MARKETING MARGINS ANALYSIS OF SEED COTTON IN DISTRICT KHANEWAL, PAKISTAN

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ABSTRACT: This paper attempts to estimate marketing margins of major intermediaries involved in the marketing of seed cotton in district Khanewal using primary source of data. Formal interviews were conducted from a representative sample of 80 cotton growers, 40 beoparies, 40 commission agents and 40 ginners selected using stratified random sampling technique. The findings of the study indicate that village beoparies (traders) earned gross marketing margin of Rs. 72 per maund (40 Kg), net margin of Rs. 26 per maund and 3.73% margin in marketing chain of seed cotton in district Khanewal. Commission agents earned Rs.35 per maund as gross marketing margin, Rs.23 per maund as net margin and 1.85% margin in marketing chain. The gross marketing margin of ginner was estimated as Rs.136 per maund, net margin as Rs. 45 per maund and 6.56% margin in marketing chain. The study suggests rationalising the role of middleman to economize and justified margins in the marketing chain of seed cotton in district Khanewal.

Key words: Seed Cotton, Marketing Margin, Stratified Random Sampling.

INTRODUCTION

Cotton, known as 'white gold', is an important cash crop in Pakistan. The country's economic engine is fuelled by cotton accounting for 1.6% of Gross Domestic Product and more importantly, 55% of its foreign exchange earnings (GOP, 2010). The cotton crop was grown an area of 3.07 million hectares during 2009-2010 to fulfil the domestic demand of 12.1 million bales annually. It is a natural fiber that finds uses in many products. These range from clothing to home furnishings and medical products. It is the basic raw material for the textile industry (GOP, 2009).

The most important cotton growing districts in Punjab are located in the southern Punjab *(Multan, Khanewal, Vehari, Lodhran, Muzzafar Garh, Layyah, D.G.Khan, Rahim Yar Khan, Sahiwal and Pakpattan)* and interior Sindh *(Sanghar, Dadu, Khairpur, Sukkur, Ghotki & Nawab Shah).* Sixteen cotton growing districts of Punjab account for about 80 percent of the national area under cotton, whereas the Sindh province dominates in remaining area its cultivation. Cotton in most of the parts of Pakistan is planted during April & May while it is harvested from October to November (AMIS, 2006).

In Pakistan, marketing of seed cotton is a complex phenomenon that includes all transactions involving buying, selling or reselling from the time the seed cotton is ginned until it reaches the textile mill. In most districts of Pakistan, growers usually sell their cotton to a local buyer or merchant (beoparies). Beoparies collect seed cotton from the farmer and bears all the costs which include: loading / unloading, weighing labor charges and transportation costs etc. Beoparies sell seed cotton to the commission agents in the wholesale market. Then ginners purchase seed cotton from the commission agents and after that textile units purchase lint cotton from these ginners through brokers.

Marketing margin or price spread is a commonly used measure of the performance of a marketing system (Abbott & Makeham, 1990). It can be a useful descriptive statistics if used to show how the consumers' expenditure is divided among market participants at different levels of the marketing systems. It is defined as the difference between the price the consumer pays and the price that is obtained by producers, or as the price of a collection of marketing services, which is the outcome of the demand for and supply of such services.

Many studies are available which estimated marketing margins of major crops which include Partadiredja (1971) for rice, Khushk and Smith (1996) for mango, Ishaq *et al*. (2006) for citrus, Cholan (2007) for broiler, Zeb and Khan (2008) for peach, Adinya (2009) for groundnut, Khushk *et al*. (2009) for date etc. Only few studies are available which estimated marketing margins for seed cotton like Pavaskar and Radhakrishnan (1970), Lohano *et al*. (1998), Beckman and Buzzell (1995) and Tegegne (2008). So keeping in view the importance of cotton crop in national economy, the present study was conducted to estimate margin of major intermediaries involved in marketing of seed cotton in district Khanewal.

MATERIALS AND METHODS

Materials and Methods include the tools and techniques of collection and analysis of data; this is applied particularly for testing the hypothesis. The aim of research was to estimate margins of major intermediaries involved in the marketing of seed cotton in district Khanewal. In order to achieve objectives of the study, planned strategy was undertaken to select area, type and number of respondents. Without taking these considerations it would be a futile effort. The paper is based on primary data collected through a comprehensive and pre-tested questionnaire from 80 cotton growers, 40 beoparies, 40 commission agents and 40 ginners from two tehsils i.e. Khanewal and Kabirwala of district Khanewal for the year 2010. Stratified random sampling technique was used to select the sample. Margin analysis was used to measure the margins of village beoparies, commission agents and ginners. The percent marketing margin was estimated using the following formula.

$$MM = Ps/Sp * 100 \quad (1)$$

Where; Ps = Price spread
Sp = Sale price
Gross marketing was estimated employing the following formula.

$$GM = Sp–Pp \quad (2)$$

Where; GM = Gross Margin
Sp = Sale price
Pp = Purchase price
Net marketing margin was estimated using following formula.

$$NM = GM–TC \quad (3)$$

Where; NM = Net Margin
GM = Gross Margin
TC =Total cost

RESULTS AND DISCUSSION

In this section empirical findings of marketing margin analysis of seed cotton in district Khanewal is presented and discussed.

Marketing Margins of Village Beoparies (Rs./maund): The beopari (trader) is a person who purchases the seed cotton from growers in their native areas. Small and marginal farmers, who do not posses marketing skills and finance, prefer to sell their produce at village level to these beoparies. In the study area, sampled beoparies were purchasing seed cotton from farmers on an average of Rs. 1857 per maund and selling further on an average Rs. 1929 per maund. The gross marketing margin of village beoparies was thus estimated as Rs. 72 per maund, out of this gross margin, marketing cost was Rs. 46 per maund. Total costs include transportation and labour cost (loading and unloading) etc. So the net margin was Rs. 26 per maund. In the district Khanewal, village beopari was getting 1.85 percent of the total margin of the marketing chain of seed cotton. The net profit as percentage of sale price was 3.73 percent. In gross margin of village beopari, marketing cost contributed 63.89 percent whereas rest of the 36.11 percent was the profits of village beopari. The detail of margin analysis is presented below.

Average purchase price (Rs. / maund)	=	1857
Average sale price (Rs. / maund)	=	1929
Gross marketing margin (Rs. / maund)	=	72
Percent marketing margin	=	72/1929*100 = 3.73 percent
Average total costs (Rs. / maund)	=	46
Net Profit (Rs. / maund)	=	72-46 = 26
Net Profit as percentage of margin	=	26/72*100= 36.11 percent
Net Profit as a percentage of sale price	=	26/1929*100 = 1.34 percent

Table 1. Marketing Margins of the Village Beoparies (Rs. / maund)

Item	Avg. Sale Price	Avg. Purchase Price	Gross Margin	Total Cost	Net Profit margin	Net Profit as % of sale price
Cotton	1929	1857	72	46	26	
Percent			3.73	63.89	36.11	1.34

Marketing Margins of Commission Agents (Rs. / maund): Big farmers prefer to sell their produce in wholesale market as they can get higher prices than selling at village level. The commission agent was purchasing seed cotton on an average of Rs. 1848 per maund and was selling further on an average Rs. 1883

per maund. The gross marketing margin of commission agent was Rs. 35 per maund out of this marketing cost was Rs. 21 per maund. Total costs include market fee and labour cost etc. So the net margin was Rs. 23 per maund. In the marketing chain of cotton in district Khanewal, commission agent was getting 1.85 percent of the total margin of the marketing chain. The net profit as percentage of sale price was 1.22 percent. In gross margin of commission agent, marketing cost contributed 34.29 percent whereas rest of the 65.71 percent was the profit of commission agent. The detail of margin analysis for commission agent is presented below.

Average purchase price (Rs. / maund)	=	1848
Average sale price (Rs. / maund)	=	1883
Gross marketing margin (Rs. / maund)	=	35
Percent marketing margin	=	35/1883*100 = 1.85 percent
Average total costs (Rs. / maund)	=	12
Net Profit (Rs. / maund)	=	35-12=23
Net Profit as percentage of margin	=	23/35*100= 65.71 percent
Net Profit as a percentage of sale price	=	23/1883*100 = 1.22 percent

Table 2. Marketing Margins of the Cotton Commission Agents (Rs. / maund)

Item	Avg. Sale Price	Avg. Purchase Price	Gross Margin	Total Cost	Net Profit margin	Net Profit as % of sale price
Cotton	1883	1848	35	12	23	
Percent			1.85	34.29	65.71	1.22

Marketing Margins of Ginners (Rs. / maund): The ginner is the market intermediary who processes the seed cotton into cotton lint and seed. In the study area, ginners were purchasing seed cotton on an average Rs. 1935 per maund and selling further on an average Rs. 2071 per maund. The gross marketing margin of ginner was Rs. 136 per maund out of this marketing cost was Rs. 91 per maund. Total costs include market fee, diesel charges, income tax fee and labor cost etc. So the net margin was Rs. 45 per maund. In the marketing chain of cotton in district Khanewal, ginner was getting 6.56 percent of the total margin of the marketing chain. The net profit as percentage of sale price was 2.17 percent. In gross margin of ginner, marketing cost contributed 66.92 percent whereas rest of the 33.08 percent was the profit of ginner. The detail of margin analysis for ginners is presented below.

Average purchase price (Rs. / maund)	=	1935
Average sale price (Rs. / maund)	=	2071
Gross marketing margin (Rs. / maund)	=	136
Percent marketing margin	=	136/2071*100 = 6.56 percent
Average total cost (Rs. / maund)	=	91
Net Profit (Rs. / maund)	=	136-91=45
Net Profit as percentage of margin	=	45/136*100= 33.08 percent
Net Profit as a percentage of sale price	=	45/2071*100 = 2.17 percent

Table 3. Marketing Margins of the Ginners (Rs. / maund)

Item	Avg. Sale Price	Avg. Purchase Price	Gross Margin	Total Cost	Net Profit margin	Net Profit as % of sale price
Cotton	2071	1935	136	91	45	
Percent			6.56	66.92	33.08	2.17

Concluding Remarks: Cotton is an important cash crop in Pakistan. There is a need to control quality and improve the marketing system for getting premium Price. Unfortunately this quality potential was never achieved largely due to the marketing anomalies prevalent in the cotton markets. One of the above mentioned problems is the high margins earned by market players as compared to growers. The present study revealed that in district Khanewal, ginners were earning higher margin as compared to village beoparies and commission agents. It was observed during the survey that farmers were selling their produce at village level due to their low staying

power. It is, therefore, suggested that farmers should be offered financial cover from institutional sources to cover chances of market risk. In addition, farmers should also be educated to sell their produce to wholesale market or directly to ginners to avail high price opportunities. This will eventually reduce exploitation of cotton growers from the hands of market intermediaries.

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