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A Basic Pre-condition of Development

by Professor Mihai C. Demetrescu, Bucharest

Marketing is not only a mechanistic business or economic process. It must be viewed as the action and interaction of people in the process of a certain type of fulfilment of wishes. Marketing is rather a pattern of social morphological behaviour of economic institutions than an economic activity or techniques. The behaviour of participants in marketing is determined by the socio-economic circumstances prevailing in the environment for the accomplishment of the objectives which are given by the social expectations of the system. For the fulfilment of these expectations and of the new expectations introduced by social changes, marketing through its very mechanism introduces dynamism in the economy and in the society.

Whether the economy be underdeveloped or advanced, agricultural or manufacturing, capitalistic or socialistic, the market represents the sum total of the expectations of the society as consumers. The size, specialisation, tastes, and rules of the market determine the task marketing has, and this task determines the manner and the extent to which marketing must be performed. Marketing in its role of bringing together interested parties, has a variety of functions, which include buying, selling, involving advertising, transporting, storing, grading, financing, assembling, informing, packaging, refining, and altering the form of goods. Regardless of the stage of economic development these functions cannot be eliminated if efficiency is to be maintained.

Need of Basic Marketing Services

Improvement of marketing and greater incentive provided to the producer in the developing countries involve the establishment of some basic public marketing services—market and price information, standardisation and transport facilities adapted to marketing needs, extension and quality control. These methods call for the adherence by governments to policies that provide a favourable environment for efficient marketing, and the abandonment of others which are obstructive, and hence for the establishment within govern-

ments of marketing departments strong and competent enough to influence habits and routines accordingly. Financial resources are needed to meet installation and salary costs, working capital and credit requirements. A still greater need, however, seems to be that for marketing technicians and administrators of the competence and integrity necessary to insure that the operations and services financed give maximum return. Improvements in the marketing process should also be emphasised. The marketing process must be made more efficient so that the product loss and the waste of human and material resources in marketing channels may be reduced. The excessively long and complex channels of distribution, which result in a proliferation of middlemen and conceal considerable unemployment might be simplified by licensing agreements, marketing cooperatives, or government distribution of parts of the output.

Lack of knowledge among buyers and sellers concerning products and conditions of the market constitutes a pressure for selling and advertising, for buying activity, for product identification and for market research.

Other tasks for the marketing mechanism and functions which must be performed regard physical distance between producers and consumers necessitating the transport of goods and time differences between the date of production and the actual demand of the market which requires the storing of products. The same applies to seasonality of production and consumption as well as to facilities for holding goods for the market.

The Problem of Price Instability

A strong tendency towards price instability is inherent in the marketing of agricultural products. Price fluctuations are particularly severe in developing countries, often magnified by speculative activities, because most producers are forced to sell immediately after or even before the harvest to meet essential living expenses or to repay debts.

Lack of financial resources forces many small farmers to seek loans in times of scarcity, especially prior to the harvest, and they may become heavily indebted. Often they become obliged to sell their products through the moneylender year after year at prices substantially below those ruling in the market as a condition of renewing the loan. Credit difficulties are also a main cause of many failures to meet wanted standards of quality. When prices are low, subsistence farmers whose family food needs are sometimes inadequately met, may have to sell more of their output in order to satisfy their minimum need for cash and so intensify the downward pressure on prices. On the other hand, when prices are high, some may be in the position to sell less and consume more themselves, thus increasing the shortage in urban markets and forcing prices still higher.

If agricultural prices were effectively stabilised farmers in most developing countries would gain considerably and would be much more confident that efforts to expand production would be rewarded. Several countries have been working toward this end by means of government purchasing and buffer stock operations, coupled with regulation of imports and exports. In many countries this has been accomplished by setting up government-sponsored buying and storage agencies to which producers may sell at a guaranteed minimum price if private traders offer less.

Protection to farmers against the risk of price fluctuations is afforded when a wholesale processor of sugar or vegetables, for example, guarantees a specific price to growers by contracts made in advance of planting. In return, the processor can achieve a measure of control over production and harvesting practices, the timing of deliveries, etc., which facilitates more efficient operation of his processing plant.

Insufficient Market Information

Inadequate transport and storage facilities cause much waste and are a direct impediment to development in many areas. There is a need both for wider application of techniques already available and for the further construction of strategically located storage, drying and processing facilities.

Information on current and prospective market conditions is characteristically weak in developing countries. Farmers may not even try to grow and market some crops in current demand for which their land is suitable. Inadequate market information is likewise a frequent cause of physical waste, e.g. when perishable fruits and vege-

tables from distant points are transported to an already satiated market.

Marketing problems in countries undergoing accelerated economic development arise all along the line from the planning of production to meet market demand, through transport, whole-selling and processing to retail distribution. These phases are so closely interrelated and the interdependence is often so great, that success in establishing improvements in any one of the marketing phases frequently depends on corresponding improvements taking place in others. For developing countries it is very important to have adequate facilities for practical training in marketing principles, organisation and management, and in methods of handling agricultural products and food, especially perishables. Marketing training institutions adapted to the needs of developing regions are required. Here especially education is an economical input for development.

A whole new range of activities connected with market research and merchandising becomes important and vital even though such activities lead to an increase in distribution costs. These activities perform an important function at a certain level of economic development, because given the opportunity consumers are unpredictable if general living conditions are raised far enough above subsistence.

Even though it may be true for some time and at a certain level of backwardness, it is an illusion to think that because of the scarcity of goods, it is possible to sell all industrial produce in developing countries.

But in developing countries there is a bias in favour of foreign made goods and a general belief that home-produced goods are inferior. The national firm starts at a disadvantage which even a measure of protection against imports can rarely counter-balance. Apart from its need to ensure that in fact the quality of its goods is at least as high as that of similar imported products, the national firm must use every measure possible to secure that its products become known and accepted, that is, it must have an aggressive marketing policy.

Adaptation to the Mass Market

In developing countries, particularly in urban districts, sales of packaged goods are already increasing and self-service stores are well established and growing; there are sound reasons for supposing that packaging will spread to the rural areas as well. In many developing countries, a wide range of different consumer products are beginning to compete for a very limited purchas-

ing power. In the mass markets of many developing countries, the consumer has the choice of spending his money on an increasing range of goods within reach of his income's limit as radios, bicycles, furniture, clothing, more varied food. All of these largely compete against each other for the small surplus left over after one has satisfied one's basic needs. In spite of all, techniques of product planning do apply in developing countries. Product planning tends to favour simplicity in products. Typical of such mass produced innovations are small, simple automobiles, motorised scooters and bicycles, designed to sell to the lower income groups of the new mass market. Cheap, but quite good mass produced clothing made its appearance, bridging the gap between the pre-war alternatives of very good or rather poor quality.

The process of establishing import substitute industries creates opportunities to develop new re-designed products so that they appeal to the mass market, combining lower prices with simpler, cheaper products suited to the needs of these markets. Economic development brings a rise in income and thus in purchasing power and demand. Larger urban concentrations make the initial introduction of products considerably easier.

Stimulating the market in the short term through sales promotion techniques or in a long-term process through advertising, marketing always helps to create, develop and hold a market. Advertising in developing countries encounters some difficulties such as the availability of media, illiteracy, language and brand being sometimes considered less important than price as a reason for buying. But packaging is a mean to obtain brand preference and loyalty and spread of advertising. Often all the mentioned difficulties are overcome by imaginative advertising and careful selection of media.

Potential Exporters of Industrial Goods

As developing countries begin to industrialise they become potential exporters of industrial goods although formerly they were dependent entirely on primary products for their foreign exchange. Moreover the growth and diversification of international trade provides increasing opportunities for profitable exports of manufactured goods. But these exports have to face pitiless competition of firms in highly industrialised as well as other developing countries. This competition requires closer attention to quality and competitive prices.

As more and more increasing mechanisation begins to minimise the wage differential between

developing and economically advanced countries, productive efficiency is becoming the most important factor in production costs. In this way export markets constitute a demand and real pressure for well-exploited home markets which alone can normally provide the volume of production necessary to keep prices competitive at a level of competitive efficiency.

Export marketing imposes introduction of ameliorations into goods which otherwise would not be needed for the internal market, requiring variations and flexibility in design and production and improvement in market research and techniques.

Launching into the export market without most careful preparation often becomes a major source of income disappointment and serious losses. It may even prejudice future export possibilities by getting a bad reputation for its goods and manner of doing business. When sound export markets are built on sound home markets then the cost of product development and many of the operating expenses will be fully absorbed by the internal market and the most important contribution to the national balance of payments will be obtained.

Research techniques in quality analysis as advertising to obtain product differentiation, product mix in the variety of products offered, packaging and consumer services are required. Several techniques have been applied with varying degrees of success: test marketing, consumer panels, taste panels and market sampling and questionnaires. All these procedures are expensive but they are less so than the expensive programmes which are designed to produce items to satisfy an unknown consumer preference.

Market Structure Research

The elastic demand of some items as durable goods or clothing must be anticipated and it is not easy to cope with this problem. It is necessary to estimate when, and what the consumer will buy. As the selection and variety of goods grow, so does the task of calculating and allocating demand for these products. When a society reaches a certain state of affluence, many activities of large numbers of its consumers are likely to be unpredictable.

Market structure research has as its aim the evaluation of the performance of a market or a description of its characteristics. In this sense it is necessary to identify and estimate the underlying structural relations involved in economy and to use these as analytical tools in understanding the observed behaviour.

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GERMAN PRISM

Training of Experts on Foreign Aid Abroad

More than 200 experts, who on the initiative of the Federal Government will be sent abroad, have hitherto been prepared for their activities in three months training courses.

These courses are organised by the Central Agency for Knowledge of Foreign Countries, which is a Department of the German Foundation for Developing Countries. Since mid-1968 this Agency has held six preparatory courses at Bad Honnef. Non-state organisations and firms sending experts to less developed countries, know about the value of the preparatory courses and delegate staff-members to attend them.

Instruction in languages, also in rare idioms, taught with modern methods take up about half of the time available for the training programme of the Central Agency. Besides knowledge of foreign countries, above all certain subjects of psychology, pedagogics and problems of development aid as well as e.g. first aid courses are on the programme. Ladies and gentlemen from developing countries are also giving lectures, in which the discussion of problems always stands to the fore.

Ruhrkohle AG Has Come Into Operation

On November 27, 1969, the Commission of the European Communities agreed to the merger of Ruhrmines to a joint company. Thus the last of a number of obstructions encountered by Ruhrkohle AG has been abolished one year after its foundation. Now the road towards a rational adjustment of mining to the conditions of the market has been opened.

On November 30, 1969, the participating firms transferred their mining property to Ruhrkohle AG. It unites 52 mining companies that register about 94 p.c. of the Ruhr-output, as well as cokeries, power plants, briquetting plants and chemical works based on coal. Ruhrkohle AG with approx. 180,000 persons employed and an annual output of almost 90 mn tons of coal, an annual turn-

over of more than DM 6 bn and a capital stock of DM 500 mn belongs to the biggest enterprises of European power production. After the conclusion of legal and organisational preparations Ruhrkohle AG will now have to use all its energies to master the tasks that are to be solved by the new organisation of Ruhr-coal mining. What is mainly at stake is increased economic efficiency by purposeful investment policies and rationalisation measures involving all members, structural improvement of the enterprises, concentration of production on plants with the highest profitability, optimum utilisation of capacities for dressing, coking, briquetting and refining and a centralised sales policy in line with the market.

Considerable Investment Plans for 1970, too

According to the IFO-Institute's (Institute for Economic Research) investment test of November, 1969, the plans of the questioned enterprises of the manufacturing industry justify the expectation of a considerable increase of gross investment in fixed assets by approx. 16 p.c. for 1970, too. For 1969 a growth rate of 26 p.c. had been estimated. The DM-revaluation and the Federal Bank's continuous restriction policies did not yet lead to revisions of investment plans up to November, 1969. The basic industries' investments for 1970 are planned to reach almost the level of 1969, while in the capital goods industries they are planned to reach the same volume only.

One Million VW-Bugs from Emden

Five years after the Volkswagen-plant at Emden was put in operation the one millionth VW-bug left the assembly line on December 16, 1969. To this figure 85,000 VW-mini-buses that were also produced at Emden, have to be added. All vehicles were shipped to overseas-countries via the port of Emden. Volkswagen assembled at Emden together with the vehicles delivered by the other VW-plants are

shipped via this harbour. With 1.425 mn VW-vehicles dispatched via this port since 1965, Emden should be the world's most important harbour for the shipping of motor vehicles.

The construction of this assembly plant that receives the component parts from the Volkswagen-plants at Wolfsburg, Hannover, Kassel and Braunschweig started in October, 1963, in the immediate vicinity of Emden's outer harbour. Already on December 8, 1964, the first VW-bug left the assembly line of the new factory. At that date the plant numbered 790 persons employed. Today more than 7,000 people are working there. Apart from the plant's considerable contribution to an industrial activation of the East Friesland economic area and to a reduction of its structural unemployment, further important incentives are to be noticed. Thus for instance wages and salaries paid since 1965 amount to DM 330 mn.

**Industrial
Production but
Slightly above
OECD Average**

In September, 1969, industrial production of all OECD countries surpassed the level of September 1968 by 6.5 p.c., the one of the European members showing an increase of 6.2 p.c. The Federal Republic's growth rate with 8.2 p.c. did not exceed the average considerably anymore. Japan continues to be at the top with +17.8 p.c., followed by Spain (+14.4 p.c.), Greece (+12.2 p.c.) and the Netherlands (+11.0 p.c.). On the other hand, in Italy the wave of strikes caused a considerable decline in production (-2.6 p.c.) and also Canada (+1.9 p.c.) as well as Britain (+2.5 p.c.) registered growth rates far below average.

**Limitations
of Foreigners'
Investments
Cancelled**

The DM revaluation of October 27, 1969, has banished the external risks threatening the balance of payments and the purchasing power of the D-Mark. Thus the Federal Government is now in a position to consider the possibility of creating for foreigners in West Germany the same conditions applying to German citizens regarding the investment of money and capital. This is the aim to be achieved by the cancellation of §§ 52 to 54 of the Ordinance Pertaining to Foreign Trade and Payments. With

that also the corresponding limitations of foreigners' investments, particularly the prohibition of paying interest on certain foreigners' deposits, are abolished.

**Airfield
Tanker
for
Jumbo Jets**

At the beginning of 1970 a new type of aircraft, the "Boeing 747", known as "Jumbo Jet", will be put in operation and with its maximum of 490 passengers will also land at German airfields. These planes require about 130,000 litres of fuel for a non-stop flight from Frankfurt/Main to New York. To supply them with the required fuel, Deutsche Shell AG has now put in operation a newly developed super-airfield tanker at Duesseldorf and Hamburg. Due to technical and economic considerations a tank-vehicle with trailer was chosen instead of the usual tractor-trailer. The tank-volume of this vehicle is sufficient to supply a conventional plane with the quantity of fuel needed for a direct flight across the Atlantic. Up to now two tractor-trailers were necessary to refuel one of these aircrafts.

**Considerable
Decline in
the Growth Rate
of Savings**

In October, 1969, total savings deposits in credit institutions have risen by DM 1,283 mn only. This was DM 529 mn (29 p.c.) less than in October, 1968. The growth rate of savings deposit of private citizens with DM 1,315 mn dropped by DM 327 mn (22 p.c.) somewhat less below the previous year's corresponding level. In particular savings deposits of domestic firms decreased.

**Costs of
Federal
Highways
Increasing**

According to data published by the Federal Ministry of Transport, 1 kilometer (1,093.6 yards) of a new autobahn costs approx. DM 5 mn in flat land and about DM 8.5 mn in mountain regions. The total average of expenditure amounts to about DM 7 mn per kilometer of a new autobahn. As tracing in flat areas declines more and more in favour of topographically less suited regions, expenditure increases also structurally.

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Market structure means the organisational characteristics which determine the relations of sellers in the market to each other, of sellers to buyers and of sellers established in the market to other actual or potential suppliers of goods, including potential new firms which might enter the market¹. Market structure may be specified by factors as the number of buyers and sellers, the number and size of firms, degree of product differentiation and market knowledge.

A relevant area of inquiry includes the distribution efficiency studies which should provide techniques as well as empirical data useful in analysing the impact of distribution economies on market structure. Many useful ideas and insights in building models can be provided by analysis of the changing financial, managerial, technological and other forces favouring integrated operations, for instance, within the agricultural industries, from the farm level through to distribution. Studies which cut across several industries, cross-sectional analysis, should permit isolation of the truly unique factors giving rise to particular organisational characteristics.

The provision of market information on a wide-scale basis can be justified on the assumption that more information produces better conduct and performance than less information.

One of the aspects of the firms' conduct may be to supply perfect information, partial information, no information, or misinformation, as part of the dealings, tactics, or strategies of the firm. This is more than an advertising response and utilises other channels of communication than the mass media.

In large, market structure determines certain forms of industrial performance. Performance is evaluated in terms of such factors as profit for the industry, technical efficiency, marketing margins, the variety of products produced within the sector, and the responsiveness of the firms to consumer preferences. Research must attempt to explain the way in which difference in the market structures of different industries determine differences in their profitability.

Technology, Education and Information

Another important relationship is that between market structure and the extent to which an industry induces technological change. The improvement of existing technology and development of new technology next to the optimum utilisation of existing resources, are the crucial

criterion of industrial performance. An interesting research in this area would be the relationship between market structure and income or production stability in one or more industries.

A relevant research field is the determination of the way in which changes in the availability of market information may alter industrial performance. Improved information in itself may generate or hasten a change in market structure, conduct and performance. Closely related to education and information programmes is the effect of uniform grades and standards on market structure, conduct and performance in particular situations, and the role of government with respect to uniform grades and standards².

Dr Schultz's writings show that the factor markets left to their own ends do not perform satisfactorily. According to his locational matrix which is primarily industrial-urban in composition and near the centre of which the existing economic organisation works best. He further hypothesised, with particular reference to agriculture that those parts of agriculture situated favourably relative to the industrial-urban centre are more efficient than those situated at the periphery³.

Cross sectional data on geographic-economic regions found support for this hypothesis⁴. Each of these studies found that besides differences due to local factors, the factor markets played an important, although differential role in transmitting the effects of economic development to agriculture. It seems that most of the impact of industrialisation is transmitted to agriculture through the labour transfer, although capital, current inputs, and farm products are also important.

The vast and expanding literature on the theories, policies and practices of economic development takes in general the markets for granted, neglecting research. The marketing problems are in reality vital for the field of economic growth analysis. In fact some new concepts are required in that analysis and adequate techniques are to be adapted or developed. Furthermore, it is evident that considerable descriptive research is required to provide general information concerning the functions of marketing and its influences before analytical research can reasonably be expected.

² Paul L. Farris, Uniform Grades and Standards, Product Differentiation and Product Development, Jour. Farm. Econ. Vol. XLII 1960, p. 854-863.

³ T. W. Schultz, Reflections on Poverty Within Agriculture, Jour. Pol. Econ. Vol. LVIII 1950; see also T. W. Schultz, Economic Organisation of Agriculture, New York, McGraw-Hill Book 1953.

⁴ Anthony M. Tang, Economic Development in the Southern Piedmont, 1860-1950: Its Impact on Agriculture, Chapel Hill, University of North Carolina Press 1958; W. H. Nicholls, Industrialisation, Factor Markets and Agricultural Development, Jour. Pol. Econ. Vol. LXIX 1961, p. 319.

¹ Joe S. Bain, Industrial Organisation, John Wiley, New York, 1959, p. 7.