and the farmers and bureaucrats that they have trained, that lower output can mean higher profits.

In the discussion of positioning and its effects on investment and management, it is important to remember that industries and customers change, sometimes rapidly. Position is based on a special product that, for the moment, is not being copied. How soon will substitute products develop? Position is based on meeting customer needs that will certainly change. How soon will other companies discover new consumer needs that you have not? Position is based on access to customers. How soon will other companies be able to service your customers better than you can?

One last concept that I would like to introduce is that of clusters and cluster effects. Cluster effects are seen when a group of firms engaged in various aspects of the same industry are located in close enough proximity. In the modern case of Silicon Valley or Mumbai, it is considered important that geographic space is small enough that employees of all strata share restaurants and other amenities. The close proximity of related firms results in overall savings in production, marketing and employee management. Information moves quickly between firms and therefore technology advanced more quickly than might have been the case if the industry had been spread more widely.

Cluster effects are important in the MAP industry because they imply that progressive businesses and development agencies should take a long, broad view of strengthening the market channels and industry capabilities in the developing countries and regions that source many new MAP.

As mentioned in a previous paper the free flow of information through market intelligence systems or industry clusters is a new concept for some managers. It flies in the face of the old idea that knowledge is power and of the tendency to hoard information as a valuable commodity. Information is still valuable but it is the ability to analyse information, not its mere possession, that leads to profits.

Modern business management posits that profit comes from balancing the company’s value activities properly. Porter writes that financial profit is not the goal of good business management; it is only one of several indicators that things are going well. The most important measure of profitability is satisfaction. Are the stakeholders in the business – managers, staff and shareholders – satisfied with their jobs, their workplace and their compensation? If so, then the business is profitable.

NOTES

[1] Readers beware: The phrase ‘value chain’ is being used in the development literature to describe the marketing chain or market channels that are presented in Figure 1.

[2] In some MAP publications, the concept of profit has been misunderstood. The difference between the

value of MAP imports and exports from a country is not profit. Look at the complexity of the MAP industry in Germany, for example. Germany imports MAP each year. Some of these products are used within the country. Some MAP are re-exported as raw materials and some MAP are used in the manufacture of finished products that are exported. Germany grows MAP within its national boundaries. Some of these domestically produced MAP are used within Germany; some are exported as raw materials, and some as finished products. Thus, we see there are no fewer than eight possible ways that MAP are distributed. There are business costs, taxes and fees associated with each of these activities, and the profitability of the MAP industry in Germany can only be estimated if the costs and revenues are known.

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