The primary purpose of this course is to help students develop analytical tools for thinking about the overall business environment in which they operate in some fashion for the rest of their lives.

Even if students do not intend to make their livelihood from the sale of agricultural or food products, they will definitely be spending some of their income in these markets.

Hopefully the kinds of skill and knowledge provided by the material in this book will equip students to better understand opportunities and challenges that those markets will provide.

AEC 305 - Course Outline

- OVERVIEW OF THE AGRICULTURAL MARKETING SYSTEM, CURRENT ISSUES, AND METHODS OF ANALYSIS
- SUPPLY AND DEMAND ANALYSIS OF AGRICULTURAL MARKETS
- AGRICULTURAL MARKET STRUCTURE, CONDUCT AND PERFORMANCE
- AGRICULTURAL PRICE DISCOVERY METHODS
- SPATIAL ASPECTS OF AGRICULTURAL MARKETS
- TEMPORAL ASPECTS OF AGRICULTURAL MARKETS

AEC 305, Food and Agricultural Marketing Principles

General Statements About Agricultural Markets

- **Complex** (lots of players)
  - Millions of farmers to thousands of agribusiness firms to hundreds of governments to billions of consumers
- **Multi-stage**
  - Farm production, transporting, processing, storage, wholesaling, retailing
- **Multi-market mechanisms**
  - Auctions, futures markets, contracts, marketing boards, cooperatives,
- **Global -- Interconnected/ Cultural Differences**

AEC 305, Food and Agricultural Marketing Principles

Review from 9/26/09

AEC 305:
- Impacts all of us as ag producers and consumers
- Economic theory + Applications
- Current Events-Oriented
- Daily Journals (equivalent to an exam)

AEC 305 - Course Outline

- Agrarian Markets vs Agricultural Marketing
- Approaches to Studying Ag Marketing
  a) Micro vs Macro
  b) Institutional, Functional, vs Behavioral
- Ag vs Non Ag Markets
  a) Differences/ Uniqueness
  b) Emerging Ag Mkt Issues

An Introduction to Ag Marketing (9/1/09)
**Markets vs Marketing**

- Market
  - Who has to be present?
  - What has to occur?
  - Where? Do market participants have to be in the same location?
- Marketing
  - How does “marketing” differ from the term “market.”

**What is a Market?**

- Market
  - A sociopolitical institution that represents a mechanism by which people (buyers and sellers) interact to make economic decisions about what goods and services to produce and consume. Schrimper, p. 7-8.
  - All of the possible buyers and sellers of a product or commodity, Rhodes et al, pp. 355

**Different Types of Markets**

- eBay
- Kroger
- Amazon

**Examples of an Ag Market Analysis**

- Supply and Demand Conditions Affecting the World Soybean Market
- Examining the Export Demand of French Wines to the United States
- Evaluating the Effects of Higher Taxes on Domestic Tobacco Consumption in the U.S.
- Investigating the Impact of Biotechnology on Kentucky White Corn Yields and Prices
- Assessing the Impact of the Value of the U.S. Dollar on the Demand for Thoroughbreds at the Keeneland Sales
- Farmer Jones Evaluating the Effects of Higher Prices for Pumpkins Sold at his local Farmers Market
What about Marketing?

- **Marketing**
  - The performance of all business activities involved in the flow of products and services from the point of initial production until they are in the hand of consumers.

All entities involved in this process are part of a marketing system.

AEC 305, Food and Agricultural Marketing Principles

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Agricultural Marketing System

![Diagram of Agricultural Marketing System]

Potential Exam Question: Define Consumer Sovereignty.

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Example: Tobacco Marketing System

- Input Suppliers
- Government Intervention
- Farmers
- "Middlemen" (assembly, processing, wholesaling, retailing)
- Consumers
- Macroeconomic Factors

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Where Do We Generally Purchase Our Food Items in the U.S.?

- Supermarkets
- Neighborhood food stores
- Convenience stores
- Drug and discount stores
- Gas stations
- Vending machines
- Food stands, street vendors
- Restaurants
- Cafeterias
- Specialty food stores
- Online and catalog orders

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Ag/ Food Marketing Chain

Value Increases as one moves along the marketing chain

Source: pg. 9 The Agricultural Marketing System, (Rhodes, Duave, Parcell)
Marketing is a Value-Added Process As One Moves Along the Marketing Chain

For Example: Potatoes grown on farms in Idaho are shipped to processing/ packaging facilities and then onto distributors who transport them to shelves in local stores in Lexington.

Value is added at each stage of the marketing system as the raw potatoes are transformed and moved to become products that consumers are willing and able to buy.

KY Examples of Direct Marketing to Enhance Value Received by Agricultural Producers

KY Ag Events: Sept. 1

Crop Circles in Chaney’s Corn Maze
Chaney’s Dairy Barn, Bowling Green:
Late one night an eerie glow filled the sky at Chaney’s Dairy Farm. Farmer Carl dashed to the window in time to see Ms. Glimmer, his beloved Jersey cow, trapped in a UFO's tractor beam of light... Ms. Glimmer escaped and is now hiding somewhere on the farm. Pick up a card at the Dairy Barn's register and find the four clues in the corn maze to discover Ms. Glimmer's hiding place.

An Introduction to Ag Marketing (9/1/09)

1. Agricultural Markets vs Agricultural Marketing
2. Approaches to Studying Ag Marketing
   a) Micro vs Macro
   b) Institutional, Functional, vs Behavioral

Macro vs Micro Analysis of Agricultural Marketing

- **Micro** - firm level decision making analysis
  - How many dollars do I spend to advertising/promote my product?
  - Will consumers prefer a smaller package or the intro of a slightly differentiated product?
  - Should I contract my production?

- **Macro** - analysis of entire markets
  - How are energy prices affecting food prices... fertilizer prices?
  - What impact will the falling U.S. dollar have on U.S. trade?
  - What will be the effect of current farm and energy policy on U.S. corn and soybean acreage?
An Introduction to Ag Marketing (9/1/09)

1. Agricultural Markets vs Agricultural Marketing
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Approaches to Studying Agricultural Marketing

- Institutional - “Who Is Involved?”
- Functional - “What Occurs?”
- Behavioral - “How The Market or Marketers Behave and Perform?”

Examples of Behavioral Issues

- Can changes be made in the marketing system to lower the cost of food to consumers?
- Are producers/manufacturers responding to the needs of the consumer?
- Are producers receiving an “adequate” return on their investments?
- Are manufacturer’s abusing their market power or providing incorrect market information?
Journal Entry for 9/1/09:
1) Identify the Four P's of Marketing and provide a brief explanation

- **Product** - developing your product to meet consumer preferences
- **Price** - establishing a price to meet firm's objectives
- **Place (Distribution)** - determining the optimal location and distribution methods to reach your consumers
- **Promotion** - communicating the positive attributes of your product to enhance sales

List Some Unique Characteristics of Agricultural Commodity and Food Markets

1. Everyone is an Agricultural Consumer - The World is the Marketplace
2. Agricultural Commodities Tend to be Bulky/Low Per Unit Value
3. Biological Nature/Weather (Supply side)
   - Production lags
   - Uncontrollable output
   - Perishable goods
   - Supply is very dependent on the weather
4. Nature of Demand - How do consumers respond to changes in food prices?

Emerging Factors Affecting Food and Agricultural Markets

- Demographics (age, ethnic pop)
- Incomes
- Changing Lifestyles (dual working families, convenience foods)
- Health, Nutrition, Food Safety
- Changing Consumer Preferences
- Work-Force (woman, immigration policy)
- Production Technologies
- Mergers/Consolidation/Vertical Integration
- Contracting/Direct Marketing
- Globalization
- What about Government Policy and Regulation?

Reading Assignments for September 3, 2009

- **Twenty Years of Competition Reshape the U.S. Food Marketing System**
  - ERS/USDA, April 2008
  - www.ers.usda.gov/AmberWaves/April08/Features/FoodMarketing.htm