Marketing of Agri Products

Handout 3

Why Prices Change

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Why prices change

Overall, prices depend on …

In a market-orientated system the price of a product is determined by **supply and demand**. A balance is achieved between what people are prepared to supply at a price and what people want to buy. As the price of a product rises the quantity which will be supplied also rises and the quantity demanded falls, or vice versa. The market price will rise or fall until the quantity supplied or demanded is the same or in equilibrium. It is important to note that:

- **Supply** is what people are prepared to sell at a certain price. While supply is influenced by production it is not always the same as production. For example, as noted earlier, farmers may sometimes grow perishable crops and not harvest them because the price is too low to cover the marketing costs. For less perishable crops, farmers or traders may decide to store them in the hope that prices will rise, rather than sell them to production harvested for immediate sale plus products take out of store.
- **Demand** is not how much people would like to buy or what they should buy for a healthy diet. It is how much they are prepared to buy at the market price.

Short-term price fluctuations can be caused by …

- The amount of produce on sale in the market on a day and the quantities sold in the previous few days.
- Short-term demand changes as a result in the change in consumption patterns. E.g. the South African dairy industry experiences a drop-in consumption of milk during school holidays.
- The effect on demand of competing products. People have a choice between buying maize meal, potatoes, sweet potato, or rice. If the price of one of those drops, people are more likely to buy it, reducing the demand for others and dragging down their price.

Longer-term price fluctuations depend on …

- Supply
- Demand
- Time of the year

While the quantities available in a market on a day may lead to short-term price fluctuations, other factors influence the long-term price trend. In the case of perishable produce which cannot be stored for any length of time, or for which there is no suitable storage, the main impact on prices is seasonally of production. Thus, for a crop such as tomatoes the price trend will depend primarily on when the crop reaches maturity in the main producing areas.

In the case of staple foods such as or maize, and other crops which can be stored for lengthy periods, the market price is not so much related to what is supplied to markets daily as to what is produced in a season or year.

Supply to the South African market can be influenced by:

- How much was planted
- The weather
- The price
- Imports or exports
- Time of the year or season

Demand is influenced by:

- The price

  If the market price is high, consumers will reduce their purchases. However, for staples such as maize, roots, and tubers it is difficult to make significant reductions in the quantities consumed. If prices go up people may eat slightly less, and they may also be more careful about how much they cook to waste less. They may also continue to buy the same quantities but buy a cheaper brand. They may also buy other products which they see as being of better value, if such products exist.

  If the market price is low consumers will increase their consumption, buy better quality and, if they can afford to, be less careful about avoiding waste. But a person can only eat so much maize, so consumers who can already afford adequate quantities will not increase their consumption by much. Instead, they are likely to use the money saved on staple foods to buy larger quantities of fruits and vegetables than they would normally consume.

Interpreting market information and using it to get better prices

Calculating farmgate prices … and negotiating with traders

Although South Africa has no national market information service; farmers and extension officers are in one respect more fortunate than those of other countries because the information that is available, however difficult to obtain, is reliable and clear.

In other countries market information services (MIS) may broadcast market prices without it being clear whether the prices are retail prices, wholesale buying prices, wholesale selling prices or whatever. This is not a problem in South Africa where prices are usually auction or NFPM (National Fresh Produce Markets) selling prices. In other countries, market prices are broadcast with little indication of the quality of product referred to. In South Africa, full details of quality and the applicable prices are given. Furthermore, in South Africa all transactions are reported whereas in many countries the MIS reports prices prevailing for a brief period when the price collector visits the market.

It is thus relatively easy for farmers who supply auctions and markets directly and their extension officers to relate the information, which is available, if they can get it, to their own circumstances. The need to be able to calculate the marketing costs between the farm and the auction or market. Applicable marketing costs could include (working backwards from the point of sale):

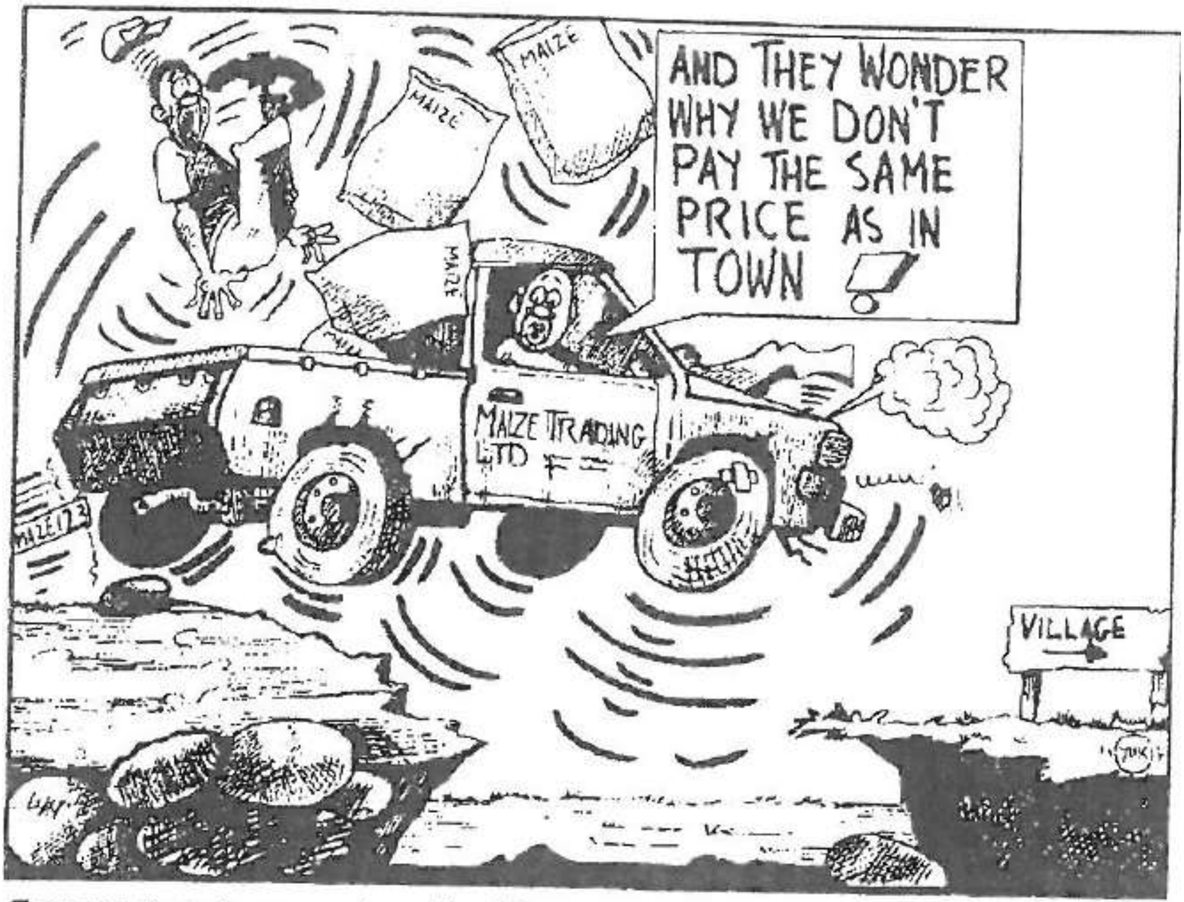
- Agents' fees in the auction or market
- Handling fees for produce or animals
- Feed for animals *en route* to or at the auction
- Transport costs
- If the farm is not accessible by vehicle, the cost of getting the product to the vehicle

Farmers who sell to traders, hawkers or speculators face greater problems in working out what can be considered 'reasonable' prices. However, extension officers should try to calculate traders' marketing costs in order to advise farmers how to relate auction or market prices to what they could expect to make at farm gate. Do not forget that traders need to obtain a realistic profit or else they will not go to rural areas on bad roads to buy from emerging farmers.

Detailed advice on marketing cost calculations is provided elsewhere. One problem in doing these calculations is that the information available often refers to different markets than those which traders sell to. For example, consignments to National Fresh Produce Markets are nearly always direct from the farmer, and traders rarely, if ever, buy from farmers and then deliver to the produce markets. Instead they operate through other channels, either selling to hawkers, to retails shops or direct to consumers. However, the only price information available comes from the produce markets. Thus, the calculations should be based on, e.g. the price in Johannesburg market and the costs deducted to get back to the farmgate price should be those incurred to get the produce to the Johannesburg area, but not the costs incurred by the trader after he reaches that area (e.g. in selling to consumers).

Unfortunately, it is often not possible to make detailed estimates of marketing costs and margins. It may be possible to develop a general idea of a trader's probable costs, but it must always be remembered that these costs can change rapidly. For example, the major costs are always transport. But transport costs are very dependent on how much is being transported. If a trader must go to the market with a half-empty truck, the transport cost per kilogram will be double the cost if the truck is full. Thus, when produce is in short supply and market prices are going up, it may also be the case that marketing costs are going up, and vice versa.

Nevertheless, a farmer who knows the market price and has an approximate idea of the marketing costs of the trader is in a much better position to negotiate than one who has no idea either. Extension officers can help farmers by indicating the likely margin that the trader requires and by updating this information whenever possible.



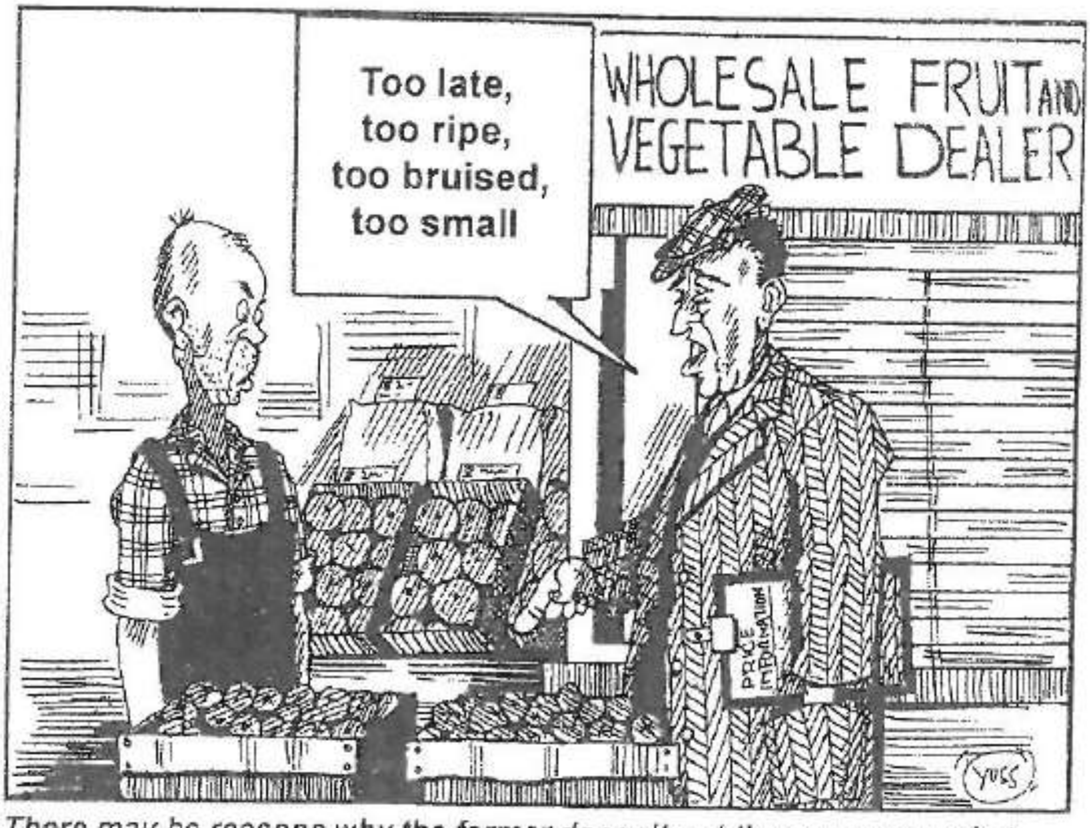
Transport costs can make a big difference between the market price and the farmgate price.

Checking the farmer's performance …

Farmers who send their produce directly to an NFPM or to an auction can use the price reports to check that the prices they are receiving are in line with those in the market. If that is not the case, they need to find out why and ask the wholesale agent or auctioneer for an explanation. Daily there may be sizeable variations between prices the individual farmers get and the average market prices. However, over a few weeks these variations should even themselves out so that on average, a farmer should expect to get the same price as the average.

Where a farmer's prices are consistently below the average price, the wholesaler may give several explanations. Perhaps the farmer's produce arrives late in the day and is either sold in the evening when prices are lower or on the following morning when fresher produce has arrived to compete (for example given earlier of the information provided by Agritel shows clearly that there is daily carryover of unsold produce in Johannesburg market).

The variety is one which normally gets a lower price. Maybe the quality is not good, or the farmer has not graded correctly. Perhaps the produce was damaged in transit and the farmer really needs to improve the quality of his or her packaging. It is, of course, also possible that the wholesale agent is not doing a good job in selling the farmer's produce. However, a farmer cannot really form an opinion on this without visiting the market or auction, assessing the condition of his or her product when it arrives there, seeing how and when the product is sold and comparing his or her product with that sent by other farmers.



There may be reasons why the farmer doesn't get the average market price... the farmer needs to investigate these.

Following price trends

Local extension services can assist farmers by monitoring local market prices daily and posting the prices on a notice board at the entrance to the market. Although such activities clearly involve too much work for an individual extension officer, a district headquarters could consider assisting in this way.