

# **Cooperative Business Management**

## **Level-I**

**Based on March 2022, Version 2 Occupational  
Standard**



**Module Title: - Cooperative Marketing**

**LG Code: AGR CBM1M06 LO (1-3) LG (4-6)**

**TTLM Code: AGR CBM1 TTLM 0922v1**

September, 2022  
Addis Ababa, Ethiopia

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### Introduction to the Module

Dear learner, the Ethiopian TVET system is now focused on the labor market demands and industry relevance. This translates that the main objectives of the TVET system is to qualify its graduates according to the occupational requirements of the industry. In this learning guide there are three learning outcomes which are broken down in to three information sheets. These are listed as follows; **classify Concepts of Marketing, identify marketing functions and distinguish Cooperative marketing.** In this learning guide, some learning activities and self-check exercises are included to make your study clear, attractive and precise. These are very important in deepening and enhancing your understanding of the learning outcomes in the module. If you skip doing those activities and exercises, your level of understanding will be limited and insufficient. As a result, you are strongly advised and encouraged to do it on time accordingly. Upon the completion of the module you will be able to perform the objectives listed on instruction sheet.

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<b>LG #4</b>	<b>LO #1 Clarify basic Marketing concepts</b>
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<b>Instruction sheet 1</b>
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> <li>• Definitions and concepts of marketing</li> <li>• Historical developments of marketing</li> <li>• Market and marketing</li> <li>• Marketing and Selling</li> <li>• Marketing mix</li> <li>• Scope of Marketing</li> </ul> <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> <li>• Describe the core concepts of marketing</li> <li>• Identify market and marketing</li> <li>• Describe the historical developments of marketing</li> <li>• Differentiate marketing and selling</li> <li>• Distinguish and discuss marketing mix elements</li> <li>• Describe the scope of Marketing</li> </ul>
<b>Learning Instructions:</b>
<ol style="list-style-type: none"> <li>1. Read the specific objectives of this Learning Guide.</li> <li>2. Follow the instructions described below.</li> <li>3. Read the information written in the information Sheets</li> <li>4. Accomplish the Self-checks</li> </ol>

## Information Sheet 1

### 1.1 Definitions and concepts of marketing

#### 1.1.1. Introduction

Marketing is as old as man in its crude concept and in its modern practice and application. In error of understanding of what marketing is, on daily basis is confused with advertising or selling. These are all aspects of marketing practice; they are not the same thing as marketing. The everyday understanding of marketing attempts to limit or reduce the scope and application of marketing principles and strategies. Marketing activities and functions are based on two fundamental pillars: satisfaction of consumers' needs and building enduring long-lasting relationship with the customers. Marketing usually attract negative reactions from the public, this is due largely to perception. A number of people view marketing as a profession that persuade others to buy what they don't want or like or about cheating people.

In general term, marketing is both social and managerial process by which the needs of individuals and organizations are met through an organization creation and exchanging of value/offering with customers. In other words, marketing involves meeting the specific needs of customers with want satisfying attributes that will allow the organization to make profit.

Marketing is a business strategy that deals essentially with communication with the public. Businesses are set up to make profit and add values; this cannot be done in isolation of the consuming public. Marketing principles, philosophies, and strategies are used by virtually all organizations that have products and services and the public to deal with. That is by implication marketing is used by profit and non-profit organizations. Marketing practices had evolved over time and its development and practices could be linked directly to the level of economic development. However, the first step to the successful practice of marketing is the identification of needs of the consumers.

Marketing is a process of getting the right goods and services: to the right people, at the right time, in the right place, at the right price, with the right communication and motivation.

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### 1.1.2. Definitions of Marketing

No one can exhaustively define the term ‘Marketing’. Different scholars have defined the term marketing in different contexts. The following definitions highlight different aspects of marketing:

- American Marketing Association: "Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer or user."
- Edward Cundiff and Richard Still: "Marketing is the managerial process by which products are matched with markets and through which the consumer is enabled to use or enjoy the product."
- E.F.L Brech: "Marketing is the process of determining consumer demand for a product or service, motivating it sales, and distributing in into ultimate consumption at a profit."
- Philip Kotler: "Marketing is specifically concerned with how transactions are created, stimulated, facilitated and valued."
- (4) William Stanton: "Marketing is a total system of interacting business activities designed to plan, price, promote and distribute want satisfying products and services to present and potential customer."
- American Marketing Association: “Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals.”

### 1.1.3. Concepts of Marketing

This definition of Marketing rests on the following Core concepts. There are five Core concepts of Marketing:

- Needs, wants, and demands,
- Products (goods, service and ideas),
- Value, satisfaction and quality,
- Exchange, transaction and relationship and
- Markets.

These concepts are illustrated in the following figure



Figure1.1: The marketing concepts

#### i. Needs, Wants and Demand

The starting point for the discipline of marketing lies in human needs and wants. People need food, air, water, clothing and shelter to survive. Beyond this, people have a strong desire for recreation, education and other services. They have strong preferences for particular versions of basic goods and service. It is important to distinguish among needs, wants and demands.

- **Needs:** A human need is a state of felt deprivation of some basic satisfaction. People require food, clothing, shelter, safety, belonging, esteem and few other things for survival.
- **Wants:** Wants are desire for specific satisfiers of these deep needs. Human wants are shaped and reshaped continually by social forces and institutions such as families, schools and others.

- **Demands:** People have almost unlimited wants but limited demands. Demands are wants for specific product that are backed up by an ability and willingness to buy them. Wants become demand when backed up by purchasing power.

## ii. Product

Human needs, wants, and demands suggest that there are products to satisfy them. Anything capable of satisfying a need or want can be called a product. A product is anything that can be offered to a market for attention, acquisition, use or consumption that may satisfy a need or want.

## iii. Value, Satisfaction and Quality

**Value** is the consumer's estimate of the product's overall capacity to satisfy his or her need. Customer value is the difference between the values the customer gains from owning and using a product and the costs of obtaining the product. Customer Value Reflects Benefits and Costs

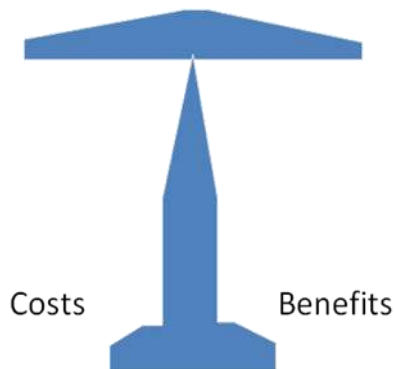


Figure1.2: Cost and benefits

The customer's view of costs and benefits is not just limited to economic (or even rational) considerations--and a low price may **NOT** result in superior value...

### Customer Value



Figure1.3: Customer Value



One customer's view of the benefits and costs of a firm's market offering may vary from another customer's view, so firm may not be able to satisfy everybody with the same offering. Customer value concept takes the customers point of view, but customers may not explicitly weigh costs and benefits and even if they do their view may not match some "objective" reality.

Customer satisfaction is closely linked to quality. Quality has a direct impact on product performance, and hence on customer satisfaction. Quality can be defined as 'freedom from defects'. Quality begins with customer needs and ends with customer satisfaction.

#### iv. Exchange, Transactions and Relationships

- **Exchange:** Marketing emerges when people decide to satisfy needs and wants through exchange.
- **Transaction:** Two partners are said to be engaged in exchange if they are negotiating and moving towards an agreement.
- **Relationships:** Relationship marketing is the practice of building long term satisfying relation with key party's customer, supplier, and distributor.

The ultimate outcome of relationship marketing is building a unique marketing asset called Marketing Network. A marketing network consists of the company and all the supporting stakeholders, customers, employees, suppliers, distributors, retailers, advertising agents and other with whom it has built mutually profitable business relationship.

#### v. Markets

The concept of exchange leads to the concept of market. Market is a group of sellers and buyers who are willing to exchange goods and/or services for something of value. All markets are activated by people. People who are aware of their unmet needs may have the desire to buy the product, but that alone isn't sufficient. People must also have the ability to buy, such as the authority, time and money.

## 1.2 Historical developments of marketing

The concept of marketing is as old as other professions of the world. Marketing is indeed an ancient art. It has been practiced in one form or the other. The traditional objective of marketing had been to make the goods available at places where they are needed. This idea was later on changed by shifting the emphasis from “**exchange**” to “**satisfaction of human wants**” which is known as modern marketing. However in order to enrich the views of marketing, it is better to trace out its evolution and historical developments.

### 1.2.1. Evolution of marketing

Since ancient times, the history of marketing has passed through different stages. The following are the stages of evolution:

- a) **The Barter System:** At this stage, human beings were in nomadic hunter stage. In this primitive period, the human beings were nothing more than hunters or food gathers. The human beings with his/her surplus products approached and tried to exchange his/her products by accepting the products he needed- exchange of products for products.
- b) **The New Stone Age:** This stage is known as Agrarian period. In this stage human beings developed a sense of belongingness and developed family units. As time passed, the division of labor began to play its role and people started producing more than they needed and specialized in activities like carpenters, weavers, agriculturalist etc. To disposed of the excess producing, people assembled in places called local markets and later, it developed into shops, bazaars etc.
- c) **The pre-industrial period:** The difficulties of barter system were removed by adopting common mediums of exchange like copper, iron etc and later this medium of exchange was changed to silver, gold etc. At this stage, producers began to produce the products in larger quantities, employed the services of laborers in their factories; and middlemen, through whom sales were conducted, appeared.
- d) **The Industrial Period:** In this stage, home production was replaced by factory system and hand operations were replaced by machines. Because of the introduction of new inventions along with the new machines, the production was on large scale. Mass productions were followed by large-scale consumption. In order for the products reach in the hands of the ultimate user, new methods of marketing appeared.

### **1.2.2. The role of Marketing**

Marketing is an exciting discipline because it combines the science and the art of business with many other disciplines, such as economics, anthropology, cultural studies, geography, history, jurisprudence, statistics and demographics. This combination will stimulate your intellectual inquisitiveness and enable you to absorb and understand the phenomenon of market-based exchange. The study of marketing has been compared to mountain climbing: challenging, arduous and exhilarating. Marketing is important and necessary because it takes place all around us every day, has a major effect on our lives, and is crucial to the survival and success of firms and individuals. Successful marketing provides the promise of an important quality of life, a better society and even a more peaceful world.

Before 1945, the wars broke out between different countries as a result of scarcity of important resources to produce and market different products in order to generate income for their respective countries. Resources were scarce and unevenly endowed /distributed/ among the countries. As there was no trade between the countries for not having sufficient surpluses, some countries have been facing and consequently suffering scarcity of very important resources and they made effort to get such resources by force from those having them in abundance. Such actions used to lead to different wars.

However, during the postwar era, historic enemies such as Japan and the United States of America, France and Germany have not remained enemies as they once were. They became trading partners. America gets what it wants from Japan through trade even using credit terms. France also gets what it requires from Germany through trade. Then, why should they fight? Marketing, therefore, brings a more peaceful world. No more war for resource snatching as far as the countries are open for global trade and they are exchanging their abundant resources with the other's abundant in which they are facing shortage in their respective countries. Closed countries were seen wasting their money for building huge armies and guns, whereas open and outward looking countries invest their money on machines and tools which may be used for manufacturing of new products to satisfy needs and wants of their consumers/customers.

## **1.3 Market and marketing**

### **1.3.1. Meaning and definition of market**

Originally, the term market stood for the place where buyers and sellers gathered to exchange their goods, such as a village square. Economists use the term to refer to a collection of buyers and sellers who transact in a particular product class, as in the housing market or the grain market. Marketers, however, see the sellers as constituting an industry and the buyers as constituting a market. A market is nothing but a place where potential buyers and sellers meet to exchange the goods and services. Here, both the parties play a significant role in fixing the prices, where the buyers determine the demand and seller determines the resources. Traditionally, the market is a confined place where you go physically (bazaar or a shopping mall) at a particular time and make the purchases. But today, with the invention of E-commerce the definition of the market has changed drastically, giving customers an array of items to choose from under one roof. Customers can buy things from various online portals anytime and anywhere.

The term ‘market’ is derived from Latin word called ‘marcatus’ which means trade, merchandise, traffic or place of business. In ordinary language, the term market refers to a certain place where buyers and sellers personally meet each other and make their purchases and sales. Some of the definitions of market by scholars is as illustrated as follows:

- According to Cornot, “Market is meant not any particular place in which things are bought and sold, but the whole of any region in which the buyers and sellers are in such free intercourse with one another, that the price of the same goods tends to equality easily and quickly”.
- According to Chapman, the term market refers “not to a place but to a commodity or commodities and buyers and sellers who are in direct competition with one another”.
- According to W.J Stanton and Others, “Any person or group with whom an individual or organization has an existing or potential relationship can be considered as market”.

### **1.3.2. Differences between Market and Marketing**

The term market is a noun which refers to a place, while the verbal form of market is the marketing that represents an action. Since last few decades, with the advancement of technology, these two concepts have gained extreme importance in the business world.

As previously defined by different scholars in many ways, marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. The concept of exchange leads to the concept of a market. A market is the set of actual and potential buyers of a product. These buyers share a particular need or want that can be satisfied through exchange. Thus, the size of a market depends on the number of people who exhibit the need, have resources to engage in exchange, and are willing to offer these resources in exchange for what they want.

The concept of markets finally brings us full circle to the concept of marketing. Marketing means managing markets to bring about exchanges for the purpose of satisfying human needs and wants. Thus, we return to our definition of marketing as a process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others. The important points of differences between market and marketing are indicated below:

- The market is defined as a physical or virtual set up where the buyers and seller need to make exchange of goods and services. Marketing is a set of activities that identifies, creates, communicates and supplies consumer needs.
- A market is a place, i.e. physical or non-physical. On the other hand, marketing is an act (abstract) of creating a utility of the product.
- The market is a process which sets the price of the product with demand and supply forces. Conversely, Marketing is a process which analyses, creates, informs and delivers value to the customers.
- The concept of marketing is wider than the concept of a market. The market varies by product, place and other factors. As opposed to marketing, the philosophy can be consistently applied, irrespective of product, place and any other factor.
- Market facilitates trade between the parties. Unlike marketing, that creates a link between the customer and company, to provide the right product at a right time at right place.

In summary, the market is a place, physical or virtual, where buyers meet sellers in order to make an agreement of economic transaction where goods or services are sold and bought at a set price. In that sense, the market acts as price fixing mechanism as well as collective socio-technical organization that impose certain regularities. Marketing produces, change and enlarge markets. A market is a system of rules, while marketing is a system of tools. Market match demand with supply, while marketing creates demand. Demand and supply are fixed at the market, while being a subject to change in marketing.

The following table illustrates the differences between Market and Marketing

<b>Key differences between Market and Marketing</b>	
<b>Market</b>	<b>Marketing</b>
<b>Definition</b>	
A place where buyers and sellers meet to exchange goods and services	Marketing is a method that determines human nature, their demand and a need to satisfy them
<b>Type of Process</b>	
It is a process where the demand and supply fix the price of a commodity	It is a process of researching, analyzing, creating and delivering the best to the customer.
<b>Scope of the concept</b>	
Market is a confined concept	Marketing is a comparatively bigger concept that includes a wide range of activities
<b>Variation</b>	
The market varies by product, place, demand	Marketing remains same irrespective of product
<b>Target audience</b>	
Anyone	Specific

Table 1.1: Key differences between Market and Marketing

## 1.4 Marketing and Selling

### 1.4.1. Meaning and definitions of selling

Selling refers to the functions and activities which are undertaken to affect the sale or distribution of the goods and services produced by an enterprise. In other words, selling is only concerned with the sale or distribution of goods and services; it has no hand whatever in attuning the production activity in accordance with consumer needs and desires.



Figure 1.4: Selling concept

Selling is the transaction between two or more parties in which the buyer receives the offering (product) and the seller gets something of value (money) in return. In selling the seller only focus on individual and on the product. In selling, the customer satisfaction does not matter. The main aim of the seller is to sell his product and get profit etc...

According to **Philip Kotler**, The selling concept holds that consumers, if left alone, will ordinarily not buy enough of the organization's product. Salesmanship consists of transferring a conviction by a buyer to a seller.

Based on **W.J. Stanton**, Personal selling involves individual personal communication in contrast to mass relatively impersonal communication of sales promotion, advertising, and other promotional tools.

The similarities of marketing and selling are that both units aim to boost the revenue of the company. Both of these approaches give effort to engage the audiences. They want to turn their prospects into customers, thus accelerating the company's sales.

#### 1.4.2. Distinction between Marketing and Selling

It is easy to confuse marketing and selling products. Therefore, you should have a thorough understanding of what selling in marketing means. Selling is a part of the marketing process where goods and services are sold to consumers on an exchange of money. We need to know the difference between Marketing and Selling to be able to reach consumers. Many business owners and practitioners mistakenly think of selling and marketing as interchangeable concepts.



This is particularly true in the case of small businesses, which often equates marketing with selling deliberately due to organizational and resource limitations. But even if sales and marketing are intrinsically linked, the fact is that they are two very different business activities.

The basic difference between marketing and selling lies in the orientation or approach of each. Marketing is basically consumer-oriented. Selling on the other hand is product-oriented. Marketing is involved in both-production of goods and services as per the customer's needs and then selling is the distribution of whatever has already been produced. In simple words, selling transforms the goods into money, but marketing is the method of serving and satisfying customer needs. The marketing process includes planning the price of product, service, promotion and distribution. The following table compares Selling vs. Marketing

<b>Marketing</b>	<b>Selling</b>
It is oriented to satisfying customers' needs & desires	It is oriented to satisfying the seller's needs
The customer occupied the pride of place in any marketing Scheme	The product occupies the pride of place in any selling scheme
It is concerned with planning and development of products to match the market requirements	It is only concerned with selling whatever has already been produced
It represents an integrated approach to achieve long-term goals	It represents a piecemeal approach to achieve short-term goals
It is concerned with converting customers' needs into products	It is concerned with converting products into cash
Profits are sought by ensuring customer satisfactions	Profit by ensuring higher sales volume
Marketing is more comprehensive term. It includes not only selling but also all other activities which help the movement of goods from the center of production to the center of consumption	Selling is mere the exchange of goods for money between the seller & the buyer
Marketing comes at beginning of the manufacturing cycle	Selling comes at the end of the manufacturing cycle
Marketing is concerned with creation of place, time and possession utility	Selling is concerned with the creation of mere possession or ownership utility
Marketing is Consumer-Oriented	Selling is product-Oriented
It emphasis on the needs of Buyers	It emphasis on the needs of Sellers
Emphasis on client or group's want	Emphasis on program and traditions
Success is measured by level of customer satisfaction achieved	Success is measured by numbers through the door
The Pull Strategy is used in marketing	In selling the Push strategy is used

Table 1.2: Selling vs. Marketing



## **1.5 Marketing Mix**

### **1.5.1. Meaning and definitions of Marketing Mix**

Marketing is about building lasting relationships that satisfy the needs of the supplier and the buyer. The key elements of marketing are customer value, competitive advantage and focus. This means that organizations involved in marketing have to study the market, develop products or services that satisfy customer needs and wants, develop the correct marketing mix and satisfy its own objectives as well as giving customer satisfaction on a continuing basis.

Marketing mix means blending or combining of the four elements of marketing, viz., the product, the price, promotion and place into a marketing plan by a business firm to influence the desired buyers' response by satisfying their needs and wants in the most effective and economical manner.

Marketing mix is a technique of marketing management wherein production of goods promotion activities distributing actual or maximum consumer satisfaction can be secured by business only with the help of an appropriate marketing mix.

Marketing mix is the cornerstone of modern marketing. It is a dynamic concept as it keeps on changing with changes in the market conditions and the environment achieving the directed objectives. Few more definitions of marketing mix by scholars include:

Marketing involves a number of activities. To begin with, an organization may decide on its target group of customers to be served. Once the target group is decided, the product is to be placed in the market by providing the appropriate product, price, distribution and promotional efforts. These are to be combined or mixed in an appropriate proportion so as to achieve the marketing goal. Such mix of product, price, distribution and promotional efforts is known as 'Marketing Mix'.

- Philip Kotler: "Marketing mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market."
- Greyson and Olson: "Marketing mix is the sum of elements of business activity that can be used by a firm to fulfill its marketing strategy."

- William J. Stanton: "Marketing mix is the term used to describe the combination of the four inputs which constitute the core of a company's marketing systems: the product, the price structure, the promotional activities and the distribution systems."

### 1.5.2. Elements of Marketing Mix

In the previous lesson you learnt that marketing identifies consumers' needs and supplies various goods and services to satisfy those needs most effectively. So the businessman needs to:

- Produce or manufacture the product according to consumers' need
- Make available it at a price that the consumers' find reasonable
- Supply the product to the consumers at different outlets they can conveniently approach
- Inform the consumers about the product and its characteristics through the media they have access to

So the marketing manager concentrates on seven major decision areas while planning the Marketing activities, namely: Products, Price, Promotion, Place (distribution), People, Process and Physical Evidence. These 7'P's are called as elements of marketing and together they constitute the marketing mix. All these are inter-related because a decision in one area affects decisions in other areas. In this lesson you will learn about the basic aspects relating to these '7 P's, Product, Price, Place, Promotion, People, Process and Physical Evidence. This mix is assembled keeping in mind the needs of target customers, and it varies from one organization to another depending upon its available resources and marketing objectives. Let us now have a brief idea about the seven components of marketing mix.

**i. Product:** A product is a bundle of utilities consisting of various product features and accompanying services. Product element of marketing mix refers to the activities relating to the product and after sales service which satisfy customers' needs. Product includes not only the physical objects but also services capable of satisfying consumer's wants. It involves decision with regard to quality; features, packaging, size, services, branding, warranties, etc.

**ii. Price:** Price is the amount charged for a product or service. It is the second most important element in the marketing mix. Price element of marketing mix covers pricing objectives and pricing policies. Price is the monetary value of a product. It also includes discounts, allowances and terms of credit or period of payment. Price is an effective means of

competition. Fixing the price of the product is a tricky job. Many factors like demand for a product, cost involved, consumer's ability to pay, prices charged by competitors for similar products, government restrictions etc. have to be kept in mind while fixing the price. In fact, pricing is a very crucial decision area as it has its effect on demand for the product and also on the profitability of the firm.

**iii. Promotion:** Promotion encompasses all the tools in the marketing mix whose major role is persuasive communications. If the product is manufactured keeping the consumer needs in mind, is rightly priced and made available at outlets convenient to them. However, if the consumer is not aware about its price, features, availability etc, its marketing effort may not be successful. Therefore promotion is an important ingredient of marketing mix as it refers to a process of informing, persuading and influencing a consumer to make choice of the product to be bought. Promotion is done through means of personal selling, advertising, publicity and sales promotion. It is done mainly with a view to provide information to prospective consumers about the availability, characteristics and uses of a product. It arouses potential consumer's interest in the product, compare it with competitors' product and make his choice. The proliferation of print and electronic media has immensely helped the process of promotion.

**iv. Place:** Goods are produced to be sold to the consumers. They must be made available to the consumers at a place where they can conveniently make purchase. Woolens are manufactured on a large scale in Ludhiana and you purchase them at a store from the nearby market in your town. So, it is necessary that the product is available at shops in your town. This involves a chain of individuals and institutions like distributors, wholesalers and retailers who constitute firm's distribution network (also called a channel of distribution). The organization has to decide whether to sell directly to the retailer or through the distributors/wholesaler etc. It can even plan to sell it directly to consumers. **Place (Physical Distribution):** Place refers to the arrangements for the smooth flow of goods and services from the producers to the consumers. It covers channels of distribution. This element of marketing mix is concerned with linking the seller and buyer. It covers channels of distribution involving in getting the possession and

the title to products to consumers and physical distribution, concerning with transporting, warehousing, storing and handling of the products. It also includes inventory control.

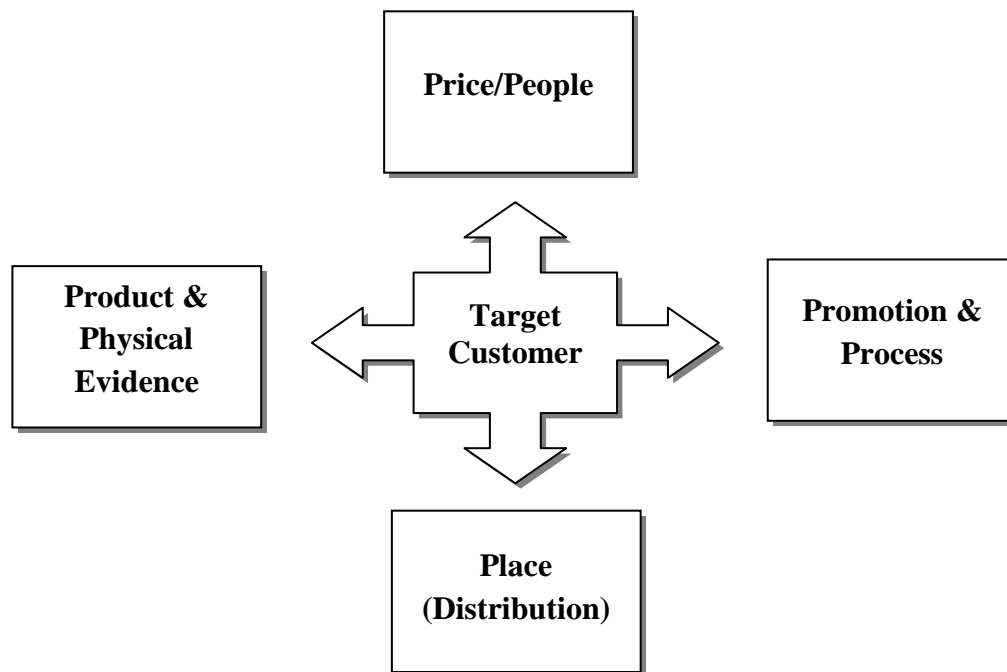


Figure 1.5: Marketing mix

- v. **People:** People refer both to the customer and to staff. For customers, it is important to know: what kind of customers are they? Who are they? What are their needs? Can they be broken down into groups with common characteristics, needs, etc.? What are the customer strategies? etc. People refer also to people working within a cooperative. You could call this “internal marketing”, which can be defined as “the task of successfully hiring, training, and motivating able employees who want to serve the customers well”. Anyone who comes into contact with your customers will make an impression, and that can have a profound effect; positive or negative on the customer satisfaction. The reputation of your brand rests in your people’s hands. They must, therefore be appropriately trained, well-motivated and the right attitude.
- vi. **Process:** The process of giving a service and the behavior of those who deliver are crucial to customer satisfaction. Issues such as waiting times, the information given to customers and the helpfulness of staff are all vital to keep customers happy. Customers are not interested in

the detail of how business runs. What matters to them is that the system works. Do customers have to wait? Are they kept informed? Are your people helpful? Is your service efficiently carried out? Do your people interact in a manner appropriate to your service?

**vii. Physical Evidence:** A service can't be experienced before it is delivered. This means that choosing to use a service can be perceived as a risky business because you are buying something intangible. This uncertainty can be reduced by helping potential customers to see what they are buying. The physical evidence demonstrated by an organization must confirm the assumptions of the customer. Financial services product will need to be delivered in a formal setting, while a child's birthday entertainment company should adopt a more relaxed approach.

## 1.6 Scope of Marketing

### 1.6.1. Types of entities

Marketing is typically seen as the task of creating, promoting, and delivering goods and services to consumers and businesses. In fact, marketing people are involved in marketing through ten types of entities: goods, services, experiences, events, persons, places, properties, organizations, information and ideas.

- i. Goods/products:** any tangible offerings, which provide functional value/ benefit to customers/ consumers.
- ii. Services:** are intangible products. As economies advance, growing proportions of the activities are focused on the production of services. E.g. work of airlines, hotels, car rentals firms, beauticians, maintenance and repair people.
- iii. Experience:** by orchestrate/ arranging/ several services and goods one can create, stage, and market experiences. There is a market for different experiences. E.g. management contract.
- iv. Events:** are happenings or usually something important. Marketers must promote time-based events such as Olympics, major trade shows, sport events and artistic events.
- v. Persons:** Celebrity marketing has become a major business. Celebrity is fame and honor. E.g., someone seeking fame would hire a press agent to plant stories in newspapers and magazines. Today every film star has an agent, personal manager and ties to a public relations agency.

- vi. Places:** cities, states, regions, and whole nations compete actively to attract tourists, factories, company headquarters, and new residents. Nowadays, Far-East Asia is attracting huge multinational companies, as there is cheap resource for their business.
- vii. Properties:** properties are intangible rights of ownership of either real property (real estate) or financial property (stocks and bonds).
- viii. Organization:** organized body of persons or organized system. Organizations actually work together to build a strong favorable image in the minds of their publics.
- ix. Information:** information can be produced and marketed as a product. In today's modern markets, marketing cannot take place without reliable information. Marketers have to know about the users of product, and customers or consumers have to know the quality of product through information.
- x. Ideas:** every market offering includes a basic idea at its core. Producers manufacture the product in the factories and they sell HOPE in the stores. The buyer of drill is really buying a hole. Products and services are platforms for delivering some idea or benefits. Marketers search hard for the core need they are trying to satisfy.

### 1.6.2. Micro and Macro marketing



Figure 1.6: Scope of Marketing

**Micro-Marketing:** Applies to profit and nonprofit organizations. It is not just persuading customers to buy. It begins with customer needs and focuses on customer satisfaction. It is one of the marketing activities but it is a philosophy that guides the whole business. Micro-Marketing seeks to build a relationship with the customer.

**Macro marketing** is a social process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches supply and demand and accomplishes the objectives of society (consumers may be defined as the individuals or organizations that use or consume a product).

Micro-marketing	Macro-marketing
The performance of activities that seek to accomplish an organization's objectives by anticipating customer needs and directing the flow of need-satisfying goods and services.	A social process that directs an economy's flow of goods and services to effectively match supply and demand and to meet society's objectives.

Table 1.3: Scope of Marketing



Self-check 1	Written test
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Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Choose the best answer**

- Marketing emerges when people decide to satisfy needs and wants through \_\_\_\_\_.
  - Transaction
  - Exchange
  - Relationships
  - None
- \_\_\_\_\_ includes not only the physical objects but also services capable of satisfying consumer's wants.
  - Product
  - Promotion
  - Price
  - All
- \_\_\_\_\_ refers to the arrangements for the smooth flow of goods and services from the producers to the consumers.
  - Place
  - People
  - Product
  - People
- Which one of the following is **true** about Market? \_\_\_\_\_.
  - A method that determines human nature, demand and need
  - wide concept that includes a range of activities
  - Varies by product, place, demand
  - All



## Test II: Short Answer Questions

1. Clearly define the difference between Marketing and Selling.

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2. List down at least five types of entities that business people involved in marketing.

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3. List the five core concepts of marketing.

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4. Elaborate the difference between Micro and Macro marketing.

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**LG #5**

**LO2 #: Identify marketing functions**

### Instruction sheet 2

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Overview of marketing functions
- Classification of Marketing Functions
- Essential marketing functions and their roles

This guide will also assist you to attain the learning outcomes stated in the cover page.

Specifically, upon completion of this learning guide, you will be able to:

- Discuss the meaning and basic concepts of marketing functions
- Classify marketing functions
- Identify and apply essential marketing functions and their roles

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks
5. Perform Operation Sheets
6. Do the “LAP test”

## Information Sheet 2

### 2.1. Overview of marketing functions

#### 2.1.1. Concepts and meanings of marketing functions

Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives. The marketing objective of most businesses is to attract you, the target customer, and the business. To achieve this objective, businesses coordinate the marketing functions, which are interrelated activities that must work together to get goods and services from producers to consumers. These marketing functions involve the activities that focus on understanding customers and making available the products they want. All of the marketing functions need to work together to make this happen. If any function is not doing its job, the other functions are affected.

Marketing management represents the concept of marketing in action i.e. assuring the demand, planning the production and organizing the selling under customer-oriented marketing philosophy. The marketing function is an act or operation or service in order to link the original producer and the ultimate consumer. The process of marketing could be split down to certain major economic activities that are inherent in the marketing process such as buying, selling etc.

These functions become specialized through continuous division of labor. There is no doubt that these functions are independent in their own way. But when marketing process is considered as a total system, each function becomes only essential and non-essential functions of marketing. Therefore, the term marketing function is required to be restricted to those basic functions which cannot be avoided. If a manufacturer bypasses some middlemen in the distribution process, s/he only eliminates the middle men and not the functions s/he performs.

The marketing functions are like the parts of a game. You need to understand all of the parts to have a chance to win the game. The same is true of the marketing functions. You need to understand all of the functions and how they work together. You can't forget to advertise even if you have a great product. You can't forget to have a sufficient supply of those great products in

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stock for an upcoming sale. You can't forget to keep up with the latest trends and find out what customers really want. You can't forget to set prices that are competitive and attract customers. If you forget any of these functions, your marketing effort won't be as effective, and your competitors will have an advantage. The result might be the same as the game you will lose.

### **2.1.2. Definitions of marketing functions**

After the production process, goods have to pass through multifarious activities, before they reach the ultimate consumer. In the marketing journey, goods have to pass through many intermediaries and functional factors. These functions and operations performed by people are called marketing functions. Some of the definitions of marketing functions are discussed below:

- A marketing function may be defined as a major economic activity which is inherent in the marketing process, resides it throughout and which through a continuous division of labor tends to become specialized.
- Marketing functions are activities within the marketing functional areas that are to be performed in order to deliver effective value offering. These functions are divided into three: The exchange functions, physical function and facilitating functions.
- Marketing function is a role which helps a company to identify and source potentially successful products for the marketplace they operate on and then promote them by differentiating them from similar products. It is a vital part of any company.

### **2.2. Classification of Marketing Functions**

Marketing involves certain activities to make the goods to start the journey from the place of production to the place of consumption. The act, operation & service which are concerned with the marketing activities are called marketing functions. Essentially, the marketing function is aimed at providing and distributing foods and services as required by the customers and in a manner which is at once efficient and economical.

Concentration, equalization and dispersion are the base pillars of marketing function. Concentration pertains to operations concerned with the assembling and transport of produce from the field to a common place or market. Equalization mainly relates to the carrying forward of produce/goods for future distribution. Dispersion involves the operation of wholesaling and retailing at the terminal market.

At present, there is no unanimity regarding a proper classification of marketing functions.

### 2.2.1. Concentration and Dispersing functions

Some experts like L.F. Pyle, has classified marketing functions on the basis of concentration and dispersion and these are as under;

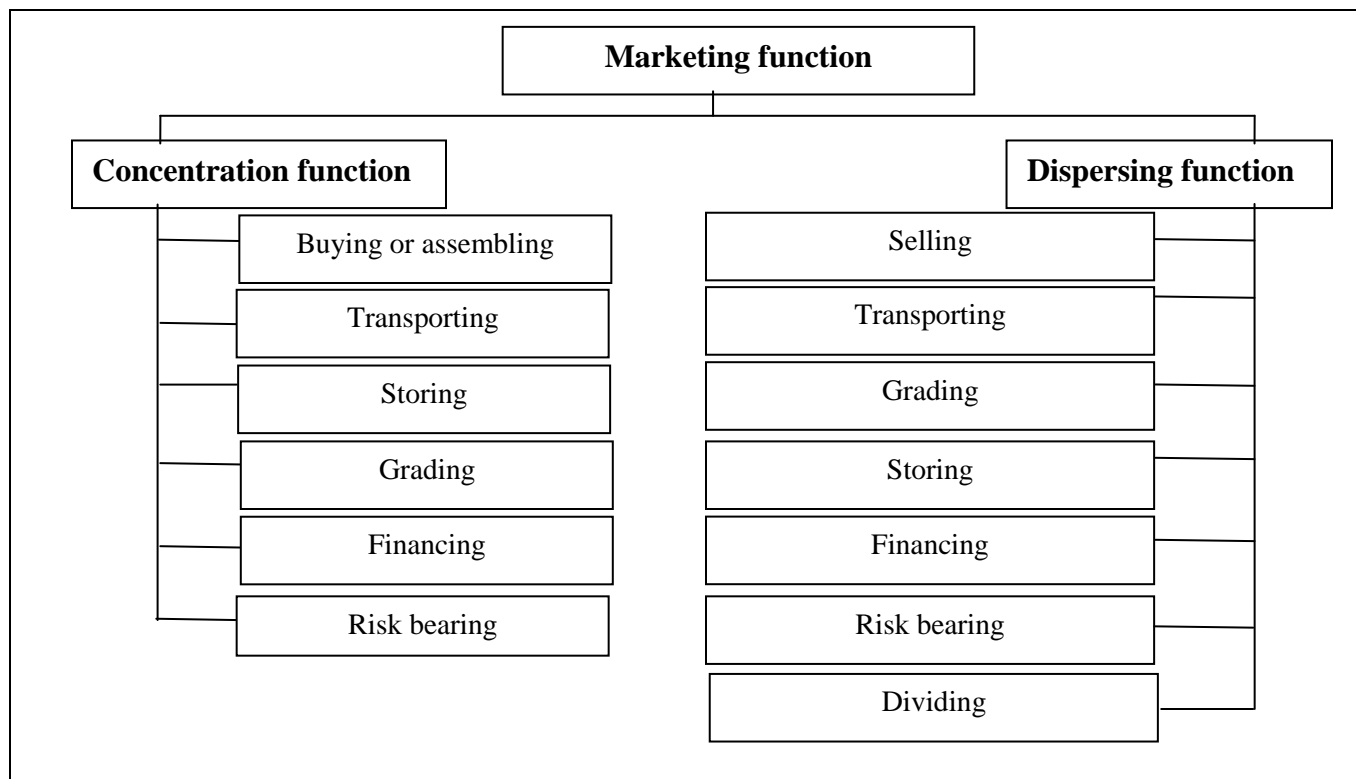


Figure 2.1: Concentration and Dispersing functions

In this classification, the whole process of marketing is brought under two major heads. But it is repetitive in nature which has not been acknowledged by many experts.

The alternative attempt was made to classify marketing functions with the idea that the marketing process is primarily concerned with the flow of goods from the producer to the consumer. On the basis of this idea, the classification has been made as below:

This classification was not considered to be an effective one because the classification is repetitive as it contains duplication of certain function like storing, grading, financing etc.

Huegy & Mitchell has classified the function from the economic point of view. According to them, marketing functions are those which are capable of creating time, place, and possession & from utility.

### 2.2.2. Concentration, equalization and dispersing functions

The classification given by them is depicted below:

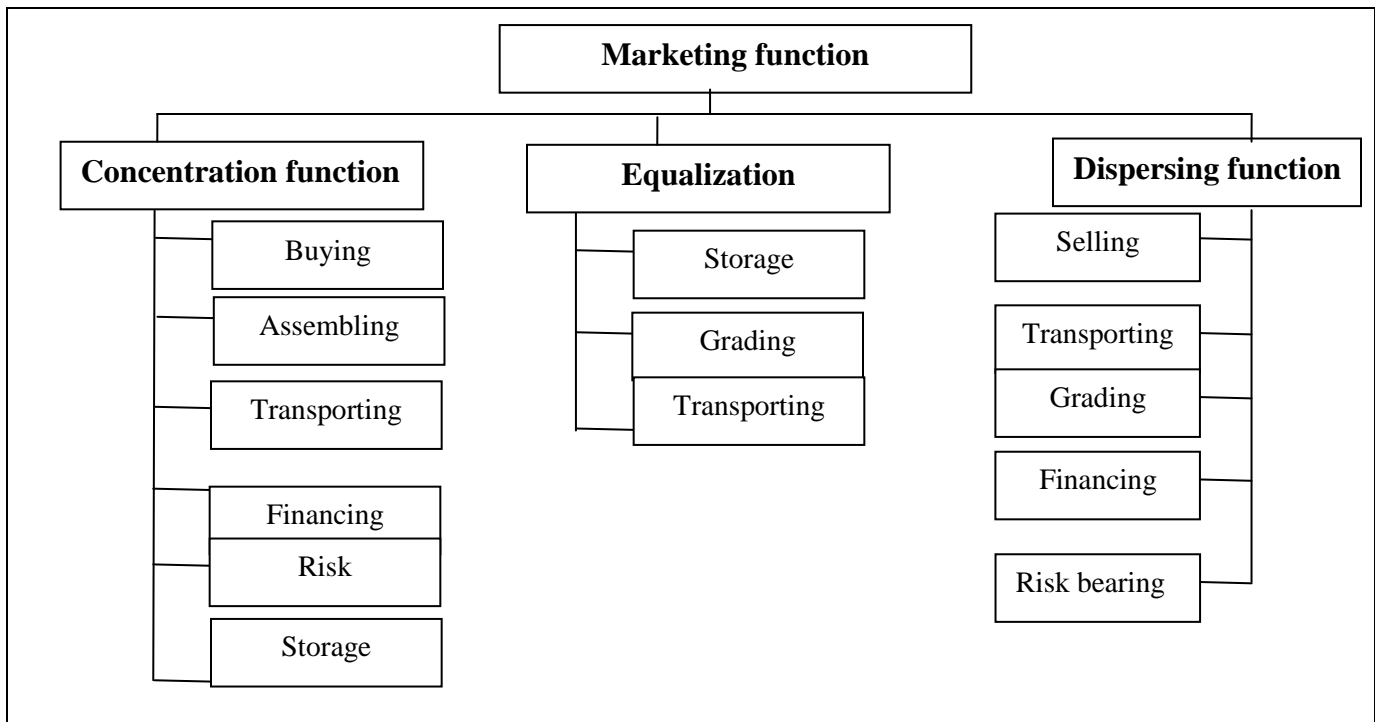


Figure 2.2: Concentration equalization and dispersing functions

This classification is also repetitive like first one except that it contains an additional function "Equalization" in between concentration and dispersion.

### 2.2.3. Exchange, physical supply, and facilitating functions

The most accepted classification was proposed by Clark and Clark in "Principles of Marketing". Clark & Clark divided the marketing functions under three major groups. They are functions of exchange, functions of physical supply & facilitating functions. This classification is considered to be the best & effective one as it includes only the essential functions.

Function of exchange is defined as “the process of passing goods into the customer's hands”. Physical function is recognized as a link between production and marketing functions. Facilitating functions are those functions carried out by the marketer for performing the functions of exchange & functions of physical supply. The classification given by Clark and Clark is depicted below.

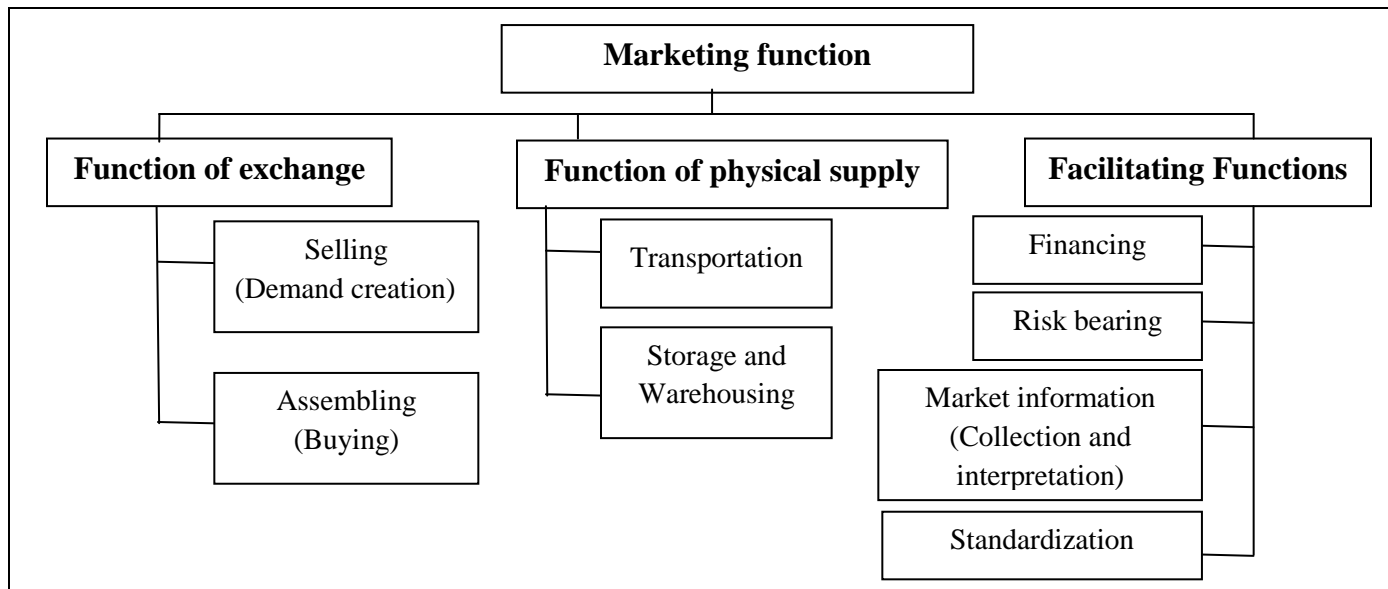


Figure 2.3: Exchange, physical supply, and facilitating functions

This classification is capable of giving an overall picture of the whole area of marketing and it enjoys maximum acceptance.

### 2.3. Essential marketing functions and their roles

In order for the marketing bridge to work correctly, providing consumers with opportunities to purchase the products and services they need, the marketing process must accomplish nine important functions. Marketing functions are activities within the marketing functional areas that are to be performed in order to deliver effective value offerings. These essential functions are divided into three: The exchange functions, physical functions and facilities functions. You might be wondering why you need to understand each of the functions of marketing. You might also be trying to understand how they all tie back to marketing. As we explore each marketing function, we will see how they work together to add depth to our marketing strategy.

### 2.3.1. Exchange Functions

The functions to be performed under the exchange functions are divided into two categories: buying and assembling and selling. These functions form the cornerstone for any marketing activity.

#### i. Buying and Assembling Functions

**a) Buying:** Buying is the most important marketing activity. It is the first step of all marketing functions. It is carried out by all the marketers. Buying & Selling are Inseparable in nature. Both happen at the same time. When the buying function is over, the buyer gets title to the product. The primary purpose of buying is to assemble goods upon demand, for resale or use in production or personal consumption. At the time of buying, the following points must be taken into consideration:

- **Quality:** Quality product is most important for customer satisfaction.
- **Quantity:** Exact assessment of quantity is required to avoid overstocking or understocking as both are dangerous for the marketer.
- **Timing:** Some products have specific demand in specific season. Therefore, in the case of seasonal products, timing of purchase is a critical factor.
- **Source of supply:** Before placing the order, it is always better to know the supply location and source of supply of goods.

**b) Assembling:** It is the marketing function that involves buying of several components or items and fit them together to satisfy a need. Assembling is the process of collecting goods from different places (big or small town, village etc.) and putting it together at central place or its further movement to the factory or consumers. The main advantage of assembling is that it facilitates widening of market, grading, reduces cost of transportation and handling, regularize the supply of seasonal products, provides facilities for raising finance.

#### ii. Selling Functions

Selling function is the pivotal factor in any organization. It involves transfer of title of goods to the buyer. Selling is to create demand for a product even against keen competition. The function of the salesman is to create demand, find out buyers, giving them the information of the



availability of goods to satisfy them and assure them of reasonable prices. Selling & Buying are complementary to each other. Marketing effort evolve around the buying & selling function. Selling is the most important function for a business because the primary objective of any business is to sell the products & earn maximum profit. By selling, ownership is transferred to the buyer.

### **2.3.2. Physical Functions of Marketing**

Physical Function of Marketing is the activities performed for the purpose of distributing the goods and services to their real consumer. This function is closely related with creation of place and time utilities. Main physical functions include storage, transportation and processing. All the physical functions (storage, transportation and processing) add values to a product. Storage function provides time utility, transportation functions provides place and time utility to the product and consumers, while processing provides form utility to the product. All these functions are value added functions, which helps to increase the satisfaction of the consumers.

#### **a) Storage**

In most cases, it is always difficult to predict demand of ahead. More importantly, goods are also produced ahead of demand. The link between these seemingly contradiction is that, producers will wants consumers' needs to be met as at when due. Storage is a major marketing function under modem market conditions. Storage function of marketing creates time utility.

Production of goods may be seasonal but their consumption is regular or consumption is seasonal while production is continuous. For both the cases, storing of goods is essential. It is this storage function which helps in the steady & smooth flow of goods throughout the year. This service is especially essential for the storage of farm products due to its perishable character. Storage function is necessary in concentration as well as in distribution. It is performed by a manufacturer, wholesaler, retailer or professional warehouse keepers. Storage becomes necessary for the following reasons:

- Essential for scientific storage of the goods of perishable nature,
- Necessary for maintaining a regular supply of goods in all seasons,

- Essential because of timely production and continuous consumption e.g. fruits, vegetables, poultry, fish and dairy products,
- Necessary to guard against delayed shipments,
- Adjusts the demand and supply position of the product in the market,

## **b) Transportation**

Transportation is one of the important functions of marketing activities as it plays a prominent role in the distribution of goods between places i.e. from production to consumption. It refers to the physical movement of people and goods from one place to another to create place utility. Products must be physically relocated to the locations where consumers can buy them. This is a very important function. Transportation includes rail road, ship, airplane, truck, and telecommunications for non-tangible products such as market information. To market the product, every marketer has to decide upon suitable means of transport. The important factors to be considered are nature of product, cost and location of target market.

Transportation assumes unique function nowadays because of mass production, mass distribution & ever widening markets. As the markets are geographically separated from place of production, transportation is essential. Goods are carried from places where they are less, where they are more useful or in scarce supply. Transportation helps to widen market and create place utility. It helps to stabilize and equalize prices at different geographical markets by ensuring equitable supplies across the markets. Only by transportation function, the possession of goods is transferred from producer to consumer.

## **Functions of Transport**

- It promotes quick marketing which enhances growth of industries.
- It encourages zonal specialization in productive activities.
- It creates place utility by bridging the gap between production and consumption centers.
- It plays an important role in stabilizing prices of several commodities by moving them from surplus areas to deficit areas.
- It ensures even flow of commodities into the hands of the consumers.

## Classification of Transport

In general, there are three categories of transport modes - Land, Water and Air. These are further classified.

- **Land Transport:** Land transport includes Roadways, Railways and Tramways etc.

Road transport is the commonest form of transporting. On road, there is transport by human energy like porters, coolies who carry goods on back or heads. Transport by animals includes bullock, camel, donkey, elephant, horse etc. Transport by carts is bullock-carts, horse-carts while transport by automobiles includes scooter, motorcycle, auto-rickshaws, car, trucks, buses etc.

**Rail Transport:** Railways are used to carry bulky items for long distances.

**Pipelines:** Pipelines are specialized carriers designed to transport the crude and refined petroleum and natural gas from wells to refineries and further to distribution centers through pipelines.

- **Water Transport:** Water transport is one of the more economic modes of transport. There are two modes of Water Transport - Inland Water Transport and Ocean Transport. Inland water transport includes rivers, canals lakes, and channels, within the national boundary of the country for which it is known as inland water transport. The other mode is ocean transport which is very important for the growth of foreign trade. It is again divided into coastal and overseas shipping. *Coastal shipping* provides service within the nation while *overseas shipping* is mainly used in the case of international trade.
- **Air Transport**

Air transportation plays significant role in trading perishable products and emergency parts.

## c) Processing

Processing involves turning a raw product, like wheat into something the consumer can use for example, bread. Most products are not in a form suitable for direct delivery to the consumer when they are first produced. It is not in all cases that the original forms of the products needs to be changed or its composition or components altered.

In actual facts in whatever form a product is produced, it has customers and perhaps intended use. However, there are several instances, where it will be necessary to change the original form

of the product by size, composition, addition of other items etc. It is for this very reason that processing is regarded as a marketing function. The form changing activity is one that adds value to the product.

### **2.3.3. Facilitating Functions of Marketing**

Facilitating functions play important role in marketing activities. Facilitating functions are those activities which enable the exchange process to take place. The facilitating functions include product standardization and grading, financing, risk bearing and market intelligence.

#### **i. Standardization and Grading**

The terms "grading" and "standardization" should not be misunderstood and misused. Grading is used for sorting out products into groups of uniform kind, quality and size. Standardization implies the establishment of a certain standards based upon intrinsic physical properties and qualities of products. It means standards are fixed first and grading follows.

##### **a) Standardization**

Standardization refers to the process of manufacturing goods as per certain predetermined standards in terms of shape, size etc. It helps in establishing uniformity and consistency in the product. Standardization is the process by which a standard already decided is attained. Standardization is related with the division of commodities into distinct group. Standard is used in providing some basic qualities to the product. It is fixed on physical characteristics of the products.

Standardization means establishment of certain standards and specifications for products based on intrinsic physical attributes of a product. The process may involve quantity of the product in terms of weight or size or the quality in terms of color, shape, appearance, material, taste, sweetness. Standardization involves the determination of basic measures to which articles must conform (i.e. fixing standards) and includes the process of conforming to such standards. It implies the establishment of uniform quality specifications between two places, between one time and another, between buyers and sellers as a basis for the grade. Standardization is considered to be facilitating or ancillary function of marketing.

Standardization is concerned with the establishment and maintenance of uniform measurement of produce quality and/or quantity. This function simplifies buying and selling as well as reducing marketing costs by enabling buyers to specify precisely what they want and suppliers to communicate what they are able and willing to supply with respect to both quantity and quality of product. In the absence of standard weights and measure trade either becomes more expensive to conduct or impossible altogether.

The main characteristics of standardization are listed below:

- It helps in the efficient performance of the various marketing functions, particularly in buying and selling,
- It determines grades or class of products for both agricultural and industrial,
- It helps the producer to set higher prices,
- It assures consumers of the specific quality of the product.

## **b) Grading**

Grading is the process of categorizing products into different groups on the basis of some important features like quality, size, shape etc. Usually, the agricultural products are subject to grading like it may not be possible to produce all the mangoes of a particular shape and size or grains of a particular quality. Grading has direct impact on the price of the product. Many products are graded in order to conform to previously determined standards of quality. For example, when you purchase the country's No. 1 Products, you know that you are buying the best Products on the market. Grading is the use of standard or set of standards, for sorting upgraded products into lots that are approximately identical in variety, size, quality etc.

Grading involves classification of standardized products into certain well defined categories or groups or classes using specific similar attributes like size weight, or color. Most products are manufactured in categories to meet different demands and needs, as such grading becomes an indispensable marketing function to reduce confusion, waste, save time and enhances handling processes. Grading starts where the standardization ends. It means dividing the products on the basis of size, color, taste etc. The main characteristics of grading are:

- It permits the buyers to select more precisely what he wants.
- It helps to protect the interest of consumer.

## **ii. Financing**

Finance is the life blood of any business. Financing means the arrangement of adequate finance for the purpose of performance of different activities like purchasing, storage, transportation, promotion etc. There is a gap between the purchase of raw materials & production of finished goods. For utilizing their gap & for converting the raw materials into finished goods, finance is necessary. Money is required for all type of marketing activities. It is required by manufacturers, wholesalers, retailers and consumers. All require funds at their end to produce, sell, and purchase goods. It is difficult to perform various marketing functions without the availability of adequate finance.

## **iii. Risk Bearing**

Risk simply means possibility of incurring loss in future as a result of committing financial, capital and physical resources into an investment. Therefore, risk bearing refers to possible financial losses arising from risk associated to falling price from holding stocks in anticipation of future demand, losses associated with spoilage, depreciation, evaporation, obsolescence, fire floods and loss related to passage of time (expired products). Marketing like any other business activity involves risks of many kinds. Risk means the danger of loss from unforeseen circumstances in future. Risk is inherent in the ownership and possession of goods.

Risks may arise due to some economic causes like Change in price, Change in Government policy, Increasing Competition, Change in Demand, Change in exchange rate, Damage to goods during Storage and Transportation, Fire, Floods or Earthquake, Misappropriation of cash by employees, Bad Debts etc. Some of the risks can be insured while others cannot be insured like Change in Demand, fall in prices, Changes in fashion, Changes in the taste of consumers. Risks can never be eliminated but can be minimized through effective system of Sales Forecasting, Product Diversification, and Market Research etc.

A marketing enterprise has to bear many risks in the process of marketing goods. This may arise for unforeseen events (flood, earthquake etc.), social hazards (theft, burglary, war etc.), accident, decay, and deterioration etc. The business risks can be divided mainly as:

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- Market or Economic Risk (due to competition, change of price, change in customer preference and demand)
- Natural risk (Due to fire, flood, storm, drought, earthquake, lightening, pest and disease attack etc...)
- Human risk (Dishonesty of employees, carelessness of employees, losses due to sickness and accident of labor, mishandling of commodities etc...)

The risks may be avoided, minimized or shifted. There are specialized agencies or institutions to undertake these risks. But certain unavoidable risks are to be accepted. To minimize the loss in such circumstance, it is necessary to develop appropriate strategy through preparation of marketing plans, segmenting the market and adopting test marketing methods.

#### **iv. Market Intelligence**

The process of collecting, interpreting, and disseminating information relevant to marketing decisions is known as market intelligence. The role of market intelligence is to reduce the level of risk in decision making. Through market intelligence the seller finds out what the customer needs and wants. The alternative is to find out through sales, or the lack of them. Marketing research helps establish what products are right for the market, which channels of distribution are most appropriate, how best to promote products and what prices are acceptable to the market. As with other marketing functions, intelligence gathering can be carried out by the seller or another party such as a government agency, the ministry of agriculture and food, or some other specialist organization.

Marketing information is a facilitating function and plays very important role. Now a day, there is lot of challenges that marketing manager faces. The collection of adequate, reliable and timely market information may help to tackle the problems. Primary information can be collected personally from respective persons and secondary source of information may be collected from Governmental and Non-governmental agencies. A good marketing information system will help the management to plan, control and understand effects arising out of previous decisions and their implementations.

#### **v. Other facilitating functions**

Other facilitating functions are market promotion, packaging, product planning etc. Market promotion is basically a communication process and it can be done through different sale activities like advertising, personal selling, sale promotion etc. In case of packaging, modern methods are valuable to the manufacturer to establish her/his branded products. It ensures cleanliness. There is also need of product planning to match the demand and supply.



Self-check 2	Written test
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Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Choose the best answer** (4 point)

- \_\_\_\_\_ Function involves transfer of title of goods to the buyer.
  - Physical
  - Exchange
  - Selling
  - All
- Which one of the following is **not true** about the characteristics of standardization?
  - Helps the producer to set lower prices
  - Assures the specific quality consumers product
  - Helps in the efficient performance of the various marketing functions
  - None of the above
- All of the following are the importance of storage; **Except**\_\_\_\_\_
  - Necessary for maintaining varying supply of goods in all seasons
  - Essential to guard against delayed shipments
  - Essential for scientific storage of the goods of perishable nature
  - All of the above
- \_\_\_\_\_ is marketing function that involves buying of several items and fit them together to satisfy a need.
  - Buying
  - Assembling
  - Processing
  - a and b
- Which one of the following is **true** about the importance of transport? \_\_\_\_\_
  - Ensures the flow of commodities into the hands of the consumers
  - Encourages zonal specialization in productive activities
  - Promotes quick marketing
  - All

## Test II: Short Answers Questions

1. List and elaborate the different types of business risks.

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2. List the important things that buyers needs to take into consideration at the time of buying.

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3. Explain the difference between standardization and grading.

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4. List down the four concepts that facilitating function should include.

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5. Explain the different types of transportations.

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<b>LG #6</b>	<b>LO #3 Distinguish Cooperative Marketing</b>
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<b>Instruction sheet 3</b>	
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> <li>• Overview and development of cooperative marketing</li> <li>• Principles and objectives of Cooperative Marketing</li> <li>• Unique features and roles of Cooperative marketing</li> <li>• Cooperatives and other Marketing</li> </ul> <p>This guide will also assist you to attain the learning outcomes stated in the cover page.</p> <p>Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> <li>• Describe current status of cooperative marketing</li> <li>• Identify and explain cooperative marketing principles and objectives</li> <li>• Explain the unique features of cooperative marketing</li> <li>• Differentiate cooperative and other marketing</li> </ul>	
<b>Learning Instructions:</b>	
<ol style="list-style-type: none"> <li>1. Read the specific objectives of this Learning Guide.</li> <li>2. Follow the instructions described below.</li> <li>3. Read the information written in the information Sheets</li> <li>4. Accomplish the Self-checks</li> <li>5. Perform Operation Sheets</li> <li>6. Do the “LAP test”</li> </ol>	

## Information Sheet 3

### 3.1. Overview and development of cooperative marketing

#### 3.1.1. Concepts and meaning of cooperative marketing

The Latin word co-operari, meaning working together, is the origin of the word Cooperative. It is a voluntary association or organization of people or entities to promote their interests; usually the common economic ones based on unity, equality, liberty, and economic principles. A cooperative is a business that is organized on a voluntary basis. It is owned and controlled by its members who are generally the major users of the business. The members share in the benefits and risks of the business which is directly related to how much they use the business.

Cooperative societies developed out of the effects of industrial revolution of the 18th and 19th centuries. One of the basic features of the industrial revolution era was poor wages to the workers. Without access to capital and poor salary structures workers were forced to come together to find common grounds to solve their financial problems. One such effort is the establishment of cooperative societies. Cooperatives societies are formed by people of similar background who come together to solve common problems and protect common interest. Cooperative societies deal with members and public as such make use of marketing strategies to meet needs of members and enhance the growth of the organization.

Marketing is a comprehensive term covering a large number of functions. It includes not only purchases and sales of products, but also the various business activities and process involved in bringing the products from the producer to the consumer. So an efficient and organized marketing is essential for the healthy growth of any cooperative society.

Cooperative marketing organizations are association of producers for the collective marketing of their produce and of securing for the members the advantages that result from large-scale business which an individual cultivator cannot secure because of his small marketable surplus. In other words, cooperative marketing societies are established for the purpose of collectively marketing the products of the member produces. Cooperative marketing society is governed by

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democratic principles and the members are the owners, operators and contributors of the commodities and are the direct beneficiaries of the savings that accrue to the society. No intermediary stands to profit or loss at the expenses of the other members.

### 3.1.2. Definitions of cooperative marketing

Cooperative marketing is divided into two major categories namely Cooperative product marketing and Cooperative service marketing.

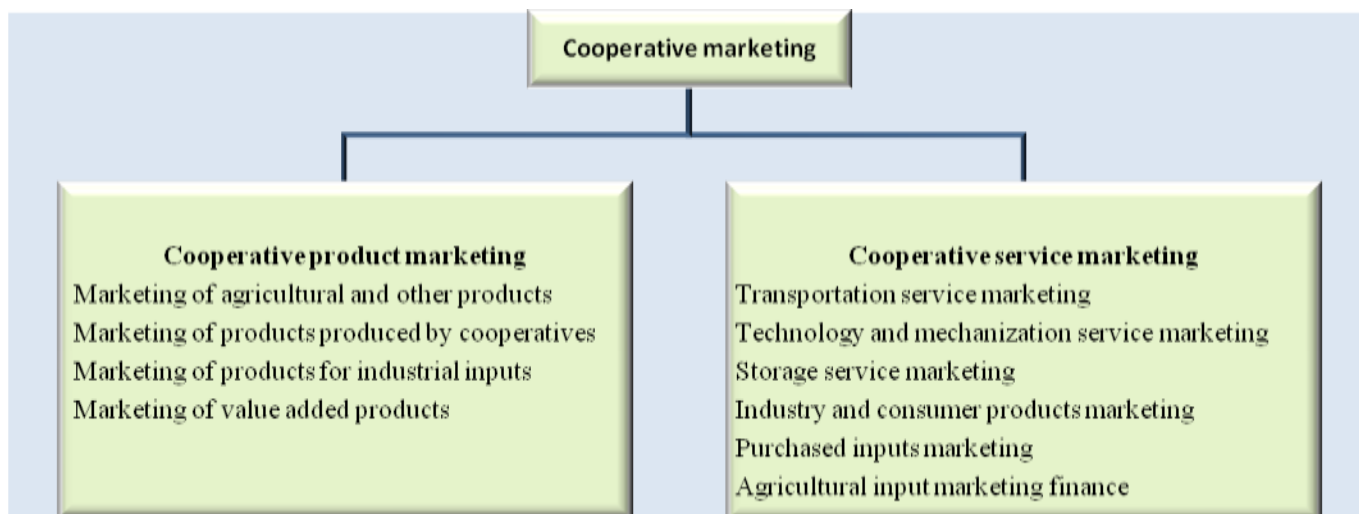


Figure 3.1: Cooperative Marketing

Cooperative product marketing is the process of exchanging products based on customers' needs through cooperative societies by collecting members' or cooperatives' products & adding value. Cooperative service marketing is the process of exchanging different cooperatives services through cooperative societies based on members' needs.

- According to FAO 'Co-operative Marketing is a system through which a group of farmers join together to carry on some or all the process involved in bringing goods to the consumer.'
- According to RBI "Co-operative marketing is a co-operative association of cultivators formed primarily for the purpose of helping the members to market their produce more profitably than is possible through private trade."

- According to K. R. Kulkarni, Co-operative marketing is the marketing for the producers and by the producers that aims at eliminating the chain of middlemen operating between producers and the ultimate consumer and thus securing the maximum price for their produce.

### **3.1.3. Development of cooperative marketing in Ethiopia**

Cooperation is an age-old tradition that runs through the fabric of Ethiopian society. For centuries, the spirit of self-help has been an integral part of farming communities. Cooperatives all over the world have become effective instruments of economic development. Ethiopia is one of the fastest economically growing country in the world in general and in Africa in particular. It has the population of more than 115 million. Ethiopia is basically an agricultural economy with 85% of its total population residing in rural areas. The rural people need lot of services in daily life which are met by co-operative societies.

In Ethiopia, the first formal cooperative was established in 1960 with the enactment of the Farm Workers Cooperative Decree No. 44/1960. However, the development of cooperatives in the country was not as per the expectations, as they passed through various challenges during various regimes. Since 1991, upon the introduction of the cooperative enterprise school of thought into the country, various types of cooperatives were established with the efforts of the Federal Cooperative Agency, regional Cooperative Promotion Agency offices and international organizations. Because of the tremendous efforts of stakeholders, cooperatives in the country are currently increasing in membership, capital, employment, market share and socio-economic impact.

### **3.1.4. Status of cooperative marketing in Ethiopia**

The cooperative movement in the country has witnessed substantial growth in diverse fields of the economy. The country's rural development policies and strategies, have given due attention to reduce poverty through government, private sector, cooperatives and with the communities active participation. The cooperative movement in Ethiopia also has enormous development opportunities, some of which include: government commitment in supporting cooperatives by

establishing legal ground and infrastructure development and the availability of various development partners.

Considering the roles cooperative societies play for the Country's economic growth, the Ethiopian Government has enacted laws to organize and strengthen cooperatives and also set up structures from federal level to grass root levels for the purpose of organizing and registering cooperative societies, performing controlling activities, and providing training, research and other supports services to cooperatives. The Cooperative Promotion Bureau in Ethiopia is revolutionizing the cooperative movement in the country. Cooperatives under the previous command economy regime were characterized by mismanagement, corruption and embezzlement. Farmers were exploited and marginalized from their efforts. The model of cooperatives currently being promoted by the government is democratic, business-oriented and professionally managed with increased income to member farmers as the primary objective. By promoting democracy, member accountability, and a market orientation within cooperatives, the government is helping cooperatives to become financially and institutionally self sustaining.

As a result, Cooperatives are playing an active role in many fields linked to marketing and agriculture, especially in input and output marketing, financial intermediation, consumer goods, agro-processing, import and export marketing, mechanization, extension and many other economic and social services. Due to government support for cooperatives and awareness creation among their members, total membership in cooperatives has grown to more than 22 million persons as of the end of 2019.

However, based on a critical review of literature and analysis of different scholars, although modern cooperatives have rapidly increased and positively contributed to community development, several problems and challenges remain, being rooted in the economic, social, institutional, political and environmental settings.

Even though the conditions have improved over the years with regard to cooperative marketing, still there are problems like long chain of middlemen, multiplicity of market charges, adulteration and lack of grading, traditional method of selling, weighing procedures, delayed

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payment, low marketable surplus, inadequate storage facilities, defective transport, lack of market information, financial problems, inefficient management, lack of integration between production and marketing etc... Another problem includes lack of skills in cooperative development, which is also attributed to the allocation of cooperative professionals to other sectors and replacing them with people who have no cooperative background.

Therefore, due to the importance given to cooperatives in today's Ethiopia, sustaining the contributions of cooperative marketing to members and the larger community is vital and deserves policymakers' attention. To make the highly growing agricultural products of the Country led by market, realize the government's developmental goals of doubling agricultural productivity and achieving basic transformation in the field of agriculture, it is necessary to enhance the capacity of cooperative societies and enable them perform modern marketing activities by establishing a production and marketing system.

## **3.2. Principles and Objectives Cooperative Marketing**

### **3.2.1. Introduction**

Cooperatives have principles that serve as guidelines by which their members put their values into 'umbrella' and 'unity of purpose' for the global cooperative movement. These principles are the key reasons why the cooperatives exist, operate and succeed for longstanding period. Not only principles, cooperatives have likewise purposes and objectives which motivate them to proceed and sustain in the businesses they anchored. These cooperatives have forms that describe what identify them and define what products or services they are offering or catering to respective members.

Cooperative societies are voluntary associations started with the aim of service to members. A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspiration through a jointly owned and democratically controlled business.

It is also the marketing 'for the farmers' and 'by the farmers' that aim at eliminating the chain of functionaries operating between the farmers and the ultimate consumers and thus securing maximum price for the farmer's produce.

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### **3.2.2. Principles of Cooperative Marketing**

The following are the core Principles of Cooperative Marketing:

- Establishing modern marketing system
- Ensuring members (especially females) are fair beneficiaries
- Developing a sense of ownership among members by increasing members' participation in marketing
- Providing market information, extension, education and training
- Carrying out marketing that ensures mutual benefit among Cooperative Societies
- Reducing marketing costs
- Giving focus for product/service quality
- Abiding by the laws and deals of marketing

### **3.2.3. Objectives of Cooperative Marketing**

The main objective of cooperative marketing is to secure the members' interest as much as possible for the products they sell. Cooperative marketing objectives include the following:

- To increase members' and users' economic benefit through establishing a fast and modern marketing system, by enhancing the production and bargaining capacity of members, by adding value and by ensuring the availability of competitive and sustainable product supply in the market,
- To increase members' benefit by providing service marketing of the right type, to the right place, in the right quantity, of the right quality, at the intended time based on the interests of members,
- To reduce the marketing costs and margins, by improving operating efficiencies of cooperatives so that they can do their business activities more economically than other businesses,
- To help members produce the best product that has ample demand,
- To increase members' awareness about marketing,
- To sell cooperative societies' and members' products to the right market at the best possible price.
- To ensure fair trading practices and save members from price manipulation, Provide finances to producers or help them get access to finances.

More specific objectives include the following:

- To Lower marketing costs and offer better marketing services to members and users,
- To improve the quality of members' products,
- To influence supply and demand in the market,
- To provide farm inputs and supplies to cooperative members at lower price,
- To provide education in both production and marketing to modernize farm operations,

### **3.3. Unique features and roles of Cooperative marketing**

#### **3.3.1. Features of Cooperative Marketing**

Cooperative societies have features that are pretty unique and distinguishable from other organizations involved in rural marketing produce. First, their very existence is to provide service to members and assist in increasing their incomes.

#### **Membership**

(i) Ordinary Members: Ordinary members are usually Individual farmers, cooperative societies, and service societies of the locality. Membership would provide them the right to participate in all the discussions within the society, get a share in the profits, and have a voice in the decision-making process.

(ii) Nominal Members: Nominal members are those with whom the society has reasons to interact. However, they do not get to participate in any decision-making, nor do they get a share in their profits.

#### **Sources of Finance**

The following are the significant sources of finance of a co-operative marketing society:

(i) Share Capital: All the members and even the state government subscribe to the share capital. Members can purchase any number of shares they want and are even encouraged to invest as much as they want and buy as many shares as they wish. Like all share markets, they can also support their dividends, etc.

(ii) Loans: These societies are authorized to take loans and stabilize or raise their finances. They can do the same from commercial banks; they accept pledging and clean credit.

(iii) Subsidy: The marketing societies all get subsidies to buy grading machines and other infrastructural needs. In addition, subsidies are also provided to take care of at least a portion of the cost of staffing etc.

### **Service Motto**

The whole philosophy behind cooperative societies was to provide and extend various benefits and services to the members. Profits were never part of the plan. Consequently, all facilities – procuring seeds, manures, and such things, providing tools for grading and standardization, etc. are all sold to members at favorable and affordable rates.

### **One Person, One Vote**

It does not matter how many shares each member holds in cooperative societies. They all have the right to vote as a single unit. This adhered to the principles of democracy and equal rights and freedom. It ensures that no one person can make his orders the rule in joint-stock companies. This eliminates favor and discrimination and gives everyone an equal voice.

### **Open Membership**

Membership in these cooperative marketing societies is open for all. The only rule is that the member has to produce a product. Entry and exit from such memberships are also dependent on a person's desires and convenience. To encourage more membership, following the process is straightforward too, which helps.

### **Governing themselves**

The entire management of the societies is in the hands of the members. Every member is encouraged to participate in the administration, proceedings, and functioning. The member has the power to exercise his vote. The set-up is very democratic, and everything is off, for, and by the members.

### **Capital rewards**

Equality and fraternity are the cornerstones in Cooperative Marketing – all capital invested by members also earn the same interest rate, making it very risk-free for all the members. Profiting is not the motive, as mentioned earlier.

### **Co-operation**

At the core of these initiatives is the concept of self-help while helping others in tandem. These sorts of societies create a sense of cooperation and mutual help. This is then carried into improved advertising, marketing, ensuring better business and a raised standard and quality of living.

### **Distributive Justice**

When it comes to distribution, the concept of one man-one vote is not employed, and members are given their share of profits depending on their investment in the network. This ensures there is no feeling of unfairness and bitterness. The more they contribute, the better the dividends they will be given and vice versa. There is no gainsaying that profits are a direct consequence of members' contribution. Therefore, it is only fair that their rewards should match up.

In summary, cooperative marketing is an initiative to democratize and leave an open and fair field for producers to market. As a result, individual chances and risks are significantly minimized, and members have lesser cause to worry. A problem shared becomes a problem lessened.

### **3.3.2. Benefits of the Co-operative Marketing**

In cooperative marketing, where multiple players work in tandem, creating valuable benefits to all parties, what is ensured is that the combined endeavors produce a synergy, and this makes superior products, and the whole eco-system results in immense value-addition, for the members as well as the end customers.

To Stabilize the Agricultural Price left to its own devices, the will of the private intermediaries would only cause more destabilization and uncertainty. Cooperative Marketing ensures that does not happen, along with price stabilization, and results in a very balanced economic development that does not veer towards a single side. The profit motive stops having the upper hand, and usual market conditions do not deviate from fair practice to uncertainties of pointless speculation, leading to hoarding and architected crisis.

Since the time marketing has existed, many players have worked together to create a value which benefits both parties. Cooperative marketing ensures that joint efforts produce a synergy which creates better products and environment thereby adding more value to the customer. The customer always gets more value through cooperative marketing. The customer would get related product or services which fulfilling more than what is expected.

From the viewpoint of Ethiopian cooperatives, cooperative marketing benefits include:

- Enables cooperative members to get fair and sustainable market for their products,
- Enables the availability of quality products/services sustainably at fair price,
- Creates a stable marketing system and increases participation in marketing by shortening marketing chains,
- Enables the availability of reliable, sustainable and stabilized flow of products/services,
- Enables members to provide products or services based on the market demand,
- Increases members' income by providing inputs at fair price & reducing production costs,
- Provides extension, education and training services to members to enable them produce market based products,

There are numerous benefits of to cooperative marketing in terms of collaborative efforts in marketing and production. Below are the benefits of cooperative marketing:

### **Direct Contacts with Final Buyers**

The final buyers are directly dealt with through this system. It removes the intermediaries between the farmers and the final buyers. This eliminates the exploiters and thus ensuring the fair price to both the parties. Here the consumers and producers both are benefitted.

### **Increase in the Bargaining power**

If the farmers are united and join each other to form a cooperative society, then they will be able to increase their own bargaining strength. They will be able to set their own fair prices. This will prevent the losses for the farmers. This is done because the farmers are marketing their products through middlemen.

### **Credit Provision**

The co-operative marketing societies that are formed provide the credit required by the necessary farmers. Thus, it will prevent the farmers from selling their products straightway after harvesting it. So, this will ensure better returns for the farmers.

### **Storage Opportunities**

Usually, the co-operative marketing systems have their own large facilities. So, the farmers can store their harvest in these facilities and wait for the better prices. Furthermore, this reduces the danger for the crops against the rains and thefts and rodents.

### **Market Information**

The market data can be obtained by the system. Thus, it can help the system understand the demand and supply of the market. Furthermore, any related information for the market can be obtained on a regular basis. So, the producers can plan their activities based on this data.

### **Transport**

The transportation facilities can be available at a cheaper and easier way. Thus, the cost and hard work to transport the products can be reduced.

### **Standardizing and grading**

To standardize a product is easier for the agencies rather than an individual person. Thus, the marketing systems can help the farmers by standardizing the products. For this, they can seek help from government agencies. They can also evolve within themselves and create their own trading arrangements.

## **Influencing the Market Prices**

Earlier the merchants and intermediaries used to determine the market prices of the products while the farmers were mere spectators and helpless to determine the prices. Thus, they had to accept whatever prices that were offered to them. But this has been changed by the cooperative societies. They have changed the entire complexion of the pricing system.

### **3.4. Cooperatives and other Marketing**

#### **Introduction**

Cooperative marketing emphasizes the concept of commercialization. Its, economic motives and character distinguish it from other associations. These societies resemble private business organization in the method of their operations; but they differ from the capitalistic system chiefly in their motives and organizations.

What is interesting about cooperative marketing is that since it is a voluntary business organization, patrons decide to collectively market products for the benefit of each of them in a system governed by democratic principles. The members share all the revenue and savings depending on their share.

The members are all owners; they operate and contribute to the commodities and become direct beneficiaries of savings. They do not have to worry about intermediaries profiting at their expense. They are assured of the benefits of large-scale business, which would have been difficult for them to achieve individually. Here, each producer/member has one vote, regardless of the number of shares he buys.

#### **Differences between cooperative societies' marketing and other businesses' marketing**

There are some points that differ the marketing of cooperative societies from other business enterprises' marketing activities.

#### **Cooperatives vs Investment Oriented Corporations**

##### **Cooperatives**

- A cooperative benefits its members
- Owned by the members who use the products or services



- The members decide how the cooperative runs
- Used by members/owners
- The goals are generally services to and for members and financial well being of the cooperative and its members
- Savings and benefits are passed on to the members depending on the amount of business they do with the co-op

### **Corporations (Investment oriented)**

- Private businesses operate to make a profit. These profits go to make a few people very rich.
- Owned by stockholders
- Stockholders or directors determine policies
- Generally used by non-owner customers
- The goal is generally profit rather than service

The differences between cooperative societies' marketing and other business marketing are depicted in the following table:

<b>Comparison points</b>	<b>Cooperative societies' marketing</b>	<b>Business organizations' marketing</b>
Motive	To solve their marketing problems and satisfy needs	To benefit from business profit
Objectives	Increasing members, benefits through conducting fair marketing	Increasing shareholders' benefits through profit oriented businesses
Participation in marketing	Cooperative marketing activity is done with members only	Marketing activity is done with any person/or organization
Marketing decision making	Made by members' based on equal voting	Made by business shareholders based on their share amount
Allocation of profit	Members get dividends based on their participation in marketing	Shareholders get dividends based the amount of shares they have
Product/service sales	Members are direct beneficiaries from product/service sales	Product/service sales are offered for any user
Business area of operations	Provide marketing services in their area of operations	Business organizations engage in any business sector and area

Table 3.1: differences between cooperative societies' marketing and other business marketing

Self-check 3	Written test
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Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Choose the best answer (point)**

- All of following are the core principles of cooperative marketing; **Except** \_\_\_\_\_
  - Increasing marketing costs
  - Abiding by the laws and deals of marketing
  - Establishing modern marketing system
  - Giving focus for product/service quality
- Which of the following is the importance of cooperative marketing? \_\_\_\_\_
  - Increase in the Bargaining power
  - Credit Provision
  - Direct Contacts with Final Buyers
  - All

**Test II: Short Answers Questions**

- List and explain sources of finance for cooperative marketing.

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- Write down the unique features of Cooperative Marketing.

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3. Clearly explain the difference between cooperative societies' marketing and other business marketing.

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### **ACKNOWLEDGEMENT**

Ministry of Labor and Skills, federal ATVET Coordination directorate director and Ardaita ATVET College wish to extend thanks and appreciation to the many representatives of TVET instructors and respective industry experts who donated their time and expertise to the development of this Teaching, Training and Learning Materials (TTLMs).

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