The Functional Approach

**IDEA:** Break down the marketing process into functions

- see slide 2.1

**Exchange functions:** activities involved in the transfer of title to goods.

- Buying
  - Assembling of raw products
  - Assembling of the finished products

- Selling
  - Merchandising (determine the best bundle)
  - Advertising

**Physical functions:** Activities that involve handling, movement and physical change of the good itself.

- Storage function
- Transportation function
- Processing function
Facilitating functions: make possible the smooth performance of the exchange and physical F°.

- Standardization function is the establishment and maintenance of uniform measurements.
  
  ≡ comparing is easier
  ≡ know what you buy

- Financing function involves the use of money to carry on the various aspects of marketing.

- Risk Bearing function is the accepting of the possibility of loss in the marketing of a product.

  Physical Risk (insurance C\textsuperscript{ie})
  Market Risk (C B of T)

- The Market Intelligence function is the job of collecting, interpreting, and disseminating the large variety of data necessary to the operation of the marketing processes.
Why is the functional form useful?

• By defining functions \( \Rightarrow \) evaluate marketing costs.

\[ \text{Compare performance of agents performing the same function.} \]

• Understand the difference in marketing costs of various commodities.

\[ \text{e.g., perishable versus non perishable product} \]

3. Important Characteristics

• The function affects the cost of marketing food but also the value (utility) to consumers.

\[ \text{Value added} \geq \text{cost of performance} \]

• Function remains, middlemen can disappear!

• Functions can be performed by anyone.
Question

• How many functions do we need?
  
e.g., Do we need transportation?
  
  Yes, it creates a new market, but is it large enough to compensate for the costs?

• Are these functions being performed in the most efficient way?
INSTITUTIONAL APPROACH

• Instead of studying “functions,” we study the various agencies and business structures that perform the marketing processes.

Def: The institutional approach considers the nature and character of the various middlemen and related agencies and also the arrangement and organization of the marketing activities.

• Middlemen
  -- Merchant middlemen
    • Retailers
    • Wholesalers
  -- Agent middlemen
    • Brokers
    • Commission men
  -- Speculative middlemen
• Processors and manufacturers
• Facilitative organizations
Why is the institutional approach interesting?

Why Middlemen?

3 reasons:

1) Gains from specialization

2) Economies of scale

3) Middlemen as intermediaries

\ reduce market search and transaction costs