PALM OIL MARKETING EFFICIENCY IN IKOM LOCAL GOVERNMENT AREA CROSS RIVER STATE

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ABSTRACT

This paper examines the efficiency of marketing palm oil in Ikom Local Government Area of Cross River State. Data were collected on prices of palm oil, and cost of marketing activities, such as transportation, market union levies, storage, ticket, haulage and market sanitation fees. Gross margin, marketing share, and efficiency index were used to analyze the data. The result showed that palm oil efficiency was highest in Ekukunela and lowest in Edor. The study also revealed that retailers were more efficient in the performance of their marketing functions than the wholesalers.

KEYWORDS: Palm oil, Marketing, Efficiency

INTRODUCTION

Palm oil is one of the most important oil as it is consumed by almost all the worlds' population, (Ngoody, 1989, Bouis, 1994). It is very rich in fat, Vitamin A and minerals such as calcium and sodium needed for good bone development and health. It is used for domestic cooking and for the manufacturing of soap, detergents, cream, margarine, pharmaceutical products and many other general uses. In most rural communities in Nigeria, it is used as fuel for lighting and as a medicinal product. As a cash crop, palm oil is one of the major contributors to the national non oil foreign earnings of Nigeria as its oil accounted for 90% of national total exports during the 1961-1965 period (Udom, 1987). With the discovery of crude oil, Nigeria began to produce less than half of what it used to produce and that pattern continued, until it could no longer meet even its domestic demand. Palm oil had constituted 63% of Nigerias' total production of vegetable oil between 1984 and 1986. In 1986 palm oil importation accounted for 83.6% of the 308,896 tones of animal and vegetable oil imported in to the country (Udom, 1991). This action flooded the market with palm oil, lowered its price and discouraged producers from further production. This situation led the federal government to ban the importation of palm oil in 1986. Palm oil production output rose from 860tones in 2000 to 1025.8 tones in 2004 representing 16.2% increase (CBN, 2004).

Marketing involves finding out what customers want and helping to set up the production and marketing system that meets their demand so as to maximize income (FAO, in Köppel, 1995). Price of palm oil serves as an incentive to producers and consumers. The price of palm oil must not only be acceptable by consumers but must at the same time answer the question of profitability of producers and marketers. Marketing cost constitutes the highest proportion of price determinant of liquid agricultural product like palm oil (Olofonkunbi, 1982, Strauss and Thomas, 1988).

In Nigeria there has continued to exist the problem of price and sales volume fluctuation over the years as a result of marketing inefficiencies. Marketing inefficiencies are clearly evidenced through low marketing margins, low profits and high marketing cost. Marketing inefficiencies can seriously retard progress even in the most pragmatic production plan. Marketing efficiency describes how well products are marketed to maximize profit. A marketing mechanism capable of tackling the supply-demand, distribution and pricing problems of our domestic product will likely improve marketing efficiency (Idris, 1999). Consequently this study is intended to analyze the efficiency of palm oil marketing in Ikom so as to derive some policy implications.

METHODOLOGY

The study covered five major markets in Ikom Local Government Area of Cross River State of Nigeria. These are four Corners, Edor, Akparabong, Okuni and Ekukunela. These markets were randomly selected to obtain data for the purpose of this study. The study was carried out between August and November 2005 and involved ninety respondents who were selected from five selected markets. Six producers, six wholesalers, and six retailers, totaling eighteen respondents from each market were also selected. A well structured questionnaire was administered to all the respondents. The data collected included producers' price, retail price, wholesale price, market and sanitation levies, cost of transportation and rented shop, haulage, market tickets and market union fees.

Method of Data Analysis

Marketing efficiency is influenced and determined by marketing margin, profit and marketing cost as well as market shares. Marketing margin is the difference between purchase price and price of resale (Abbott and makeham 1980). It is not a good indicator of efficiency. It consists of marketing cost and profit. The various marketing cost involved in this study include transportation cost, cost of rented shop, market levy, market sanitation levy, haulage, market tickets and market union fees. Marketing margin was calculated using procedures developed by Olufokunbi (1982).

$$TMM = Rp - Pp \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots 1$$
$$MMR = TMM - MMW \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots 2$$
$$MMW = Wp - Pp \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots 3$$

Where,
TMM is the total marketing margin
MMR is the retail marketing margin
MMW is the wholesale marketing margin
Rp is the retail price
Pp = producers' price
Wp = wholesalers price

$$TP = TMM - TMC \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots 4$$

Where,
TP = Total profit
TMM = Total marketing margin
TMC = Total marketing cost (transport cost, haulage, cost of rented shop,
union dues, tickets, market, sanitation fee etc)

$$TMEI = Tp/TMC \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots 5$$

Where,
TMEI is the Total marketing efficiency index
Tp is Total profit

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TMC is total marketing cost

The marketing efficiency index was used to determine the efficiency of the various palm oil marketing institutions and places. It shows how much profit accrues to every ₦1 invested in marketing 20 litres of palm oil.

The marketers' share is also used to assess the sustainability and strength of various marketing segments in the market. It showed the value of various market Segments as a percentage of its retail price. It is the marketers' share of the consumer's expenditure. It is calculated as follows,

$$PS = Pp/Rp*100 \dots\dots\dots 6$$

Where,
PS is producers' share.
Pp is producers price
Rp is retail price.

The producers share reveals the proportion of the consumers expenditure that bypassed the retailer and went directly to the producer. Because majority of the palm oil producers were small scale producers they sold not only to wholesalers, but also directly to the final consumers.

$$WS = MMW/Rp*100 \dots\dots\dots 7$$

Where,
WS is wholesalers share
MMW is wholesale marketing margin
Rp is retail price.

$$Rs = Mmr/Rp*100 \dots\dots\dots 8$$

Where,
Rs is retailers share.
MMR is retail marketing share.
RP is retail price.

$$WP = MMW-WMC \dots\dots\dots 9$$
Where,
WP is wholesale profit
MMW is wholesale marketing margin.

WMC is wholesale marketing cost.
$$WMEI = Wp/WMC \dots\dots\dots 10$$
Where,
WMEI is wholesale marketing efficiency index.
WP is wholesale profit.
WMC is wholesale marketing cost.
$$REP = MMR-RC \dots\dots\dots 11$$
Where,
REP is retail profit.
MMR is retail marketing margin.
RC is retail cost.
$$RMEI = REP/RC \dots\dots\dots 12$$
Where,
RMEI is retail marketing efficiency index.
REP is retail profit.
RC is retail cost.
$$TC = PC + TMC \dots\dots\dots 13$$

Where,
TC is total cost.
PC is production cost.
TMC is total marketing cost.

RESULT AND DISCUSSION

The result in table 1 indicated an average total marketing margin of ₦1140, average production cost of ₦1200, average total marketing cost of ₦230, average total profit of ₦910, average producers marketing share of 64.15% and an average total marketing efficiency index of 4.0 from the five markets studied. The producers' market share was highest in Edor and Okuni markets having the same ratio but lowest in the Fourcorner market. The high producers' marketing shares in all the markets is due to the fact that most palm oil producers are small scale producers who sell not only to wholesalers and retailers but also directly to final consumers. Marketing efficiency was highest in the Four corner market and lowest in Edor market. The average efficiency index for the five markets was 4.0.

The result showed that for every ₦1 spent on palm oil marketing activities an average profit of ₦4 was realized.

Table 1: Total marketing efficiency index per 20 liters of palm oil.

Markets	Producer price (pp) ₦	Retail price (Rp) ₦	Producer market share (Ps) %	Total marketing margin (Tmm) ₦	Production Cost (Pc) ₦	Total Marketing Cost (Tmc) ₦	Total cost (Tc) ₦	Total Profit (TMP) ₦	Total Marketing efficiency index (TMEI) ₦
Four corners	2200	3600	61.1	1400	1150	255	1405	1145	4.49
Ekukunela	2100	3300	63.63	1200	1250	220	1470	980	4.50
Edor	2000	3000	66.70	1000	1200	230	1430	770	3.35
Okuni	2000	3000	66.70	1000	1015	225	1240	780	3.50
Akparabong	1900	3000	63.33	1100	960	220	1180	880	4.0
Average	2040	3180	64.15	1140	1200	230	1430	910	4.0

Note: Transportation cost is part of the total marketing cost.
Sources: Computed from 2004 survey data using the equation specified in methodology.

In table 2, the result showed that the average wholesalers marketing margin, average wholesalers market share and average wholesalers marketing efficiency index of palm oil for the five markets were ₦120, 3.8% and 0.33 respectively. Wholesalers marketing efficiency index was highest in Edor and lowest in Ekukunela markets. The average wholesalers efficiency index 0.33 indicated that if wholesalers marketing cost alone was used to realize the profit, then every ₦1 spent on wholesales marketing activities yielded ₦0.33 per 20 litres container of palm oil on the average.

Table 2: Wholesalers marketing efficiency per 20 liters of Palm oil

Markets	Producers price (Pp) ₦	Wholesale price (Wp) ₦	Wholesale marketing Share (Ws) %	Wholesale marketing margin (Mmw) ₦	Wholesale marketing cost (Wmc) ₦	Wholesale Profit (Wp) ₦	Wholesale efficiency index (WMEI)
Four corners	2200	2350	4.2	150	105	45	0.43
Ekukunela	2100	2200	3.0	100	75	25	0.04
Edor	2000	2150	5.0	150	100	50	0.5
Okuni	2000	2100	3.3	100	90	10	0.11
Akparabong	1900	2000	3.3	100	80	20	0.25
Average	2040	2160	3.8	120	90	30	0.33

Sources: Computed from 2004 survey data using the equations specified in the methodology.

The result in table 3 showed an average retail marketing margin of N1020, and average retail market share of 32.1%, and an average retail marketing efficiency index of 6.29. The result indicated that retail market share and retail marketing efficiency was highest in Fourcorners and lowest in Edor markets. The average retail marketing efficiency index of 6.29 indicated that if retail marketing cost alone was used to realize the profit, then every N1 spent on retail marketing activities yielded an average profit of N6.29 per 20 litres of palm oil. From the result, if a retailer was able to sell a 20 litres container of palm oil in a day, a wholesaler must sell up to 6.29/0.33 which is 19 gallons in a day to be able to realize N6.29 profit which the retailers realized for selling a gallon of palm oil.

Table 3: Retailers marketing efficiency index per 20 litres of palm oil

Markets	Total Marketing margin (Tmm) ₦	Wholesale marketing margin (Mmw) ₦	Retailers marketing margin (NMR) %	Retailers Share (Rs) ₦	Retail cost (Rc) ₦	Retail Profit (Rep) ₦	Retailers marketing efficiency index (RMEI)
Four corners	1400	150	1250	34.7	150	1100	7.33
Ekukunela	1200	100	1100	33.3	145	955	6.59
Edor	1000	150	850	28.3	130	720	5.54
Okuni	1000	100	900	30.0	135	765	5.67
Akparabong	1900	100	1000	33.3	140	860	6.14
Average	1140	120	1020	32.1	140	880	6.29

Sources: Computed from 2004 survey data using the equation specified in the methodology.

RECOMMENDATION

There is need to reduce the marketing cost associated with palm oil marketing. Such reduction of cost could improve marketing efficiency of palm oil. This could be achieved by direct government involvement in the provision of adequate and functional marketing facilities and infrastructures including good road network. Parasitic intermediaries (tickets, haulage and other unnecessary market fee collectors) in the marketing channels of palm oil that do not add value or utility to the marketed product should be removed to reduce the high cost of marketing palm oil. If this is done marketing efficiency of palm oil will improve. Removal and dismantling of all barriers to free trade, such as market union and spectators can go long way in curbing the perturbation of palm oil prices and the unreasonably high prices arising from high marketing cost. Also the marketing system needs to be reorganized to effectively and efficiently perform the productive function of palm oil marketing.

CONCLUSION

The major focus of this study was to analyze Palm oil marketing efficiency in Ikom Local Government Area of Cross River State. Marketing margins, marketing cost, profit, marketing shares and marketing efficiencies of various marketing institutions (wholesalers and retailers) and five market places (Fourcorners, Ekukunela, Edor, Okuni and Akparabong) were determined and compared. Producers market share was highest in Edor and Okuni markets and lowest in the Fourcorner market. Marketing efficiency index was highest in the Fourcorners market and lowest in Edor market. The average efficiency index for the five markets was 4.0. Wholesalers marketing efficiency index was highest in Edor and lowest in Ekukunela markets, while retail marketing efficiency index was highest in Fourcorners and lowest in Edor markets. Retailers achieved higher profit and had higher marketing efficiency than wholesalers of palm oil. However wholesalers profit can equate retailers profit if wholesalers are able to sell 19 gallons (380 litres) of palm oil for every one gallon (20 litres) a retailer sells. Generally marketing efficiency of palm oil is low in the study area on the average. It is on these bases that the above recommendations were made.

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