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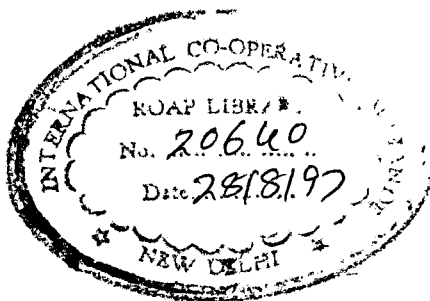
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**Marketing Module**

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## CONCEPT OF MARKETING MIX

The range of alternatives open for marketing decisions are virtually endless. For example should the coop. dairy distribute milk through its own booths or should it own (construct booths) but give them to an agent? Should it price its milk higher than competitors or lower? The only way to reduce this task logically, is to analyse what are the decisions to be made, and if some of the constraints operate then how do they influence this range of decisions.

The first thing to contend with in dealing with marketing decisions, is the fact that several of the factors effecting these decisions are extraneous, and outside the control of the management. Laws of the land, social, political and economic conditions provide such examples e.g. rising costs of transportation. There is very little that the management can do about this, and at the same time it does influence several managerial and marketing decisions.

Similarly the organization itself may at a point face constraints in terms of funds/finance, available technology, etc. These constraints, too, influence the marketing decisions.

In spite of these constraints and influences, the choice of various alternatives open to the marketing manager and within his control, are innumerable. Earlier studies on various alternatives suggested that there was no right way to choose among the alternatives. It also focussed on the fact that the various elements of these decisions can be generalized to a few factors. These were -

1. product - what to make, including packaging
2. pricing - at what price to sell
3. Promotion and advertising
4. Distribution (Place)

These broad elements of a "marketing plan" are called the elements of the marketing mix. It gives a broad framework for a marketing manager while formulating his plan - and a elementary list which enables him to see whether the strategy is internally consistent.

To illustrate the application of this concept, let us consider certain situations. Suppose the dairy has a sachet machine. This imposes the following restrictions.

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Prepared by M. Bhargava of the Institute of Rural Management, Anand.

1. the milk must be of standardized or full cream variety otherwise the cost of packaging would be more expensive than other alternatives - imposing a constraint on the product.
2. the logical extension of this imposes the condition that the distribution is selective rather than extensive, and in the upper, middle income colonies imposing a constraint on distribution.

Marketing mix, therefore, also gives broad clues about the selection of other alternatives of the mix, once one of these has been finalized. In other words if the dairy has decided to manufacture cheese, (product it automatically influences other parts of the plan (pricing, distribution etc.).

In short, the marketing mix gives a ready check as to the areas within a marketing managers control, while attempting to solve marketing problems.

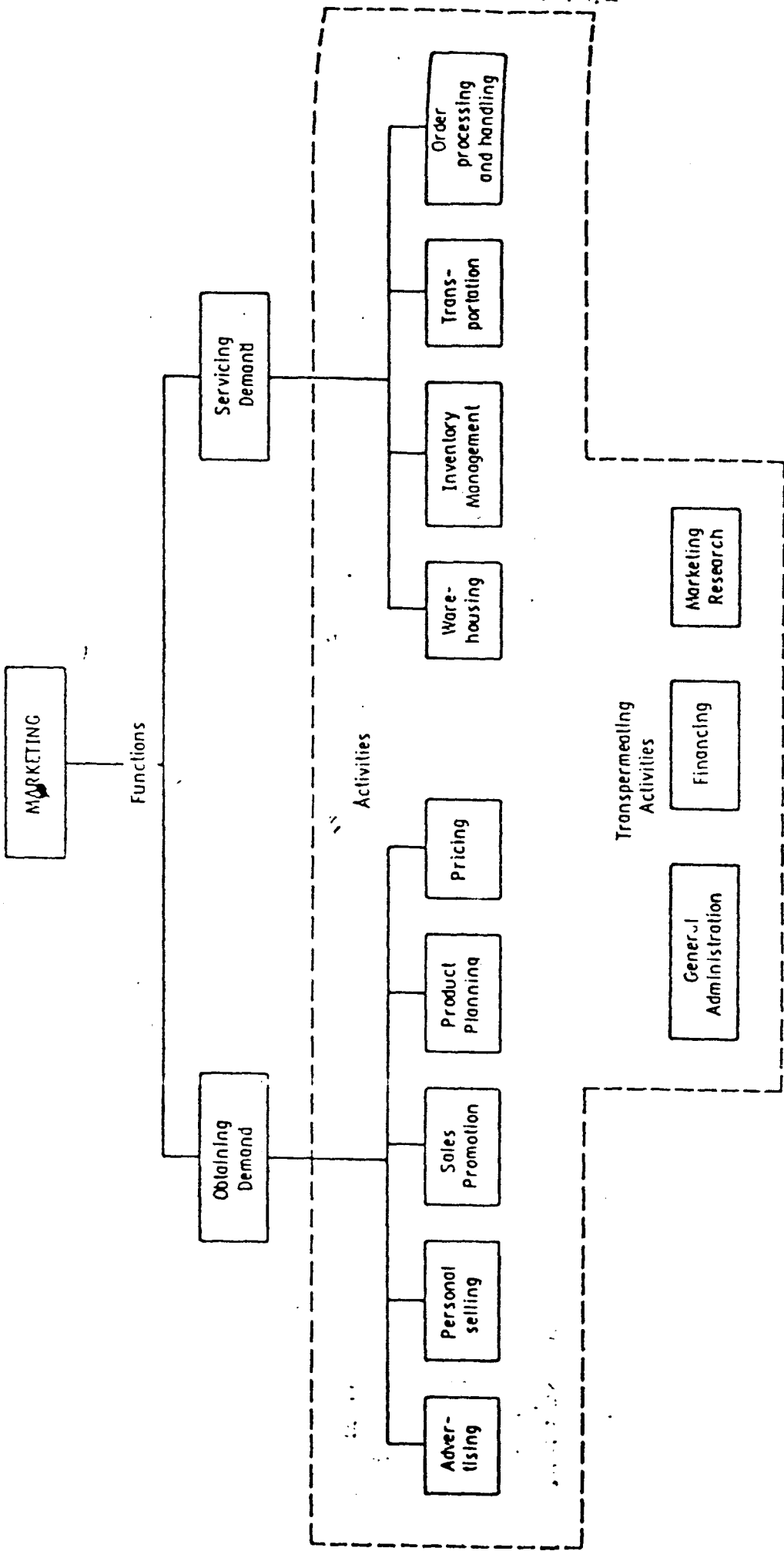


FIGURE 1. Marketing functions and activities.

# Consumer Buyer Behaviour - An Introductory Note

## Introduction

The marketing mix concept develops the idea of marketing management by defining the four P's, product, price, promotion and place, that is, distribution of product or services. There are sub elements under each of these P's such as product attributes, different ways of pricing, deciding the communication mix and the levels and management of distribution function. In addition to the four P's, the marketing manager is concerned with the consumer buyer behaviour, changes in the technology, trade behaviour and the statutory laws impinging on his marketing decisions. Marketing is considered both as a science and art, for the marketing manager has to take decisions based on intuitions, truths, half truths and calculated risks. In taking the decisions he is always guided by the increase in market share, sales and growth and profit. This introductory note is mainly intended to explore the consumer buyer behaviour (CBB).

## Definition of CBB

CBB is defined as the mental and physical activities a consumer undergoes before purchasing a product, brand, service or idea. It also includes the post purchase activities of learning and its effect in future purchase of the same brand or switching over to a new brand.

## CBB and Marketing

It is essential to understand the buyer behaviour to formulate the marketing strategy in terms of product, price, promotion and place. The manager raises such questions like who, what, where, why, when, what frequency and how much is bought to know the needs of the customer; and to satisfy the same by adjusting his marketing mix continuously as and when required. At the same time he does not lose sight of the economic and social responsibilities of the business organisation he serves.

## Variables affecting the CBB

The main variables which affect the CBB are culture, society, individual/personal and psychological disposition. Culture can further be subdivided into subculture and social class. Society affects the CBB through its subsets of reference groups, family, roles of the individuals and the status attained in one's life. Personal factors include age, the lifecycle state, occupation, economic circumstances, lifestyle, personality and the life concept. The psychological variables consist of motivation, perception, learning/experience, opinions, beliefs, attitudes and values of the individuals. It is worthwhile to apply these variables to understand the CBB for liquid milk marketing. It is really a mystery why some consumers will not buy dairy milk, come what may. The challenge lies in converting these sticky customers to switch over to dairy products and sustain their

loyalty. In one of the unions the customers bought the raw chilled milk supplied by the union from the private vendors, though it was being adulterated by equal volume of water by the private vendors. Why does this happen? How does a private vendor generate a brand loyalty of the customers, even though the dairy can supply pasteurised, standard, unadulterated quality and quantity in sachets?

### Other actors in CBB

Several others may also play a role in the buying process, especially when the risk is high and the price is also relatively more. These actors are classified as initiators, influencers, decider(s), buyer and user of the product/service. In direct milk consumption (drinking of milk) the initiator may be the grandmother in the house recommending that milk must be given to the children as a part of their nutritional food. The family doctor or the local vaidh may influence and reinforce the thinking that milk is good for children. Now, the decider, father or mother will have to explore various alternative types of milk available - dairy, cow milk, mother's breast milk, buffalo milk, infant feeds, vendors' milk, the price, the age of the children, availability, convenience, effort needed to procure milk at the house, timing, usage occasions etc. have to be analysed before this or that milk can be decided. The actual buyer is the one who pays for the product. This may be either the mother or the father in this situation. Of course the child is the user. Now the question is if all these members are taking some interest or other in buying the milk, then to whom we should promote the buying of milk so that we can assure the growth of the sales. Thus researching the buying process will help us in deciding our promotional strategy in terms of our objectives, the target segment, their reading habits, media to be used, distribution outlets etc.

### Types of CBB

Complex buying behaviour consists of high involvement of the buyer. This is especially true when the customer has no information about the product/technology, the use needs additional skills such as computers, numerical machine tools, when the product is relatively high priced like all consumer durables and the purchase is one time purchase in one's life like house. The steps in complex buying behaviour includes several stages such as problem recognition, information search, evaluation of facts, purchase decision and post purchase decisions. A farmer buying a tractor for the first time will recognise the need for a tractor when he faces several operational problems like missed sowing due to non availability of manual labour, increase acreage and or improved productivity due to a tractor. Since this is risky and high price decision he would search for information from friends, dealers of tractors, other users of tractors. He will be typically interested in knowing the price, running costs, after sales services, availability of spare parts and the distance to travel in case of breakdown of the tractor.



Routine buying behaviour results out of experience with the using the product, encounters in the retail outlet, quality price relationship as evaluated by the individual and the general image of the company. Also, every individual would have an idealised image of the product and the marketing manager should be able to be as near to this idealised product as possible to win over the loyalty of the customer. Once the brand loyalty is developed even a complex buying behaviour reduces to a routine buying, since the customer does not want to spend so much of mental energy in evaluating the alternatives and end up in simplifying his procedure by specifying a particular product by its brand name which results in brand loyalty and repeat purchase.

### Stages in complex buying behaviour

Typically a consumer buys a product to satisfy a felt need. If several alternatives are available he would choose a set of brands and evaluate with criteria formed through his learning, experience, social status, timing, availability of finance, urgency and other host of internalised and external variables. this set of brands under consideration is known as evoked set. Another way to look at the CBB is to differentiate the stages of consumer buying process. These stages include problem recognition, information search, evaluation of alternatives, purchase decision and post purchase decision. For a marketing manager explicit recognition of the various stages in CBB helps to formulate the communication mix and the strategy and the tactical decisions.

### Liquid Milk Marketing and CBB variables

Culture may inhibit the purchase of milk. In extreme cases milk may be a taboo for some vegetarians that it is considered as an animal protein and hence a non vegetarian food. For a person residing in a slum area belonging to the lower-lower social class milk is a luxury and the individual may not consider that milk as a necessity. But an individual belonging to the upper-upper social class residing in a posh locality of the town, milk may be considered as a want and he may specify the fat content and SNF because of his knowledge; and in certain cases he may become source loyal or brand loyal. Similar CBB can be observed in milk products like AMULYA, the milk whitener.

Reference groups imply that individuals crave to belong to a higher status group than to which they belong. they show this by imitating the higher social class in using the products. For example by this concept an individual from the chawl may also derive satisfaction to imitate and buy a branded, pasteurised milk in sachets as the "status" people do provided he really feels so. The upper class may get interested in new innovations like tetrapack, increased shelf life, and hygienic quality of the milk. Economic factors also do play an important role in CBB. The LL class will be interested in credit and subsidy, whereas, the UU may be interested in the product features and will be willing to pay the higher prices. The personality of these

individuals would vary considerably based on to which class they belong. It is upto the marketing manager to identify these intrinsic differences in CBB and use the same.

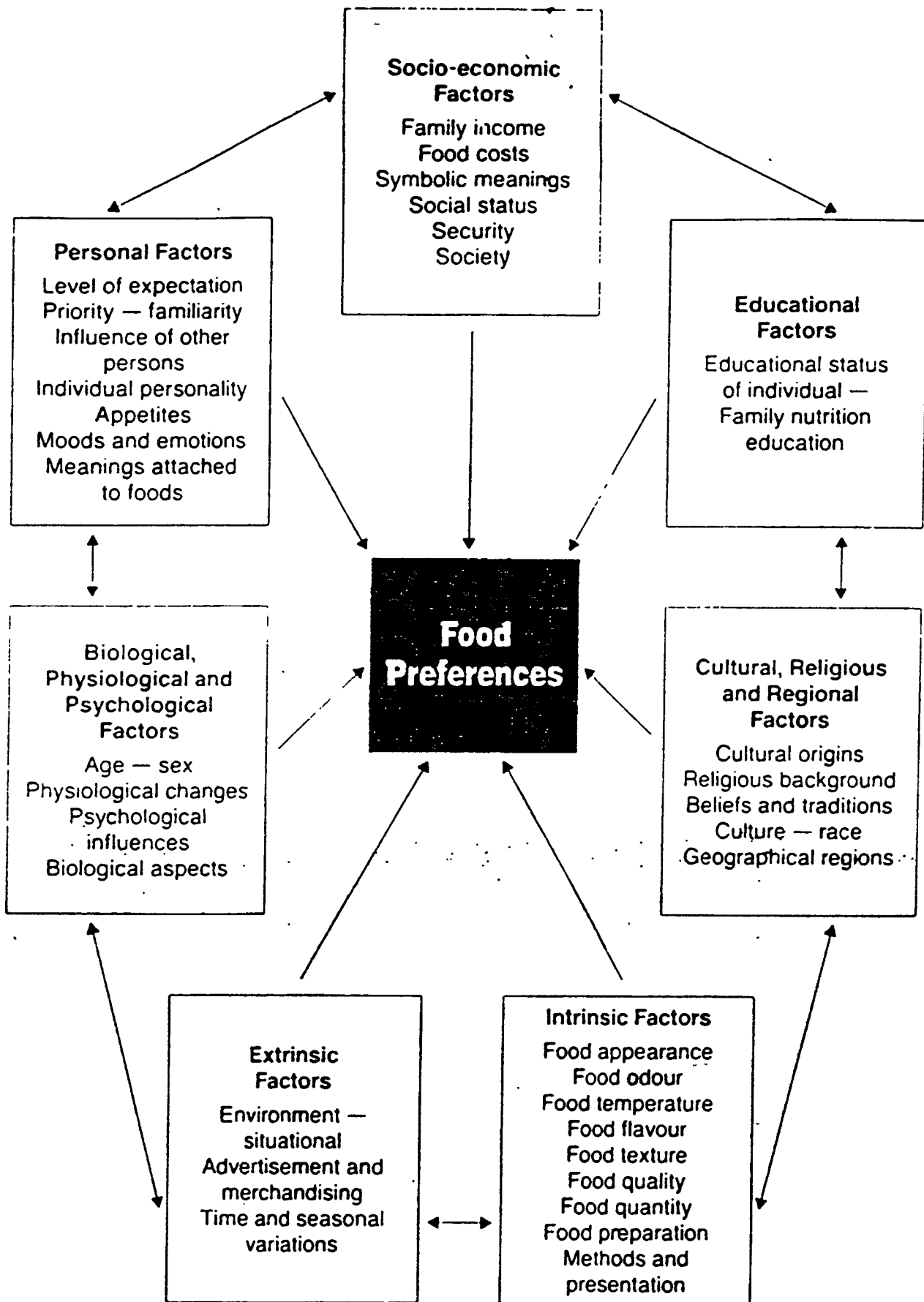
### Seven ideas of CBB

Based on our discussion above we can identify the following seven important ideas regarding CBB.

1. All consumer behaviour both physical and mental activities are motivated resulting from the felt need or recognising the problem(s) on hand.
2. The CBB cannot be stereo typed. It includes many types of activities ranging from searching for information, visiting the stores, arranging for the finance, evaluating the alternatives, using the criteria for evaluation, availability of the product/service and host of many other activities depending on the individual's disposition and the urgency.
3. CBB is a process and involves stages starting from the problem recognition to the post purchase activities.
4. CBB varies in timing and activities. How much time a person would need to make a decision to buy varies from one person to another and in the same person at different times. Also, when does the individual makes a decision depends upon host of extraneous and internal factors. The complexity and the number of activities depend on the risk taking ability of the individual. Usually consumers simplify the procedure by taking a overall satisfying decision by trading off the conflicting claims, recommendations and forces acting on him. This is solved by brand loyalty and reverting to a routine buying behaviour.
5. CBB involves different roles like influencer, purchaser and user or combinations thereof. The buying decisions are modified by social interactions and therefore there is a need to identify the influencers and other decision makers in the CBB and separately communicate to them.
6. As repeatedly mentioned earlier CBB is influenced by external factors like culture, subculture, family, occupation, social class, the communication mix used, opinions, beliefs, attitudes, values and manipulative/ coercive advertisements for and against the product.
7. All of us are consumers in way or other. CBB is a basic process and differs for different types of people. therefore it is not prudent to say that one has understood the CBB completely or fully. One cannot explain everything in CBB since it is a complex subject. Based on experiences theories are built, tested on the ground, modified and tested again. This process continues.

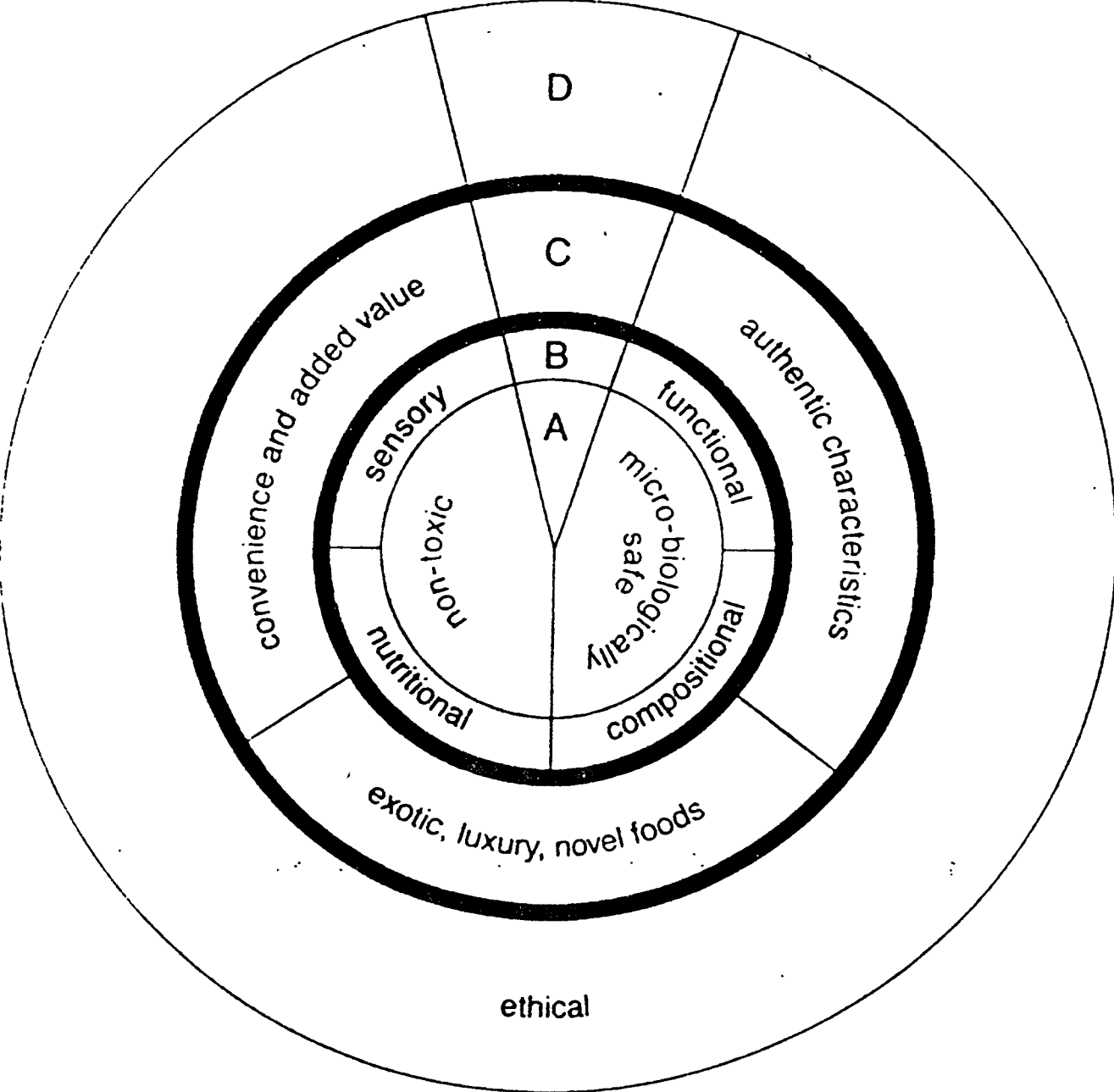
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**One model of the factors that influence preferences in food**



Source: M.A. Khan, 'Evaluation of food selection patterns and preferences', *CRC Critical Reviews: Food Science and Nutrition*, 15, 1981, pp. 129-53.

**Food quality**



# 8

## *Managing a marketing enterprise*

The broad principles of management hold good for agricultural marketing enterprises in the developing countries as for other business enterprises. Adaptation will be needed to take account of varying conditions of resource availability and infrastructure. These principles also hold good for different types of marketing enterprises – whether individually owned and operated, transnational, co-operative or parastatal.

The approach followed in this chapter will be to introduce the main principles of marketing management and point to illustrations and discussion in the case studies. The great advantage of cases from real-life experience is to bridge the gap between statements of principle and precept and application in practice.

The cases also provide information on the application of marketing management techniques to various products and activity combinations. For a more systematic coverage of the marketing of agricultural products and inputs in the developing countries reference should be made to the series of Marketing Guides published by F.A.O., Rome and other specialized texts.

### **Planning operations**

The essential starting point for any marketing enterprise is a clear idea of the market to be served and a plan of action for serving it. Kallu in Sierra Leone knew the market for his own produce. When he was drawn into acting as a wholesaler for his neighbours he did not appreciate the implications of their irregular supply. He then found himself worse off because he was doing more work yet receiving a lower net income.

A reconnaissance visit to appraise the market, ascertain conditions of entry and identify potential buyers is recommended for all new marketing operations. With the results of such an enquiry in hand, a

marketing manager is in a position to acquire, select and present produce to meet these requirements, and to formulate a sales plan. Mary Jane of Dominica recognized that there was a surplus of agricultural produce on her own island. She had heard that prices were much higher on Guadeloupe. That she did so well was lucky, since we are not informed that she had made a prior investigation.

### *Market research*

The larger the marketing enterprise, and the more it has at stake in terms of owner or client commitment, the more important it is that systematic research on the markets open to it be undertaken as a guide to policy. Market research can serve both to plan a new sales programme and to maintain or develop an existing market share. It can serve the interests of private firms, co-operatives, parastatals and those of agricultural regions or countries as a whole.

A research programme for agricultural products, for accessible domestic or export markets, should include:

- a) official regulations and market preferences relating to sanitary requirements, quality standards, containers, inspection, etc.;
- b) quota regulations and levies affecting volume, cost, and timing of sales in particular markets;
- c) supply and price trends, overall and for different qualities and forms of presentation, by year and by season, also covering possible substitutes;
- d) sales methods and agencies, and their respective cost;
- e) prospective consumer demand, the share that could be obtained, and ways of increasing this.

Enquiry along these lines is designed to answer the following questions: What is the size of the market? What are the predominant consumer preferences? What is the scope for market segmentation, i.e. for separating consumer groups likely to pay different prices for basically the same product? What are potential bases for such segmentation – quality, packaging, branding, form of presentation, type of retail outlet? Is demand seasonally limited? How would it respond to measures to extend product availability by storage, selection of varieties, modification of planting time? Is demand likely to grow? What are the determining factors? Is demand seasonal or year-round? What financing would be required to cover shipping costs, delays in obtaining settlement, sales promotion, etc.?

Consumer preference surveys are used increasingly as a guide in the

presentation and processing of produce, or to reveal reasons why sales of long-established items are falling off. The services of independent agencies specialized in this field can be used to advantage in developing new markets.

Determination by market research of the buyer structure can provide valuable guidance for policy on sales methods, packaging and presentation. In the U.K. where grapefruit are eaten widely at breakfast, the Israel Citrus Board sells them at a low price unwrapped simply stamping the word Jaffa on the skin. In Italy, where grapefruit are appreciated mainly by upper income consumer groups who have travelled, they are sold in units of three, with a brand on a plastic wrapper – at a price double that in the U.K.

Private enterprise and transnational marketing managers are generally free to adapt their operations to match market demands. Managers of farmer co-operatives and parastatals may be subject to specific constraints such as a commitment to buy all the produce that is offered to them. This can mean that secondary outlets have to be found for produce that does not match the requirements of the most favourable markets, or is in excess of the demand of certain large buyers who would accept supply contracts for specific quantities. It is still open to them, however, through the prices they pay to growers, to direct production towards market requirements.

### *Access to capital*

If a marketing enterprise is to buy produce, transport or store it and resell, it must have sufficient funds to cover payment for the produce, transport, storage and handling costs until the proceeds of sale come in. This can be a matter of weeks as in the case of Mary Jane. It can be much longer if produce purchased at the harvest season is held for sale to consumers later in the year. Overhead costs of facilities, equipment and staff must also be met.

Most private marketing enterprises begin with some own capital, however small, add to this by borrowing from relatives, and then go to a bank or other credit source for a short-term loan to make up what is needed to begin operations. If the enterprise is successful and can provide adequate collateral such as a house, land, or business property, it can expect further bank finance in subsequent years, possibly on easier terms. For the future market kings of Sudan, the take-off point was when they had accumulated enough of their own capital by parsimonious living, opportunism and good fortune to become really

creditworthy with the commercial banks. Soex, the bean exporter in Senegal, found his operations restricted by lack of capital. The commercial banks saw his enterprise as too risky to justify large advances.

### *Selection and management of staff*

Working partners who can be trusted are crucial in the development of a marketing enterprise in its early stages. Often it is a husband and wife team, a father with working sons, or partners who are already friends of mutual confidence that constitute the operational nucleus. Small private enterprises then take on additional labour as and when they need it.

The terms on which continuing staff are engaged should provide a clear incentive for performance. Salaries and prospects should be attractive so that employees are keen to hold on to their jobs: otherwise they should be paid by results. An employee will demonstrate strong evidence of self-motivation if:

1. he is properly trained in the work and knows what to do;
2. the desirable results of whatever he is asked to do have been defined;
3. guidelines or limits in terms of policy, expenditure, and time have been established;
4. he is left alone to do the job;
5. he knows he can go to his boss at any time for guidance or support when he reaches an impasse;
6. he knows he will not be berated if things do not work out exactly as the boss wanted;
7. he is immediately praised for the things he does well.

Al Haji, the marketing board assembly agent in North Cameroun paid his buyers 24 cents per sack purchased. He provided them with a motorbike to scour the countryside. Clearly, he was aware of the importance of delegating responsibility. By defining the requirements of the job and the rules to be followed, offering a recompense directly related to achievement and furnishing the means for it, he mobilized their natural abilities, local knowledge and experience.

### *Choice of site*

Desirable attributes in a site for a marketing business are: convenient access to supplies of the produce to be handled, access to a good market for it, directly or via reliable transport means and agents, and prospects of growth. Bulungu was advantageous for Mafandala in Zaire because



it was a critical access point for transport to Kinshasa, his main market centre and source of consumer goods. Matlhaku wisely opened a shop in Gaborone when he heard that it would become a capital city. In Illushi, Enebor was located in an area where rice production was expanding, but his business was handicapped by poor infrastructure. Surfacing of the highway and provision of electricity and piped water would be a great boon to him; but would it come during his lifetime?

## **Business management**

### *Pricing*

The initiative that a marketing manager can take in setting prices for the products he sells is determined by his market position. This can range from that of an irregular seller of small lots on a public market to a monopolist who feeds products on to the market at a rate designed to maintain a target price.

Illustrating the first extreme is the peasant woman of New Guinea (T. Scarlett Epstein, *Urban Food Marketing and Third World Rural Development*, Croom Helm, London 1982). She sets off to market with a mixed lot of vegetables and no clear idea as to what they are worth. She asks about prices from people she meets on the way. She starts to sell at the price most often mentioned. If there are no buyers she reduces the price. If she seems likely to dispose of her produce before midday she raises it. In the afternoon, with the prospect of carrying some produce home or giving it away, she cuts her price. Step-by-step she seeks the best set of prices consistent with disposal of her stock in hand.

The monopoly seller sets his sales price to maximize profits. He can supplement his personal knowledge of the market with in-depth studies to estimate the elasticity of consumer demand with respect to price. This information would tell him how much more consumers would buy if the price were reduced, and how far sales would drop if the price were raised. Using estimates based on these studies, he can then decide what quantity to put on the market in order to maximize returns to his enterprise and the prices at which this would be achieved. Thus the manager of the Cyprus Potato Marketing Board can tell his panel of buyers in England that he will sell them 50 tons each at a price of \$40.00 per ton. He will allow them two weeks in which to sell this supply before he puts more supplies on the market. They are likely to accept this because they have his protection against a competitor selling the same kind of potatoes acquired at a lower price.

Between these two extremes there is a range of intermediate positions. Enterprises offering quantities too small to affect the market in which they sell must generally follow it. They can, however, try to sell part of their supply to special customers at a premium on the basis of freshness or some other attribute of quality or convenience. This is the position of farmers who sell part of their output retail, with the rest going to a wholesaler at whatever price it will fetch.

For many enterprises, the published price on some established wholesale market will be their main guide in pricing. Competition between buyers will have determined a margin reflecting transport, handling and transaction costs between the price at this market and at their own location. Sales proceed on the basis of the central market price less this margin (made up of these costs). Thus in Paraguay in 1983 farmers could make advance contracts with soybean wholesalers on the basis of a margin of \$80.00 per ton below the price on the Chicago Exchange, even though their soybeans went mainly to Rotterdam. Some farmer co-operatives offered their members a choice of the current price at Chicago or the quoted *forward price* for the following month, or for the month after that, always less the margin.

Parastatal exporters of standard products such as cocoa, coffee and groundnuts tend to follow the established international markets. To enable them to clear their warehouses for incoming supplies, and reduce their bank borrowings, they sell a large part of their total supply at the current spot price. The rest is sold forward over the months when they can expect conveniently to ship it. For such products the spot and forward prices on the London and New York markets reflect the best expert opinion.

### *Purchasing*

Marketing begins with the production or acquisition of products for sale. In planning production or purchasing, the marketing manager will take the following into account.

1. *Characteristics of the product* Does he know it sufficiently well to assess its quality and value? Can he pack, handle, transport and hold it for future sale without incurring substantial waste and deterioration?
2. *Ability to finance* Does he have sufficient of his own capital available or will he have to go to a bank for credit? Will he be able to get enough credit and at what cost?

3. *Price likely to be obtained on sale* Is this a sure price? If it depends on free market determination, is the current trend up or down?
4. *Prospective profit* Most marketing managers incorporate this into a target operating margin which they use in deciding when, and at what price, to buy.

This operating margin is made up of

- Direct costs – payments for handling, transport, market charges, sales, etc.
- Overhead costs – office expenses, salaries and social contributions for continuing staff, bank charges, depreciation of equipment and facilities. These are estimated per unit of quantity on the basis of recent records.
- Remuneration for management and risk – the net income of the operator or his enterprise.

For convenience, marketing enterprises adopt a standard mark up for their operating margin. This may be 5 to 10 per cent of the purchase price for a wholesaler selling large lots fairly quickly; 25 to 30 per cent for a retailer of perishable produce taking longer to sell, dealing in small lots and carrying the risk of physical wastage and produce remaining unsold; 18 per cent for a supermarket handling a mix of products including many consumer essentials with ample shelf-life.

So a manager will buy produce that he thinks he can handle, that he can finance, and that he believes he can sell with an adequate mark-up. This will be his standard analysis. If he foresees some risk over the resale price he may reduce the quantity purchased; or he may decide to carry the risk in order to please a regular supplier and to be sure of satisfying regular buyers.

For processing enterprises, particularly, it is convenient to secure supplies via advance contracts with producers. See the Tabasco case and Jamaica Broilers. This enables the processor to specify in advance, variety, quality, maturity and standards for his raw material, and time of delivery. He can then operate his plant more efficiently and be sure of satisfying his customers' requirements.

### *Sales*

Selling is at the heart of marketing. The owner of a small private marketing enterprise is likely to undertake sales directly. He will draw on his knowledge of the products in which he deals, of the market and of his experience of human attitudes in bargaining. Illustration of

various pragmatic approaches to sales can be found among the private enterprise cases.

The owner would first delegate responsibility for sales decisions to family members that he could trust. In the Ogbomosho Co-operative Society in Nigeria several of the founding members shared responsibility for sales.

Establishment of a sales department headed by a sales manager becomes advisable as an enterprise increases in size and complexity of operations. Selection of a suitable person for this key post is crucial. He should have experience of selling in the markets envisaged: organizing ability and imagination will also be important. He should be open to new ideas and on the lookout for new opportunities.

Appointment of agents to sell for a firm at distant locations is a further phase of delegation and specialization. They may want exclusive rights in a defined market area as well as an attractive margin or commission if they are to put their full weight into selling for the firm. The system developed by the Ha-ee village group, whereby a group of wholesalers in markets in the same big city are kept under continuing pressure in selling for it, reflects a very strong market position.

Density of demand determines the number of distributors sought for Cyprus potatoes. A panel of 26 was used in the U.K. Over the whole Arab market one buyer was given exclusive rights for a six-monthly period.

Sales methods should take careful account of buyers' requirements. The Kenya Tea Development Authority offers tea at daily auctions so that its clients can inspect it before purchase. In contrast, cocoa and coffee are sold by description.

Ability to offer short-term credit can be very effective in facilitating sales. How far an enterprise should go in this direction depends on its cash flow position and its competition. Many wholesalers finance meat and vegetable retailers for a few days: 30 days' credit is common for more durable products, 60 days for fertilizer exports. In a strong sales position, Cadbury in India could require that its wholesale distributors pay cash for their supplies.

### *Advertising*

How best to promote sales and how much to spend on this are continuing issues for the marketing manager. It has always been difficult to assess response to advertising; yet few marketing firms have felt they could do without it.

Some promotion is essential to make potential buyers aware of an enterprise and of what it sells. For products that can be branded a much larger outlay is justified. Differentiated by brand promotion from others basically similar they can be set in a continuing higher priced category. Great here are the returns to scale. A heavy outlay on advertising can be afforded because the unit cost is low if the volume of sales is large. In Turkey, Unilever-Is spent about 1.5 per cent of sales on advertising. (See the case study for details of its allocation between media and for designs appealing to family use of its products.)

Consumer-directed advertising can be very effective and also very expensive. For large-volume brands such as Jaffa oranges and Chiquita bananas it has paid off. On a national scale, 'Best Dressed Chicken' has done well for Jamaica Broilers. The manager of the Cyprus Potato Marketing Board preferred, however, to advertise in U.K. trade journals and maintain personal contact with his buyers. A spot on national television in the U.K. in the early 1980s cost over \$1000 per second.

Co-ordination of enterprise promotional efforts with other related agencies and services is important. Thus mobile promotional vans sponsored by a fertilizer distributor should operate in conjunction with government extension staff in organizing field days and on-farm demonstrations. They should co-arrange that retailers in the area concerned have stocks conveniently ready at promotional prices together with explanatory materials and point-of-sale announcements.

### *Packaging*

The art of packaging is to combine protection of the product with a presentation that helps to sell it, at an acceptable cost. In developing country markets where consumers are accustomed to accepting produce loose in their own containers and are primarily concerned to buy at the lowest unit price, expenditure on elaborate packaging would be wasted.

In sharp contrast is the outlay incurred by Soex on containers for green beans for transport to Europe by air. Light-weight protection of the product, and appeal on wholesale markets in Europe was critical for this operation.

### *Transport*

Timely movement of produce from where it is in surplus to where it is wanted is at the heart of marketing. The main concern of the manager in developing countries is to secure a reliable low-cost service with

maintenance readily available. To justify investment in a self-owned motor truck a marketing programme that will maximize its use should be in clear view. There should be pay loads in both directions. Mafandala's trucks brought beer and consumer goods from Kinshasa to Bulungu. When they went out into the country from Bulungu they carried consumer goods and brought back agricultural produce which was then made up into full loads for the longer journey to Kinshasa.

Refrigerated vehicles offer technical advantages in marketing perishables. They are expensive, however, and the risk of losses due to breakdown is high. Until it is clear that their use is justified by the marketing advantage, other ways can be used to control product deterioration in transport. For many years Unilever-Is distributed margarine in Turkey covered with mats soaked in water in ordinary trucks. Evaporation of the water had a cooling effect. Drivers were instructed always to park a loaded vehicle in the shade. The main supplier of meat from the Sierra to Guayaquil on the coast of Ecuador in the 1980s used an insulated van travelling by night, so avoiding the capital outlay on a refrigerated truck.

Arrangements for shipping produce by sea are illustrated in the case on cassava exports from Thailand.

### *Storage*

How long to hold produce during marketing depends on the increase in price that will be obtained by selling it later, and the cost of holding it. Storage costs are made up of three main components:

- the rent of the storage facility;
- physical losses and deterioration of the product while in storage;
- interest on the capital represented by the value of the produce in storage.

The inter-relationship of these three factors is illustrated in the following example of the storage of apples under refrigeration in a near-eastern country (Table 8.1.) Thus while the difference in price between the harvest and low supply season was \$60.00 per ton, the profit margin in storing until that time was only \$4.70 per ton.

Losses on grain can be brought down to very low levels by drying before storage, use of insecticides, etc. Nevertheless, for storage of grain over eight or nine months to be economic a seasonal price increase of 17 to 20 per cent on the initial value is generally needed, depending on the conditions and interest rates applicable.

Al Haji used his house as a store. Establishment of specialized

Table 8.1. *Illustrative costs and margins in the storage of apples.*

	\$ per ton	
Estimated increase in price over six months		60.00
Storage costs		
Rent (or overhead cost for owned facility)	21.00	
Storage losses (weight and quality)	23.80	
Rent of crates	4.30	
Interest (10%) on initial value of stocks	6.20	
Total costs		55.30
Net margin		4.70

storage is a long-term investment project calling for a careful demand assessment. Convenience in location is all-important. Proximity to a mill has the advantage that the mill can be supplied as needed, with no further expenditure on transport. Convenient also for storage are places where a change of transport is obligatory, e.g. at a port or where feeder roads link with a rail line serving a distant market. Parastatals concentrating storage at central points sometimes forget that this can mean transporting grain back in the direction from which it came earlier in the year.

Ability to offer credit on produce in store is a great advantage. For this a bank is a good partner, also in financing the long-term investment in a storage structure. The two major grain stores in Ecuador undertaking storage for farmer or traders on a fee basis are both run by companies in which commercial banks are partners.

#### *Extending the range of activities*

From time to time most managers see convenient opportunities to add to their marketing business. These can be supplementing an existing marketing line with complementary products, undertaking additional functions, e.g. processing or retailing, strengthening existing operations by setting up branches or agencies to sell in new domestic or export markets. The decision should be based on the marginal return: that is to say profits on the new activity, after covering all costs directly attributable to it, are calculated as a contribution to meeting the general overhead costs of the enterprise, not after a proportion of these overheads have been allocated to the new activity. Use of a work sheet as illustrated in Table 8.2 can be helpful in making estimates. The

Table 8.2. *Estimating the advantages of taking on a new activity.*

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>New activity</b>					
<b>Gross additional income</b>	.....	.....	.....	.....	.....
<b>Less Variable costs</b>	.....	.....	.....	.....	.....
<b>Labour</b>	.....	.....	.....	.....	.....
<b>Transport</b>	.....	.....	.....	.....	.....
<b>Sales</b>	.....	.....	.....	.....	.....
<b>Sub-total</b>	.....	.....	.....	.....	.....
<b>Less Fixed costs relating to activity</b>	.....	.....	.....	.....	.....
<b>Financing of new equipment</b>	.....	.....	.....	.....	.....
<b>Depreciation of new equipment</b>	.....	.....	.....	.....	.....
<b>Continuing salaries</b>	.....	.....	.....	.....	.....
<b>Promotional outlays</b>	.....	.....	.....	.....	.....
<b>Sub-total</b>	.....	.....	.....	.....	.....
<b>Total costs of new activity</b>	.....	.....	.....	.....	.....
<b>Net contribution to general overheads</b>	.....	.....	.....	.....	.....



contribution of a new activity may be small or even negative in the first years; by the third or fourth year it should increase substantially if it is well suited to the enterprise and within the capacity of the personnel available.

Scope for additional activities in conjunction with agricultural marketing is considerable because of the seasonal concentration of many of the major operations and the need to maintain purchasing and supply services in rural areas with a low density of demand.

## **Business controls**

### *Maintaining accounts*

While enterprises extending over several countries have been built up by men who were illiterate, it helps to keep some accounts. Kallu found this out to his cost. At a minimum, a marketing manager should know how much he owns in relation to what he owes, and what he is earning in relation to what he spends. For these purposes he should have prepared annually a balance sheet showing his assets and his liabilities at a particular time, and an income and expenditure statement setting out clearly whether he has made a profit or a loss over a defined period.

Family enterprises will find such accounts useful as a guide to the progress of their business and to possible financial dangers ahead. They will be needed in approaching a bank for credit and making statements of income to tax authorities. Enterprises that are partnerships, joint stock companies, co-operatives and parastatals are generally under obligation to produce such accounts for shareholders, co-operative members and responsible departments of government. Balance sheets for marketing enterprises are presented as Tables 3.6, 4.4, 5.7, 6.4 and 6.10. Figures for the preceding year are normally provided to facilitate comparison and evaluation of changes between years.

Adequate provision for depreciation of fixed assets is essential if a financial balance is to be realistic. Depreciation allowances for various types of assets are illustrated in the Cyprus Potato Marketing Board study.

Useful indicators of the financial state of an enterprise are its net worth, i.e. owner's capital after deduction of indebtedness, and the current ratio, which is

$$\frac{\text{current assets}}{\text{current liabilities}}$$

A current ratio of 1.6 to 2.0 is generally acceptable. This is an indicator of adequate working capital, though trading enterprises can work with lower ratios provided the level of debtors is low, stocks are well controlled, turnover is rapid and prices cover short-term financing costs. Some of these considerations are reviewed in the case of the West Cameroun Co-operative Union.

Tables 3.1, 3.3, 3.4, 3.5, 4.7, 4.9, 5.3, 5.6, 6.5, 6.9 and 6.11 are income and expenditure statements showing the net profit of an enterprise for a year. Comparison of the component figures with previous years can help explain why profits have declined or increased. To bring more precision into operating plans, managers can be asked to prepare income and expenditure budgets for a coming year. If the actual figures differ markedly from those budgeted an explanation should be sought.

One critical ratio is the rate of earnings on the capital invested. If, for some time, this is lower than that available elsewhere the owners of the capital will be dissatisfied and be inclined to withdraw it.

A strong cash flow position gives a manager scope for initiative and movement. A commonly used indicator of this is the ratio

$$\frac{\text{net income to shareholders} + \text{depreciation allowances} + \text{other income net of taxes}}{\text{capital expenditures} + \text{changes in inventories} + \text{dividend or interest commitments on capital}}$$

A ratio of more than 1.0 indicates a strong cash flow and high capacity to take on new activities and make new investments.

### *Keep watch on costs*

The low operating costs of many family marketing enterprises stem from the direct relationship between outlays on services and the owners' pocket. The more use he can make of family labour and of own resources such as his house, outbuildings and a vehicle perhaps, the more he keeps for himself.

Under the pressure of handling a seasonal product, however, a larger-scale operator will have to engage whatever services are necessary to carry out the operation. Preferably such needs should be foreseen in advance, and the costs of using alternative suppliers appraised against their quality, reliability and timeliness. When the marketing season is over, the manager can do his cost accounting, setting out the supplies and services purchased and analysing their

impact on the profitability of his operation. In Table 3.2 the various costs involved in getting green beans from farms on to a plane at Dakar airport are set out in dollars per kilo. In Table 4.7, major costs incurred by Unilever-Is in Turkey are compared as a percentage of sales. Such analyses bring out the relative magnitude of various costs and changes between years, so pointing to those meriting special attention in a subsequent season.

This type of cost control is just as relevant to parastatal marketing operations as to private firms and co-operatives. Comparison of the current cost of standard operations per ton of produce handled with those of previous years is one of the efficiency measures available to a monopoly enterprise. Thus the ocean freight loss has been a strategic indicator for the Sierra Leone export marketing board. A rise above the normal meant pilferage of cargo during port loading. A rise in the average turn-around time of vessels in port signified poor organization of transport or handling equipment and crews. A rise in administration and other overhead costs per ton could reflect reduced handlings because of a poor harvest; otherwise it would point to a need to simplify procedures, combine personnel responsibilities and reduce total staff employed. To permit such analyses, expenditures on major operating functions – transport, packaging, storage, port handling – should be accounted for separately, not lumped together under such headings as labour, services; etc.

### *Currency risks*

Sudden changes in exchange rates can affect dramatically a marketing enterprise engaged in the export of agricultural products or distribution of supplies that are imported. If a change in rates is anticipated, the operator will do well to budget his outlays on replacements at the rate foreseen for the future.

High rates of inflation are common in many countries. The manager of a marketing enterprise must be aware of their implications. Selling on the basis of a 10 per cent margin to cover costs and profit will leave him in deficit if the currency has devalued 10 per cent in the meantime. To maintain his income in real terms his margin must be costs plus target income plus an allowance to cover the expected degree of inflation! An enterprise distributing fertilizer in Brazil in 1983 added a 10 per cent margin to its procurement prices to cover its own costs and profit, then a further 50 per cent to cover expected inflation. De-

preciation allowances should also be based on the cost of replacement at current prices, not past costs of purchase or construction.

### *Insurance*

Enterprises engaged in the marketing of agricultural products face a wide spectrum of risk. It ranges from price changes in response to events fully external to the enterprise to losses of produce in storage or transit and misuse of funds by responsible officers.

Protection against losses on forward contracts or stocks due to price changes can be obtained by hedging on a future market where one is available for the commodity concerned. In many developing countries access to such markets is limited by government policy and foreign exchange controls. However, sales agreements can be related to prices reported on recognized forward markets, as illustrated for soybeans in Paraguay.

Protection against many other risks can be obtained via insurance on a national basis. A co-operative can insure against the disappearance of a manager with its funds by requiring that he take out a bond for \$5000 or \$50 000 according to an estimate of the amounts at risk. A firm undertaking storage of produce for other enterprises can be required to obtain insurance against loss due to fire, its own negligence, etc. Insurance can be obtained against losses of produce shipped on consignment due to delays in transit and mishandling by the transporter or consignee. Where the risks of accidents, illness, etc. sustained by employees or users of marketing enterprise facilities are substantial, insurance against them should be obtained annually as a matter of course.

### *Use of computers*

Computer technology opens the way to convenient access to data, speedy processing and analysis of accounts, and easy correction, reproduction and issuance of standard typed materials. Common uses of computers by marketing enterprises and support services are to:

- a) maintain and provide easy access to inventories and expected arrivals at a number of depots or branches. Thus pressing a button will present on a screen an up-to-date summary of stocks at all its depots for the Director General of BULOG;
- b) analyse sales records, programme sales forward and provide financial management information that will help marketing managers to maintain efficiency;

- c) maintain records of salaries and social contributions of enterprise staff, prepare salary cheques, and make tax and other standard deductions where applicable;
- d) prepare and address standard letters to potential customers;
- e) maintain price and other information for a large number of markets and make it available on request;
- f) calculate optimum solutions to problems involving simultaneous equations of input and price variables, and present alternative supply options. Thus least cost combinations of various feed ingredients to meet a required nutritional formula can be determined. Use of cassava chips for livestock feed in Europe has been favoured by access to this technology. Lowest-cost locations of fertilizer distribution depots can also be determined on the basis of demand patterns and transport costs.

Computer use commonly has three phases:

- programming the computer to carry out existing tasks more efficiently;
- finding new ways of increasing its effectiveness in carrying out these tasks;
- devising, on the basis of experience, new tasks for the computer that might not have been foreseen initially.

Effective use of computers is feasible where:

- electricity services are reliable;
- spare parts, maintenance, staff training and technical support services are easily available;
- staff can be counted upon to operate computer systems. This implies not only capacity to prepare programmes, also timely insertion into the computer of current data and elimination of what is out of date.

There remains the cost-benefit calculation. Where clerical staff are available at low cost, computer support services are unreliable, and where there is a risk that strategic information held in the computer may be inaccessible when needed, the benefits should be very clear before expensive equipment is purchased. For periodic problem-solving, computer services can be hired.

### **Assessing performance**

Commonly accepted indicators of performance are:

- profitability
- return on capital employed

market standing  
quality of service  
innovativeness  
social responsibility.

### *Profitability*

Profitability means that at the end of the year the marketing enterprise achieves a net positive balance after allowing for all costs. How big that net balance should be will depend on the attitude of the owner. A private operator will expect a profit at least equal to what he could earn in alternative occupations open to him. If he lives in an environment of low wages and high unemployment he may accept a very low net income for lack of an alternative.

The transnational with other sources of income may be prepared to take a long-run view on profitability. This has been the attitude of Cadbury in India, for example, interested in maintaining a presence in expectation of future opportunities. More characteristic, probably, is the attitude of Gulf and Western Inc. It sold its holdings in the Dominican Republic in 1984 when low sugar prices and high taxes meant that they contributed less to its earnings than its investments elsewhere.

A marketing or input supply co-operative may be satisfied with a very small profit. Its primary concern is to serve its members by providing a favourable outlet for their produce and/or supplying inputs conveniently at low prices. An income sufficient to cover its costs will in these circumstances be judged sufficient.

For a parastatal enterprise, profitability may have still lower priority. Stabilizing the market for producers and consumers, earning foreign exchange for the national economy, and redistributing income in accordance with concepts of equity, can be prior considerations. Unless, however, the government concerned is in a position to subsidize it, a parastatal, like a co-operative, must cover its costs.

### *Return on capital employed*

An adequate return on the capital employed in a marketing enterprise is important where the sums involved are substantial and have either been borrowed by private owners or could be used by them in some other income-earning investment. The criterion for such investors is that the return is at least as high as could be obtained from other available investment opportunities.

The risk of losing the investment must also be taken into account. If a safe government bond pays 5 per cent interest net of inflation then a private business investment should pay substantially more. For a transnational investing in a country where it faces political, exchange rate and other risks additional to those of a familiar marketing business, a return of 20 per cent on external capital invested could be a normal target rate.

In 1980, Al Haji earned only \$340 on his investment of over \$2000 in equipment for his enterprise as buying agent for the North Cameroun Marketing Board. His rate of return was 17 per cent; 1980 was a bad year – he could expect to earn more. Matlhaku's 1982 profit, \$11 500, was a return of about 29 per cent on his equity. For these operators the return on capital includes remuneration of their own labour and management skills. Enterprises employing a manager would charge his salary as a cost and arrive at a net return on capital invested. The return on Unilever's investment in Turkey was over 20 per cent in recent years; in 1965 it was only 9 per cent (see Table 4.7).

Returns on capital employed receive less attention in parastatals. Their original capital may have been provided from public sources without obligation to pay interest. Some governments charge interest on fresh capital at a concessional rate and expect the parastatal to obtain bank finance for its purchases and stocks; they help in this by providing a guarantee. While a marketing parastatal may well be justified on service and social grounds it is appropriate, nevertheless, that it should account at market rates for the capital it employs. The advantages it offers may then be set against its full cost.

### *Market standing*

Market standing or market share is another objective measure of an enterprise's performance. If it has a 20 per cent share of total sales of a certain product or products as against 12 per cent some years ago, then it has performed well in this regard. A declining share would imply the reverse.

This measure can be applied to most marketing enterprises including parastatal monopolies where they compete on export markets. The Cyprus Potato Marketing Board, for example, was selling more potatoes in the U.K. and at a higher price in 1984 than ten years earlier. The manager was aware, however, that competing exports from Egypt were gaining ground. For Cyprus to retain its market share it might have either to accept a lower price, or spend considerably more on promotion.

The market standing of a firm is high if its share of the market is at the higher income end, and if it has a reputation for quality produce and for reliability in its dealings. It is unwise, however, to rest on such a reputation for long. An economic recession or other adverse shift in the market may find it unable to match more innovative or cost-conscious rivals.

### *Quality of service*

This is not easily measured, but is well understood by the clients of a marketing enterprise. Al Haji was liked by farmers because he paid them promptly, used correct measures, did not keep them waiting and was always polite. A fertilizer distributor would be providing good service if he could have ready for farmers the types and quantities of fertilizer they wanted at the time they wanted them, if he could explain clearly how they should be used and could arrange for purchases on credit.

Wimalejeewa, the commission agent, operates purely on service. His clients trust him to receive their produce, arrange for its presentation and sale at the best possible price, and to transmit the proceeds back to them. They have to trust his judgment in selling and his honesty over the price and deductions for expenses. Provision of credit to be set against the proceeds of subsequent sales was also part of his service.

### *Innovativeness*

This means readiness and capacity to introduce new techniques, adopt new forms of organization, develop new markets. It is important if there is to be progress in marketing in a particular sector of agriculture.

New techniques are quickly taken up after they have been demonstrated as effective under the prevailing conditions. It is the role of the innovator to identify them and try them out. For Soex and the other exporters of green beans from Senegal, the use of air transport and special cartons designed to minimize its cost was a great innovation. Cassava chips became the main foreign exchange earner of Thailand within a decade of the development of new technologies and markets by European transnationals and their local partners.

### *Social responsibility*

Consideration for the welfare of the people with which a marketing enterprise is in contact is an intangible, but also very important criterion of its performance. To a considerable degree there is a



coincidence of longer-run interests. An enterprise that buys produce must treat its suppliers fairly well if it is to expect to have their business the following year. One selling supplies cannot overcharge for long or else farmers will look for another source or change their production pattern. Too soft an attitude, however, over quality control for example, is not in the interests of the growers concerned. It can mean that the eventual buyer is dissatisfied and that his business is lost. Co-operatives often have difficulties in grading. They find it hard to reject their own members' produce. The outstanding success of the Ha-ee village group in Korea reflects its leader's insistence on doing just that in order to build up a unique reputation for quality.

While they may vary prices according to quality, market conditions and terms of payment, most marketing enterprises find it advisable to offer their customers much the same terms, particularly those customers whose business constitutes the mainstay of the enterprise. They are concerned to avoid a reputation for unfair treatment, favouritism or unreliability.

A co-operative or parastatal may go further in demonstrating equity of pricing and service. It may absorb extra transport costs on produce collected from distant growers, for example. The management should recognize that this involves extra costs, however, and, in consequence, a poorer service to those producers who are more conveniently placed for the market. Thus, against a high performance rating on social responsibility, a lower rating for service, and for cost may have to be set. A good marketing manager has to be able to strike a balance between competing criteria of performance.

### **Issues for discussion**

1. In what ways can marketing managers of co-operatives and parastatals provide effective signals to producers on market requirements? Give some illustrations.
2. Prepare, as manager of a marketing enterprise, sales plans for three agricultural products of your country (a) on domestic markets, (b) on export markets. Appraise the scope for promotion by various methods.
3. Some marketing enterprises commit up to 10 per cent of sales income to promotion of new products. Comment in this light on the sales policies of the enterprises featured in this text.
4. Propose an additional activity for one of the enterprises for which

- the case study includes an income and expenditure account. Construct a set of figures for Table 8.2 demonstrating estimation of its contribution to the general overhead costs of the enterprise.
5. Derive from the data provided in the case studies some significant ratios. What do they tell you regarding the financial efficiency of the enterprise concerned?
  6. Construct a probable income and expenditure statement for Kallu's enterprise (a) as a producer selling only his own produce and (b) as producer and wholesaler, on the basis of the information provided in the case study. What improvements are needed in your figures for situation (b) to make the enterprise profitable; how could they be attained?
  7. On the basis of its success with potatoes the manager of the Cyprus Potato Marketing Board was asked to consider handling carrots and table grapes. Prepare an action plan for each of these products and a tentative budget along the lines of the income and expenditure statements for potatoes.
  8. Assess the performance of some of the enterprises for which there are case studies; of some other enterprises with which you are familiar.

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## 6. Managerial Problems of Agricultural Cooperatives

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Gene A. German\*

### INTRODUCTION

The roots of many of the managerial marketing problems of agricultural cooperatives stem from the fact that agricultural cooperatives are formed to deal with market failures and, therefore, start their existence with a defensive posture (i.e., to protect or save the resources of a failing market). This is in contrast with other marketing firms that start with an offensive motive (i.e., to make money).

Market failures express themselves in four ways:

- i) prices are unjustifiably low;
- ii) cost are unjustifiable high;
- iii) poor quality products and services; and
- iv) lack of appropriate markets.

Although the specific market problems and failures that cooperatives are forced to rectify may vary from organization to organization, they fall under the following general categories:

- i) to achieve economies of scale;
- ii) to promote the adoption of modern technology;
- iii) to reduce destructive excess capacity;
- iv) to increase the efficiencies of transportation;
- v) to reduce transaction costs;
- vi) to reduce unnecessary risk and uncertainty associated with market outlets and sources of inputs;
- vii) to reduce unnecessary risk and uncertainty associated with prices and costs;

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<sup>1</sup> Anderson, B.L. "The Economics of Group Action in Agriculture". *Kooperative Arsbok* 1986. (Stockholm, Sweden: Foreningen Kooperativa Studier, 1986).

- viii) to improve grades and standards;
- ix) to assure accurate weights, measures and qualities;
- x) to provide services not available through traditional market channels; and
- xi) to combat market power.

## HISTORY AND GROWTH OF COOPERATIVE MARKETING

Agricultural cooperatives decreased in number from 4,822 in 1974 to 3,514 in 1984. During this same period cooperatives increased their share of farm products<sup>2</sup> brought to market from 23 percent to 31 percent (Table 1). The number of milk and livestock marketing cooperatives decreased by about one-third during that period, while egg and poultry cooperatives decreased almost two-thirds. The number of grain and soybean and fruit and vegetable cooperatives decreased approximately one-tenth. Other types of cooperatives experienced only slight decreases in numbers.<sup>1</sup>

In 1985, 11 cooperatives were listed among *Fortune's* 500 top industrial companies according to sales rank. During the same year, 21 cooperatives appeared on *Food Processing's* list of the 100 largest food companies (Table 2). Most of these companies have established respected brand names and rather well-known to consumers throughout the United States.

**Table 1. Market Share of Cooperatives, 1984**

Item	Number of Cooperatives	Market Share (Percent)
Dairy products	418	78%
Grain and soybeans	2,275	41
Cotton	487	35
Fruits and vegetables	394	17
Dry beans and peas	52	18
Livestock and wool	583	8
Poultry and eggs	63	8
All farm products	3,514	31

*Source:* U.S. Department of Agriculture. *Farmer Cooperative Statistics 1984*. Service Report 15. (Washington, D.C.: U.S. Department of Agriculture, Agricultural Cooperative Service, November 1985).

<sup>2</sup> Kotler, Philip. *Marketing Management*, 4th Ed. (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1980).

<sup>3</sup> Ann Gizela Stern, *An Analysis of Cooperatives With Successful Marketing Strategies*, Cornell University. A Thesis, 1986.

**Table 2. Major Brand Names Used in Marketing Products of Agricultural Cooperatives**

<i>Dairy Products</i>	<i>Fruits</i>	<i>Vegetables</i>
Challenge	Glorietta	Brooks
Crown	Libby	Calavo
Darigold	Sunkist	Comstock
Dairylea	Sun Maid	Great Lakes
Flav-O-Rich	Sun Sweet	McKenzie's
Hood	Thank You	Redpack
Land O'Lakes	Welch's	Sacramento
Lake to Lake		S&W
Morning Glory	<i>Nuts</i>	
Prairie Farms	Blue Diamond	<i>Poultry &amp; Red Meats</i>
	Diamond	Farmland
<i>Drinks</i>	<i>Sweeteners</i>	Gold Kist
Cranapple	Blue Ribbon	Land O'Lakes
Donald Duck	Crystal Sugar	Fresh Long Island
Guild	Sue Bee	Norbest
Ocean Spray	Valley Honey	<i>Grain Products</i>
Tree Top		Blue Ribbon
Welch's	<i>Other</i>	Hinod Rice
	Lindsay	Riceland
	Snyder's	3-Minute

Source: U.S. Department of Agriculture. *Cooperative Brands of Processed Foods*. Service Report 14. (Washington, D.C.: U.S. Department of Agriculture, Agricultural Cooperative Service, June 1985).

### Managerial Marketing Problems Facing U.S. Cooperatives

Although many of the marketing problems facing agricultural cooperatives in the United States are no different from those facing other types of food distribution companies, some of the most critical were identified by Stern in a Master's Thesis at Cornell University. "An Analysis of Cooperatives With Successful Marketing Strategies"<sup>4</sup> which are as follows:

1. *Small size and less capital than competitors* is a problem facing many agricultural cooperatives. Their small size does not allow for a specialization of management functions such as marketing and finance. The lack of capital is most noticeable in consumer advertising and marketing programmes. Also, research and development is hampered or abandoned when working capital is scarce.
2. *Entering into projects without thorough and careful analysis* can be a symptom of either too few management resources devoted to this area or inex-

<sup>4</sup> Ibid.

perience on the part of the cooperatives' management team.

3. *Focus on sale of commodity and not a consumer brand.* This problem can force a cooperative to be vulnerable to price competition from other producers when products are indistinguishable as commodities. It was found that one of the most important factors in the success of an agricultural commodity was the development of a recognizable consumer brand.<sup>5</sup>

4. *Develop a marketing plan for the "mass market" and not specific "target markets".* Most marketing managers in the United States agree that the mass market for consumer products no longer exists. Target markets that identify market segments by geography and demographics (such as age, sex, income, occupation and education) are the most common segment variables. Consumers are also grouped by lifestyle and attitudes through psychographic segmentation. A cooperative will often establish target markets for institutional customers as well as final consumers.

5. *Failure to consider competitive positioning of products.* Very few consumer products are offered in the marketplace without competition. Competitive positioning is the development of a marketing strategy that takes into consideration the market position of the competitive product. Factors such as the competitive products' price, quality and dependability are considered when developing this aspect of a marketing strategy.

6. *Focus on production and failure to develop a marketing system.* A production-oriented cooperative depends on the continuation of consumer demand for products that are available and affordable. These organizations see their task as improving production and distribution efficiency. Agricultural cooperatives must develop a marketing orientation that will enable the firm to understand the needs and wants of the target markets and serve them better than competitors. It is important to note that a marketing department does not ensure that the cooperative will be marketing-oriented. To be a successful marketing-oriented firm requires support from top management. This requires that leadership and direction to ensure marketing considerations are woven into every function of the business.

7. *Failure to develop a marketing plan.* Without a marketing plan it is unlikely that the cooperative will enjoy long term success. This plan is a written report that establishes long term goals and strategies that the cooperative will use in positioning its products in the market and describe the results it expects to achieve.

## FACTORS CONTRIBUTING TO STRONG MARKETING PROGRAMME

In her research, Stern asked the management of 14 successful agricultural

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<sup>5</sup> Ibid.

cooperatives in the United States the question: "What do you consider the major reason why your cooperative has a strong marketing programme?"<sup>6</sup> The most frequently mentioned factor was "A quality brand franchise" by 86 percent of the respondents (Table 3).

The value of the brand franchise allowed these firms access to customers and gave them a degree of control of their products throughout the market channel. According to Stern,

"In addition to contributing to product recognition and image, the brand franchise guaranteed consumers a consistent and superior quality. There was a significant emphasis on the qualitative aspect of the brand franchise..... Consequently, the brand franchise was viewed as closely linked to the second most common response (71 percent): The cooperative's reputation for high quality products, reliable service, especially to retailers and outstanding and reliable performance".<sup>7</sup>

## DISTRIBUTION CHANNELS

Agricultural cooperatives reported that they used primarily food brokers to market their products to retail and wholesale customers. All but two of the 14 responding cooperatives in the Stern study cited earlier used food brokers exclusively or in combination with their own sales force (Table 4).

Food brokers provide agricultural cooperatives with a fixed, measurable,

**Table 3. Factors Contributing to a Strong Marketing Programme, 14 Successful Cooperatives**

(Unit: Percent)

Response	Specifically Mentioned	Overall Evaluation
A quality brand franchise	86	100
Reputation for quality and service	71	100
Concentrate on niches and what we know best	28	100
Customer orientation	28	100
Stress innovation and research and development	28	78
Good people	21	100
Analyze all opportunities	21	100
Effective advertising	21	86
Willingness to take risk	14	78

<sup>6</sup> Ibid.

<sup>7</sup> Ibid., pp. 74 and 75



**Table 4. Characteristics of Distribution Strategies,  
14 Successful Cooperatives**

(Unit: Percent)

Response	Specifically Mentioned	Overall Evaluation
Explore possible distribution channels	78	100
Use brokers and own sales force	57	57
Use brokers exclusively	28	28
Use own sales force exclusively	14	14
Very selective in choosing brokers and distribution channels	14	43

selling cost and one that is usually less than the cost of maintaining an internal sales force. Food brokers charge a fee only when products are sold. The fee is a percentage of the selling price and ranges from a low of about 1.5 percent on non-perishable well-known brand names to about 10 percent for slow selling perishable products.

### Marketing Advantages and Disadvantages

When asked to identify marketing strengths, 64 percent of the respondents mentioned their brand name, reputation and quality image as their prime marketing advantage (Table 5).

It is interesting to note that this response is consistent with the response to the previous question "What do you consider the major reason why your cooperative has a strong marketing programme?" Eighty-six percent said it was due to "A Quality brand franchise" (Table 3). The development of a successful consumer brand is given credit by a high percentage of agricultural cooperatives for the success of their marketing programme or as a major strength of their firm.

When asked to identify the marketing disadvantages of the cooperatives, 43 percent responded that their firm was small compared with competitors. A second concern was the limited source of equity capital. Stern points out that:<sup>8</sup>

"Compared to the large food corporations most marketing cooperatives are small organizations. Land O'Lakes food sales were \$1,103 million in 1984. It competes in the spreads market with R. J. Reynolds and Dart & Kraft, which had food sales of

<sup>8</sup> Ibid. p. 107.

Table 5. Marketing Advantages, 14 Successful Cooperatives

(Unit: Percent)

Responses	Specifically Mentioned	Overall Evaluation
Brand name, reputation and quality image	64	100
Assured supply	21	100
Unique technology and products	21	36
Full product line and diverse products or markets	14	86
Good marketing people	14	71
Lean staff	14	50
Split boards of directors	7	50
Quantity control	7	28
Rigorous quality control	7	100

\$10,951 million and \$6,800 million, respectively, in the same year".<sup>9</sup>

It should be noted that both the advantages and disadvantages mentioned by the management of these agricultural cooperatives were a comparison with all competitors and not just other cooperatives.

## MARKETING PERSONNEL

Where do agricultural cooperatives find marketing people with the talent needed to develop a strong brand franchise? According to Stern, 71 percent of the successful cooperatives surveyed said that marketing personnel came "from companies with strong marketing programmes" (Table 6). The most frequently mentioned firms were: General Foods, Pillsbury, Procter & Gamble and American Home Foods. Also mentioned were the cooperatives direct competitors and their advertising agencies.<sup>10</sup>

## PROBLEMS IN DEVELOPING STRONG MARKETING PROGRAMMES

When the management of nine successful U.S. agricultural cooperatives were asked "Why so few cooperatives have strong marketing programmes", the response once again focused on the importance of a strong brand fran-

<sup>9</sup> "Annual Report: Top 100 Food Companies". *Food Processing*, December, 1985, pp. 26-30.

<sup>10</sup> *Ibid.*, p. 112.

**Table 6. Recruiting Sources for Marketing Personnel,  
14 Successful Cooperatives\***

(Unit: Percent)

Responses	Specifically Mentioned
From companies with strong marketing programs	71
Internally	36
Executive search firms	28
Universities	21

\* An overall evaluation of this issue was not done.

chise. Seventy-seven percent said that the *lack* of a brand franchise was an important factor inhibiting the adoption of a strong marketing programme (Table 7).

Another deterrent to a strong marketing programme was the unwillingness of cooperatives to invest in marketing. In summarizing this problem area, Stern observed:

"There was a general consensus that to be successful in the market, a cooperative needs a long-term business orientation and to invest for the future through market research, product development, plants, people and brand advertising."<sup>11</sup>

**Table 7. Factors Inhibiting the Adoption of Strong Cooperative Marketing Programmes, 9 Successful Cooperatives\***

(Unit: Percent)

Responses	Specifically Mentioned
Lack of a brand franchise	77
Unwillingness to invest in marketing	66
A focus on members and quantity rather than on the market and consumers	44
Do not pay competitive salaries	44
A poor understanding of marketing among the board and management	22
Lack of strength in the market place	22

\* An overall evaluation of this issue was not done.

<sup>11</sup> Ibid., p. 124.

Agriculture is still the mainstay of Indian economy. The transformation of conventional farming system, after introduction of modern farming package by using HYVs, chemical fertilisers, pesticides and mechanised operations, has given boost to the production of foodgrain and oilseed crops. The post-green revolution impact has marked increased productivity and output of different crops on one hand and the marketing complexities on the other. The domestic market for foodgrains and oilseeds has become multi-channelled with different functional characteristics. The regional variations in procurement and disbursement patterns have also been affected to a large extent due to increasing supply potential of various agricultural crops. Thus, different marketing practices have been adopted in Indian agricultural marketing system in non-institutional sector. This sector is largely dominated by the private traders, middlemen and processors.

However, to reduce the influence of this segment of traders, an informal agricultural marketing pattern has been attempted through regulated features of trading by enactment of an Act authorised by British resident in Hyderabad district first in 1897. Later, the cotton trade was regulated in Bombay province, promulgating Cotton Markets Act in 1927. The Royal Commission on Agriculture recommended in 1928 the establishment of regulated markets widely in the country which was given considerable importance. In post-independence period, regulated markets have shown positive growth and their number raised to 5,579 in 1983-84.<sup>1</sup>

Though the regulated markets have a network in the country as an alternative channel of marketing, the number of villages served per market is found very high. In 1983-84, one market served 198 villages. In other words, the number of available regulated markets is very low. Thus, cooperative societies with an objective of marketing agricultural products have emerged as an alternative channel during the Second Five Year Plan, with a wider network. In all,

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\*Rajagopal, "Indian Rural Marketing", Rawat Publications, Jaipur and New Delhi, 1993



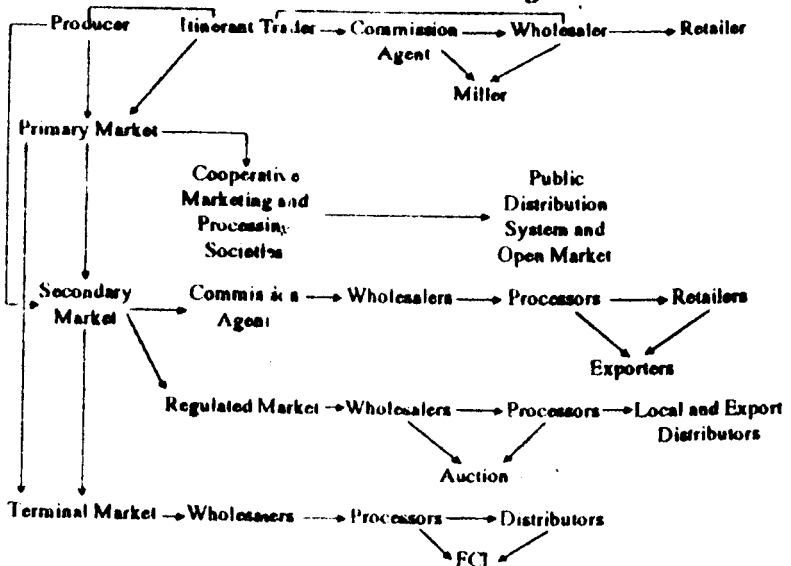


there are four principal marketing channels for agricultural products existing in the country—private traders, processors, regulated markets and cooperatives. However, the fifth channel—Food Corporation of India—functions as a state agency and indirectly affects the open market.

### Marketing Channels

The agricultural produce markets may be classified into three categories: (i) primary, (ii) secondary, and (iii) terminal markets. The function of each type of market is different and so the channel impact also. Diagram 3.1 exhibits category-wise channel distribution in foodgrains marketing. The primary, secondary and terminal

Diagram 3.1  
*Types of Markets and Marketing Channels*



markets are interlinked and the common channel which operates in all the markets is commission agents or middlemen. The cooperative marketing and processing societies function in primary markets where the produce is assembled. The processing societies are linked with the government through public distribution system (PDS). The societies also sell the processed grains in open market besides the

wholesalers. The procurement functions of societies are limited to the bonafide members. It is an intermediary free channel for marketing of agricultural produce. The regulated markets are largely located in towns and categorised under secondary markets where arrivals of produce is large and the transactions which take place are through auctions. Here too, the commission agents, wholesalers and processors operate as the core group buyers. The terminal markets are the place where the produce is transacted for export or for distribution to ultimate consumers. The diagram further explains the functional linkage among the channels in different types of markets. In regulated markets, generally auction method is followed to avoid the interference of middleman. However, there are many other methods, which are being explained here under.

### **Systems of Sale**

There are different systems of sale of agricultural produce practised in various agricultural marketing committees.<sup>2</sup>

Even in the same market, different systems may be applicable to different commodities. Every system of sale has its merits and it would be desirable to briefly review the different methods. These are: (i) open auction system, (ii) *hatta* (sale under cover) system, (iii) *hatta-cum-open* auction system, (iv) *fardi* system, (v) open agreement system, (vi) tender system, and (vii) forward or *moghum* sales system.

(i) *Open auction system*: The ideal method of conducting open auctions is to conduct commoditywise sale by properly arranging the arrivals coming to market in open lots in front of the shop of the commission agent, wherever he is functioning, to provide necessary cemented or paved platforms, preferably covered, for the purpose. It is the duty of the commission agent to protect the stocks from damage by sun or rain or otherwise. An improvement over this is the exhibition of lots on the platforms specially provided by the market committee for this purpose. Whenever grading prior to sale is taken up, lots are arranged gradewise which further reduces the time involved in the conduct of sales as the traders do not waste much time in assessing the quality of the produce. The sellers also become quality minded in such a case and prepare the produce in a better



way for the market. Grading of the produce also helps the producer in correctly exercising the option given in regulated markets as to whether to part with the produce or not at the maximum price offered in the open auction. It is a common experience that when the auctions commence for the day, the participating buyers are not many. Their number increases as the auction progresses. Towards the close of the day again, the number of buyers may decrease. In order to even out the effect of this phenomenon over all the commission agents in the market, common practice is to commence the day's auction from the shops of different commission agents by rotation. For the benefit of both sellers and buyers, some market committees announce on the notice board the name of the commission agent from whose premises the open auction would start on a particular day. Some other market committees hoist a flag in advance at a particular spot so that all intending buyers may assemble at that spot at the stipulated hour. The unit for which prices are to be quoted is fixed in the bye-laws of the market committee. It is generally the practice to conduct the auction of a particular commodity at only one spot at a time and not at many spots simultaneously so that all the intending buyers of that commodity can participate. This ensures the most competitive price to the seller. Otherwise, the intending buyers would get disrupted and the most competitive or maximum price for a particular lot at a particular time and place would not be possible.

The time factor usually comes on the way of this system of sale being adopted in all markets, particularly in multi-commodity markets where the lots that arrive in a day are more than three to four hundred in respect of a single commodity. To tide over this difficulty and complete the sales as expeditiously as possible and at the same time to ensure the most competitive price to the seller, different devices like appointment of auctioneers for the conduct of sale by the market committee, fixation of a time limit for each commission agent's premises depending on the number of lots put up for sale on any particular day, making the lots uniform in certain quality factors by evening them out by pre-cleaning, drying, etc., introduction of grading, and stipulation of a minimum unit by which the buyers have to increase the bid during the auctions, are resorted to

by various market committees. Besides a competitive price to the seller, psychological satisfaction to the seller, buyer and commission agent, possibility of purchasing one's requirements to fulfil one's immediate commitments, and open indications of the trends in prices, which will be of guidance to small traders and owners of small processing units who have practically no facilities to be in close touch with the trends in terminal and consuming markets, are some of the points in favour of conducting open auctions.

(ii) *Sample system*: In open auction, in certain markets, the method of bidding on the basis of samples is adopted. The commission agent draws a representative sample which indicates details of the quantity, name of the seller, etc., by putting a slip in the sample and exhibits the same as representative of the bulk. After the establishment of warehouses in some of the regulated markets by the Central and State Warehousing Corporations, notified agricultural produce is warehoused by producers as well as traders. When such depositors wish to sell their stocks, representative samples issued from such stocks are taken to the regulated market and open auctions are conducted on the basis of samples so exhibited. The sample issued by the warehouseman invariably indicates the grade designation which reduces the scope for disputes arising from variation in quality between the sample and the bulk.

(iii) *Hatta system*: In a few markets, the price is still being settled literally under cover by what is commonly known as the *hatta* system. Under this system of sale, the commission agent covers his hand with a kerchief and invites offers individually from each of the buyers present, which the buyers make by pressing his fingers and finger joints, a language of signs easily understood both by the buyer and the commission agent. The highest offer thus made is intimated to the seller and after he agrees, the bid is closed and the sale is confirmed. The sale under this system is open to a variety of malpractices as the seller all the time remains in the dark and it is only the commission agent and the ultimate buyer who really know the price negotiated. The commission agents, however, disown any malpractice in this system of sale and on the contrary assert that under this system, the buyer, not knowing the offer of his rival, is obliged to give a higher bid. While there may be some substance in

it, there is no guarantee that the benefit of this higher price always goes to the producer, because he is unaware of the precise offer. The fact, however, remains that the *hatta* system of sale, wherever operated, is to the detriment of the producer and to the advantage of the trader and the commission agent, whatever may be the arguments put forth in its favour or against it.

(iv) *Hatta-cum-auction system*: A compromise is sometimes made between the *hatta* system and the open auction system and the price which is fixed under cover is declared openly and subsequent offers are invited before the bargain is finally closed. This system is followed in the cotton market of Amraoti and the vegetable market of Ahmedabad, both of which have been regulated. In practice, this system hardly has any advantage to be claimed, because the mutual understanding between the traders is so strong that in the open auction that follows none comes forward to outbid his colleague.

(v) *Fardi system*: In some of the important markets of Marathwada in Maharashtra, commodities other than cotton are sold by open auction in heaps or carts. But, the sale of cotton is made in a different manner. The auction, under this system, is conducted without the commodity being physically present. The *arhatias* are divided into six *fardis* or groups. Everyday, the total arrivals of the one group fixed for the day is put to auction as a single lot and is purchased by the buyer who offers the highest bid. The *arhatias* of the other five groups could then sell the cotton of their clients to any buyer of their choice at the rate bid for the day. If, however, the *arhatias* of the other groups feel that they are not likely to have any buyers, they are required to offer their names to be entered in the *fardi* before the auction starts and the highest bidder of that day has to purchase the entire arrivals of the other groups as well. This system of sale is detrimental to the interests of the sellers as the value paid is not based on quality factors of individual lots and often is a source of disputes.

(vi) *Open agreement system*: This system of sale allows for direct negotiations between the sellers or their commission agents on the one hand and the buyers on the other. The produce, in this case, is supposed to be sold at the highest possible price of the day. In a large number of markets, where the day's arrivals cannot be

auctioned on the same day, the market committees have permitted sales by open agreement. This system is not to the advantage of the seller in that the price arrived at by such mutual negotiation may not be the most competitive rate in a large number of cases.

(vii) *Tender system*: In this system, at an appointed hour, a bell is rung and thereafter no tender slips are allowed to be deposited. The tender box is then opened and the tender slips are compared lot by lot by the Market Superintendent and the highest quotation for that lot is recorded in the bid declaration slip. The maximum price quoted is announced through the loudspeaker for the benefit of the sellers and the buyers. If any seller is not willing to part with his produce at the price announced, he has to inform the market committee within the time limit fixed for the purpose. In the absence of such intimation, it is assumed that the seller is agreeable to part with the produce at the rate announced. In this system of sale, the physical labour involved is the least for the different parties concerned and there is certainty of completing the sale of all the lots by the stipulated hour irrespective of their number.

It has been further observed from the case studies conducted, that the difference in prices offered by the declared highest bidder and the next one in many cases amounts to as much as a few rupees. This clearly indicates that the price quoted are based more on individual calculations of profit margin than by simply working out the parity price based on the terminal prices. This tender system of sale has one definite advantage over the open auction that it is time saving. The intending buyers visit the commission agent's shop and record their quotation in the bid slip supplied by the market committee and deposit these in boxes (boxes of different colours are provided for different commodities) placed at convenient centres of the yard. The bid boxes are opened at the prescribed time and the names of the highest bidders for various lots announced on mike and later confirmed in writing by the committee and the buyers.

(viii) *Forward or moghum sales system*: Forward sales, *moghum* sales or nominal sales are the different names of a method of sale wherein transactions are made only on the basis of an oral understanding between the buyer and the seller without mentioning the rates. It is understood that the buyer will pay the price prevailing

on a particular date. This system is usually adopted where the agriculturist borrows money from traders or where the place of his residence is far away from the market.

### Channel Efficiency

In a multi-channel market economy, the business moves around comparative advantages. There are many factors that affect the marketing efficiency of a channel. However, the seller's decision ultimately determines the selection of the trade channel based on socio-economic perceptions and comparative gains. The price-spread in produce marketing, middleman's margin and seasonal deviation in prices are the important indicators in measuring the economic efficiency in a multi-channelled marketing system. These indicators are correlated and affect the marketing efficiency of the channel as pooled factors. Table 3.1 shows the variables associated with the efficiency indicators in different marketing channels. Of these, the deviation in prices has greater impact on economic efficiency as compared to other indicators. The high deviation in prices with particular channel, does not stimulate the producer to prefer for transactions therein. However, the price spread in marketing and the producers' share in final product also

Table 3.1  
*Efficiency Variables in Marketing Channels*

<i>Producer's Share</i>	<i>Cost of Marketing</i>	<i>Price Deviation</i>
1. Producers' Price	1. Transportation	1. Lean Season
2. Price of Foodgrains	2. Weighing	2. Peak Season
3. Price of by-product	3. Labour	3. Risk Coefficient
4. Weighted Price	4. Commission	
	5. Market Cost	
	6. Processing Cost	
	7. Disposal Cost	
	8. State Taxes	
	9. Miscellaneous	
	10. Middleman's Margin	

determine the efficiency of marketing in a channel. There are few studies conducted in regard to the measurement of economic ef-

efficiency of marketing channels for agricultural trade. It is observed that the efficient marketing channel enables the producer to optimise his share as well as provide scope for the trader to liberalise the transaction and gain more profit. In the following section, a case study has been discussed for clear understanding about the economic efficiency of marketing system in Madhya Pradesh with specific reference to paddy.

### **Economic Efficiency of Paddy Marketing System<sup>3</sup>**

One of the characteristics of agricultural production in a vast country like India, with varying farm economic conditions, is the regional specialisation. Thus, some states like Punjab, Haryana, Andhra Pradesh, Madhya Pradesh and some regions within the states have a comparative advantage over other in the production of cereals. Under free market economy, such regional specialisation would result in an optimum use of land and other resources through the operation of an effective pricing system and an efficient, unrestricted flow of goods from the producer to the consumer through channels of marketing. It is in this context that the farmers' response which influences the structure and organisation of the economic activities in various marketing channels assumes critical importance.<sup>4</sup>

Marketing is a controversial issue with producer, processors, wholesaler, and retailer alike. At this stage, it is essential to define the concept of marketing channels as relevant to the present study. The channels of marketing involved in paddy trade can be identified (a) in terms of a pipeline for transaction of goods from the producer to the consumer through cooperatives, (b) as a combination of agencies between producer and processor, (c) as intermediary sellers between producer and ultimate consumers, and (d) as regulated markets.<sup>5</sup> The present study explores the efficient marketing system prevailing in Raipur district of Chhattisgarh region of Madhya Pradesh in paddy marketing.

### ***The Problem***

The specific objectives of the study are: (a) to identify some indicators of economic performance of marketing channels, (b) to compute the measures of overall performance of paddy marketing

channels, and (c) to identify the efficient marketing channel. In the context of paddy marketing system, the participants have some choice to operate in different channels. The marketing efficiency might vary according to the marketing channel and the participants. In marketing terminology, operational efficiency refers to all adjustments that may be made by the individual firms to reduce the unit cost.<sup>6</sup> Nevertheless, the variable 'low' or 'high' producers' share in the value of final product gives an idea to some extent whether there are any interactions or agreements or not. In this study, the marketing margin of middlemen has been used as a proxy to the criterion for unrestricted mobility of large transactions between buyers and sellers. The variable representing the variations in prices has also been used to identify the spatial and temporal price variations and market integration.<sup>7</sup>

Raipur district in Chhattisgarh region of Madhya Pradesh, being the highest paddy producing area, was selected for the study. Paddy is the staple crop and it occupies 96.88 per cent area out of the cereals grown. The production of paddy per hectare is 908 kilograms on an average.<sup>8</sup>

### *Methodology*

The six performance indicators in four marketing channels reflecting economic efficiency can be stated as follows: (i) producers' share, (ii) marketing cost, (iii) middlemen's margin, (iv) price deviation, (v) peak period seasonal price variability, and (vi) lean period seasonal price variability. Four channels of marketing studied are: (i) farmers selling paddy through agents/brokers to the traders in village markets, (ii) farmers selling paddy through agents/brokers to the rice millers, (iii) farmers selling paddy to marketing cooperatives, and (iv) farmers selling paddy in regulated markets.

The producers' share is derived by the ratio of net average price received by the producers to the weighted average price of rice and bran. It was calculated with the following formula:

$$P_{wi} = \frac{P_i.W_r + P_{bi}.W_b}{W_r + W_b}$$

where  $P_i$  = average price of rice in each channel,

$P_{bi}$  = average price of bran in each channel,

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$W_r =$  weight for rice,  
 $W_b =$  weight for bran, and  
 $i =$  number of channels.

Weights are derived on the basis of average input-output ratios of rice and bran in each channel. The cost of marketing is calculated per rupee and the lowest marketing cost channel was ranked I vis-a-vis IV. The same approach has been followed in ranking the margin of middlemen in each channel. The deviation ( $\bar{d}$ ) between the highest and lowest prices in each month in the respective channels has been computed. The price equalisation among all the categories of farmers denotes  $\bar{d}=0$ . The seasonal movement of prices has been studied by applying the simple standard deviation ( $\bar{c}$ ) formula instead of computing time-series data. The formula used in the study is as follows:

$$\sigma = \sqrt{\frac{1}{T} \sum W_t (P_t - P)^2}$$

where  $\sigma =$  seasonal price variability index,  
 $P =$  average price of paddy of the season in each channel,  
 $P_t =$  average farm price for the agricultural year,  
 $T =$  total months in the season, and  
 $W_t = \frac{\text{Sales during the month in a channel } (S_t)}{\text{Sum of the sales during the month in all channels } (E_t \text{ Et } S_t)}$

The term 'season' implies peak and lean periods. The peak period represents transactions from November to January and lean period from February to April in each agricultural year. The estimation of 'a' was carried out separately for each period. A lower value of 'a' shows that the farmers' prices were not affected by the seasonal variations and vice versa. The final ranking of all the six indicators for the four channels was computed by the composite index formula:

$$R = \frac{R_i}{N_i}$$

where  $R_i =$  total value of ranks of all indicators ( $I_1 \dots I_6$ )  
           all channels, and  
 $N_i =$  number of indicators.



The discussion, as stated earlier, is mainly confined to the paddy marketing system in Raipur district of Chhattisgarh region in Madhya Pradesh. Four markets, namely Sigma, Raipur, Bhatapara and Rajim were chosen purposely based on the criteria of highest agricultural population and significant marketed surplus. Forty farmers were selected on the basis of random sampling method from each of the four villages in each market (Table 3.2). But due to non-availability of data, 35 farmers were excluded from the analysis.

Table 3.2  
*The Sampling Design*

Market	Village	Channels				Total
		I	II	III	IV	
Sugar	1	10	8	18	4	40
	2	6	12	14	8	40
	3	12	—	20	—	32
Raipur	1	8	12	7	13	40
	2	5	12	8	12	37
	3	10	13	—	10	33
Bhatapara	1	8	12	8	10	38
	2	10	6	12	12	40
	3	7	—	10	10	27
Rajim	1	10	14	10	4	38
	2	8	10	12	10	40
	3	5	8	20	7	40
Total		99	107	137	100	445

In addition, the data regarding marketing costs, purchase, sale prices, turnover and quantitative information from 12 cooperative marketing societies, four regulated markets (*mandis*), 24 traders, 12 brokers and eight processors were collected through the short and purposeful schedules and personal interviews. The study was conducted in two phases—1980-81 to 1981-82 and 1982-83 to 1984-85—to keep the accuracy in personal interviews and primary information of farmers. The data have been updated to 1986-87, with more number of indicators for extended study. The data of alternate years were taken for analysis on the assumption that these reflect

more specific change in the values of selected indicators.

### Results and Discussions

The producers' share in the final product price in different marketing channels (Table 3.3) is highest in channel III, followed by channel IV and channel II and is lowest in channel I.

**Table 3.3**  
*Producers' Share in the Final Product Price in Different Marketing Channels*

Particulars	Channels			
	I	II <sub>m</sub>	III	IV
Producers' Price ( $P_p$ )	148.00	155.15	161.06	159.87
Price of Rice ( $P_r$ )	295.00	296.00	280.00	282.00
Price of Bran ( $P_b$ )	101.00	105.00	90.00	86.00
Weighted Average Price of rice and Bran ( $P_{wrb}$ )	237.00	238.90	223.19	223.40
Percentage of Producers' Share ( $\frac{P_p}{P_{wrb}} \times 100$ )	62.44	64.94	72.16	71.62
Rank ( $T_1$ )	4	3	1	2

Weights: Input-output ratio: 100 kg. paddy=68 Kg. rice + 29 kg. bran.

The balance in each identity is wastage.

The results disclose that the farmers get the highest benefit if they sell their produce through the cooperative marketing and processing units. The cooperative marketing and processing units in the district have the credit-marketing banking scheme. Under this scheme, they collect paddy through their linking centres, set up at the village market level and the member-farmer is paid one rupee more than the *mandi* price of the day. The sale value of the member-farmer is adjusted in the outstanding of the previous crop loan taken by the farmer and the balance amount, (if any), is paid to the farmer. Thus, by the repayment of the loan, the farmer becomes eligible for the crop loan from the society for the next cropping season.

The private traders, along with their *kochias* who purchase the paddy in the village market, give the lowest share to the producers in the final product price.

The cost of marketing of paddy and the margin of middlemen in various channels (Table 3.4) show that the cooperative marketing and processing units (channel III) have to incur the highest marketing costs whereas the same is lowest in regulated markets commonly known as *mandi* (channel IV). The study depicts that the cooperative marketing and processing units incur more marketing costs due to lack of proper infrastructure available at the village procurement outlets. Besides this factor, the cost of milling is also high in the cooperative channel (channel III) as compared to the cost met by channel I and II. The cost of marketing is low in channel I compared to the channel II due to milling and taxation factors.

Table 3.4

*Costs of Marketing and Margin to the Middlemen in Different Marketing Channels*

(in Rs.)

Particulars	Channels			
	I	II	III	IV
Transportation	0.019	0.011	0.018	0.014
Weighing	0.015	0.010	0.017	0.012
Labour	0.019	0.018	0.017	0.010
Commission	0.005	0.005	0.005	0.009
Market Cost	0.010	0.010	0.010	0.010
Milling Cost	0.256	0.268	0.272	—
Disposal Cost	0.015	0.017	0.019	0.010
Taxes	0.019	0.138	0.121	0.131
Other Costs	0.354	0.310	0.359	0.572
Total Cost	0.812	0.787	0.838	0.768
(1)	(2)	(3)	(4)	(1)
Margin to Middlemen	0.188	0.213	0.162	0.232
(1)	(2)	(3)	(1)	(4)
Total		1.000	1.000	1.000

Figures in parentheses indicate ranks.

The deviation between the minimum and prices (Table 3.5) is lowest in channel I and highest in channel IV. The possibility of such result in channel IV may be due to the demand and supply conditions in the villages. The number of buyers in the village markets

is less and the sellers are more, thus, the private buyers (traders) make quality differentiation and price discrimination.

**Table 3.5**  
*Deviations between Minimum and Maximum Prices in Different Marketing Channels*

Year	Month	Channels			
		I	II	III	IV
1980	1	17.5	18.9	2.8	28.0
	2	8.0	10.9	6.0	7.7
	3	13.5	16.0	4.5	4.2
	4	16.9	3.9	0	22.5
	5	10.9	0	0	0.7
	6	0	0	2.5	0.7
1982-83	1	9.0	10.0	3.5	8.5
	2	14.0	5.0	1.4	19.7
	3	16.0	0	28.0	17.6
	4	NT	NT	0	NT
	5	NT	0	NT	NT
	6	NT	NT	NT	NT
1984-85	1	0	9.0	10.6	14.9
	2	26.0	25.0	10.6	31.5
	3	27.5	5.0	3.5	2.12
	4	NT	5.0	2.8	3.5
	5	NT	NT	NT	16.0
	6	NT	0	NT	7.0
$\Sigma d$		159.3	108.7	82.5	184.62
N		12	15	14	15
$d$		13.275	7.246	5.890	12.308
Rank ( $I_d$ )		4	2	1	3

NT denotes no transaction.

The seasonal variations in prices of paddy for the peak season in different channels (Table 3.6) elucidate that the lowest variation in prices is found in channel I and the highest in channel IV. The produce is disposed of in the regulated market (*mandi*) by open auction and so price variations may be high in the peak season. The variation in channel I is higher than that in channel II, because the private rice millers association formulates the procurement price

structure according to the trends in other active marketing channels in the peak season.

**Table 3.6**  
*Channelwise Seasonal Price Variability factors for the Peak Season*

Year	Month	Channels			
		I	II	III	IV
1980-81	1	13.4047	15.9158	5.9160	20.3393
	2	11.5470	8.3964	5.1961	6.9776
	3	10.0249	12.2020	4.4158	16.4772
1982-83	1	6.4031	7.3950	2.1213	7.0133
	2	11.1803	7.0710	0.8660	11.5974
	3	12.5174	2.8867	5.1720	10.2316
1983-84	1	4.5552	10.8166	6.1237	16.8133
	2	21.6967	20.1664	4.5825	23.0108
	3	21.9473	10.8972	1.8708	7.6934
$\sum W_i(P_i - \bar{P})^2$		113.2768	95.7451	36.2642	120.1539
T		9	9	9	9
$\sigma$		3.5477	3.3616	2.0073	3.6538
Rank ( $I_3$ )		3	2	1	4

In the lean season, transactions of paddy in all the marketing channels are meagre. But, the availability data (Table 3.7) on the channelwise seasonal price variability factor for lean season indicate that the price variation is the highest in channel IV and the lowest in channel III, followed by channel II. No rank has been allotted to channel I due to insignificant data.

Further, results in Table 3.8 regarding the efficiency of marketing channels drawn on the basis of the ranks of different performance indicators in different channels describe that channel III possesses the highest marketing efficiency, followed by channel II and channel IV. The performance indicators make it clear that channel I is not efficient in the agricultural marketing sector in the paddy producing regions. It may be due to low prices received by the farmers in this channel compared to other channels. The farmer's response to the marketing channels is found significant in the cooperative sector compared to other channels of paddy marketing.

**Table 3.7**  
*Channelwise Seasonal Price Variability Factor for the Lean Season*

Year	Month	Channels			
		I	II	III	IV
1980-81	4	12.3085	2.6925	0	17.9791
	5	7.7620	0	0	0.5773
	6	0	0	2.1650	0.4330
1982-83	4	NT	NT	0	NT
	5	NT	0	NT	NT
	7	NT	NT	NT	NT
1984-85	4	NT	3.8405	2.0615	3.5355
	5	NT	NT	NT	13.0479
	6	NT	0	NT	5.0990
$\sum W_i(P_i - \bar{P})^2$		20.2705	6.5329	4.2265	40.6718
T		3	6	5	6
$\sigma$		2.5865	1.0434	0.9194	2.6035
Rank (I <sub>a</sub> )		—	2	1	3

NT denotes no transactions.

**Table 3.8**  
*Efficiency of Marketing Channels*

Marketing Channels	Performance Indicators						Composite Index $R_i/N_i$	Final Ranking
	I <sub>1</sub>	I <sub>2</sub>	I <sub>3</sub>	I <sub>4</sub>	I <sub>5</sub>	I <sub>6</sub>		
I	4	2	2	4	3	—	3.60	4
II	3	3	3	2	2	2	2.16	2
III	1	4	1	1	1	1	1.83	1
IV	2	1	4	3	4	3	2.33	3

$R_i$  = Total value of the ranks of performance indicators.

$N_i$  = Total number of performance indicators.

### Relative Impacts on Farming Decisions

The marketing efficiency also affects the economic conditions of the farm, which have direct bearing on decision making. The efficient marketing channel builds the relationship between market structure and farm decisions. The efficiency in marketing channels determines the cost of cultivation, farm mechanisation, cropping in-

tensity, and extension services to a large extent. The following case, explaining these facts, is an extended study of paddy farming in Chattisgarh region of Madhya Pradesh detailed in pretext.

One of the characteristics of agricultural production in heterogeneous agro-climatic zones with varying economic conditions is the regional specialisation, determined by various economic factors, such as cost of production on crops, relative efficiency of marketing channels, price spread, and the like. Under free market economy, such regional specialisation would result in an optimum use of land and other resources through an effective pricing system and mobility of goods and services. It is in this context that the farmers' response which influences the structure and organisation of farm economy in various marketing channel assumes critical importance.<sup>9</sup>

Marketing is a complex issue and with the intervention of various marketing channels in the procurement of farm products, the traditional agricultural marketing sector has started experiencing grass-root changes in the market structure. The multi-channel structure of agricultural markets in the country has provided the farmers, the choice of marketing channel to strike a profitable bargain through opening up new dimensions of buyer-seller relationship which influences several farm input-output decisions.<sup>10</sup> The farm decisions determining the farm economy, subject to influence of alternative channels, may range from the usage of scientific agricultural packages for crop production to adoption of farm mechanisation practices.

This study explores the relationship between market structure and farm decision in paddy cultivation in Raipur district of Chattisgarh region in Madhya Pradesh. More specifically, the study seeks to assess the impact of marketing channels on the farm decisions towards input use and farm modernisation. Further, the study analyses the economic efficiency of alternative channels of marketing through selected indicators. The study also examines the impact of these decisions on the levels of productivity, marketed surplus and farm returns.<sup>11</sup>

Some studies<sup>12</sup> on farm management have revealed that the farm economy of the region becomes unstable if the cropping pat-

tern mismatches with the market economy. So, there would be shift in the cropping pattern and also in farming technology in the region. Hence, it can be stated that the farm practices and marketing economy vis-a-vis are interrelated concepts. In the marketing terminology the operational efficiency refers to all adjustments that may be made by the firms to reduce the unit cost and optimise the production. The choice of appropriate trade channel, therefore, helps in protecting the producers from getting the low prices for the produce, stagnation in farm production and other attributing factors. In the context of paddy marketing in the study region, the farmers have a limited choice of channel as the rural markets are held periodically, and are dominated by the commission agents of wholesalers and processors. This is one of the reasons for agricultural development not being in tune with the economic efficiency in the marketing channels. However, in town markets, the option on selection of channels is wide but has limited impact on farm economy. Therefore, there is a need to find out an economically efficient channel which has impact on farm economy, to draw more appropriate strategies for development thereof.

### ***Results and Discussions***

The results regarding the efficiency of marketing channels drawn on the basis of the ranks of different performance indicators in various channels are exhibited in Table 3.9. It shows that channel III has the highest marketing efficiency, followed by channel II and channel IV. The performance indicators also reveal that channel I is not efficient in the agricultural marketing sector in the paddy production regions. It may be due to low prices received by the farmers in this channel as compared to other channels. The peak season for Paddy marketing is between November and January and the lean season is from February to April in each agricultural year. In the lean season, there are no significant transactions in channel I. The farmers' response is found significant as compared to the other marketing channels because of credit-marketing linkage facility.

The impact of marketing channels on farm decisions in terms of input use and farm modernisation is displayed in Table 3.10. The



Table 3.9

*Measurement of Marketing Efficiency in Alternative Channel*

Performance Indicators	Channels			
	I	II	III	IV
Percentage of Producers' Price in Final Produce	62.44 (4)	64.94 (3)	72.16 (1)	71.62 (2)
Per Rupee Cost of Marketing	0.812 (2)	0.787 (3)	0.838 (4)	0.768 (1)
Per Rupee Margin to Middlemen	0.188 (2)	0.213 (3)	0.162 (1)	0.232 (4)
Price Deviation between Maximum and Minimum Prices ( $\sigma$ )	13.275 (4)	8.246 (2)	5.890 (1)	12.308 (3)
Channelwise Seasonal Price Variation in Peak Season ( $\sigma$ )	3.547 (3)	3.361 (2)	2.007 (1)	3.653 (4)
Channelwise Seasonal Price Variation in less Season ( $\sigma$ )	—	1.0434 (2)	0.919 (1)	2.603 (3)
Composite Index	3.60	2.16	1.83	2.83
Final Ranks	(4)	(2)	(1)	(3)

Figures in parentheses indicate ranks

table explains that the production costs of most of the farms increased with a shift from channel I to channel IV except in case of small farms which showed an increase in the cost of production in shift of marketing channel I to channel III. The major components of cost of production in paddy are HYV seeds, fertilisers, pesticides, human labour in intermediate operations, i.e., between pre-sowing and harvesting, harvesting costs including threshing and winnowing and land rent payable to the state. Linking up with the results of the earlier study in Table 3.9, it is observed that the farmers who have realised higher prices in a channel, incur more farm cost to increase the productivity as well as the marketable surplus. It is moreover observed that higher farm costs are associated with channel III for small farmers and channel IV for large farmers.

The concept of farm modernisation, as perceived in the study region, may be defined as an attitude towards the use of HYV seeds, fertilisers, pesticides and agricultural implements for threshing and winnowing. The use of tractors is very much limited to a few large

farmers due to fragmented landholdings. Bullock power is commonly used and also hired. The percentage of farm modernisation is more with regard to large farms in channel IV and small farms in channel III because of credit facilities for agricultural inputs and implements in channel III.

**Table 3.10**  
**Impact of Market Channels on Farm Decisions**

Channels/Indicators of Farms Decisions	Channels			
	I	II	III	IV
<b>Cost of Cultivation</b> (Rs. per acre) (F <sub>11</sub> )				
SF	1078.78	1129.00	1168.46	1078.78
MF	1125.06	1134.52	1192.32	1193.02
LF	1330.00	1539.26	1330.00	1490.81
All Farmers	1111.38	1251.68	1211.43	1309.92
	(4)	(2)	(3)	(1)
<b>Percentage of Farm modernisation (F<sub>12</sub>)</b>				
SF	12.4	12.4	14.6	12.9
MF	13.1	13.6	14.0	14.2
LF	12.6	15.2	15.0	19.3
All Farmers	12.71	13.62	14.43	16.37
	(4)	(3)	(2)	(1)

The marketing efficiency of alternative channels affects another set of farm decisions comprising cropping intensity, contact with extension workers and the degree of risk averse with regard to adoption of farm modernisation techniques. Table 3.11 describes that the channel III is more encouraging for making favourable farm decisions on the above factors to augment production followed by channel IV and channel II. Channel I is found to be the weakest marketing channel that affects the farm decisions. It may be because, the farmers who sell their produce through middlemen in village markets are either indebted to the traders or get low marketable surplus and so find it difficult to adopt farm modernisation techniques.

**Table 3.11**  
**Decisions on Farm Modernisation Factors**

Decision Factors	Channels			
	I	II	III	IV
Percentage of Farmers Adopting Cropping Intensity (F13)	—	23.21 (3)	34.92 (1)	29.36 (2)
Percentage of Farmers Developing Contacts with Extension Workers (F14)	18.96 (4)	21.62 (3)	46.44 (1)	41.53 (2)
Percentage of Farmers Resisting Risk and Uncertainty (F15)	12.66 (4)	22.81 (2)	22.37 (3)	39.28 (1)

Figures in parentheses indicate ranks.

The analysis of shift in price and marketable surplus of paddy in alternative marketing channels, exhibited in Table 3.12, reveals that the price shifts have shown upward trend in channel IV and channel III and promoted the market arrivals. The price trend was very poor in channel I.

**Table 3.12**  
**Shifts in Price and Marketable Surplus in Marketing Channels**

Indicators	Channels			
	I	II	III	IV
Price Shifts (F16) = Per cent	- 17.14 (4)	- 9.71 (3)	+ 0.83 (2)	+ 1.24 (1)
Marketable Surplus as a Proportion to Production (F17)	94.52 (4)	96.37 (3)	98.91 (2)	99.82 (1)

Figures in parentheses indicate ranks.

The overall impact of marketing channels on farm decisions with reference to paddy is shown in Table 3.13. To conclude the assessment of the impact on agricultural marketing structure on farm decisions, the study reveals that though the marketing cooperatives (channel III) are the efficient marketing channel (Table 3.9) as referred in an earlier study conducted by the author, it was found that it ranks second in determining the farm decisions for higher productivity. The regulated markets (channel IV) have shown more significant impact on the farm decisions of paddy cultivation and marketing as the channel IV stands first among the alternative channels. But, it has to be noted that the channel IV is popular among

large farmers while channel III is the popular media for transactions among small farmers. The cooperatives in the region provide credit marketing linkage facility. They advance crop loan to farmers and adjust the repayment with the marketed surplus.

Table 3.13  
*Impact of Marketing Channels on Farm Decisions*

Farm Decision Indicators/Ranks	Channels			
	I	II	III	IV
Fi <sub>1</sub>	4	2	3	1
Fi <sub>2</sub>	4	3	2	1
Fi <sub>3</sub>	—	3	1	2
Fi <sub>4</sub>	4	3	1	2
Fi <sub>5</sub>	4	2	3	1
Fi <sub>6</sub>	4	3	2	1
Fi <sub>7</sub>	4	3	2	1
Composit Index/ (Final Ranks)	3.428 (4)	2.714 (3)	2.00 (2)	1.285 (1)

Figures in parentheses indicate final ranks.

Thus, the study finds that both the channels III and IV are efficient either in marketing or promoting farm decisions. Thus, keeping in view the agro-economic development of small farms, the cooperative institutions also need to be toned up in the region to co-exist with regulated markets. The regulated markets should also be made more popular by opening sufficient sub-market yards and procurement centres as they also act as an effective change agents for making farm decisions to augment productivity. The study, therefore, suggests the need for expansion of regulated marketing and enforcement of regulations in primary markets as a prerequisite for the economic development of farm community.

### Cooperative Marketing

The above stated comparative studies on marketing channels with reference to paddy crop reveal that from the farmers point of view the regulated market and cooperatives are the efficient channels. Cooperative marketing has a long standing in India. It has been reformed time and again, under different social and administrative

set-ups. However, they could not yet come up as a strong alternative channel for marketing of agricultural crops. The cooperative marketing structure comprises 5,923 primary marketing societies, of which 2,633 belong to general category of *mandi* or regulated market level and 3,290 exclusively deal with specific commodity marketing. The NAFED functions as an 'apex' marketing organisation. The total value of agricultural produce marketed in 1987-88 was worth Rs. 3,942 crores as against Rs. 175 crores in 1961-62. This picture shows the intra-organisational growth trend but does not explain the comparative growth of cooperatives along with other channels of marketing. It is reported in some studies<sup>13</sup> that the cooperative sector transacts with 24 per cent of the total marketable surplus on an average. The major problem which bogged down the marketing cooperatives is the inadequate financial status. This situation is largely exploited by the private traders in foodgrain marketing. The itinerant traders procure the foodgrains at the village at relatively low prices and channelise it through onward linkages. Such conditions have been found responsible for 'distress sales' during the early post-harvest period.

The production activities in farm and non-farm sectors are largely concentrated in rural areas in India and are being regarded as a feeder source for the processing industries and markets located in urban areas. But, the majority of farmers and entrepreneurs are unorganised and individually powerless against the market forces. The people's participation was encouraged by political groups during pre-independence period to claim their economic rights. Later, various organisations, with a view to protect their interest, have been initiated during post-independence period by government and non-government organisations (NGOs). These organisations were regulated under Cooperative Societies Act in subsequent years after independence. By and large, the organisation of cooperative institutions in various sectors for production, processing and marketing has been considered as a major attempt against the exploitation by private traders and in developing an efficient alternative marketing channel. However, the origin of the marketing cooperatives in India dates back to 1915 when the activities of credit cooperative societies were extended towards marketing of agricul-

tural produce. The strength of cooperative marketing societies in India during 1985 was 5,942 as against 9,778 in 1955-56. Many societies were closed down due to infrastructural, financial and legal problems.

The cooperative processing and marketing societies, serving farmers and rural entrepreneurs, present diversity in their performance. It has been found both at inter-regional and intra-regional levels. The cooperative marketing societies can be classified into two groups: (i) commodity cooperative marketing societies, and (ii) cooperative processing-cum-marketing societies. The cooperative societies may be dealing in production, processing or marketing depend significantly on the social structure, the group management approach and the economic environment. These factors determine the magnitude and direction of the cooperative movement leading to success or failure. The success of the primary cooperatives depends on a congenial socio-economic environment for the growth and development. The experience of cooperative marketing provides considerable opportunity to build up a strong alternative channel against private lobbying. It shows group dynamics woven around common interest and resource sharing. The limited opportunities for small farmers in regulated markets, bureaucratisation and political interference in the market committee, traders lobbying and semi-permeability of social structure have all brought in focus the need for community participation. In due course of time, it has stimulated the social dynamism for cooperativisation in many sectors to draw better monetary benefits within the existing rural economic systems. The discussion on these issues has been organised into four sections. The following section deals with social dynamics in cooperative movement, particularly for common economic benefit through organised efforts in marketing farm and non-farm products. This is followed by two sections analysing the economic dynamics and the direction of growth of marketing cooperatives in India respectively. The last section deals with the magnitude of different sets of problems faced in the cooperative marketing system. The data for analysis have been used from the statistical statements related to cooperative movement in India, published by Reserve Bank of India (RBI) and NABARD for the

respective periods.

### Social Dynamics

In economical context, the rural society can be classified into two categories: (i) benefited class, and (ii) suppressed class. It has been a social phenomenon since the participatory dynamics in the country, as exhibited in Table 3.14. The cooperative marketing societies in the Third Five Year Plan period were reorganised and a large number of societies were liquidated. It has caused steep fall in number of

Table 3.14  
*Growth of Membership in Primary Cooperative Marketing Societies (1955-85)*

Year	No. of Marketing Societies	Membership (in Lakhs)
1955-56	9,778	10.20
1960-61	3,108 (- 20.48)	14.67 (7.75)
1965-66	3,198 (0.57)	22.80 (9.21)
1973-74	3,278 (0.30)	30.76 (3.81)
1979-80	3,658 (1.84)	36.13 (3.27)
1984-85	5,942 (12.89)	40.05 (2.61)

Figures in parentheses indicate annual compound growth rates for subsequent periods, in per cent.

societies and the membership thereof. The societies provide backward and forward linkages to the members. Credit is one of the important linkages which has a greater social acceptance in rural areas than any other facility. However, the credit management and establishing its linkages with marketing facilities is a difficult task. The unsuccessful societies often fail to take up marketing activities due to paucity of funds.<sup>15</sup> The frequent interference of local politics and the domination of socially rich group in the societies often tempt the members to identify their cooperatives with social status. However, the growers participation has always been strong. It can be evidenced from Table 3.15. But, unfortunately, the socio-economic

**Table 3.15**  
**Growers' Participation in Marketing Cooperatives**

(in lakh)

Year	Membership		Annual Compound Growth Rate of Growth Membership (%)
	Growers	Others*	
1970-71	23.35	3.55	—
1975-76	26.89	3.87	2.86
1980-81	29.15	5.08	1.63

\* Include nominal members.

conditions in Indian villages are of caste and class cleavages, inequitous income distribution and illiteracy. In many a situation the societies become the platforms for social and political conflicts.<sup>16</sup> In fact, the values of leaders in developing social integrity and participatory behaviour are important in rural areas where the cooperatives need a path and direction. A study<sup>17</sup> on orientation of social values of village leaders reveals that the association between social values and personality showed certain trends of high self-orientation with less commitment to the public life. However, it had reflected in moderate concern for economic equality. This is one of the dimensions related to social perception that affects the dynamism of people's participation under effective leadership in rural cooperatives. Obviously, the primary cooperative marketing societies would be successful where there is positive social perception and less socio-political polarisation. Besides, economic aspects like capital formation, profit optimisation etc., the leadership plays an important role in stimulating social consciousness and making the particular society the successful one.<sup>18</sup> However, under the social dynamics in rural marketing cooperatives, there is a need to assess the following parameters:

- (i) What are the basic values of marketing cooperatives in rural areas?
- (ii) Is it a must to advocate a cooperative group/society in every situation?
- (iii) What is the existing social and rural power structure?
- (iv) What should be leadership characteristics to promote group participation?



## Economic Dynamics

The financial and professional growth of marketing cooperatives is one of the major components of cooperative economics. Apart from membership, the growth in paid-up share capital, working capital, reserve funds, assets, total sales, profit, etc., are the major indicators of success or otherwise. As regards the professional growth of marketing cooperatives, the geographical coverage, volume of business, linkage of credit with marketing of goods, equality in opportunities for increasing productivity and marketable surplus, and selecting sound economical projects are the factors that determine the positive economic dynamics and growth. However, the horizontal and vertical integration of the above determinants is another important factor to be planned thereof. Table 3.16 presents the financial indicators since the inception of plan period and their respective growth. In all, the eight indicators as under have been selected for temporal analysis:

- (i) Index of marketing societies.
- (ii) Percentage of marketing societies undertaking distribution of agricultural requisites.
- (iii) Percentage of societies dealing with consumer goods.
- (iv) Average sales of agricultural goods.
- (v) Average sales of agricultural requisites.
- (vi) Average sales of consumer goods.
- (vii) Average commission earned per society.
- (viii) The percentage of societies earning profit.

These indicators were selected to assess the economical progress of the cooperative marketing societies across the states.

The index of number of marketing societies during the period 1970-80 depicted a greater dynamism in union territories in organising primary cooperative marketing societies as compared to other states in the country. The steep decline in the number of societies was found in Tamilnadu, followed by Assam, Meghalaya and Orissa. However, the overall response in the country was positive and the increase in the number of cooperative marketing societies was found to be 12.79 per cent during 1979-80. As regards the marketing of agricultural produce, the societies in Haryana

Table 3.16  
Progress of Primary Marketing Societies in Indian States during 1970-80

States	I <sub>1</sub>	I <sub>2</sub>	I <sub>3</sub>	I <sub>4</sub>	I <sub>5</sub>	I <sub>6</sub>	I <sub>7</sub>	I <sub>8</sub>
Andhra Pradesh	141.00	21.17	19.68	68.01	71.70	78.01	1.07	17.74
Assam	76.02	3.09	23.76	209.25	0.72	22.77	0.13	26.09
Bihar	106.94	56.43	55.93	94.83	79.27	43.78	3.06	43.59
Gujarat	111.73	84.54	47.21	789.73	1202.70	1099.18	7.25	62.08
Haryana	118.46	97.78	76.31	4428.65	2759.77	1016.97	39.27	73.82
Himachal Pradesh	106.45	29.51	50.07	226.33	58.89	416.24	7.83	39.25
Jammu and Kashmir	135.37	76.74	58.62	259.13	592.66	329.95	5.70	58.46
Karnataka	106.18	58.93	58.60	645.60	1819.26	307.42	15.44	39.83
Kerala	118.18	42.55	34.79	1087.61	44.68	1251.03	20.37	26.03
Andhra Pradesh	97.38	70.86	69.53	795.41	731.69	303.11	7.21	51.09
Maharashtra	100.25	75.77	70.98	2306.50	1626.94	1422.39	46.79	60.44
Manipur	117.78	5.25	11.22	1.54	0.58	5.87	—	30.45
Meghalaya	75.00	9.52	22.22	22.28	10.68	70.43	—	25.79
Orissa	91.96	50.19	54.04	334.65	791.98	424.03	14.39	51.45
Punjab	122.43	81.09	77.40	996.05	8456.95	4311.40	99.05	55.24
Rajasthan	131.52	58.19	59.13	165.27	844.97	1137.73	20.53	53.74
Tamil Nadu	72.47	61.49	50.93	1461.69	743.90	792.00	23.04	50.47
Tripura	118.75	11.11	72.77	686.16	39.26	535.27	10.09	51.67
Uttar Pradesh	121.98	79.34	51.22	602.59	183.80	237.87	8.23	58.29
West Bengal	109.03	54.58	49.15	179.53	309.16	190.76	0.91	40.51
Union Territories	190.91	7.67	16.07	255.16	57.22	220.57	10.20	46.73
Mean	112.79	47.90	49.03	757.98	980.08	511.75	16.22	44.89
Standard Deviation	25.92	29.12	20.40	1007.26	1865.83	449.16	22.71	14.68

Note: For explanation regarding performance indicators I<sub>1</sub> to I<sub>8</sub>.

topped the list of states, followed by Maharashtra and Tamilnadu, whereas Manipur was at the bottom. However, the all-India average for the same period shows that the marketing of agricultural produce in the cooperative marketing societies in each is carried out for Rs. 757.98 thousands. The primary marketing societies in Punjab marketed the agricultural requisites of the highest value during 1970-80. However, the percentage of earning profit was found highest in Haryana and lowest in Andhra Pradesh. A study on performance of the primary marketing cooperatives in India has observed more scientific results, through taxnomic analysis referring above indicators. The results of the study revealed that the cooperative marketing societies in Punjab and Haryana showed high performance, while it was found low in Assam and Meghalaya. The rest of the states and union territories where the cooperative marketing societies were functioning found under medium performance, in the three-way classification.<sup>19</sup>

By and large, the volume of business determines significantly the viability of a society and in some situations diversified activities like sale of other farm inputs and rural industries products may be required to make it a success. Above all, enough has already been said about the social dynamics which stimulate the sense of participatory approach for common economic interest.

### **Direction of Growth**

The cooperatives strategy may be advocated for sustainability of farmers or entrepreneurs against the economic exploitation in private markets, but at the same time, there is need to develop organisational dynamism for the sustainability and viability of cooperative institutions established. Theoretically, an approach to people's participation is not a momentary stimulus. It is a continuous process of organisational building, working through various dimensions.<sup>20</sup> The Cooperative Review Committee reported that a large number of societies were found defective due to leadership inefficiency, unloyal members of the organisation, and misappropriation of funds. These are the main reasons for the declining trend of cooperative societies in the country. Table 3.17, which exhibits the direction of growth of primary cooperative

marketing societies in the country, reveals that the sustainability and viability of primary cooperative societies depend on various factors of physical and business dimensions. Looking to the slow progress of marketing cooperatives, there have been repeated exhortations to strengthen and revitalise the societies through reorganisation but it could not be done through using only the governmental instrument. However, the deriving principal seemed to be "the state can do if people will not do it."<sup>20</sup> But, the depressive tendency of people's participation, ineffective management, and climbing losses, would certainly make some societies unrevivable.<sup>21</sup>

Table 3.17

*Growth of Primary Cooperative Marketing Societies in India*

<i>Performance Indicators</i>	<i>Percent Annual Compound Growth Rate During</i>	
	<i>1960-61 to 1969-70</i>	<i>1970-71 to 1977-80</i>
I <sub>1</sub> Number of Marketing Societies	-3.57	5.98
I <sub>2</sub> Number of Marketing Societies Undertaking Agricultural Requisites	28.00*	0.59
I <sub>3</sub> Number of Marketing Societies Undertaking Consumer Goods	18.92*	2.9
I <sub>4</sub> Sale of Agricultural Produce	23.46	8.05
I <sub>5</sub> Sale of Agricultural Requisites	28.36	9.40
I <sub>6</sub> Sale of Consumer Goods	28.95	0.36*
I <sub>7</sub> Commission Earned	50.94	2.58*
I <sub>8</sub> Number of Societies Earning Profit	1.85	1.40

\* Base year 1974-75.

+ Base year 1964-65.

When progress of selected performance indicators of the marketing cooperative societies across the states for the period 1970-80 is observed, the data reveal that the growth in number of marketing societies was highest in Manipur but there has been a steep decline in the total number of societies bringing down the number to 14 in 1989. Besides this, many of these societies have become defunct due to reorganisation of Primary Agricultural Credit Societies (PACS). The reorganised PACS have taken up the

marketing of agricultural products in the state but their area of operation was very limited due to paucity of funds. The PACS are mainly credit organisations and have taken up marketing as an additional activity.<sup>22</sup> In fact, the reorganisation of the societies should be within the business discipline and at no cost an additional responsibility should be generated on the revived until till it crosses the break-even point and sustains at our resources to a large extent.

### **Magnitude of Problems**

The failure and success are the consequent phenomena of any action; it may be individual or group action. Surely, nothing succeeds like success, so the saying goes and it has many reasons. However, the failure also give lessons for getting success by amending the action. To understand the cause and effect thereof, the magnitude of problems needs to be assessed. So, as in case of cooperative marketing societies, there are always many reasons cited.

The major cause that has affected the management and organisation efficiency is the behavioural dimensions of the people—members and non-members. This can be seen in various fields like responsibility sharing, participatory dynamics, leadership, sense of autonomy, and building up of common goals. This resulted the perpetual problem of vested interest in the path of progress.<sup>23</sup> The absence of adequate rural infrastructure and institutional support affected substantially the growth of marketing cooperatives. The infrastructure may cover the physical components, such as feeder roads, input supply services, staffing pattern, etc., while the institutional support mainly consists of financial sources and the government patronage for organisational survival. The marketing, storage and distribution activities of the cooperatives have been preoccupied with pumping adequate finances during post-green revolution period. It has stimulated greater dependence on the government which has affected largely the autonomy of the cooperative organisations. As a result, the number of cooperatives can be visualised now as a functionary wholly owned by the government with an officer as Managing Director. The marketing cooperatives have not been uniformly developed in all the parts of the country at par with the northern and western regions.

The social impact of rural cooperatives is of two types: (i) direct impact reflected in improved incomes and better services, and (ii) the strategic impact arising out of countervailing the market force in the area.<sup>24</sup> But, these impacts have been found minimum due to improper trade regulation which encourages traders' lobbying on price and other marketing aspects. It has been extensively observed in many states' agricultural produce marketing cooperatives. The amalgamation of activities of cooperatives has often been used for viability of organisation but this may not work in all conditions. The reorganisation of PACS has linked credit and marketing activities in order to revive the defunct cooperatives, but it could not provide anticipated success in many states like Bihar, Orissa and Manipur. However, it was a sheer success in Punjab.<sup>25</sup> Besides, less attention has been paid to the diversification of activities within the framework as a major instrument of growth. It also calls for a business strategy with built-in quality control and service area approach. However, it has been experimented in dairy cooperatives in India.<sup>26</sup>

The cooperatives have been regarded as a democratic weapon for the people who cannot withstand the oppressive capitalism. The basic question that strikes this hour is whether the cooperative marketing sector can slide ahead of the corporate sector? The efforts of NDDB are no doubt laudable in this regard to push through the dairy cooperatives from the private trade jaws. However, the Rural Credit Review Committee observes that the cooperation can succeed only if the disparities between the forces of cooperation on the one hand and opposing forces of private credit and trade on the other, do not exceed certain reasonable bounds.<sup>27</sup>

Since the studies in this area have so far been the mainstay of sociologists and organisational theorists, wide gaps have been found in education, awareness of facts and perceptions. These problems directly affect the participation behaviour and generate misconceptions and illusions about the organisational goals.

To sum up, it can be stated that the cooperative movement came into concrete shape in 1904 and onwards made progress in a variety of fields. Marketing and processing are among them. However, the progress of primary cooperative marketing societies over the years

was not harmonious across the states in India due to different social and economical gaps. The magnitude of problems are more participatory in nature than sectoral. These factors have affected in paving the direction of growth of cooperative marketing societies at various levels, which created the regional imbalances. Thus, the cooperative movement is not only an economic movement but also a sociological movement towards self-reliance and for building up an alternative system, free from exploitation. The cooperative marketing societies can succeed in their objective provided they overcome the major problems therein.

### **Regulated Marketing**

As discussed earlier, the inception of regulated marketing dates back to 1897 in colonial period. It has emerged as an efficient alternative channel for marketing of foodgrain and other crops in post-independence period. The regulated markets have local administration with a representative body. The trade pattern varies locally for specific commodities. However, the Agricultural Produce Marketing Act has some uniform features applicable to all the regulated markets. The different systems of sales in these markets have been discussed earlier in this chapter, of which the open auction and sample systems of trade are common. The regulated markets have been proved as an effective channel for bulk of marketable surplus and thus have largely benefited big farmers. Besides, these markets are confined to selected towns or blocks which are commonly inaccessible to the marginal and small farmers. In strict sense, the regulated markets do not cater to adequate number of villages. The comparative growth of regulated agricultural markets with reference to some important variables is shown in Table 3.19 which reveals that an average 120.98 villages were being served by a regulated market during 1985. It was found that in absence of an accessible channel, there would always be a scope for business invasion by other channels which are not economically efficient.

By and large, the regulated markets have helped in standardising the foodgrain and other crops trading and providing better remunerative prices. This channel has broken the monopoly of private traders to some extent. The organisation of regulated

Table 3.18  
Comparative Growth of Agricultural Markets Important Variable

Year	No. of Villages <sup>1</sup>	Population of Cul- tivators (in Lakhs) <sup>2</sup>	Agricultural Production ('000 Tonnes) <sup>3</sup>	No. of Regulated Markets <sup>4</sup>	Number of Vil- lages per Regu- lated Market	Population per Regulated Market (in Lakhs)	Regulated Markets per 1000 Tonnes Production
1951	558088 <sup>5</sup>	1212.16	50825	NA	—	—	—
1961	564718	995.09	82018	715	789.81	1.39	8.71
1971	(0.12) 575936	(-1.95) 775.67	(4.90) 108422	2316	248.67	0.33	21.36
1981	(0.19) 557137	(-2.49) 925.22	(2.83) 129589	4605	120.98	0.20	35.53
1985	(-0.33) 161623	(1.81) 161623	(1.79) 5663	(7.93) (5.90)	—	35.03	—

Figures in parentheses indicate per cent compound growth rate with reference of preceding years.

<sup>1</sup> Includes foodgrains, pulses and oilseeds. The cropping years for agricultural production in 1950-51, 1960-61, 1970-71, 1980-81 and 1984-85.

1, 2 Census of India of respective years.

3 *Statistical Abstract*, CSO, 1985.

4 Directorate of Marketing and Inspection, Government of India, 1985.

5 *Times of India Directory* 1959-60.



markets has been activated in the post-green revolution period. Let us now discuss a case on regulated market specialised in chillies marketing.

### **Chillies Marketing in Tamil Nadu**

The flow of commodities in agricultural markets is a seasonal phenomenon. By and large, the structure of commodity markets in agriculture is unorganised and oligopolistic in nature. They are dominated by the private traders to a large extent. However, after the set up of various commodity boards such as, Spices Board, Rubber Board, Tobacco Board etc., at regional level and the Directorate of Marketing and Inspection at the central level, the transactions have been regulated and brought under the state laws, to some extent. In this connection, the role of regulated markets is important in dealing with notified commodities.

This case discusses the marketing pattern of chillies in a regulated market and also through private trade channels in open market in Tamil Nadu. The organisation of regulated markets dates back to the thirties and it has received further fillip in the recent past. There are 246 regulated markets in the state with 13 market committees. However, all of them are functioning successfully. The main objectives of the study were as below:

1. To study the operational aspects of the regulated markets specialised in chilly marketing.
2. To identify the constraints for efficient marketing system.
3. To suggest policy measures for improving its functional efficiency.

### **Methodology**

The sample region has been selected on the basis of the highest area and production among all the districts in Tamil Nadu, for chillies. The data for above indicators with districtwise break-up were available latest for the year 1984-85 which show that Tirunelveli district ranks first in the state.<sup>29</sup> The comparison of data for area and production of chillies can be seen from Table 3.19 given below:

Table 3.19

*Share of Tirunelveli District in Area and Production of Chillies in the State, 1984-85*

<i>Region</i>	<i>Area (Ha)</i>	<i>Production (Tonnes)</i>
Tamil Nadu	61,500	42,460
Tirunelveli	16,780	12,120
	(27.28)	(28.54)

Figures in parentheses indicate the percent share of the state.

The data reveal that the share of area and production of chillies in Tirunelveli district was 27.28 and 28.54 per cent respectively when compared to total area and production for the whole state. The regulated market in Tirunelveli was purposively selected for the study.

*Coverage*

The Tirunelveli regulated market was established in the year 1952, but it started functioning actively from the year 1962. It was dormant for nearly a decade. After its setup, the traders filed writ petitions against the market committee. It caters to the population in approximate 16 km radius in the hinterland. There are 19 regulated markets and one sub-regulated market under the purview of the Tirunelveli regulated market. Dry chillies is the major commodity transacted in this market. However, among the other crops, cotton, groundnut, paddy, blackgram and coriander are notified for transactions. The peak season for chillies is between middle of August and November whereas lean months for marketing are April and May.

*Main Findings*

The performance of the market was studied in terms of (i) market arrivals, (ii) trade practices, (iii) price structure, and (iv) responses of buyers and sellers on general social and economic issues. The comparative picture of arrivals of chillies in regulated and open market, presented in Table 3.20, indicates that the arrival of chillies is more in open market as compared to regulated market due to many reasons. Of these, the main problem faced by the farmers in regulated market was the time taken for disposing of their produce. It was observed that by and large to get remunerative price, i.e., higher

bid in auction, a farmer had to stay back for more than 36 hours. In an open market, the farmers had the choice of purchasing outlets and the price was fixed by negotiations to a great extent. However the data in subsequent years from 1981-82 show an increasing trend of market arrivals in regulated markets as compared to open market. But, by and large, to provide higher benefits to the farmers through regulated market, the infrastructure facilities are to be strengthened at the market place and procedural complexities need to be relaxed to some extent.

Table 3.20  
*Arrivals of Chillies in Regulated and Open Markets*  
(quantity in tonnes)

Year	Regulated Market	Open Market
1981-82	185.96 (1.05)	18541.98
1982-83	477.54 (4.43)	10784.75
1983-84	707.05 (8.66)	8162.16
1984-85	1020.30 (8.90)	11468.12
1985-86	834.40 (11.46)	7280.04
1986-87	7146.51 (80.17)	8914.10

Figures in parantheses indicate percentage to open market.

Source: Tirunelveli Market Committee.

The transactions take place in the regulated market through the secret tender system. The commodity is arranged in lots, each having a separate lot number. The lots are examined by the traders and the price is quoted in the bid slips against the lot numbers, in the tender forms. These tender forms are examined and compared by the market committee authorities and the highest bidder of the particular lot gets it declared. The successful bidder, after paying the price to the seller, is permitted to lift the produce. It is observed that, time and again, the traders pay through drafts, bills, cheques, etc.,

which creates complexities for the farmers in realisation. It is, therefore, suggested that cash transactions need to be encouraged by the market committee.

The method of transaction of chillies outside the regulated market, i.e., in the open market is of a speculative nature. The commodity is kept in heaps according to local grades. While executing the deal between the farmer and trader, the commission agent plays a crucial role. The commission agent and purchaser touch each other's fingers by covering their hands with a piece of cloth and the price of the produce is settled. In such a system, though everything happens in front of the farmer, it could not be possible for him to make out the result, out of the signalling that takes place. The traders who operate outside regulated market are also given licenses by the market committee but it does not have any direct control over the traders and their deals. The licence fee charged from the traders operating in the hinterland of the Tirunelveli regulated market is Rs. 25 for one crop, Rs. 50 for dealing with up to three crops, and Rs. 75 for transactions in more than three crops per year. The licenses are issued to the traders compulsorily. However, no brokerage and labour charges are collected at the regulated market.

There are also storage facilities available in the regulated market exclusively for the farmers. The farmers, with intention of selling their produce through the regulated market, are permitted to store free of cost their commodity for sixty days. The traders are not allowed to keep their commodities in the market godowns.

An indepth analysis of decision making by farmers revealed that convenience rather than economic rationale was the prime factor to select the marketing channel. Though there is a prevalent practice that buyer goes to village and procures the produce from the farmers, they are attracted to open markets because they could get the comparative advantage of price and also the choice of channel. The major reason observed for coming to regulated market was the better weighments. Some other reasons in favour of regulated markets observed were low marketing costs, better grading facilities, fair trading and better price. However, the main reason for not going to regulated market was the problem of the delay in disposal of produce as stated by some farmers who prefer to sell in

open market. The traders give preference to attend regulated market due to the advantage of bulk supply at once and correct weighments.

As regards the price trend of chillies in the Tirunelveli market, no significant change was found since 1981-82 to 1986-87. The price was on an average Rs. 800 per quintal of chillies and it was higher than the farm harvest prices. Table 3.21 shows the comparative picture of market and farm harvest prices. The data reveal that there was a sudden hike in the price during 1984-85, by 172.73 per cent with reference to the three years' average price of Rs. 733.33 per quintal. It was probably due to short supply of the commodity during the year.

**Table 3.21**  
**Comparative Price Trends in Chilli Markets**  
*(Rs. per quintal)*

<i>Year</i>	<i>Farm Harvest Prices</i>	<i>Market Price</i>	<i>Percent Difference</i>
1981-82	768	700	(-) 9.70
1982-83	585	700	16.43
1983-84	507	800	36.62
1984-85	1016	2000	49.20
1985-86	—	700	—
1986-87	—	700	—

*Source:* Tirunelveli, Market Committee and *Indian Agriculture in Brief*, 1985.

Thus, the results of the study disclose that the real problems are operational rather than structural. Necessary arrangements need to be made for the quick disposal of the farmers' produce, and payment of the disposed produce may be encouraged in terms of cash. Apart from these approaches, infrastructural facilities, such as drying platforms, resting places, cattle shed, etc., also need to be looked upon to encourage the arrivals in the regulated markets. It is also suggested that the market committee should open a market information cell at central villages to disseminate information on the current price level. This may be helpful to the farmers to make quick decisions regarding the choice of a trade channel for disposing of their produce.

### **Marketing in North-Eastern States**

Although the regulated markets are regarded as an efficient marketing channel, it has not so far been able to uniformly develop them all over the country. The response to the regulated markets is mainly concerned with two determinants: (i) the marketable surplus, and (ii) accessibility. In some of the states like Punjab, Haryana, Western Uttar Pradesh, Western Gujarat, North-Western Madhya Pradesh, Tamil Nadu, Karnataka and Coastal Andhra Pradesh, the response to regulated markets has been observed considerably high with regard to market arrivals. These regions have also well-knitted infrastructure which facilitates mobility of goods and services to the markets uninterrupted. In other parts, the regulated markets could not make headway due to poor administrative control and infrastructure. Besides these problems, some of the markets had functional setbacks due to litigations between the traders and market committees. It has been found of higher order in Bihar and North-Eastern States. The delay on decisions of filed cases in courts have been abstained from the farmers to use the regulated markets. In the North-Eastern States such, conditions have been documented in a study conducted some time ago. The state of the agricultural marketing system has been discussed in detail in this study.

### ***Agricultural Production and Marketing in North-Eastern Region***

Since the economy of the North-Eastern Region is essentially agro-based, having 77 per cent of the working population engaged in agricultural operations, the development of agricultural marketing system bears considerable importance. The total foodgrain production in the region amounted to 430.96 lakh tonnes in 1985-86, but a very small quantity of the marketable surplus was sold in the regulated markets. According to an estimate, about 28 per cent arrival of paddy was recorded during the year 1987-88. Among cereals, paddy is the principal crop grown in the states of this region, which occupies 63.34 per cent share of the total area under foodgrains in the region. Maize is the next important crop grown in this region, except Tripura. However, the pulses are cultivated in small quantities in all the states, except Arunachal Pradesh. It shows that a

major share of marketable surplus finds its outlet in the poorly equipped markets held periodically in the villages. Most of the transactions in the rural markets involve small quantity of agricultural produce to purchase the commodities of daily requirements. These markets are dominated by the private traders, middlemen, petty retailers and moneylenders locally known as 'Mahajans.' The bargaining power of the farmers is very weak and, therefore, the price is dictated by the traders. One of the main reasons for prominence of the traders in the agricultural produce markets in villages is the heavy indebtedness of the farmers to traders, commission agents and middlemen. Besides, the organisational and functional dimensions of the marketing system, the flow of commodities in the North-Eastern Region is restricted and localised to certain specific areas due to geo-physical conditions as well as lack of infrastructural facilities. Consequently, the factors of marketing, such as pricing, backward and forward linkages, demand and supply of commodities are greatly affected to the disadvantage of both the producers and consumers. The basic infrastructure facilities include storage and warehousing, road links, transportation and communication aids. Of these, storage and transportation network perform significant roles in stocking and mobilisation of goods respectively. The storage facilities in North-Eastern Region are located mainly at district headquarters and state capitals. Till recently, there were practically no rural godowns in the region. The National Cooperative Development Corporation (NCDC) has, however, pioneered the construction of rural godowns in the region and till March 1989, 517 rural godowns and 92 marketing godowns were constructed in the states of North-Eastern Region. In respect of the cold storage, there are only three in the entire region, one each located in Assam, Nagaland and Tripura. Topographically, the region is criss-crossed by a large number of rivers and rivulets and nearly 70 per cent of the total area is mountainous. Under such conditions, the road transport network is the main mode of conveyance to link inter-state and intra-state movements of goods and services. But, road transport is also hampered due to lack of all-weather road links in the region.

Though the impact of green revolution in this region is com-

parably low, the volume of marketable surplus of agricultural produce has increased substantially during the last few years. The existing marketing system is three-tier as in other parts of the country. The primary markets are held periodically at village level, wholesale assembling markets at block level and terminal markets are located at towns and at the places from where the goods could be transported. The trade, however, is not regulated due to the absence of enforcement of market regulations in the primary and wholesale produce assembling markets. Among all the North-Eastern States, Assam and Tripura have, to some extent, succeeded in the enactment of market legislations to ensure efficient marketing of agricultural products.

The distribution of different marketing organisations in the North-Eastern States is given in Table 3.22.

Table 3.22

*Agricultural Marketing Organisations in North-Eastern States*

States	No. of Wholesale Markets	Regulated Markets		Cooperatives		Other Government Agencies
		Principal Market Yard	Sub-market Yard	Food grains	Fruits and Vegetables	
Assam	101	7	9	98	2	1*
Manipur	1	—	—	14	—	—
Meghalaya	82	—	—	—	5	—
Mizoram	—	1	—	—	—	—
Nagaland	—	—	—	—	—	—
Tripura	37	4	—	14	—	—

\* North-Eastern/Regional Agricultural Marketing Corporation (NERAMAC).

The analysis of the existing status of agricultural marketing in the region, as presented in the foregoing section, shows that it is one of the weakest links in the agricultural economy of the region. In view of this, the specific objectives of the study are: (i) to identify the problems in the existing agricultural product marketing system and assess the developmental needs for improving the marketing system within the spatial framework in North-Eastern Region; (ii) to study the extent of interventions in agricultural marketing by the state governments, cooperative organisations and other govern-



ment agencies and their effectiveness; (iii) to analyse the issues relating to the planning and implementation of market regulation with regard to foodgrains and horticulture produce marketing; and (iv) to evolve suitable policy perspectives for the trade regulation, development of infrastructure and other factors of market administration in the North-Eastern Region.

### *Marketing System*

Marketing of agricultural commodities in the North-Eastern States, by and large, is dominated by the private traders due to the absence of proper implementation of the Market Regulation Act by the State Agricultural Marketing Boards. Among the seven states in the region, Assam, Meghalaya and Tripura have such Acts and of these only in Tripura, it has been enacted and implemented to some extent for non-foodgrain crops like jute and mesta. In Assam, the implementation process is hampered due to various litigations put up by the traders. The Agricultural Produce Marketing Act in Meghalaya has been enacted, but it is yet to be implemented; while in Manipur, it is in the process. A brief description of the trade practices related to agricultural commodities in different states of the region is given below.

### *Regulation of Market in Assam*

Assam is basically an agricultural state. The rural population is about 89 per cent living in 21,995 villages. Out of the total rural population, about 80 per cent depend directly on agriculture. The overall economy of the state depends on the agricultural development and hence, agricultural sector has been receiving considerable attention in the planning process. Assam grows a large number of agricultural crops like paddy, pulses, oilseed, spices, fibre crops (like jute, mesta and cotton) and fruits and vegetables in a total cropped area of 32.73 lakh hectares.

### *Existing Market System*

Under the existing system of agricultural marketing in Assam, farm produces change many hands before reaching the consumer. The middlemen, in the process, extracts a large share of the consumer's

rupee while the farmer gets only a small share. Taking advantage of the farmer's poor condition and weak bargaining power in the transaction, a set of middlemen at different stages have emerged as a powerful channel for the procurement of foodgrains. The price is, by and large, dictated by them. Thus, the farmer needs protection from such exploitation and also assistance in many respects, more so in a state like Assam where the agriculturists, face natural calamities and various other constraints much more.

There are 755 markets in Assam, of which 650 are village markets and about 75 are primary wholesale markets. The rest are secondary and terminal markets. The farmers also sell their produce at the farm itself to itinerant merchants and such sales constitute about 60 per cent of the total marketable surplus. Of the remainings, a certain percentage is also sold by the growers, to village moneylenders at their business premises. The Dadan system is still prevalent in rural areas. Under this system, the village moneylenders advance loans to the cultivators at the time of need, making it obligatory on the part of the farmer to deliver their produce after harvest, at a price offered by the moneylender. The price is much lower than the market price. The credit offered under this system is not less than 25 per cent of the total annual credit needs of the farmers in the state.

### *Beginning of a New System*

Though considerable progress has been made in the field of regulation of markets in the country, Assam has initiated regulation of markets only in 1972. The Assam Agricultural Produce Market Act, 1972 has been implemented with effect from June 15, 1977.

Up to the end of 1987-88, 13 market areas have been declared and 13 principal market yards and nine sub-market yards have been constituted. Ten more sub-market yards have been notified under five existing market committees. A new proposal to declare three more yards as principal markets was submitted to the government in the year 1988-89. For the purpose of establishment of regulated markets throughout the state in a phased manner over a definite time period, the State Government has approved a project under which 27 principal markets and 145 sub-markets have been planned to be

established throughout the state.

The Agricultural Marketing Board is also aimed at development of a few important fruits and vegetable markets in the major producing areas in the state. Provisionally, Howly, Mangaldoi, Dhing and Tinsukhia have been selected for the purpose.

### *Organisational Set-up*

There is no separate independent Directorate of Agricultural Marketing in Assam. The agricultural marketing schemes are being supervised directly by the Joint Director of Agricultural Marketing, Assam, and four other schemes, namely, Development of Market Intelligence, Development of Marketing of Fruits and Vegetables, Development of Jute Grading and Baling and Development of Quality Control and Agmark Grading are implemented in the plain districts by the Deputy Director of Agriculture (Marketing) with headquarters at Guwahati.

The scheme for Development of Regulated Market is directly implemented by the Assam State Agricultural Marketing Board, a statutory body constituted under Section 3 (1) of the Assam Agricultural Produce Market Act, 1972 (Assam Act XXII of 1974 with amendment in 1983).

The Assam State Agricultural Marketing Board, with headquarters at Guwahati, is an apex body established in 1976 for exercising superintendence and control over the market committees for systematic development of markets and for better regulation of buying and selling of notified agricultural commodities in notified market areas.

### *Constitution of Agricultural Marketing Board*

As per the provision of the Act, the State Government may, for exercising the powers conferred on and duties assigned to the Board, constitute the State Agricultural Marketing Board consisting of a chairman and 12 other members to be nominated by the State Government as follows:

- (a) One non-official as chairman.
- (b) Officials of the Government of Assam as members: (i) Director of Agriculture, (ii) Director of Veterinary and Animal

Husbandary, (iii) Director of Panchayat, (iv) Director of Municipal Administration, (v) Registrar of Cooperative Societies, and (vi) Secretary, Agriculture Department.

(c) Non-officials as members: (i) one agriculturist member of the market committees, (ii) one representative from Agricultural Farming Corporation formed under the Assam Agricultural Farming Corporation Act, 1973, (iii) two progressive producers, (iv) one licence trader, and (v) one from amongst the members of the cooperative marketing societies represented in the market committee.

The term of the office of the Board is three years from the date of its first meeting or till its reconstitution, whichever is earlier.

### *Functions*

The Board is responsible for supervision, control and monitoring activities of the market committees. These committees are guided by the Board for improvement of markets, classification of market committees, grading and standardisation of agricultural produces for other purposes to promote the interest of marketing committees as and when necessary. For this purpose, the Board makes a uniform policy for development of markets in the state.

### *Market Committee*

In each market area, there is one principal market yard and one or more sub-market yards. The number of sub-market yards may be more in a market area as and when necessary, for the display of incoming produce. The State Government establishes a market committee for every market area under the provisions of the Act. The duties and responsibilities of the market committees are clearly laid down in the provisions under the Act and rules which mainly pertain to the collection of revenue, grading, forward trading, auction and price control and farmers' welfare by providing all amenities in the market place.

### *Constitution of Market Committee*

A market committee is constituted by the following members:

Agriculturists	7
Traders	3
Cooperative Marketing Societies	1
Cooperative Bank	1
Representative of Municipal Board/Town Committee/Gaon Panchayat Warehousing Corporation	1
Total	15

At present, the chairman and the vice-Chairman of market committees is nominated by the State Government. The term of office of the market committee is three years.

The market committee is headed by a secretary and sometimes an assistant secretary. There are five to seven marketing inspectors and other staff in junior cadres who assist the secretary in the execution of different functions.

### *Infrastructural Facilities*

According to a survey conducted by the State Agricultural Marketing Board, the producer-farmers are losing at least 10 per cent of the market price due to lack of proper sale arrangements in the markets. In addition, they do not undertake proper cleaning and grading of the produce before sales which is also one of the reasons for low price. Regulated markets take up such quality improvement measures to increase the value of the produces in the market. Properly cleaned and graded produce normally fetches a minimum premium of 5 per cent in the price as estimated. In Assam, minimum infrastructural facilities are provided in another three principal market yards and seven sub-market yards.

Adoption of the measures as envisaged in the regulated market scheme is expected to benefit the producer-farmers by about 20 per cent of the total value of the produce according to a survey report of the Agricultural Marketing Board. Infrastructural facilities like godowns, auction platforms, assortment shed and jute bailing press have already been created in all the four major regulated markets in the jute producing districts.

### *Constraints*

The major constraints experienced in the implementation of the Act

effectively and the development of regulated markets in Assam are the unsettled court cases filed by the traders of different notified market areas. The markets in Assam are still functioning under the management and control of the municipalities, town committees and Mahakuma Parishads and as a result, operation of transactions and enforcement of regulatory provisions have not become effective. The State Government has taken steps for the transfer of the markets to the market committees. However, till this happens, effective functioning of the market committees will be hindered.

To make the regulation of markets successful, active participation by producer farmers, traders, local bodies, public sector organisations including the cooperatives, and Food Corporation of India are necessary. Further, proper and able guidance and superintendence by the Agricultural Marketing Board, under the control of and assistance from the State Government, can only make the implementation of market regulation successful.

With the development of physical facilities in the market yards and eradication of the malpractices prevailing in the trade, the farmers will be benefited by way of remunerative price, sound system of sale, elimination of middlemen, correct weights and measures, price according to quality, freedom from unauthorised deductions, storage, prompt payment, rest house, drinking water, a voice in the management of the markets, etc. At the same time, the traders will also be benefited as they will obtain the required quantity and quality of the produce, transport and communication facilities, payment counters, temporary storage, drying yards, rest house facilities, etc. These are gradually being provided by all market committees.

### Existing Marketing Practice in Manipur

Marketing of agricultural produce in Manipur has not been systematically organised. The share of the consumers' rupee goes in the pockets of innumerable middlemen working between the producer and the ultimate consumer. The agriculturists of Manipur are generally the persons of small means. Their holdings are small and scattered. As such, they have got very little quantity of agricultural produce available individually as a marketable surplus to be

disposed of. Obviously, it becomes uneconomical to carry the small quantity of produce to the assembling markets located at distant places where middlemen operate at different stages. Under the prevailing practice in the state, farm produce is collected from the producers in the interior villages and is brought to a central point, which is the assembling centre, by the womenfolk. Sometimes agriculturists sell their produce to the itinerant merchants. From the village markets, it is procured by the itinerant merchants and agents of wholesalers belonging to towns, such as Imphal, Singjamei, Thoubal, Kakching, Bishenpur, Moirang, Churanchandpur and the like.

The transport which gives "place utility" to a farm product is one of the main problems in Manipur. As most of the production areas are not properly connected by motorable roads, the farmers find it difficult to bring their produce to the primary and terminal markets for sale and thus deprive themselves of remunerative prices. In some interior areas, there is no road at all and even bullock-carts as a means of transport for bringing farm products to the assembling centres cannot be used. Consequently, the farmers have to sell their commodities at a lower and uneconomical price to the itinerant traders at the farm itself. Regarding market charges, it seems that the prevailing system in Manipur is different from that prevalent in the unregulated markets in other parts of the country. In Manipur, the sellers have the advantage of not paying any charges like *gosala* (cattle cess), *dharmoda* (charity), and *dalali* (commission). There is no regulated market in the state. However, there are about thirty assembling markets and 103 primary markets.

### *Constraints*

Road transport is the only means of transport for farm products to distant places as there is no rail link in the state. During the rainy and post-monsoon season, water transport by boat is also used in some places. In the monsoon season, due to bad road conditions and fear of landslides, the transport charges are very high. Again, the cost of transport by road is not uniform as it varies according to the conditions of the roads. Inadequate transport facility causes glut in the producing area and scarcity in consuming centres at times affecting

both the producer for receiving in lower price and the consumer due to irregular supply and high retail price.

So far, there is neither any private nor corporate body to disseminate market information for the benefit of the producers as well as consumers. As such the farmers who are in the villages have no chance to know the prevailing prices at district and state level markets; The daily prices are also not broadcast through the All India Radio, Imphal.

There is a general shortage of storage facilities in both the urban and rural areas of the state. The prevailing systems of storage in the rural and urban areas are quite primitive and cannot be regarded as satisfactory. There are no warehousing and cold storage facilities. As a result, the bulk of the agricultural produce is sold in the village itself. The itinerant traders and small merchants purchase the produce immediately after harvest. They either store it in the shops of the big merchants or sell to the wholesalers or consumers. The big merchants store it in their own godowns till better prices prevail and reap the benefits of escalated prices. As the farmers do not have their own storage facilities and enough finance to meet the requirements, they are deprived of their genuine share in the price hike. The volume of potatoes produced in the state could meet the demand if cold storage facilities are made available and there would be no need to import potatoes at a higher price during the off-season.

### **Agricultural Marketing in Meghalaya**

Agriculture is the main occupation in Meghalaya in spite of the fact that only about 10 per cent of the total land is available for cultivation in the hilly terrain of the state. About 82 per cent of the total inhabitants population of the state live in rural areas and are mainly dependant on agriculture for their livelihood. Paddy is the main foodcrop grown in the state. Besides, maize, wheat, millets and pulses, potato, jute and mesta, cotton, mustard, ginger, turmeric, arecanut and betal leaf are some of the important cash crops produced in the state. Among the horticultural crops, banana, pineapple, and citrus fruits, mainly oranges are grown in abundance in medium and lower altitude regions and fruits like plum, pears and peaches are grown in the high altitude temperate region. Though the



state is too small in terms of foodgrain production, there are surplus cash crops and horticultural crops. The agricultural market profile including the estimated level of production and marketable surplus of the produce is shown in Table 3.23

**Table 3.23**  
**Estimated Marketable Surplus of Various Agricultural and Minor Forest Products in Meghalaya (1988-89)**

<i>Crop</i>	<i>Level of Production (M.T.)</i>	<i>Marketable Surplus (M.T.)</i>	
Potato	1,45,000	1,00,000	
Jute and Mesta	64,000 Bls	60,000	Bls (180 kgs)
Cotton	5,100	5,000	Bls (180 kgs)
Ginger	28,000	20,000	
Pineapple	55,000	30,000	
Vegetable	45,000	25,000	
Banana	45,000	20,000	
Orange	35,000	15,000	
Tozpatta	8,000	5,000	
Grass Brown	5,000	3,000	
Turmeric	1,500	1,200	
Wild Pepper	1,100	1,100	
Tapioca	23,625	10,000	
Jackfruit	5,300	2,000	
Misc. Fruits	21,000	—	

*Source:* Directorate of Agriculture, Government of Meghalaya, Shillong.

Lack of proper marketing outlets in the state is a deterrent to increasing productivity and production. The production function is complete when marketing is so arranged that the producer is assured of a fair return for the labour and other inputs investment made by him for producing a commodity. Unless a farmer gets remunerative price for the produce, he will not go for increasing production.

Meghalaya so far does not have the required base and the infrastructural facilities for organised agricultural marketing. Marketing of surplus agricultural produce as well as the procurement of the necessary agricultural inputs and the daily requirements of the people in the state, is a problem to be tackled. There are a number of constraints, such as transport, communication, suitable

organised marketing set-up, weak cooperative organisation, deplorable conditions of the primary markets in the rural areas of the state. These problems are very much pronounced in the south-western part of the state bordering Bangladesh. Free trade which existed with the people of East Bengal was dislocated and closed down with the partition of the country.

As in other states of region, the private traders have, by and large, monopolised the trade and commerce in Meghalaya. Marketing of surplus agricultural produce and other minor forest produce, supply of essential food stuffs, agricultural inputs etc. are mostly handled by the private traders. The traders are well-organised and in an advantageous position to dictate their terms as far as the procurement of the surplus agricultural produce is concerned. Farmers, in general, bring their surplus produce from distant villages to the market for disposal and at times, not being aware of the prevailing market trends resort to distress sales. As such the price situation of the surplus agricultural produce is very much fluctuating particularly for the perishable produce like potato, ginger, fruits and vegetables. The middleman in the process takes advantage of the situation at the cost of the producer and the consumer as well.

### *Condition of the Primary Markets*

There are three principal markets located in the urban centres, namely, Shillong, Jowai and Tura, of which Shillong market (Barabazar) in East Khasi Hills district is the biggest one and is owned and managed by the Syiem of Myllem (Syiem means king and Myllem is the small princely state). The Jowai market in Jaintia Hills district is under the Jaintia Hills District Council while the Tura market is managed by the Tura Town Committee. There are, at present, 114 primary markets in the state located in the rural areas and held periodically. On the basis of the total geographical area and population of the state, each primary market is serving around 16,000 people covering a land surface area of about 261 sq. km. on an average. There is no uniform pattern of organisational and management set-up of these markets. The local autonomous administrative bodies are the controlling authorities of these markets including collection of tolls and levies without having any control

on the price of quality of the produce sold in the market. The primary markets in the rural areas do not have required facilities of a regular and economic transport. Besides, the market stalls are not properly laid down and are mostly temporary structures made of thatch and bamboo. Basic amenities like godowns or storage facilities, drainage and pavement, parking facilities and supply of drinking water are generally not available in these markets.

Therefore, establishment of an efficient agricultural marketing system where the growers may obtain a remunerative price for their produce is most essential for the accelerated development and commercialisation of agriculture in the state. Increasing demand of urban population for foodgrains and increasing agricultural production and marketable surplus simultaneously calls for a rapid improvement in the existing agricultural marketing system. Some of the key issues to be considered for development of an agricultural market in Meghalaya are as follows:

(i) A constant vigilance on market intelligence network throughout the state is most vital and essential to ascertain the price situation of the agricultural produce. The work under the market intelligence throughout the state should be strengthened and revitalised to have a proper perspective of the price situation, collection of farm produce and other related aspects. Out of the five districts, there are, at present, only three district units, namely, Jaintia Hills district, East Khasi Hills district and West Garo Hills district, having one Assistant Agricultural Marketing Officer, assisted by two Agricultural Marketing Supervisors for the purpose. In the newly created districts, namely, West Khasi Hills and East Garo Hills, the agricultural marketing activities are being supervised by an Agricultural Marketing Inspector. Therefore, it is felt that the district level agricultural marketing wing needs to be created for these two newly created districts.

(ii) The marketing of the surplus fruits produced in the border areas of the state needs to be tied up with fruit processing units under the Department of Agriculture, Meghalaya Cooperative Federation (MECOFED) and other marketing organisations in the state as well as outside the state for the benefit of the growers by utilising the border tracks as transport links.

(iii) The fruits and vegetables growers of the state used to face a number of problems, particularly in the rural areas, for the disposal of their surplus produce and are deprived of a reasonable profit margin which consequently reflects as the disincentive for cultivation of these crops. As such, it is felt that marketing of these commodities may be organised through cooperative organisations/growers organisations in the urban areas by giving transport subsidy. This will help the growers in obtaining a reasonable price for their produce and the consumers will also be benefited by getting fresh fruits and vegetables at reasonable rates as well.

(iv) The farm produce is generally sold without any grading. The traders and the middlemen used to take advantage of the situation by paying lower price for good quality of produce. As such, the farmers need to be trained for grading of the produce and maintain quality to fetch a better price.

(v) Introduction of regulatory measures by establishing regulated markets in the state is to be brought into force. Keeping the idea in view for better regulation of buying and selling of certain commodities and establishment of regulated market thereof, the Meghalaya Agricultural Produce Market Act, 1980 was enacted. The government of Meghalaya has decided to establish three principal regulated markets initially at Shillong, Tura and Jowai and also eventually to bring the other primary markets under regulation gradually in a phased manner. To start with, action has already been initiated for the establishment of the principal regulated market at Shillong and at Garobadha.

(vi) Quality control and Agmark grading, though voluntary in nature at present for internal consumption, is compulsory for export commodities. Agmark is a symbol of purity guaranteed by the Central Government. This is likely to be made obligatory for the commodities consumed within the state soon. In a welfare state, quality control is absolutely necessary and should be enforced strictly.

### **Regulated Markets in Tripura**

Out of 84 wholesale assembling markets as identified in the State of Tripura, 21 markets have so far been brought under the orbit of

regulation as per provisions of the Tripura Agricultural Produce Markets Act, 1980 in a phased manner. The Tripura Agricultural Produce Markets (Amendment) Act, 1983 has been enacted for the establishment of the Tripura Agricultural Produce Marketing Board and subsequent amendment was proposed for the constitution of market committee of regulated markets to increase the number of members. The Tripura Agricultural Produce Markets (Administration) Rules, 1985 was framed to allocate powers to the Marketing Board and committees. In the regulated markets, paddy and banana are notified as transactionable commodities. The paddy is admissible in the regulated markets in husked or unhusked conditions for transaction. The transactions are made by open regulations between the buyers and the sellers.

The Tripura Agricultural Produce Marketing Board consists of the ten members: (i) Chairman, (ii) Vice-chairman, (iii) non-official members: two; and (iv) official members: (a) Director of Agriculture, (b) Joint Secretary (Revenue Department), (c) Registrar of Cooperative Societies, (d) Director of Animal Husbandry, (e) Regional Manager of Commercial Bank, (f) General Manager of the Board (an official from the Department of Agriculture).

The term of the members is three years from the date of appointment. The market committee is constituted under Section 7 of the Markets Act, 1980 consisting of the twelve members: (a) agriculturists-6, (b) one member each from trader and cooperative societies located in the area-2, (c) members from local authority-2, (d) member to represent each agriculture and animal husbandry departments-2.

The term of office of market committees (nominated committee) is initially for a period of one year with extension for a further period of one year and a subsequent committee for a period of three years.

In respect of the infrastructure available in the regulated markets in the state, some of the markets have been provided with minimum required amenities while the remaining markets have yet to be covered. The minimum basic facilities provided at the regulated market are: (a) sale hall (auction platform), (b) sale stall, (c)

market committee's office, (d) godown, (e) internal pathways, including approach road, (f) providing drinking water facilities, and (g) sanitary block with drainage system.

The construction of market godowns is in progress in most of the regulated markets in the state.

### *Problems*

There are no major problems faced in regulated markets in Tripura except the availability of adequate land for development of primary markets. The transport bottleneck is prevalent in the state and is being tackled by the local panchayats by constructing link roads. As per the existing system, markets are developed by the Department of Agriculture, which are handed over to the statutory market committees for management and control. Central assistance is also availed of from Directorate of Marketing and Inspection and Department of Rural Development, Government of India both for the regulated markets and rural markets.

### **Agricultural Marketing in Arunachal Pradesh**

In Arunachal Pradesh, there are no regulated markets and the whole trade moves around the private merchants who mostly procure the commodities at local markets in villages held periodically. The traders take the contract of standing crops particularly paddy and fruits and harvest it at their cost paying less price than prevailing market price. The cooperatives are mainly the distributing agencies for consumer goods and do not enter into the product market for procurement of foodgrains, fruits or vegetables. The itinerant traders visit the villages all the six days in a week and collect the produce directly from the farmers. The conditions of the state do not allow for free and uninterrupted transportation.

### **Cooperative Marketing**

In the North-Eastern States, the cooperatives dealing with foodgrain marketing are weak in terms of organisational set-up and financial condition. The cooperative marketing societies in the region, though established extensively, are defective due to lack of marketable surplus of agricultural commodity and price manipula-

tion by the private traders. The salient features of marketing cooperatives in the North-Eastern States can be seen from Table 3.24. It reveals that, by and large, in each state, majority of the societies are incurring losses due to the reasons explained above.

Table 3.24

*Primary Cooperative Marketing Societies in North-Eastern States*

(amount in lakhs)

State	Type of Societies	No.	Member-ship	Working Capital	Grant in Aid	Procurement	Distribution	Procure and Loss
Tripura	PACMS	14	2408	299.62	13.35	4.00	348.75	-3.05
Meghalaya	HPCMS	5	256	9.09	4.13	31.81	5.01	-3.46
Manipur	PACMS	14	1949	4.15	—	—	—	—

PACMS - Primary Agricultural Cooperative Marketing Societies.

HPCMS - Horticultural Produce Cooperative Marketing Society.

Source: Registrar, Cooperative Societies of Respective States, 1989.

Statewise description of the primary marketing societies dealing with foodgrains, fruits and vegetables is given below:

### *Assam*

In Assam, a large number of cooperative marketing societies are functioning. The State Cooperative Marketing Federation procures paddy from the societies affiliated to it and redistributes under public distribution system, after processing at cooperative sector rice mills. Since the regulated markets are not active in the state, paddy is mostly procured by the cooperatives, next to private traders. The Food Corporation of India is also procuring rice under levy from processors.

### *Manipur*

It has already been discussed earlier that the marketing of agricultural commodities in the state is very feeble. In the absence of regulated markets for the agricultural commodities, the private traders have dominated the foodgrains market. The idea to establish a parallel marketing institution through cooperatives has also received a set-back due to reorganisation of societies. There are 14 primary cooperative marketing societies in the state but these are

not active. Most of these societies have become defunct due to reorganisation of Primary Agricultural Credit Societies (PACS). These reorganised PACS has taken up the marketing of agricultural products but their area of operation is very limited due to paucity of finances. The main commodity procured by these societies is paddy. Though PACS are mainly the credit agencies in cooperative sector, some of them have also taken up marketing as an additional activity.

### *Meghalaya*

The cooperative marketing network in the state has been setup for the horticultural production, specifically for fruits like pineapple and orange. There are five Horticultural Produce Cooperative Marketing Societies located within Phnursla block. The members of these societies are engaged in procurement of horticultural and minor forest products and distribution of consumer goods. The commodity procured in these societies is sold in the open market through its own outlets, and private traders engaged in wholesale and retail trade of fruits and vegetables. These societies have procured the fruits worth Rs. 39.81 lakh during 1988 and distributed the consumer goods worth of Rs. 5.01 lakhs. The horticultural cooperative marketing societies also sell the produce procured from their members in the international bordering markets of Bangladesh and Burma under Open General Licence (OGL) policy of the government. Despite functioning continuously, the societies have not been able to achieve the required level of performance. The total loss incurred by these societies during 1987-88 was Rs. 3.46 lakhs.

### *Tripura*

In Tripura, 14 primary cooperative marketing societies, located in the block headquarters with one apex marketing society at the state level, are functioning. The membership of the primary marketing societies was 2,408 as on 30th June, 1988. These societies mainly procure jute, mesta and *jhu* seeds (paddy and oilseeds) grown by the tribes through *Jhum* cultivation, from the members, as sub-agents of Tripura Apex Cooperative Marketing Society Limited (APCMS),



under price support scheme. Paddy is the main crop among foodgrains but the societies are unable to procure it as the open market price of paddy is higher than the support price and the markets are dominated by the private traders. Paddy and other foodgrains have not been procured by the primary marketing societies for the past eleven years. The societies are also engaged in distribution of essential commodities through retail outlets and fair price shops under lead link scheme of National Cooperative Development Corporation (NCDC). Besides, these also supply dietary consumables to hospitals and other government and semi-government institutions within their area of operation. Of the 14 societies in the state, 11 have earned profit worth Rs. 3.96 lakhs and the remaining societies have incurred a total loss of Rs. 4.31 lakhs. Thus, the overall performance of the societies in the state shows a loss of Rs. 0.35 lakh, which is lowest among the states in the North-Eastern Region, having network of marketing cooperatives.

Apart from the Primary Agricultural Produce Cooperative Marketing Societies, there are also 55 Large-Scale Multipurpose Cooperative Marketing Societies (LAMPS), mainly dealing with the jute procurement. The LAMPS are controlled by the Board of Directors constituted under the guidelines of the government separately. There is one vegetable growers cooperative society also which is functioning with a membership of 530 growers and one nominee of NCDC. The apex cooperative marketing society in the state has 131 members with Rs. 1468.33 lakhs as working capital and is engaged in procurement of jute and mesta from affiliated primary societies. It has procured the commodities worth Rs. 235.12 lakhs and earned a profit of Rs. 1.06 lakhs during 1986-87.

### **Government Agency in Foodgrains Procurement**

The Food Corporation of India (FCI) is the only government agency which procures paddy on behalf of the government. So far, the FCI has extended its operation in Assam only among other states in the North-Eastern Region, though recently, it has set up a depot at Banderdcura in Arunachal Pradesh. Table 3.25 shows details about the procurement of paddy by the FCI during 1987-88 under levy rice scheme.

**Table 3.25**  
**Procurement of Paddy by FCI in Assam (1987-88)**  
*(in million tonnes)*

	<i>Common</i>	<i>Fine</i>	<i>Super Fine</i>	<i>Total</i>
Jorhat	1232.465	—	—	1232.465
Guwahati	1581.000	—	141.000	2203.000
Nagaon	1315.995	—	14.535	1330.530
N. Lakhimpur	813.000	—	—	813.000
Kokrajhar	417.000	—	132.240	549.575
Silchar	174.000	—	0.100	174.100
Dibrugarh	523.915	—	—	523.915
Gongai-gaon	22.650	—	—	22.650
	6080.360	481.000	287.875	6849.235

*Source:* Regional Office, FCI, Assam.

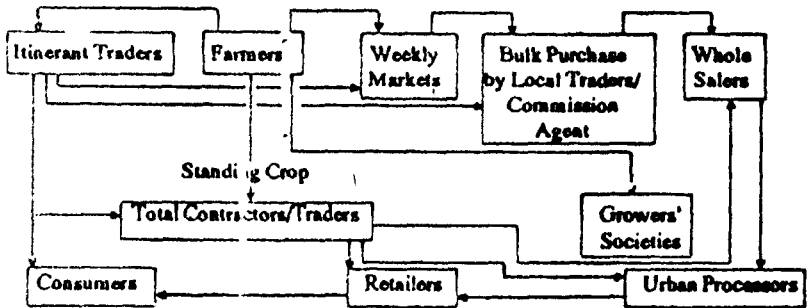
From Table 3.25, it can further be seen that the FCI has procured largest quantity of paddy from the districts of Guwahati and Nagaon of Assam. In other words, these two districts have the highest concentration of rice mills from which the FCI has procured the levy rice. The FCI has 39 depots in Assam and one in Arunachal Pradesh. During 1987-88, the FCI had procured 6849.235 mts of paddy, of which 287.875 mts was of super fine quality, 481.000 mts fine, and the remaining 6080.360 mts of common quality. Till middle of May, 1989 the total quantity of paddy of all varieties procured by the FCI was 4380.20 mts from the six districts of Assam.

### Private Channel

The commodity transactions are done in many ways in the North-Eastern Region. A substantial part of the total produce is sold by farmers to the local traders and moneylenders who offer lower price as compared to the market price. One of the major bottlenecks of the marketing system at the village level is that the local traders and farmers undergo an agreement for the standing crop before harvest at a relatively lower price. The farmers sell large part of their produce in the periodic markets which is purchased in bulk by the local traders, while a lesser portion of farm produce is parted with the growers' societies. The local traders, in turn, sell the assembled produce to the wholesalers, and it is redistributed to processors and

a portion of it to the consumers through retailers. The following diagram exhibits the flow of commodities in rural areas.

### *Commodity Flow in Rural Markets*



The itinerant traders move around the villages, collecting produce from farmers and bring them to the nearest markets. Because of lack of transport facilities, storage capacity and fear of being cheated in the market, the small peasants offer their produce to the itinerant traders at a relatively cheap price. Sometimes the moneylenders provide them with loans on the condition that they will sell their produce to them only. It is also observed that the shopkeepers and the traders in the rural market centres sell on credit essential consumer commodities to the peasants during natural calamities or at times of dire necessity. In the next harvest, the farmer realises their loans with high rates of interest in terms of agricultural produce at low prices. Often the moneylenders act as commission agents of the wholesale traders.

Transaction of agricultural produce also takes place once or twice a week. Besides, fairs are held once in a year or so in important villages and towns. The farmers often sell a part of their produce in these fairs. It is worth noting here that in these fair markets, the folk sellers of a particular commodity usually sit together in rows facing each other in a particular quarter specially set aside for them. The women of the hilly areas also carry their produce to the market. Sometimes they have to travel long distance of about 5 to 10 km with a head load along narrow footpaths made of rough stones which connect one village with another. These footpaths are often

steep and slippery in the rainy season. The weekly markets in the hills are monopolised by the agents of wholesale merchants, who may decide collectively not to offer the usual price on one pretext or another. Most of these markets are very poorly equipped, uncovered, and lack facilities of storage, stallage, drainage, and so on. In addition, the roads linking most of these markets, to towns and wholesale markets are in poor condition. Some markets particularly in hilly areas, are without road. It is pertinent to note that only small and marginal farmers sell their produce in such markets. The big farmers, with large surplus, generally go to wholesale markets.

Thus, the agricultural marketing is a complex phenomenon. Involvement of a number of trade channels in the procurement of agricultural produce, the attitude of farmers towards the selling of their produce and getting immediate returns are the main factors governing the entire market operations. There are different types of problems in the marketing of agricultural and allied products which can be categorised into three aspects such as (i) the organisational aspects, (ii) functional aspects, and (iii) physical infrastructural aspects. The organisational aspects are mostly concerned with the state intervention in agricultural marketing by implementing the market regulation as an instrument to offer better price to the farmers and feeblise the lobby of private traders. In this task, there are many problems faced by different states pertaining to constitution formation, overcoming litigations filed by trading community and taking over markets from private ownerships. The functional aspects are concerned with the bottlenecks found in transaction during grading, weighing, pricing, payment and other marketing operations. Besides, there are some defects in the functioning of regulated market committees as they are unable to control prices, conduct auctions, fair licensing etc., which had ultimately affected the entire system of marketing of agricultural products. The physical aspects are mainly related to infrastructural issues, such as transport and communication, storage and warehousing, marketing yards and general amenities and the like.

### **Private Trading**

It is one of the popular channels of marketing of agricultural

produce. The private traders, venture into agricultural products marketing, have social and economic dimensions. This channel is informal and facilitates the farmers in disposing of the marketable surplus at village without making them bear high transportation and incidental charges for carrying it out of the village. The private traders who operate in the village are of two categories: (i) itinerant traders, and (ii) petty traders who are stationed in central villages and also act as commission agents of either processors or wholesalers. These private traders mostly include big farmers.

This channel is more popular among the marginal and small farmers who have low marketable surplus and low risk taking potential. However, many disadvantages of this channel have been highlighted in many studies<sup>30</sup> which largely describe the economic loss faced by the farmers by way of paying low price irrespective of crop grading. The problems faced by the farmers in dealing with private trader channel as shown in Table 3.26, explain that the private trade channel considers the social and personal problems of farmers on one hand while on the other, exploits them economically. Since the marginal and small farmers have higher concern towards the social system, they often prefer to select the private trade channel, besides other technical and economic considerations. The case study<sup>31</sup> on linseed marketing in Durg, Rajnandgaon and Bastar districts of Madhya Pradesh evidences the marketing system in private channel.

**Table 3.26**  
**Characteristics of Private Trading Channel**

<i>Factors</i>	<i>For</i>	<i>Against</i>
Social	<ol style="list-style-type: none"> <li>1. Informal dealings</li> <li>2. Social participation</li> <li>3. Counselling in social and family matters</li> <li>4. Village development/concerns</li> </ol>	<ol style="list-style-type: none"> <li>1. Social obligations</li> <li>2. Bonded labour</li> <li>3. Social exploitation</li> </ol>
Economic	<ol style="list-style-type: none"> <li>1. Timely monetary help</li> <li>2. Produce disposal locally</li> <li>3. Credit linked marketing</li> <li>4. Informal borrowings</li> </ol>	<ol style="list-style-type: none"> <li>1. Low price per produce</li> <li>2. Encourage distress sales</li> <li>3. Irregular payments</li> </ol>

### Channels of Marketing

The linseed is purchased by the private traders as well as the cooperative marketing societies. It was found during the study that the small farmers (up to 5.0 ha.) sold their crop in the village itself to the private traders at lower rates as compared to the cooperatives so as to meet their immediate cash requirements. On the other hand, big farmers (above 5 ha.) sold their produce to the cooperatives according to the prevailed price trend. They had storage facilities, although traditional, at their end. The small farmers falling in the size group up to five hectares sell 86.68 per cent of their produce on an average whereas the big farmers having more than five hectares of land dispose of only 79.55 per cent of their produce. This trend points to immediate need for cash of small farmers as also lack of storage facilities. In fact, the small farmers sold their produce in the village itself to meet a number of socio-economic obligations. It was also found during the study that 67 per cent of small farmers disposed of their produce in the village to the private traders whereas 21 per cent to the cooperative marketing societies. On the contrary, 86.31 per cent of the big farmers preferred to sell their crop to the marketing societies and only 13.69 per cent to the private traders.

Obviously when a major proportion of marketed surplus is disposed of within the village, farmers would naturally get lower prices than those prevailing outside the village market. The high incidence of indebtedness of the sample farmers (63.9 per cent of small farmers and 19.8 per cent of the big farmers) is clear which is inversely related with the quantum of output marketed by farmers of different size groups. The lack of proper transportation and communication facilities constituted second important factor responsible for local sales. About 54.41 per cent of small farmers and 42.17 per cent of big farmers pointed out this fact responsible for local disposal.

### Cost of Marketing

The marketing cost of linseed in rural areas is relatively low as it is sold in unprocessed form and labour is relatively cheap. The details

which reveals that the total marketing costs are high for the small farmers and low for the big farmers. It can, therefore, be inferred that the total marketing costs and the farm size are inversely related.

**Table 3.27**  
*Farm Size and the Marketing Costs (Rs. 75/Kg.)*

Item	District		
	Durg	Rajnandgaon	Bastar
Transportation	1.89 (1.00)	1.89 (1.00)	2.05 (1.72)
Weighing	0.50 (0.50)	0.50 (0.50)	0.55 (0.55)
Commission	1.00 (0.55)	1.00 (0.55)	1.35 (0.90)
Labour	0.90 (0.30)	0.87 (0.30)	0.70 (0.50)
<b>Total Cost</b>	<b>4.79</b> <b>(2.97)</b>	<b>4.76</b> <b>(2.99)</b>	<b>5.47</b> <b>(3.98)</b>

Figures in parentheses indicate marketing costs of big farmers.

The data further show that total marketing cost is higher in case of small farmers by about Rs. 1.69 per bag of 75 kg. that the costs incurred by big farmers. Bastar district, being the tribal populated area, possesses poor infrastructural facilities resulted in the high marketing costs.

### Price Structure

**Table 3.28**  
*Farm Harvest Prices of Linseed*

District	Year			
	1970-71	1974-75	1975-76	1976-77
Durg	135.0	218.56	156.45	299.80
Rajnandgaon	134.10	217.67	157.95	304.12
Bastar	132.15	210.08	151.21	262.67
Madhya Pradesh	141.66	219.55	158.02	305.67

The price of linseed varied year to year according to the rate of production. It was highest in 1976-77 when the production was in-

crease in production. The weighted price of the produce is shown in Table 3.28.

Since most of the farmers are selling their produce immediately after the harvest, hence they get lowest price.

### Marketing Intelligence

The socio-cultural background of the sample respondents indicates that most of marginal and small farmers falling in the small farm size (up to 5 ha.) group belong to scheduled caste, scheduled tribe and other backward classes while the big farmers (above 5 ha.) belong to forward castes. Obviously, the individual indicators of the socio-economic factors and awareness would be significantly high for the forward caste farmers. The respondents, having rural background, used to get the communication through commission agents, newspapers and AIR. This study reveals that excepting Bastar district, 71 per cent farmers respond to prices on radio, while 58 per cent respond to newspapers occasionally. About 48 per cent small farmers and 82 per cent big farmers get the price news from the commission agents. Further, the study indicates an inverse relationship between the size of holdings and the influence of commission agents in decision making.

Thus, the entire system of marketing requires organisation of sale and purchase of linseed in such a way that producers could secure fair price. The practice of sale in the village itself should be discouraged and the cooperative oil mills and cooperative marketing societies should be instructed to come forward to purchase the produce through their representatives.

### Marketing in Tribal Areas

In absence of alternative channels in backward areas, due to lack of market arrivals and infrastructure, the influence of private trade channels is observed as prominent. The cooperative network, with specialised objectives like LAMPS, FLCS, etc., exists in the tribal and backward regions, but due to weak leadership, enough awareness on institutional marketing could not be generated. This is one of the reasons of low preference for either cooperative marketing societies or regulated markets. The private traders procure the



agricultural products like foodgrains, oilseeds, fruits and vegetables in the periodic markets in a conventional manner and channelise it to higher order markets. The periodic markets, by and large, serve as assembling centres for the products where no grading is carried out. Therefore, there may be no price discrimination for higher grades of products. Under such circumstances, the producers get a flat price for the product without making any qualitative considerations. The cost of marketing in backward areas is higher in terms of imputed value of labour as family labour is generally used in transportation. The storage facilities have been generated in the recent past in backward regions through central and state assistance. The National Cooperative Development Corporation has also made considerable efforts in financing construction of rural and marketing godowns. However, in structured godowns, lot of administrative problems have jumbled up due to lack of appropriate user package, and policy. All these factors encouraged the private trade channels to ground their business in backward areas where little control over the trade exists. A study<sup>32</sup> conducted in Bastar district of Madhya Pradesh, which is the largest district with tribal population, examined the impact of private trade channel on agricultural marketing.

### Trade Practices in Tribal Areas

The survey of the 55 sample families revealed that 10 per cent of the disposal of paddy was made for cash and 15 per cent represented barter in the village weekly market with essential commodities among their castemen.

Majority of the marginal and small farmers of 0-5 acres group sell their produce in their own village at the available price to the petty traders, whereas contrarily, the majority of medium and big farmers of 5-10 acres group sell their produce to the cooperative marketing societies. On studying the sample households, it was observed that 65 per cent of the paddy is marketed immediately after the harvest. The price of this commodity is, however, determined by the demand and supply factors of the market, but it remains low between November and January. The price tends to rise from February onwards. The benefit of high rates indiscriminately goes to the big

farmers who have facilities and potentiality to store the produce. The marginal and small farmers sell their produce at the lower price soon after the harvest is over to meet their requirements.

The cooperative marketing has yet to diversify its activities in the district. The M.P. State Cooperative Marketing Federation has limited expansion in the district and has not entered the market for purchase and sale of agriculture produce significantly. The Food Corporation of India operates in the district through its office at the district headquarters. Till recently, their purchasing operations were limited to rice and, that too, under levy system to instil confidence in the minds of the growers. The purchasers of paddy and maize were also affected under price support scheme.

Further, in order to protect the interests of the tribals, especially of small and marginal farmers, the Tribal Cooperative Development Corporation and the Food Department of the State Government also entered the field of marketing. The district authorities fix minimum price of various commodities and give wide publicity to them among the villagers and, if necessary, they purchase at these prices directly from the farmers. These measures have proved helpful in controlling the untimely and wide fluctuations in the prices of agriculture commodities.

### **Storage and Processing Facilities**

The warehousing and storage facilities are not sufficient in the district. The Tribal Welfare Department established community grainaries in 6.5 per cent of the villages to serve a safe storage as well as 'grain banks' from where the poor families can draw in kind at reasonable terms to meet their commitments of seeds and consumption. The Madhya Pradesh State Cooperative Marketing Federation has a storage facility of approximately 30,000 bags in its hired godowns throughout the district. The primary cooperative societies have also their owned as well as hired godowns which have potential to store 4.6 per cent of the total arrivals of cereals in the district. Besides, the warehousing facilities of the Food Corporation of India cover 24.9 per cent storage capacity of the total arrivals in the godowns studied at important places in the district. The storage potential of the FCI warehouses is approximately 4 lakh

bags. It further intends to construct capsule godown in each growth centre.

In fact, the tribals are coming forward to adopt better practices for cultivation due to the persuasive and convincing propaganda by the district agricultural authorities. It is desirable to take on hand the construction of godowns, so that the agriculture may not continue to suffer for want of adequate warehousing facilities.

The district has limited facilities for processing the surplus agriculture produce. Paddy is the main crop of the district and throws open wide scope for installing rice mills. Production of pulses and oilseeds in the district also needs establishment of units for processing these commodities. There are in all 75 rice mills functioning on small scale. Thus, their production is negligible. The FCI intends to set up two rice mills at a cost of Rs. 25 lakhs in the district. The use of HYV seeds and increasing irrigation facilities have boosted up the agriculture production and it is estimated to increase considerably in the forthcoming five years. Keeping this in view, the cooperative sector will do well to take initiative to instal some rice, *dal*, and rice bran oil mills, based on modern technology. The processed products provide good market in and outside the district, as well as give scope for inter-state trade, as Orissa and Andhra Pradesh are the neighbouring states of the district. The rice bran oil mills can also be profitably functioned for processing *sal* seeds which are abundantly available in the district.

Thus, the agriculture marketing is not well-developed, and there are only eight regulated markets in the district. These markets attract agriculture produce from the respective nearby areas but a large number of far-flung villages are devoid of advantage of these markets mainly due to lack of transportation facilities. To some extent, it may be said that the tribal cultivator's standard of living, being very simple and their requirements being limited, their nature is to feel satisfied with whatever they could get at their own place of living either on barter or on cash. Agriculture produce brought by the villagers is purchase d by the petty traders who also deal in goods needed by the villagers to meet their daily requirements.

The development of agriculture and ensuring better prices to the tribal peasants is one of the main aspects of the Integrated Tribal

**Development Programme.** The study of the agriculture marketing conditions reveals that yet efficient marketing system has not been established in the district.

### **Summing-up**

The whole discussion on agricultural marketing presents a diversified scenario of trading systems in different regions and commodities. It can be synthesised from the results of various case discussions that the middlemen or commission agents are widespread in transaction and found in private, processing and regulated markets channel. The organisation of marketing cooperatives has been thought of in Indian plans as a strong alternative in agricultural produce marketing with view to reduce the influence of intermediaries. The cooperatives have a primary objective of providing better remunerative prices to the member farmers at the village itself. But, it has been largely observed in most of the referred case studies that the societies could not make any headway in agricultural marketing due to administrative and financial constraints. The regulated markets do not cater to the needs of marginal and small farmers as they have little marketable surplus. Besides, the spatial aspects of markets, such as location, infrastructure and distance, also limit the marginal and small farmers to make use of the services at regulated markets. The regulated markets have benefited medium and large farmers to a great extent who have enough marketable surplus for disposal. It has been observed that larger the market arrivals, better is the functional pattern of secondary markets. However, in these markets, particularly in the North-Eastern Region, litigations between the market committees and traders have also been noticed. Reviewing the whole discussion, presented in this chapter, it can be inferred that the agricultural marketing system in the country is complex and in absence of strong alternative marketing channel, most of the trade is dominated by the private trade channels.

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## AGRIBUSINESS IN INDIA : LESSONS AND VISIONS

Rajagopal\*

Agricultural production of selected food crops has been increased in the subsequent years since the fall of Seventh Five Year Plan in India. There has been a significant increase in the production of foodgrains in the post-independence period from 1949-50 to 1992-93 which accounted for 1250.9 lakh tonnes. The production of foodgrains was 549.2 lakh tonnes in 1949-50 which increased to 1800.1 lakh tonnes in 1992-93 with an annual growth of 2.71 percent. During the post-green revolution period the growth of foodgrains was assessed at 2.84 percent per annum which accounts for increase of production from 950.5 lakh tonnes to 1800.1 lakh tonnes in 1992-93. The index of agricultural production marked an increase of 3 percent over the increase of 21.7 percent registered during 1988-89. This increase resulted due to significant production of rice, wheat, pulses, oilseed, jute, and mesta, sugarcane and other commercial crops.

### Performance

It has been observed that in the post-independence period the Government of India considerably emphasised the implementation of Agricultural Produce Marketing Act through the state Governments. In all there were 6,752 regulated markets functioning in the country as on the end of March 1993. However, due to increasing disputes in the regulated markets and lack of infrastructure, the intervention of private traders in procurement of foodgrains and sales to terminal and retail markets has significantly increased. The private traders intervention in the transactions of commercial crops like bidi tobacco, sugarcane, oilseed, pulses and spices was found dominant. The liberalisation policy introduced in 1991 in the country has further made easy the entry of private traders into the domestic and export markets of agricultural commodities.

### Market Arrivals

The wholesale price index for the cereal crops has shown an increase of 9.3 percent at 260.6 during 1993-94 as compared to 238.5 during 1992-93. The market arrivals of wheat during the above referred period marked an increase of 21.5 percent as compared to the rice, which had shown an upward trend by 13.4 percent. However, the market arrivals of Sorghum during 1993-94 registered a fall of 23.9 percent with the volume of arrivals of 3.14 lakh tonnes as against the volume of 4.13 tonnes during 1992-93. Similarly the market arrival of maize also decreased by 13.9 percent as compared to the arrivals of 1992-93 in the selected 394 markets in the country. The Table I exhibits the status of market arrivals of major foodgrain crops for the above period.

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**Table I : Market Arrivals of Selected Cereals**

(Thousand Tonnes)

Crop	No of Markets	1992-93	1993-94	Percent Change
Wheat	515	4230.8	5138.8	21.5
Rice	591	3946.9	4476.1	13.4
Sorghum	524	413.0	314.2	-23.9
Bajra	524	326.2	298.1	-80.6
Maize	394	294.8	253.7	-13.9

Source : Agricultural Situation in India, August 1994

It has been observed that the market arrivals of foodgrains and commercial crops are closely associated with the price structure. It consists of the support price announced by the government and the open market trend. However, as a protection measure the designated agricultural produces like rice, wheat, cotton, jute, coffee, tobacco (FCV) etc are procured by the respective Government agencies under the support price patronage in case of fall in the open market price. The policy of announcing the support prices for foodgrains and commercial crops on the one hand protects the interests of the farmers and on the other hand of consumers by making available the supplies at reasonable prices. Table II exhibits the trend of support prices announced by the government since 1992-93 for different foodgrains and pulses.

**Table II : Minimum Support Prices for Agricultural Produce**

(Rs per 100 Kg)

Commodity	Variety	1992-93	1993-94	1994-95
<b>Foodgrain</b>				
Paddy	Common	270	310	340
Wheat	FAQ#	275	330	350
Coarse Cereals*	FAQ	240	260	280
Maize	FAQ	245	265	290
Gram	FAQ	500	600	640
Red Gram				
Black Gram	FAQ	640	700	760
Green Gram				
<b>Oilseed</b>				
Groundnut	FAQ	750	800	860
Soyabean	Black	475	525	570
Soyabean	Yellow	525	580	650
Sunflower	FAQ	800	850	900
Rapeseed/Mustard	FAQ	670	760	810
Safflower	FAQ	640	720	760
Copra	Milling	---	2150	2350

FAQ : Fair Average Quality

Source : Directorate of Economics and Statistics, GOI,

The data reveal that there has been a continuous increase in the support price for all the foodcrops and pulses. However, it has been observed that yet the farmers are getting marginal profit. The major reason for the low support price structure is that the cost escalations of inputs and infrastructural overheads are not taken into consideration at the current prices of an agricultural season.

There has been a marginal hike of Rs per 30 quintal of paddy in 1994-95 as compared to the support price of 1993-94. However, cost of production of paddy increased in the above referred period by Rs 48 on an average<sup>1</sup>. The increase in the support price for the coarse variety of foodgrains like sorghum, bajra and maize in 1994-95 was Rs 20 against the announced price of previous year. The Statutory Minimum Price (SMP) of sugarcane was also raised by the Government of India from Rs 31 per quintal in 1992-93 to Rs 34.50 for 1993-94 and Rs.37 per quintal for 1994-95 linking to a basis of recovery of 8.5 percent. The minimum support prices (MSP) for oilseed is being fixed by the Government on the basis of the recommendations of the Commission for Agricultural Costs and Prices. It has been observed that support prices for various oilseeds varied substantially during 1993-94 as compared to the preceding year. The MSP for oilseeds in 1994-95 increased marginally over the preceding year. However, for copra of milling variety an increase of Rs 200 per quintal is observed during 1994-95 over the MSP of 1993-94.

### Procurement

The purchase operation in foodgrain is launched in view of two major objectives : meeting the requirements of Public Distribution System (PDS) and maintaining the buffer stocks. The cooperatives and public agencies like Food Corporation of India and other commodity cooperatives have been engaged in performing this task. It has been observed that the procurement of rice and wheat was higher during 1993-94 than the preceding year. The quantity of rice procured during 1993-94 was 142.13 lakh tonnes as against 129.98 lakh tonnes in 1992-93. Similarly, the procurement of wheat during 1993-94 marketing season was higher at 128.35 lakh tonnes as against 63.80 lakh tonnes procured in 1992-93 season. However, it has been estimated that about 69.87 percent of the foodgrain had been transacted through private channel comprising commission agents, processors and wholesalers. The cooperatives procured the foodgrain to the tune of 18.45 percent of the total marketed surplus during the above reference period. The margin of commission agents was ranging between 2 to 7 percent depending upon the quality of produce and volume under transaction. The National Cooperative Marketing Federation (NAFED) was designated as the central nodal agency to procure oilseeds under the MSP operations. NAFED had purchased a sizable volume of edible oilseeds in some of the states during 1993-94 to arrest the fall of the prices of oilseeds in the markets. NAFED procured 21.8 thousand tonnes of safflower seeds during 1993-94 from Madhya Pradesh and

Karnataka while during the same period 5.05 thousand tonnes of groundnut from Orissa, Andhra Pradesh, Karnataka and Tamil Nadu. It has also procured substantial quantity of safflower worth 15.7 thousand tonnes from Maharashtra, Madhya Pradesh and Karnataka during the year.

### Market Control Mechanism in Commercial Crops

Cotton is one of the major commercial crops in the country. The production of cotton is localised in some parts of Gujarat, Maharashtra, Western Madhya Pradesh and Western Rajasthan. It has been observed that the price of cotton had increased in the wholesale markets due to loss of the crop during the fall of 1993 which continued till the first quarter of 1994. The prices of cotton rose abnormally during the period and Government had taken-up various corrective measures in order to arrest the spurt in the prices of cotton in the domestic markets. Some of the major measures undertaken by the Government in controlling the price hike in cotton markets are as under:

1. cotton exports are restricted and at a point of time all the contracts were kept in abeyance,
2. duty free imports to the extent of 5 lakh bales of raw cotton during 1993-94 were permitted. Such exemption was made available to all units having their own licensed spinning capacity in the country.
3. cotton hoarders were punished under the Essential Commodities Act and advances against the cotton stocks were banned on the recommendation of the Reserve Bank of India, and
4. the Government had re-introduced the Selective Credit Control measures on cotton.

The production of jute is largely contributed by the states of Assam, Orissa, Bihar and West Bengal. It has been observed that the area under jute crop declined in 1993-94 by 17.62 percent in Assam, 33.97 percent in Orissa and 3.6 percent in West Bengal as compared to the areas under production during 1992-93. However, there had been an increase of 12.75 percent of net cultivated areas under the jute crop in Bihar in 1993-93 as compared to the preceding year. The wholesale prices of raw jute during 1993-94 had shown mixed trend. In absolute terms there had been temporal and spatial variations in prices in the period. As a measure of price support and commercial operation the Jute Corporation of India (JCI) had attempted to purchase the jute bales but could not perform efficiently due to the paucity of funds. In 1993-94 the JCI could purchase only 7 thousand bales of 180 kgs each as against 9.16 lakh bales purchased during 1992-93.

Market intervention in Virginia Flue Cured (VFC) tobacco has been initiated through the Tobacco Board which allows the sale of VFC tobacco only through auctions to provide better remunerative prices to the farmers under competitive bidding conditions. The Tobacco Board arranged the sale of VFC tobacco worth 31.15 million tonnes in 1992-93 and 32.84 million tonnes in the subsequent year in Karnataka. In Andhra Pradesh during 1992-93, 125.6

million tonnes of VFC tobacco had been purchased at the unit price of Rs. 20.75 per kg while the price followed in the same year in Karnataka was Rs. 27.14 per kg. The price had declined in the following year in Karnataka by 23.43 percent while a marginal increase of 0.96 percent was observed in Andhra Pradesh. Exports tobacco is promoted by the Government under Open General Licensing Policy under quality control of AGMARK. The VFC tobacco had been exported worth Rs 366.97 crores and 324.60 crores during 1992-93 and 1993-94 respectively.

### Policy Interventions

In the post-independence period Government of India has taken-up various measures to streamline the agricultural marketing activities through intervention of DMI at central level. The basic thrust in the process has been to safeguard the economic interests of the producers against exploitation by large number of intermediaries. However, inadequacy of infrastructure and administrative arrangements at the level of various state governments some deficiencies are reflected in the existing state of affairs in the state marketing boards in particular reference to enforcement of market regulation legislation. The Ministry of Rural Development at the Centre, therefore had set-up a high power committee on agricultural marketing (HPC) in 1992 to review the present State Marketing Acts and recommend appropriate measures for streamlining and strengthening the regulated markets in the country. Some of the major recommendations made by the HPC are as detailed below<sup>2</sup> :

To make the legal framework adoptable and to effectively manage the regulated markets, the HPC recommended that

- [i] the agricultural produce markets including rural primary markets called *haats*, *shandies* should be brought under the ambit of Agricultural Produce Market Regulation (APMR) Act of the respective states, to widen the scope of agricultural marketing,
- [ii] the state governments may simplify its procedures of marketing regulation and infrastructure management,
- [iii] effective coordination need to be established among APMCs, railway board, forward markets commission, posts and telegraphs department, AIR, Doordarshan and State Planning Commission or Board,
- [iv] each state should set-up an independent cell for implementation of marketing policies of the government time and again,
- [v] the constitution of the marketing committee should be brought a standard of 11 members representing minimum 6 farmers of which one member should invariably belong to the scheduled caste/tribe community. The tenure of the committee should be for a period of five years,
- [vi] no marketing committee should be left superseded and

administered in an undemocratic process, the regional agricultural marketing cooperatives should also elect their representatives to work on the marketing committee, and

- [vii] it is strongly recommended that the state agricultural marketing tribunal may be set up in each state to handle the disputes arising from implementation of the state agricultural produce marketing act.

The DMI has been providing financial assistance to agricultural produce marketing committee through the state agricultural marketing boards for developing marketing infrastructure as a part of the central assistance. The HPC has recommended some of the vital approaches in reference to the central assistance scheme for the development of regulated markets. These are as under :

- [i] the central scheme for providing grant in aid to the state marketing board should continue and remain with DMI,
- [ii] the central sector scheme for development of regulated markets may be revised to permit classification of the cattle markets as secondary markets and provide entitlement of grants up to Rs 20 lakhs,
- [iii] the scheme of grant in aid may be suitably tailored in view of land norms, perishable produce, haats etc to enable them to have assistance of central government, and
- [iv] master plans for agricultural markets may be prepared by each state on priority basis.

Apart from DMI there are many agencies helping the regulated markets in performing business. The marketing institutions like National Agricultural Cooperative Marketing Federation (NAFED), Food Corporation of India (FCI) and Tribal Cooperative Marketing Federation (TRIFED) have been extending their support in procurement of foodgrains and perishable produce. It is observed that their intervention in the regulated markets had not only made the flow of commodities smooth but also struck the balance between the demand and supply. The HPC has recommended the following points in reference to the public purchase agencies in agricultural marketing :

- [i] It is recommended that the benefits of public purchase agencies should be extended to the tribal areas also,
- [ii] the public purchase agencies should buy the produce from the farmers directly and not through the commission agents,
- [iii] required infrastructure need to be provided to all the principal and sub-market yards of the public purchase agencies for conducting business, and

- (iv) the Farmers Service Societies, suitably tailored group action oriented ones may be provided to infrastructure at the market place for their shop-cum godowns.

With a view to catering the needs of marketing credit to the farmers at the place of marketing the HPC recommended that the pledge finance scheme for providing short terms credit against the unsold produce should be uniformly adopted. However, a scheme for insurance against the price depression may also be considered by the Government of India. The HPC felt that there is an urgent need to set up a National Agricultural Marketing Bank with its branches in all regulated markets to provide marketing finance of short and medium terms to the various levels of functionaries including farmers.

It has been observed that scientific storage sheds and pre-cooling chambers for fruits and vegetables are not available in most of the regulated markets in the country which obstruct the delayed transactions in the markets. The HPC recommends that the APMCs handling fruits and vegetables and flowers should be provided with such infrastructure so that they can facilitate farmers for using the pre-cooling chambers and related packages. However, it would be in the interest of the APMCs that they should play active role in guiding the farmers periodically on various aspects of the post-harvest care in perishable products.

It has been observed that the regulated markets are less popular because of the farmers' ignorance of their advantages over the local markets. Thus, the HPC envisages that the farmers need to be trained in the state agricultural marketing colleges as is being done in Karnataka. The DMI may expand its extension service network for timely and meaningful support to the marketing boards on the above cited farmers' educational matters. An Agricultural Marketing Extension Unit needs to be set up in each regulated market to disseminate the market related information and other educational literature, audio-visual programmes and group meetings.

### Retrospects and Prospects

The socio-economic change in rural areas and development of agriculture in India are synonymous to a large extent as agricultural economy forms the development of millions of people living in the villages. We have spent enormous time, energy, resources and promotional inputs in an attempt to make agriculture a commercial proposition. Yet, the success is not largely visible. The reasons thereof have been debated at length in forms of different kinds since the new economic policy has emerged in the country. There are some scientific considerations listed below to enlighten further debate on commercialisation of agriculture.

1. agricultural marketing may not be looked upon only as an exchange function of farm produce, on the contrary it needs to be considered as a resource bed for better ways of investment in farms for augmenting the production,

2. there is a need to develop agroindustrial avenues in the country to absorb the agricultural produce as raw material and pay a value added price to the farmers to inculcate the business oriented attitude among them,
3. better marketing opportunities and practices determine cropping pattern and develop logistics of agribusiness at grassroots level, and
4. innovation approaches in marketing need to be generated by evolving better marketing practices and providing infrastructural support, credit-marketing linkage, marketing extension network and effective public intervention policies.

The history of agricultural marketing since the medieval period to the end of colonial era in India reveals the dominance of intermediaries in the trade. After setting up of Directorate of Marketing and Inspection, the regulated marketing practice was introduced formally in the country. As of now there are about 6730 regulated markets operating all through the country. However, it could not make any significant contribution in changing the agricultural marketing scenario in the country except in some notable states like Punjab, Haryana, Western Uttar Pradesh and Rajasthan and of late in Karnataka. The regulated markets largely suffered from setback of low participation. This issue in a broad sense may be viewed in macro perspective of "performance trap" in agriculture<sup>2</sup>. The prominent factors which contribute to this concept are as listed below :

- \* low marketable surplus,
- \* poor performance of institutional channels,
- \* lack of farmers participation,
- \* low bargaining power of farmers,
- \* lack of institutional support,
- \* high marketing costs or price spread,
- \* poor market management,
- \* high rate of litigation in regulated markets,
- \* complexities in procedures, and
- \* lack of value additions in pricing.

In the post-independence period substantial efforts were made to organise the farmers to protect their economic interest in agribusiness. However, barring a few agribusiness cooperatives a large number of such institutions have become liabilities either on Government or the members themselves. The dissection of many sick cooperatives revealed that they failed to find logical answers for some of the moot questions of a marginal farmer, hypothetically the strongest member of the cooperative, who is in agricultural occupation to fulfil his bare need of two square meals a day. Those moot questions are :

- i. why farmers are unorganised ?
- ii. what is the gulf between the myth and reality of giving agriculture the status of an industry ?
- iii. how far is the rural power structure from agricultural marketing ?
- iv. how the factors of time and distance affect the farmer's decision in order to bypass the conventional channel of marketing and look to the regulated markets ?
- v. is it possible to eliminate the intermediaries from agricultural trade for building-up an institutional image ?
- vi. how far the farmers are responsible for sticking to their conventional marketing practices ? And
- vii. where we are missing a link in the entire process of commercialising agriculture ?

It is essential to evolve a macro framework for promoting agribusiness in the country where the socio-cultural factors are more dominating than the commercial considerations in agricultural occupation. Besides, the ratio of labour intensive methods and capital intensive investments in agriculture shows a serious imbalance for the known face of high population pressure on agriculture. It is very difficult to substantially put an argument for capital intensive agriculture development because so far we could not develop a strong alternative sector in rural areas where the disguised population employed in agriculture could be absorbed. However, our policies largely run into trade-offs of the various options for developing business in agriculture. The issues for debate for and against are exhibited in Table III.

Table III : Issues for the Debate

Economic gains	Vs	Social costs
Blueprint approaches	Vs	Collective decision
Formal	Vs	Informal control
Institutionalising trade	Vs	Privatisation
Minimising risks	Vs	Maximising profits
Regulated markets	Vs	Socialised markets
Value based considerations in cooperatives	Vs	Member controlled perspectives
Multiagency approach in agribusiness	Vs	Single window system
Top down approach	Vs	Rapid market survey
Capital subsidies	Vs	price incentives
Credit-marketing linkage	Vs	Profit linkages

It has been observed in many research studies conducted on analysis of the factor affecting the agricultural marketing over the post-independence period that the dominance of private traders in the agribusiness is very high in general and to the extent of 95 percent in particular to the trade of fruits and vegetables, one of the perishable commodities. The fruits and vegetables are sold through contractors to the tune of 3 percent and only 2 percent directly to the consumers. The value addition at intermediate levels is



very low and so about 68 percent of fruits and vegetables are sold in raw form only. The crux of marketing is lack of infrastructure facilities like pre-cooling units, cold storages, roads, transport, finance, forward marketing linkages and managerial support for achieving commercial propositions in the farming occupation.

The dynamics of cooperativisation in agriculture had begun since the Second Five Year Plan period to build up an effective alternative marketing channel for the large number of farmers engaged in growing food crops, commercial crops, plantation crops and the like. However, the cooperative established with an intervention of Government such as Large Scale Multi Purpose Societies, Forest Labourers Cooperative Societies, Agro-industrial Cooperative Societies etc could not be successful due to lack of vertical and horizontal linkages referring to administrative decisions and members stake respectively. These societies had very low expertise in marketing management with respect to performing decisions on marketing-mix components, developing professionalism in sales and maintenance of business relationships. However, one of the major bottlenecks from the business point of view could be the lack of operational flexibility which a private marketeer enjoyed to position his markets. Further, the non-productive investment in these agencies was found to be very high which was borne by the state by issuing subsidies. Besides lack of autonomy, growth of vested interests and political intervention damage the image of agricultural non-credit cooperatives having state patronage.

The new economic policy emerged in 1991, has invited global attention and promoted the concept of high technology oriented projects in agriculture. It has become evident in floriculture where the cultivation of flowers made a dent in contributing to the export markets. Similarly, in production of fruits and vegetables also, such high technology projects have been initiated. These projects are high capital oriented and require high managerial skills. Some of the potential areas in export processing zone of horticulture and floriculture are as designated below :

#### **Vegetables**

Tomato  
Pea  
Cabbage  
Cauliflower  
Carrot  
Capsicum  
**Flowers**  
Rose  
Orchids  
Carnation

These projects are considered under consortium financing by a group of financing institutions. However, an entrepreneur has to obtain clearances from a number of organisations. These projects have an impact on WTO agreement as the entrepreneur has to import mother plants every three years but cannot multiply in the green house. If he could obtain permission for further multiplication of plants he has to impart royalty to the company as stipulated. The agro-high-technology projects require suitable land, water, uninterrupted power supply, clearance from the Reserve Bank of India, controller of exports and from the state government. Besides, it is essential that the unit is

registered with Agricultural Produce Export Development Authority (APEDA). The project can only be launched with valid technical collaboration agreement with a foreign firm specifying the buy-back agreement of at least two years. These projects may be helpful in developing villages within 60 kilometers radius of prominent airports. Besides, the potential export processing zones (EPZ) are the commercial crops like tobacco, cotton, spices, tea and coffee while in the allied agricultural sector are the processed dairy products specifically cheese. Agribusiness, thus, may see the vision of international marketing by 2000 AD.

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(Continued from page 92)

Table 3 : Per hectare cost and return from summer groundnut cultivation at different locations

Parameters	Chudadanga	Gazipur	Narsingdi	All areas
Total variable cost				
(Tk/ha) : Cash cost basis	3214	3925	2753	3391
: Full cost basis	7591	9525	9409	8590
Total cost (Tk/ha)	8291	10325	10209	9340
Cost of production				
(Tk/kg) : Cash cost basis	4.00	7.71	5.10	5.12
: Full cost basis	9.44	18.71	17.42	12.98
: Total cost basis	10.31	20.28	18.91	14.11
Grain yield (Kg/ha)	737	509	540	629
Grain price (Tk/Kg)	13.15	18.51	17.78	15.25
Return from grain (Tk/ha)	9692	9422	9590	9592
By-product yield (Kg/ha)	503	536	688	531
By-product price (Tk/Kg)	0.54	0.32	0.28	0.41
Return from By-product (Tk/ha)	272	172	165	218
Gross return (Tk/ha)	9964	9594	9755	9810
Gross margin (Tk/ha)				
: Cash cost basis	6750	5669	7002	6419
: Full cost basis	2373	69	346	1220
Net return	1673	-731	-454	470
Benefit cost ratio	1.20	0.93	0.96	1.05

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# Cooperative Intervention in Fruit and Vegetables Marketing

## Introduction

Horticulture, typically contributes major share in employment and income generation in rural economy of developing countries. It has a long history of development in Indian context, from the stage of total domestic consumption to commercialisation. In the post-green revolution period considerable attention has been given on technological advancement of horticultural crops with a view to augment production and improve quality. The importance of horticultural activities has been experienced more comprehensively during the drought years which resulted into steep decline of food grains and commercial crops. Thus, horticulture has been accepted as an insolation over the risk and uncertainty of staple crops. Horticulture includes cultivation of fruits and vegetables (F&V), flowers, foliage, trees and shrubs etc. Of these, the cultivation of F&V is popular and area to the grass cropped area in the country, as compared to other crops. The induction new technology in horticulture has led to manifold increase in production and marketable surplus. It has been found that almost entire production of commercial crops and 92.64 percent of the F & V harvest is marketable surplus for disposal. (1) In the recent past more attention has been given to the marketing of F&V in tropical areas in the light of increasing and urbanisation and awareness on the consumption of F&V as a health protector. The population belonging to semi-subsistence communities, medium and higher income brackets consume an increasingly large number of vegetables. A range of leafy vegetable, stalks and tubers are

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available in tropics and semi arid tropical (SAT) regions.

The sequence of markets and enterprise through which F&V pass between grower and consumer vary largely according to traditions and regional socio-economic conditions. The numerous studies conducted on F&V production and marketing activities reveal that it is mainly an enterprise of the large number of marginal and small farmers on an average 43.28 percent of land owned. (2) The farmers get fringe share in consumers rupee as a major portion of profit is distributed among different levels of intermediaries. It is, therefore, found that the basic intention of the farmers would be towards minimising the losses due to perishability of F&V than maximising the profit. The F&V markets in rural areas are unorganised and the take home earning is very less. Under such circumstances the main question that arises is whether the marketing system existing in the rural areas is absolutely unfair to farmer? The role of public intervention for F&V marketing has been a debatable issue since long as which form of organisational structure would be more feasible to provide better remunerative prices to the farmers as well as to reduce the influence of intermediaries and private traders. There has been a felt need for an alternative marketing channel for F&V as farmers had no choice for better price. The scope for participatory decision making and serving for common interest are the major considerations in cooperative setup. Some studies reveal that marketing cooperatives have higher

Cover : Aligarh Muslim University team receiving the Running Shield in English Debate from Dr. S.S. Sisodia.

economic efficiency among the existing channels in foodgrains and oilseeds to some extent. In recent past F&V marketing cooperatives have emerged as a new competitor in the market. These cooperatives have broken the intermediaries influence in procurement and distribution of F&V and enhanced the scope of backward and forward linkages. As such, apart from the procurement and marketing operation the cooperatives have also launched many welfare activities for growers. (3) The marketing activity of the F&V in cooperative sector has shown considerable development in the states. It is being promoted by NDDDB, State Feds., NCDC and government under different programme. However, the organisational expansion has been observed slow in the rural areas due to motivational and infrastructural constraints. (4) There are number of problems faced in organising an alternative channel like cooperative among the existing market competition during embryonic stage.

The level of conflicts may be relatively less in mature stage of a cooperative setup, however this conflict may go up again in the stage of ageing where the products need to be relaunched with innovation, and new approaches of marketing communication to be sought.

Keeping these issues in view, the present study analyses a cooperative society passing through pre-mature stage of its growth, to understand its management practices and approaches to withstand the market competition. The fresh F&V Cooperative Marketing Society (FRESH) in Andhra Pradesh has crossed the embryonic stage of growth and passing through the stage of pre-mature.

**The Stats : The FRESH Fruit**

and Vegetable Cooperative Marketing Society functioning in the state of Andhra Pradesh has been purposively selected for the study. The society has operational area in all the districts of the State, however, currently it is functioning in the Ranga Reddy (RR) district catering the need of F&V in the twin cities of Hyderabad and Secunderbad. The society has come into existence in 1986 and started the pilot experiment in twin cities of the State with procurement area in the RR district. The major activities of the society are procurement and retailing.

The third order marketing activity in agricultural marketing may be defined as retailing. In business activities the first order will be assembling or primary procurement. The wholesaling, grading and processing activities comprise the second order. (1) The product is moved to ultimate consumers through retailing, which form the third order linkage in agri-business activities. This activity has considerable importance in marketing of perishable products like fruits and vegetables. The retail outlets are the main source of feedback of consumer demand for the products on which the activities of first and second orders are scheduled. It is observed that about 63.92 of fruits and vegetables are sold through retailing to the consumers. The Fresh Marketing Cooperative society perform the business mainly through retailing. However little quantity of selected fruits like mango, grapes etc. are being exported to metros. The consumer awareness and feed back mainly consist of the forward linkages. As such, retailing is a composite activity of the various factors F&V in the Fresh Society.

**Procurement :** The Society has a network of Field Work Procurement Centres (EPCs) for farm procurement and some identified wholesale

regulated markets for supplementary purchases of fruits and vegetables. In RR district the fruits and vegetables are procured from both sources. The peak season for vegetable supply is Autumn. In this season the water (Oct-Dec) and the lean seasons are summer and the early rainy table also recedes from 11 metres to 19 metres on an average. It is one of the reasons that cropping intensity is as low as 111% and the extent of dry land farming is 81% in the SAT region.

The major FPC is Devar Yamajal which provides largest quantity of farm supplies and have whole coverage in terms of farm households as well as the number of villagers. The vegetables except leaves are procured at the former two FPCs while only leafy vegetables are procured at Manneguda FPC, which operates in the morning. The procurement in Yamjol and Godumjals FPCs are in the early night hours. The society also entertains direct transactions with farmers who supply produce at the processing plant of the Society. Such supplies are from large land holding size farmers who use their own transport to the processing plant.

The quantity of procurement at FPCs and open markets totally depends upon the quantity indented by the outlets. The managers of outlets give daily requirement to the Society and accordingly the procurement assistants are given the upper limits of procurement. The data shows that the FPCs contribute 35.74 percent of the total procurement per day. In all 45.03 percent and 54.97 percent produce is procured from farmers and wholesale markets respectively per day. It is found that the overall demand for fruits and vegetables in the twin cities, is 300 Tonnes per day. The contribution of the society to the total requirement is only 3.59 percent. To meet the

demand the society also procures onion, potato, ginger etc. from the regulated markets besides FPCs. These commodities are purchased from the wholesale markets. The onions and potatoes are quick rolling commodities in retail outlets. Thus the frequency of procurement is also relatively high. The fruits procured at FPCs are grown typically in the watershed areas in SAT region. The varieties are prescribed by CRIDA and ICRISAT for the rainfed and red sandy soils in SAT region.

**Infrastructure :** The transport, distribution and network of retail outlets constitute the major components of infrastructure. The society provides transport to FPCs and has set distribution routes to the retail outlets. The society has one truck of own and hire 3 more transport carriers per day for distribution of F&V to outlets from FPCs and regulated markets.

(i) **Transportation :** The FPCs are linked with society's transport network. Every evening the society's vehicles move to the Procurement centres where the farmers bring their freshly harvested produce. The produce is directly weighed and payment is effected immediately. By this, the farmer is benefited by saving the commission, Transport expenses, and time which he can otherwise spend on productive efforts. The graded and packed vegetables according to the indents by the outlet managers are sent for distribution. The fruits and vegetables are distributed twice a day in the Mandies and in evenings in kiosks.

(ii) **Marketing Outlets :-** As stated in the pre-text the society has main business of retailing. There is a wide network of retail outlets in the twin cities. As stated earlier, there are two types of retail outlets namely Mandi and Kiosk functioning in these lines.

The Mandi is an outlet for loose vegetables and fruits. The franchise to sort the vegetables is revoked recently. The choice of sorting vegetables was provided in "Farms" organised by the society as an early experiment. The quantity of rejected vegetables was found more in such practice. The packed vegetables which are of A grade are sold through Kiosk. There are some open outlets or the so called strategic points for the sale of rejected vegetables. These are mostly located at the low income areas. The detail characteristics of the outlets are discussed in the foregoing text.

**Packed Vegetables :** Presently Society has 10 outlets selling packed vegetables of superior quality. Hence most of the vegetables are sold in polythene sachets of 100% Gms. to 1.0 Kg. weight depending upon the item, price of the vegetable and suitability for packing. These outlets are located in high income residential localities.

**Mandi :** In this type of outlets vegetables are sold in loose and the farms opened earlier by the society in which the customer has the choice of pick and choose have been withdrawn and farms merged with the Mandies. A wide range of fresh vegetables and fruits are sold in Mandi. They are manned by supervisor and 4-8 salesman depending on the turnover.

**Mobile Retailing :** Apart from this, Society had launched a new concept called "VEGETABLES on WHEELS" (VOW). For this purpose society had purchased buses from State Road Transport Corporation, which are modified as per the requirement and fitted with display system for fruits and vegetables. The buses used to be parked in the busy markets during the evening hours, and in the mornings at residential complexes. These mobile sale units started functioning from

December 1990. These vehicles were damaged in some agitative circumstances. The above mentioned strategies offer the following advantages to the consumer.

- Wide range of fresh fruits and vegetables at very reasonable prices
- Correct weighment
- Good customer service in hygienic surroundings at their door-steps

(iii) **Awareness :** Consumer awareness is an essential factor for success in retailing. The competition in F&V is very high it largely affects the prices. Since the consumers are price and quality sensitive it is necessary to make substantial efforts for publicity. The Society adopts media approach and level publicity for generating awareness, on the fresh outlet and the products of retailing. The opening of new outlets are given considerable advertisement locally by distributing of pamphlets and local announcements. However the news paper advertisement given on the day of inauguration. In the subsequent period awareness is found spreading through inter-personal communication. The consumer interest is developed more through informal manner rather than capital oriented publicity.

**Management in Retailing :** The retailing of perishable products like ~~fresh~~ vegetables carries high risk and uncertainty. It is, therefore, essential to ensure effective marketing management system. The society manages the retail outlets on commission basis and through salesmen of the society. The 40% percent outlets are managed staff and 60% percent private agents. The management practices of both kinds

are discussed in detail in the following text.

(i) **Private Agents :** The retail outlets managed by the private agents are mainly Kiosk where the packed vegetables are sold. The agents get 11 percent commission on total value of sales and 3 percent discount toward handling charges. In all they get 14 percent dividend on the value of sales. The society does not accept any returns i.e. F&V rejections from the market of Kiosk. So the commission is admissible on 'no-return' basis. The infrastructure such as transport for F&V, Kiosk, electricity, display trays etc are provided by the society. The agent has to concentrate only on sales, consumer welfare, relationship building, business promotional strategies, maintaining proper accounts and indenting stocks for the following day.

(ii) **Mandi:** These outlets deals with unpacked fruits and vegetables and are largely managed by the staff. In case of an agent managing "Fresh Mandi" 12 percent commission is permissible, which covers 3 percent discount towards handling. The commission is lesser in Fresh Mandi as compared to Kiosk because the society accepts maximum 7 percent returns of vegetables on account of spoilage or rejections. The society provides infrastructure facilities at par with Kiosks also in this system. The rejections are sold in open retail points by the staff of the society. In case of non-sealability, it is auctioned to some extent. However the remaining stocks is taken in wastage account. It has been found that on an average 5 to 10 percent produce goes waste or as spoilage. In value terms it would be about Rs 30,000 per month.

**Turnover :** A high turnover of F&V with cost-effective management is the key for success. Since there

would be frequent variations in demand and price level, it may not be possible to project scientifically the trend of turnover in F&V retail business. However an approximation states that on an average there is a area of the society. The ratio of consumers attending Mandi is higher than kiosk, though the average purchases are less. Mandies are more popular outlets for the consumer of lower middle to upper middle income group. The kiosks are popular among the consumers of high income group.

The ratio of attendance in Mandi as compared to Kiosk is 1:4.4 consumers. However, there is a difference between the attendance and actual buyers. In fact that it was found during the study on an average 18.32 percent non-buyers also attend the outlet. The statistics on attendance include also such cases. The average purchases per consumer per Mandi is found 1.5 kg whereas it is found 0.2 kg. more among consumers buying in Kiosk. The society has performed an increasing achievement in overall sales of fruits and vegetables since its inception. The sales has 86.84 percent compound growth rate during the four year period 1986-90. The major area of sales of F&V procured by the society is retail outlets. A small quantity of fruits were exported to New Delhi during the period 1987-90. The export of fruits contributed only 3.77 percent in the overall turnover of the society.

Mango has higher export value. The seasonality in production and supplies is also higher in case of fruits. The handling cost, packaging and transport costs are higher as compared to the vegetables. The risk involved in marketing of fruits is also higher in exports. Thus the Fresh society has taken up the marketing of seasonal fruits locally through retail counters in large scale.

**Farm Supply :** The supply of fruits and vegetables to the FPCs from farmsteads constitute the major source of procurement. The farmers supply different varieties of F&V and realise the value on sales. The farmers are paid immediately after procurement of their produce. In case of short of finance, the farmers are paid the value on the following day. 68.34 percent of the farmers do the business of vegetables with the society per year. The marginal farmers who have seasonal crop sell the produce to the society for a limited period. Such farmers contribute 16.60 percent to the total sample size who transact the produce of the value Rs. 1000-2000 per year. However 15 percent medium and large land holding size farmers sell vegetables to a maximum of Rs. 8000 and a minimum of Rs. 4000 per annum to the society. The farmers also sell their produce to non-institutional channel. It is found during the study that a large number of farmers preferred to sell their produce to the society for the main reason that the procurement is held at the door step instead of taking out much of their time in town and regulated markets.

96.66 percent farmers preference indicated first priority for supplies to cooperative marketing society whereas only 3.34 percent farmers preferred to sell their produce to private traders as first preference. In case of unfavourable negotiations with Fresh marketing society over the issues of quantity, weighment and price 60 percent farmers preferred to deal with private traders while 35 percent had second option to transact direct with the consumers. By and large, the study observed that the farmers appreciated the cooperative intervention in F&V marketing and desired its expansion in term of augmenting procurement through new FCPs.

**Pricing :** The society adopts two steps in pricing of fruits and vegetables (i) procurement price and (ii) retail price. The procurement price is fixed on the basis of the regulated market price followed in the morning auctions/sales. Such prices are collected by the procurement manager and given to the procurement assistants of FPCs, who buy the vegetables in evenings. The quantity of procurement is also fixed based on the indents received from the Fresh Mandies and Kiosks. There are two main parameters followed in retail pricing - (i) 30 percent margin on procurement cost and (ii) competitive prices in open market. The retail prices for packed F&V contain the packaging charges of 7 percent.

At the start of maturing season, most of the vegetables would be available in the market in small quantities, which increase gradually during the course of time shifting the price. There is a supply and price calendar for F&V in wholesale and retail business. It is found during the study that the private traders retailing in F&V earn a margin of 48 to 55 percent over the investment on stock or procurements. It was observed during the study that during 1990-91 the deviation in prices is higher in the months during January-March and stabilised at higher price for longer span during May-July. In society's retail outlets, the price is less fluctuating and stable for a longer period during Oct-March of the calendar year. However during the study it is found that there is a difference in the procurement prices between the cooperative and private trade channels.

In cooperative society the price is 22.12 percent lower than the private channel. However the real cost of marketing is higher in cooperative channel comprising savings on

transportation, time, distance and wages. It is because the Fresh society procures at the villages through FPCs. Thus, a large number of marginal, small and medium land holding size farmers prefer to sell their produce to fresh society than private channels.

**The Constraints :** The problems in retailing have been observed in both the types of outlets towards infrastructure, management finance, packaging and related issues. These aspects are dealt in detail in following sections.

(i) **Outlet Network :-** It was envisaged in the institutional objective that the society will have its own retail network of well designed mandi and kiosks to horizontally integrate by marketing other consumer products. However, this could not happen as the society in pilot stage could not take off and lead to focus due to the delays involved in sanctions, approvals and releases, of funds. The society in its anxiety to undertake marketing has designed small kiosks measuring 6' x 6'. These were subsequently proved to be totally inadequate.

The primary aspect that emerged from the experience of functioning since inception is the need to provide large shops having the area of 600 to 1000 Sq. ft. for displaying large quantities and varieties of fruits and vegetables. This is adequately proved by the "FARMS" outlet established by the society. However, the vegetable retailing involves very much problems like perishing, leftovers, weight loss due to evaporation etc... These losses may be ranging from 5 to 20%. These losses are very high as compared to the commission of 15 to 25 paise per kg. the retailer recovers from the society. The vegetable vending has one distinct advantage of attracting the most number of consumers in a

week than any business except milk. As such, there is a strong need to horizontally integrate the shop selling with all other commodities required by the housewife for use in kitchen and dining hall. The money earned on the other items may be an incentive to the retailer. It is observed that obtaining municipal sites and getting permission apart from the problem of finance is highly time consuming and there is no certainty about implementing a time bound action plan. As such the society proposes to hire built-up shops ready for occupation and set up the 'FARM' outlets in these shops. The farm outlets need a minimum space of about 300 sq. ft. The hired places can be graded as per the area available and the location of the place.

(ii) **Packaging :** One of the societies objectives of the society is to introduce the concept of standardised & branded horticultural produce. In pursuance of this objective of the society has established standards and launched the marketing of packed vegetables. There has been a good response from the consumers for the convenience concept. However, there are very many problems involved in marketing packed vegetables as discussed in foregoing text.

(a) **Standard Packs :**

The consumers unusually prefer smaller quantities of packed F&V as they may have the option of taking more, but would not like to take larger quantities when they do not require. The Consumers desire a standard pack in terms of either a rounded value or weight. The society is facing problems in making such packets, without computerized grading machines. However, the society has developed a microprocessor printers to be interfaced with the weighing scale. The system worked well for some

time, however, the printer could not work as an on line production unit. Presently the only solution is to make standard crates and fill the material in a specified number of bags of varying size, and dispatch the standard crates with specified, number of bags to the retailers. The retailer weighs it on an electronic weighing scale and records the same in the register, which computes the value payable. This support is provided by the society.

**(b) Lack of Adequate Technology:**

Packed vegetables are not marketed anywhere in any tropical country. The society has made a maiden and pioneering venture for marketing packed vegetables. As such there is no R&D facilities available for packing vegetables in tropical regions. The society does not have automatic packing machines in the absence of which manual packing has to be done.

**(c) Labour :**

The major operation is done only in the night, as the vegetables are harvested in the evening and brought to the plant in the night. These vegetables are to be cleaned, graded, washed, and packed overnight and are despatched early morning. All these operations involve adequate labour. Labour is not exclusively available for the night shift alone.

**(d) Establishing the Retail Network :**

There are two ways a retail network can be established. One is by building own structures in leased land from municipalities or to hire built-up complex in commercial areas. The former is highly time consuming and expensive, apart from the fact, site may not be available at the exact place,

where it would be ideal, whereas it would be faster and easier to hire commercial places to set up retail outlets. For hired commercial places, a detailed design should be made with budget allocation for integrals decoration along with layout and display systems. The space required for setting up an ideal shop is about 1000 Sq. ft. However, the shop can also be established in 300 to 600 Sq. ft. The expenditure on each shop depends on the location as such there will be 6 types of shop 1000 A, 1000 B, 600 A, 600 B, 300 A, 300 B. The turnover is expected per day are Rs. 20,000, 15,000, 15,000, 7,000 4,000 3,000, respectively for the above mentioned categories.

**(iii) Horizontal Integration :**

Vegetable retailing is high risk oriented and does not incorporate substantial trade margin as a risk cover. There is a perishability factor apart from the varied demand. More often these losses vary from 2 to 20% based on the material supplied wrong indents. As such the petty vendors and retailers are making up the losses mostly by restoring to uniform practices like inflated prices to some consumers, slight of hand on scales, adding weight to vegetables by sprinkling water etc.

It is found that some of the existing retailers have refused to market the societies vegetables on above grounds. There is a silver lining to the bleak side of picture. Since the F&V shops have high frequency of consumers the commodities displayed and marketed are comparable to any super market for the specified range. However care should be taken in identifying the commodities for selling through these shops. The broad range of commodities proposed sell through Mandi along with F&V are (1) Bread (2) Milk & Milk Products (3) Eggs (4) Flowers (5) Sauces (6) Jams (7) Pickles

(8) Papads (9) Ready to serve Curry & Soups (10) Baked buns and cakes etc. The profits generated by selling these products will be additional and make the shop an ideal one for the consumer and retailers. (2)

**(iv) Franchising :**

Good Management of the retail outlets is the most important factor. This is more so when handling delicate perishables like Fruits & Vegetables. Displaying, resorting, arranging and constant spraying to retain surface moisture and humidity are few important factors. However the factor that is most important is interacting with the consumers and trying to identify their needs and indenting the right quantities to ensure that no excess material being left. The ability to sell the excess material left unsold will also be very important.

**(v) Time and Distance :**

The other important factor in retailing is the timings. The shops need to be kept open from 7 A.M. to 9 P.M. While the closing time alters from place to place. However, it becomes very essential to have the shop, open for more than 10 hours to 12 hours. High incentives need to be provided for people to work hard. It becomes very difficult to closely monitor the retail operations, when the retail outlets are in large numbers. As such it is proposed by the society to establish the retail network and handover these shops to individuals and to women or other welfare associations on management contract. The contractors will have to pay the rent to the society as stipulated by the society from time to time. The society would be at liberty to resume the business from the contractor without giving any notice in cases where the contractor has failed to fulfil the contract. It is envisaged that on average



the Society would make a profit of more than Rs. 2,000 per shop, in case the society established 50 shops the current overheads. This will enable the Society to pay higher margins to the farmers. The preliminary enquiries have indicated a overwhelming response from individuals and associations from taking up such ventures.

### Emerging Issues

The cooperative movement has got bogged down because of the many handicaps that are constraining the efficiency of credit, processing and marketing societies. To a large extent. The F&V cooperative instead of being run by their members, are controlled and managed by officials. By and large, it remains under managed due to lack of farmers participation at grass roots level. This is despite the fact that the F&V cooperatives have emerged as the third prominent sector to the reckoned with and has been encompassing diverse sectors in the economy, such as production, processing and marketing. It will be found that professional effectiveness of the managers in the cooperative will be only a fraction of that business enterprise with the same turnover. (3)

### Organizational

The F&V cooperative in the study region is yet to make a headway in the existing competitive conditions. The basic problems faced by the farmers is that the FRESH cooperative society is unable to procure the whole stock of the farmers brought for sales. In all 42.38 percent farmers reported that they have to take back their products as the FPCs do not procure the whole stock. On an average 287 kgs of vegetables are returned by FPCs.

It is found during the study that the farmers participation in General Body is very poor. In fact an attitude of indifference is being developed in the farmers for lack of participation opportunity in general body meetings. The Fresh F&V marketing society in 1987-88 had supplied HYV seeds for Fruits and Vegetables to the farmers later such efforts were not made. The farmers are using local variety in seeds of different fruits and vegetables. However 36.66 percent farmers expressed the problems in increasing production in the absence of HYV and technical assistance rendered by the society. The 85 percent farmers have expressed that the society is not planning to extend credit for short term to facilitate the members and non-members to buy required fertilisers and pesticides.

The present style of managing the societies leans heavily on the financial and managerial assistance of the government. However the Fresh society cooperatives had gone on increasing their membership and turnover in the fields of marketing, processing and distribution, etc., the process of struggle to attain necessary efficiency to acquit itself well from the dependency syndrome on the state is still a far cry.

### Autonomy

The cooperative movement in all its aspect has been built-up on the basis of freedom and democracy. The whole structure of its organisation speaks the determination of the movement to conserve the rights of every member to an equal voice in the destinies of the societies. Any attempt to sap the democratic foundations of the movement would hamper the progress. (4) Given the widespread illiteracy of the members need to be

improved, it was inescapable (even essential) that the government should play a very prominent part in promoting cooperatives. For F&V in regions like SAT but invariable dependency on government funds is increased. It has affected the autonomy to large extent. The F&V cooperative movement is largely controlled by the local institutions (Municipality) at one end and the cooperative authorities at the other seem to be animated by the formal spirit of cooperation and will really be functioning as a department of the government.

### Viability

The base of the cooperative pyramid in India is provided by the primary societies catering to the farmers, who, in turn, often depend for their livelihood on the success of a single crop. Their malfunctioning can also be traced to the uncertainty of the major activity they support namely agriculture. Most of the evils with the cooperative movement is based have been due to a too with the cooperative movement is based have been due to a too rapid development of societies of all kinds, without a genuine base at the grass roots level. Even when public authorities are prepared to assist cooperatives to grow, their actual growth depends on their own capacity for planning, organisation and management of their own growth. The primary investigation on the viability of the F&V marketing society most of the farmers expressed that the Fresh F&V cooperative in the region is viable and beneficial for them.

1. Rajagopal: Rural Marketing in India: Renaissance, Delhi 1989
2. Official document of the Fresh F&V Marketing Cooperative Society, 1991.
3. George PT, Mohanan J and Rajagopal; Status of Cooperative Movement in India, Memio, UIRD, 1985.
4. Ibid

## **Rural Marketing : Some Emerging Patterns**

**Dr. Rajagopal\***

The marketing of rural products either rural to rural or rural to urban in developing countries like India is being performed under unstructured conditions and do not assume any organised functioning pattern. The status of rural marketing need to be understood in view of social dynamics and various economic and operational gaps therein. Thus, appropriate planning for rural products marketing in terms of trade channels, infrastructure, technology and behavioural dimensions need greater emphasis for achieving better economic efficiency. However, prior to discussing the process of rural products marketing, it is essential to identify the existing gaps in the system. The product marketing in rural areas have various conflicts at primary and secondary levels.

### **Conditions at Primary Level**

The primary level conflicts in marketing of rural products are related with the characteristics of economic environment and production. The lack of effective coordination at local level with the available resources, production process and the outlets is often found responsible for unfavourable interactions of market forces. The following factors explain such conditions at primary level:-

- (i) mis-match of consumer demand and product characteristics;
- (ii) lack of quality and innovative concept;
- (iii) absence of product recognition, packaging, branding and consumer awareness;
- (iv) inadequate raw material, infrastructure, product promotional prospects;
- (v) competitive threat, higher dependency on private trade channel and lack of adequate institutional arrangements for production and marketing support.

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Besides, the rural products are not competitive market oriented and they are sold in isolation. The products of their rural entrepreneurial firms (REFs) commonly emerge as a by product of their main occupation. As such, most of the products of REFs do not aptly match with the consumer demand and quality. It is one of the reasons, that REFs largely depend on the private traders who procure these products at comparably low price and market in dense transaction places taking higher degree of risk. Since the REFs do not have any choice of channel in absence of trade alternatives like cooperatives, the dependency on private trade channel is seen high. The innovative characteristic is also lacking in rural products as they use conventional techniques of production and face the threat of contemporary products with better quality, finish and designs in the market. Besides, there is no constant watch on the market trend by REFs to assess the existing demand and consumer perceptions towards their products to improve them. Many market research studies have shown that the lack of direct and proper exposure to the market and potential consumers as the major obstruction to the product mobility from rural to urban areas.

### **Rural Products and Targeted Market Segments**

It has been observed in some rural marketing studies, that the rural products do not acquire considerable acceptance in the society due to their product characteristics to a large extent. However, the aesthetic value may exist in them but that ranks less in consumers' priority from the point of optimum usage. Besides, dynamic markets commonly accept innovative products and draw more attraction of buyers. The lack of contemporary design and style of product presentation in the market are another important aspects which determine the overall product recognition. There are short run and long run product recognition concepts in the markets, which are largely governed by the conceived perceptions, attitude and behaviour of the prevailing and existing buyers.

The Table I exhibits behavioural dimension of product recognition at different social hierarchies. The characteristics depicted in the Table explain that the product

**Table I: Behavioural Dimensions of Product Recognition in Social Hierarchy**

Levels of Society	Behavioural Structure	
	Short run	Long run
Lower	Quantitative considerations, low price, easy access, substantial supply, instant consumption.	Quantitative and monetary gains over other competitive products.
Middle	Innovative, change in packaging, buying incentives, consumable, attractive FADs, impulsive bargain.	Quality differentiation, durability, resale value, additional gains over existing products.
High	Conspicuous taste, impressive FADs, ease in handling, easy accessible.	Aesthetic value, durability, status mark, resale value, renovable.

recognition at the lower stratum of society takes into consideration the price and quantitative aspects of the product both in short and long run. The innovation in prevailing products or series of products with attractive fashion advertisements (FADs) and special bargain offers are the parameters to accept the products in the short run by the consumers of middle stratum of the society. However, in the long run the quality differentiation, durability, disposability and value component and other common advantages over the similar products are the parameters which guide the consumer's decision. There are different dimensions for accepting the product at the high stratum of the society. The price factor affects less the buying decisions at this level. The factors related to conspicuous taste, aesthetic value, market presentation and durability account at higher levels of society. However most of the rural products are targeted at lower societal status of consumers<sup>2</sup> and are positioned largely as products of low value for

money. There may be a few products which may provide high value for the price paid by rural consumers like transistors, TV sets, etc.

### **Limitations of Conventional Techniques**

By and large, risk is a behavioural factor. Though it can be measured in terms of money, considerable human factor is involved in the form of 'hunch'. It carries considerable value when combined with the statistical values. Theoretically, the following techniques are used to analyse the risk in business:

- \* standard deviation analysis
- \* probability
- \* simulation and model building
- \* linear programming
- \* queuing theory
- \* exponential forecasting and
- \* decision tree analysis

However, the real life situation is somewhat different. The collective decisions and logistics on the qualitative parameters often lead to prolific results to avoid risk in business. More reliable method of risk assessment involves the use of judgment and the combined wisdom of experienced people - taking full account of the available information. This method is known as 'Brainstorming' which make use of accumulated wisdom and experience of a homogeneous group of people. This method explore :

- \* what can go wrong in the business ?
- \* How will the market react to the strategy and
- \* what will be the reaction of the end users on the product ?

It is essential that the problems to be solved must be clearly stated and understood before any sensible decision can be made using the judgment based techniques like the discussed 'Brainstorming' method. The insurance companies which are most concerned with the risk assessment largely depend on the judgment based techniques on the qualitative parameters.

The rural markets are conventional and in developing economic conditions, which concentrated around marketing and product movement, face many threats. In fact a rural market is an assortment of different variables within the subsistence economic system from the point of view of grower-seller. They are not capital oriented and unable to shift their product designs at par with the urban markets.

### **Emerging Pattern in Product Promotion**

One of the important factors in marketing-mix is promotion, which determines the opportunities of marketing expansion in an competitive environment. There has been several methods of marketing promotion experimented time and again by the MNCs with different focus groups. The mass communication by placing advertisements to the consumers through the audio-visual media including print media has been the principal tool till recently. The advertisements launched through the mass media have a wide spatial reach but could not generate considerable influence on the consumers towards the message.

The most enigmatic development in the field of marketing of consumer products and durable is expanding consumerism in the rural areas. The concept of rural marketing has been well received by the multi-national companies (MNCs) to promote their product. The MNCs might not have visualised the rural marketing in the developing country in the true sense of selling their products in the village - at grassroots, but not at the district headquarter. However, in general MNCs consider a district town as rural and justify the use of words like rural marketing. Indeed village markets called as *haat or shandi* are yet beyond their reach. The major component in putting such effort centralised towards educating the rural consumers by emphasising the quality of life parametres. The MNCs have come forward to use the community platforms to publicise their merchandise in villages using the urban life indices. On the contrary the marketing communication pattern is changing from high cost media oriented advertising to low cost direct marketing

advertising in urban areas. Such approaches include messages delivered through the folk culture and entertainment in public. The two different strategies are observed as the prominent ways of brand positioning in rural and urban areas.

#### **a) Going Rural -- Panchayats**

The most powerful place in a village is its Panchayat which is not only a centre of surface politics but also a patron of the society and its culture. Behaviorally, comparative lifestyle and quality of life attracts the human mind. The objective of rural marketing a MNC may have is to inculcate product awareness among the rural consumers in order to develop long term consumerism. However, some of the MNCs may use 'driving approaches' to reach rural consumers. A strategy devised by Optima (India) of Bangalore based MAA group, plans to take the help of village panchayats in selling the products of MNCs in rural areas [ The Economic Times, October 22, 1995]. The rural advertising media is commonly reflected on wall paintings, hoardings at the highways and cross-roads and bus shelters. The media agency plans to seek approval of the village panchayats in launching advertising campaigns on household level, festivals and fairs, social and cultural events like bullock cart race, etc. It is likely that panchayats may agree to such a proposal with a view to augmenting their revenue. The 73rd constitutional amendment has empowered panchayats to enhance their income by indigenous sources and develop rural markets. However, it is not very clear whether the panchayats should allow the MNCs to operate in rural markets or help in positioning the rural indigenous products manufactured by the small enterprise in urban markets or should it be empowered to adopt both the strategies at the same time.

It has also been a strategy under consideration to launch rural marketing campaigns by mail involving the Posts and Telegraph department in delivering the mail vis-a-vis collecting the orders. Since in India it is a controlled channel, unlike in United-Kingdom

where Post-shops are privatised, mail-marketing has a long way to go and especially in rural areas where education need to be brought to minimum acceptable standards. However, Optima(India) Ltd in a strategic alliance with UK based CIA group -- the second largest advertising agency of the world, draws plans to meet the advertising requirements of rural marketers (MNCs) on the above lines. Undoubtedly, success might come but it is not yet transparent.

## **b) Street Campaigns**

Till date, high cost media advertising has been one of the tools of reaching out to an urban consumer. Many MNCs have attempted driving efforts in mass advertising with long run growth projections. However, increasing problems of time management of common public who bags the largest share of buyers, the media impact is gradually reducing for product promotion. Hence, the leisure time advertising has been introduced in thickly populated towns. Such efforts are more entertaining at low cost. The street play, snake charmer's show, the *madari* (monkey and his master), folk dance and the like are such platforms which can be used as the open media for advertising. One of the MNCs, Peppi Foods Ltd. had engaged a professional theatre group in Delhi during September 25-October 31 as a media of advertising for its products. The theatre group performed at 150 shopping centres over the period. The company had also used this media for brand positioning of its new product Lehar Namkeen. Such pattern of brand positioning and product advertising may be defined as direct marketing advertisement wherein the syndrome of " look, touch , feel and pick " can be changed. Incidentally, many MNCs are coining this concept for brand positioning as compared to the mass advertisement. A report highlights that a large cosmetics company Revlon which had launched its products recently in the country converted a light commercial vehicle (Canter) into a colourful mobile and toured many educational institutions in the capital during October 18-23, 1995. However, in no sense, the mass advertisement is fading away but there is a growth of another concept of direct marketing advertising



simultaneously [Business World, January 10-23, 1996, pp 92-93]. The Phillips India and Usha International have shown more inclination towards the latter system and attempt to cut their expenditure on mass advertising.

### **c) Rural Motif for Mass Advertisements**

Besides, the "down street" (central business location) performances, the changing scenario in advertising also includes intervention in the social and cultural affairs of public. This may be observed in sponsoring art exhibitions, theatres and cultural evening and the like by MNCs to promote their product. Some companies may also find suitable to weave their marketing strategy around specific events taking place. The dairy giant in the cooperative sector - AMUL, which is dedicated to rural people, always takes the welfare objectives to advertise its products taking the consumers close to the rural culture. However, to promote products through direct advertising, some more approaches may be thought of as under :

- \* Puppet shows on the selected business objective,
- \* Sponsoring inter-school tournaments
- \* Organising health clubs by the companies of interest
- \* Using welfare and development concepts in villages.

These methods may be helpful in launching direct advertising campaigns in rural areas as well as to position a brand across consumer segments.

### **Looking Ahead**

To look ahead, it is required to aim the business targets high and attempt to reach closer to it by creative applications in marketing. The direct marketing advertising is a recent phenomena and has received significant response in the metros. However, moving to village markets and launching advertising through panchayats may not reveal any instant results but would certainly inculcate the brand perceptions among the target group in the long run. The challenge at the grassroots is to penetrate brands through the conventions and habits of rural consumers. It calls for a gradual socio-cultural transformation.

Despite the above style of brand positioning, the mass advertising still occupies a high share in business advertising budgets. The present trend of product promotion may set off the popular strategies of price-offs and cross-promotion. However, slow and steady wins the race.

## **Sales Management, Retailing and Wholesaling \***

Selling is an art largely associated with the behavioral skills of the sale personnel of a sales organisation. In recent days selling is performed using scientific methods of product presentation, advertising and various approaches drawn to take the consumer into confidence. The efficiency of sales depends on the type of sales person and the techniques utilised in selling goods or services. The consumers are the decision makers in buying the goods and services proposed for sales and hence play the key role the process of sales. There are four distinguished categories of sales which include every type of sales position. These types of selling are :

- \* consultative sales,
- \* technical sales,
- \* commercial sales, and
- \* direct sales

These selling categories require specific management approach for conducting the task in the market. The details of management approaches are discussed in the foregoing text.

### **Consultative Sales**

Consultative sales may be defined as an approach of selling specific goods or services to the technical organisations. The consultative type companies keep the account of their clients and assign the salesforce to attend on the specific client accounts. Examples of computer systems management, structural planning of factories, human resource management, capital market services and the like may be listed in the category of consultative sales. Since performing sales for the goods and services of this category are of high skills, they require low-key, low-pressure approach for the sale personnel. It requires comprehensive knowledge of the product or services and the user orientation. A successful salesperson in this field of sales need to have strong confidence and an experience of few large successes achieved periodically. Of all sales types, the consultative sales is probably the most professional and demands highest compensation for the skills and abilities of the salespersons.

### **Technical Sales**

The product knowledge, its application, relevance to contemporary technology development and sales skills are the essential characteristics need to be present in the salespeople engaged in sales of goods and services of technical products. The dominant industries in this field are electronics, engineering products of all branches, medical equipments and the like. The buying influence is generally drawn from a professional manager. The personal sales in this category is limited however, organisational sales of

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technical goods and services are higher as compared to personal sales. The compensation to the salesforce of this category is often linked with performance besides a low salary.

### **Commercial Sales and Direct Sales**

A large salesforce is engaged in the performing the commercial sales of goods and services of consumption nature. These sales are very much individual consumer oriented. The sales personnel operate as sales representatives of the company or as facilitators of an in-house retail stores. The major task of the sales representatives will be to collect orders from the consumers or organisations. In performing the direct sales the representatives attempts to generate an emotional appeal and motivate the buyer. It has been observed that the turnover rate in the direct sales is higher as compared to other three categories of sales. The sales personal engaged in direct sales require strong persuasive ability and skills to identify a prospect's buying motives. The direct salespeople receive the compensation in terms of commission on the volume of sales.

### **Organising Salesforce**

Salesforce can be organised in many ways subject to the product type, coverage and buyers prospects. The different ways of organising the sales force is stated as below:

- \* region based salesforce (territorial)
- \* product based
- \* market based

The region based salesforces may be organised for vertical and horizontal coverage of different areas spread across the operational area. The vertical hierarchy of salesforce may be central level, zonal level, area level and down to the markets located in various towns. The horizontal area of operation may be in a given area across the towns or villages. The size of the salesforce depends on the geographical spread, volume of sales and density of buyers.

The product based salesforce are generally belong to a company and function as a team to promote the sales of the product in the given area. Example may be cited of any automobile company. The salesforce need to be distinctly organised for the product in tune to the functional requirements of the market. Example may be cited of the service marketing for the computer industries product in the market. To market such service a group of professional sales and service engineers are required to boost-up the market of principle product as well the service packages of the ancillary unit. The major steps for effective selling in any category of sales organisation are listed as below :

Prospecting and qualifying : Collecting basic information about consumers, references, joining prospect's organisation, initiating communication.

Negotiation : About the orders, delivery, pre and post sales service, organisational benefits and the like.

Approach : The sales package

Presentation and Demonstration : Convincing the buyer.

Problem solving : Resolving conflicts pertaining to all Ps and As.

Delivering : Closing the deal by satisfying the consumer.

Follow-up : Post-sales service and maintaining relationship.

## Retailing

Retailing is a set of activities performed in selling the goods and services directly to the end users. The goods and services sold to the consumers are meant for their personal use and not for resale or business activity. Retailing is the last activity conducted in the chain of product distribution down to the consumers. In principle retailing is a business activity which involves sales of goods and services to a large number of consumers spread in a large area. The retailer or a retail store is alike any business enterprise whose sales volume comes primarily from retailing. There are different forms of retailing. Many of the forms keep emerging according to the convenience of the buyers and retailers.

In large towns retailing is organised and mostly performed through stores and automatic vending machines. However in the rural areas the retailing of goods and services are conducted through a traditional pattern by displaying the goods in mobile vans, carts and on footpaths. For understanding the types of retailers and their functions, we can broadly classify the retailing network into two broad categories - (i) store retailing and (ii) non store retailing. Alike growth cycle of business firms the retailing activity also passes through the stages of embryonic, growth, maturity and decline. A retail store observes the period of accelerated growth, reaches the stage of maturity and starts declining. It has been observed that the retail store of older fashion took more than five decades to reach the stage of maturity in terms of volume of sales, coverage of consumers and expansion of chain of retail stores. However, in the modern era the store retail types reach their maturity very fast due to the organised retailing management. Some of the major store retailers are briefly described here :

- \* department store
- \* exclusive retail store or speciality store
- \* super markets
- \* convenience store
- \* superstore, hyper markets
- \* discount store
- \* non-franchise or catalog store

## **Department Store**

A department stores offers wide range of products in an organised fashion and are easily accessible to the consumers. The product line of the department stores are substantially long. The department stores provided better amenities to the consumers for shopping by developing adequate infrastructure for parking, leisure and hobbies. the department store face close competition from the discount shops and down-town retailers of poor quality goods. The department stores provide consumer services of honoring the product guarantee, warranty, post sale services and latest technical information. The department stores also organise educational programmes for the benefit of consumer on the various aspects of product use and related matters.

## **Exclusive Retail Stores**

Exclusive or speciality retail stores are unlike department stores and do not carry a long product line. These stores are narrow in product line and largely confined to the product line of a specific company. Thus they present a deep assortment within that product line. Examples can be drawn from many consumer goods companies promoting exclusive retail stores like Phillips for a range of electrical, audio and video household gadgets; Raymond's for textiles; Bata for shoes and leather goods and so on. The exclusive stores can also be further classified with narrow distinction as stated below :

- \* Single line stores
- \* Limited line stores
- \* Super speciality stores

The single line stores may be identified as the retail stores selling only one product like textiles. The limited line stores may be defined as the shops having micro specialisation based on the goods and services, gender and age like exclusive Men's Wear retail stores, Kids Shoppe for garments etc. The retail stores engaged in selling products scientifically designed for a particular purpose may be catagorised as super speciality stores e.g. surgical equipments stores, sports accessories, fashion garments stores and the like. The classification of retail stores and their functions may be well understood through the retail position map plotted in diagram 4.1.

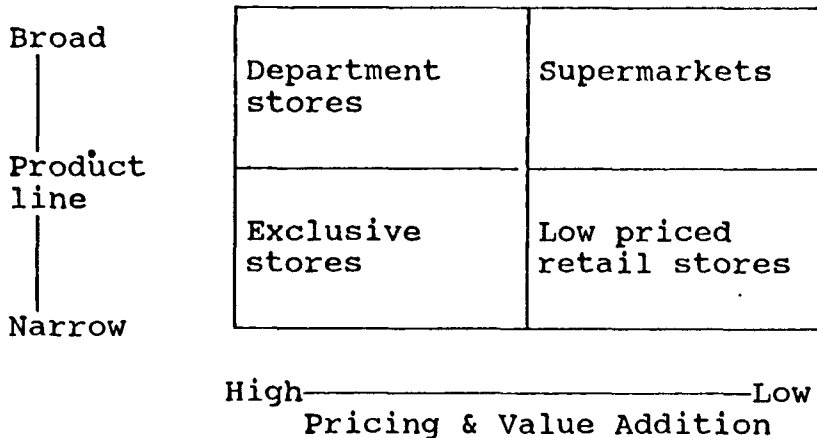


Diagram 4.1 Categorical Map of Retail Stores

### Super Markets

The super markets are also a type of organised retail stores which handle relatively large volume of goods and services at low cost - high margin principle of retailing. The consumers are provided franchise in the super markets and are largely organised as self-service outlets. The super markets exhibit a long range of product line of various consumer needs like grocery, household appliances, entertainment, toys, garments etc. It has been observed that super markets earn an operating profit of 1-2% on their sales and 10-15% on their net worth. The super markets also provide consumer conveniences like in shop entertainment, pantry, home delivery service, opinion survey and consumer education. The super markets have chain retailing in many countries like Woolworth in UK and Europe.

There is a marginal difference between the super stores and hyper-stores. The latter category of stores operates at a larger area (approximately 1-2 lakh square feet) with wide range of products. These markets have combination of all retail functions like credit services, discounts, finance and related services. The basic approach of hyper-stores is exhibiting a wide range of assorted products for all type of consumers and displaying them in bulk. The product handling costs in such stores would be minimum and they also function as sole distributors to the convenience stores.

### Convenience Stores

These stores are of small retail outlets located near the residential areas for the convenience of the consumers. They are open for long hours for all through the week. These category of stores carry limited line of consumer products. The convenience stores operate at high turnover and relative higher profit basis as compared to any of the other retail stores. The consumers seem to be willing to pay a higher price to the retailers for the convenience provided to them at their door steps.

## **Discount Stores**

In principle a discount store should sell all types of merchandise offering largely reputed brands at lower prices but not inferior goods. In the recent days some of the consumer products manufacturing companies own discount retail stores to sell their second grade products as earmarked by their quality control division. Hence the discount retail stores have moved from general stores down to speciality merchandise stores such as discount sporting goods stores, garments, shoes, electronic, books and the like.

## **Catalog Showroom**

The catalog stores is a new generation super stores which deal with variety of goods and services of wide range. Such stores conduct retailing operation of all types of goods including interiors, construction material, mechanical gadgets, electronics, and many more. The consumers buying goods from catalog shops have to indent for the specific goods as per the inventory specification in the catalog. The consumers wait in the designated place for the delivery of goods and some time the stores arrange home delivery of heavy products. The catalog stores provide a return facility to the consumers within a stipulated period. The goods can be returned to the stores without any reasons if the consumers are not satisfied.

## **Non-store Retailing**

Besides the on store retailing, the direct selling approaches have been emerged in recent past as an effective sales instrument. The direct selling is one of the popular non-store retailing activity, largely for the consumer goods. The sales representatives of the company/distributor canvass the product on door to door basis and contribute in augmenting the sales. The automatic vending machines for selling some of consumer products like chilled beverages etc are also of non-store retailing approaches. The specific non-store retailing types are as under:

- \* Direct Marketing
- \* Automatic Vending Machines
- \* Business by Mail Order
- \* Tele-shopping or Net-shopping
- \* Mobile Retailing

The multi-level retailing stores, chain-retailing stores , cooperatives network and merchandise conglomerate are the new forms of retailing emerged in recent past.

## **Decision Making in Retailing**

Retailing is considered as one of scientific grassroots level selling approaches in the modern era. Hence, a retailer has to make right decision at right time to promote his retail business. The specific areas which needs to be planned properly are (i) choice of place (ii) choice of products - assorted or exclusive (iii) price level (iv) tools of



retailing and (v) consumer services. The decision regarding the choice of place and products are inter-related e.g. in the high income locality a retailer should plan for high price assorted product stores vis-a-vis in low income consumer locality.

### **Tools of Retailing**

Retailing is an art. The retail stores vital role in product promotion as they are directly associated with the consumers. A successful retailer tries to get the consumers involved in the trade by providing good reception, facilities and respect to them. However, a retailer follows variety of approaches to make his retailing a success. Some of the tools used by the retailers for promoting their business are listed as below:

- (i) retailers dealing with similar products form an association to carry jointly the promotion activities like advertising, pricing and other related matters;
- (ii) retailers do preticketing by placing price tags on the products indicating all required information of the product like, date of manufacturing, size, volume, name of the manufacturer, date of expiry, product code of manufacturer as well as retailer for any complaints or reordering;
- (iii) retailer also help the consumers in re-indenting the products by sending them reminders and catalog of products;
- (iv) retailers also introduce during the peak seasons special prices for storewide promotion;
- (v) consumers enjoy the privilege of returning or exchanging the damaged goods with paying any additional price; and
- (vi) distributors and company representatives get the sponsorship of retailer for demonstrating their products in the stores.

Besides these services the retail stores provide many pre-and post purchase services to satisfy the consumers. The pre-purchase services include, accepting order on telephone and by mail, in-store and outside the store advertising, interior and window display, consumer conveniences, fitting rooms, shopping hours, organising consumer entertainment like integrated cable TV, fashion shows, recipe contest, baby shows etc. The retailers provide selected post purchase services to the consumers such as home delivery of goods, gift packaging, returns and exchanges, tailoring, installations, demonstrations, accepting credit transactions and cheques. In addition to the listed services large and chain retail stores provide leisure and general amenities to the consumers like rest rooms for consumers, baby sittings, restaurants etc.

## Wholesaling

Wholesaling is an activity which supplies goods and services to the agencies for reselling. In other words wholesaling includes all such activities involved in selling the goods and services to the retailers or any intermediate channel between consumer and wholesaler. They perform key functions in selling the goods and services to the retailers. The major functions of wholesalers are as listed below :

- sales and product promotion
- counseling retailers for assortment building
- bulk breaking and small packaging
- transportation
- warehousing
- financing
- risk bearing and
- providing market information.

The wholesalers on one hand supply finished goods and services to the retailers and on the other also engage themselves in procuring raw products for processors. Thus it can be stated that a large category of wholesalers play dual role in procurement and distribution. The various types of wholesalers may be classified as under :

- \* exclusive wholesale distributors
- \* wholesale procurement and distributors
- \* industrial distributors
- \* mail-order wholesalers
- \* commission agents

The role of wholesalers in procurement and physical distribution is exhibited in Diagram 4.2.

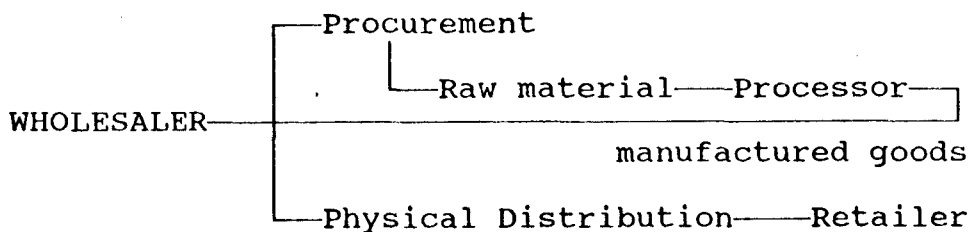


Diagram 4.2 Role of wholesalers

It has been observed that most of the wholesalers use their proprietary brands to get recognition of the retailers for the goods and services provided by them. In the modern days the wholesalers provide value added services to their clients such as up-dated market information, computerised indenting and billing, and forward and backward integration of services.

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# **Dairy Industry under the Liberlised Environment - Analysing the Competition in Marketing**

**Dr. Rajagopal\***

## **I**

Dairying has emerged as a dynamic instrument to uplift the socio-economic status of rural people through employment and income generation. The dairy farmers are not only benefited by marketing the milk and milk products but also from harnessing the growing livestock wealth and a range of animal by-products. Dairying has become an integral sub-system of agriculture. Efforts are being made to organise it as an industry through cooperative and private enterprises. Despite the decrease in the share of agriculture in the Gross Domestic Product (GDP), the value of output from the livestock has shown an increasing trend, at present contributing 24 percent of GDP from agriculture. The progress is impressive by any yardstick.

Dairying has been a traditional rural household occupation. But it could not be made commercially viable for long and remained unorganised. With the success of AMUL, and attempts at organising dairy cooperatives in many states during Operation Flood I and II, people's participation for common economic emerged in the dairy sector. Since 1971, the collection of milk through the cooperatives has been over 85 percent of the total milk collection of organised sector in the country. The number of milk cooperatives in the country during 1988 was 58830 which is now increased to about 70,000 societies. For long time, prevented private enterprises from the government setting up dairy units and competing with the cooperatives. However, sector was delicensed in 1991, paving the path for private sector competition. A large number of small dairies have come up in major cities.

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## **The National Scenario**

India is the second largest milk producing country, producing 64 million tonnes in 1994-95. In India the milk utilisation pattern is as follows: liquid milk (45%), ghee (28%), butter (7%), paneer (7%) and Milk Powder (4%). Cheese is yet to emerge as an important milk product. The demand for milk is income elastic. The increase in the income, literacy level and quality of life would create markets for more value added products. The socio-cultural disparities across regions limit the markets of dairy products.

The private dairies rationalise their product line and specialise the product line expansion in the cooperative sector has been slow and not in tune with the local demand. Their product line need to be related to their consumers, distributors and above all their organisational capabilities. The emerging competition in both is at domestic and international levels. Existing companies are introducing new brands stretching their product line and new regional players are emerging. Besides, MNC brands have recently entered in all the categories of milk products.

### **Focus**

This study analyses the relative public advantages of cooperative and private dairy sectors. The crux is designing sustainable marketing strategies for cooperatives. This study would discuss the existing status, threats and factors relevant for the same. Specifically, the study would discuss the following issues:

1. functional disabilities and the extent of market absorption;
2. business proliferation and developing prognostic behaviour in marketing;
3. reforming the organisational structure of dairy cooperatives
4. redesigning consumer relationships for marketing in competition with the private sector.

### **Study Design**

The study was conducted in four co-operative dairies in Gujarat, Maharashtra, Andhra Pradesh, and Karnataka. Their close competitors in the private sector were also studied. Their identities are being kept confidential. Various issues pertaining to product policy, procurement, pricing strategy, distribution and promotion of milk and milk products were pursued through a questionnaire, followed by discussions at various levels of management. In addition, data has been collected from the distributors and retailers from the areas under study. In all, 120 retailers and 100 consumers were covered.

The analysis and discussion is done state-wise in the following section. The conclusions and recommendations are in the last section.

## **Andhra Pradesh**

The cooperative network in the state is currently made up of 13 milk unions, 7000 primary milk societies, and 300 all women cooperatives, with a total membership of 8.57 lakh. The cooperatives, in all had procured 7.5 lakh litres per day (LLPD) of liquid milk and marketed 6.51 LLPD in the state during 1994-95. The cooperative under study is procuring 38,000 liters (38 TLPD) every day. In addition, the milk products factory at Hyderabad contributes 2.71 LLPD for the demand of the twin cities - Hyderabad and Secunderabad. The range of products include Ultra High Temperature (UHT) milk in tetrapacks, ghee and table butter. These products are marketed under an umbrella brand name of VIJAYA - a household name for the people of Andhra Pradesh. These products are marketed in the major cities of Maharashtra, West Bengal and Rajasthan.

Since the implementation of the Milk and Milk Products Order (MMPO) in 1992, nine private dairies have come up in the twin cities with capacities varying from 25 TLPD to 1.25 LLPD. Of these, two have considerable share in the liquid milk market. These private dairies focus more on sales targets than satisfying farmers and consumers. One dairy which has substantial political backing is rendering veterinary services like artificial insemination and prevention against diseases on a small scale. By and large, the private dairies are procuring milk from the farmers using a single strong incentive of paying a higher price, 18.37% more than the cooperatives. The cooperative sector, on the contrary, offers better services to dairy farmers.

### **Product Planning**

New products are test marketed by the private dairies. They aim at smaller market segments. The cooperatives launch the products on a large scale and often encounters uncertainties in supply and distribution. The sales managers of the private dairy seek the consumers' opinion on the product and report to the regional managers. The product is generally launched if consumer response is above 70 percent. The 'Desert Magic' and 'Merri Milk' were launched by the cooperative dairy in late 1993. The product was introduced in a scientific manner following consumer survey and a comprehensive advertising campaign. Similarly, slim milk and sterilised cream took off well in early 1994 but the repurchase rate was not satisfactory. Perhaps the consumer perceptions and changes in the behaviour was not anticipated properly. The advertising campaign did not synchronise with product launching. By and large ensuring supply was the main problem.

The consumer opinion is obtained through structured questionnaire from a random sample of the targeted segment by the private dairies while it is largely assumed in the case of the cooperative dairy. Product planning is done as per the desire of the leader

of the co-operative organisation. A survey was done only for cheese and the product was relaunched in view of the favorable results. The management has assessed the demand and proposed to introduce ice creams for local market consumption. However, there is need to adopt innovative marketing approaches to penetrate this market as many private dairies are already operating.

## Product Line

The principal product of the cooperative dairy is Ghee in terms of value and Milk in terms of volume. Ghee contributes 80% of the total product turnover and is manufactured at seven units of Federation. Besides, Table Butter, UHT milk, cheese, milk powder and a range of by-products are manufactured by the federation. The detailed product line information is in Table I.

Table I : Product Line of Principal Market Players

Sector	Ghee	Butter	Cheese	Milk	Milk Products
Cooperative	Cow Ghee	Table Butter Cooking Butter White Butter	Cheddar, Spread	UHT Milk, Slim Milk	SMP, Milk powder, DW Merri Milk, St. Cream Dessert Magic, Ice- cream mix powder, curd, yogurt, flavo- red milk, paneer and Sweetened Milk Dish (Peda)

### Private Sector

#### Dairy-A

Cow Ghee    Cooking Butter    --    Toned Milk

#### Dairy-B

--    --    --    Toned Milk,  
Full cream  
milk

SMP - Skimmed Milk Powder, DW - Dairy Whitener, St. Cream - Sterilised Cream.

The private dairies do not have a long product line but are making dent in the liquid milk markets. Dairy A has penetrated by supplying only toned milk but round the clock. It has a marginal share in the Ghee market in the state. Dairy B is selling only toned (3% fat, 8.5% SNF) and full cream milk (4.5% fat and 8.5% SNF) in the twin cities, and has emerged as a major competitor to the cooperative dairy. A slim product line may be unviable against an established brand in the long run.

In the federation, the product planning decisions are taken at the Apex level and the processing units functioning under the unions are given production targets. These targets many times do not match the market requirement. On the contrary, the private dairies launch any new product only when the consumer demand is generated and a suitable environment prevails. The product policies of the private dairies are thus not supply oriented but are demand led. Hence the new products survive.

The following problems remain despite debates at various levels.

- i) low procurement syndrome, associated with pricing and infrastructure;
- ii) lack of long term planning in production and marketing;
- iii) absence of professionalism
- iv) lack of accountability.

## **Marketing**

The procurement and sale of liquid milk by the cooperative dairy is continuously increasing since 1990-91. However, a supply gap for liquid milk remains as about 60 percent of the liquid milk is used for manufacturing milk products. Table II gives the status of milk marketing by cooperative and private dairies.

The business target of dairy-B is the maximum coverage of liquid milk market, while dairy-A is converting its surplus cow milk into ghee and cooking butter as premium products. The share of Ghee is 80 percent, Table Butter 8%, Processed Cheese 5% and Skimmed Milk Powder 5% in the total sales of the cooperative dairy. The UHT milk products which are of cow's milk contribute 60% of market in the region. The cooperative dairy enjoys the credibility of being largest organisation with a good brand image in the market. Interestingly, the demand for UHT milk and Cheese is increasing despite their high price. Discussion with the Dairy Managers reveal that the major problem is ensuring the availability of the products on time. Procedural delays, long distribution network, lack of promotional efforts, high overhead expenditure and also inadequate quantity of milk are the major reasons. The private dairies do not encourage multi-channel distribution unless the identified market is far away. The cooperative dairies also do not have multi-channel distribution for liquid milk. Private dairy-A has



appointed C&F agents outside the state for marketing its premium product, Ghee which is packed in 50, 100, 200 and 500 gm packs.

**Table II : Milk Marketing in Federation**

(in Million Liters)

Year	Dairy Procurement		Sales	Sales of Milk
Products				
1990-91	C	288.8	208.2	2.133**
	D-A	102.2	87.6	14.6*
	D-B	164.25	164.25	
1991-92	C	306.6	227.1	2.780**
	D-A	102.2	84.7	17.5*
	D-B	189.80	189.80	
1992-93	C	354.8	243.9	5.324**
	D-A	116.8	102.8	14.0*
	D-B	196.3	196.3	
1993-94	C	346.8	234.8	6.263**
	D-A	120.4	103.9	16.5*
	D-B	219.0	219.0	
1994-95	C	355.8	254.9	6.894**
	D-A	128.6	106.5	21.9
	D-B	262.8	262.8	

C=Cooperative, D-A= Private Dairy A, D-B= Private Dairy B

\* Surplus milk conversion to Ghee and cooking butter

\*\* UHT Milk

However, liquid milk market is localised and it functions only through the retailers. The dairy-A supplies the retail outlets directly through contract transporters once a day in the morning. Dairy-B has liquid milk markets in Karnataka as well and operates through C&F agents. However, in Andhra Pradesh, the retailers have direct access. The price spread of milk and milk products handled by the dairies in both the sectors is exhibited in Table III.

**Table III : Price Spread in Marketing of Milk and Milk Products  
in the Selected Co-operative Dairy and Private Dairies**

(in percent)

Products	Marketing Cost						Total
	Packa- ging	Trans- portation	Storage	Labour	Commi- ssion	Other	
<b>(a) Cooperative Dairy</b>							
Liquid Milk	22.4	28.6	21.4	9.9	15.0	2.7	100
Refrigerated milk products*	27.7	21.6	23.6	2.5	22.0	2.6	100
Non-refrigerated milk products**	32.9	19.0	16.3	8.3	16.0	6.2	100
<b>(b) Private Dairy</b>							
<u>Dairy - A</u>							
Liquid milk	21.5	18.5	29.3	4.3	24.0	0.4	100
<u>Dairy - B</u>							
Liquid milk	22.5	18.5	28.0	4.3	24.0	2.7	100
Ghee	19.9	18.6	16.7	16.1	22.0	6.7	100

\* Include butter, cheese, ice cream etc.

\*\* Include SMP/WMP/UHT milk

The private dairies paid a retailer's commission of Rs 0.22 per litre for the toned milk and Rs 0.28 for the whole milk against Rs 0.15 and 0.18 respectively by the cooperative.

Table III reveals that packaging, transport and storage constitute a major share of the price spread. But the commission parted with the distribution channels is higher in private dairies. This is an aspect in milk marketing through retail outlets. The commission is negotiable with the private dairies and it increases in proportion to the volume of business. Such flexibility is not found in the cooperative. The overall turnover of the cooperative and private dairies covered is in Table IV.

**Table IV : Turnover of Milk & Milk Products of selected Dairies**

Year	Liquid Milk (TLPD)		Value of milk products (Rs in lakh)	
	Cooperative	Private*	Coop.	Private*
1991-92	289	34	38.18	86.31
1992-93	281	45	52.27	127.33
1993-94	278	76	77.76	162.64

\* Average of both the dairies in private sector.

The share of the cooperatives in liquid milk market has decreased during early 90's. The cooperative union has not developed any market for its products in its area but had largely supplied Ghee to the Federation. A private dairy had also found Ghee as a fast moving milk product and specialised on this, with a Rs.5 crore per annum turnover in A.P., Karnataka and Maharashtra. The salient characteristics of marketing of milk and milk products by the private and cooperative dairies are in Box I.

<b>Cooperative Dairy</b>	<b>Private Dairy</b>
* Inadequate milk supply.	* Supply at one point but retailing all through the day.
* Low commission to distributors/Agents	* Higher commission to distributors.
* Regulated pricing	* Open pricing
* Long product line	* Short product line.
* Weak promotion.	* Retail advertising
* No marketing facilities to agents	* Provides infrastructure, credit to retailers

**Box I: Marketing Practices of Milk and Milk Products in Cooperative and Private Dairies**

The private brand milk is available throughout the day while the milk of the cooperative dairy runs short in the morning itself. Private dairies follow open pricing and the retailer discriminate in price according to time and place. The higher charges in the odd hours is collected by the retailers on the plea of refrigeration and handling. The survey of 36 retailers showed that they prefer to sell liquid milk of the private dairies for the following reasons (figures in brackets indicate percentage of respondents citing the reason):

- (i) One day credit facility (91%)
- (ii) Higher margin as compared to cooperative milk(83%)
- (iii) No cut in the supply of indented quantity(80%)
- (iv) Guaranteed supply of milk (69%)
- (v) Low deposit amount (61%)
- (vi) Higher consumer demand and brand image(61%)
- (vii) Low transit loss and good quality of crates (55%)

The poly packs of private dairies are more attractive containing all information except the price. The private dairies also provide point of purchase publicity material. The cooperative dairy lacks in all these and thus operates only on its long established brand image and loyalty. The private dairies concentrated on Ghee as one of the principal milk products. The major market out side the state was Bombay for all the dairies. In Ghee, one regional competitor emerged in Vijayawada and sustained its business. Table V shows the status of marketing of Ghee during 1995-96 by the competing brands.

The polypack ghee marketed by the cooperative dairy has larger sales than its higher priced aluminum foil packs. Discussions with the managers of the private dairies revealed that they operate at a low basic price which includes production cost, infrastructure expenditure involved in marketing and a profit of 7.84 percent. The margins to the distributors is 3% of the retail price and to the retailers 5.5% The

**Table V: Turnover of Ghee in the Dairy Products Market**

Sector/Type of Dairy Pack Type	Quantity (in Tonnes)	Value (in lakh)
Cooperative Dairy		
Poly pack	547.51	590.31
Tins	757.79	945.56
Private Dairy		
Dairy-A	Aluminum foil 330.96	562.64
Dairy-B	Aluminum foil 200.48	340.83

margins to the distributors is found to be lower by 12.66% per kg of ghee by the cooperative dairy.

The cooperative dairy union markets its milk products through the federation which has around 400 outlets within and outside the state, consisting of authorised dealers and retailers apart from federation's own selling units. Though there has been considerable growth in sales of dairy products, there was a depression in sales during 1993-94. The management is looking for ways to change the product mix towards high demand items like UHT milk powder, condensed milk, 'dessert magic' and a range of ice creams. However, the following problems are feared:

1. The procurement is emerging as a challenging problem as the producers demand procurement price at par with the open market.
2. Seven units produce 113 MT of powder per day. In all, 11 units produce 82 MT ghee per day. The 3 MT Cheese is produced by one unit per day while 18 MT butter is processed in 3 units. The crux of the product planning is how product priority should be decided.
3. Some of the milk products like ice creams, buttermilk, yogurt, merry milk etc. have seasonal demand and limited to selected towns of Andhra Pradesh. The bulk sales of these products will be during January-June which is about 75% of the total production.

4. There is keen competition from popular brands which restrict the market for the federation for cheese spread, table butter and ice creams. There is a need for product improvement and innovative presentation.
5. The state of art of marketing as practiced by private companies needs to be inculcated in the cooperative dairy.

These problems are being investigated by the federation through opinion surveys on specific products. These reports have been reviewed and a framework is being developed below:

1. Ice-cream, cheese and butter market to be segmented;
2. Production of above products to be geared-up;
3. UHT milk products to be planned for larger markets; and
4. New products like condensed milk, dessert, etc to be tested on pilot basis in identified markets. This will also help in segmenting the markets.

There is a need to develop appropriate marketing strategies in reference to the above observations for attaining effectiveness in business under competitive marketing environment.

## **Karnataka**

In Karnataka, two cooperative dairies and the centralised marketing approach through the federation has been studied. There is an informal sector comprising many small dairies and some prominent brands. In all, 40 retail outlets of the 6 major players in the marketing of liquid milk in the private sector have been studied.

### **Marketing of Liquid Milk**

The cooperative dairies sell milk and milk products under one brand name, through a centralised marketing system.

The private dairies operating at the local level, have short distribution channel. They operate directly through the retail outlets. However, some dairies, have appointed wholesale dealers for supplying milk to distant places. The regional players largely operate on low margin high turnover basis, except one dairy which has established its brand image ever since 1905 AD.

The cooperative sector pays a commission of Rs 0.18 for the toned milk and Rs 0.35 for of full cream per litre to the agents. The private sector dairies allow a margin ranging from Rs 0.20 to 0.40 per litre. However, the retail price of private dairies is 15 percent higher than the cooperative dairy. In all, the private dairies sell about 0.93 TLPD

in Bangalore city as against 7.2 LLPD of the cooperative dairy. Poly packs of 5 and 10 liters have also been introduced by the cooperative for promoting bulk sales. The sale of liquid milk by the cooperative in the Bangalore city has shown continuous increase since 1990. The District milk unions are directly responsible for marketing liquid milk in their respective regions and the federation is marketing only the surplus milk. The month-wise daily average milk sales by the cooperative is in Table VI.

The estimated order for milk in Bangalore city is 12.3 LLPD. The cooperative sector meets 58.53% and private sector 7.56%. The private sector is attempting to increase its sales further by about 14 percent in near future. However, the supply gap of 34% yet remains. The performance of the private sector dairies is shown in Table VII.

**Table VI: Growth of Milk Sales in the Bangalore City under Cooperative Umbrella**

(liters per day)

Year*	Quantity of milk sales
1990	321519
1991	317321
1992	324384
1993	360272
1994	382308

\* Calendar year (January-December)

Source : Karnataka Milk Federation, Bangalore.

**Table VII: Liquid Milk Sales by the Private Sector Dairies**

Dairy	Procurement Area	Average Daily Sales of milk (TLPD)	Commission paid (Rs/ltr)	Consumer price (Rs/ltr)
A	B'lore-Rural	35000	0.30	10.00
B	Chittoor	10000	0.40	10.00
C	Erode	35000	0.30	11.00
D	B'lore-Rural	3000	0.20	10.00
E	Erode	10000	0.30	10.00

The liquid milk is procured by the private dairies operating in Bangalore mostly from the neighboring states of Andhra Pradesh and Tamilnadu. They procure buffalo milk from the villages in the range of Rs 7.20 to 8.50 per liter while the cooperative dairies pay for same milk Rs.5.60 to Rs.7.14 per liter depending on the fat content. Thus, the private dairies pay more. However, brand image, consumer satisfaction on availability and higher margin to the retailers anchor their business. The milk cooperatives enjoy the institutional market. The Federation has a wholesale dealer and retailer network through out the state. The market outside the state has been created only for Ghee. The performance of milk products marketed by KMF is exhibited in Table VIII.

**Table VIII: Milk Products Sold through  
Karnataka Milk Federation**

(April-March, Sales in tonnes)

Period	1980-81	1985-86	1990-91	1994-95
Table and White butter	89	291	341	1192
Ghee	847	1696	2102	2960
SMP	-	09	1895	2064
WMP	-	01	555	245

Source : Karnataka Milk Federation, Bangalore

Ghee sales has shown an increasing trend since 1980. The sale of SMP also shot up during 1990s. The private dairies A and C have dairy products like Ghee and butter. Dairy A has its production centres in Maharashtra and Delhi and markets its milk products (SMP) through out the country. However, its emphasis is more on liquid milk in the study area. Dairy-C is an old player in the market with limited operational area. The dairy is operating since 1905 and has a long product line of all whole milk products. It has a chain of showrooms in Bangalore and major towns in the state and has earned high consumer credibility. Hence it has adopted high profit-limited turnover policy. The details of marketing pattern of private dairies is in Table IX.



**Table IX: Marketing Pattern Followed by the Private Sector Dairies  
in Karnataka in Marketing Milk and Milk Products**

Parameters	Dairy A	Dairy B	Dairy C	Dairy D	Cooperative
Location of Plant	BTM Layout Bangalore	Chiturst, A.P.	Bommasandra (Sub- urban of Bangalore)	Bangalore	B'lore, Yelhanka Mandya, Tumkur & Kolar
Types of milk sold TM:Toned milk SM:Standardised milk TM(b): Toned milk in bulk	TM(both half liter & one liter Sachet	TM(Both Half liter & one liter sachet TM(B): In Cans	TM(Both half liter & one liter sachet) TM(B) (In Pouches of 5, 10, 15, 20 lts.	TM(Both half ltr & one ltr sachet	TM: In 1/2 & 1 ltr Sachet Std.Milk: In 1/2 ltr sachet FCM: In 1/2 ltr sachet TM: Thru AVBs & FRPs*
Price	TM:Rs.7.50/ltr TM(B)Rs.7/ltr Cowmilk Rs.10/ltr	TM Rs.8/ltr TM(B)Rs.7.75/ltr	TM:Rs.9.50/ltr	TM:Rs.7.50 ltr TM(B)Rs.7/ltr	TM in Sach: Rs.7.50/l St.Milk in Sach:Rs.8.50/l FCM in Sach:Rs.10.00/l TM thru AVB & FRP Rs.7.00
Approximate Quantity Sold	TM:13000 LPD TM(B) 5000 LPD	TM:16000 LPD TM(B) 4000 LPD	TM:3200 LPD TM(B) 6000 LPD	TM: 4000 LPD TM(B) 5000 LPD	TM in Sach : 4.65 LLLPD STD in Sach: 7100 LPD FCM in Sach: 6800 LPD TM in AVB + FRP:1.01 LLLPD
Commission per ltr.	30 paise	40 paise	20 paise	40 paise	15 paise for TM in Sachet 12 paise for TM thru AVB 10 paise for TM thru FRP 35 paise for FCM in Sachet

Table IX Contd...

Parameters	Dairy A	Dairy B	Dairy C	Dairy D	Cooperative
Approx.No.of Agents operating in Bangalore	16	78	132	68	1322
No. of Dairy Owned Outlets	Nil	Nil	12	Nil	16 Parlours
Milk Procurement	Karnataka	Chittur	Erode	Nyamagal & Chittur	Karnataka
Mode of payment by Agents (Periodicity)	Cash	Cash	Cash	Cash	Cheque against Bank guaranty, also cash
Facilities given to the Agent	Fridge/Telephone Depending on sales	Point of purchase advertising	Point of purchase advertising	Nil	Nil
Terms & Conditions for Granting Agency	Deposit Rs.2000	Deposit Rs.1000	No deposits	No deposits	Cash deposit Min.Rs.2000 or for bank guaranty Min. Rs.10000/

The private dairies procure milk from rural areas spread over different states and operate through their retailers giving higher margins. However, the terms of transaction is mostly cash in all dairies. No deposit is taken by some of the dairies for appointing agents. The prominent features are in Box II.

- \* Private dairies offer at higher margin.
- \* Private brand milk is available during odd hours but at higher price.
- \* Retailers charge discriminating prices for milk of private brands.
- \* Large number of unauthorised persons are involved in selling of cooperative milk.
- \* Transit loss in marketing is higher in cooperatives.

Box II : Salient Features of  
Liquid Milk Marketing in Bangalore

Retailers selling milk of private brands, were observed charging discriminate prices at different times. It has been observed that the retailers usually charge prescribed price for the milk during 4 am to 9 am. The prices vary in day time from 9-36% over the prescribed price. However in late evenings the increase in price to even goes to 50% over the normal price. The advantage of such price discrimination is taken by the retailer of private brands for the three main reasons (i) no MRP is printed on sachets (ii) crop dairy milk is not available usually through out day time and (iii) there is no monitoring and control either from the government or the dairy on price. Besides it has also been observed that the agents of cooperative dairy sublet their agencies unauthorisedly to other petty vendors and they supply milk in bulk quantities to private institutions like hotels depriving the regular consumers. They are also encouraged by the private dairies as their brand gets popular due to short supply of cooperative dairy;s milk.

### **Market Promotion**

There is a need to adopt a more consumer friendly approach. It was suggested by the consumers that stamping of date of packing on the sachets will prevent sale of stale milk. The communication between the consumer and the dairies will be further strengthened by quick disposal of the complaints over phone. The printing of telephone number on the

sachets would improve access of consumers to the dairies. The promotional measures also include providing PoP advertisements, incentives to the retailers etc besides providing competitive margins to the retailers.

## Maharashtra

The Pune Milk Union supplying cow's milk to the consumers of Pune city from the Katraj Dairy, and a long standing private dairy selling buffalo milk in the same area have been studied. The demand for cow's milk in the city is continuously declining since 1991-92. Hence 79.85% of milk procured by the Katraj Dairy is sold to other cooperative dairies and only 20.15% is supplied in Pune city. The performance of Katraj Dairy in terms of procurement and sales is given in Table X.

**Table X: Performance of Katraj Dairy**

('000 litres)

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Year	Procurement per annum	Sales per annum		Milk Dist- ribution in Pune city per day (LLPD)
		In Pune City	To Other Dairies	
1984-85	682.88	178.57	504.31	0.48
1990-91	1285.27	447.34	837.93	1.22
1994-95	1351.81	271.45	1080.36	0.74

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Source : Pune Milk Union, Pune.

Only 5.05 percent milk is processed by the dairy, after selling liquid milk in the city and to other dairies. 69.15% of revenues from milk products is from Cream. Other products are butter, srikhand and flavoured milk. The private dairy under study concentrates largely on marketing of liquid milk (buffalo) within the city limits and few milk products like cream and srikhand. It has very clearly identified its product line and area of operation. This dairy is operative since 40 years. It has its milkshed, chilling plant and dairy establishment in Bhilowdi with a plant capacity of 60 TLPD. Table XI shows the comparative performance of the private and cooperative dairies during 1994-95.

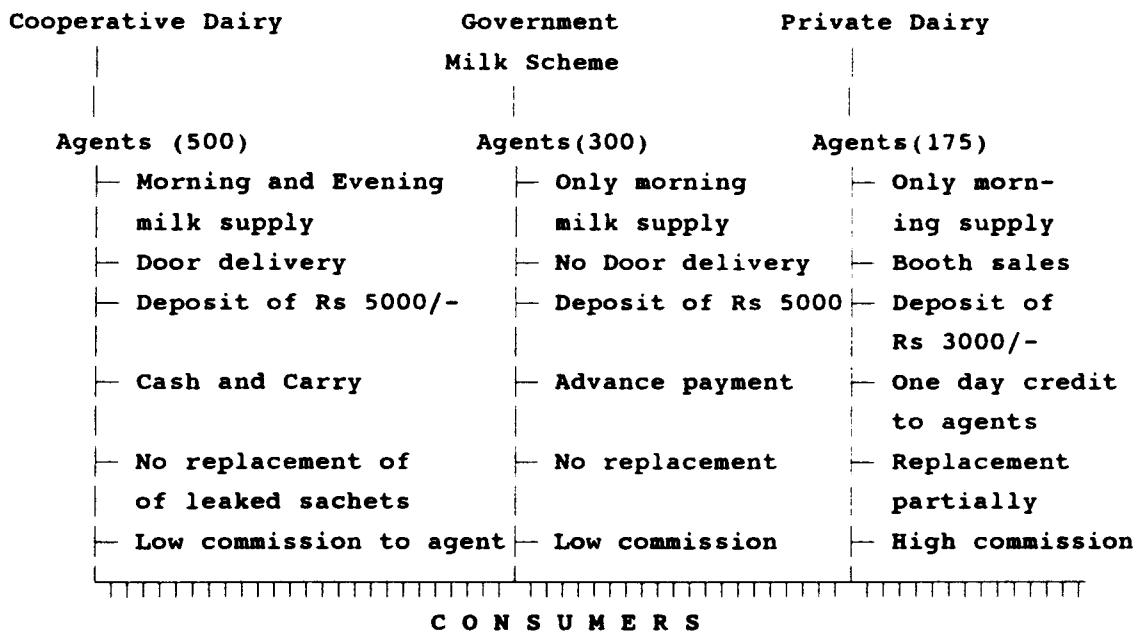
**Table XI Business Performance : Cooperative Vs Private Dairy  
(1994-95)**

Product	Cooperative Dairy	Private Dairy
Sales of		
Liquid Milk (TLPD)	74.36	75.00
Butter (Rs. in lakh)	24.28	8.69
Cream (Rs. in lakh)	67.66	----
Shrikhand (Rs.in lakh)	4.48	1.83
Flavoured Milk(Rs.in lakh)	1.17	----

The cooperative dairy has neck to neck competition with the private dairy. The buffalo milk is preferred by the consumers.

### Marketing Pattern

The Katraj dairy has two close competitors - private dairy and government milk scheme. The government milk scheme procures cow milk in small quantity from its own sources and also through Katraj dairy and sells at a lower price than the cooperative. The Katraj dairy supplied 229.26 lakh liters of milk to the government scheme during 1994-95. The milk distribution network of the three organisations is shown in diagram II.



**Diagram II: Liquid Milk Marketing Pattern in Pune**

The commission to the agents by the private dairy is Rs 0.25 per liter while the other two dairies pay of Rs 0.16 per liter. The private dairy does not provide home delivery. But, the agents of the cooperative dairy provide door delivery by taking service charges. The milk is supplied once in the morning by the private dairy but is made available to the consumers through out the day. The price of the private dairy milk is highest. The price structure is as below :

Private dairy	Rs.16.00 per liter
Katraj Dairy	Rs.10.50 per liter
Government Dairy	Rs.08.00 per liter

## Linkages

Alike other cooperative dairies the Katraj dairy also provides a variety of services to the members and inputs for improving the milk yield. This includes all veterinary services, training to the secretaries of the milk societies, mini kits, fodder demonstration plots and cooperative development programmes for the men and women members of the societies. However, the services provided by the private dairy is more linked with the performance and, to some extent, development of the dairy farmer. One of the most popular services provided by the private dairy is "own your buffalo scheme". The milch buffaloes are made available to the farmers on easy credit by the private dairy either through banks or through their own resources. The dairy stands guarantee for the farmers. The dairy has also made available milch buffaloes under IRDP to few farmers. This support to the farmers has led to loyalty towards the dairy. The dairy in turn procures milk from all the farmers to whom milch buffaloes have been provided. The dairy pays a flat price of Rs 9.25 per liter while the Katraj dairy pays Rs 7.70 for the cow's milk containing 4 percent fat and 8.5 percent of SNF. The private dairy has established credibility among the farmers by way of providing such linkage.

## Gujarat

Ahmedabad city has been studied to understand the marketing pattern of liquid milk. In all, 24 retail outlets have been covered, besides 50 consumers spread over the municipal limits. It has been observed that liquid milk market is highly competitive and price sensitive in Ahmedabad. There are 23 brands of pouch milk operating the city with a sales of 9.5 LLPD. The population in 1995 was about 38 lakhs, with about 6 lakh households. Out of the 9.5 LLPD sales, loose milk accounts for 4.5 LLPD. The rest constitutes the pouch milk market. Out of this 3.1 lakhs is by the organised co-operative sector and the balance is served by the private sector.

There are about 23 brands in the private sector and many new ones are coming up. The private brands together account for about 32% of total pouch milk sale, while cooperative brands meet the rest of market. The main brands have a market share of 2-3 percent

while the others are having 1 percent or less market share. Amul is the market leader followed by Uttam dairy. Previously, ABAD dairy was the only dairy in the organised sector and had a market of 3 LLPD which is now reduced to 50000 LPD. Uttam milk was introduced in 1985. The capacity of the Dairy is 100000 LPD and it sells 74,000 LPD. Amul milk was introduced in 1986.

Another notable feature of the liquid milk market in Ahmedabad is that there is no exclusive agency for any brand. After the delicensing in 1992, many private dairies came up. Before delicensing also, some private dairies like Shreshth were present. Many of these were previously in the loose milk business. So they had some customers to start with. They also have a well established home delivery system.

The private dairies collect milk from distant places, transport it to Ahmedabad and process it. While discussing with the managers of private and cooperative dairies it was found that the private dairies pay a procurement price of Rs.175/kg fat while the co-operatives are paying only Rs.150/kg fat. The private dairies are also extending other support to their farmers like insurance, loan for buying cattle etc. The private dairies are also paying high margin to the retailers. In spite of all these, the private dairies are able to sell milk at the same price to the consumers. This is because the private dairies are able to control their overheads.

### **Distribution System**

All the dairies distribute through a contractor who is appointed on a commission basis. The contractor is not just a transporter. He has also to collect the cash from the retailers and deposit it in bank; and, take orders and communicate it to the dairy. On the basis of this order, the dairy packs milk for the next day. Loading and unloading of the trays is done by the vehicle crew. The distributor is responsible for the timely delivery, one of the important features the retailers look for.

Another advantage of the private dairies is that they started selling through the retailers of the co-operative dairies, who were not exclusive retailers.

Almost 90% of the liquid milk sales in pouches take place in the morning. The reason is that the retailers charge Rs.0.25 extra as freezing charges after 9 am.

The analysis of consumer response randomly gathered at 52 retail outlets in Ahmedabad revealed that the brand awareness is very low. Such people depend on the retailer who pushes the brands with higher margins.

The mode of payment is given in Table XII. It can be seen that the co-operatives are not extending credit facility whereas the private sector is giving credit. Majority of the private sector are giving one day credit, but some are giving up to one week.

**Table XIII: Mode of Payment : Brandwise**

(percent distributors/agents)

<b>Brand</b>	<b>Cash and Carry</b>	<b>One day Credit</b>
Amul	100	0
Uttam	90	10
Abad	87.5	12.5
Private	42.2	57.8

### **Leakage Problem**

Out of the total respondents, 95 percent have complaints about pouch leakage. The complaint is mainly in co-operative brands, particularly Amul. In private brands, the leakage is very less and they provide replacement. In Amul, there is no replacement except at the time of unloading. But those who are selling more than 50 crates cannot check each and every crate at the time of unloading. So the retailers who are not selling loose milk and facing severe losses.

In the case of Amul, consumer complaints are more in summer, particularly in Amul Gold. Before the coming up of the Mother Dairy, consumer complaints were very high. In the case of the co-operatives, the settlement procedure of consumer complaints is also very slow. In case of private brands the such complaints are very less, and if there is any at all, the company replaces immediately.

### **Summary**

We have discussed the marketing scenario of milk and milk products in the cooperative and private sectors. The cooperative sector dairies are enjoying stronghold in the liquid milk marketing and substantial share in the liquid milk market. However, consequent upon the delicensing policy on setting up of dairies has given boost to the private sector and many private dairies now stand as competitors to the cooperative sector dairies in major town. The marketing practices of private dairies are highly opportunistic particularly in procurement and pricing operations and there exists no mechanism to control such irregularities. The cooperative dairies with all management ethics and welfare ideology of dairy farmers, face the challenge of overshadowing the market of private dairies. It has been argued in the paper that cooperative dairies have to gear up to face such market conditions for liquid milk with total business outlook. It would help them in building brand image and expanding their market. They should also attempt in optimising their product-line, streamline distribution network and generate awareness about their brands.



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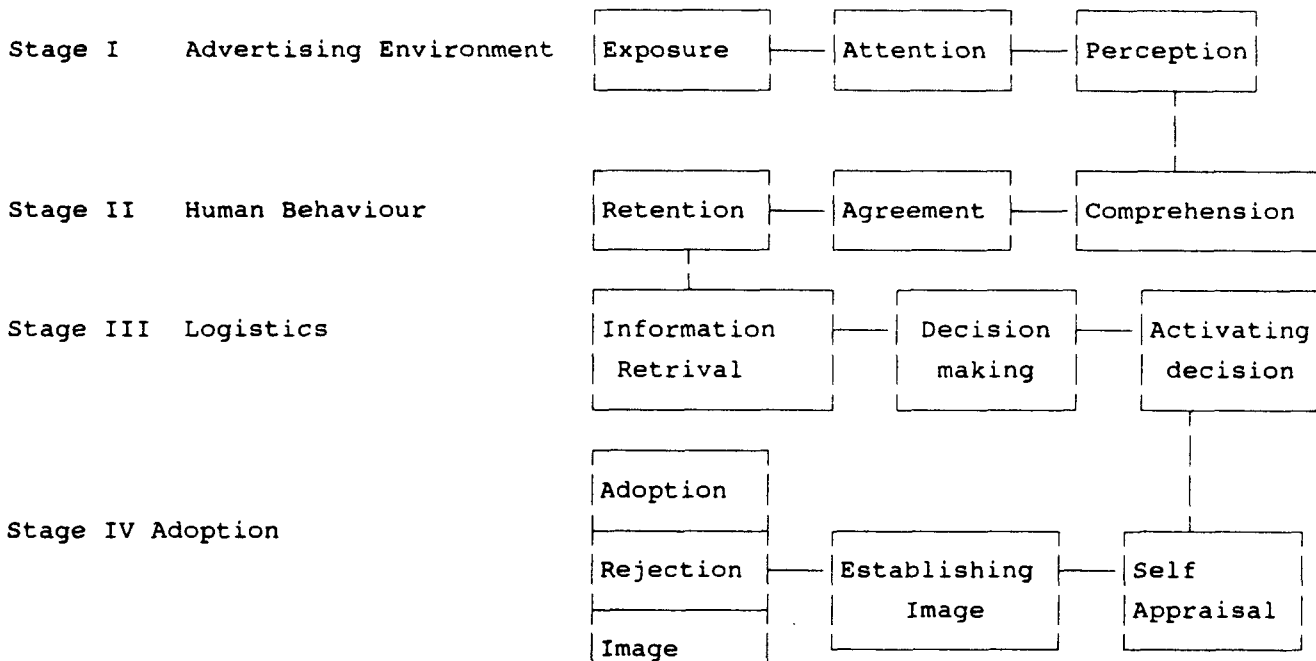
## Advertising Management \*

Advertising is an instrument of marketing which is applied in practice both as a science and an art generated by creative devices. The growth of an advertising process in socio-economic environment is one of the most significant achievements in contemporary business era. Advertising is thus, identified as one of the most visible aspects fabricated with the values in the modern society<sup>1</sup>. There has been variety of views offered by the distinguished scholars on the analytical perspectives of advertising and its symbiosis with growth of business. However, advertising is considered as an integrated component of marketing mix which refers to the promotional aspects along with the other components of product, place and price of the marketing mix.

The process of advertising in business begins with market situation analysis conducted to assess marketing opportunities for the product in the existing state of business in the market. On identifying the marketing opportunities successfully, the marketing strategies are formulated and supported by the communication linkages. Advertising strategies are developed in coherence with the marketing plan and the advertisements are released according to media plan. Hence commercials (Ads) seen by the consumers are like the tip of an iceberg emerging from situation analysis, trade goals and strategies evolved by the marketing and advertising managers<sup>2</sup>. However, it is difficult to establish whether an advertising is first or last component in the entire process of marketing. Despite numerous research efforts, about the functioning of advertising, yet no unified theory has been emerged.

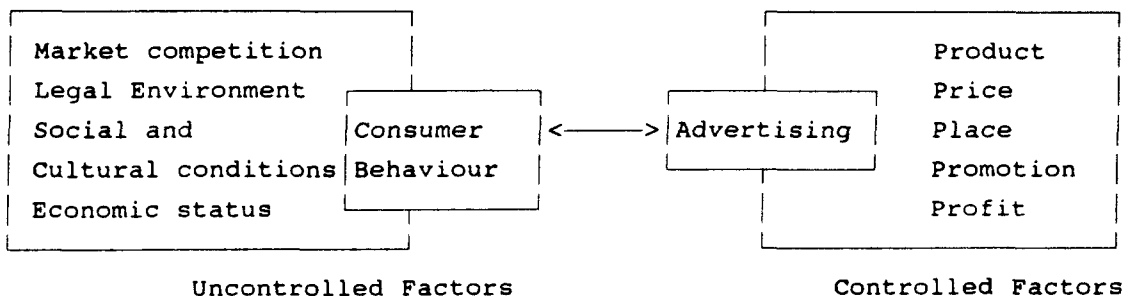
**Adoption Behaviour:** Advertising is a consumer oriented impressionistic approach for advocating the use of goods and services. It is a technique which attempts to establish a logical link between the behaviour of person and the product or service aimed at marketing. Hence, the development of an advertisement is largely subject to the nature of goods and services and the profile of user group. The technique of advertisement for an elite group of users would certainly be different from the exposure to children. However, the process of adoption of message would be similar for both the groups except the time taken to activate the decision making process. The adoption process of advertising information is exhibited in Diagram 6.1.

An exposure to advertising seeks attention of the target audience and develops preliminary perception. This process is generated in advertising environment which hangs on human behaviour till the information is comprehended and retained in users mind. Later retrieval of information process begins and audience logical interpretation to the retrieved information sets the process of decision making. Meanwhile the consumer also attempts to relate his decision making to other available options. However, he may finally activate his decision for use of the advocated goods and service and examine through self tests. Consequent upon favourable appraisal of his activated decision the consumer establishes the image of advertising product or service. There always remains a threat that an advertising process may be turned down at any stage leading to rejection of advertising product by the target audience, legal environment and institutional image. Hence, it can be stated that human behaviour is also as dynamic as advertising, in the marketing. So behaviour of consumers need to be tamed logically and stabilised for longer span. In the simplistic view, advertising is thought to affect behaviour in a cause-effect relationship.



**Diagram 6.1 : Advertising Adoption Process**

In reference to market environment, the consumer behaviour may be stated as one of the uncontrolled factors, beyond the purview of a marketer. On the contrary advertising is the component in marketing management which can be well controlled by a marketer. The symbiosis of controlled and uncontrolled factors enchaining the consumer behaving with advertising is exhibited in Diagram 6.2.



**Diagram 6.2 : Marketeers' Limitation in Advertising**

It is evident from the failure of many advertising campaigns as some factors which are beyond the control of a marketer, result into weak impact of advertising efforts. Though, it is commonly experienced in business that marketers control advertising decisions, the consumers hold control over the adoption behaviour as how they respond to the products in view of perceived decisions<sup>3</sup>.

**Advertising Environment:** Alike marketing environment, advertising also works in an environment that may be understood as conditions under which it has to be made functional. The environment factors of advertising are as under:

- \* social and cultural factors
- \* market competition related factors
- \* legal factors
- \* economic factors related to business and consumers.

These factors nurture advertising and develops association response to other related environments like marketing. The environment helps planners to assess the extent of investment need to be done and accordingly decide the advertising strategies. Environmental conditions provide base for advertising policy and to set magnitude and direction and

institutionalise the efforts. The contemporary advertising system is the example of "free enterprise" environment.

The socio-cultural environment comprises shared beliefs, social values, customs, life styles, ethics and community behaviour. These components play major role in adoption behaviour of consumer. Thus, advertising should be close to the social and cultural standards and failing so, the consumers resolve not to buy the advertised product. Competitive environment provides more options to influence the consumer. Hence it is required that to plan strategies for effective advertising, there is a need to look into the product policies, distribution approaches, pricing mechanisms and promotional strategies in reference to their competitive products and their sustainability in the market. The legal environment consists of enforced regulations under which the advertising has to be developed and exposed. The business fluctuations, broad economic framework for laying business efforts at embryonic stage, prospects and political stability form the economic environment for developing advertising plans. Thus, it is difficult for any advertiser to bypass considerations to these factors, while planning advertising within the given economy of the country or region.

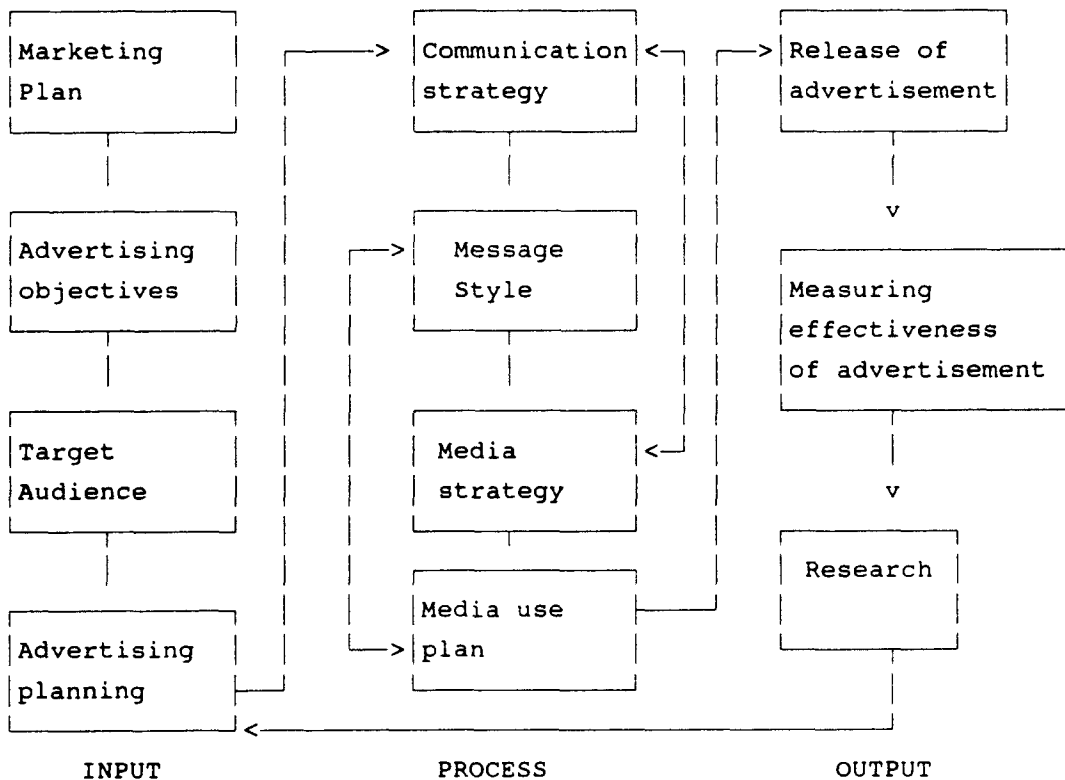
Besides, there are many other factors which have stake in the advertising environment and play significant role in determining policies for effective advertising as a communication and marketing tool. These factors are:

- \* Technology development
- \* Growth in per capita income
- \* Increase in disposable income
- \* Higher purchasing power of consumer
- \* Growth of popular consumer clusters
- \* Development of infrastructure
- \* Increase in education standards of consumers
- \* Specialisation in advertising techniques
- \* Use of research and development results
- \* Growth of brands and variety of trade
- \* Growth of service sector
- \* Growth in marketing finance.

The scope of advertising environment is very wide and leads to an integrated impact on the planning process.

**Advertising Process:** As stated in the pre-text advertising is closely associated with marketing variables. Hence, the process

of advertising depends largely on the market environment. The marketing plan enables the advertiser to set objectives, advertising budget and time plan for scheduling the advertisement. In an advertising process the important determinants are communication strategy and media strategy. The strategy for communication includes type of message to be released, its length, contents, audience interest, product characteristics and frequency of message dissemination. The message tactics also need to be developed in accordance to the media and media watchers. The second domain in the advertising process is the selection of appropriate media strategy by analysing media responses carefully. On selection of appropriate media, an operational plan for putting the advertisements through, need to be developed. The process of advertising is illustrated in Diagram 6.3.



**Diagram 6.3 : Advertising Process Model**

The whole advertising process results in exposure of advertising product as an output which need to be evaluated for its effectiveness in a given marketing situation. The media consultants, media representatives, and advertising agencies form the organisational structure and within its frame the process of advertising is made functional. The response analysis of

advertisement show mixed impacts. Sometimes the advertisements receive very positive response of consumers augmenting the market for the product for the product for the product while at the same time the negative responses also distort the product market. Such cases need to be further subject to research on the improved communication styles and media vehicle would be recharging the advertising planning process as new inputs.

**Advertising Categories:** Advertising is a creative task and varies according to the need and taste of target group. It can be categorised for audiences, types of advertisers, mass media and functions. There are three sets of audience in advertising - business, professionals and consumers. The business-to-business advertising is directed towards processors, wholesalers and professionals. An advertisement carrying message for the raw materials, business machines or services to the manufacturing units are categorically of business to business nature and can be termed as industrial advertising. Similarly when an advertisement is directed towards a group of professionals like engineers, doctors, it is called as professional advertisement. Advertising audience may also be categorised as mass or class. An example of advertising for the common biscuits may be planned for mass audience while rich processed and canned food may be for class audience.

The volume of business of company and geographical coverage of the product would be another consideration for classifying advertising strategies. In case of countrywide coverage of advertising a product such as automobiles, television sets, refrigerator and the like, is called as "General advertising". The product which is limited to regional markets for local consumption is defined as "Local Advertising". Advertising can also be classified in reference to the medium used to deliver the message like national TV network, cable TV network, radio, news paper and magazines of national and regional status.

The functional classifications of advertising are of many kinds consisting of illustrative and symbolic nature. The advertising classification by functions is as under:

- \* Product advertising
- \* Non-product or institutional advertising
- \* Primary advertising
- \* Selective advertising
- \* Direct action advertising
- \* Indirect action advertising

The product advertising emphasises the characteristics of the product and related issues while institutional image is built up in non-product advertising. The brand of the company, its public relations aspects and regulation is based on the theme of advertising in this category. For example, Tata steel company which prefers institutional advertising highlighting the biographical excerpts of the fonder veteran or emphasising the development nurtured by the company in rural housing, education, health and sports. However such advertising mentions the product of company as a secondary message<sup>4</sup>.

A primary advertising attempts to promote market for indigenous products which are largely unbranded while selective advertising is done for the products branded or fall in line with related brands. Selective advertisement is used by individual companies to stimulate market for their products after the demand is established. The direct action advertising generates instant demand for the product and is found to be an effective stimuli for short run sale campaigns. An art of abstract communication is called as indirect advertising which does not seek immediate attention of mass audience. However such advertising is appreciated by class audience to some extent.

**Advertising and Buyer Perception:** Advertising of product or services has direct concern with the buyers. The communication that reaches buyers has varied responses depending on the time span of advertising, type of message and intensity of exposure. Thus, it is essential for an advertiser to map consumer perceptions on advertising product or service to increase its effectiveness. A study of the consumer's state of mind and market segmentation, would supplement the creativeness in developing the messages, exposure style, media use and related matters. The perceptual mapping of consumers need to be done considering many human factors for effective of advertising to a large extent<sup>5</sup>. These factors are:

- \* Structural factors
- \* Mental set
- \* Expectation
- \* Previous experience
- \* Latent needs
- \* Role
- \* Social status
- \* State of mind
- \* Perceptual consistency



- \* Selectivity
- \* Retrieval and action
- \* Cultural and group factors

Advertising strategy need to be developed in close association with the social status and cultural factors of the consumers. Perceptions are built depending upon the role an individual consumer plays in conceiving the communication. However, his state of mind, latent expectation, consistency in perceiving the messages and related factors substantially contribute to the advertising strategies.

**Diagnosing Advertising:** It has been an established fact that in contemporary marketing conditions advertising plays significant role in promoting products. Advertising is considered to be an useful instrument for consumer to know the product as well as to the marketer to make the product known to the target group. However, advertising has some positive and negative points which need to be reviewed to know the characteristics of advertising. The advantages of advertising are as under:

- \* Advertising is like Sound Waves that reaches a large group of potential buyers within short span in a given area. The cost of transmission is relatively low as compared to its coverage and exposure.
- \* It allows strict control over the final communication. The product once advertised with the message can not be taken back. Thus, it is a hard copy of the software which lasts long.
- \* Advertising has many options which can be exercised to select strategy, media, message type and related variables for class or mass audience.
- \* It can be used to create product and institutional images as well as instance stimuli to generate sales drive for the advertising products.

Besides these advantages, advertising has some limitations which affects the products market in closed economic conditions. However, such limitations are overruled in free market agreement. The disadvantage, of advertising though less important are as stated below:

\* It is a non-personal way of communication, which has limitations of instant modification in messages, articulation etc.

\* Advertising does not provide near accuracy in measurement of its effectiveness in terms of buying behaviour, demand and consumer response to advertising.

By and large, advertising has been a globally accepted non-personal catalyst for sales promotion, as it has proved more advantages in carrying business under competitive conditions than a few plans.

### **Organisational Structure for Advertising**

There are three major organisations which involve directly in management of advertising. They are advertiser, advertising agency and the media. The structure of these organisations vary individually but perform integrated function in carrying the advertising at national level i.e. general advertising. In addition to these, there are many related organisations, departments, and specialised services which supply inputs to the main organisations in the process. A newspaper advertising agency having national and regional editions of newspaper would preferably have a Director of Advertising assisted by Advertising managers for General, Selective and Retail advertising. The General Advertising Manager (GAM) and Selective Advertising Managers (SAM) largely supported by the staff of Retail Advertising Managers (RAM) who is considered to be the core department. RAM is supported by sales staff, newspaper services and a coordinator or public relations officer who liaison with the advertisers and media personnel. The creative staff comprise copy writers, commercial artists and production in charge. However, in a media organisation there would be a traffic manager who controls the release of advertisements and allocation of appropriate media time to the advertising agencies. The media would also have its representatives at national and regional levels.

A full service client oriented advertising agency functions with the personnel specialised in creative art, media, research and accountancy. The department of creative art comprises print in-charge, photographers, artists, production and studio in-charge, musicians and actors/models. An agency is compensated for its work through outright consultancy/production fee from the advertisers and through the receipt of media commissions in case of non-government media.

## **STRATEGIES IN ADVERTISING**

Advertising strategies for a product, agency and media are different in long term as compared to short term perspectives as the objectives of organisations also vary. However, theoretically, effective advertising strategy need to comprise creative use of media, budget, message strategy, exposure strategy, research and public relations. The right message to the right audience at right time is the fundamental principle of advertising and strategies need to be formulated accordingly.

### **Advertising Styles**

It is an art and can not be limited to the theoretical boundaries. The advertising manager always stays at liberty to design the message in a most appropriate manner to insert in a popular media for achieving best results. However, some common techniques are observed in the product advertising. They are:

1. Comprehensive advertisement
2. Positive advertisement
3. Negative advertisement
4. Social theme based techniques
5. Future project base techniques
6. Entertaining and family oriented
7. Gender sensitive
8. Product-customer age cohesive
9. High frequency insertion - drive
10. Average frequency insertion cue
11. Scientific message
12. Abstract message
13. Indicative and symbolic for segment customers
14. Influence leader oriented
15. Comparative product profit oriented

These techniques change according to the behavioural changes in the customers towards products. All techniques may not be appealing but are equally expensive. Hence, an advertising manager should be very selective in adopting an appropriate technique, as the advertisement/communication expenditure also reflects in total cost of the product and also affects the pricing structure.

## Message Strategy:

The development of message strategy is linked with an advertiser and media factor. It depends on what, an advertiser needs and how the message for advertising can be carried on the media effectively. A compromise to these factors would help in developing the most effective message idea, as a result of facts judged about products, markets consumers and competitors. In this process the strength of background information is the foundation of building message ideas.<sup>6</sup> The copy writers, artists and creative advertising personnel of advertising agency should know the pulse of generating effective message ideas. There are two basic sources of idea stimuli - (i) intuition drawn on the basis of acquaintance with the product or service and (ii) scientifically collected data on the product and its marketing plans. The data can be collected in two ways as stated below:

(i). By administering primary investigation tools

(ii). By obtaining secondary information supplied by authentic sources.

The message strategy should match with any of the four advertising objectives comprising psychological pull, action, marketing and institution oriented. The application of the any of these objectives would help in generation of message ideas however need to be tested on different components of 'creative-mix'. This mix consists of verbal and non-verbal elements. Table 6.1 exhibits the components of 'creative-mix' in advertising.

**Table 6.1: Creative-mix in Advertising**

Verbal Elements	Non-verbal Elements
* Copy writing	* Visuals and Illustrations
* Headlines	* Layout
* Slogans	* Typography
* Brand names	* Trade mark
* Performance statements	* Colour combination
* Institution reports	* Dynamics
	* Music
	* Special effects

The decision making in creative-mix is to be based on the advertising objective and audience. In developing an advertisement, thinking and feeling sets high importance among other behavioural variables. An advertising objective for its long lasting effectiveness should possess the following characteristics.

- \* Continuity : For hierarchical order of advertising
- \* Precise : To educate the consumer in short span
- \* Measurable : Enabling to perform monitoring exercise and feed back analysis effectively.
- \* Realistic : Presenting the facts and market experience of the product or institution
- \* Flexible : Convenient for all ethnic groups, age, class and literate groups to understand and retrieve.
- \* Impressionistic: Should possess long term symbiosis of product and company with consumers.

Hence advertising objectives should serve three key determinants of product. They are dissemination of message; decision making and evaluation of the advertisement or advertising strategy<sup>7</sup>.

### **Copy Writing**

In advertising terminology copy writing refers to "studying of text" or "body of the text" to be put in an advertisement and devising its "Headline" or caption. In broad sense 'copy' refers to writing of a message of an advertisement, including the headline and text. It is believed that an advertisement is complete when visuals are supported by words i.e. copy, though visual advertising makes an indepth impact, the value of text can not be ignored. An exclusive non-verbal creative-mix can not convey the message in isolation. hence the importance of copy writing is invariably considered by advertising agencies. However, contrary to this notion, some advertising agencies feel that consumers make buying decisions from the visual illustrations and price line information because of the impact of "copy". Yet, in the field of advertising both the believes

are honoured and integrated for effective response. Copy writing in advertising depends on the four conditions. They are:

- \* desired response for copy writing
- \* inducement offered
- \* the product for advertisement, and
- \* an approach for copy writing adopted by the advertising agency.

These conditions are inter-related<sup>8</sup>. An institutional copy and a promotional copy of the advertisement may be categorised on the basis of desired response. A set of inspiration which endeavours to have an institution 'copy' lies in (i) selling the idea (ii) acquainting consumers with products and (iii) attracting long range patronage for the product from consumers. A "Service copy" is required for product canvassing in retail stores while a "prestige copy" is taken to build reputation of the product advertised and its company. Unlike 'service copy', 'prestige copy' offers merchandise to substantiate the thesis of its utility. A 'promotional copy' is used for generating instant sales in the retail stores. The details of the product in fashion and its stand in the market is provided to the consumer for reference in 'fashion copy'. It presents and interprets facts graphically with glamorous visuals and the exposure styles which are commonly accepted by the consumers. The advertising of household application products or direct utility merchandise is dealt in 'Utility Copy' to educate the consumers of usage of such products.

In brief, there are following styles of 'copy writing' used in advertising for varied purposes and reasons to convince the consumer of the merchandise advertised for. They are:

- \* Institution copy
- \* Promotional copy
- \* Service copy
- \* Prestige copy
- \* Fashion copy, and
- \* Utility copy

These approaches are commonly exercised by the copy writers. However a 'special promotion copy' and 'clearance copy' are also drafted on the basis of inducement offer.

## Copy writing Approaches:

The copy writer should determine an appropriate approach based on the psychology of consumers, once the type of 'copy' for advertising is ascertained, exercising the options of 'copy' as discussed above. There are three types of approaches for copy writing (i) reason- why copy (ii) human interest copy and (iii) rational copy.

### Reason-why Copy

The reason-why copy develops a logical story or message around a prominent reason or a set of reason justifying its consumption. The buyer finds the cause oriented message in support of the merchandise as to why it should be bought. The message is woven around the interrogation 'WHY' instead specifying the characteristics of the product in general sense. Hence reason-why copy writing directs its message to judgment than to emotions or superficial attractions. This approach has many variations followed in retail advertising, as exhibited in Table 6.2.

**Table 6.2 : Variations in Reason-why Copy Approach**

Copy Writing Methods	Explanations
1. Testimonial Copy	It proves honesty of message favouring merchandise, referring to the previous purchaser.
2. Performance copy	Sets an example of product/service use in different situations of consumers.
3. Test Copy	Discusses the test results of merchandise conducted under ideal conditions.
4. Construction copy	Exhibits the manufacturing specifications and product engineering aspects.

This approach is often preferred by the advertisers bring direct exposure of the merchandise to consumer in a logical manner which enumerates the significance of the advertising product stressing the very need of its use. However, reason-why copy may not have the highest degree of advertising glamour and may become monotonous after frequent exposures.

### **Human Interest Copy**

In developing this kind of 'copy', writer prefers to exploit the latent senses and emotions of consumers. Such 'copy' is built on sympathy, affection, humour, fear, risk, curiosity, adolesense, love and other emotions. It also appeals to the human senses of sight, taste, smell, touch and hearing. A copy writer may use the following options in developing advertising messages of human interest.

- \* humorous copy
- \* fear copy
- \* story teller
- \* predicament copy or graphic explanations copy
- \* Gender sensitive copy

In writing 'story copy' the excerpts from folk tales, epics, and research reports are drawn and presented with the help of cartoons, art, visuals or headlines.

### **Rational Copy**

A combination of 'reason-why copy' and human interest copy is the 'rational copy' which is presented integrating both the approaches for the advertising merchandise. This approach helps the consumer with all facts and emotions in making decision to buy the merchandise advertised. However a copy writer must see that an appropriate logic is placed in the message in tune to the human senses or emotion generated either in text or in visuals.

**Copy Requirements:** Copy writing need to be subject to the following tools and informations. They are

- \* Environment of advertisement
- \* Facts about merchandise and company
- \* Message style
- \* Headline



Of these, writing headline for a 'copy' is a creative task. A copy becomes impressive providing headline is attractive. Headlines are most important element in visual media either television or print media. It lasts long impression on the readers<sup>9</sup> as many headlines indicate the whole text message in it. There are two common methods of getting headline attentions - devices and highlighting a reward for the reader. The 'device' is the art of matching the functionality of the merchandise within the words of headline, while the 'reward headline' exposes reader with a sign of help if they incline to read the message. The other important approach to draw headlines are as under:

- \* News Headline (Announcement)
- \* Command Headline (Magnitude and direction)
- \* Question Headline (Interrogation)
- \* Provocative Headline (Generating impulse)
- \* Selective Headline (Client groups)
- \* Exclamatory Headline (Grammatical)
- \* Imperative Headline (Grammatical-futuristic)

The headlines can broadly be classified into four types. They are informative, behavioural, grammatical and selective in reference to client groups. The headlines should be specific, coordinating with other elements of advertisement, understandable in short time without taxing mind, should possess considerable clues to get the impression of the merchandising product and action oriented. A copy writer should avoid cliches and slang words which are out of common use. In all it can be stated that copy writing is a creative expression in advertising. To ensure effective copy writing vital guiding points need to be considered as exhibited in Box 6.1:

* Making the copy interesting	* Believable
* Specific message/impression	* Effective language
* Simple presentation	* Surprising and
* Concise	* Persuasive

**Box 6.1 : Guide points for copy writing**

**Developing Advertising Layout:** It is an art in print media to place an advertisement more elegantly. Layout is vital point which need to be scientifically designed in view to save space in print media and raise its place to the best appreciation of consumers. A draft layout may be prepared in accordance to the 'copy' and headlines placed at a vulnerable point measuring the space it occupies. An exercise of 'cutting' and 'pasting' need to be done to prepare a draft layout of advertisement. Impressive layout of an advertisement should posses following qualities:

- \* Simplicity
- \* Eye appreciation
- \* Sales appeal
- \* Model character, and
- \* Continuity

It may be stated that layout of an advertisement is an architect's blueprint which explains each aspect of the task i.e. headlines significance, copy appeal and convincing sight of illustration. The layout enables the preview of final exposure of advertisement that is to be published in print media.

### **Developing Media Plan**

Media planning is an essential exercise to be performed in advertising management. In developing a media plan, five basic dimensions need to be assessed. They are (i) media objectives (ii) target market (ii) media types (iv) media vehicle and (v) media scheduling. Alike any aspects in advertising, to formulate a media plan the objectives have to be set at the onset, considering the variables as explained in Table 6.3:

**Table 6.3: Determinants for Setting Media Objectives**

Determinants	Explanation
Reach	It is a variable of household or target coverage of media message to be advertised during a given time period, e.g. in two weeks.
Frequency	It denotes the number of exposures of message in media in a given span. In other words how many times within the specified period an advertisement appears on media and caters to what share of population. The frequency of an advertisement can be computed by the formula given below:  $\text{Average frequency} = \frac{\text{Total exposures}}{\text{Reach}}$ <p data-bbox="561 965 1341 1069">The frequency is of decision factors in planning media strategy as how much time of media has to be purchased for effective response.</p>
Gross Rating Points (GRP)	It is a tool to evaluate the media for the given advertisement taking into consideration the reach and frequency functions. This can be computed with the help of following arithmetic notion.  $\text{GRP} = \text{Reach} \times \text{frequency}$

Besides these factors, continuity is also an important indicators which relates to time scheduling of messages on media. At the introductory stage it is required to allocate advertising budget for higher media time that can be gradually reduced as the stand of merchandise in the market advances. However, the life cycle of the merchandise also need to be considered while setting objectives.

## **Setting Target Markets:**

It is required to take the help of media specialist in identifying target markets for the merchandise to be identified and the type of advertisement required thereof. The market segmentation principles have to be considered for setting target market for physical distribution of merchandise and accordingly media has to be selected.

## **Media Selection and Budgeting**

The data on effective media responses has to be analysed for selection of particular media. The cost of advertising on media on the basis of the frequency and continuity need to be set for allocating advertising budget.

Besides, while selecting advertising media following factor combinations have to be ensured by the advertising agency:

- \* perfect match of media type to target markets
- \* perfect match of media type to advertising objectives
- \* match of media type to advertising budget, and
- \* match of selected media to competing advertisements.

It is required to make substantial budgetary provisions in the media plan, if the advertising has to be done in more than a media type. However, the relative weights of the media has to be decided on the basis of analysing the "efficiency indicators" for the media in particular.

## **Scheduling**

An advertising planner has to decide scheduling of advertisements on media in reference its periodicity in a day, hour, month and year. It has to be planned that an advertisement should be exposed on media during which hour of the day considering the human behaviour of watching media and the nature of product. An example may be mentioned of scheduling an advertisement of breakfast foods during the breakfast hours on media would have an effective impact than releasing it in late height slot of the media. Scheduling the advertising in respect of media time, periodicity in month and number of months in a year would be helpful in allocating resources in advertising budgeting exercise for media buying. Scheduling should be done in width and length of media buying as shown in Box 6.2:

Media buy	First Quarter														
	January					February				March					
	1	2	3	4	5	1	2	3	4	1	2	3	4	5	
Television time	x	x		x	x	x	x			x	x	x			
breakfast															
Afternoon			x						x				x		
Evening	x	x	x	x			x	x		x			x	x	
Late night			x		x		x				x	x	x	x	
Household	x				x		x			x				x	
magzines (one col. page)															
Newspapers (Col.half page)	x	x	x	x	x		x	x		x	x		x	x	

**Box 6.2: Media Scheduling Chart for Merchandise Advertising**

The advertising planner need to develop a media time flowchart once the scheduling exercise is completed. Although, media schedule plan is not a permanent document as some elements like type of merchandise, style of copy, media policy are subject to change without notice, the flow chart would be the right guiding birds-eye-view for planner.

### Direct Response Advertising

Media advertising largely attempts to generate indirect response of the merchandise or services advertised. The direct response

advertising includes mail-media advertising, catalogues, departmental store's advertising, yellow pages, handouts, and window displays.

### **Direct Mail Advertising**

Direct marketing is an effective buyer-seller interactive system in which merchandise under advertisement is brought close to buyer using one or more advertising styles, and the response is measured in reference to location and volume of transactions<sup>10</sup>.

The mail-media advertising involves promoting merchandise market by establishing contract with potential and existing consumers through mail orders, publicity materials and telephone service. In this process no personal selling is performed.

Direct mail advertising has many advantages. It attempts to build goodwill between seller and buyers. Hence mail advertising is often identified as productive advertising technique. The numerous advantages of this system are as listed below.

- \* it is highly selective
- \* this form of advertising is elastic as retailer can add or delete the name of consumers at his discretion,
- \* wide variety of merchandise or service can be advertised to the same consumer
- \* privacy on consumer preference/order can be maintained.
- \* market competition can be avoided instantly
- \* the direct mail advertising is personal and specific
- \* home delivery of goods and services can be assured.
- \* performance of merchandise/service sales can be monitored and evaluated.

Despite many advantages of the direct mail advertising, there exist some demerits also. The most commonly observed problem in mailing business orders is high expenditure involvement in the process. The periodical up-dating of mailing list is major task in direct-mail advertising which consumes large business time. Besides these disadvantages, sometime it becomes disinteresting and irritable to the persons addressed and they feel offensive as the 'copy' of mail-order is not matched with the profile of persons to whom it is sent.

The different types of mail-order advertising the comprises comprehensive text and visual copy of advertisement which

attempts to make the readership interesting. The various types of mail-order advertising are as below:

- \* business reply mail with pre-paid postage fee,
- \* information enclosures, circulars etc.,
- \* postal cards without order form
- \* self-mailing folders, and
- \* booklets and catalogues.

The mail-order advertising is a quantitative exercise and requires systematic processing of data. Hence computerisation is the basic requirement to handle the data, in reference to classifying consumers, sorting types of orders, record of compliance to orders and other functions.

### **Display Advertising**

Window display is the most prominent style of direct response advertising as it establishes ready information, product impression, and impulse of buying that helps in decision making. Display advertising has many ways of performance - indoor and outdoor. The indoor display advertising consists of showcase advertising, indoor displays in departmental stores. There are some common kinds of indoor display of merchandise. They are:

- \* display of merchandise in showcases of departmental stores with an abstract and combination.
- \* display of merchandise in decorative style in show case/window
- \* display of prestige copy under simulated environment
- \* display of merchandise on dummy
- \* theme display, and
- \* demonstration of use of merchandise

The out door display of merchandise or services may be done in the form of sign boards, commercial hoardings, posters, neon signs, vehicle sign boards, train posters, electronic sign boards, balloons, fibre optical billboard and other special effects. The merchandise advertising on vehicle is called as transit advertising which carries message from place to place. It is a good way to reach specific markets and can be tailored to the need of geographical market segmentation.

## **Advertising Campaign**

This strategy is adopted by advertisers when the merchandise or service has to 'gate-crashed' in the market and marketed with horizontal expansion policy. Campaign advertising is primarily concerned with achieving quick sales response in target markets through clearance advertising, regular price-line advertising. Such campaigns are of short duration but possess similarity in copy writing and continuity in releasing exposures. Hence campaign is a series of advertisements exposed in a given time at regular intervals in the same media, or medium. The advertising campaigns are of national and local level and have institutional patronage. The advertising campaigns are planned in advance and are set orderly.

This approach is beneficial to gain regular consumers as well as occasional buyers, as a series of advertisements leave an impression on the consumers and are easily identifiable. It is observed that such advertising campaigns not only build consumer strength but also bring prestige to retail sales, institution and advertising agency. However, in planning advertising campaigns and putting it through media care should be taken in its continuity, message dissemination and periodicity as in absence of such regulation, the impact of campaign may not be achieved to the mark.

## **Institutional Advertising**

It is a form of public relations performed through communicating message to the target audience directly related with the institution. It is not necessary that an institution developing advertising message should strictly be of commercial nature. The strategy for institutional advertising need to be selected matching the objective of institution and clientele. For example a business company may develop institutional advertisement for distributors in the employees of company, an association of medicos may release message of social health awareness, government can do so for generating awareness of franchise during elections and so on. Institutional advertising involves non-personal mass-media communication by an identified institution to accomplish its goals. There are various type of institutional advertising practices observed, of which some major kinds are released through the following messages:-

1. Social awareness about civil rights, health, population etc.
2. Promotion of a public service



3. Generating awareness about innovation, achievement, new facts of development
4. Improved or added market value of products
5. Employees welfare and image of institution
6. Placement advertisements with profile of company's achievements.
7. Opening debate on controversial issues.

Institutional advertising thus, can be of commercial and non-commercial nature. Functionally, institutional advertising can be classified into two categories - image advertising and advocacy advertising. Image advertising is designed to mobilise opinion about the institution and create an image through its merits. So it can be stated that an image advertising exhibits the human face of an advertiser<sup>11</sup>. Image advertising is done in four types and they are:

- \* institution identification advertisements
- \* goodwill advertisements
- \* civil rights and responsibilities advertisements
- \* public service advertisements.

Such advertisements are non-argumentative and non-controversial as most of the themes are of public interest such as, population control, crime prevention, water, food and energy conservation, campaign against drug abuse and the like.

On the contrary, advocacy advertising attempts to highlight contemporary arguments directed either at specific general clients like political activists, consumer groups, media and government agencies<sup>12</sup>. Advocacy advertising consists of following forms:

- \* ideological advertisement which is principle oriented and attempts to highlight the ethics of an institution.
- \* defense advertisement which argues to protect the image of institution against contemporary controversies.
- \* reply bound advertisements seeking responses to the issues highlighted in the advertisement.
- \* Position taking advertisement emphasising the viewpoint of an institute of issue thereof with strong argument to seek public acceptance r referendum.

- \* ally recruitment advertisement asking interested persons to present their views in support of the ethics of institutions in view to strengthen its logic prior to their joining position in the institute.

An advocacy advertising has an advantage of exhibiting message under controlled situation of advertiser which helps in dealing with complex issues through institutions logic. An institution can plan a series of advertisements as campaign supporting its views and building image simultaneously among the clientele group. Institutional advertisements are generally released on multi-media and cover substantially larger segment of target audience.

### **BRAND POSITIONING AND ADVERTISING EVALUATION**

Positioning of a brand or product is an art of selecting the best selling propositions that helps in realising the sales targets to a large extent. The position of a brand is its perception among the target consumers based on functional advantages, and emotional association of buyer with the product of specific brand. Hence, a brand manager should look into these behavioural aspects while considering brand positioning in the market. The brand positioning is thus possible by using the consumer preferences backed by strong psychographic logic to the branded products of similar nature. It is essential to measure the intensity of brand impact of close substitute brands in the market. Broadly, a brand positioning constitutes the framework of market structure<sup>13</sup>. There are four major components which have an integrated impact on brand positioning. They are:

- \* structure of market where the brand has to be positioned
- \* characteristics of consumer segmentation
- \* consumer perception on competing brands and the one that is to be introduced, and
- \* benefits offered by the brand that suits to the perception of consumers.

These components which are closely associated with each other need to be studied in an integrated manner while considering brand positioning. The market segmentation and positioning strategies are to be planned. Simultaneously as both the factors are involved in either process. However it can be stated that the success of brand positioning is based on the differential

advantage offers of competing brands in the market. The brand positioning theory <sup>14</sup>, delineates that distances among competing brands and product differentiation are the dynamic factors which develops clarity in consumer perceptions and help the positioning of product brands successfully in the market.

### **Positioning Methods**

Brand positioning is an important activity in advertising management as it provides platform to develop advertising and media strategies. There are some logical approaches as listed below, used in positioning the brands in market. They are:

- \* using corporate identity
- \* by brand endorsement
- \* category-related positioning
- \* advantage-related positioning
- \* time related positioning, and
- \* price quality positioning.

The corporate identity oriented positioning would be on the identical of the company over a considerable period which has been recognised by the consumers. The brands are endorsed by such identity of company for each of new product-entry following a success of the previous product. Example may be cited of toilet soaps of the same company - Hindustan Leaver with product names Lux, Lesancy etc. These products are endorsed as - "A quality product from Hindustan Leaver". Such endorsements of brands would help in positioning the products effectively in the market.

The category related brand positioning is referred to the physical product in different incarnations<sup>15</sup>. The product in different physical designs is promoted through advertising in the market at the same time. A brand manager is required to modify the functional features of existing brands to make it more close to the category related positioning exercise. The advantage-related positioning would usually be decided where products provide multiple benefits to the consumers. Hence a brand manager has scope for differentiation of similar products based on benefits extended.

The brand positioning exercise based on application of merchandise in reference to time and age is another factor that can be considered for differentiating strategy and establishing a brand identity. A mosquito repellent that is used in night while

roomfreshner is applied in the morning hours. These characteristics can be used for devising an advertising strategy to help positioning the brand of merchandise. The price-quality positioning approach is simple and effective for the oligopolistic market conditions. The satisfaction of consumers in the principal indicator in positioning the brand of a merchandise based on the relative satisfaction ratio of price and quality of the brands<sup>16</sup>.

Besides, there are some other approaches of brand positioning based on the factors like product line, technology and research. The major scientific brand positioning methods are stated as under:

- \* product line brand positioning
- \* performance oriented brand positioning
- \* end-use based brand positioning
- \* technology based brand positioning and
- \* research base brand positioning

The brands of merchandise can also be positioned in the competitive market considering the various aspects of market segmentation. Of these more prominent indicators are as under:

- \* demographic factors comprising age, income, sex, occupation, education, location variables and the like.
- \* behavioural in reference to the variables of consumer satisfaction, taste, touch, appearance etc. related with the product.
- \* additional benefits in terms of multiple usage, health improvement, energetic and the like.
- \* psychographic determining personality, social status and life style.

The brand positioning can also be determined taking into consideration the unique features of the merchandise. Packaging may be one of the attributes which can be differentiated for brand positioning- e.g. Brooke Bond's 'stand pack' of green label coffee which has a distinguished feature of packaging among the other existing brands, in the market. Another approach of brand positioning is selling a challenge for the close competitor linking the marketing strategy to warfare. Such approach is called as brand positioning by competitor.

## **Brand Personality**

It is an impressionistic concept of brand on consumer behaviour. Brand personality explains why people like some brands more than others of similar physical characteristics. The personality of a merchandise brand is built with the factors that refer its name, packaging, price, style of presentation, utility, advertising and above all the love for product itself. Personality is a 'totality' aspect of brand which is previewed by the consumer. The brand personality counts high in the market when consumer finds himself indecisive on the products of similar physical characteristics and price line.

## **Brand Impact Analysis**

It becomes essential for a brand manager to know the status of his merchandise brands among the competing brands in the market to enable to develop effective marketing, advertising and positioning plans for the products. To estimate the impact of brands on consumers, there are various methods. Of these important approaches are detailed in the foregoing text.

## **Image Profile Analysis:**

In this approach the characteristics of similar brand products are measured at the 5-7 point scale drawn according to the preference of consumers like excellent (1), very good (2), good (3), bad (4), non-usable (5). These scores are ranked individually and final ranks are computed on the basis of composite index<sup>17</sup> formula as stated below:

$$R = \frac{R_i}{N_i}$$

When  $R = \text{Final Rank}$

$R_i$  = Sum of ranks for the each variable or product character

$N_i$  = No. of observations or characteristics of product brands

The image profile chart provides details of competing brands in graphic presentation. However, this method has some functional limitations, as it would be difficult to plot the data for a large number of brands.

## **Factor analysis**

A large set of variables is required for analysis as they have to be put into linear combination of small 'independent variable sets' to generate correlation coefficient matrix for the variables of data set (s). The variables of the matrix can also be plotted to identify the importance of specific variable in reference to independent variables like consumer class, sex, age,

income etc. This approach is useful in scientifically measuring the weightage of brand image in context to the identified variables of close brands in the given market set up.

### **Cluster Analysis**

In this process the brands are separated into groups to measure inter-brand-product similarity. This is a graphical technique that presents the output. This method is also applicable to identify homogeneous groups for alternative advertisements, brand names, packaging styles, pricing mechanisms, consumer incentives, technological advantages and other user-communication stimuli.

### **Multi-dimensional Scaling**

It is a technique applied to measure the consumer response for brands in the competitive market environment. The variables for multi-dimensional scaling (MDS) is a set of products, preferences of consumer, brands, companies and the related data. As regards the dimensionality in matrix the number can be two or more. The graphical presentation of MDS is designated as "Perceptual Mapping".

Based on three approaches the impact of brands, advertisements and consumer behaviour can be measured. These methods are more logic oriented than more numeric results. Hence measurement results largely depend on interpretation for functional use.

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## MILK VITA ICE CREAM

The Registrar of Cooperatives was happy that the Bangladesh Milk Producers' Cooperative Union Ltd (BMPCUL) had an integrated system of collecting milk from its members and marketing the processed milk and milk products in urban areas. He was aware that BMPCUL had been providing an efficient production support to the milk producers. Though one of the largest and successful cooperative efforts in the country, the BMPCUL had however been facing some problems. The registrar was concerned as to how the profitability of the dairy cooperative could be improved.

The government of Bangladesh had decided in its First Five Year Plan (1973-1978) to strengthen its dairy industry through cooperatives by collecting milk from 500 and odd village level milk producers' primary societies located in Pabna, Manikganj, Tangrail and Faridpur. To achieve this objective a project was formulated. The project envisaged: (a) purchase of milk from individual farmer members twice a day against cash payment; (b) transporting it to chilling centres at Faridpur, Manikganj, and Tangrail, and (c) transporting the chilled milk by insulated road tankers to the dairy plants for processing, packaging and marketing. Besides the sale of liquid milk, the milk was also to be converted into various products like full cream milk powder, skimmed milk powder, butter, ghee and ice cream, and marketed under the brand name of Milk Vita. (see Exhibit I for historical details).

The General Manager of BMPCUL was also proud that his organisation was like a mini Amul and had successfully encouraged milk producers to produce and supply more quantity of milk to their village cooperatives. The support services extended by the BMPCUL to its member producers included animal breeding, mobile veterinary facilities, feed and fodder development programmes, extension activities for better animal husbandry, regular collection of milk and remunerative prices. The BMPCUL had registered an impressive growth in

**Exhibit 1**  
**History of Milk Vita**

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Before the partition of India, one Indian firm had brought in 1945 dairy machinery from Australia to set up a dairy industry. The machinery, however, could not be installed as the owners had left the country during partition. The locked factory remained under the custody of the district authority till 1952 when late Rahman exchanged his property in Calcutta with this factory. Rahman installed the machinery and started production under the name of M/s Eastern Milk Products Limited.

Roller dried baby food and butter were the first products marketed by the company in 1954 under the brand name of Milk Vita. Condensed milk was introduced in 1958. Spray Drying Plant was commissioned in 1963 and production of spray powder started in the same year. Rahman also brought from Denmark new machinery on loan from the banks, but could not instal it till 1967. In the meantime, at his own initiative, he organized the first milk producers cooperative in 1965 and registered it as Eastern Milk Producers Cooperative Union Ltd (EMPCUL). He handed over the entire factory to the EMPCUL. The then East Pakistan Government planned to modernize the factory by investing TK 48 lakhs, but could not implement its plans successfully because of shortage of funds. After liberation, the Government of Bangladesh approached UNDP and the Danish Government to strengthen the dairy industry on a cooperative basis. A survey on milk potential was carried out in 1972 in the milkshed area and a project on "Cooperative Dairy Complex" was prepared and approved by the government in 1974 to: (a) ensure fair prices to milk producers; and (b) supply wholesome milk to urban consumers at reasonable prices. The EMPCUL was renamed as Bangladesh Milk Producer's Cooperative Union Ltd (BMPCUL) and five dairy plants costing TK 1,135 lakhs were installed during 1975 to 1977. These plants included : (i) pasteurization and packing of liquid milk, ice cream at Dhaka (capacity : 60,000 ltrs/day); (ii) chilling centre at Manikganj (capacity : 10,000 ltrs/day); (iii) chilling centre at Tangrail (capacity : 10,000 ltrs/day; (iv) pasteurization at Faridpur (capacity : 10,000 ltrs/day); and (v) powder and butter plant at Bajhaborighat (capacity : 50,000 ltrs/day). (Source: Handbook on Milk Production, Compiled by A.Z.M.Sayem, BMPCUL, 1986).

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terms of membership and milk collection (see Table 1). In addition, it had established a functional network of retailers to distribute its milk and milk products. Liquid milk was distributed by the rikshaw-van cooperative society. The General Manager constantly kept watch on the cost figures. He was painfully aware that not all the products made profits. His analysis reflected that while products such as icecream, butter, and flavoured milk contributed to the profit; liquid milk, full cream milk powder, and skim milk powder were losing items (see Exhibits 2 and 3). He felt that the government policy was responsible to some extent for the losses. In India, for example, the urban con-

sumer is subsidized, but the producer is paid the adequate price. The BMPCUL does not receive any subsidy. Furthermore, free imports of milk products are allowed and the BMPCUL cannot compete with the importers. The yield levels of milk producers are very low and one has to invest sizeable resources to increase their production. On an average TK 8 are paid per litre to the producers. Additional TK 5 are required for transportation, processing and packaging. The selling price cannot be more than TK 11. Therefore, on an average the BMPCUL has to loose TK 2 per litre. He was happy to learn that the government was planning to introduce a comprehensive dairy development policy to boost the local production with a view to make the country self-sufficient in milk production.

Table 1  
Growth in Membership and Milk Collection

Year	Number of societies	Number of members	Milk collection (litrs)
1974-75	132	4984	3630990
1975-76	139	6829	5032146
1976-77	162	9887	8483094
1977-78	187	14989	8121384
1978-79	195	17725	8228237
1979-80	200	21401	9823814

In the meantime, he thought the BMPCUL has to concentrate and study carefully the profit-making items. Butter, for example, had become a profitable item when the government had banned the imports of butter. Butter consumption had peculiar characteristics and had close association with the increase in the living standards. Therefore, it posed difficulties to plan its growth or profitability. Icecream, on the other hand, provided factors which could be controlled and manipulated for profit earning. Compared to any other item the profitability of icecream was quite high. He was wondering whether icecream provided scope for further expansion and increase profitability. The product-wise sales pattern for the last 12 years is given in Exhibits 4 and 5.

**Exhibit 2**  
**Bangladesh Milk Producers Union Ltd.**  
**Cost of Marketed Products and Comparison with Sales Price**

	(Period: 1985-86)											
	Past. Liquid Milk						Ice-Cream					
	5703655			50814			50814			Ltrs		
	Pkt 1 ltr	% Rt prc	Pkt 1/2 ltr	% Rt prc	Bulk ltrs	% Rt prc	Pkt ltr	% Rt prc	Pkt 1/2 (ltr)	Cup	% Rt prc	
- Raw milk cost	3.0954	28	1.5477	26	3.0954	31	5.4062	11	2.7031	11	0.5406	8
- Recomb. milk cost	4.3778	40	2.1889	36	4.3778	44	1.9948	4	0.9974	4	0.1994	3
- Ingredients cost	-	-	-	-	-	-	1.5192	3	0.7596	3	0.1519	2
- Packing cost	0.4047	4	0.2790	5	-	-	2.2000	5	1.5500	6	1.0000	14
- Variable cost	7.8779	72	4.0156	67	7.4732	75	11.1202	23	6.0101	24	1.8919	27
- Soc. Div. cost	0.1440	1	0.0720	1	0.1440	1	0.2509	1	0.1254	1	0.0250	1
- Milk transport cost	0.4704	4	0.2352	4	0.4704	5	0.7978	2	0.3989	2	0.0797	1
- Fact. Div. cost	1.0082	9	0.5041	8	1.0082	10	1.5960	3	0.7980	3	0.1596	2
- Market Div. cost	0.2163	2	0.1081	2	0.2163	2	0.3281	1	0.1640	1	0.0328	1
- Admn. Div. cost	0.5479	5	0.2739	5	0.5409	5	0.8312	2	0.4156	2	0.0831	1
- Depreciation	0.3958	4	0.1979	3	0.3958	4	6.6436	14	3.3218	13	0.6643	9
- Interest	1.1258	10	0.5629	10	1.1258	11	1.7079	4	0.8539	3	0.1707	2
- Fixed & semi Fixed cost	3.9084	36	1.9541	33	3.9084	39	12.1555	25	6.0776	24	1.2152	17
- Total cost	11.7863	107	5.9697	99	11.3816	114	23.2757	49	12.0877	48	3.1071	44
- Sales commission	0.6250	6	0.3125	5	0.3000	3	7.0000	15	4.0000	16	1.0000	14
- Cost at Retail level	12.4113	113	6.2822	105	11.6816	117	30.2757	63	16.0877	64	4.1071	59
- Retail sales price	11.0000	100	6.0000	100	10.0000	100	48.0000	100	25.0000	100	7.0000	100
- Profu/(Loss)	(1.4113)		(0.2822)		(1.6816)		17.7243		8.9123		2.8929	

(Contd.)



**Exhibit 3**  
**Bangladesh Milk Producers Union Ltd.**  
**Cost of Marketed Products and Comparison with Sales Price**

Period: July 84-June 85

	Pur. liquid milk					Ice-cream						
	6167477					44255						
	Pkt 1	% Rt prc	Pkt 1/2 ltr	% Rt prc	Bulk litrs	% Rt prc	Pkt ltr	% Rt prc	Pkt 1/2 (ltr)	% Rt prc	Cup (Ltrs)	% Rt prc
- Raw milk cost	2.546	28	1.273	25	2.546	32	3.538	9	1.769	9	0.353	6
- Recomb milk cost	3.664	41	1.832	37	3.664	46	1.432	4	0.716	4	0.143	2
- Ingredients cost	0.390	4	0.275	6	-	-	4.154	11	2.077	10	0.415	7
- Packing cost							1.560	4	0.910	5	0.86	4
- Variable cost	6.600	73	3.380	68	6.210	78	10.684	27	5.472	27	1.771	9
- Soc. Div. cost	0.222	2	0.111	2	0.222	3	0.178	1	0.089	1	0.017	1
- Milk trans- port cost	0.310	3	0.155	3	0.310	4	0.248	1	0.124	1	0.024	1
- Fact. Div. cost	0.966	11	0.483	10	0.966	12	0.077	1	0.038	1	0.007	1
- Market Div. cost	0.199	2	0.099	2	0.199	2	0.016	-	0.080	1	0.001	1
- Admn. Div. cost	0.524	6	0.262	5	0.524	7	0.420	1	0.210	1	0.042	1
- Depreciation	0.570	6	0.285	6	0.570	7	0.457	1	0.228	1	0.045	1
- Interest	1.135	13	0.567	11	1.135	14	0.910	2	0.455	2	0.091	2
- Fixed & semi Fixed cost	3.926	44	1.962	39	3.926	49	2.306	6	1.224	6	0.227	4
- Total cost	10.526	117	5.342	112	10.136	127	12.990	33	6.696	33	1.998	33
- Sales commission	0.525	6	0.262	5	0.300	4	7.000	18	3.500	18	1.000	17
- Cost at retail level	11.051	123	5.604	117	10.436	130	19.990	51	10.196	51	2.998	50
- Retail sales prc	9.000	100	5.000	100	8.000	100	39.000	100	20.000	100	6.000	100
- Profit/ (Loss)	(2.051)		(0.604)		(2.436)		19.010		9.804		3.002	

(Contd.)

Exhibit 3 continued

	Flv. Milk		Chocobar		Ice Lolly		Ghee		Cream		(Sale)
	Pct	% Rt	Pct	% Rt	Pct	% Rt	1/2 kg	% Rt	1297	% Rt	
215590			63860		5230		1044		1297		
	Pct	% Rt	Pct	% Rt	Pct	% Rt	Pct	% Rt	Pct	% Rt	
	1/2 lb	prc		prc		prc		prc		prc	
- Raw milk cost	0.591	14	0.213	4	-	-	90.817	67	51.730	59	
- Recomb milk cost	0.851	20	0.085	1	-	-	-	-	-	-	
Ingredients											
cost	2.009	47	1.564	26	0.181	9	-	-	-	-	
Packing cost	0.343	8	0.330	6	0.330	17	-	-	-	-	
Variable cost	3.794	89	2.192	37	0.511	26	90.817	67	51.730	59	
Soc. div. cost	0.051	1	0.010	1	0.005	1	3.251	2	1.852	2	
Milk tran. cost	0.072	2	0.014	1	0.007	1	4.532	3	2.583	3	
Fact. div. cost	0.225	5	0.046	1	0.023	1	14.128	10	8.099	9	
- Market Div. cost	0.046	1	0.009	1	0.004	1	2.921	2	1.664	2	
Admn. Div. cost	0.122	3	0.025	1	0.012	1	7.664	6	4.370	5	
- Depreciation	0.132	3	0.027	1	0.055	3	8.332	6	4.582	5	
- Interest	0.264	6	0.054	1	0.027	1	16.599	12	9.461	11	
Fixed & semi											
Fixed cost	0.912	21	0.185	3	0.133	7	57.427	43	32.611	37	
Total cost	4.706	111	2.377	40	0.644	32	148.244	110	84.341	96	
Sales commission	0.630	15	0.800	13	0.500	25	10.000	7	-	-	
Cost at											
Retail level	5.336	126	3.177	53	1.144	57	158.244	117	84.341	96	
Retail sales	4.250	100	6.000	100	2.000	100	135.000	100	88.184	100	
price											
Profit/(Loss)	(1.086)		2.823		0.856		(77.244)		3.843		

Source: Data Provided by BMP/CUL

**Exhibit 4**  
**Bangladesh Milk Producer's Cooperative Union Ltd**  
**Product-Wise Sales Statement (In Quantity)**

Year	Liquid Milk (lakhs ltrs)	Butter (Thou-sand lbs)	Ghee (Thou-sand Kg)	Ice Cream (Thou-sand ltrs)	FCMP (Thou-sand lbs)	Flavoured Milk (Thou-sand packets)	Cream (Thou-sand lbs)
1974-75	19.9 (100)	37.9 (100)	--	--	236.1 (100)	--	--
1975-76	47.2 (237)	28.7 (76)	--	--	84.1 (36)	--	--
1976-77	59.2 (297)	74.9 (198)	--	--	158.0 (67)	--	--
1977-78	78.6 (395)	131.1 (346)	--	30.1 (100)	379.9 (161)	--	0.9 (100)
1978-79	70.0 (352)	136.1 (359)	--	61.4 (204)	482.6 (204)	--	0.4 (44)
1979-80	77.7 (390)	148.7 (392)	--	63.4 (211)	362.7 (159)	--	1.2 (133)
1980-81	102.0 (513)	170.1 (449)	--	72.6 (241)	374.7 (159)	10.0 (100)	4.0 (444)
1981-82	79.3 (398)	76.0 (201)	--	78.8 (262)	362.9 (154)	189.2 (1892)	0.4 (44)
1982-83	78.8 (396)	153.2 (404)	--	79.5 (264)	407.4 (173)	254.0 (2540)	3.0 (33)
1983-84	72.5 (364)	236.4 (624)	19.9	70.9 (236)	160.0 (68)	350.8 (3508)	6.3 (700)
1984-85	61.1 (307)	157.0 (414)	3.4	55.2 (183)	10.0 (4)	375.5 (3755)	5.7 (633)
1985-86	56.3 (283)	294.1 (776)	2.9	63.1 (210)	17.3 (7)	530.4 (5304)	9.6 (1067)

*Source:* Data provided by the BMPCUL.  
 Figures in parentheses indicate an index.

The icecream offered some unique advantages and potentials. In terms of profitability, against a retail price of TK 48 per litre, its cost of production was only TK 30. Its cost structure was as follows:

Cost of milk	7.40 TK
Sugar and other ingredients	1.52 TK
Cost of packing	2.20 TK
Fixed and semi fixed cost	12.16 TK
Sellers commission	7.00 TK
<b>Total Cost</b>	<b>30.28 TK</b>



**Exhibit 5**  
**Bangladesh Milk Producers Cooperative Union Ltd**  
**Year with Selling Price and Sale Value**

(Sales Value in lakhs TK)

Year	Liquid Milk Per litre	Butter Per lb	Ghee per kg	Ice Cream Per litre	FCMP Per lb	Flavoured Milk per packet	Cream Per lb	Total Sales lakhs TK
1974-75	PF V	4.00 79.6	20.00 7.6	- -	- -	N.A. -	- N.A.	87.2
1975-76	P V	4.50 212.4	20.00 6.9	- -	- -	N.A. -	- N.A.	219.3
1976-77	P V	5.00 296.00	24.00 18.0	- -	- -	N.A. -	- N.A.	314.0
1977-78	P V	5.50 432.3	24.00 31.5	- -	12.00 3.6	16.00 60.8	12.00 0.1	528.3
1978-79	P V	6.00 420.0	26.00 35.4	- -	12.00 7.4	19.00 91.7	12.00 0.05	554.5
1979-80	P V	6.50 466.2	27.00 40.1	- -	12.00 7.6	19.00 69.0	20.00 0.2	583.1
1980-81	P V	6.75 688.5	30.50 51.9	- -	17.00 12.3	18.00 67.4	3.05 0.3	821.2
1981-82	P V	7.00 555.1	35.00 26.6	- -	19.50 15.4	20.0 72.6	3.05 5.8	175.6
1982-83	P V	7.50 591.0	40.00 61.2	- -	24.00 19.0	24.00 97.8	3.05 7.7	777.7
1983-84	P V	9.00 625.5	45.00 106.4	125.00 24.9	32.00 22.7	27.00 43.2	3.05 10.7	835.9
1984-85	P V	10.00 611.00	55.00 86.4	135.00 4.6	41.00 22.6	27.00 2.7	3.80 14.3	744.2

P	11.00	64.00	140.00	41.00	25.00	4.05	55.00
1985-86							
V	619.3	188.3	4.1	25.9	4.3	21.5	5.3 868.7

P = Price. V = Value in lakhs TK. NA = Not available

The hot and humid climate provided an ideal environment for a natural liking for icecream. Low level of consumption of icecream was not as much a function of low purchasing power as the lack of easily accessible selling points. Drinking of fresh milk for nutritional intake of food was not greatly valued as a majority of the population consumed animal source-based proteins and diets. The BMPCUL on the other hand sold a major portion of its production as liquid milk and converted only about 1 per cent of its milk into icecream. To increase the demand for milk, it had, in fact to undertake special promotion programmes (see Exhibit 6).

#### Exhibit 6

##### Promotional Efforts to Popularize Consumption of Liquid Milk

The deputy manager for public relations and planning indicates that though a losing proposition, it must be recognized that 70 per cent of our revenue comes from liquid milk and promotional programme planning has to be on that basis. Our basic selling points are on freshness and nutrition.

As part of milk promotion, the marketing division also undertakes activities to emphasize the importance of fresh milk. One of the approaches had been to work on school going children as a potential target. School visits are organized to show video programmes on how milk is collected, processed and marketed. Samples sales are carried out. Special time tables for the use of school children are prepared and distributed widely with a message describing milk as the ideal food. A sample message normally propagated is given below.

"For sound health a human body needs food which contains calcium, vitamins, iron, fats, protein etc. Any nutritional deficiency can lead to weakness and sickness. If deficient in protein, your muscles become weak. Vitamin A deficiency can lead to blindness. Babies suffer from rickets if deficient in Vitamin D or calcium. Vitamins and proteins play a vital role in human body. Only milk contains all kinds of vitamins, minerals and protein. Milk has 85 different types of nutrients. Therefore, milk is regarded as the ideal food. Lactose which helps sharpen your intelligence is available only in milk. Therefore, if you don't drink milk, you may not do well in studies. Ultimately the nation will suffer."

The icecream also offered compatibility with the highly popular soft drinks. The 100 cc icecream cup of Milk Vita cost only TK 7 which was very close to the price of a bottle of Pepsi Cola. Soft drinks had a very dense network of distribution.

Another advantage with the icecream was the relative lack of strong competition. While imported milk powder and other products staged a severe competition with the BMPCUL's products, there was no possibility of importing icecream. Igloo, a local brand of icecream, offered some competition, but its plant was located in Chittagong and it had transport problem. Dhaka, on the other hand, with its more than four million growing population, offered a greater potential.

BMPCUL marketed only three varieties of icecreams: vanilla, chocolate and strawberry. It had production technology and know-how available to introduce many more varieties.

Production of icecream was not a part of the original project plan of the BMPCUL. Some of the officers including the additional general manager had insisted on making a provision for icecream production as it was a profitable line of business and had an excellent future. Though the project was initiated in 1974, the actual production of icecream began only in 1977-78. Neither a market survey was carried out nor any feasibility report was prepared. The organization did not have any experience or idea of icecream marketing. The executives learnt about icecream marketing the hard way only over a period of time. None had any technical training in the business. The existing product range was introduced right from the beginning.

The story on the development of the distribution channel was not available. A person involved in the initial years had left the organization. A need was however felt to get deep freezers either on rental or on hire purchase basis to develop the channel. The experience with the rental basis was not very satisfactory as the retailers did not pay as much attention to maintenance and care of the machinery as the retailers who thought of it through hire purchase. Retailers having their own freezers were also given the retailership. These retailers, however, also stocked the product of competitors. The performance of retailers can be seen from various angles. Some of the performance specific parameters on a sizeable sample of retailers are given in Exhibit 7. Both profitability as well as the adequacy of margins can be worked out by basic information given in Exhibit 8. The selected retailers were mostly in the business of confectionary and general stores and had their outlets in residential localities.

Production capacity reportedly was not much of a problem. The plant had a capacity to produce 300 litres of icecream per hour. It all depended on how many hours the plant was to run. It was possible to operate the plant in three shifts. When not used for icecream making,

The icecream also offered compatibility with the highly popular soft drinks. The 100 cc icecream cup of Milk Vita cost only TK 7 which was very close to the price of a bottle of Pepsi Cola. Soft drinks had a very dense network of distribution.

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Exhibit 7  
Profile of the Retailers having their own Deep Freezers

Retailer number	Locality code	Type of locality	Type of business	Type of business surrounding	Annual Sale of icecream (TK) in	
					1985-86	1986-87
1	4	R	C	M	10422	22297
2	4	R	C	A	--	--
3	14	R	CG	H	17447	20592
4	4	R	C	A	--	--
5	3	R	C	H	--	--
6	5	R	C	LC	520	--
7	5	S	C	S	--	--
8	11	S	C	M	21603	33640
9	12	I	D	C	564	--
10	12	RI	C	I	--	--
11	5	S	S	C	--	--
12	5	R	C	R	--	--
13	11	S	C	M	--	--
14	11	S	C	M	--	--
15	11	S	C	M	--	--
16	7	SC	G	M	--	--
17	1	RC	G	S	14890	21411
18	1	RC	C	S	32450	26940
19	1	RC	D	S	53730	49138
20	1	RC	G	S	6090	16139
21	1	RC	G	S	--	--
22	1	RC	G	S	15561	26684
23	1	RC	G	S	3746	--
24	1	RC	G	S	18006	29936
25	1	RC	G	S	1712	--
26	1	RC	G	S	17259	35031
27	1	RC	G	S	--	--
28	3	R	C	S	11011	11094
29	4	R	C	B	--	--
30	14	R	C	B	30937	27968
31	14	R	G	B	5100	--
32	1	RC	C	S	23058	20090
33	14	S	G	C	--	--
34	7	S	G	M	--	--
35	3	R	G	S	--	--
36	3	RS	G	S	46464	35533
37	3	RS	G	M	--	--
38	7	S	H	M	--	--
39	1	RC	G	M	43121	43322
40	14	RS	C	S	--	--
41	14	RS	G	M	--	--
42	6	R	C	M	--	--

stores and had their outlets in residential localities.

Production capacity reportedly was not much of a problem. The plant had a capacity to produce 300 litres of icecream per hour. It all depended on how many hours the plant was to run. It was possible to operate the plant in three shifts. When not used for icecream making,

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Retailer number	Locality code	Type of locality	Type of business	Type of business surrounding	Annual Sale of icecream (TK) in	
					1985-86	1986-87
43	1	RC	C	S	43644	45074
44	14	R	C	M	23253	25777
45	9	R	C	MB	--	--
46	5	R	G	R	--	--
47	1	RC	G	S	29818	23393
48	14	SI	C	I	--	--
49	14	SI	C	I	90058	62482
50	8	R	G	H	--	--
51	14	R	C	C	--	--
52	11	R	C	M	--	--
53	1	RC	N	S	--	--
54	9	R	G	B	9889	2325
55	3	R	G	B	2409	900
56	4	R	G	M	--	--
57	3	R	D	M	4440	31167
58	4	R	G	M	1320	3876
59	3	R	G	B	8811	13045
60	8	R	G	H	2001	4910
61	3	R	G	M	--	14594
62	3	R	G	I	--	4508
63	3	R	G	M	--	9615
64	3	R	G	M	--	21362
65	5	RS	C	CS	--	876
66	3	R	G	M	--	10951
67	14	R	C	S	--	3112

Note:-

Locality Code	Type of Locality	Business Code
1 = Gulshan	R = Residential	G = General Store
2 = Posta	S = Shopping/Commercial	C = Confectionery
3 = Dhanmondi		H = Hotels/Clubs
4 = Murpur	O = Office	S = Stationery
5 = Motijheel	C = Campus,	B = Snack bar
6 = Gandaria	Educational	I = Institutional
7 = Nilkhet	Diplomatic	D = Departmental store
8 = Azimpur	I = Industrial	N = Newspaper shops
9 = Khalkhet		W = Wholesalers
10 = Juran		
11 = Maghbaha		
12 = Hatkhola		
13 = Nayapattan		
14 = Others		

## Surrounding Code

M = Main Street/Market	L = In the lane	C = Shopping Complex
A = Near Theatre	R = Near Railway	E = Near Bus stop
S = Near School, School Embassy etc.	H = Near Houses	P = Near Parks

## Profile of the Retailers having BMPCUL Deep freezers

Retailer number	Locality code	Type of locality	Type of business	Type of business surrounding	Annual Sale of Icecream (TK) in	
					1985-86	1986-87
1	4	R	G	B	31022	13286
2	4	R	C	M	5295	576
3	14	R	G	AM	48319	50996
4	14	R	G	AM	16388	21975
5	3	R	G	L	--	--
6	--	CLOSED		--	--	--
7	3	R	G	L	16313	2211
8	3	R	G	M	6278	--
9	3	R	G	M	56466	45577
10	14	S	CS	S	20002	15126
11	14	C	H	P	11009	17725
12	14	C	B	P	33498	15244
13	7	S	G	C	60364	48646
14	3	S	C	M	24126	28086
15	3	R	C	M	2165	--
16	14	R	G	M	23068	26317
17	14	C	C	HS	5413	--
18	1	RC	G	SC	105858	124184
19	1	RC	G	SC	29739	32783
20	1	RC	G	SC	31566	40857
21	--	CLOSED		--	--	--
22	11	R	G	M	47554	31472
23	11	R	C	M	13590	15905
24	11	R	C	C	43477	51498
25	11	R	G	S	32353	33668
26	11	R	C	M	--	--
27	5	R	C	CS	11913	--
28	5	R	C	CS	5618	--
29	5	R	C	CS	39216	20844
30	--	CLOSED		--	--	--
31	3	R	G	AC	60189	38920
32	1	CS	G	S	108162	135664
33	3	R	C	M	13871	20819
34	14	R	G	C	29205	17234
35	14	R	C	M	2451	--

Retailer number	Locality code	Type of locality	Type of business	Type of business surrounding	Annual Sale of icecream (TK) in	
					1985-86	1986-87
36	3	R	G	M	27220	29931
37	14	R	C	L	37692	37636
38	12	R	C	A	16777	19732
39	12	R	C	M	40051	49253
40	14	R	CS	S	20768	--
41	14	R	C	M	19441	12269
42	3	R	C	L	9405	10776
43	14	R	C	C	60861	25984
44	11	R	C	M	--	--
45	3	R	C	L	26244	23942
46	13	R	G	A	33104	26882
47	3	R	C	L	15390	3943
48	11	R	G	L	--	--
49	1	RC	G	C	41260	35054
50	3	R	G	M	22984	12853
51	5	R	W	MC	32509	14292
52	11	R	G	L	--	--
53	--	CLOSED	--	--	--	--
54	3	R	C	M	--	--
55	--	CLOSED	--	--	--	--
56	--	CLOSED	--	--	--	--
57	1	RC	G	C	21976	65545
58	--	CLOSED	--	--	--	--
59	11	R	G	L	--	--
60	14	R	G	M	34842	35269
61	1	RC	G	C	46492	87077
62	3	R	C	M	4055	--
63	--	CLOSED	--	--	--	576
64	4	R	C	L	--	--
65	4	R	G	L	5220	876
66	--	CLOSED	--	--	--	--
67	--	CLOSED	--	--	--	--
68	1	RC	G	C	36255	37822
69	8	R	G	L	--	--
70	3	R	C	L	12130	6290
71	--	CLOSED	--	--	--	--
72	3	R	G	M	56466	45578
73	7	S	R	C	1025	--
74	5	R	G	L	--	--
75	3	R	G	L	987	--
76	--	CLOSED	--	--	--	--
77	--	CLOSED	--	--	--	--
78	12	R	C	L	13590	15905

30							
31	3	R	G	AC	60189	38920	
32	1	CS	G	S	108162	135664	
33	3	R	C	M	13871	20819	
34	14	R	G	C	29205	17234	
35	14	R	C	M	2451	--	

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Retailer number	Locality code	Type of locality	Type of business	Type of business surrounding	Annual Sale of icecream (TK) in	
					1985-86	1986-87
79	12	R	C	M	--	--
80	4	R	G	M	24960	21910
81	1	RC	D	M	45904	55338
82	14	C	G	HS	744	--
83	1	RC	D	C	19643	12273

Retail no 46 onwards freezers on instalment basis; previous ones on rental basis.

### Exhibit 8 Bangladesh Milk Producers Union Ltd. Particulars about Deep Freezers of 11.5 CFT

Cost of a 11.5 CFT Deep Freezer	: TK 22000
Average Monthly Electricity Expenses	: TK 100
Maintenance cost per annum @ 5%	: TK 1100

#### CAPACITY

a. If used only for 1 ltr pack	: 110 packs
b. If used only for 1/2 ltr pack	: 220 packs
c. If used only for cups	: 1000
d. If used only for chocobars	: 1500

Terms and conditions: initial down payment TK 5500 plus TK 200 per month till total amount of TK 22000 is recovered.

the plant was used for its regular function of processing liquid milk. Therefore, there was no possibility that manpower remained idle when icecream was not manufactured. The plant also had a large deep freeze storage capacity. Icecream in fact was not produced every day. The liquid milk was the main product and not the icecream. Icecream filling and packing was mostly done manually, which sometimes resulted in production variation. The plant offered flexibility not only to produce the existing range, but widen the range, with the addition of some equipment.

Production constraints mainly included occasional shortage of some of the ingredients and raw materials except milk. Vanilla, chocolate, and strawberry ingredients were imported. Production was sometimes hampered because of import problems. Solving the problems involved handling a chain of bureaucratic requirements which took time. Plastic cups or spoons were produced in the country, but the plastic cup manufacturers did not supply the cups according to the



74	5	R	G	L	--	--
75	3	R	G	L	987	--
76	--	CLOSED		--	--	--
77	--	CLOSED		--	--	--
78	12	R	C	L	13590	15905

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approved samples and it had affected production. Sometimes, the price of sugar fluctuated widely making it difficult to produce ice-cream within the normal cost range, but all these problems were temporary in nature and could be handled with proper planning. While icecream could technically be stored for four to five months if one had storage capacity, the plant normally did not store it for more than one month. The BMPCUL preferred to keep a stock for 10 to 15 days all packed and ready to sell.

Transport of icecream was also not a problem. The plant had three distribution vans which could carry 1000 ltr of icecream each to any part of the country. Each van cost around TK 6 lakh and were imported. Salesmen collected the orders from the retailers and delivered them their requirements by following a pre-fixed route.

The prices of icecream per ltr for the retailers have been changing over time as follows:

	TK
1979-80	12
1980-81	17
1981-82	19.50
1982-83	24
1983-84	32
1984-85	41
1985-86	41

The prices were determined by looking at the prices of the competitors. It was difficult to say to what extent the changes in the prices influenced sales. Product-wise, year-wise and month-wise sales of icecream are given in Exhibits 9 to 13.

Since liquid milk accounted for a larger share of revenue a larger portion of promotional budget was spent on it. There was no specific budget allocated for icecream promotion as such. The total budget for 1986-87 was TK 10 lakhs. Because of a limited budget for individual products, the variety-wise promotion in icecream was not carried out. Only two to three years ago the budget for promotion was doubled from TK 5 lakhs to TK 10 lakhs. The promotional strategy was designed in consultation with the marketing department and the advertising committee consisting of additional General Manager, FAO project representative, Deputy General Manager and managers of finance, marketing, and public relations (See Exhibit 14 for details on promotion).

**Exhibit 9**  
**Bangladesh Milk Producers Union Ltd.**  
**Monthly Sales Statement of Vanilla**

(Sales in Unit)

Month	1986-87			1985-86		
	1 ltr	1/2 ltr	Cups.	1 ltr	1/2 ltr	Cups
July	1563	979	7150	1178	848	7259
August	1883	1085	8582	1395	1043	9319
Sep.	1768	1116	7318	1729	1432	10226
Oct.	1180	792	4059	2267	1401	10745
Nov.	1081	641	5955	1072	495	4013
Dec.	1123	435	2917	390	231	2387
Jan.	825	252	1453	698	359	2083
Feb.	1038	577	3779	593	292	3828
March	1495	1030	6019	1609	1218	7958
April	1405	1027	7411	1926	1061	7803
May	933	726	1988	1601	1041	5414
June	not computed			1760	1128	8392
<b>Total</b>	<b>14299</b>	<b>8660</b>	<b>56631</b>	<b>16218</b>	<b>10549</b>	<b>79427</b>
	1984-85			1983-84		
July	1381	1018	1937	3182	1229	15499
August	1611	878	11737	2151	1240	13598
Sep.	1285	835	9045	2068	1192	14170
Oct.	1712	1174	11199	1989	1374	11862
Nov.	949	786	8032	1112	616	5960
Dec.	745	278	1756	1120	606	5099
Jan.	726	425	3275	990	489	3289
Feb.	993	561	4389	1372	858	5057
March	1351	989	8000	1763	1206	10688
April	1689	999	7829	1896	1408	11817
May	1258	804	6775	1404	766	2795
June	1255	988	11227	1422	1085	1986
<b>Total</b>	<b>14955</b>	<b>9735</b>	<b>85201</b>	<b>19469</b>	<b>12069</b>	<b>101820</b>
	1982-83			1981-82		
July	2202	1484	12037	2472	2806	17951
August	1933	1395	13779	2400	1391	12284
Sep.	2440	1448	13524	1920	1468	14028
Oct.	1961	1322	13179	2335	1087	1338
Nov.	1148	778	5226	1318	913	7128
Dec.	947	580	3177	1248	690	3079
Jan.	905	5741	4064	1468	428	4516
Feb.	1046	642	6223	2071	1190	8469
March	2363	1581	12865	1504	953	7677

April	1999	1431	16239	3072	1957	12800
May	2052	1520	12724	2667	1517	13154
June	1863	1480	11768	2034	1319	9672
<b>Total</b>	<b>20854</b>	<b>14321</b>	<b>124895</b>	<b>24509</b>	<b>14999</b>	<b>124139</b>

**Exhibit 10**  
**Bangladesh Milk Producers Cooperative Union Ltd.**  
**Monthly Sales Statement of Strawberry**

(Sales in units)

	19..6-87			1985-86		
	1 ltr	1/2 ltr	Cups	1 ltr	1/2 ltr	Cups
July	245	220	432	510	395	2640
Aug.	410	320	1920	285	350	1338
Sept.	245	185	672	510	500	2016
Oct.	290	140	336	565	465	1536
Nov.	165	161	1008	145	100	672
Dec.	145	70	144	55	66	192
Jan.	120	40	--	--	87	460
Feb.	210	100	336	80	40	864
March	270	290	1248	200	300	2016
April	190	245	1248	--	290	1248
May	175	180	--	--	495	1152
June	----- Not Sold -----			--	380	2528
<b>Total</b>	<b>2465</b>	<b>1951</b>	<b>7344</b>	<b>2350</b>	<b>3486</b>	<b>16662</b>

	1984-85			1983-84		
	1 ltr	1/2 ltr	Cups	1 ltr	1/2 ltr	Cups
July	560	411	--	523	556	7086
Aug.	495	210	672	680	411	2976
Sep.	405	346	3024	857	538	4320
Oct.	455	408	2832	618	348	3496
Nov.	400	368	2176	397	150	1028
Dec.	80	30	624	241	115	833
Jan.	105	40	384	280	95	1056
Feb.	225	130	1152	520	263	1264
March	300	250	1344	570	470	3488
April	481	360	1208	630	496	3330
May	280	230	1344	270	180	4706
June	375	305	2016	445	316	--
<b>Total</b>	<b>4080</b>	<b>3093</b>	<b>16816</b>	<b>6031</b>	<b>3938</b>	<b>33583</b>

July	2202	1484	12037	2472	2806	17951
August	1933	1395	13779	2400	1391	12284
Sep.	2440	1448	13524	1920	1468	14028
Oct.	1961	1322	13179	2335	1087	1338
Nov.	1148	778	5226	1318	913	7128
Dec.	947	580	3177	1248	690	3079
Jan.	905	5741	4064	1468	428	4516
Feb.	1046	642	6223	2071	1190	8469
March	2363	1581	12865	1504	953	7677

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	1982-83			1981-82		
July	830	496	5544	470	396	4368
Aug.	735	442	3948	750	726	6079
Sep.	815	417	3948	590	862	6048
Oct.	605	389	4536	780	504	6804
Nov.	500	216	1932	335	318	1680
Dec.	245	101	1122	340	131	722
Jan.	260	75	1916	346	142	1649
Feb.	395	181	2051	820	340	2940
March	863	414	4028	400	341	3024
April	785	594	4492	895	563	4032
May	775	597	4552	780	514	3780
June	696	519	4704	575	387	3360
Total	7504	4441	42173	7081	5224	44486

Source: Data provided by BMPCUL.

### Exhibit 11 Bangladesh Milk Producers Cooperative Union Ltd. Monthly Sales Statement of Chocolate

(Sales in units)

Month	1986-87			1985-86		
	1 ltr	1/2ltr	Cups	1 ltr	1/2ltr	Cups
July	615	465	2928	690	588	3888
Aug.	865	545	2688	725	621	3936
Sept.	675	395	2352	930	835	4800
Oct.	550	330	1164	1270	870	3264
Nov.	590	421	1868	320	200	1248
Dec.	468	285	624	240	196	672
Jan.	415	200	496	451	275	946
Feb.	595	210	1008	345	245	1728
March	890	770	2976	790	670	2880
April	700	630	2064	880	795	3168
May	660	484	--	740	555	2112
June	NOT SOLD			830	605	4064
Total	7023	4735	18268	8211	6455	32706

	1984-85			1983-84		
July	600	552	2320	1088	987	6389
Aug.	675	410	3652	1075	506	5280
Sep.	630	497	2195	962	643	4170
Oct.	925	526	3760	1074	684	4694
Nov.	725	593	4144	682	342	1704

March	500	250	1344	570	470	3488
April	481	360	1208	630	496	3330
May	280	230	1344	270	180	4706
June	375	305	2016	445	316	--
<b>Total</b>	<b>4080</b>	<b>3093</b>	<b>16816</b>	<b>6031</b>	<b>3938</b>	<b>33583</b>

*Milk Vita Ice Cream* 121

Dec.	305	85	912	498	197	1808
Jan.	170	80	480	470	186	1552
Feb.	350	200	2448	930	300	1984
March	775	490	3840	905	633	4592
April	655	597	3744	945	690	4716
May	625	385	2400	390	301	--
June	575	620	3648	775	600	--
<b>Total</b>	<b>6910</b>	<b>5035</b>	<b>33543</b>	<b>9794</b>	<b>6069</b>	<b>36889</b>

	1982-83			1981-82		
July	1257	688	5712	1050	760	4750
Aug.	1165	625	3864	670	635	3780
Sep.	1014	482	4788	680	684	6720
Oct.	925	645	4704	890	508	4048
Nov.	740	404	2436	615	498	2016
Dec.	515	171	1354	630	248	1058
Jan.	515	253	1847	540	213	1634
Feb.	705	453	2558	1155	550	3696
March	1178	664	6298	645	334	2545
April	1268	695	5474	1410	778	4116
May	1055	666	4942	1585	954	4200
June	1071	641	5144	915	602	3192
<b>Total</b>	<b>11408</b>	<b>6387</b>	<b>49121</b>	<b>10785</b>	<b>6764</b>	<b>41755</b>

Source: Data provided by BMICUL

**Exhibit 12**  
**Bangladesh Milk Producers Cooperative Union Ltd.**  
**Monthly Statement of Sale of Lollies and Chocolate Bars**

(Sales in units)

	1986-87				1985-86			
	Orange	Lemon	Pine apple	choco bar	Orange	Lemon	Pine apple	choco bar
July	--	--	--	12646	--	--	--	8983
August	--	--	--	19541	--	--	--	13449
Sep.	--	--	--	12700	--	--	--	13654
Oct.	--	--	--	6963	200	--	--	15291
Nov.	--	--	--	3157	--	--	--	6743
Dec.	--	--	--	4091	--	--	--	4323
Jan.	--	--	--	4145	50	--	--	5125
Feb.	--	--	--	8527	--	--	--	4534
March	--	--	--	5342	600	--	--	13578

Contd.

## Exhibit 12 Contd.

April	--	--	--	7640	240	--	--	15037
May	--	--	--	13314	--	--	--	13173
June	--	--	--	--	--	--	--	18398
<b>Total</b>	--	--	--	<b>98066</b>	<b>1090</b>	--	--	<b>32292</b>

	1984-85				1983-84			
	Orange	Lemon	Pine-apple	choco-bar	Orange	Lemon	Pine-apple	choco-bar
July	700	--	--	7262	460	--	--	6885
August	800	--	--	7267	2025	--	500	6641
Sep.	900	--	--	7754	1690	--	300	8029
Oct.	1000	--	--	2437	1815	50	50	7626
Nov.	1400	--	--	560	520	--	--	418
Dec.	400	--	--	22	670	--	--	14
Jan.	400	--	--	4	300	--	--	2746
Feb.	200	--	--	2780	100	--	--	4325
March	--	--	--	998	1350	--	--	7134
April	--	--	--	8114	1970	--	--	8348
May	--	--	--	6678	1050	--	--	3697
June	--	--	--	11685	1050	--	--	8647
<b>Total</b>	<b>5800</b>	--	--	<b>64481</b>	<b>13000</b>	<b>50</b>	<b>850</b>	<b>64511</b>

	1982-83				1981-82			
	Orange	Lemon	Pine-apple	choco-bar	Orange	Lemon	Pine-apple	choco-bar
July	1570	--	--	3050	--	306	--	--
August	300	120	--	2979	--	600	--	1035
Sep.	420	450	--	3818	300	--	--	2491
Oct.	500	250	300	3948	550	--	--	1160
Nov.	--	210	25	1799	300	100	--	350
Dec.	--	130	--	1406	--	--	--	1210
Jan.	--	40	--	1962	--	--	--	615
Feb.	--	140	70	3086	--	--	--	1087
March	445	--	--	6631	400	--	--	915
April	580	--	--	8494	200	--	--	2600
May	1240	--	--	6975	1320	280	350	2030
June	1110	--	--	6026	490	100	300	2347
<b>Total</b>	<b>6165</b>	<b>1340</b>	<b>2055</b>	<b>50176</b>	<b>3560</b>	<b>1380</b>	<b>650</b>	<b>15840</b>

**Exhibit 13**  
**Bangladesh Milk Producers Cooperative Union Ltd.**  
**Annual Variety-Wise Package-Wise Sales**

(Figs. in Units)

Particular	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
<i>Vanilla</i>						
1 ltr packs	24509	20854	19469	14955	16218	14299
1/2 ltr packs	14999	14235	12069	9735	10549	8660
Cups	124139	124895	101820	85201	79427	56631
<i>Strawberry</i>						
1 ltr packs	7081	7504	6031	4080	2350	2465
1/2 ltr packs	5224	4441	3938	3093	3468	1951
Cups	44486	42173	33583	16816	16662	7344
<i>Chocolate</i>						
1 ltr packs	10785	11408	9794	6910	8211	7023
1/2 ltr packs	6764	6387	6069	5035	6455	4735
Cups	41755	49121	36889	33543	32706	18268
<i>Lollies</i>						
Orange	10785	6155	13000	5800	1090	No
Lemon	6764	1310	50	--	--	Produc
Pineapple	41755	2055	850	--	--	tion
Chocobar	15840	50176	64511	64481	132292	98066

**Exhibit 14**  
**A Summary of the Promotional Campaign Plan**  
**for 1985-86 of BMPCUL**

It was felt that from the promotion point of view, the performance of BMPCUL during 1984-85 was not as expected. The targets in most cases could not be achieved because of shortage of raw milk collection as well as marketing bottlenecks. The achievements with respect to raw milk collection were 40.29 per cent of the targets. Similarly, not a single Milk Vita product could reach the marketing projections for 1984-85. Keeping this in mind, promotion and other efforts were needed to be mounted to achieve the targets set for 1985-86. The promotional strategy proposed was as follows :

Advertising budget 1985-86 : TK 8,00,000

Promotional proposal :

Reviewing the performance of 1984-85 and the projections of 1985-86, the advertising and promotional strategy takes into account two basic aspects :

- 1) Society level extension activities.
- 2) Marketing development and promotion.

Keeping this in mind, the promotional plan of 1985-86 concentrates on :

- a) Institutional campaign
- b) Promotional campaign

Jan.	--	40	--	1962	--	--	--	615
Feb.	--	140	70	3086	--	--	--	1087
March	445	--	--	6631	400	--	--	915
April	580	--	--	8494	200	--	--	2600
May	1240	--	--	6975	1320	280	350	2030
June	1110	--	--	6026	490	100	300	2347
<b>Total</b>	<b>6165</b>	<b>1340</b>	<b>2055</b>	<b>50176</b>	<b>3560</b>	<b>1380</b>	<b>650</b>	<b>15840</b>

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### a) *Institutional Campaign*

The institutional campaign includes development extension activities at the society level as well as at the public relations, through :

- 1) Educational materials supply.
- 2) A-V show/film show arrangement.
- 3) Orientation/visit to plants/society.
- 4) Radio/television, advertisement, newspaper/journal write-ups etc.
- 5) Regular monitoring of the performances.

### b) *Promotional Campaign*

No.	Item	Purchasers	Season
1.	Liquid milk	Low income to higher income group	All season.
2.	Icecream (Chocobar/lollies)	Children Higher income group	Specially Summer
3.	Flavoured milk	Middle to higher income group.	Round the year
4.	F.C.M.P.	Middle to higher income group.	Round the year
5.	S.M.P.	Low to higher income group.	Round the year
6.	Butter	Middle to higher/ income group institutions.	40 per cent round the year
7.	Ghee	Middle to higher income group	(Peak in festivals)

Reviewing the revenue income, purchaser group, season-wise sale tendency and costing etc. promotional activities for marketing were as follows :

- 1) Advertising
- 2) Publications
- 3) Promotional programme in television, radio, A-V shows etc.
- 4) Exhibition/mela etc.
- 5) Orientation/visits etc.
- 6) Gift/lean productions, calender etc.

Media: In Bangladesh, the following media are popularly used for advertising

- a) Newspapers/periodicals/journals.
- b) Television.
- c) Radio.
- d) Outdoor boardings, traffic canopies etc.
- e) Cinema slides.
- f) Souvenir, calender, leaflet, poster, gift items etc.

Evaluating purchaser's attitude, media preference, effectiveness of media performance and suitability of Milk Vita products, the following media were chosen for advertising campaign:

- (1) Television
- (2) Radio
- (3) Newspapers
- (4) Hoardings, billboards, canopies
- (5) Cinema slides.



the targets. Similarly, not a single Milk Vita product could reach the marketing projections for 1984-85. Keeping this in mind, promotion and other efforts were needed to be mounted to achieve the targets set for 1985-86. The promotional strategy proposed was as follows :

Advertising budget 1985-86 : TK 8,00,000

Promotional proposal :

Reviewing the performance of 1984-85 and the projections of 1985-86, the advertising and promotional strategy takes into account two basic aspects :

- 1) Society level extension activities.
- 2) Marketing development and promotion.

Keeping this in mind, the promotional plan of 1985-86 concentrates on :

- a) Institutional campaign
- b) Promotional campaign

### *Milk Vita Ice Cream 125*

Advertising theme : From the initial stage of planning the advertising theme depicted in the slogans was as follows:

1977-78	:	Milk Vita	--	For vitality.
1979-80	:	Milk Vita	--	House of quality dairy products.
1981-82	:	Milk Vita	--	National product of International Standard.
1983-84	:	Milk Vita	--	Quality dairy products from the farmers cooperative.
1984-85	:	Milk Vita	--	Quality dairy products from rural farmers cooperative.

In tune with the above, the theme of 1985-86 was proposed to highlight the following :

- i) Laboratory tested quality dairy products.
- ii) A national product on which people can rely on.
- iii) Quality is maintained in a-z of Milk Vita operations.
- iv) It's farmers as well as the largest dairy enterprise in the country devoted to the rural social-economic progress.

#### *Milk Vita - Products :*

Advertising campaign was scheduled on the basis of product-sale revenue. The priority/preferences were :

	<i>In per cent</i>
1. Liquid milk	65.20
2. Butter	17.66
3. Ghee	4.11
4. F.C.M.P.	4.10
5. Flavoured milk	3.83
6. Ice-cream	3.75
7. Chocobar	0.82
8. S.D.P.	0.45
9. Ice lollies	0.08

But analysing cost/profit situation, media policies, product behaviour etc. this strategy could not be accepted. As per standing media rule, television did not accept more than one product in one advertisement, whereas no such limitation was placed for newspapers/radio and outdoor display advertisements.

Therefore, the product-wise strategies were:

- a) Liquid Milk : Being the highest revenue income product, priority, and preferences in all aspect have been shown to this product. Moreover, in the current year the price of the product has been increased. Therefore, all the media should be used for liquid milk advertisement and it should be at regular frequency.
- b) Full Cream Milk Powder : The product has been a loss-recurring one. Promotion will have to be done to avoid deterioration of quality due to piling up of stocks. The media to be used are television and newspaper.
- c) Butter : Milk Vita butter has a demand in the market and to keep this

demand steady, publicity through television, radio, hoarding/bellsigns, and canopies has been proposed.

- d) Ghee : It's a loss product and in fact it is primarily a product from the balance cream and to avoid it piling up newspaper advertisements should be taken up specially in the festival season.
- e) Icecream/ice lollies and Chocobar: These have been profit earning product and as such the media should be involved in their advertising campaign.
- f) Flavoured Milk : It has a blend of a new product and also a profitable one. Moreover vanilla flavours in new packets are going to be launched (fully) this year. Therefore, a vigorous campaign in all the media is needed along with gift items.

**A. General Advertisement :**

1. Liquid milk	1,00,000	- Television/radio/newspaper, hoardings/bellsigns/canopies.
2. F.C.M.P. (S.M.P)	40,000/	- Television radio/newspaper, hoardings; bellsigns, canopies.
3. Butter	50,000/	- Television radio/newspaper, hoardings, bellsigns, canopies.
4. Icecream, ice lollies	80,000/	- Television, radio, hoardings.
5. Flavoured milk	1,00,000/	- Television, radio, hoardings etc.
6. Ghee	30,000/	- Newspaper, hoardings
	<hr/>	
	4,00,000/	-

**B. Hoardings:**

6 - Dhaka, 2 - Chittagong 1,00,000.00

**C. Canopies/Bellsigns :**

(4 Dhaka, 2/2 Chittagong) 60,000.00

D. Calendar 1,00,000.00

E. Publications 30,000.00

F. Gift items 10,000.00

G. Society extension materials 50,000.00

H. Miscellaneous marketing items 50,000.00

Total TK 

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 8,00,000.00

**Schedule :**

The proposed advertising schedule for different products was as follows :

**A. Television, Newspaper, Radio :**

1. Liquid milk	Sept-Nov 85	: Jan-April 86
2. FCMP (SMF)	Dec 84-Mar 85	
3. Butter	Sept-Dec 85	: Feb-Mar 86
4. Icecream	Oct-Nov 85	: Apr-Jan 86
5. Flavoured milk	Oct 85-June 86	(with scant frequency).
6. Ghee	Festival times	
B. Publications	Sept-Oct 85	
C. Calendar	Sept 85-Dec 85	
D. Hoardings, canopies bellsigns.	Sept 85-Dec 85	
E. Gift items	Oct 85	
F. A-V films	Nov-Dec 85	

Consumers were familiar with Milk Vita icecream and the various varieties introduced by it. Though they were aware about Igloo icecream, they felt that Milk Vita was better. They did not express or comment about the high price or non-availability of Milk Vita icecream. Often they purchased 1 ltr packets so that it could be stored at home and served whenever required. No one could state about any advertisement they had seen recently.

Icecream was sold along with several breakfast, snack and other items like cold drinks. In some shops ice cream was sold where fish and other meat items were sold with deep freeze facilities. In the posh area the outlets of icecream were more from shops who preferred to keep both brands of icecream. Shopkeepers generally kept the refrigerator inside so that the brand display on it was not visible to consumers. The shops did not display that icecream was available with them. The retailers felt that for increasing sales of icecream the price should be reduced by half and their margin increased.

At present only Igloo brand of icecream offered some competition to BMPCUL's icecream. BMPCUL's all products were named as Milk Vita products and there was no brand specification for ice cream. Igloo was also not a big competitor though it offered to the consumers some range of products at the same range of prices and package sizes except that they had introduced an icecream cake for which they were known. Following Igloo, the Milk Vita was also thinking of introducing a similar product. Bar varieties have been showing a great market appeal. In the case of Igloo the main disadvantage had been its location in Chittagong which involved more than 200 km of road transport. Igloo's product image was not that strong. Margins given to the retailers were by and large the same. The distribution policy did not differ. In fact, Milk Vita had not captured the opportunity presented by the favourable market potential and weak competition.

Realizing that both Milk Vita and Igloo were not sensitive enough to the growing icecream consumers, a private company has recently taken a decision to enter the market aggressively. The man behind the enterprise was regarded as an extremely dynamic marketeer. He had very successfully established a soft drink market in Bangladesh. All famous, popular and fast moving brands like Pepsi-cola, and Seven-up were marketed by him and he had developed a good network for distribution and retailing. His promotional displays have been very effective. This person has already imported the machinery from

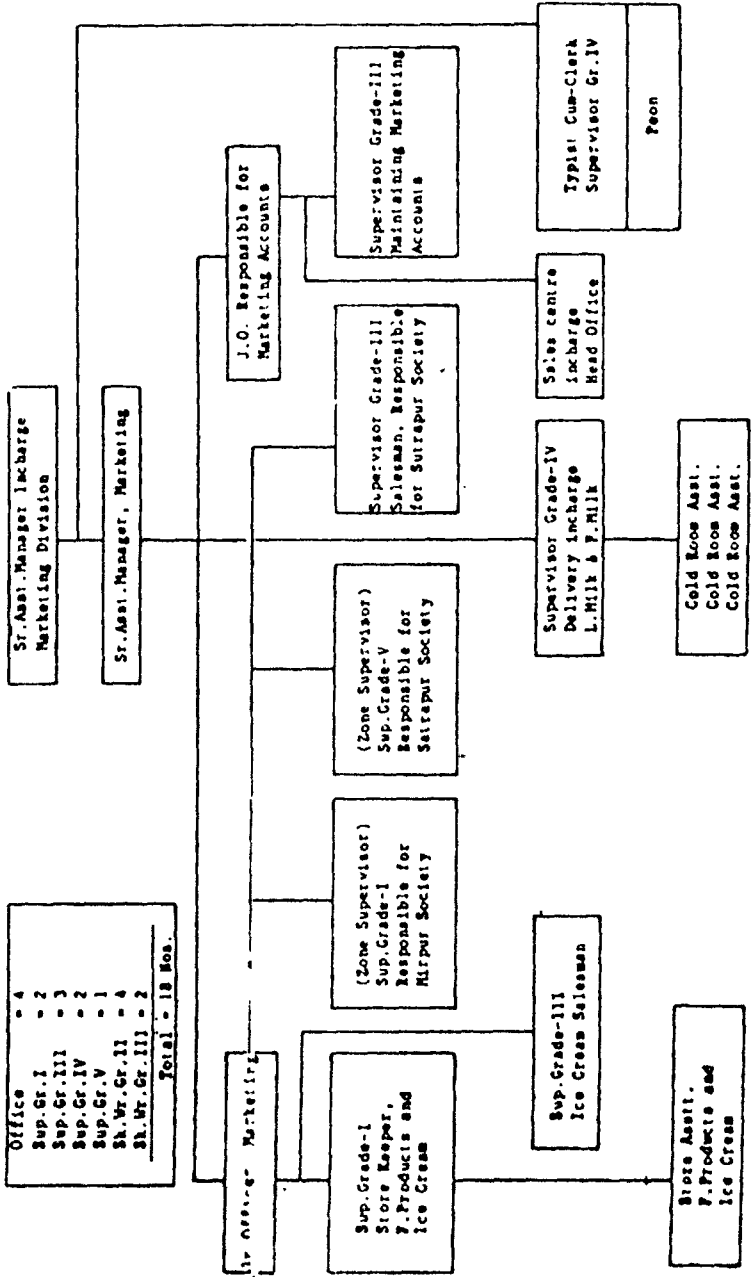
Europe and set up a most modern plant for the manufacture of ice-cream at Dhaka. He was planning to offer eight to ten different varieties, concentrate on developing bar ice cream market, expand retail network by providing deep freezer capacities, capture markets in other important towns, and engage a competent technician from the parent company to train his staff in maintaining production schedules and product quality. The production had yet not started. His only problem was likely to be that he had no control over the milk as was the case with BMPCUL. He was therefore planning to use imported icecream mix as the base. In addition, since milk fat was expensive, he was planning to use vegetable fats to reduce the production cost. The BMPCUL used pure milk fat manufactured in its own unit. Ice cream quality using milk fat was much superior, but customers were quite ignorant of this difference.

Igloo was also planning an expansion of its market in Dhaka by introducing more deep freezers as it had already expanded its production capacity in Chittagong by modernizing its plant.

In view of such impending competition, the middle level executives felt that Milk Vita will have to gear up soon. Otherwise, instead of expanding the market for icecream, it may have to lose its most profitable business line. They felt that while cooperatives had certain advantages, they also had major disadvantages of executive decision making as cooperative government interaction systems were based on different lines and complications. Even to introduce 25 additional deep freezers in the market took long decision-making processes. They did not have trained manpower both for product and market identification. It was pointed out that more than 200 officers had left the organization during the last 13 years. And during the same period 11 officers belonging to the prestigious administrative services occupied the position of chief executive at Milk Vita. Organizational stability was considered to be important for new market development.

Marketing is an important wing of the enterprise. A small number of middle and low level executives handled all the product ranges. They had little time for exposing themselves to the changing market conditions. However, the organization at all levels maintained an excellent information system and cost data were compiled very meticulously. The general feeling was that the budget given to the marketing division was not adequate and at the same time, since the milk business itself was losing money, marketing was considered as an area where some saving in the expenditure could be contained. The organ-

**Exhibit 15**  
**Bangladesh Milk Producer's Cooperative Union Ltd.**  
**Organizational Chart and Job Description of Officers and Staff of Market Division**



izational chart of the marketing division and their annual budget for various heads are given in Exhibits 15 and 16.

**Exhibit 16**  
**Bangladesh Milk Producers' Union Ltd.**  
**Marketing Division Budget for 1986-87**

Heads	Actual for 1984-85	Estimated for 1985-86	Actual up to Dec. 1985	Revised for 1985-86	Estimated for 1986-87
1. Pay and allowances	4,94,722	5,90,540	2,19,632	6,11,150	6,62,525
2. Ex-Gratia	60,270	40,000	12,945	68,770	63,730
3. Recreation allowance	-	5,000	470	5,000	10,000
4. Overtime and holidays	37,469	90,000	41,275	80,000	80,000
5. Wages casual labour	18,410	20,000	10,849	25,000	20,000
6. Uniform and liveries	5,049	45,000	2,165	24,698	2,000
7. Traveling expenses	35,060	32,000	8,779	10,000	10,000
8. Fuel oil delivery vehicles	2,39,439	2,50,000	77,258	1,75,000	1,75,000
9. Rep. maint. and deli. veh.	1,35,141	50,000	32,154	60,000	60,000
10. Insurance, road taxes deli. veh.	18,656	20,000	6,996	15,000	15,000
11. Hire charge carrying products	31,790	30,000	2,926	10,000	10,000
12. Carrying outwards	48,870	50,000	97,069	1,50,000	2,00,000
13. Rep. Maint. deep freeze	39,595	40,000	1,295	25,000	25,000
14. Marketing learning and research,	4,032	5,000	--	5,000	5,000
15. Exhibition expenses	--	20,000	--	10,000	10,000
16. Product advertising	3,11,744	8,00,000	4,49,685	8,00,000	10,00,000
17. Free sample and complementaries	7,958	10,000	--	10,000	10,000
18. Training expenses	9,970	15,000	--	10,000	10,000
19. Complementaries to staff	3,224	7,000	--	37,500	37,500
20. Printing and stationeries	60,440	50,000	16,426	30,000	30,000
21. Miscellaneous exp.	1,325	5,000	372	1,000	1,000
<b>Total</b>	<b>16,13,164</b>	<b>21,74,540</b>	<b>9,80,316</b>	<b>21,63,118</b>	<b>24,36,755</b>

Source : Data Provided by BMPCUL

Though production capacity was not considered to be a constraint, the production scheduling was perceived to be problematic. The production personnel on the other hand felt that production was

carried out on the basis of indents placed by the marketing division. They felt that the indents were sent as a routine matter and may not have any relevance to the actual demand during that period. Therefore, the supply figures may not match the indent figures and may not reflect production constraints. In any case, the figures on projected sales, indents, production and actual sales showed variations almost in all years. Data for at least one year to appreciate the production planning process are given in Exhibits 17 and 18.

**Exhibit 17**  
**Bangladesh Milk Marketing Cooperative Union Ltd**  
**Projection and Actual Sales**

(Year 1984-85)

	Projection				Actual sale			
	1 ltr	1/2 ltr	Cup	Total	1 ltr	1/2 ltr	Cup	Total
July	6941	3465	36217	11295	2541	1986	4257	3959.70
Aug.	6882	2696	27317	10161	2701	1498	16061	5056.10
Sept.	6058	2960	28325	10373	2320	1678	14264	4585.40
Oct.	5801	3007	25065	9811	3092	2108	17791	5925.10
Nov.	3938	1305	10865	5717	2074	1747	14352	4382.70
Dec.	3523	1147	10322	5128	1030	393	3292	1555.70
Jan.	3375	1012	7371	4618	1001	545	4139	1687.40
Feb.	4727	1776	10381	6653	1568	891	7989	2812.40
March	5242	2886	23460	9036	2426	1729	13184	4608.90
April	5963	3242	26565	10240	2824	1956	12821	5084.10
May	6525	3727	29381	10326	2163	1419	10519	3924.40
June	6791	3913	30850	11832	2205	1913	16891	4850.60

**Exhibit 18**  
**Bangladesh Milk Marketing Cooperative Union Ltd**  
**Monthwise Indent and Production for 1985-86**

Month	Vanilla						Strawberry					
	Indent			Production			Indent			Production		
	1 lr	1/2 ltr	cups	1 lr	1/2 ltr	cups	1 lr	1/2 ltr	cups	1 lr	1/2 ltr	cups
July	2000	1500	10000	1282	1039	8670	500	250	2000	500	415	1856
Aug.	2000	1500	10000	1236	947	7490	500	250	2000	Nil	Nil	Nil
Sept.	2000	1500	10000	2081	1554	12031	350	500	2000	511	500	2050
Oct.	2000	1500	12000	2079	1517	12011	500	500	2500	567	503	2840
Nov.	2000	1000	7000	1063	577	5040	500	400	500	200	200	2200
Dec.	1500	500	-	408	200	-	100	-	-	Nil	Nil	Nil
Jan.	1000	500	1000	587	212	1170	200	100	--	Nil	Nil	Nil
Feb.	1080	750	2500	898	426	4954	100	200	--	111	200	Nil
March	1500	1000	5000	1686	1011	2010	700	200	1000	172	410	2070
April	7500	2500	12000	2027	836	7230	400	500	3000	Nil	640	1990
May	1500	1000	8000	1891	904	7616	500	--	--	Nil	Nil	Nil
June	2000	2000	5000	1168	1136	8180	700	700	2000	Nil	750	1840
<b>Total</b>	<b>21000</b>	<b>15250</b>	<b>82500</b>	<b>16406</b>	<b>10359</b>	<b>82402</b>	<b>4550</b>	<b>3600</b>	<b>15000</b>	<b>1950</b>	<b>3618</b>	<b>14846</b>



	Chocolate						Chochn try	
	Indent			Production			Indent	
	1 lr	1/2 lr	cups	1 lr	1/2 lr	cups	1 lr	1/2 lr
July	750	500	2000	962	939	5690	12000	9200
Aug.	750	500	2000	460	441	2060	12000	13200
Sept.	1000	750	4500	1405	1128	7626	14000	30060
Oct.	1000	1000	5000	1041	612	2020	13000	18170
Nov.	1000	600	1500	360	200	1070	9000	2090
Dec.	300	200	--	Nil	Nil	Nil	8000	7936
Jan.	300	300	--	759	562	1989	8000	4130
Feb.	750	500	--	Nil	Nil	Nil	10000	6980
March	1000	1000	2500	994	800	4996	10000	12100
April	1300	1200	3500	1662	1196	3880	16000	15650
May	500	500	500	605	513	2100	12000	17340
June	1300	300	3000	520	202	3360	15000	12010
Total	9950	8350	24500	8708	6593	34791	139000	138866

**Exhibit 19**  
**Percentage Distribution of Respondents Aware of Milk Vita Product Line**

Sl. No.	Name of Area	Did you know Milk Vita produced the following						Ice cream					
		FCMP			SMP			FCMP			SMP		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
		Yes	No	Others	Eligible cases	Yes	No	Others	Eligible cases	Yes	No	Others	Eligible cases
1.	GULSHIAN	86.7	13.3	-	100.0	30.0	70.0	-	100.0	100.0	-	-	100.0
2.	POSTA	66.7	33.3	-	100.0	40.0	60.0	-	100.0	68.9	31.1	-	100.0
3.	DILANMONDI	48.9	50.0	1.1	100.0	21.1	77.8	1.1	100.0	92.2	6.7	1.1	100.0
4.	MIRPUR	26.7	73.3	-	100.0	4.6	95.6	-	100.0	94.3	5.7	-	100.0
5.	MOTUIEEL	73.9	26.1	-	100.0	63.6	36.4	-	100.0	78.9	20.0	1.1	100.0
6.	GANDARIA	50.0	48.9	1.1	100.0	5.6	93.3	1.1	100.0	100.0	-	-	100.0
7.	NILKHET	97.9	2.1	-	100.0	89.7	10.6	-	100.0	78.9	21.1	-	100.0
8.	AZIMPUR	75.6	24.4	-	100.0	37.8	62.2	-	100.0	51.1	48.9	-	100.0
9.	KHILKHET	33.3	66.7	-	100.0	7.8	92.2	-	100.0	56.7	43.3	-	100.0
10.	JURAIN	30.0	70.0	-	100.0	10.0	90.0	-	100.0	56.7	43.3	-	100.0
11.	MOGHBAZAR	75.6	24.4	-	100.0	45.6	51.0	3.3	100.0	82.2	14.4	3.3	99.9
12.	HATKHOLA	72.2	27.8	-	100.0	17.8	82.2	-	100.0	95.6	4.4	-	100.0
13.	NAYAPALTAN	73.3	22.2	4.4	99.9	55.6	38.9	5.5	99.9	84.4	12.2	3.3	99.9
TOTAL AVG.		79.0	20.0	1.0	100.0	33.1	66.0	0.8	99.9	81.5	17.8	0.7	100.0

Source: Rapport Bangladesh Limited, Milk Marketing Survey for BMPCUL, 1985-86

(1)	(2)	Butter				Ghee				Chocolate milk			
		Yes	No	Others	Eligible Cases	Yes	No	Others	Eligible Cases	Yes	No	Others	Eligible Cases
		(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	GULSHAN	100.0	-	-	100.0	95.6	4.4	-	100.0	93.3	6.7	-	100.0
2	POSTA	70.0	30.0	-	100.0	70.0	30.0	-	100.0	66.7	33.3	-	100.0
3	DILANMONDI	86.7	12.2	1.1	100.0	87.8	11.1	1.1	100.0	81.1	17.8	1.1	100.0
4	MIRPUR	64.4	35.6	-	100.0	66.7	33.3	-	100.0	42.2	57.8	-	100.0
5	MOTJIEEL	92.0	8.0	-	100.0	71.5	28.4	-	99.9	85.2	14.8	-	100.0
6	GANDARIA	77.8	21.1	1.1	100.0	73.3	25.6	1.1	100.0	46.7	52.2	1.1	100.0
7	NILKHET	93.6	6.4	-	100.0	93.6	6.4	-	100.0	94.7	5.3	-	100.0
8	AZIMPUR	81.1	18.9	-	100.0	77.8	22.2	-	100.0	71.1	28.9	-	100.0
9	KHILKHET	45.6	54.4	-	100.0	30.0	70.0	-	100.0	21.1	78.9	-	100.0
10	JURAIN	48.9	51.1	-	100.0	41.1	58.9	-	100.0	16.7	83.3	-	100.0
11	MOGIBAZAR	87.8	8.9	3.3	100.0	74.4	18.9	6.7	100.0	71.1	25.6	3.3	100.0
12	HATKHOLA	94.4	5.6	-	100.0	91.1	8.9	-	100.0	77.8	22.2	-	100.0
13	NAYAPALTAN	84.4	12.2	3.3	99.9	84.4	11.1	4.4	100.0	83.3	12.2	4.4	99.9
TOTAL AVG.		79.0	20.3	0.7	100.0	73.7	25.3	1.0	100.0	65.5	33.7	0.8	100.0

Source: Milk Market Survey by Rapport Bangladesh Ltd., 1985-86

**Exhibit 20**  
**Percentage Distribution of Respondents by Whether or Anyone in the Family Consume Milk Products**

Sl No	Name of areas	LIQUID MILK			BUTTER			ICE CREAM			CHOCOLATE MILK		
		Yes	No	Others Total	Yes	No	Others Total	Yes	No	Others Total	Yes	No	Others Total
1.	GULSIAN	94.4	5.6	100	90.0	10.0	100	86.7	13.3	100	60.0	40.0	100
2.	POSTA	77.8	22.2	100	54.4	45.6	100	56.7	43.3	100	50.0	50.0	100
3.	DIHANMONDI	55.6	41.1	3.3	62.2	34.4	3.3	60.0	36.7	3.3	24.4	72.2	3.3
4.	MIRPUR	51.1	45.6	3.3	25.6	71.1	3.3	44.4	52.2	3.3	13.3	83.3	3.3
5.	MOTUIHEEL	82.9	17.0	-	64.8	35.2	-	31.8	68.2	-	10.2	89.8	-
6.	GANDARIA	80.0	18.9	1.1	24.4	74.4	1.1	31.1	67.8	1.1	4.4	94.4	1.1
7.	NILKHIET	70.2	29.8	-	78.7	21.3	-	44.7	55.3	-	14.9	85.1	-
8.	AZIMPUR	85.6	14.4	-	78.9	21.1	-	74.4	25.6	-	57.8	44.4	-
9.	KHILKHIET	91.1	8.9	-	4.4	95.6	-	7.8	92.2	-	-	100.0	-
10.	JURAIN	73.3	26.7	-	11.1	88.9	-	23.3	76.7	-	1.1	98.9	-
11.	MAGIIBAZAR	66.7	32.2	1.1	77.8	16.7	5.5	78.9	16.7	4.4	48.9	44.4	6.7
12.	ILATKHIOLA	83.3	16.7	-	66.7	33.3	-	54.4	45.6	-	32.2	67.8	-
13.	NAYAPALTAN	74.4	22.2	3.3	55.6	36.6	7.8	66.7	27.8	5.6	27.8	64.4	7.8
TOTAL AVG.		76.1	23.0	1.0	53.4	44.9	1.6	50.8	47.8	1.4	27.3	71.8	1.7

Source: Milk Market Survey by Rapport Bangladesh Ltd., 1985-86

**Exhibit 21**  
**Percentage Distribution of Respondents by ownership of Refrigerator**  
**Education and Income**

(1)	Name of area (2)	Refrigerator ownership (3)		No. of years of schooling per person (5)	Average annual income of family (TK) (6)
		Owns	Does not own		
	1. GULSHAN	95.6	4.4	12.63	278135
	2. POSTA	25.6	74.4	9.71	119622
	3. DHANMONDI	47.8	52.2	8.80	55343
	4. MIRPUR	10.0	90.0	6.77	26434
	5. MOTIJHEEL	64.8	35.2	8.54	112898
	6. GANDARIA	15.6	84.4	7.37	88569
	7. NILKHEET	76.6	23.4	10.90	53461
	8. AZIMPUR	60.0	40.0	9.97	63748
	9. KHILKHEET	1.1	98.9	4.82	46280
	10. JURAIN	5.5	94.4	4.64	74176
	11. MEGHBAZAR	61.1	38.9	8.69	70449
	12. HATKHOLA	46.7	53.3	9.46	115200
	13. NAYAPALTAN	52.2	47.8	8.71	73734
	<b>TOTAL</b>	<b>43.3</b>	<b>56.7</b>	<b>8.59</b>	<b>90386</b>

Source: Rapport Bangladesh Limited, Milk Marketing Survey for BMPCUL, 1985-86.

The BMPCUL had recently hired a private consultancy firm to undertake a milk marketing survey in Dhaka. The study pointed out that a significant portion of Dhaka's population was aware of Milk Vita products (see Exhibits 19). The consumption practices, however varied depending on the product and the residential area (see Exhibit 20). Location-wise profile based on the sample survey is shown in Exhibit 21 to predict demand patterns. A sizeable number of consumers also pointed out deficiencies in the Milk Vita ice cream (see Exhibit 22).

In spite of a growing market for ice cream and favourable awareness and image of the Milk Vita products, the sales of Milk Vita ice cream have been going down in the recent years after they had reached a peak of about 80,000 ltr in 1982-83 (see Table).

**Exhibit 22**  
**Percentage Distribution of Respondents by their Reasons of not Buying Milk Vita Ice Cream**

Sl. No.	Name of area	Why you did not choose Milk Vita ice cream?										
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
		Deficient quality	Deficient flavour	Packing problems	High price	Less attractive	Unaware of product	Unhealthy	Others	N/R	Eligible cases	
1.	GULSHAN	7.3	30.9	10.9	12.7	3.6	5.4	10.2	18.2	-	99.6	
2.	POSTA	20.0	-	-	15.0	5.0	30.0	30.0	-	-	100.0	
3.	DHANMONDI	18.7	16.7	10.4	25.0	4.2	6.3	4.2	14.5	-	100.0	
4.	MIRPUR	3.6	10.7	10.7	60.7	-	7.1	-	7.1	-	99.9	
5.	MOTUHEEL	5.1	15.2	10.2	1.7	-	3.4	64.4	-	-	100.0	
6.	GANDARIA	5.8	7.2	5.8	8.7	-	15.9	13.0	43.5	-	99.9	
7.	NILKHEI	34.4	-	3.1	28.1	9.4	21.9	3.1	-	-	100.0	
8.	AZIMPUR	1.3	2.6	-	9.1	-	-	81.8	5.2	-	100.0	
9.	KHILKHEI	34.4	-	3.1	28.1	9.4	21.9	3.1	-	-	100.0	
10.	JURAIN	4.1	4.1	4.1	16.3	-	30.6	26.5	14.2	-	99.9	
11.	MOGHBAZAR	29.0	20.9	14.5	12.9	4.8	4.8	9.7	3.2	-	99.8	
12.	HATKHOLA	-17.7	22.5	17.7	-11.2	-	1.6	12.9	14.5	1.6	99.7	
13.	NAYAPALTAN	3.4	32.2	28.6	30.5	-	-	-	-	5.1	99.8	
TOTAL AVG.		10.8	14.0	9.5	16.2	1.6	9.7	22.4	15.3	0.6	100.0	

Note : a) Not applicable cases (663 out of 1350) are not taken account while calculating the proportions.

b) The word 'unhealthy' needs to be defined. In the days immediately preceding the survey, there were newstems in Dhaka dailies about the ice creams made by most of the city's small-scale ice cream makers being health hazards. The survey questionnaire had included an entry titled 'unhealthy' relating to the above question. It appears that a number of respondents were influenced by such publicity.

Source : Report Bangladesh Limited, Milk Marketing Survey for BMPCUL 1985-86.

Table 2  
Sale of Ice cream

Year	Sales litrs
1977-78	30,000
1978-79	61,000
1979-80	63,000
1980-81	73,000
1981-82	79,000
1982-83	80,000
1983-84	71,000
1984-85	55,000
1985-86	63,000

Nobody was sure whether the reduction in sales was because of the increased prices, lower production, unknown increase in the competitive sales, or consumer rejection of the products. The General Manager and his executives had reason to be concerned. The Registrar of Cooperatives was eager to know what strategy should be adopted by Milk Vita immediately.

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# MARKETING OF MUSHROOMS

## PART 1: THE VILLAGE COOPERATIVE

### 1) The Jatisari KUD

Though 62 years of age, Kusnandar, dressed invariably in a national costume of batik shirt and black cap, is the most dynamic and spirited chairman of the Jatisari KUD (pronounced as Kaudey), a village unit cooperative society. Riding on his Honda motorbike, he regularly attends his office and knows about all office papers and other information. He keeps track of almost all the members and their economic activities. During his leadership in the last 10 years, the membership of KUD had increased 13 times from a mere 200 members in 1976 to 2,633 members in 1986. He also encouraged women to become members. Against 15 women members in 1976, the KUD had 700 women members in 1986 (see Exhibit 1).

Located about 100 km east of Jakarta in Western Java district of Krawang, the KUD covers six villages having a total population of 20,030 from 3,668 households. The chairman during his tenure brought more than 50 per cent of the households under the cooperative fold (see Exhibits 2 and 3). The KUD had a board of directors which consists of the chairman, the secretary and the treasurer who were paid honorarium on a monthly basis. The KUD had on its payroll one Manager, 24 staff members, and 31 labourers to carry out its operations (see Exhibit 4).

### 2) The Approach

The KUD Jatisari was set up as an agricultural cooperative in 1971 when the present chairman was also its founder chairman. However, in 1973, it became the village unit cooperative society (KUD) and another person took over as the chairman. The performance of the KUD in its initial years was not good. In 1977, the present chair man was elected again. His taking over synchronized well with the intro-



## Exhibit 1

## Membership of the KUD 1976 to 1986

Year	Men		Women		Total No.
	No	%	No.	%	
1976	186	92.5	15	7.5	200
1977	260	78.1	73	21.9	333
1978	283	78.1	94	24.9	377
1979	586	77.5	170	22.5	756
1980	884	79.9	222	20.1	1106
1986	1933	73.4	700	26.6	2633

Source: Office Records.

## Exhibit 2

## Village-Wise Distribution of Population, 1985

Village	Men	Women	Total	Number of households
Jatisan	1671	1710	3381	498
Chirejog	1491	1430	2921	595
Makarsan	1800	1790	3590	677
Telersan	1600	1701	3301	565
Pacing	2144	2184	4328	704
Sukamakar	1188	1321	2509	820
Total	9894	10116	20010	3859

Source: Office Records.

## Exhibit 3

## Ratio of Members to the Households

Year	Number of households	Number of members	% of Members to households
1977	3668	333	9
1978	3668	377	10
1979	3668	756	21
1980	3668	1106	30
1981	3668	1260	34
1982	3668	1611	44
1983	3668	1657	45
1984	3668	1694	46
1985	3668	1803	49

Source: Office Records.

duction of government assisted programmes for agricultural development through the cooperatives. The KUD since then has been making appreciable profits though these profits showed sometimes a fluctuating trend (see Exhibit 5).

The KUD Jatisari's overall approach had been: (a) start with a small simple business; (b) prepare a good operational plan; and (c) expand the business gradually. The three main sources of its working capital had been the member savings, the reserve funds, and the borrowings. The ratio of owned funds to other funds had been becoming increasingly favourable from 1:99 in 1977 to 33:67 in 1985. The

**Exhibit 4**  
**Number of Employees of KUD 1976 to 1986**

Year	Number of Employees		
	Manager	Staff	Labours
1976	1	6	5
1977	1	6	5
1978	1	9	5
1979	1	12	13
1980	1	16	31
1986	1	24	31

*Source:* Office Records.

**Exhibit 5**  
**Income, Expenses, and Profits During 1977 to 1985**  
(Rp in million)

Year	Income Rp	Expenses		Profits	
		Rp	% of income	Rp	% of income
1977	1181	981	83	200	17
1978	4141	3665	89	476	11
1979	7225	4681	65	2544	35
1980	16650	6369	38	10281	62
1981	11295	7284	64	4011	36
1982	15357	8769	57	6588	43
1983	43371	40386	93	2985	7
1984	86505	78019	90	8486	10
1985	68389	48946	75	16443	25

*Source:* Office Records.

working capital over the years had increased substantially from Rp 42 million in 1977 to Rp 142 million in 1985. The savings included initial savings, compulsory savings, and voluntary deposits. The compulsory deposits showed rapid increase reflecting impressive business turnover and dominated the other savings (see Exhibits 6 to 9). The borrowings from the bank were mostly used for the procurement of paddy/rice.

Exhibit 6  
Working Capital of KUD 1977 to 1985

(Rp in million)

Year	Savings Rp	Reserves Rp	Borrowings Rp*	Others, Rp	Total Rp
1977	0.20	0.00	42.03	0.20	42.43
1978	0.27	0.00	59.58	0.68	60.53
1979	0.42	0.00	72.13	3.32	75.87
1980	1.74	0.00	75.33	12.70	89.77
1981	4.65	0.00	92.15	14.13	110.93
1982	6.32	0.00	84.13	20.72	111.17
1983	8.80	0.00	94.27	19.80	122.87
1984	9.85	16.05	92.25	10.65	128.80
1985	10.91	23.45	96.02	12.03	142.41

(US \$ 1 = Rp 16.40)

Source: Office Records.

Exhibit 7  
Average Working Capital Per Member 1977 to 1985

Per Member

Year	Number of members	Savings Rp	Reserves Rp	Borrowings Rp	Others Rp	Total Rp
1977	333	612	0	126221	600	127433
1978	377	723	0	158040	1792	160555
1979	756	555	0	95415	4391	100361
1980	1106	1572	0	68113	11479	81164
1981	1260	3687	0	73138	11214	88039
1982	1611	3926	0	52224	12860	69010
1983	1657	5312	0	56889	11952	74153
1984	1694	5816	9475	54458	6287	76036
1985	1803	6052	13006	53253	6670	78981

(US \$ = Rp 16.40)

Source: Office Records.

**Exhibit 8**  
**Ratio of Own Funds to Borrowed Funds**

(Rp in million)

Year	Own Funds		Funds from others		Total Rp
	Rp	%	Rp	%	
1977	0.40	0.94	42.03	99.06	42.43
1978	0.95	1.57	59.58	98.43	60.53
1979	3.74	4.93	72.13	95.07	75.87
1980	14.43	16.08	75.33	83.92	89.76
1981	18.78	16.93	92.15	83.07	110.93
1982	27.04	24.32	84.13	75.68	111.17
1983	28.61	23.28	94.27	76.72	122.88
1984	36.55	28.38	92.25	71.62	128.80
1985	46.39	32.57	96.02	67.43	142.41

(US \$ 1 =Rp 16.40)

Source: Office Records.

**Exhibit 9**  
**Savings by Members, 1977 to 1985**

(Rp in million)

Year	Initial Rp	Compulsory Rp	Voluntary Rp	Total Rp
1977	0.17	0.07	0.04	0.28
1978	0.19	0.07	0.05	0.31
1979	0.38	0.13	0.06	0.57
1980	0.55	1.07	0.12	1.74
1981	0.64	3.85	0.27	4.64
1982	0.81	5.25	0.27	6.33
1983	0.86	6.95	0.11	7.92
1984	0.90	7.75	0.10	8.75
1985	1.02	9.90	0.08	11.00

(US \$ = Rp 16.40)

Source: Office Records.

### 3) Business Operations

The business operations of the KUD included giving agricultural credit, input supplies, rice marketing, rice milling, selling consumer goods and transportation.

Extending credit under the government credit scheme (KCK) had been one of the traditional business activities of the KUD. The rate of recovery from the borrowers had always been more than 95 per cent.

Supplying inputs such as fertilizers, insecticides and seeds on BIMAS (credit) and INMAS (cash basis) was another important activity of the KUD. Not only the absolute number of members purchasing inputs from the KUD had been going up, but the percentage of members depending on their cooperative for input supplies had also been steadily increasing (see Exhibit 10).

Year	Loan amount (Rp)	Recovery rate
1976-78	15,734,000	96.8
1979	5,437,500	96.8
1980	4,376,000	98.4

The turnover of input supplies increased 33 times from Rp 4 million in 1977 to Rp 133 million in 1985 (see Exhibit 11). As the KUD was located in the rice belt of the Java, rice marketing had been one of the prominent activities of KUD and had accounted for almost 80 per cent of its business volume. However, this activity increased substantially during the eighties. Rice marketing involved purchasing paddy at regulated prices from the farmers, milling it, and selling it to BULOG (a centralized government body to purchase paddy/rice) or in the open market. Though rice processing was undertaken, the rice milling unit was old and less efficient. BULOG accepted only standard quality of rice. And therefore, the rejected rice had to be sold in the open market. Since 1981, the KUD started purchasing paddy from

Exhibit 10  
Percentage of Members Buying Inputs From KUD

Year	Number of members	Number of members buying inputs	Per cent
1977	333	219	66
1978	377	238	63
1979	756	430	57
1980	1106	609	55
1981	1260	946	75
1982	1611	966	60
1983	1657	1093	66
1984	1694	1201	71
1985	1803	1334	74

(US \$ 1 = Rp 16.40)

Source: Office Records.

the non-members. This significantly contributed to its turnover (see Exhibit 12). The KUD had 12 rice collecting centres, two rice milling units, eight input supply units, three drying spaces, and three transport vehicles. The KUD also operated a consumer store and since 1981 its volume of business had been increasing appreciably to the extent of surpassing even the input supplies (see Exhibit 11).

**Exhibit 11**  
**Volume of Business of KUD, 1977 to 1985**

(Rp in million)

Year	Credit	Input supplies	Rice marketing	Processing	Consumer shops	Others	Total
1977	9.14	3.70	10.33	0.95	0.00	0.00	24.12
1978	6.60	10.09	41.89	1.01	3.19	1.14	63.92
1979	5.44	25.50	90.90	4.47	2.25	3.98	132.54
1980	4.38	56.94	257.39	3.34	3.51	6.34	331.90
1981	3.85	43.88	420.75	6.27	57.27	7.24	539.26
1982	8.51	35.17	356.99	3.22	65.50	6.66	476.05
1983	7.65	58.84	192.26	8.67	58.57	6.65	332.64
1984	7.06	77.76	1109.83	12.53	133.54	10.94	1351.66
1985	3.92	133.42	1124.12	6.98	135.52	10.66	1414.62

(US \$ 1 = Rp 16.40)

Source: Office Records.

**Exhibit 12**  
**Number and Percentage of Members and Non-members Selling Paddy to KUD**

Year	No. of Members	Sellers			
		Members	Total Sales (kg)	Non-members	Total Sales (kg)
1977	333			--	--
1978	377	325	342382	--	--
1979	756	271	318800	--	--
1980	1106	836	1892336	--	--
1981	1260	908	1364499	1230	2295910
1982	1611	1123	1316957	1113	1516566
1983	1657	906	809340	465	684904
1984	1694	1475	3576768	1238	4103266
1985	1803	1547	3661575	1146	2544370

Source: Office Records.

On the whole, the substantial expansion in the volume of business from Rp 24 million in 1977 to Rp 1414 million in 1985 indicated its level of performance, growth and organizational stability. Number of members depositing money with the KUD also reflected this trend (see Exhibit 13). Not only the KUD felt confident of initiating new activities, but also had its own financial back-up. It also had enough vacant land for additional construction.

Exhibit 13

Total and Percentage of Members Taking KCK Loan and Depositing Money with KUD

Year	Number of members	Members taking loan	Members depositing money
1977	333	234	145
1978	377	330	175
1979	756	426	206
1980	1106	496	256
1981	1260	490	267
1982	1611	635	197
1983	1657	600	318
1984	1694	599	346

Source: Office Records.

#### 4) Priority Programme

The chairman said that to help farmers increase their productivity the government has initiated many schemes and it depended on the network of village level cooperatives to implement them. Though not compulsory, the government schemes received priority because member's interests were also served. As a result, the credit activity, and the existing manpower were tied up with these programmes. It was not easy for the KUD to invest funds and recruit new personnel for the KUD initiated development projects. This was a major problem which needed appreciation. For example, the government targeted this year to increase paddy production from the present five to six tonnes to nine tonnes per hectare. Obviously, the KUD had to give priority to this work keeping everything aside.

## PART II: MUSHROOM CULTIVATION

## 5) Background

Mushroom cultivation in Jatisari village cooperative area started somewhere in 1970. The name of the innovative farmer who first started growing mushrooms has been forgotten. In 1982, 210 units were engaged in mushroom cultivation. Chirejog, a village falling within KUD's area of operation, had 300 mushroom producing units in 1987 among 525 families. Most of the families owned one *kubung* (shed used for cultivating mushrooms) and very few had owned more than one *kubung*.

The reason for the popularity of mushroom cultivation is not far to seek. Most of the inputs required for *kubung* construction and mushroom cultivation were easily available locally or from the nearby towns. The requirements were as follows:

Materials required for a <i>kubung</i>		Materials required for mushroom cultivation	
Items	Local/nearby towns	Items	Local/nearby towns
Bamboo	Local	Paddy straw	Local
Rope	Local	Paddy bran	Local
Plastic sheets	N. town	Cotton lint	N. town
Nails and wires	Local	Lime	N. town
Banana leaves	Local	kerosene	N. town
Bamboo mats	Local	Seed	N. town
		Water	Local

6) The *Kubung* Preparation

The most popular size of *kubung* at Chirejog village was 7 × 4 × 10 m. The *kubung* structure was made of bamboo with mat cover and plastic enclosures on all sides. To protect the plastic from weathering, dried banana leaf curtain was hung all around the shed. Inside the shed two rows of seven-layer-shelf like structures were constructed with a distance of 1 m between the rows to facilitate easy movement. The distance between one shelf and the other was generally about a meter to facilitate cultivation of mushroom and harvesting it. The two rows with seven shelves, provided 84 m length (2 × 7 × 6) of bed with



1 m width for mushroom cultivation.

These shelves were filled with decomposed material made out of paddy straw, lime, bran and cotton. Layers of paddy drenched in water were spread with layers of lime and rice bran and allowed to rot for 10 days in open places close to the *kubung* and near a source of water. Similarly, layers of cotton drenched in water and mixed with lime were allowed to rot for 10 days. At the end of 10 days these two were mixed and spread on the shelves about one feet in thickness. Before sowing the seed, steam was blown into the *kubung* and the *kubung* was kept air tight for a day. From the next day onwards, after sowing the seeds, the water was sprayed by the sprayer both in the morning and evening for 10 days for mushrooms to sprout. From the tenth day onwards mushrooms were ready for picking for a period of 10 days. By the end of the 10 days of harvesting the vigour of the seed-bed got exhausted, and the spent decomposed mixture was used as organic manure.

In brief, one production cycle was composed of 34 days for different activities as follows:

a) Decomposition of straw and cotton	10 days
b) Removing spent decomposed material and loading fresh material	3 days
c) Filling <i>kubung</i> with water vapour	1 day
d) Sowing and rearing	10 days
e) Picking/harvesting	10 days
<b>Total</b>	<b>34 days</b>

Since decomposing of straw and cotton were carried out in the open yard, it was possible to manage 14 cycles in a year without much difficulty. Generally farmers planned for 12 cycles in a year. Like in industry, it was possible to supply mushrooms in equal quantity every day by scheduling the time among the farmers. It was also possible to increase or decrease the supply of mushrooms at a short notice of one month.

## 7) Cost of Cultivation

To understand the cost of cultivation of Chirejog village, information from three farmers was collected. The estimated cost of production in May 1987 was as given in Statement I.

Statement I: Cost of Construction of One *Kubung*

Based on the field enquiry in May 1987		Based on data prepared by* agricultural extension in 1982	
Items	Rp	Items	Rp
Strong big bamboo 12 Nos. @ Rp 2000	24000	Bamboo 250 Nos. medium sized @ Rp 250	62500
Bamboo mat 10 Nos. @ Rp 1000 per mat	10000	Steelwire 10 kg @ Rp 700 per kg	7000
Medium sized bamboo 250 Nos. @ Rp 300 per piece	75000	Nails	8000
Plastic sheet 20 kg @ Rp 2000 per kg	40000	Bamboo mat 12 Nos. @ Rp 1300 per mat	15600
Wire, nail, rope	15000	Plastic	20000
Labour charge	100000	Labour expenses	26250
<b>Total</b>	<b>264000</b>	<b>Total</b>	<b>139350</b>
Depreciation = $\frac{264000}{24} = 11000$ per cycle		Depreciation = $\frac{139350}{25} = \text{Rp } 6000$ (Say) per cycle	

\*Note: In 1982 Agricultural Extension Service prepared a proposal for the mushroom farmers of Krawang, the district where Jatesari village is located. Data from that report is used for comparison. During the past five years the prices of several materials have changed.

The life span of a *Kubung* is two years and assuming that 12 cycles of mushrooms are reared in an year, the depreciation per cycle would work out to Rp. 11,000. The available expenses for mushroom cultivation per cycle are given in Statement II.

### 8) Production and Returns

The average production per *kubung* in Chirejog village was around 200 kg per cycle. The spent composed material commanded a market price of Rp 4000. The average price received by a farmer for one kg of mushroom was Rp 1000. Statement III gives the returns to the farmers.

The economics of cultivation shows that though the cost of production had increased along with the market price, the net revenue for the farmers had declined. The family labour cost for harvesting, watering, preparation of decomposed material, sowing, maintenance have not been incorporated. If the revenue is treated as return for the family labour, it could be stated that the return has

**Statement II: Variable Expenses Incurred in Cultivation of Mushroom**

Item	Based on our field enquiry in May 1987	Based on data prepared by agricultural extension, June 1982
	Rp	Rp
Straw (transportation cost)	25000	10000
Lime	6000	3100
Rice bran	16000	10000
Cotton	12000	18000
Kerosene	20000	7500
Seed	15000	12500
Labour cost	20000	12500
Sterilization	10000	7500
	<u>Total 124000</u>	<u>81100</u>

**Statement III: Per kg Production and Returns from Mushroom Cultivation**

Revenue per kg	Based on our field enquiry in May 1987	Based on data by agricul- tural extension, June 1982
Average production per cycle	200 kg	200 kg
Average price received	Rp 1000	Rp 800
Income by sale	Rp 200000	Rp 160000
Income by sale of material spent	Rp 4000	
Variable cost per cycle	Rp 124000	Rp 81100
Depreciation per cycle	Rp 11000	Rp 6000
Total expenses per cycle	135000	87100
Cost of production per kg	$\frac{135000}{200} = 675$	$\frac{87100}{200} = 435$
	$\frac{204000}{200} = 1020$	$\frac{160000}{200}$
Net contribution per kg	345	365

declined. If one were to consider the inflation factor one can conclude that over the years the net returns of the mushroom farmers have eroded.

## 9) Alternatives for Increasing Farmers Income

A) *Reduction in the Cost of Inputs Used*

Straw, the base material used for mushroom cultivation is burnt in the field and the mushroom farmers have to incur transportation cost to carry it from the farm to the homes. There also seems to be scope to reduce the cost of construction of *kubung*. Bulk buying of lime and cotton can be another source of cost reduction. Mushroom seed is an important cost item. More importantly, the quality of seed can be a significant factor determining the yield, (farmers did not complain about the quality of seed.) Statement IV gives the production cost of seed as worked out by the extension department in 1982.

Statement IV: Cost of Production of Mushroom Seed per Bottle

<b>A. Fixed Investment</b>	
Plant for rearing 1000 tubes	Rp 5,000,000
Building	Rp 2,500,000
<b>Total</b>	<b>Rp 7,500,000</b>
<b>B. Variable Cost for Producing 100,000 bottles a month</b>	
Material used for culturing seed	Rp 7,500,000
Labour expenses	Rp 1,350,000
<b>Total</b>	<b>Rp 8,850,000</b>
<b>C. Cost of Production for bottle of seed:</b>	
Variable cost per month	Rp 8,850,000
Depreciation cost (5 years life is assumed)	Rp 125,000
<b>Cost of 1,00,000 bottles</b>	<b>Rp 8,975,000</b>
<b>Per bottle cost</b>	<b>Rp 89.75</b>

One *Kubung* with 84 m bed needs 50 bottles, the cost of which would be  $90 \times 50 = \text{Rp } 4500$ .

Assuming that the cost of production has doubled between 1982 and 1987, the seed cost would be Rp 9000 ( $\text{Rp } 4500 \times 2$ ) which would still be lower than the farmer's reported expenses of Rp 15,000. More than the cost, the quality of seed is critical and this activity managed by the cooperative can contribute significantly to this aspect. Three hundred units at Chirejog village can alone consume 15,000 bottles a month, that is 15 per cent of the capacity. Another cost reduction

could be in the technology adopted for filling the *Kubung* with water vapour.

### B) Yield Increasing Efforts

It was reported that the yield per *Kubung* (84 m) varied between 200 to 300 kg. Yield levels of the research centres were not available for comparison. There could be scope for not only increasing the yield, but also the quality of mushrooms.

### C) Marketing and Processing

The shelf-life of fresh mushrooms is 24 hours. After this the mushroom would flower and the fibrous and spongy character of the mushroom would deteriorate. Picking of mushroom starts early in the morning around 6 A M and is completed within an hour. At Chirejog village the agents of the primary traders visit *Kubungs* in the morning and collect mushrooms. The price paid, it was reported, was uniform across the traders. Some interlocking between traders and farmers was reported but there was no complaint that interlocking worked against the interest of the farmers. On an average the farmers received Rp 1000 per Kg at the farm gate. Fluctuations in price during the year were not high. Whatever the quantity that was available in the village was purchased by the traders.

### 10) Marketing

Four traders at Krawang handled all the mushrooms produced in the district. Before despatching them to the major consuming/terminal markets, they cleared and graded the mushrooms. Small sized mushrooms commanded a good price. Those with dark top layers were considered overmatured and did not get a good price. The three destinations to which the mushrooms were transported were Jakarta, Bogor and Bandung. At these markets, the mushrooms were not auctioned but directly sent to the wholesalers.

The fresh mushroom finds its way to consumers through the following channels.

Wholesaler		A Large fresh vegetable retailers
		B Institutional suppliers
		C Exporters
		D Processors

**A. Large fresh vegetable retailers:** Mushroom is one of the products handled by large vegetable retailers in fresh areas. The price is quoted high in the morning and by afternoon it starts declining. Generally, the price ranges between Rp 1400 and 1800.

**B. Institutional suppliers:** Mushroom is popular in pizza huts, mushroom soup sellers and hotels. Most of the institutional buyers (pizza huts, hotel, small restaurants) have one or two regular suppliers for vegetables, eggs, meat and other products. Mushroom is also supplied by them. Generally the prices are negotiated for the whole year with some scope for adjustments. Two top hotels in Jakarta paid Rp 1500 per kilo of fresh mushrooms. The most popular variety was straw mushroom. In hotels which offered Chinese or Japanese cuisines, other good varieties of mushrooms were also purchased. The demand in the hotels fluctuated depending on the tourist traffic. All the institutions reported that they placed orders with their suppliers of mushrooms once in three days. Most hotels reported that they also kept in stock tinned mushrooms to cope with a sudden increase in the demand.

**C. Export of Mushroom:** Straw mushroom, it was reported, was mostly exported to Hong Kong and Singapore in fresh form. Sometime they were treated with chemicals to appear bright white. All

**Statement V: Particulars about Canned Mushrooms Sold at Super Markets**

Brand name	Type of mushroom	Package size		Price	
		Gross weight gm	Net weight gm	Rp dept. store 1	Rp dept. store 2
1. PORNAS P.T. DIENG, DJAYA Central Java	Straw	425	230	960	--
2. PRIME PJ MARGO	Straw	425	230	1385	1200
		655	550	2960	--
		390	230	1300	--
3. NARCHSUS (Made in China)		425	227	1820	1720
4. MALING (Made in China)		425	227	1820	--

exports were by air cargo to ensure that they reached destination without loss of time. Midday flights to these destinations were not available on all the days in a week and naturally the quantities purchased by the exporters changed frequently. Quantity exported to different destinations and the prices realized were not available. The government had no special export promotion scheme for mushrooms.

D. Processors: Canned and straw mushrooms were available in the departmental stores. The different brands, packaging sizes and retail prices were as shown in statement V:

It could be observed that the price between one departmental store and another varied. On an average about two dozen tins of each brand and size were found in the shelves. Sales particulars per month were not readily available.

**Exhibit 14**  
**Canning Unit Investment Cost**

<b>A. Capital Investment</b>		
	Rp	Rp
Investment on machinery to can 300 kg mushroom/hour/2000 kg a day building and others	15,000,000 10,000,000	
<b>Total cost A</b>		<b>25,000,000</b>
<b>B. Working Capital</b>		
i) For 30 days @ 2000 kg mushroom @ Rp 800 per kg	48,000,000	
ii) Cost of preservatives @ Rp 150 for 60,000 kg	9,000,000	
iii) Cost of cans, labels, package and other material for packing 60,000 kg @ 450 per kg	27,000,000	
iv) Labour expenses for 30 days for 20 persons @ Rp 1500 per person	900,000	
v) Administrative and Misc expenses	600,000	
<b>Total Cost B</b>		<b>85,500,000</b>
<b>C. Production and Income</b>		
Production per month . 0 x 2000	60,000 kg net wt	
packaging size planned 350 gm net weight		
Expected gms Rp 500		

Source: Taken from the Proposal for Guidance of Mushroom Farmer of Krawang, Agricultural Extension Service, 21 June 1982

E. Processing: Canned straw mushrooms were sold within the country as well as exported. To increase the income of the farmers, it was possible to enter in the canning industry. A proposal for canning of straw mushrooms was prepared by the extension department in 1962 (see Exhibit 14). The investment costs as well as the material and labour costs must have increased over years. The cheapest price of mushroom was sold at Rp 4000 per kg (net).

To get a better price, the Jaisari KUD had three options: First, reach consumers within Indonesia with fresh mushrooms, second, process and sell mushrooms as canned products, and third, to concentrate on sale of fresh mushrooms to institutional and export markets. The chairman was wondering, what should be the choice of markets for society and what additional information should be collected to prepare a detailed project report?



## Annexure I

## MUSHROOMS OF INDONESIA

Four varieties of mushrooms are grown in Indonesia. They are: rice mushrooms, Japanese mushrooms, ear mushrooms and oyster mushrooms.

*Rice Mushroom:* This is the most important variety grown in Indonesia. It is grown on a bed prepared from paddy straw as its base. That is how it gets its name. In regions where alkali content of paddy straw is less, paddy straw is drenched in water and treated with lime and paddy bran. In about 10 days it gets decomposed. To this, cotton lint is mixed with lime and decomposed for a period of 10 days, and added. The mushrooms are then sown on this bed. In regions where paddy straw with high alkali content is available, the straw is soaked with water and allowed to rot along with charcoal made of husk. Rice mushroom is grown in most parts where paddy is cultivated. Of the four varieties, the rice mushroom is easy to grow and can be reared in the least possible time. It is round in shape, and opens up when kept for more than 24 hours. Once opened, it commands very little price because its spongy and fibrous character changes. Since it is not as expensive as the other three varieties, it commands a large market share within and outside Indonesia. The important and nearest foreign markets are Singapore and Hong Kong. The major competitor for Indonesia is Thailand. Most of the exports are in the fresh form, while some are bleached and exported. Canned rice mushroom export is negligible. Since the fresh ones command an export market, soon after the harvest the product should reach the airport, say, within three to four hours, and immediately displayed in the shelves of the retail shops of the importing countries. Generally, the small ones are considered to be of the best quality, and as such suitable for export.

*Japanese and Oyster Mushroom:* These two are reared on an organic matter put in plastic bags. In recent years, soybean shell and plants were used as organic matter. The seed is sown in the bag and water is sprayed three to four times a day to keep it wet. It needs a dark room to grow well. One cycle of cultivation takes three months. Among the four varieties, the cultivation of these two varieties is complex and requires a lot more care and attention. They also command an export market. Generally, the price of these two varieties is twice as much as that of rice mushroom.

**Ear Mushroom:** As the name indicates, the shape of this mushroom is just like an ear. It is grown on wood. In a specific variety of wood, holes are made and are filled up with seed and some organic material. The mushroom is ready in about one and a half months. This variety is generally grown in the hilly regions, and can be dried and stored. It provides flexibility in coping with variations in the consumer demand and is mostly consumed within Indonesia.

### *General Information*

Mushroom is considered as an exotic variety of vegetable. As a vegetable its price of Rp 1400 to 1600 is much above all other vegetables. One kg of potato, for example, costs Rp 600 to 900, beans Rp 800 and carrot Rp 700. Its price, however, is much below that of an egg (per kg Rp 1600), chicken (per kg Rp 2500), beef (per kg Rp 5,345 to 6000), and fish (Rp 12,000). In terms of nutritive value, it is better than vegetables but poorer than meat, fish and eggs. Mushroom is used mostly in pizza huts and big restaurants. In urban areas, a relatively richer class of people consume mushroom at home. In Indonesia, with the increase in the income of the people, mushroom eating at home is gaining popularity. On the export front, Indonesia has a scope to expand its market in Singapore and Hong Kong. Government of Indonesia has several incentive schemes for export of other crops like coffee, tea and rubber, but no such scheme is available for mushroom export.

