

Subject: <b>RURAL &amp; AGRICULTURAL MARKETING</b>	
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Lesson: <b>1</b>	Vetter: <b>Dr. Atul Dhingra</b>

## **RURAL MARKETING: AN INTRODUCTION**

### **STRUCTURE**

- 1.0 Objective
- 1.1 Introduction
- 1.2 Meaning and definition of rural marketing
- 1.3 Nature and characteristics of rural market
- 1.4 Significance of the rural markets
- 1.5 Factors contributing to the change in the rural market
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  - 1.5.2 Emerging Role of Bio-Tech. in Indian Agriculture Sector
  - 1.5.3 Rural communication
  - 1.5.4 Development programmes
- 1.6 Problems in rural marketing
- 1.7 Summary
- 1.8 Keywords
- 1.9 Self assessment Questions
- 1.10 References/suggested readings

### **1.0 OBJECTIVE**

After reading this lesson, you will be able-

- To develop an insight into rural marketing regarding different concepts and basic practices in this area.

- To discuss the challenges and opportunities in the field of rural marketing.

## **1.1 INTRODUCTION**

Marketing may aptly be described as the process of defining, anticipating and knowing customer needs, and organizing all the resources of the company to satisfy them. In fact, satisfaction of customer's needs and wants provides the rationale for the firm's existence. Knowledge of consumer behaviour, therefore, is vital for a firm to achieve its marketing goals. The consumer's behaviour comprises the acts, processes and social relationships exhibited by individuals, groups and organizations in searching, obtainment, use of, and consequent experience with products and services. An understanding and knowledge of the motives underlying consumer behaviour helps a firm in seeking better and more effective ways to satisfy its customers. It helps to select appropriate sales and advertising strategies, and to plan marketing programme in a more efficient manner.

The rural market of India started showing its potential in the 1960s. The 70s and 80s witnessed its steady development. And, there are clear indications that the 21<sup>st</sup> century is going to see its full blossoming. In our country, where research on consumer behaviour has been nominal, not much systematized information is available about the rural consumers. Only a few enlightened companies, known for their marketing orientation, viz., Hindustan Lever, Philips India, Asian Paints, Singer and Larsen and Toubro have made concrete efforts in this direction. But, by and large, we have still to understand the rural buyer,

his habits, attitudes and behaviour, particularly from the marketing point of view.

Many assumptions prevail about rural marketing. For instance, one assumption is that the rural buyer is not very discriminating. Once he is persuaded to buy a particular product, he develops a strong affinity for it, and if satisfied, becomes brand loyal. As a result, Indian manufacturers are generally known to prefer selling fewer items at higher prices than selling more items at lower prices. A contrary view is that the rural buyer, being suspicious of the marketer's hardsell techniques, is quite discriminating, and is not easily persuaded. Yet another assumption is that the rural buyer is not particularly keen about quality and packaging. Some other assumptions can be quoted. But, all these need deep probing for arriving at valid and reliable conclusions. Consumer research, thus, is indispensable for entering the rural segment of the market.

## **1.2 MEANING AND DEFINITION OF RURAL MARKETING**

The term 'rural marketing' used to be an umbrella term for the people who dealt with rural people in one way or other. This term got a separate meaning and importance after the economic revaluation in Indian after 1990. So, before venturing into the other aspects of rural marketing let us discuss the development of this area in different parts which is briefly explained here.

**Part I (Before 1960):** Rural marketing referred to selling of rural products in rural and urban areas and agricultural inputs in rural markets. It was treated as synonymous to 'agricultural marketing'.

Agricultural produces like food grains and industrial inputs like cotton, oil seeds, sugarcane etc. occupied the central place of discussion during this period. The supply-chain activities of firms supplying agricultural inputs and of artisans in rural areas received secondary attention. The local marketing of products like bamboo baskets, ropes, window and door frames, small agricultural tools like ploughs by sellers like black smiths, carpenters, cobblers, and pot makers were emphasised in general. This was totally an unorganized market where all *bantias* and *mahajans* (local business people) dominated this market.

**Part II (1960 to 1990):** In this era, green revolution resulted from scientific farming and transferred many of the poor villages into prosperous business centers. As a result, the demand for agricultural inputs went up especially in terms of wheats and paddies. Better irrigation facilities, soil testing, use of high yield variety seeds, fertilizers, pesticides and deployment of machinery like powder tillers, harvesters, threshers etc. changed the rural scenario. In this context, marketing of agricultural inputs took the importance. Two separate areas of activities had emerged- during this period 'marketing of agricultural inputs' and the conventional "Agricultural Marketing". During this period, the marketing of rural products received considerable attention in the general marketing frame work. The formation of agencies like Khadi and Village Industries Commission, Girijan Cooperative Societies APCO Fabrics, IFFCO, KRIBHCO, etc., and also the special attention government had paid to promote these products were responsible for this upsurge. Village industries flourished and products like handicrafts, handloom textiles, soaps, safety matches, crackers etc. hit the urban market on a large scale from rural areas.

**Part III (After Mid 1990s):** The products which were not given attention so far during the two earlier phases were that of marketing of household consumables and durables to the rural markets due to obvious reasons. The economic conditions of the country were as such that the rural people were not in a position to buy these kinds of products. Secondly, our market was in a close shape and we newer allowed companies (foreign) to operate in Indian market. But we lifted the ... and opened up economy, consequently companies started flourishing in India. The small villages/hamlets were widely scattered making reach difficult and expensive consequently. Rural markets were seen an adjunct to urban market and conveniently ignored. However, since 1990s, India's industrial sector had gained in strength and maturity. Its contribution to GNP increased substantially. A new service sector had emerged signifying the metamorphosis of agricultural society into industrial society. Meanwhile, due to the development programmes of the central and state governments, service organizations and socially responsible business groups like Mafatlal, Tatas, Birlas, Goenkas and others, the rural area witnessed an all round socio-economic progress. The economic reforms further accelerated the process by introducing competition in the markets. Steadily, the rural market has grown for household consumables and durables.

Rural marketing represented the emergent distinct activity of attracting and serving rural markets to fulfil the needs and wants of persons, households and occupations of rural people. As a result of the above analysis, we are in a position to define rural marketing "Rural marketing can be seen as a function which manages all those activities involved in assessing, stimulating and converting the purchasing power

into an effective demand for specific products and services, and moving them to the people in rural area to create satisfaction and a standard of living for them and thereby achieves the goals of the organization”.

### **1.3 NATURE AND CHARACTERISTICS OF RURAL MARKET**

There goes a saying that the proof of the pudding lies in the eating. So also the proof of all production lies in consumption/marketing. With the rapid pace of technological improvement and increase in peoples buying capacity, more and better goods and services now are in continuous demand. The liberalization and globalization of the Indian economy have given an added advantage to sophisticated production, proliferation and mass distribution of goods and services.

Taking these into consideration, the question may arise whether marketers should concentrate their activities in urban India consisting of metros, district headquarters and large industrial townships only, or extend their activities to rural India. Rural India is the real India. The bulk of India’s population lives in villages. In terms of the number of people, the Indian rural market is almost twice as large as the entire market of the USA or that of the USSR.

- Agriculture is main source of income.
- The income is seasonal in nature. It is fluctuating also as it depends on crop production.
- Though large, the rural market is geographically scattered.
- It shows linguistic, religious and cultural diversities and economic disparities.

- The market is undeveloped, as the people who constitute it still lack adequate purchasing power.
- It is largely agricultural oriented, with poor standard of living, low-per capital income, and socio-cultural backwardness.
- It exhibits sharper and varied regional preferences with distinct predilections, habit patterns and behavioral characteristics.
- Rural marketing process is both a catalyst as well as an outcome of the general rural development process. Initiation and management of social and economic change in the rural sector is the core of the rural marketing process. It becomes in this process both benefactor and beneficiary.

#### **1.4 SIGNIFICANCE OF THE RURAL MARKETS**

If you meet a sales executive today and ask which market he would prefer to serve, the immediate answer would be, “Rural Markets” as they are still unexploited. A number of factors have been recognized as responsible for the rural market boom. Some of them are:

1. Increase in population, and hence increase in demand. The rural population in 1971 was 43.80 crores, which increased to 50.20 crores in 1981, 60.21 crores in 1991 and 66.0 crores in 2001.
2. A marked increase in the rural income due to agrarian prosperity.
3. Large inflow of investment for rural development programmes from government and other sources.

4. Increased contact of rural people with their urban counterparts due to development of transport and a wide communication network.
5. Increase in literacy and educational level among rural folks, and the resultant inclination to lead sophisticated lives.
6. Inflow of foreign remittances and foreign made goods in rural areas.
7. Changes in the land tenure system causing a structural change in the ownership pattern and consequent changes in the buying behaviour. The general rise in the level of prosperity appears to have resulted in two dominant shifts in the rural consuming system. One is conspicuous consumption of consumer durables by almost all segments of rural consumers, and the obvious preference for branded goods as compared to non-branded goods of rural.

## **1.5 FACTORS CONTRIBUTING TO THE CHANGE IN THE RURAL MARKET**

### **1.5.1 Green revolution**

The substantial attention accorded to agriculture during the successive five-year plans has helped in improving agricultural productivity. Adoption of new agronomic practices, selective mechanisation, multiple cropping, inclusion of cash crops and development of allied activities like dairy, fisheries and other commercial activities have helped in increasing disposable income of rural consumers. Over 75 percent villages in India have been electrified. There is also a shift from rain dependence to irrigation. Farmers are getting

high return for their cash and food crops. In the whole process, the dependence on seasonality has reduced, and in return there has been increasing disposable income. By observing this scenario, India's one of the biggest giant Hindustan Lever Ltd. has entered into rural market for more penetration through the operation 'Bharat'. Since December 1999, HLL has reached out to 35,000 villages, 22 million households and spent Rs. 20 crore. This has been one of the largest sampling exercises in recent times conducted by a big business house.

### **1.5.2 Emerging Role of Bio-Tech. in Indian Agriculture Sector**

It is evident from the facts that Indian agriculture is trailing in terms of yield when compared with leading countries of the world. Countries like USA, Canada, Israel and Germany have achieved high yield in agriculture production but countries like India, Brazil and Nigeria are having agriculture yield much lower than international average. The major difference created in this respect is the use of the applications of bio-technology. Bio-technology has vital role to play in so far as enhancement of agriculture yield is concerned. For instance the yield of wheat in USA per hectare is almost three times more than that of India and the yield of sugar cane is two and half times more if compared with the Indian yield of sugar cane per hectare. These advance countries have been making an extensive use of bio-technology whereas in developing countries the concept is not yet very popular. When we are living in the era of globalisation everything is becoming globally competitive and therefore, we cannot live in isolation in terms of agriculture yield also. We have to make use of the applications of the bio-technology in an

agriculture sector both in terms of generating quality seeds and cropping the same in compliance with the theories of biotechnology. Our farmers, who are normally not aware of this fact have to be educated and the responsibility lies on the shoulders of researchers, scientists, administrators and the policy makers of the country. It will provide more discretionary income in the hands of the rural farmers.

### **1.5.3 Rural communication**

Around 50 percent of the villages are today connected by all weather roads and can be accessed throughout the year. But there are states, which are almost 100 percent connected with the metal roads. Road networking besides enhancing the mobility of rural consumers has increased their exposure to products and services. By watching such a scenario in these areas Korean consumer durable companies have decided to look beyond their noses. They are now placing their bets on rural markets. Two giants namely LG and Samsung have already made their strategies for entering into rural India. As per survey conducted by Indian Market Research Bureau (IMRB) 77 percent of the villages are covered by TV network. Now even villages are going for dish antennas and they have already been enjoying exposure to various products through advertisements. All the villages are about to be connected with telephone facilities in the near future and already there are some villages, which are connected with this facility. Apart from this, internet is not a distant reality. Recently Mr. Ram Vilas Paswan, the minister for communication has announced that in the coming days there would be 100 percent connectivity through telephones in the rural areas. Seeing these types of opportunities and interests of the ruralites, Tata cellular

has already entered into rural India by making its first entry into Andhra Pradesh. Tata cellular has created India's largest cellular 'corridor' to provide connectivity to non-metro and rural centres.

#### **1.5.4 Development programmes**

The five-year plans have witnessed massive investments in rural areas in terms of number of development programmes implemented by the central and state Government. These programmes have generated incomes to ruralites and helped them to change their life-styles. Some of these programmes are:

- Intensive Agricultural District Programme (IADP- Package Programme)
- Intensive Agricultural Area Programme (IAAP)
- High Yielding Varieties Programme (HYVP- Green Revolution)
- Drought Prone Areas Programme (DPAP)
- Small Farmers Development Agency (SFDA)
- Hill Area Development Programme
- Operation Flood I, II and III (White Revolution)
- Fisheries Development (Blue Revolution)
- Integrated Rural Development Programme (IRDP)
- Jawahar Rojgar Yojna (JRY).

These programmes are related with agriculture and allied activities but there are certain other policies which are specifically meant to raise the standard of the rural people in the field of health, education, sanitation etc. After the beginning of economic reforms in 1991, the Government has been giving special attention to the rural India by providing certain developmental schemes for these areas. Some

announcements were made by the finance minister in the Union Budget 2000 to enrich the existing programmes and to initiate some new schemes for the rural areas like Kisan Credit Cards, Micro Finance and Pradhan Mantri Gramodyog Yojna etc. In the latest budget (2004) focus has been on agriculture and rural development.

Since special attention is being given in the union budget through some schemes, and due to progress of economic reforms, poverty is declining at a faster pace and there is a substantial increase in the per capita income of the people especially in case of majority of the states of Indian union. For example per capita income of the Punjab is Rs. 20,606 followed by Maharashtra Rs. 19,207, Haryana Rs. 18,171, Gujrat Rs. 15,723, Tamilnadu Rs. 13,248 and Karnatka Rs. 11,578 and if we see the average of 14 states it is Rs. 10,886 at a growth rate of 4.4 per cent. Hence, we can see that today changes are taking place rapidly in all walks of life and rural areas are no exception to this. Improved infrastructure facilities, economic liberalisation, renewed emphasis on agribusiness and small industries, fast changing agricultural technology, scope for commercialisation of agriculture, greater budgetary provision for rural people are few reasons to mention. Moreover, various socio-cultural, psychological and political aspects of rural life are also changing. Rural people today are less fatalistic, less attached to religious beliefs, getting more individualistic, achievement-oriented and aspiring than before. All this has opened up new vistas for the marketers of millennium at least in the states, which are leading in per capita income with a sustained growth, like Punjab, Haryana, Maharashtra, Tamilnadu, Karnatka, Gujrat, Delhi and Western UP etc.

## 1.6 PROBLEMS IN RURAL MARKETING

There are many problems to be tackled in rural marketing, despite rapid strides in the development of the rural sector. Some of the common problems are discussed below:

**Transportation:** Transportation is an important aspect in the process of movement of products from urban production centers to remote villages. The transportation infrastructure is extremely poor in rural India. Due to this reason, most of the villages are not accessible to the marketing man. In our country, there are six lakhs villages. Nearly 50 per cent of them are not connected by road at all. Many parts in rural India have only kachcha roads. During the monsoons, even these roads become unserviceable. Regarding rail transport, though India has the second largest railway system in the world, many parts of rural India however, remain outside the rail network.

**Communication:** Marketing communication in rural markets suffers from a variety of constraints. The literacy rate among the rural consumers is very low. Print media, therefore, have limited scope in the rural context. Apart from low levels of literacy, the tradition-bound nature of rural people, their cultural barriers and their overall economic backwardness add to the difficulties of the communication task. Post, telegraph, and telephones are the main components of the communication infrastructure. These facilities are extremely inadequate in the rural parts of our country. In rural areas, the literacy percentage is still low, compared to urban areas. In India, there are 18 recognized languages. All these languages and many dialects are spoken in rural areas. English and Hindi are not understood by many people. Due to

these problems, rural consumers, unlike urban consumers do not have exposure to new products.

**Availability of appropriate media:** It has been estimated that all organized media in the country put together can reach only 30 per cent of the rural population of India. The print media covers only 18 per cent of the rural population. The radio network, in theory, covers 90 per cent. But, actual listenership is much less. TV is popular, and is an ideal medium for communicating with the rural masses. But, it is not available in all interior parts of the country. It is estimated that TV covers 20 per cent of the rural population. But, the actual viewership is meager. The cinema, however, is a good medium for rural communication. But, these opportunities are very low in rural areas.

**Warehousing:** A storage function is necessary because production and consumption cycles rarely match. Many agricultural commodities are produced seasonally, whereas demand for them is continuous. The storage function overcomes discrepancies in desired quantities and timing. In warehousing too, there are special problems in the rural context. The central warehousing corporation and state warehousing, which constitute the top tier in public warehousing in our country, have not extended their network of warehouses to the rural parts. It is almost impossible to distribute effectively in the interior outlets in the absence of adequate storage facilities. Due to lack of adequate and scientific storage facilities in rural areas, stocks are being maintained in towns only.

**Village structure in India:** In our country, the village structure itself causes many problems. Most of the villages are small and scattered. It is estimated that 60 per cent of the villages are in the population group

of below 1,000. The scattered nature of the villages increases distribution costs, and their small size affects economic viability of establishing distribution points.

**Rural markets and sales management:** Rural marketing involves a greater amount of personal selling effort compared to urban marketing. The rural salesman must also be able to guide the rural customers in the choice of the products. It has been observed that rural salesmen do not properly motivate rural consumers. The rural salesman has to be a patient listener as his customers are extremely traditional. He may have to spend a lot of time on consumer visits to gain a favourable response from him. Channel management is also a difficult task in rural marketing. The distribution channels in villages are lengthy involving more intermediaries and consequently higher consumer prices. In many cases, dealers with required qualities are not available.

**Inadequate banking and credit facilities:** In rural markets, distribution is also handicapped due to lack of adequate banking and credit facilities. The rural outlets require banking support to enable remittances, to get replenishment of stocks, to facilitate credit transactions in general, and to obtain credit support from the bank. Retailers are unable to carry optimum stocks in the absence of adequate credit facilities. Because of this problem, they are not able to offer credit to the consumers. All these problems lead to low marketing activities in rural areas. It is estimated that there is one bank for every 50 villages, showing the poor banking facilities in rural areas.

**Market segmentation in rural markets:** Market segmentation is the process of dividing the total market into a number of sub-markets.

The heterogeneous market is broken up into a number of relatively homogeneous units. Market segmentation is as important in rural marketing as it is in urban marketing. Most firms assume that rural markets are homogeneous. It is unwise on the part of these firms to assume that the rural market can be served with the same product, price and promotion combination.

**Branding:** The brand is the surest means of conveying quality to rural consumers. Day by day, though national brands are getting popular, local brands are also playing a significant role in rural areas. This may be due to illiteracy, ignorance and low purchasing power of rural consumers. It has been observed that there is greater dissatisfaction among the rural consumers with regard to selling of low quality duplicate brands, particularly soaps, creams, clothes, etc. whose prices are often half of those of national brands, but sold at prices on par or slightly less than the prices of national brands. Local brands are becoming popular in rural markets in spite of their lower quality.

**Packaging:** As far as packaging is concerned, as a general rule, smaller packages are more popular in the rural areas. At present, all essential products are not available in villages in smaller packaging. The lower income group consumers are not able to purchase large and medium size packaged goods. It is also found that the labeling on the package is not in the local language. This is a major constraint to rural consumers understanding the product characteristics.

## 1.7 SUMMARY

The rural market of India is fascinating and challenging at the same time. It offers large scope on account of its sheer size and it is growing steadily. Even a small growth can push up the sales of a product substantially, in view of the huge base despite the fact that there are enormous amount of problems. It is an attractive market from this angle also that the urban market is highly competitive, the rural market is relatively quiet. In fact, for certain products, it is a totally virgin market.

Economic reforms in India have brought about major changes in the whole market environment. With these changes, rural marketing will become an important playground for our marketers.

Successful rural marketing calls for a review of the rural marketing environment, developing proper understanding of the nature and profile of rural consumers, designing the right products to appeal to them, and adopting suitable media as well as appropriate strategies for communication and distribution.

It is generally believed that markets are created, not found. This is especially true in case of the rural market of India. It is a market for the truly creative marketer.

## 1.8 KEYWORDS

**Agricultural inputs:** All the products which are used in agriculture sector and are responsible for better productivity in farming such as chemical fertilizers, quality seeds, tractors, engines, and other irrigational equipments etc.

**Green revolution:** The revolution in the field of agriculture where productivity in this sector increased by leaps and bounds. Adoption of new technology, multiple cropping, and other commercial activities have helped in increasing disposable income of normal consumers.

**Warehousing:** A storage function which is necessary for consumption cycles for agricultural commodities which are used seasonally.

**Branding:** Any name, term, symbol, design or combination of these which differentiate the product of one producer from the competitors.

**Mahajans:** The business people who deal with the villagers at local level. These people lend the money and other facilities to the villagers.

## **1.9 SELF ASSESSMENT QUESTIONS**

1. Define rural marketing. How will you add value to rural marketing?
2. Explain the factors, which have made rural markets attractive.
3. How does rural marketing differ from urban marketing?
4. What qualities should a rural marketer possess?
5. Provide suitable guidelines to companies planning to go rural.

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## **RURAL MARKETING ENVIRONMENT**

### **STRUCTURE**

- 2.0 Objective
- 2.1 Introduction
- 2.2 Size of the population
- 2.3 Scenario of Literacy in Rural Areas
- 2.4 Income generation in rural areas
- 2.5 Occupation Pattern
- 2.6 Infrastructure facilities
- 2.7 Rural communication
- 2.8 Summary
- 2.9 Keywords
- 2.10 Self assessment Questions
- 2.11 References/suggested readings

### **2.0 OBJECTIVE**

The objectives of this lesson are

- To acquaint the students regarding rural marketing environment.
- To explore the opportunities for the marketers who are eyeing this market.

## **2.1 INTRODUCTION**

India has been witnessing many changes in the field of marketing and perhaps the most formidable reason for this is the ongoing process of liberalisation and globalisation. There is a substantial increase in the purchasing power of the people, their life-style has changed remarkably due to their increased purchasing power and moreover they are influenced by different cultures. At present, Indian consumers demand almost all consumer goods both durable and non-durable. Earlier consumer durables like TV, two-wheeler or refrigerator were treated as luxuries but now these are being considered as necessities.

However, the situation which we are talking about largely prevails only in urban areas till now. The urban market was given high attention until now due to the boom period in economy since 1991, but now it has almost been saturated, forcing the marketers to shift their battlefields from urban markets to rural markets. For the marketers of the new millennium, the rural market is quite an opportunity to tap. The beginnings will of course have to be made in form of relevant investments to understand the market first. Investments through research and large-scale studies, continuous running panels across demographic groups and a whole plethora of research exercise will need to precede the accurate understanding of these markets in general and the rural consumer in particular.

If India is a land of over 1 billion people, 73 per cent of these folks live in 5,72,000 vastly spread villages of India located around the hills and dales of this country. The marketer is just beginning to see the potential in form of the numbers for a start. He has nothing much else to

go by, in any case, except for myths. Myths that have made the mystery of great Indian rural market, much of the black hole in Indian market lore.

The upwardly mobile villager growing vegetables round the year, with milk distribution network to back has emerged as the king of all consumers. 'Rural Marketing' is the name of the game and rural India is all set to transform our large urban conglomerates. Liberalisation, riding the wings of satellite and cable television, has acted as a key catalyst. Statistics compiled by the National Council of Applied Economic Research (NCAER) confirm that rapid life-style changes in our villages will see a shrinking of poverty levels. Village in India has become home to the good things of life, and why not? Dr. R.K. Shukla, of NCAER pulls out a vast array of statistics to back his assertions. "Between 1997-98 the percentage of low income households came down from 73 to 51 percent while the high income house holds in rural areas moved up from 0.3 to 2.3 percent. But by 2006, the rural consuming class will have risen to 75.5 percent of all households making this a population of 432 million wannables. Low-income homes, by contrast, will be down to a mere 16.5 percent of the population.

There is a big rural middle class in India, which is being watched continuously by the corporate world. The rural market with fast growth rate, improved transportation, ever-rising communication facilities and rising standard of ruralites is a logical corollary of the rising income offer tremendous potential to innovative marketers in India. The top business houses have started looking to the new destination: the 'rural India'. Now one can think why people like Rupert Murdoch and Kerry Packer have come calling in such quick succession or why Unilever chief, N. Fitzgerald,

on a recent trip to Mumbai, decided to give the board room the go by and spend his precious time in rural areas of Dharwad to know the taste of consumers.

The Indian rural market is larger when it is compared to the urban counterparts in many respects. The rural market consists of about 100 million households with a population of about 620 million. The rural areas earlier used to be dominated by so many factors like low per-capita income, low level of infrastructure facilities, problem of metal-roads, low literacy level and slow progress on front of industrialisation etc. These factors were responsible for limiting the capacity for consumption of goods and services and the irony was that marketers were hardly interested in these markets. In recent times, however, the scene has changed in agriculture and allied activities like horticulture, animal husbandry and rural industrialisation etc.

In rural areas, the scope for marketing of goods and services depend heavily on agriculture, as it is the main occupation of the rural people. Good monsoons leading to bumper harvests, increase in procurement price for agricultural proceeds in the last decade, a fourfold increase in the outlay for rural development from seventh to the ninth plan and the change in life-style due to the proliferation of various media caused the rural boom. The market for agriculture inputs like fertilizers, tractors, irrigation equipments, and hybrid seeds has been in the growth phase for last few decades and hence contributing a major break-through in the earning capacity of the farmers.

Today the rural market offers a huge and untapped market, which is having great potential. Development programmes in the field of

agriculture and allied activities like health, education, communication, rural electrification, etc. have improved the life of the rural populace and some market research agencies have forecast that the rural demand will supersede the urban demand in the coming future and to successfully exploit the potential offered by rural market, there is a need to first understand the rural market not only in terms of households and population but also in terms of their occupational pattern, income generation, the process of rural and cottage industrialisation, rural buyer behaviour attitude and beliefs of rural people and their aspirations.

## 2.2 SIZE OF THE POPULATION

India, the largest democracy in the world has 2.4 percent of world geographical area and supports 16 percent of world population. The size of India's rural consumers can be estimated from this table:

TABLE 1: POPULATION OF INDIA: RURAL-URBAN 1981-2001

	1981	1991	2001	Increase over previous decade	
				1991	2001
Rural population (in crore)	50.20	60.21	66.0	+10.01	+5.79
Urban population (in crore)	15.62	24.18	32.6	+8.56	+8.42
Total	65.82	84.39	98.6	18.57	14.21

Source: Census of India, 2001 (P)

According to this table around 70 percent of the total population live in the rural areas that provide a larger market compared to the urban market. So, growth in population is assumed to be the main contributory factor which led the marketers to have an eye on this particular segment. In terms of the number of the people, the Indian rural market is almost twice as large as the entire market of the USA and

the USSR. But we can not rule out other factors while studying rural marketing environment like occupation pattern, spending pattern, economic reforms, source of income generation and other infrastructure facilities etc.

### 2.3 SCENARIO OF LITERACY IN RURAL AREAS

TABLE 2: LITERACY LEVELS (IN PERCENTAGE)

Gender	1981		1991	
	Rural	Urban	Rural	Urban
Males	41	66	58	81
Females	18	48	31	64
Total	30	57	45	73

Source: Census of India, 1991.

The literacy rate can be observed from this table and can be seen that only 45 per cent of the total rural population are literate as compared to 73 per cent in urban areas. The literacy plays a pivotal role while designing the communication strategy for rural folks. The heterogeneity of the languages and dialects makes a stiff challenge for the marketers. In India we have around 20 languages and more than 1600 dialects and above all, only 45 per cent literacy rate in rural areas pose great challenges to the present day marketers.

### 2.4 INCOME GENERATION IN RURAL AREAS

The pattern of income generation has been indicated in Table 3.

TABLE 3: INCOME GENERATION IN RURAL AREAS

Sr. No.	Source of income	Proportion to total
1	Agriculture	58.8

2	Agricultural wages	16.1
3	Business and crafts	8.8
4	Non-agricultural wages	7.2
5	Salaries	2.5
6	Current transfers	1.9
7	Others	4.7
	Total	100

Source: G.M. Pande– Rural Marketing, Thrust and Challenge, p. 30.

It can be observed from this table that nearly 75 per cent of the total income in rural areas is related to agriculture and related activities. This is something logical because main occupation is agriculture. So, now it can be seen that growth in agriculture automatically leads to rural prosperity and in return provide a great potential for the marketers. So, the task of the marketers is to decide as to which segment of rural consumers they want to cater to because there is difficulty in finding out the small farmers, marginal land holders, and rich land lords and accordingly they have to devise their strategies and products.

## **2.5 OCCUPATION PATTERN**

For a vast majority of the rural population, the main occupation is agriculture and allied activities. Table gives the distribution of rural population as per their occupation pattern.

About half of the rural population own or lease land to cultivate it for their livelihood. Another 27 per cent are dependent on these cultivators for jobs as agricultural labourers. Thus, a total of 77 per cent of rural population solely depend upon land only for their living and land is the source of their income. There are others, constituting a small proportion, who are engaged in business, like petty shopkeepers or small merchants, and salary earners like teachers, health workers, and village

level officials. The implication of this type of occupation pattern is that the income generation in rural areas entirely depend upon how the land is used, what crops are cultivated, how much it marketed, how much is consumed and the marketing arrangements for the production. If the rainfall is adequate, weather conditions are favourable and appropriate technology is available, the rural areas prosper as it has happened in states like Punjab, Haryana and Western Uttar Pradesh. If the weather is unfavourable, the rural income suffers a great deal, as it often happens in drought prone areas. So, the disposable income in the hands of rural people is very much conditioned by the status of agriculture and other allied activities.

TABLE 4: OCCUPATION PATTERN

S. No.	Occupation	Proportion of rural Population (%)
1.	Agriculture	50
2.	Agricultural labour	27
3.	Business	10
4.	Non-agricultural labour	9
5.	Salary earners	2
6.	Non gainfully employed	2
7.	Total	100

Source: T.P. Gopaldaswamy- Environment, Problem and strategies.

The above occupation pattern can be observed when seen in terms of households also. There are about 100 million households in rural areas, out of which 72 per cent are cultivating households and another 15 per cent are agricultural labour households. Whichever way it is

looked at, the fact is that, land-based activities are the main sources of income of rural population.

## **2.6 INFRASTRUCTURE FACILITIES**

The infrastructure facilities like roads, rural electrification, public distribution system, cinema, television coverage and the like have also received considerable attention in rural areas.

### **Rural electrification**

Rural electrification has gone on in a big way. The main aim is to provide electricity for agricultural operations and for rural and cottage industries, in addition to lighting. The central government created an organization called 'Rural Electrification Corporation' with the sole objective of financing the rural electrification projects. Due to these efforts, the number of villages with electricity supply stood at about 4.92 lakh in 1993-94, which accounts for a coverage of nearly 85 per cent of the villages. Probably by the end of ninth five year plan almost all the villages would have got electricity.

This apart, the electricity tariff charged in rural areas is very low, compared to urban areas. In some states like Tamil Nadu, Andhra Pradesh, Punjab and Karnataka the supply of electricity is almost free for agricultural purposes. In certain other states, a fixed charge is levied, which is irrespective of the quantum of consumption. These factors have increased the demand for electric motors and pump sets and also for other electrically operated agricultural machinery like threshers and winnowers.

## **2.7 RURAL COMMUNICATION**

Efforts have been made to connect the villages with all weather proof roads, so that they are accessible throughout the year. It has been estimated that about 46 per cent of the villages were connected with all weather roads, while 54 per cent remained inaccessible during rainy seasons. There are states where all the villages are connected by roads and also a public transport system, which touches the village at least once a day.

The railways network runs through rural areas, connecting atleast a few thousands of villages. It has been estimated that during 1992-93, the total rail length was 62,500 kilometers. This means that there was 19.01 km rail length per 1000 sq. km. Area or 7.39 km rail length per lakh population. At least a part of this should be running through the rural areas. The increase in rail length has not been significant in the recent years and hence the possibility of all the villages getting rail transport is remote.

The road length position appears to be more encouraging when compared to railways. The total road length in the country was about 1.491 million kms in 1980-81, which increased to 2.037 million kms in 1990-91. The surfaced roads proportion also increased from 46 per cent to 49 per cent during the corresponding period. In other words, the road length which was 218 km per one lakh population in 1980-81 increased to 241 km per one lakh population in 1990-91.

Now golden quadrangle road scheme is under progress which will connect entire India from east to west and from north to south. It would

be another feather in the cap of the rural development and the rural economy and development will be on fast track.

### **Cinema houses**

The number of cinema houses have been increasing moderately. It is hoped that most of the cinema houses will come up in semi-urban and rural areas, since the urban areas are covered not only by Television but also by Cable TV and VCRs. The access to TV in rural areas being unsatisfactory, the cinema houses will have better prospects of surviving in rural areas than urban areas. The cinema viewing habit in rural areas is quite encouraging also.

### **Television**

The television broadcast covers 93 per cent of the population, accounting for 26 per cent urban population, who are totally covered by telecast, the balance 67 per cent should be the rural populace. In fact, in any area, the rural population covered by broadcasting kendras, is more than the urban population covered. As per a survey conducted by IMRB (Indian Market Research Bureau), 77 per cent of villages are covered by TV network. The percentage of villages covered in South India is about 83 per cent, which is more than the other regions. It is also interesting to note that among the villages covered by TV transmission, 94 per cent had electricity supply. In such villages, a single community television set can work wonders. This medium may prove to be a boon for marketing personnel for promotion and communication, if effectively used.

The country is well linked by postal network. Presently there is a move to see that every village has atleast one telephone for communication with the outside world.

### **Rural credit institutions**

For a long time, the cooperative societies were the only organized agencies for disbursing credit in rural areas, apart from a host of private sources like money lenders, traders, commission agents and others. After nationalization of banks in 1969, a number of branches have been opened in rural areas to provide credit for agricultural operations. While the number of Primary Agricultural Credit Cooperative Societies (PACS) in the country is about one lakh, nearly 70 to 75 per cent of the 60,000 odd branches of commercial banks are located in rural areas. In addition, there are also 196 regional rural banks, which function with one or two districts as their jurisdiction. These agencies have enabled the farmers to obtain credit at affordable interest rates, for purchases of all agricultural inputs. In fact, nearly 90 per cent of tractor purchases in rural areas are out of the loans provided by Land Development Banks and nationalized and non-nationalised commercial banks refinanced through NABARD.

Coupled with technology diffusion in rural areas, the improvement in infrastructure facilities has created demand for not only agricultural inputs in rural areas, but also for other products like mopeds, electrical goods, toilet soaps, washing soaps, services like banking, education, health, etc. Thus, today the rural areas also demand a number of products which can be classified under various categories. The requirement of rural areas have considerably expanded both in width and depth. In fact the rural market demand outstrips the urban demand in

states like Punjab, Haryana, Western Uttar Pradesh, Tamil Nadu, Andhra Pradesh and Maharashtra. With the various development programmes under implementation, the rural demand is likely to be equal to urban demand.

### **Expenditure Pattern**

The changing social system, increase in the number of earning family members, access to credit facilities, new product innovation, demonstration effects, value attached to products etc., have led not only to a growing rural market but also to a shift in the consumption pattern. The rural market presents an exciting opportunity to develop brands into generic product association.

The total size of the rural market for packaged consumer goods today is estimated at over Rs. 2000 crore, which is barely 1.14 per cent of the net rural income. According to national council of applied economic research (NCAER) report, the rural sector will have a major share in the rising and changing durables market. In specific categories, such as portable radios, bicycles and wrist watches, the rural share exceeds 75%. In dry cells rural market accounts for nearly 56 per cent of the total market, 53 per cent of the popular toilet soaps market and 50 per cent of the razor blades market are accounted for by rural markets. Seeing this kind of scenario, it seems that the rural market is vibrant, discerning, and at the current rate of growth, will outstrip the urban market.

### **2.8 SUMMARY**

The infrastructural facilities in rural areas are increasing fast. As per the census 2001, about 50 per cent of villages are covered by all

weather roads. Majority of the villages are provided with partial services. Almost all the villages are connected with electricity. There is a steady increase in rural incomes on account of increased agricultural production, rural industrialization etc. The literacy rate has been increasing at a good pace. This situation creates demand for educational material and better prospects for newspaper and print media penetration.

For the development of rural marketing, market research should be carried out in rural areas to monitor the changing rural environment and implications there of. Rural infrastructure should be developed, particularly in remote villages. The government should develop banking, communication, education, warehousing, and transportation facilities on a priority basis in rural areas for the development of rural marketing.

## **2.9 KEYWORDS**

**NABARD (National banking for agriculture and rural development):** This is the bank which provides loans and other facilities to the farmers and it is responsible for many developmental work in rural areas. This bank also provides loans and money to the other rural banks.

**NCAER (National Council for Applied Economic Research):** This is a nodal and central government agency which carry out the work in the field of economic progress, especially publish the report regarding rural development and other economic indicators.

**Rural Communication:** All types of channels through which interaction take place among rural population and the other stakeholders who are interested in this market.

**Expenditure pattern:** A social system where rural population spend money on efficient items.

## **2.10 SELF ASSESSMENT QUESTIONS**

- 1 Explain the significance of developments in rural marketing.
- 2 Compare and contrast rural and urban markets.
- 3 If you wish to enter into rural market, how will you access the different factors of environment and why? Elaborate.

## **2.11 REFERENCES/SUGGESTED READINGS**

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## **ORGANISATION AND FUNCTIONS OF AGRICULTURAL MARKETING**

### **STRUCTURE**

- 3.0 Objective
- 3.1 Introduction
- 3.2 Characteristics of Agricultural Produce
- 3.3 Classification of agricultural products
- 3.4 Agricultural marketing process
- 3.5 Functions of agricultural marketing
- 3.6 Organization of agricultural markets
- 3.7 Market Functionaries
- 3.8 Methods of sale
- 3.9 Contract farming
- 3.10 Summary
- 3.11 Keywords
- 3.12 Self assessment questions
- 3.13 References/suggested readings

### **3.0 OBJECTIVE**

After reading this lesson, you will be able to-

- Familiarize with the organization and functioning of agricultural marketing in India.

- To discuss the importance of agricultural marketing in the economy.

### **3.1 INTRODUCTION**

A vast majority of the population of India lives in villages and agriculture is the main profession of people since times immemorial. In the olden times, the villages were self-sufficient and the population was interdependent. People exchanged what they produced. The activity of marketing was of an activity of distribution. As the means of transportation and communication improved and the economic operations of the countries became more and more complex, the process of marketing of agricultural produce also became more and more complex. Newer arrangements for distribution came into existence in this process the organization of marketing activities underwent a change.

India has a vast agricultural raw-material base, and in the present times of liberalization of economy, agriculture is also undergoing a sea change. The multinational companies are rushing to India in the areas of fast food and processed foods with the hope of utilizing this vast agricultural base. This has created opportunities as well as challenges in the area of agricultural marketing. On one hand, there are opportunities for the marketer, on the other hand the land holdings of the farmers are getting smaller and smaller. They are unable to make heavy investments and reap benefits of scale. The prices of agricultural products are falling, while the cost of inputs is increasing. This situation has created several newer arrangements in the field of agricultural marketing in India.

In this lesson, we will try to put an insight into this important area of agricultural marketing. Before discussing agricultural marketing-its functions and organization, it is important to discuss some of the unique features of agricultural products and their classification.

### **3.2 CHARACTERISTICS OF AGRICULTURAL PRODUCE**

Agricultural products have certain characteristics of their own which necessitate a completely different system of marketing for them. Some of the characteristic features of Indian agricultural marketing system are:

#### **(1) Uncertainty**

There is a high degree of uncertainty in Indian agricultural system because it is largely dependent on the rainfalls. The tropical climate has a great influence on agriculture and, it is very difficult to forecast the volume and quality of output. A cultivator can only plan the production of a certain crop but the final output considerably depends upon weather, disease, pests, flood, storm etc. over which he does not possess any control. On the other hand production in the factories can be controlled, regulated and adjusted according to the existing or anticipated demand.

#### **(2) Heterogeneity of produce**

The quality of agricultural products cannot be controlled as it can be done for the other products. This lack of standardization of quality makes the task of gradation and assortment very difficult for the marketers.

### **(3) Perishability**

Agricultural commodities are more perishable than industrial goods. Although, some crop such as rice, wheat, gram etc. retain their quality for a long time but most of the farm products are perishable and cannot remain long on the way to the final consumer without suffering loss and deterioration in quality. This makes the task of a marketer very difficult because he has to store the product in the best possible conditions and make it available to the consumer at the earliest convenience.

### **(4) Seasonality**

Seasonal character of agriculture is also a problem in itself and production cannot be adjusted to the changes in level of demand. We can neither shut-off agricultural production nor mould it at once. Hence maintaining smooth supply of agricultural products throughout the year; calls for good and large storage space.

### **(5) Processing**

Some of the agricultural products like sugarcane, cotton, jute, tobacco etc. have to be processed before they are consumed. This requires adequate processing facility.

### **(6) Bulkiness**

Agricultural products tend to be bulky and their weight and volume are high when compared with their value. This makes their storage and transportation difficult and costly.

### **3.3 CLASSIFICATION OF AGRICULTURAL PRODUCTS**

Agricultural products can be classified into various categories on the following basis:

#### **(1) On the basis of season**

Agricultural products can be classified into two categories on the basis of seasons; Rabi and Kharif.

- (i) *Rabi*: Sowing is done from October to December and harvesting season is from March to May. The various Rabi crops include wheat, gram, peas, potatoes and barley.
- (ii) *Kharif*: Sowing for the crops is done from April to July and harvesting is done from September to December. The various crops of Kharif season include rice, sugarcane, jowar, jute, bajra, maize, cotton and groundnut.

#### **(2) On the basis of encashability**

Agricultural products can be divided into two categories-food crops and cash crops. The food crops refer to rice, wheat, barley, maize etc. while cash crops or commercial crops include tea, coffee, rubber, oil seeds, tobacco etc.

#### **(3) On the basis of perishability**

Agricultural products can be classified into two categories-perishable and non-perishable products. Generally all the vegetables fall in the category of perishable agricultural products as they survive only

for a few days while cereals and pulses can survive for years and hence can be classified in the category of non-perishable agricultural products.

#### **(4) On the basis of processing**

Some products require processing before they are finally consumed while others need no processing at all. Sugarcane, cotton, jute, wheat, rice etc. require processing but these can not be concerned vegetables, milk fishes etc. do not require any processing.

After understanding agricultural products and their unique features, let us now move to agricultural marketing.

### **3.4 AGRICULTURAL MARKETING PROCESS**

Agricultural marketing process involves wide variety of functions such as:

- (i) Assembling
- (ii) Grading and standardization
- (iii) Processing and Storage
- (iv) Transportation
- (v) Wholesaling and retailing

The process of agricultural marketing begins with the farmer and end up with the consumer. In between these two extreme ends one can find many intermediaries like transporters, warehouse owners, commission agents, wholesalers, retailers etc. performing their duties to enable the agricultural marketing process to reach its completion.

### **(1) Assembling**

At the start of the process, the assembling of goods is important. Agriculture produce is collected in small lots and then assembled into large ones. This function becomes essential because of small size of farms and small quantity of production.

### **(2) Grading and standardization**

When goods are assembled, grading and standardisation have to be undertaken. Because of the difference in tastes and needs of the buyers, whatever is assembled is to be classified in different lots according to their inherent qualities, such as colour, size, taste and utility.

The classification is effected on the basis of certain specific characteristics which are codified into grades and then become standard by which the assembled lots are judged.

### **(3) Processing & Storage**

Some of the agricultural commodities may, then, undergo the processing. For example, wheat may be turned into flour, cotton into cloth and oilseeds into oil. During the processing the goods are transformed so as to increase their shelf life and to make them more acceptable to the consumer than in their original form.

The manufactured goods may not, however, be immediately disposed of and may require space for storage. The needs of storage brings into the existence of warehouses and godowns.

#### **(4) Transportation**

For the final consumption, the goods have to be moved from the point of storage to the point where they are in actual demand. This may require their transportation over long distances and across many lands. It may be necessary to store them again for a while on arrival before they could be sold to the wholesalers and through them to the retailers.

#### **(5) Wholesaling and retailing**

The task of making the goods available to the consumer for the final consumption is entrusted upon the wholesalers and the retailers. They are the final link in the process of agricultural marketing and they play a vital role in the entire process.

### **3.5 FUNCTIONS OF AGRICULTURAL MARKETING**

Agricultural marketing functions are many and varied. The part played by each function varies widely as regards to the specific goods and services. It may further be noted that these functions are indispensable regardless of the institution or agency which performs them or the commodity in connection with which they are performed. These functions are closely related to each other and cannot be isolated from one another. Accordingly, the functions of agricultural marketing can be classified into three broad categories:

- i) Exchange functions;
- ii) Physical functions; and
- iii) Facilitative functions.

## **(1) Exchange Functions**

Exchange functions are considered to be the most important of all the functions of agricultural marketing. These mainly include functions related to buying and selling. Buying and selling are complementary to each other and one cannot take place without the other. Buying function is largely one of seeking the sources of supply, assembling of products and activities which are associated with the purchase of goods, raw materials-etc. Selling is the process which stimulates demand or desire, finds the buyer, advises the buyer, and negotiates with him to bring about a transfer of title.

## **(2) Physical Functions**

These functions relate to the physical handling of agriculture produce either in moving it from one place to another or in storing it over a period of time. Agriculture produce has to be moved from threshing floors to the consuming areas, because it is not consumed at the place of its production. Then, on account of seasonal operations, agricultural production cannot be undertaken at will. This can be done in a particular season only under a particular set of conditions. On the contrary, the demand for agricultural produce exists all the year round. Hence, there must be some system by which the year's crop may be used throughout the year. This requires extensive transportation and storage facility. Storing operations may, however, take place anywhere along the channel of distribution from production to consumption and it may be performed by the producer, processor, distributor or even the consumer.

### **(3) Facilitative functions**

As the very name of these functions implies, they involve neither transfer of title to goods nor handling of the product but help in the smooth discharge of the above functions. The function of classification and grading helps in classification and sorting out of commodities according to size, quality colour, weight, etc. This makes the determination of prices easy and thereby assures a fair return to the producer, on the one hand, and good quality produce to the consumer, on the other, without any trouble to either. Then, there is always a time lag between the assembling of commodities and their sale in the consuming markets. During this period, somebody's money remains tied up in the stocks. This creates the problem of finance.

Further, the growing vastness between the place of production and place of consumption has made the function of market information invaluable. This function involves activities of collecting, interpreting and disseminating market news to various agencies including producers residing in the interiors of the country. This helps the government in formulating policies and plans of production and marketing of good. Lastly, no business can be done without undertaking the inherent risk which may be caused either due to a decline in price, bad debts or deterioration of the produce itself by fire, flood etc. These risks have to be borne by someone in the channel. Physical risks may be covered under insurance while risks stemming from price fluctuations are handled through the hedging operation.

### **3.6 ORGANIZATION OF AGRICULTURAL MARKETS**

In order to know more about agricultural marketing, let us discuss how agricultural marketing activities are organized. This calls for a clear understanding of types, structure and functionalities of agricultural markets.

#### **Classification of Markets**

The various basis on which agricultural markets may be classified are:

##### **1. *Frequency***

On the basis of the frequency at which the markets are held, they can be classified as daily, weekly, fortnightly, etc.

##### **2. *Types of products traded***

Different markets deal with different products. While some might deal with all products, a few markets might specialize in some products. On the basis of the type of product traded, they can be named as Grain markets, Cotton markets, Fruit & Vegetable markets, etc. It is relevant to quote 'gur mandi, noon mandi etc.' in Ludhiana and Amritsar. They specialize in one single commodity only, although now-a-days they are dealing with other products also.

##### **3. *Types of transaction***

On the basis of their transactions, the agricultural markets can be classified as spot and forward markets. The spot markets undertake

those transactions only in which the exchange is affected at the current prices; while in the forward markets, the commodities are traded for future delivery. The future markets resemble with the future trading system of stock market.

#### **4. *Area Served***

Depending upon the type of area served, the agricultural markets can be classified as Local, Central, etc. The local markets cater to the needs of only the local population, while the central markets are located in the city center and cater to the needs of the entire city or the region. The latter are much bigger in size and area of operation.

#### **Other bases of classification**

It may, however, be noted that there is no rigidity in these classifications and one classification overlaps the other. However, for our discussion, let us classify agricultural markets into primary, secondary and terminal markets.

##### **(1) *Primary Markets***

These are periodical markets locally known as 'Haats'. They are generally held once or twice a week. The days on which these markets meet are fixed so that traders can visit the area. They are generally held in the open and along roadsides in important or centrally situated localities.

These markets are situated in the producing areas and commodities produced in the surrounding tracts are mainly sold in them. A part of the produce is purchased by the small retailers who, further,

sell it to the non-farm rural population. During the lean season, a part of the produce might be sold back to the cultivators themselves. The rest of the produce is purchased by intermediaries and finds its way to the wholesale market. Besides agricultural produce, a number of other articles required by rural folk such as salt, tobacco, oils, gur, fruits and vegetables, spices, cloth, hosiery products and ornaments of cheap metals are also sold in these markets.

These markets usually serve an area of 10 kms radius but it may be more, ranging from 10 to 50 kms, depending upon the availability of communication and transportation facilities, nature of commodities handled and the location of the market with respect to other markets.

The basic function of these markets is to serve as assembling centres for the local produce but they also function simultaneously as distributive centres for local consumption. Although, these markets are unorganized, they do, serve the useful purpose of providing a common meeting place for buyers and sellers.

In spite of being situated in rural areas, the prices ruling in these markets are influenced by those prevailing in the wholesale markets.

## **(2) *Secondary markets***

These markets, also known as 'Mandis', are regular wholesale markets and provide a permanent place for daily transactions. The work starts in them early morning and continues till all transactions are over.

These markets are generally situated in the towns, districts, and important trade centres. Usually they are situated near railway stations.

Shops or 'Arhats' are built in these markets. Postal, Banking and telephone facilities are available at such places.

### **(3) Terminal Markets**

A terminal market is the place where the produce is either finally disposed of to the consumer or to the processor or assembled for exports. Such markets are usually situated in metropolitan cities like Delhi, Bombay, Madras and Calcutta etc. In these markets, merchants are well organised and use modern marketing methods.

## **3.7 MARKET FUNCTIONARIES**

Beginning from the agriculturists, down to the final consumer, one can find a long chain of different functionaries. Let us discuss these functionaries under two heads viz.

- i) Functionaries at village level
- ii) Functionaries at Mandi level

### **(1) Functionaries at village level**

Some important functionaries operating at village level are:

- a) Big Cultivators;
- b) Village Merchants; and
- c) Itinerant Traders.

#### **(a) Big Cultivators**

Big cultivators with large holdings and substantial marketable surplus constitute the first type of market functionaries operating at village level. They also own tractor, carts and other means of

transportation. Massive volume of marketable surplus at their disposal is the result of both their own large-scale cultivation as also of the seasonal purchases conducted at the village level. In fact, they create buffer stock by purchasing grain in the season and selling it afterwards in nearby 'Mandis'. Small cultivators sell their surplus grain either to them or through them.

### **(b) Village Merchants**

They are known by different names in different parts of India such as 'Beopari', 'Baniya', 'Sahukar', 'Paikars', 'Farias', etc. They constitute one of the most important assembling agencies at village level. Although, they operate in some cases with their own capital but in rest or the cases they are financed by 'Arhatias' or 'Arhatdars' or large wholesale traders in assembling and distributing centres.

Village Merchants' job is to collect the marketable surplus from villages and village markets and carry it to the wholesale mandis or nearest towns. It is in this manner and through these agencies that the marketable surplus is brought to the secondary and terminal market.

### **(c) Itinerant Traders**

They are petty merchants who move between villages and purchase the produce for cultivator. They either own some animal such as pony or possess carts to transport the produce to the nearby market. They offer a lower price than that ruling in the nearby market as they take into consideration all factors such as transportation, market charges and their profit margin. They generally pay the cultivators in 3-4 days after

the produce has been disposed of in the market and payment has been received from 'Arhatia'.

## **(2) Functionaries at mandi level**

Important functionaries at Mandi level are:

- a) Arhatias;
- b) Brokers; and
- c) Co-operative Marketing Societies.

### **a) Arhatias**

The most Important functionary to be found in bid mandis are 'Arhatias' who include both buyers on commission and outright buyers. Broadly speaking, the Arhatias can be grouped under two heads, viz., Kuchha Arhatias and Pucca Arhatias.

- i) *Kuchha Arhatias*: They are small commission agents. Their sphere of activity is purely local and they act mainly as middlemen or an intermediary between the primary producer or seller and the buyer in the large wholesale market. Such a person seldom buys on his own account. His main business is to establish contact between producer-seller and the buyer in the assembling market. He also advances money to the cultivators and village banias on the condition that the produce will be disposed of through him alone and hence, charges a very nominal rate of interest on the money advanced.

ii) *Pucca Arhatias*: They are generally big firms of some substance and they mostly deal in grains, oil-seeds, and other agricultural products either as agents or act on their own account. They also help in assembling of the farm products by financing the operations of the 'Kuchha-Arhatias' and small traders.

**b) *Dalal (Brokers)***

Their main function is to bring buyers and sellers together. They differ from the Arhatias in the sense that they have no fixed business of their own. They charge commission from the buyers and the sellers.

**c) *Co-operative Marketing Societies***

These have been established under the integrated Rural Credit and Marketing Scheme initiated under the Second Five-year Plan. The main function of these societies is to sell the produce of their members. They also undertake outright purchases, provide storage facilities for storage and grading, and thus save cultivators from exploitation by traders, and help the farmers in securing a fair price for their produce.

### **3.8 METHODS OF SALE**

The methods of sale or fixation of rate prevalent in agricultural markets may be as follows:

**(1) Under Cover (Haththa) Method**

In this method, the buyer or his broker and commission agents join hands under the cover of cloth usually a towel or a dhoti or front portion

of kurta or shirt. The price is settled by pressing the fingers. The negotiations go on in this secret manner till they are called off due to failure in arriving at as on agreed price, or a price is settled. The commission agent then informs the seller and asks for his consent to sell. He is, however, not told anything about the price offered by other buyers. The under cover method of sale is advocated to be advantageous by the middlemen group. This method has ample scope for malpractices against the interests of sellers because of secret negotiations. Now-a-days, traders are shifting from this method to private negotiations.

## **(2) Auction Method**

Under this method, the prospective buyers gather around separate heaps of grains and announce their bids loudly. When the bids have reached the highest, the auctioneer who is generally a commission agent, in consultation with the seller, sells the produce to the highest bidder. The auction system is definitely better than the undercover system as this increases competition among the buyers and the rates are very likely to rise if there is fairly strong demand for the product. Moreover the chances of malpractice are also minimal.

## **(3) Private Negotiations**

This is the most common method of sale. Under this method, individual buyers or their brokers visit the shops of commission agents, inspect the quality of grains and offer rates as they think appropriate. Both the parties then negotiate on the rates and if both agree on rates, the deal is struck.

### **3.9 CONTRACT FARMING**

In the recent times, contract farming is becoming very popular. Since the land holdings are getting smaller, the farmers cannot make heavy investment in agriculture, nor are they ready to take the risk of diversifying to other crops. In this situation, business corporates are coming into picture. They enter into a contract with the farmers and take their piece of land on a sort of mortgage. They provide all the inputs to the farmer, including the seeds, fertilizers etc. The farmer has to provide the services of sowing the crop, watering and taking other care. After the crop is ready, the entire crop is lifted by the business corporate, at a price which is decided in advance.

This method has several advantages. The farmer gets a remunerative price and the manufacturer gets a good quality produce at a fixed price throughout the year. The contract farming shall emerge as an important method of agricultural marketing and shall have a long-term impact on the existing system.

Many big companies are into this system of farming. Pepsi is practicing it in Punjab, wherein it is getting the tomatoes sown with the farmers. The entire produce is lifted and processed into sauce. Airtel (telecom giant) is also starting a similar venture in Punjab and many more companies are planning to start the same.

### **3.10 SUMMARY**

On the basis of the above discussion, it is clear that there are number of mechanisms, which have evolved in the process of effecting the availability of agricultural goods from the producers to the

consumers. Many types of intermediaries have evolved in the process, who provides a variety of services to the farmers as well as to the consumers. In the times to come, newer forms of agricultural marketing such as the contract farming, are likely to become popular.

### **3.11 KEYWORDS**

**Rabi:** This is a group of crops which are sown from October to December and harvesting is performed from mid March to May. The crops include mainly wheat, gram, peas, potatoes, and barley.

**Kharif:** This is another group of crops which are sown from April to July and harvesting is done from September to December. It includes rice, sugarcane, Jowar, Jute, Bazra, Maize, Cotton, and Groundnut etc.

**Perishable products:** Agricultural products which survive only for few days like vegetables, fishes, and milk etc.

**Haats:** The periodical local markets are known as 'Haats'. These markets operate once or twice a week. These markets are situated near production area of commodities.

**Terminal market:** A market where a product is finally disposed of either for consumption or assembled for exports. In this kind of market, businessmen are highly organized.

**Arhatias:** An important functionary in agri-business at mandi level who can be found at the time of bidding. He can participate in the agri-business either in form of a commission agent or he can also be an outright buyer.

### **3.12 SELF ASSESSMENT QUESTIONS**

1. Why is the marketing of agricultural products a unique case in marketing? Briefly discuss various characteristic features of agriculture, which make the agricultural marketing a typical process.
2. Write a short note on the process of agricultural marketing. Briefly explain various functions of agricultural marketing.
3. What are various methods of classifying agricultural markets?
4. Explain various methods of effecting transaction of agricultural marketing.
5. Write a short note on the role of market functionaries in agricultural marketing.

### **3.13 REFERENCES/SUGGESTED READINGS**

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## **MARKETING OF CONSUMER DURABLES AND NON-DURABLES**

### **STRUCTURE**

- 4.0 Objective
- 4.1 Introduction
- 4.2 Value equation
- 4.3 Being innovative for faster penetration
- 4.4 Innovative marketing strategies for rural marketing
- 4.5. Innovative marketing strategic decision (How to do?)
- 4.6 The role of technology
- 4.7 Summary
- 4.8 Keywords
- 4.9 Self assessment questions
- 4.10 References/suggested readings

### **4.0 OBJECTIVE**

After reading this lesson you will be able-

- To see the size of the rural market in terms of durable and non-durable products.
- To explore the strategies related to marketing mix adopted by the Indian companies.

## 4.1 INTRODUCTION

India is the second largest consumer market in the world. With over 1 billion potential customers, it comes as no surprise why consumer goods companies see India as fertile ground for expansion and growth. The National Council for Applied Economic Research (NCAER) published a study on consumer behaviour and purchasing power in India. The NCAER classified Indian consumers by their propensity to consume. At the lower end of the scale (the destitute and aspirants) are consumers who are in the market for manufactured essential consumables and basic durables. At the top end of the scale (the Very Rich) is a relatively small but rapidly growing segment for branded international products ranging from automobiles and electronics to cosmetics and garments, often at international prices. The middle segment (majority of the consumers and the climbers) is highly differentiated, and price sensitive, requiring a targeted approach to product design and pricing. Over the years, the bottom layer is expected to narrow further while the top level is expected to expand.

Structural attractiveness is more for rural markets compared to urban due to following reasons:

- Market growth rate is faster
- Low product penetration
- Increasing purchasing power
- It is unsaturated

(A) Rural market growth rate is high as compared to urban market

- (B) Purchasing power of the rural masses is continuously increasing due to various reasons like better irrigation facilities, use of fertilizers, and conversion of barren land into fertile one etc. All these factors leads to increase in yields resulting in the increase of more disposable income with farmers hence more purchasing power.
- (C) Saturation of urban market: Due to intense competition into urban sector it is observed that in most of the product categories have reached saturation levels. To survive, company has to switch to new markets. Rural market is an opportunity for these companies. According to one study the penetration level of consumer product is very less in rural areas. Companies should take this as a marketing opportunity. For example, only three out of 10 people in rural areas of India use toothpaste or talcum powder; or shampoo and skin care products; and only six use washing powder. Even in categories with high penetration, such as soaps, consumption is one per five bathing occasions. Till 1999, HLL was able to reach 13 million village households. To succeed in India, consumer goods companies will need to effectively market to the large and currently under penetrated rural population.

The Indian rural market with its vast size and demand base, offers a huge opportunity that companies cannot afford to ignore. With 128 million households, the rural population is nearly three times the urban. As a result of the growing affluence, fuelled by successive good monsoons and the increase in agricultural output to 200 million tonnes from 176

million tonnes in 1991, rural India has a large consuming base with 41 per cent of India's middle-class and 58 per cent of the total disposable income. The importance of the rural market for some FMCG and durable marketers is underlined by the fact that the rural market accounts for close to 70 per cent of toilet-soap users and 38 per cent of all two-wheelers purchased.

One third of the premium luxury goods are now sold in the rural market. Two thirds of the middle-income households are now in the rural market. According to one study, if the rural income in India goes up by 1%, there would be a corresponding increase of about Rs. 10,000 crores in the buying power.

## **4.2 VALUE EQUATION**

$$\text{Perceived value} = \frac{\text{Core benefit delivered by the product}}{\text{Product price}}$$

As per above equation the companies can increase value by two methods– one by increasing the product benefit and charging some premium on price, but it is observed that particularly in urban market as the competition is intense customers can switch to alternative cheap products that will affect the margins. Many companies now-a-days are adopting second strategy i.e. cutting down the product prices, the question of volume can be solved by targeting the rural market where the product penetration is very low. So in the long run the margin of the product may be affected but that can be compensated by the increase in sales volume and thus overall profit will be increased.

### 4.3 BEING INNOVATIVE FOR FASTER PENETRATION

Though rural market growth rate is high and backed by low level of product penetration, yet the companies have to adopt innovative marketing strategies for faster market penetration. Secondly, as the rural customers are different in their behaviour than their urban counterpart, companies have to adopt innovative strategies. Companies who adopted same strategies as adopted in the urban market, miserably failed in the rural market.

#### CHARACTERISTICS OF INDIAN RURAL MARKET: INDIA'S CONSUMING CLASS

Estimated households by annual income		Structure of the Indian consumer market (1995-96)				
Annual income (in Rs.) at 1994-95 prices	No. of households (in million)	Annual income (in Rs.) at 1994-95 prices	Classification	Number of households (in million)		
				Urban	Rural	Total
< 25,000	80.7	< 16,000	Destitute	5.3	27.7	33.0
25,001-50,000	50.4	16,001-22,000	Aspirants	7.1	36.9	44.0
50,001-77,000	19.7	22,001-45,000	Climbers	16.8	37.3	54.1
77,001-106,000	8.2	45,001-215,000	Consumers	16.6	15.9	32.5
> 106,000	5.8	> 215,000	The rich	0.8	0.4	1.2

Total no. of households: 164.9 million	Total no. of households	46.6	118.2	164.8
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Source: National council of applied Economic Research (NCAER). The above presentation has been slightly modified by indiaonestop.com

The NCAER study also highlights that the key to growth lies in the rural areas, where over 70% of Indians live. The chart above indicates that rural “consumers” and “climbers” together, make up over 60% of total households in India. The rise of the rural market in India has been the most important marketing phenomenon of the nineties, providing volume growth to all leading consumer goods companies. Higher rural incomes driven by agricultural growth, increasing enrolment in primary education, and high penetration of television and other mass media, have induced the propensity to consume branded and value-added products in rural areas.

#### **4.4 INNOVATIVE MARKETING STRATEGIES FOR RURAL MARKETING**

Strategic marketing decision (What to do?)

**1. Strategies regarding product positioning:** Product positioning plays a very crucial role. Marketer has to position their products after understanding the unique characteristics of the rural market environment in India. These are broadly as follows:

- Low per capita income
- Lack of formal retail and distribution network
- Relative cheapness of labour

- Positioning involves three tasks-
  - Identifying the differences of the offer vis-à-vis competitors offers.
  - Selecting the differences that have greater competitive advantage.
  - Communicating such advantages effectively to the target audience.

Companies can reposition their existing products in rural markets. For example, refrigerator manufacturing companies can launch a refrigerator of bigger size because most of the families in rural areas are undivided big families and require big refrigerators having bigger storage capacity.

Secondly in India most of the villages are facing acute shortage of water; here companies can reposition a washing machine, which require less water than any ordinary washing machine.

Here are few examples endorsing the above view point-

- Escort, which repositioned the old Rajdoot motorcycle as the “rugged durable” bike good for village road with actor Dharmendra endorsing the products in TV spots.
- Godrej’s new toilet soap ‘lime light’ was launched with an ad campaign design to appeal to “dessi” tastes complete with Hindi pop singer Alisha Chinai doing a gypsy act.
- Maharaja Appliances launched ‘Bonus’, a range of appliances especially for the rural market in 1998.
- Colgate’s 10 gm sachets of toothpaste were designed keeping the rural consumer in mind.

- IDE designed a low cost manual pump, branded KB (Krishna Bantu) priced at just about Rs. 400 to Rs. 500 as against a minimum of Rs. 3000 for a diesel/electric pump. It is for up to an acre of irrigation need of marginal or even small farmer.

## **2. PRODUCT SEGMENTATION AND TARGETING**

Right segmentation and targeting policies are key to success in rural market. Segmentation can be done with one or more variables viz., demographic, geographic, psychographic and behavioural.

- a) **Geographic:** As the rural market is spread over a large area companies can divided the market area into small sectors having some geographic similarity to consolidate their distribution network.
- b) **Demographic:** Market can be divided on the basis of income, education, lifestyle, gender, marital status, family size, occupation and religion. Due to unequal distribution of income, the Indian market for detergents is structurally shown like a pyramid (from base to top-laundry soap, low price detergent mid priced detergent and premium powders) HLL has wheel as a laundry soap, blue wheel power and international wheel active power at the base, Rin Shakti powder and bar, Sunlight powder and Super 501 bar at mid-price level and international surf excel at the top end.
- c) **Psychographic:** Market is divided into different segments like social class, life style and personality. E.g. in some parts of Gujarat it is reported that farmers are going in for big, 50 hp (horse power) tractors, when there need was for much

smaller, typically 25 hp to 30 hp ones. The reason, on further investigation was the compulsion to “keep up with the neighbours”.

- d) Behavioural: Following factors play important role to segment the market; occasions, benefit sought, user status, usage rate, loyalty status, place and product possession category.

## **4.5. INNOVATIVE MARKETING STRATEGIC DECISION (HOW TO DO?)**

### **1. Product**

Product plays an important role in strategic marketing decisions. Product innovation is in fact key to success in rural market, developing indigenous products that cater to the needs of rural consumers who demand quality products at an affordable cost. This requires substantial R & D and marketing research to better understand consumer behaviour and preference.

**Case of marketing of shampoo in rural areas.** Hair products were introduced to rural India in an attempt to capitalize on a culture where women take hair grooming extremely seriously. While rural women may wear faded saris and little jewelry, few step out without ensuring that their hair is in place. Consumer goods companies introduced a transplanted product from developed markets, the 2-in-1 shampoo/conditioner. Companies thought that women would be attracted to this product because it was cost-effective; however, initial sales were dismal. What companies failed to recognize is that most rural

consumers had previously never used shampoo and did not value or understand the full benefits of conditioner.

Several years back, Hindustan Lever focused on product development strategies for rural consumers who still did not use shampoo in India. Their research indicated that a prevailing consumer habit in rural India was to use soap for hair and body care. Rather than try to change instilled consumer behaviour, product developer focused on creating an opportunity consumers wanted; a product that was convenient and low-cost. The result was a new 2-in-1 soap, a product that cleans the hair and body, and is targeted towards consumers in rural areas.

Offering a variety of pack sizes at different prices has been one solution. However, unlike developed markets, consumer goods companies have to be particularly careful in developing their pricing strategy in developing countries such as India. While daily sachets of products are affordable to the rural consumer, if quantity discounts (common in developed markets) are large enough, street entrepreneurs will purchase the 'family pack' and retail it in loose form. The result is a lack of control over the quality of the product, brand presentation, and pricing.

Most of global products that multinationals companies manufacture are primarily for the tier one consumers\* (Ref. Fig. No.-A) of the global markets. Those global products are then also sold to the tier 4 consumers, with least thought given whether those products are suitable for the tier 4 consumers. Inevitably, most of such global products fail to fulfill the needs of tier 4 consumers. "Other than medication, most branded items marketed on a global basis can best be described as

luxuries. They ease or provide additional comforts and conveniences, or establish a person as belonging to a specific milieu". To be successful, companies need to nurture local markets and provide local solutions depending on the culture and consumer habits of a particular market.

For example, FMCG companies to sell more in the rural India, they have to be innovative in the delivery format. In India, the tier 4 consumers, because of higher price, earlier did not often purchase the shampoos sold by MNCs. Buying in small quantities is also practiced by the laborers in the urban areas of India who are being paid on a weekly or daily basis. Many of them stay in single rooms or huts with little space. Lack of cash and space makes these people to shop every day in small quantities and hence single served sachets have become popular. Once the multinational companies started selling shampoos in single-served sachets priced at 50 paise/Re. 1, the sales of shampoos have increased to the extent that 30% of the personal care products are now sold in single-served packages. Sachets are no longer restricted to shampoos only; they have penetrated to other products such as edible oil, tea, jam etc. also. The sachets give these buyers an option of choosing different brands without locking too much cash.

**Products that cater to local needs:** Philips, which has operated in India since 1933, did well selling colour TV sets years ago, when competition was slim. Sales in rupee terms grew 22% a year on average between 1995 and 2001. Since then, that pace has slowed by more than half. With more competitors jumping in— 18 brands available in India today, compared with just three in 1991- Philips's market share was withering, even in the countryside.

So in early 2001, Philips decided to devise new products just for the rural markets, like the wind-up radio. They used one speaker, instead of two, in the TV sets sold outside cities to make them more affordable. The size of the TV cabinets, meanwhile, was bumped up by about 10% over units sold in the cities to make the sets look bigger. Rural consumers might be able to afford only a 14-inch or 20-inch screen TV set, but “they want something that looks substantial” to show off to their neighbours, says Suresh Sukumaran, marketing director for television sets at Philips.

The result is that rural sales have become the new driver of growth for Philips in India. Last year, rural TV set sales grew 45%, while audio sales grew 14% at a time when the overall audio market declined by 7.8%.

## 2. Price

**Income variability:** India’s wide income distribution implies that there exist multiple segments with very different levels of purchasing power. The challenges for consumer goods companies are to develop products that capture the entire spectrum of potential consumers.

EXHIBIT D: DISTRIBUTION OF INCOME IN INDIA

Household category share	Annual income	Population size
Low income (59%)	Upto Rs. 22, 500	590 million
Lower middle income (25%)	22,500 to 45,000	250 million
Middle income (10%)	45,000 to 62,000	100 million
Upper-middle income (4%)	62,000 to 96,000	40 million
High income (2%)	Above Rs. 96,000	20 million

Source: National center for Applied Economic Research (NCAER) in India.

### ***Focus on volume not margins***

As we discussed the value equation in earlier part, the companies must concentrate on the lower segment which is quite sizeable in number. Therefore, the marketing strategies in rural India must be on large volumes over low margins and thus the overall profitability can be maintained.

A significant portion of the rural population is paid daily wages. Daily wage earners tend to have little stock of money, and, therefore, tend to make purchases only to meet their daily needs. The implication is that pack size and price points are critical to sales, and importantly, that rural consumers view the purchase-tradeoff dilemma across a much wider range of product categories. As a result, the nature of competition is much greater; a beverage manufacture is not only competing with other manufacture in its category, but also with other products that consumers may consider one-off luxury purchases such as shampoo.

Hindustan Lever, a subsidiary of Unilever coined the term sachet. In tiny pillow-like plastic packets that contain about 20 millimeters of product, Unilever sells shaving gel, dishwashing liquid and toothpaste, to name just a few items. The sachets answer the needs of rural consumers who cannot, or are not used to, buying larger sizes and enables them to buy on a more frequent basis. This strategy provides a viable entry-level price for many rural consumers who want to try new products, and allows companies to drive volume sales. Today, Hindustan Lever's

estimates- its shampoo sachets are sold in around 400,000 of India's 600,000 villages.

**Lower prices:** Many companies tend to bring their existing products at a much higher price and follow marketing strategies that are not in sync with what is required to sell to the consumer at the bottom of the pyramid. Hence, they end up serving the high-end niche players. This is what happened to Kellogg's in India, when they launched their breakfast cereals in the early 1990s. Only the high-end consumers with high disposable income were able to afford Kellogg's cereals. Kellogg's never succeeded in penetrating the Indian mass market because of its high price and the company is losing money.

In reality, consumers in the tier 4 segment are highly price-conscious. This gives the local or regional companies an edge over the MNCs in the tier 4 segment. The success of Nirma is an example. In the late 1980s, Nirma started offering detergent products and later toilet soaps for poor consumers mostly in the rural areas. Today, the brand Nirma has become so popular among the tier 4 segments that it has captured a market share of nearly 35% by value in the detergent segment and 20% market share in the toilet soap segment. In cassettes, the T-series brand was extremely successful with its low pricing and at the same time providing value with its more songs per cassette. Recently, Ratan Tata, Chairman of Tata Group, has announced that Tata is planning to manufacture a car made from different low cost components like cycle parts, which would be priced at Rs. 100000. At such a price, it might be able to expand the car market by attracting new customers with lower disposable income and also by luring away some of the existent two wheeler users.

**Creating buying power:** For any product to sell, consumers need to have disposable income. The consumers in tier 4 segment have desire to buy products, but they do not have the purchasing capacity, as majority of the products are priced higher. To meet their desires, companies need to take steps so that these customers could have access to credit and have higher earning capacity. Many companies, however, might argue that it is not their responsibility to increase the earning capacity of the consumers to get access to credit. A few companies, however, proved it wrong. Way back in 1920s, Henry ford increased the wages of his employees to increase the sales of his Ford cars and he was successful.

Hindustan Lever Ltd. (HLL) the Indian subsidiary of unilever has started a programme targeting villages with a population of less than 2000. Under the program, the company provides self employment opportunities to villagers through Self-Help groups (SHGs). SHGs operate like direct to home distributors wherein groups of 15-20 villagers who are below the poverty line (Rs. 750) are provided with an opportunity to take micro-credit from banks. With the help of this money, villagers are able to buy HLL's products and sell them to other villagers, thereby generating employment and income for themselves and also increasing the reach of HLL's products.

Generally, the poor have difficulty in getting access to commercial credit, as the traditional banking system does not normally lend money without collateral security. However, some institutions, like the Grameen Bank in Bangladesh, are helping the poor to access money through innovative solutions such as micro lending. In the Grameen Bank model, one group of rural women took out a loan for as little as \$ 25 to start a

business. Only when she repaid could the next woman in the group borrow.

The success of Grameen Bank has helped to spread the idea of micro-lending throughout the world. In Bangladesh alone, there are now around 10 million people who have taken the help of micro-finance to start business. It is now planning to replicate the success in rural India. The success of Grameen Bank had also led to its offshoot, Grameen Phone, a provider of village phone service. As mentioned in the article *serving the World's Poor, Profitably* by Prahalad C. K. and Hammond Allen, under the Grameen Phone, a single entrepreneur in a village borrows money from Grameen Bank to buy a mobile phone (GSM standard), which is being used by the entire village generating an average monthly revenue of around \$90 for the entrepreneur.

### **3. Place**

**Lack of formal sales and distribution network:** Developing the distribution network in the rural market is not an easy task, due to low per capita income compounded by the need to maintain low operating costs. In a rural market formal sales and distribution networks are largely non-existent and difficult to obtain without substantial capital or local guidance unlike developed market where large retail distribution chains are commonplace. This poses a tremendous challenge to consumer goods companies, which have traditionally used large retailers as their primary channel of distribution. Retail chains have not flourished in rural areas of India because economies of scale do not exist. Rural consumers live in small homes with little storage space, lack refrigeration and do not own vehicles. As a result, daily purchases at the

neighbourhood store are frequently preferred by consumers and may be the only avenue to buy goods in smaller rural towns.

To compete successfully with incumbents, new consumer goods companies are forced to build an extensive distribution network to reach India's rural population. This distribution network relies first, on gaining shelf space in the small independently owned stores that drive the majority of retail sales and then on establishing a relationship with wholesalers and distributors to further expand the distribution network.

Notwithstanding the direct sales force and working capital costs, some companies have succeeded in building a distribution network, and in doing so, created a substantial barrier to entry. Hindustan Lever boasts a network that reaches 800,000 stores directly and relies on wholesalers and distributors to reach another 3.5 million.

Other foreign companies have overcome the sales and distribution obstacles by entering into joint ventures with local partners. This was an important motivation behind Procter & Gamble's decision to collaborate with the Godrej group in the early 1990s. Procter & Gamble was able to immediately tap a well established sales and distribution network rather than spending time and money to go it alone.

**Retailer Power:** While independent retailers are a fragmented group, they have a substantial amount of power in driving consumer purchases, particularly in rural areas. Most rural stores are cramped, providing little opportunity for consumers to browse. The consumer interacts directly with the retail salesperson (usually the owner) and services often include informal lines of credit and home delivery in addition to personal opinions on goods. In rural areas, retailers tend to

carry only a single brand in a product category. In such a retailing environment, being first on the shelf and developing a privileged relationship with the retailer is extremely important and a competitive advantage to consumer goods companies.

Relative cheapness of labour: The low cost of labour in rural areas has implications on the consumer goods industry. Unlike developed markets where it has been cost-efficient to replace human labour with machines, labour intensive manufacturing and distribution remains economical in rural areas. A soft drink vending machine, which is used extensively in urban market, may not be much effective in rural area as the cost of supplying and maintaining an vending machine probably outweigh the cost of employing the salespeople. Secondly it also generates the much needed employment for rural population and results into increase in purchasing power of the community as a whole.

The low cost of labour also explains the difficulty large chain retailers have had in implementing their developed market strategy of replacing human labour with capital in India. Scale economies are difficult to achieve with the higher capital cost and often result in higher priced goods than the local owner-operated shops. For consumer goods companies, independently owned stores in towns and villages will be the primary form of distribution, at least for the near future.

### ***Improving access***

Many consumers in Tier 4 are in locations that make distribution extremely difficult. To make sure that the consumers in the tier 4 segment have access to the products, the distribution system followed by

the companies should be different from that of their existing systems. Lack of motor able roads in India makes the distribution costs high and reach low. HLL has realized that, for improving access of its products in rural areas, the traditional distribution channels would increase costs, which would ultimately increase the price of the products. The company has experimented with innovative methods to reach the rural consumer.

Under its “indirect coverage (IDC)” method, company vans replaced vans belonging to redistribution stockiest, which serviced a select group of neighbouring market. HLL also uses the services of ‘Mobile traders’. These mobile traders travel either on foot or on cycles, thus more effective on cost and high on reach than the conventional wholesale distribution channel. Besides, these traders target smaller villages, those with a population of less than 2000, which conventional distribution channel often cannot reach. There is also the crucial issue of buying behaviour. Most rural women are reluctant to visit retail outlets on their own. Instead, the village women rely on the mobile traders for purchasing their needs. Another company, Perfetti India, uses ‘candy boys’ to service small retailers in rural India.

The success of Legend computers in China is also attributed to its efficient distribution system. Legend sells its low-priced PCs to smaller cities and towns where the US and European PC companies, have not yet been able to penetrate. Legend computers, which was once only a wholesale distributor of the US and European PC companies, has now become the number one PC manufacturer in China with a market share of 30% in 2002 and is also one of the worlds fastest growing computer technology company.

“A company can either wait for income to grow on a much broader basis, or get in there now, like Hyundai, and start seeding the market”, says Michael Fernandes, a principal at McKinsey and Co. in Bombay who focuses on the consumer sector. Companies are applying the lessons they are learning in India to other emerging markets such as China. The Indian unit of south Korea’s Hyundai Motor Co., for example, plans to replicate the rural road show strategy it honed in India in China and other emerging markets, says Lee Bong Guo, executive director for marketing and sales of Hyundai Motor India. Hyundai has grabbed a 20% share of the booming Indian auto market since it came here in 1997, largely through its low-priced Santro compact car, which sells for as little as \$ 7,000.

#### **4. Promotion**

According to one source, only ten percent of Indian villages are connected by Cable and satellite (C & S)- the rest watch only Doordarshan. Also, in India, the retailers are highly fragmented, highly dispersed. Companies have to think for innovative ways of reaching the rural consumer (haats, melas etc.), because media as we perceive it is not covering as much as 43% of rural India.

When it comes to the rural market, two out of five Indians are unreached by any media- TV, Press, Radio and Cinema put together. So haats, mandis and melas are opportunities.

**Innovative advertising programs:** Consumer good companies cannot rely on conventional advertising techniques; particularly in India’s rural areas where only one in every three households owns a television

set and more than half of all villagers are illiterate. Instead, companies need to turn to more innovative methods of advertising to reach their potential customer base.

In this kind of a scenario some companies are using consumer video vans, which carry infomercials to rural villages. A marketer invites people to the van to view the infomercial, which incorporates the new product into an aspect of daily life. These potential customers are subsequently given a demonstration of the product, for example, toothpaste and toothbrush, and then provided free samples. The van returns the following month to reinforce the sales pitch and to make sales.

Another strategy consumer goods companies have used to reach the rural mass-market is to market at large festivals. Few years ago, many companies congregated at the Ganges River for the Kumbh Mela festival where approximately 30 million people were expected to attend over the span of a month. Companies provided “touch and fell” demonstrations and free sample for consumers, the majority of which were from rural areas. Colgate-Palmolive distributed free tubes of herbal toothpaste at the festival to villagers who traditionally used a neem tree branch to clean their teeth. Hindustan Lever marketed its Lifebuoy soap and handed out glasses of Brooke Bond tea. This marketing strategy proved to be extremely effective in advertising to the mass rural market.

In many villages, people might not see ads that appear in newspapers or on TV. So dealers drive vans filled with products from village to village, and set up stands at weekly town markets. Others equip their cars with loudspeakers and cruise through larger towns, touting

their products and stores. Philips also looked for new ways to extend its reach into every nook and corner of India, driving its distributors to locate a slew of new retailers to carry their products, including scores of one-stop shops in tiny hamlets like Jabli, a village of terraced fruit and vegetable farms cut into the mountain along the Shimla highway in Himachal Pradesh, set in the foot hills of the Himalayas.

### ***Role of a leader (Mukhia)***

The local or a group leader plays a crucial role in the promotion of a product because these leaders act as an opinion builder or act as a role model for them. Here we want to quote an interesting example:

A team of Hyundai car salesmen takes his van into a tiny town's dusty primary school, and turns it into a temporary car dealership. While a group of village men dressed in turbans and loose kurta pajamas gathers around a big television set in the back of the van to watch Hyundai advertisements, the chief sales rep talks with village headman, the Hyundai folks were here the previous night, giving a local community head an exclusive test drive and arranging this village visit.

A village headman is an opinion leader, whose advice is sought on everything from marriages to crops. In the past few years, villagers have started to ask what TV set or car to buy, too. Four years ago, there were just 15 TV sets in this village; now, there are 150, he says. Four people even have mobile phones. "If I tell them I like a particular brand, they'll go out and get it".

## ***Shaping aspirations***

As already mentioned, the consumers at the bottom of the pyramid are mostly uneducated and illiterate; the companies need to spend time and resources to educate the consumers.

HLL, under its 'Project Bharat', visits villages where company sales representatives explain to the rural people the benefits of HLL's products with the help of video shows. This creates awareness of HLL's product categories and addresses the issues of attitude and habits of the rural people.

In 2002, ITC, one of India's largest consumer product and agri-business companies, launched 'Project Symphony', under which e-choupals are launched in villages in some Indian states. Through these e-coupals, farmers could use computers and access the internet to conduct their business. Normally, the illiterate and gullible agri-farmers in India are also forced to sell their produce at low prices to the traders, who act as middlemen and cite the reasons of poor quality or weak demand for low price. The farmers also face the problems of small regional markets and no standard grading systems for their produce. The lack of storage, handling and transport facilities aggravates the situation resulting in huge wastage (8-11%) and low processing yields. With e-choupals, farmers access the daily market prices of their crops in addition to information on best practices in farming and weather forecasts. The farmers then sell their produce at collection centers taken on lease by ITC, at a higher price than they used to get before and at the same time, the transaction costs involved in selling farm produce are also reduced.

## **5. People: (Role of Youth)**

It is a fact that unlike a few years ago, the rural youth today are playing a far more significant role in influencing the purchases of radios, television (black and white as well as colour). Penetration levels of consumer durables in the rural sector have risen dramatically in the last decade or so. It is observed that rural women are out of the closet completely...but unlike ten years ago (when she had probably an insignificant or no role to play) today, she is exercising her choice in select categories- the choice of brands may still be with the males of the household. But yes, in this context the youth have certainly begun to play a role in selecting a brand in certain product categories.

Here it is often observed that there is a tendency to follow the trends of nearest metro. Just like so many youth in Mumbai aspire to be in U.S.A., the rural youth aspire to be in Mumbai, Chennai or Calcutta and so on. This is like a yardstick- the city plays the yardstick in terms of the development in the village.

Studies suggest that the rural youth are playing an increasingly important role in purchase decisions. They are ones who actually travel out in the village frequently. So they are the real drivers of the rural market. They may not be the final customers (those who pay money) but often they are the people who influence the purchase of high value products and they decide which brands to choose.

The motivators for purchase of a rural consumer are different from those in the urban consumer. Therefore we are talking about rural youth. But when we talk about youth, we refer to the age group of 15 to 25. In

rural India; it is the age group between 8 and 15 that influence most purchases-more than any other group. This is largely because they tend to retain messages and often play back these messages to others too. Just to give an example: Recently fair and Lovely soap in a village in Bihar. Its TV commercial (chaand ka tukda) had debuted on prime time TV. The village kids played back the whole commercial word by word with the product benefits, the product promise and so on. The company team was quite surprised as they were targeting the rural women and they observed kids who played back the commercial. So it's the 8 to 15 age group that has assumed importance. Even HLL and Colgate have begun targeting this age group in their commercials.

Also, another typical rural phenomenon is that kids are sent by their mothers to purchase something without specifying a brand. So kids tend to ask for products they have seen or heard on radio or TV. So to a large extent, kids are driving this change as much as youth.

#### **4.6 THE ROLE OF TECHNOLOGY**

From times immemorial, technology has played a very important role in serving mankind. Be it the telephone to communicate or the cars to transport goods cheaply between places. With the help of technology, it is possible to spur micro-enterprise and economic developments and empower consumers in the Tier 4 segment.

Technology for renewable energy such as solar power has helped to expand the market for various products. The advent of internet and advancement of information and communication technologies has not only reduced the problems but also became a powerful source of

economic leverage for the consumers in tier 4. For companies, the technological advances have become an inexpensive way to establish marketing and distribution channels in the tier 4 segment. ITC's success with e-choupal demonstrates the importance of technology in serving the poor farmers in remote Indian villages.

India's second-largest consumer bank, ICICI Ltd., is selling life insurance to farmers through internet kiosks set up in villages by the agricultural-trading arm of conglomerate ITC Ltd. Philips has revamped its line of home electronics for folks in the countryside, offering a wind-up radio that doesn't need hard-to-get batteries and a back-to-basics inexpensive television set. Sales of all these products are up. A digital rural market covering 6000 villages.

ITC, the diversified Indian corporate is growing a digitally networked rural market, titled 'e-Choupal'. Choupal is a village's traditional central meeting place where villagers exchange notes. E-Choupal is however an intranet connecting villages. To overcome issues of literacy and computer skills, there's a trained interpreter-technician called a 'sanchalak' at each eChoupal. Beyond the splash page echoupal.com is Hindi-only.

Originally a tobacco giant, ITC [-it was 'Imperial Tobacco Co.', then 'Indian Tobacco Co.' and now just, 'ITC'] has over the last two decades diversified into consumer goods and commodities among other things. With tobacco industry on the back foot, ITC probably wants to develop newer interests. But the urban consumer market is a pretty crowded scene. Hence ITC's rural initiative.

It began with 6 eChoupals in June 2000 to prove the idea. ITC says it now has 1200 such kiosks covering 6000 villages mainly in UP, MP, AP and Karnataka. Thrusts into Kerala, Bengal, Maharashtra and Rajasthan are planned. Each e-Choupal- which is a desktop with Internet access, really—costs between Rs. 1-3 lakhs to set up. Through the network ITC buys from villages as well as sell to them. It also claims to offer the best 'gate prices' for all products bought for re-marketing. From Kerala it expects to buy spices, from Maharashtra horticultural produce, from Bengal aquaculture products and Rajasthan wheat and oil-seed. In turn, eChoupals sell branded oil, salt, flour- and insurance products.

ITC's agribusiness is Rs. 1000 crores and expected to grow 60% this year. How much of that will be put through eChoupals is not clear, but the growth in the numbers and future plans would indicate that the initiative has been a success. ITC Chairman YC Deveswar says eChoupals will arrive in 100,000 villages within a decade.

Information technology tends to squeeze out middle men, farmers long squeezed by them will like that.

#### **4.7 SUMMARY**

Rural India presents a big opportunity for companies. The National Council of Applied Economic Research expects the number of middle-and high-income households in rural India to grow to 111 million in 2007 from 80 million last year- twice the rate of growth in the cities. The average rural Indian household will have five major consumer appliances by 2006, the agency predicts, up from three in 1998. To effectively tap the opportunity in the big emerging rural market, companies have to

reconfigure their resource base, rethink their cost structure, modify their distribution systems, re-evaluate the price-performance relationships and redesign their product development process. Succeeding in the rural market is a challenging task, so companies have to revamp their existing marketing strategies.

## 4.8 KEYWORDS

**Value:** It is combination of quality, service, and price (QSP) for the consumers.

**Product penetration:** Reach of the product to the target audience.

**Saturation:** In this chapter, the term has been used for the market. It means that a market has been fully exploited by the marketers and there is no further scope for growth of a product in this market.

**Product positioning:** It is a process of pulling up the product's benefits in the mind of the consumers in comparison to the competitors.

**Market:** It consists of potential buyers and sellers who are ready to exchange the products of value with each other.

## 4.9 SELF ASSESSMENT QUESTIONS

- 1 Suppose you are a marketer in FMCG sector, how will you launch a toothpaste in rural market? Which market (area) you will choose and why?
- 2 How will you design your marketing-mix for launching a colour television in rural market of Haryana?

- 3 Can you sight some innovative strategies for launching washing machines into rural market?

#### **4.10 REFERENCES/SUGGESTED READINGS**

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## **ATTITUDES AND BELIEFS OF RURAL MARKETS**

### **STRUCTURE**

- 5.0 Objective
- 5.1 Introduction
- 5.2 Concept of Attitude
- 5.3 Attitudes, opinions and beliefs
- 5.4 Attitude and behaviour
- 5.5 Attitude and culture
- 5.6 Attitudes and socialization
- 5.7 Attitude and other
- 5.8 Summary
- 5.9 Keywords
- 5.10 Self assessment questions
- 5.11 References/suggested readings

### **5.0 OBJECTIVE**

The objectives of this lesson are

- To make the students aware regarding different psychological concepts.
- To study the mindset of rural consumers so that better products can be designed for them.

## 5.1 INTRODUCTION

Considering the huge potential in the rural markets, it is important to understand the attitudes of the consumers. Marketers are interested in the attitudes and beliefs of people about their products and services. These attitudes and beliefs make up product and brand images, and people act on these images. If some of the beliefs are wrong and inhibit purchase, the manufacturer will want to launch a campaign to correct these beliefs. For example, tea manufacturers have launched a campaign on the benefits of tea. Similarly, egg manufacturers are trying hard to induce people to eat eggs. People have a relatively negative attitude towards these products and marketers are trying to change the same. Saffola is trying to divert people to it by changing their belief on desi-ghee.

An attitude describes a person's enduring favorable or unfavorable cognitive evaluations, emotional feelings, and action tendencies towards some object or idea. People have attitudes toward almost everything: religion, politics, clothes, music, food etc. Attitudes put them into a frame of mind of liking or disliking an object, moving toward or away from it. Attitudes lead people to behave in a fairly consistent way toward similar objects. People do not have to interpret and react to every object in a fresh way. People tend to be conservative towards their attitudes. Because of this, attitudes are very difficult to change. A person's attitudes settle into a consistent pattern, and to change a single attitude may require major adjustments in other attitudes.

Thus, companies often try to fit their products into the existing attitudes, rather than attempting to change people's attitudes. There are

examples of companies that have successfully changed the attitude, but they have to incur heavy cost for the same. The rural markets have been the harbingers of typical beliefs and the diffusion of new products is directly related to the attitudes and perception of the people towards them. India has a diversity of cultures, each exhibiting a typical pattern of attitudes. In order to master the art and science of rural marketing, it is important to understand the attitude of people residing in rural areas.

In order to understand the attitudes and beliefs of the rural customers, it is important to discuss their conceptual framework.

## **5.2 CONCEPT OF ATTITUDE**

Attitudes have a profound influence on behaviour by influencing the perception of objects and people, exposure to and comprehension of information, choice of friends, co-workers etc. Their importance was realized during the time of World War II and henceforth, tremendous research has been conducted to measure it and ascertain its effect on human behaviour. Attitude has been comprehended differently by different researchers and has been defined both conceptually and operationally. Two most distinct aspects to define attitude are most common - as set and readiness and as effect and evaluation.

### **(i) Attitude as set of readiness**

Attitude was first conceived as a tendency (or a set of readiness) to respond to some social object. It was conceived that all the definitions of attitude had the component of readiness or disposition to act. With this idea, Allport's definition of attitude is as follows:

Attitudes are mental and neural states of readiness, organized through experience, exerting a directive or dynamic influence upon an individual's response to all objects and situations with which it is related.

*(Allport)*

This viewpoint considers attitude as a heightened response to certain stimuli.

## **(ii) Attitude as effect and evaluation**

Many researchers define attitude in terms of their effects and influence on evaluation. Some of the definitions highlighting this viewpoint are:

Attitude is an enduring organization of motivational, emotional, perceptual and cognitive processes with respect to some aspect of the individual's world. *(Krech and Crutchfield)*

*Attitude is a tendency or a predisposition to evaluate an object or symbol of that object in a certain way- Evaluation consists of attributing goodness-badness or desirable-undesirable qualities to an object. (Katz and Scotland)*

## **5.3 ATTITUDES, OPINIONS AND BELIEFS**

Although these terms are quite close, yet there is a difference between them. While attitude is often seen as a disposition to act, an opinion is generally considered as an expression of one's judgment of a particular set of facts and an evaluation of the circumstances presented to him. In simple words, opinions are expressions of attitudes. It may be observed that the attitudes are basic to opinions and influence them.

A belief is an enduring organization of perception and cognition about some aspects of an individual's world. It is the cognitive component of the attitude and reflects the manner in which an object is perceived. Hence, beliefs are stronger than opinions and are less affected by the pro or cons positions fundamental in an attitude than are opinions, but all the three aspects may influence each other. Thus, the difference between the three exists more at the level of theory.

For example, Hindus hold cow in great esteem and worship her. They have a high positive attitude towards the animal, which has been developed over centuries. Their attitude is expressed in their opinions to respect and look after the animal. Consequent to the attitude, they do not hurt or kill the animal, which is expressive of their sacred belief. For a marketer, all three i.e. the opinion, attitude and belief are important because they have a role in the purchase decision- making process.

#### **5.4 ATTITUDE AND BEHAVIOUR**

Attitudes occupy a central position in the process of transforming the work requirements into efforts and thus have a profound influence on one's behaviour. Attitudes affect the behaviour by serving the four functions of an individual:

- (i) Ego defensive function
- (ii) Value orientation function
- (iii) Knowledge function

These functions and characteristics of rural markets are explained in the following discussion.

**(i) Instrumental function**

Attitudes serve as a means to reach a desired goal or to avoid an undesired one. Instrumental attitudes are aroused by the activation of need or cues that are associated with the attitude objects and arouse favourable or unfavourable feelings. For example, most traditional people in India do not think the soft-drinks as very good for health. Their propensity to cause acidity reinforces the attitude. When the news came that there are pesticides in the soft-drinks, most people curtailed or stopped their consumption because they derived their cues towards such behaviour from the unfavourable characteristic of the product.

On the basis of this function of attitude, the marketers design their communication (in the form of advertisements) make use of the right media and the appeal to motivate the rural consumers to a favourable behaviour. For example, Hero Honda has a very high penetration in the rural markets. It has designed its message of durability of their bikes, even on undulating rural roads. Their distribution network ensures easy availability of the product. In certain areas, their easy finance has helped in enabling the consumers to purchase the same. With the initial penetration, the word-of-mouth communication helped in making a rapid inroad into the market. The attitude has been highly instrumental in eliciting the desired response from the consumers. It is noteworthy that it is the entire marketing strategy, which has worked for achieving the results and not just a few activities of the company.

**(ii) Ego defensive**

The ego defensive function of attitude acknowledges the importance of psychological thought. Attitudes may be required and maintained to protect the person from facing threats in external world or from becoming aware of his own unacceptable impulses. Ego-defensive attitudes may be aroused by external or internal threats, frustrating events, appeals or to build up of the repressed impulses and suggestions by authoritarian sources. The attitudes influence one's behaviour by affecting his perception of the situation accordingly. For example, popular cigarette manufacturer 'Red and White' had instituted a bravery award keeping in consideration the ego-defensive role of attitude. By their attempt to relate bravery as a characteristic of the smoker of their brand, they were trying to create a positive attitude.

The rural people are very particular about protecting their ego and any suggestions to the contrary can work against the marketers. It is important to note that rural consumers tend to exhibit a collective ego, where the role of the group becomes very important. The marketing strategy must not be suggestive of any cue that influences the ego-defensive aspects negatively. The rural people do not inhibit their expressions of liking as well as disliking. This characteristic makes them accept as well as reject a product, rather fast.

**(iii) Value orientation**

The value orientation function takes into account the attitudes, which are held because they express a person's values or enhance his self-identity. These attitudes arise by conditions that threaten the self-

concept, appeals to restart the person's self-image or by the cues that engage the person's value; and make them salient to him. For example, most Indians are not very comfortable to purchase contraceptives openly. By their advertisements, the marketers are trying to project the consumers that there is nothing bad if they purchase them and get the advantages of safety and birth control. Another example can be the marketing of eggs, as adopted by NECC. Traditionally, Indians are averse to consuming eggs on certain days, or in certain seasons. By influencing people to eat eggs daily, they are being motivated to shed their value-system and adopt a more rational approach towards such behaviour.

As was in the case of ego-defensive function, the rural consumers also influence collective value systems. The marketers must understand the social stratification and segment their markets accordingly.

#### **(iv) Knowledge**

The knowledge function of attitude is based on a person's need to maintain a stable, organized and meaningful structure of the world. Attitudes that provide a standard against which a person evaluates aspects of his world serve as the knowledge function also. For example, despite a vigorous campaign by the Government the caste system is not being removed from the Indian psyche. This is because people take the messages with their predispositions and it might take a long time before these are modified.

As explained above, these functions of the attitude influence an individual's interpretation of the information. Since attitudes intervene between the work requirements and the work response, information

about how people feel about their purchase can be quite useful in predicting their response to work. Thus, knowledge of attitude can help the marketers to devise means to make more compatible policies for their customers and get more out of them.

## **5.5 ATTITUDE AND CULTURE**

Culture comprises of values (shared beliefs), ideas and other meaningful symbols that help the individuals to communicate, interpret and evaluate as the members of society. The cultural factors are said to exert the broadest and deepest influence on consumer behaviour. Since, attitude shapes the beliefs of an individual, when they become a characteristic of the entire society or a major part of it, they are said to become culture.

Since, the attitudes are never static and are influenced by the external environment. They also keep the culture dynamic. Being expressive of the group beliefs and attitudes, culture shapes the consumption pattern and decision-making process of individuals throughout their lives. Some of the influences of culture on the buyer's behaviour are:

### **(i) Sense of self and space**

Culture significantly influences one's self concept and space. Some cultures might foster brave, masculine, mancho and emotional type self concept while others might impart a serene, intellectual, rational and urban self concept. Marketers need to understand this and position their products accordingly. In rural markets, sincerity, sturdiness and group conformance are more cherished values than a fast-track career growth

and individual development. Consequently, durability is the dominant characteristic if any advertisement targeted for rural markets. Similarly, the influence of opinion leaders and peer groups are modified to suit the needs of the marketers.

Culture also influences the sense of space. Societies that preserve individuality look for wider space around them while individuals in some societies might contend with lesser space. Knowledge of space helps marketers in deciding the most acceptable levels of customer proximity. In rural markets, although people live in vast open spaces, their individuality often identifies itself with the group. The products targeted for these markets respect the individuality of these people. People like big bikes, big vehicles, big rooms to live in and bigger size televisions. They also purchase larger packs of things, not only to reap economies of scale, but also to satisfy their voluminous spheres of individuality.

### **(ii) Communication and language.**

Culture has a direct impact on communication and language of individuals. This helps the marketers in designing their advertisements and sales promotion strategies. Correct choice of words can have a significant role in effective communication. For example, most advertising campaigns for the rural markets are designed in local languages such as Punjabi, Gujarati or Tamil in order to make the customer understand them.

### **(iii) Dress and appearance**

Dress and appearance also has a major influence of one's culture. The dressing habits of individuals are also representatives of their self-

image and personality. An understanding of the dress code is vital for promotion of several product categories such as suitings and shirtings etc. For example, in most offices in north India, people prefer to be formally dressed and in southern and western India, people do not frown at a person who is informally dressed at work place. Marketers of shirts position their products as formals in north India and as casuals in southern and western India.

The products associated with dress and eating habits are targeted in the manner in which the consumers would be most receptive. For example, the advertisement of McDonald's burger is launched in local language, with the models talking in a typical rural tone. This is to remove the sense of burger being an alien food.

#### **(iv) Food & Feeding Habits**

Food and feeding habits are also unique to every culture. Some cultures might be primarily vegetarian while others non-vegetarians. Similarly, people have their own preferences for the nature food and its ingredients. Those selling food products need to know what people of a culture want and offer their products accordingly. Not only the marketers of food products, other industries such as furniture, house hold appliances, buildings etc. also need to understand the feeding habits of cultures and design their products accordingly because people's feeding habits influence the purchase of these products also.

#### **(v) Time consciousness**

The level of time consciousness varies across culture. Some culture might look upon time as a valuable resource and may not consider

wasting it. In such cultures, marketers need to offer products in a manner such that a customer has to spend little time in acquiring and using it. Some cultures might not treat -time as valuable and prefer to work with leisure. In such areas, marketers should not force customers to make quick decisions as this might evoke an unfavourable response.

In rural markets, people are not very fast decision makers. The marketers have to go at their pace and not impose their pace of decision-making. Rural customers spend a lot of time in gathering information, particularly from the endorsements by their opinion leaders and the peer groups. An enthusiastic marketer may be rejected by them, if he tries to exert too much of his pressure. They should be allowed their own time to arrive at the decisions.

### **(vi) Relationships**

The warmth of relationships is also specific to cultures. The urban areas comprise of nuclear families. So, the influence of uncles, grand parents etc. might be less in comparison to people living in rural areas, where people might be living in joint families. Marketers need to understand such relationships in order to identify the influences and decision-makers of the buying process.

In rural markets, relations are given a high value. Once the rural, people believe on someone, they harbour the faith for a long time. If anyone breaks their trust, they reject him, and might even punish him. The firms aspiring to be successful in the rural markets have to master the art of relationship building for a long-term success. Most successful examples in this category are the companies like HLL, Phillips etc. They

have patiently worked for years to win their confidence and establish a sort of personal relations with the rural customers.

## **5.6 ATTITUDES AND SOCIALIZATION**

Consequent to their attitude and belief system, certain social classes exhibit a high degree of participation in social and community life while certain societies are individualistic and have low community affiliations. The role of influencers varies in such societies and affects the buying process of individuals. Marketers study the degree of socialization and relate it with buying processes. Some of the characteristics in which the attitudes shape up the socialization of an individual are his identification with the reference groups, family, role and status. Each of these has an influence on one's purchase and consumption behaviour and is explained in the following discussion.

### **(i) Reference Groups**

An individual's reference group consists of all the groups of persons that have a direct (face-to-face) or indirect influence on the person's attitudes or behaviour. In rural markets, people usually belong to the direct groups, i.e. cherish personal relations. Marketers should harness these relations to their advantage. They can take the help of opinion leaders such as the aartiyas, sarpanches or community leaders to push forth their products.

### **(ii) Family**

Family is the most influential of the reference groups. Family consists of people related by blood marriage or adoption. While the

influence of family is diminishing in most developed countries, in India, it continues to influence purchase behaviour significantly. Family influences utilitarian effect, value expression and interpretation of information.

In rural markets, the male members, particularly the head of families have a very strong influence on the purchase decision-making process. The marketers have to understand this and design their strategy accordingly.

### **(iii) Role and Status**

The person's position in each group can be defined in terms of his/her role and status. A role consists of the activities that a person is expected to perform according to the persons around him or her. Role is an indicator of a person's position and people often express it through their purchase.

Rural people are particularly sensitive of their role and status and work very hard to preserve the same. They might go to any extent to maintain their position in the society. For example, Punjabis have a high propensity towards show-off. They purchase expensive brands to maintain their status. This explains why there is a highest penetration of mobile phones, big cars and luxury items in rural Punjab. Marketers can understand these cues and design the strategies accordingly.

## **5.7 ATTITUDE AND OTHER**

Psychological Factors Besides attitudes and beliefs, a person's buying choices are also influenced by other major psychological factors-

motivation, perception and learning. Attitudes have a role in influencing each of them.

### **(i) Attitude and Motivation**

A person's level of motivation is influenced by strength of his inner predisposition to act, i.e. his attitude towards the rewards accruing out of the action. In rural areas, the motivation behaviour needs to be studied as still not much research has been done in these areas.

### **(ii) Attitude and Perception**

Attitude creates direct predispositions about anything and influences its perception. With little sources of information, rural people continue to stick to their predispositions for long. This has a great effect on their perception towards the products offered. The marketers have to take their perception into account while designing their strategies.

### **(iii) Attitudes and Learning**

Attitudes tend to interfere with the process of learning, rather directly. In rural markets, the endorsements are the biggest source of learning as people take their cues from a reliable source, i.e., the one on which they can depend personally.

## **5.8 SUMMARY**

Considering the tremendous opportunities, the rural customer deserves a special treatment. A lot of work needs to be done to understand their attitudes, beliefs and values so that the marketing strategies can be designed to deliver highest value to them. In the age of

competition, market knowledge is a great competitive advantage. Firms aspiring to make inroads in the rural markets need to invest in this area also. Earlier marketers who operated into rural markets, they used to emphasize only on the demographics of this market. But after the green revolution, there was a tremendous growth in the per capita income of the rural masses and subsequently their education level also grew. This scenario led to the enhancement of their mental level and their aspiration and motivational level grew up. Therefore, they also started looking up for the better products and services. After, the opening-up of the economy, the marketers who took rural masses for granted emphasizing only on their demographics, failed miserably. But the marketers who were spread enough, they made early increased in this market like, HLL, Godrej, and ITC etc, because these people were able to understand the attitudes and beliefs of the rural consumers and adopt themselves beautifully.

## 5.9 KEYWORDS

**Perception:** It is the process of selecting, organizing, and interpreting the stimuli. In other words, how do you see the world around you.

**Learning:** Learning is relatively a permanent change in behaviour. It is the process of acquiring knowledge and information and applying it for future course of action.

**Attitude:** It is a learned behaviour. This learned behaviour led to a person to perceive negatively or positively towards a stimulus.

**Reference groups:** It consists of the people with whom we have direct or indirect relation and they influence our behaviour.

**Culture:** Culture is a combination of beliefs, ideas, and other meaningful symbols through which an individual can communicate and can evaluate the members of the society.

### **5.10 SELF ASSESSMENT QUESTIONS**

1. Define attitude. Why is it important for the marketers to study the same?
2. Distinguish between an attitude and a belief. How do these influence the consumer decision making process?
3. Briefly enlist certain characteristic attitudes of rural consumers.
4. What is the relationship between attitude and culture? Discuss in light of the rural marketing.
5. How do attitudes influence a consumer's psychological factors such as perception, learning etc.?

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Lesson: <b>6</b>	Vetter: <b>Dr. M.R.P. Singh</b>

## **MARKETING OF AGRICULTURAL INPUTS**

### **STRUCTURE**

- 6.0 Objective
- 6.1 Introduction
- 6.2 Fertilizers
- 6.3 Seeds
- 6.4 Pesticides/Insecticides
- 6.5 Tractors
- 6.6 Summary
- 6.7 Keywords
- 6.8 Self assessment questions
- 6.9 References/suggested readings

### **6.0 OBJECTIVE**

After reading this lesson, you will be able

- To explore the marketing practices of major agricultural inputs.
- To see the rule of technology in producing quality seeds and fertilizers.

## 6.1 INTRODUCTION

Output marketing is an aspect of agricultural marketing. A timely and adequate supply at fair prices of farm inputs- chemical fertilizers, seeds, plant protection chemicals, farm equipments, and machinery, labour, electricity, diesel oil etc. are of great importance in the production of output. Having seen that agriculture and allied activities have become the mainstay in rural India, agricultural inputs marketing has been a big business. With the advent of new technology in agriculture, leading to commercialization and market orientation of farms, the farming system is exposed to external economies in terms of procurement of inputs required for production and marketing the agricultural production. The importance of an efficient marketing system for farm inputs may be judged by the following:

1. Farm inputs are produced in the country side. The effect of change in production method can, therefore, be realized only if the farm inputs reach the markets in time at the least cost.
2. The use of modern inputs by farmers largely depends upon the spread of information about them. The marketing system has to perform this function.
3. An efficient marketing system for farm inputs is essential for the development of the inputs-manufacturing and supplying industries in the country.

The agricultural inputs can be put under two categories—consumable inputs and durable inputs. Consumable inputs include fertilizers, pesticides, seeds etc., which are needed for farming, season after season. Durable inputs include tractors, motors, and pump sets,

major farm machinery like harvesters, threshers etc. are probably purchased once in lifetime.

It would be interesting to study the marketing of these inputs since the practices vary widely. Some of these inputs have to be marketed as per the directions of the government, while others enjoy a free and unrestricted market. Some of the practice adopted by the manufacturers are described below with special reference to fertilizers, seeds, chemical pesticides, and tractors.

## 6.2 FERTILIZERS

Fertilizer is decidedly the most important among all the inputs purchased by the farmer for use in present day agriculture with a view to accelerating agriculture production. It has been estimated that 53 per cent of the incremental foodgrain production in India during the seventies was due to fertilizer use and its contribution is expected to have increased since then. The demand for chemical fertilizers has increased with the evolution of new hybrid and dwarf variety seeds, which are more responsive to chemical fertilizers.

TABLE 1: CONSUMPTION OF FERTILIZERS IN NUTRIENT TERMS

(000 tonnes of nutrients)

Fertilizers	1997-98	1998-99	1999-2000	2000-01	2001-02
Nitrogenous fertilizers	10,901	11,354	11,592	10,920	11,310
Phosphatic fertilizers	3,914	4,112	4,799	4,215	4,382
Potassic fertilizers	1,373	1,332	1,678	1,567	1,667

All fertilizers (NPK)	16,188	16,798	18,069	16,702	17,360
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Source: Ministry of chemical and fertilizers.

The consumption of Nitrogen (N), Phosphates (P) and Potash (K) fertilizers is very high and hence there is more marketing scope of these fertilizers. The consumption of these items is increasing steadily and will continue to increase. Table 1 gives the statistics of consumption pattern of different fertilizers.

There is lot of variation in state-wise consumption of fertilizers. States like Punjab, Haryana, TN, AP and UP have higher pattern of consumption, while states like Rajasthan, Assam and Orissa have very low consumption. This means the marketing efforts yield results in few states and is very difficult to sell in others. Table 2 gives the per hectare consumption of fertilizers by different states.

TABLE 2: PER HECTARE CONSUMPTION OF FERTILIZERS FOR  
CROPPED AREA DURING 2001-02

S. No.	State/U.T.	2001-02
1	Andhra Pradesh	143.46
2.	Karnataka	101.48
3.	Kerala	60.72
4.	Tamil Nadu	141.55
5.	Gujarat	85.52
6.	Madhya Pradesh*	39.96
7.	Maharashtra	78.24
8.	Rajasthan	38.88
9.	Haryana	155.69

S. No.	State/U.T.	2001-02
10.	Himachal Pradesh	41.40
11.	Jammu & Kashmir	64.55
12.	Punjab	173.38
13.	Uttar Pradesh**	130.40
14.	Bihar	87.39
15.	Orissa	40.91
16.	West Bengal	126.82
17.	Arunachal Pradesh	2.88
18.	Assam	38.81
19.	Tripura	30.45
20.	Manipur	104.94
21.	Meghalaya	17.16
22.	Nagaland	2.13
23.	Mizoram	13.72
24.	Sikkim	9.72
	All India	90.12

\*Includes Chhatisgarh

\*\*Includes Uttaranchal

The consumption pattern of fertilizers has direct relevance to output pattern of crops i.e., states consuming more nutrients are producing more grains. The marketing personnel have to spread this theory to lesser fertilizer consuming states. The government agencies should do more advertising in low consumption states to improve the productivity. This works as a backup for the marketing team for fertilizers.

The marketing of fertilizers is well attended by traders; co-operative societies and village farm leaders. This cannot be taken up in same way as the consumer goods sales representatives visit potential customers. The traders are in a better position to increase marketing of fertilizers due to their contacts and know-how of consumption levels of different farmers. Let us discuss the marketing mix for fertilizers.

### ***Product***

Not much manoeuvrability is possible for the manufacturers and marketing men in product designing. At the most they can manufacture and market fertilizer mixtures which supply the three nutrients in a proportion that is required by certain types of soils or crops or regions. These are called paddy mixture or sugarcane mixture but the bags should clearly indicate the proportions of the three nutrients, e.g. there could be a mixture as 20 : 20 : 20 which means the mixture contains N, P and K in that proportion. Thus the product maneuverability is very limited in the case of fertilizers.

### ***Price***

Prices are totally controlled by the Government including the margins for channel members and the companies may offer to their dealers volume discounts or off-season discounts at the most. This is very closely watched by the government and any such rebates have to be borne by the company as the subsidy will not cover such discounts.

## ***Distribution***

Here again, the government policies dictate the type, quantum and the area for distribution for each manufacturer. Therefore, the manufacturers do not have much say in distribution.

Most fertilizer manufacturers use distribution networks to reach the fertilizers to end users. Traditionally, the cooperatives and Agro Industries Corporations played a significant role, but of late private trade has also taken to the fertilizer distribution in a big way because of attractive margins. Earlier the proportion of fertilizer distributed between the cooperatives and private trade was in the ratio of 60:40. Presently the trend is reversed and private trade accounts for 60 per cent, while cooperatives and 'agro' industries corporations for only 40 per cent. So mostly the fertilizer marketing is through a dealer network which consists of cooperatives, agro-industries corporations and private trade.

## ***Promotion***

For advertisements, the local language newspapers, magazines and TV media should be used to inform on advantages of fertilizer uses. All India Radio (AIR) is very popular in villages and the advertisements through AIR serve good purpose. Since the price of fertilizers is controlled by the government, the next logical step is to create awareness amongst farmers about the use of fertilizers. During TV and radio programmes meant for farmers, there should be advertisements of fertilizers. In addition to these hoardings, writings on walls in villages help to make them remember about various fertilizers varieties.

Mobile vans having films and then advertisement announcement is another method which sets masses. Village fairs, pilgrimages and public celebrations are other places where the advertisement can be made more effective method is film on product, method of usage and benefits. Audio-visual effect gives better effect than more advertisement.

The fertilizer producing companies organize the demonstration of usage in various fields. They visit some progressive farmers, do free test of soil and explain what type of fertilizer is required. This will help them to use the progressive farmer as their sales spokesman in future. Selected farmers can be called to fertilizer factories to explain more on usage and its effects. Creating awareness of the product and its benefit will help to increase the sales.

### ***Defects in fertilizer marketing***

Notwithstanding the fast expansion of sale points of fertilizers, the defects in the marketing system of fertilizers are identified as follows:

1. The number of sale points are still inadequate. Although, at the country level, the average cropped area per sale point is 714 hectares, farmers in hill and desert areas have to travel long distance to buy the fertilizers.
2. Quite often, the supplies of the fertilizers at many sale points are not sufficient to meet the demand for fertilizers in the area.
3. At many sale points, the fertilizers are not stocked at a time when farmers want to purchase. For example, if the supplies

to the sale point do not reach before the sowing of crops, the farmers are not able to buy the fertilizer which they wish to use as basal dose.

4. Quite often, the makes and grades of the fertilizers which the farmers wish to buy are not available at the nearest sale point.
5. When the supply is less than demand for fertilizers in an area, during a specified season, the dealers charge a price higher than the statutory or normal price.
6. Sometimes, the farmers are forced to buy another kind of fertilizer along with the kind desired by them. For example, at some sale points farmers are forced to purchase some phosphatic fertilizer along with nitrogenous fertilizer. Technically, this may be a right practice, but farmer as a buyer feels this practice as undesirable compulsion.
7. Farmers in many areas do not have cash to pay for the fertilizers. Short-term loan or crop loan from the banks is meant to meet this requirement. But if credit proposals are not processed in time to enable the farmers to buy the fertilizers on credit, the sale of fertilizers gets a set back in such areas.

### ***Suggestions for better fertilizer marketing***

Suggestions for improving the fertilizer marketing system are as follows:

1. There is a need to increase the number of sale points specially in hilly, tribal and desert areas so that the farmers have not to travel much distance to buy the fertilizer. This will save time and also minimize the travel cost.
2. There is also a need to develop proper distribution arrangements involving a combination of co-operatives, government and private agencies, depending on the potential of the area. Restriction on the entry of marketing firms should be relaxed by making the fertilizer licensing policy liberal so as to increase competition and efficiency in the fertilizer trade. Whenever, co-operative institutions have not been successful, private dealers should be encouraged to supplement the sales efforts. The basic objectives of the policy should be to make fertilizer available to all the farmers at the time of need at reasonable prices rather than the strengthening of the co-operative organization.
3. Packing material and technology for fertilizers should be improved to minimise the chances of loss during transit and storage as also of pilferage from the bags.
4. Fertilizer should also be made available in smaller packets of 5 to 10 kg.
5. There is need to check adulteration and under weighment of bags. This can be done by strengthening the quality control organization (drawing of samples at different stages of marketing and laboratory testing) in addition to the use of good packing material.

6. There is also a need to minimise the number of brand names to avoid confusion among the farmers specially those who are illiterate or have poor educational level.
7. The ratio of prices of three nutrients (NPK) should be maintained at levels consistent with the normative use under different cropping patterns and soil conditions.

### **6.3 SEEDS**

The seed is a trigger point which sets in motion the process of technological change. The returns to investment depends significantly on the quality of seed that is used in the production of crops. The need of a suitable seed having desired characteristics such as high yield, better grain quality and resistance to pests and diseases, is well recognized for increasing the crop yields in any agro-climatic region. Although seed accounts for only a small part of the total cultivation expenses, yet without good seed, the investment on fertilizers, water, pesticides and other input does not pay the dividend.

Traditionally the seeds market was in the hands of central and state seeds corporations. In addition, a few private seed companies were also in operation. The responsibility of evolving new varieties of high yielding seeds mostly rested with the government agencies like Agricultural Research Stations and Agricultural Universities of Central and State Governments. These new varieties thus evolved were multiplied and supplied to the farmers by the seeds corporations. These seeds were certified and strict quality control measures were enforced. The

corporations distributed their seeds through cooperatives private dealers and their own sales counters.

With the entry of several multinational seed companies like Cargill and Pet Seeds of USA, Pioneer Seeds, Hoechst, Harrison Vanderhave, ITC, Indo-American Hybrid Seed Company, etc. the scenario is fast changing. Simultaneously the Government is also encouraging the food processing industry through several concessions with a view to earn foreign exchange. This has opened the seeds market to multinational companies.

Seed is the most essential input and hence not much of marketing effort is required. The marketer may have to explain only if new varieties have come. Another explanation required is the quantity required per acre and the quantum of crops expected from a particular variety. The seed requirement is the marketing quantity and it gets sold with least efforts. Table 3 gives the statistics on production and distribution of seed.

TABLE 3: PRODUCTION AND DISTRIBUTION OF QUALITY SEEDS

Type	Unit	1997-98	1998-99	1999- 2000	2000-01	2001-02	2002-03
Breeder seed	Qtls.	46.134	38.994	51.131	42.690	47.021	49.000
Foundation seed	'000 qtls.	684	675	466	591	550	600
Certified quality seed distribution	'000 qtls.	7.879	8.497	8.798	8.627	9.100	9.300

\*Expected

\*\*\*Target

Source: Ministry of Agriculture.

At present many private corporate sectors are involved in seeds production and sales. There are ITC, HLL, Thapar group, Pioneer Seeds and many other public limited companies. They are also concentrating on developing and selling HYV seeds of food grains. In addition, few of them develop seeds for fruits and vegetables of high quality. India is exporting seeds to Europe and the USA and thus many progressive farmers have developed special farms.

#### **6.4 PESTICIDES/INSECTICIDES**

The chemicals used for control of pests, diseases, rodents, virus, etc. are broadly termed 'agricultural chemicals'. The agricultural chemicals market can be classified as follows:

- a) Insecticides- about 80% of total chemicals used
- b) Fungicides- about 10% of total chemicals used
- c) Rodenticides
- d) Herbicides and – about 5% of total chemicals used
- e) Fumigants

These are poisonous materials and hence only licenced manufacturers are allowed to produce and sell them. There are specifications and safety measures to be followed for all chemicals. The producer has to write on labels and on separate sheets about the mixing pattern (with water or other material), usage method, safety factors so that only the right quality and quantity with the right method is applied. Excess dosage could be harmful to the crops and even to the cattle.

There is steady rise about 7.5% per annum in quantity-wise consumption of chemicals. Table 4 shows that only these states which consume more fertilizers consume more of chemicals also. In other words, the agriculturally better of states are high consumers of agro-inputs. This however is all India high which itself is only about one-fourth of the inputs consumption pattern in advanced countries. Table 5 showed the crop-wise consumption of chemicals.

TABLE 4: STATE-WISE SHARE OF AGROCHEMICALS CONSUMPTION

Sr. No.	Name of States	Proportion to Total (%)
1.	Andhra Pradesh	33.6
2.	Karnataka	16.2
3.	Gujarat	15.2
4.	Punjab	11.4
5.	Maharashtra	5.1
6.	Haryana	4.7
7.	Tamil Nadu	3.6
8.	West Bengal	2.9
9.	Orissa	2.0
10.	Uttar Pradesh	1.7
11.	Kerala	1.3
12.	Madhya Pradesh	1.0
13.	Bihar	0.8
14.	Assam	0.3
15.	Himachal Pradesh	0.1
16.	Rajasthan	0.1
17.	All states	100.0

Nearly 50 per cent of the sale points for agro-chemicals are concentrated in four of five states viz., Andhra Pradesh, Uttar Pradesh, Gujarat, Tamil Nadu and West Bengal. As in the case of fertilizers, the consumption of agro-chemicals is also concentrated in certain states. This is, of course dictated by the crops grown and their susceptibility to pests and diseases e.g. cotton and paddy alone account for nearly 65 per cent of the agro-chemicals consumption. The consumption of agricultural chemicals varies widely across different states.

In India, the agro-chemical consumption is dependent upon several factors— irrigation facilities, types of crops grown, concentration of plantation crops, susceptibility of crops to different pests and diseases. This can be explained by the fact that the irrigated area is substantial in the state, dependence on paddy and commercial crops like sugarcane, tobacco and chillies, and intensity of cropping. Thus the market for agro-chemicals is not uniform.

TABLE 5: AGROCHEMICALS CONSUMPTION: CROP-WISE

Sr. No.	Name of Crop	Proportion of area under the crop of total area (%)	Proportion of consumption to total (%)
1.	Cotton	5.0	27
2.	Rice/paddy	24.0	27
3.	Plantation crops	0.5	15
4.	Vegetables	1.7	12
5.	Sugarcane	1.8	4
6.	Oil seeds	10.0	4
7.	Wheat	10.0	3

8.	Others	47.0	8
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Though a crop like cotton occupies only 5 per cent of the total cultivated area, it accounts for 27 per cent of the total agro chemicals consumption which indicates its high susceptibility to pests and disease. The cotton farmers use large quantities of pesticides/insecticides either to control the pests and diseases after the attack or as a prophylactic measure to prevent the occurrence of pests and diseases. Thus, the market for agro-chemicals depends heavily on the region and the crops grown therein. Since there are no significant government controls as in the case of fertilizers, the elements of marketing mix are very much under the control of the manufacturers and marketing men of agro chemicals. Its imperative to understand the marketing-mix for insecticides/pesticides.

**Product:** The formulators are free to manufacture and market any combination or concentration of insecticides or pesticides from the basic chemicals. They are also free to use any brand names. For spraying of chemicals, the sprayer or applicators are required. Many farmers even don't have these applicators. They borrow from friends. Co-operatives give these applicators/sprayerson hire.

**Price:** Price of agro-chemicals is not governed by any of statute. The competition guides the prices. Effectiveness of certain brands gets the advantage of premium pricing.

**Promotion:** Sales promotion of chemicals is on similar lines as that of fertilizers. This also requires to create awareness of losses due to pests, rodents etc. village fairs, congregation for festivals and election

meetings are places to organize advertisements. Hoardings at prominent places and in village roads and highways enable the rural people to remember the product.

**Distribution:** Chemicals should be made available when they are needed most. Sometimes crops are affected by epidemic diseases and at that time right kind of pesticides should be available in nearby places. Different chemicals required for different crops, duration of need, self life of chemicals, method of dosage and usage are very important, storage of pesticides consumes lesser space compared to fertilizers and hence traders can keep required stock for six months. Only thing is that safety is to be taken into consideration as these are poisonous materials for humans and livestock.

## **6.5 TRACTORS**

The country produces about 1.5 lakh tractors per annum, which are sold without much difficulty. These tractors of different horsepowers- 25 HP, 35 HP and above 35 HP are manufactured and marketed by major companies like HMT, Escorts, Eicher, Massey Ferguson, International, Punjab Tractors, etc. Since the cost involved in purchase of tractors and the implements is substantial, the dependency is more on loans from the rural financial institutions. It has been estimated that nearly 90 per cent of the tractors sales is based on the loans advanced by rural financial institutions like state Land Development Banks and Commercial Banks. Since such loans are treated as long term loans, the prospective buyer of the tractor should be able to offer collateral security to the lending agency. Hence farmers with sizeable land holding alone can afford to apply for loans which clearly segments for the agricultural machinery

market. While in the case of consumable inputs, all farmers, irrespective of the size of holding, will constitute the market, in the case of tractors and other agricultural machinery there is a need to clearly identify the segment of farmers which can own and use the tractors profitably. The distribution of holdings size group-wise will be the major criteria for tractor marketing. The exact requirement of land will vary from region to region depending upon the irrigation facilities and types of crops grown. For example, in highly irrigated areas where three to four crops are grown in a year, even a farmer owning and operating in about 20 acres of land can efficiently use a tractor. Whereas in dry/unirrigated/rainfed areas farmers with more than 20 or 25 acres of land alone can afford to use the tractors profitably. When the farmer approaches a bank for finance for purchase of a tractor, the bank not only takes into account the possible utilization of tractor on his own farm, but also the possibility of hiring out the services of the tractors to the neighbouring farmers. Thus most of the farmers who do have large land holding are able to obtain loans for purchase of tractors.

The most important criteria which count in tractor purchase are-

1. Area of land holding.
2. Nature of land holding (irrigated/dry).
3. Types of crops grown and number of crops grown in a year.
4. Availability of loan.
5. Possibility of hiring out the services of the tractors to others.

6. Requirement of tractor for transport of produce to market and inputs to the farm.

From the marketing point of view the factors which count for successful sale are:

1. Loan availability from banks.
2. Personal selling: identification of potential tractor users and approaching them.
3. Trouble free service- less number of breakdowns.
4. Availability of spares for easy repairs.
5. After sales service.
6. Resale value of tractors.
7. Fuel efficiency.

Most manufacturers and marketing men get themselves registered with the lending agencies as approved suppliers. As and when the farmer is sanctioned loans, the approved suppliers compete among themselves to supply the tractor. The farmer in addition to his investment in tractor (which is only a prime mover) has to invest in implements which can be hitched to the tractor like disc ploughs, levelers, tailors, power sprayer, etc.

The farmers require advice with regard to the choice of appropriate horsepower of the tractor. This would depend upon the type of soil, purpose for which the tractor is purchased and the load it is expected to

carry at the time of harvest. The marketing personnel should be in a position to advise the farmers on these aspects.

## 6.6 SUMMARY

For getting high productivity and high quality crops, it is essential to use seeds of HYV, appropriate quality, and quantity of fertilizers and pesticides as per the need. Hence, marketing of these inputs is an important rural function.

Marketing of inputs are categorized as consumables and durables. Consumables directly help for good crop production and durables play a supporting role. Some of the durables are shareable type and hence marketing is bit difficult. Consumables marketing increases year after year. Normally states having high agricultural production consume more inputs and reverse is the case with low agricultural production states.

## 6.7 KEYWORDS

**Straight fertilizers:** The fertilizers which supply only a single nutrient nitrogenous (N), phosphatic (P), and Potassic (K) are called straight fertilizers like urea.

**Compound fertilizers:** The fertilizers which contain more than one nutrient are called compound fertilizers or complex fertilizers like Di-Ammonium Phosphate (DAP).

**Plant protection chemicals:** The chemicals used for control of pests, diseases, rodents, and virus etc. These can be insecticides, fungicides, herbicides, weedicides etc.

**Breeder seed:** It is primary stage of seed production cycle.

**Subsidy:** The customer's price of fertilizer is generally lower than the cost of production. Naturally, the government has to compensate the industry in some forms. The gap between these two is filled up through subsidy by the government.

## **6.8 SELF ASSESSMENT QUESTIONS**

- 1 Write a detailed note on the marketing of agricultural inputs.
- 2 List out the suggestions for the availability of quality seeds to the farmers.
- 3 If you the marketing head of a fertilizer company, how will you ensure the timely supply to the farmers.

## **6.9 REFERENCES/SUGGESTED READINGS**

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## **AGRICULTURAL MARKETING, CLASSIFICATION OF PRODUCTS AND ECONOMIC DEVELOPMENT**

### **STRUCTURE**

- 7.0 Objective
- 7.1 Introduction
- 7.2 Concept and definition
- 7.3 Classification of agricultural products
- 7.4 Agricultural marketing and economic development
- 7.5 History and growth of agricultural marketing
- 7.6 Summary
- 7.7 Keywords
- 7.8 Self assessment questions
- 7.9 References/suggested readings

### **7.0 OBJECTIVE**

After reading this lesson, you will be able to understand-

- Constituents of rural marketing and importance of agricultural marketing.
- Historical developments in agricultural marketing.
- Classification of agricultural products and growth of agriculture in India.

## **7.1 INTRODUCTION**

Food-grains plays an important role in any society especially for hunger ones. The majority of the people those who die due to hunger, it is because of a simple reason that they have to pay higher prices for the food-grains. Therefore, effective and efficient marketing system is an essential task in this context. If marketing system at this level is not efficient, prices which are charged at customer's level are not adequate on one side and proper margin at producer's level is not transformed on other side. This results into inadequate price incentives for the farmers to produce a product when it is short supply. Hence, it affects both the parties i.e. farmers and consumers. So, to avoid this kind of peculiar situation, an orderly and efficient marketing system is required. The agricultural marketing plays double role in the economic development of the countries whose main resources either are agricultural produce or dependent on these resources. Therefore, the need for a proper agricultural marketing system for the speedy economic development of the country is essential part of the overall development and growth.

Agricultural marketing was, till recently, not fully accepted as an essential element in agricultural development in the countries of Asia and the Far East. Although opinions differ as to the extent and precedence, there was general agreement till 1970 that the question of marketers for agricultural commodities has been neglected. Agriculture marketing occupies a fairly low place in agricultural development policies of developing countries. The National Commission on Agriculture (1976) has emphasized that it is not enough to produce a crop or an animal product; it must be satisfactorily marketed.

## **7.2 CONCEPT AND DEFINITION**

The term agricultural marketing is composed of two words—agriculture and marketing. Agriculture, in the broad sense, means activities aimed at the use of natural resources for human welfare, i.e., it includes all the primary activities of production. But, generally, it is used to mean growing and/or raising crops and livestock. Marketing connotes a series of activities involved in moving the goods from the point of production to the point of consumption. It includes all the activities involved in the creation of time, place, form and possession utility.

According to Thomson, the study of agricultural marketing comprises all the operations, and the agencies conducting them, involved in the movement of farm produced foods, raw materials and their derivatives, such as textiles, from the farms to the final consumers, and the effects of such operations on farmers, middlemen and consumers. This definition does not include the input side of agriculture.

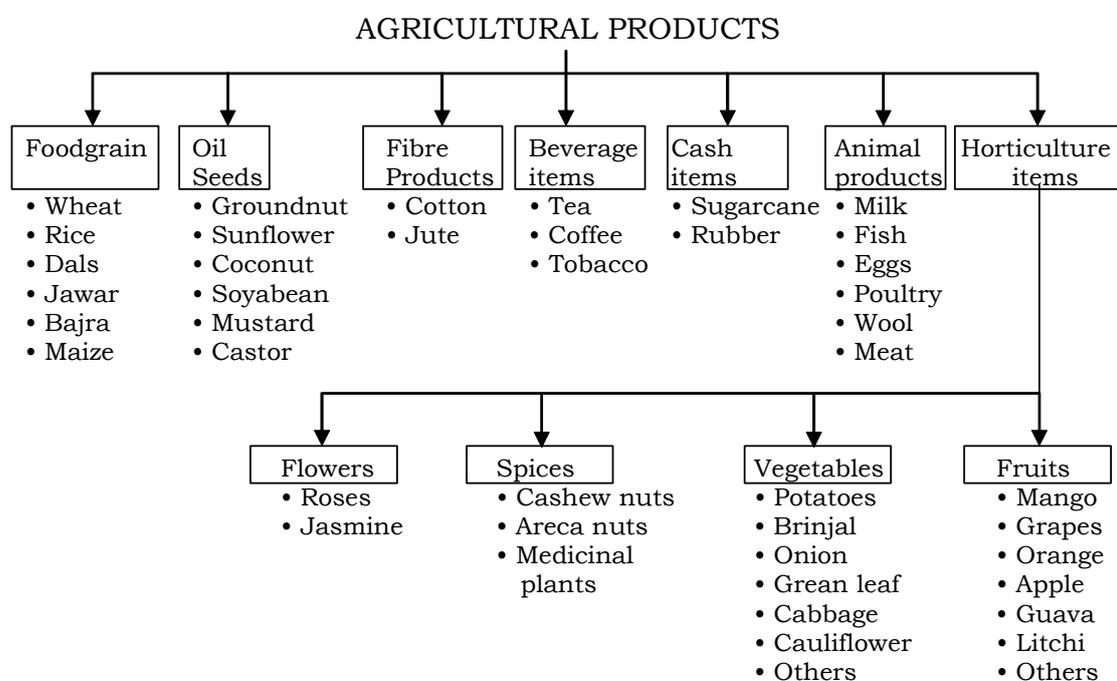
Agricultural marketing is the study of all activities, agencies and policies involved in the procurement of farm inputs by the farmers and the movement of agricultural products from the farms to the consumers. The agricultural marketing system is a link between the farm and the non-farm sectors. It includes the organization of agricultural raw materials supply to processing industries, the assessment of demand for farm inputs and raw materials, and the policy relating to the marketing of farm products and inputs.

### **7.3 CLASSIFICATION OF AGRICULTURAL PRODUCTS**

Agricultural products can broadly be classified into seven categories:

- Foodgrain items
- Oilseed produce
- Horticulture produce
- Fibre products
- Beverage items
- Cash items
- Animal produce

By reading the below mentioned chart, we can understand the entire classification and sub-classification of the agricultural products.



## **7.4 AGRICULTURAL MARKETING AND ECONOMIC DEVELOPMENT**

Agriculture has been the life blood of the Indian economy. It is not because of the fact that its contribution is lower than that of services in the GDP. It is because that many of the services have been emerged due to modern agriculture. The importance of agricultural marketing in the economic development can be understood through following reasons.

### **(a) Optimum use of resources**

A good marketing system leads to the optimum use of resources and output management. An efficient marketing system should be developed so that we can scale down the losses arising out of inefficient

processing, storage, and transportation. As a result the income of the farmers increase, and that result in his increased demand for industrial products.

### **(b) Decreasing the channel members**

An efficient marketing system ensures higher levels of income for the farmers by reducing the number of middlemen and malpractices adopted by them. It avoids the commission based system in which farmers are not involved. Take the case of ITC in which ITC through e-choupals, have removed all the middle man and the benefits are directly trickling down to the farmers. They are able to get adequate prices for their crops. This again results in an increase in the marketed surplus and income of the farmers which resultant into more demand of the other products and ultimately leads to the economic development of the country.

### **(c) Impact of green revolution and modern farming**

The Indian farmer has been shifting from traditional forming system to modern farming system by leaps and bounds and this credit goes to greater resolution which was responsible for providing modern equipments to the Indian farmers. The progress in the food grain production can be seen in the Table 1.

TABLE 1: FOODGRAINS PRODUCTION

*(Million tones)*

Crop	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Rice	81.7	82.5	88.1	89.7	84.9	93.1	77.7
Wheat	69.4	66.4	71.3	76.4	68.8	71.8	68.9

Coarse cereals	34.1	30.4	31.3	30.3	31.6	33.9	25.1
Pulses	14.2	13.0	14.9	13.4	10.7	13.2	11.5
Food Grains							
Kharif	103.9	101.6	102.9	105.5	103.4	111.5	90.3
Rabi	95.5	90.7	100.7	104.3	92.5	100.5	92.9
Total	199.4	192.3	203.6	209.8	195.9	212.0	183.2

\*Second advance estimates

### (d) Contribution to national GDP growth

Almost two-thirds of the population still dependent on agriculture and they contribute around 28 per cent of the GDP through this sector. To sustain the growth of non-agricultural sector, resources have to be obtained from agriculture sector. Besides physical resources, it also provides financial resources for investment in the economy. Gross capital formation in agriculture can be seen in the Table 2.

TABLE 2: GROSS CAPITAL FORMATION IN AGRICULTURE AT 1993-94  
PRICES

*(Rs. Crores)*

Year	Total	Public	Private	Percent share		Investment in agriculture as percent of GDP
				Public	Private	
1993-94	13523	4467	9056	33.0	67.0	1.6
1994-95	149.69	4947	10022	33.0	67.0	1.6
1995-96	15690	4849	10841	30.0	69.1	1.6
1996-97	16176	4668	11508	28.9	71.1	1.5
1997-98	15942	3979	11963	25.0	75.0	1.4
1998-99	14895	3870	11025	26.0	74.0	1.3
1999-00	17304	4222	13082	24.4	75.6	1.4
2000-01	16681	3919	12768	23.5	76.5	1.3
2001-02	18057	4794	13263	26.5	13.5	1.3

\*Quick estimates

### (E) Widening of markets

Like the securities markets, commodities markets have also started working in India. These exchanges have started giving opportunities to

the farmers to trade their crops anywhere in the world. This helps in increasing the demand on a continuous basis, and thereby, guarantees a higher income to the producer. This system helps the farmers in planning their production in accordance with the needs of the economy.

**(F) Better standard of living**

Better marketing system leads to the better standard of living of the farmers. This system provides more disposable income in the hands of the farmers and that income is spent by the farmers to avail and enjoy modern facilities like telephones, bikes, TV, clothing, and even cars and computers. Therefore, modern farmers are able to enjoy better standard of living besides contributing to the growth of the economy.

**(G) Infrastructure developer**

An improved and efficient system of agricultural marketing helps in the growth of agro-based industries and stimulates the growth of other areas. This has resulted into investments in infrastructure in India.

**(H) Earning foreign exchange**

The country is not only self-sufficient in the field of agri-products but also exports these products. In the year 2001-02, 5.8 billion dollars products were exported. This contribution was only from sea products. Rice and wheat exports are around 10 million tons. Export of horticultural produce has also shown strong growth rate besides cotton and jute.

Today, when India is a progressive member of the WTO and the world is heading towards globalisation, the significance of agriculture

marketing assumes greater importance. The growing urbanisation has also increased the importance of marketing of foodgrains. The new class of rich capitalist farmers have emerged who cultivate the land with the profit motive. They go for all luxuries in life and this is a kind of signal where we can say that if we develop a sound marketing system, it will lead to more and more economic development of the country.

## **7.5 HISTORY AND GROWTH OF AGRICULTURAL MARKETING**

Historically, Indian agriculture was mostly in the nature of subsistence farming right up to the beginning of the both century. The farmer used to sell only a small part of his produce to pay off rent and debts, and also to meet his other requirements. Such sale was usually done immediately after the harvesting of the crops, because, at that time, there was no storing facilities. The poor and illiterate farmers used to take his small surplus to the market where he was confronted with powerful and organised traders who used to exploit and cheat him in a variety of ways. Thus, agricultural marketing remained very unsatisfactory up to the middle of both century, although the development of sugar, textile, and jute industry had given new inputs to cash crops, and department of a marketing system for sugar, cotton, and jute had been evolved.

The following factors have led to the growth of marketing in the field of agriculture.

## **Specialisation**

The tendency towards increasing specialization by persons in certain jobs has resulted in an increase in their efficiency and the breakdown in the self-sufficiency of the family unit. Specialization, thus, has resulted in increased production, which is the base for the growth of marketing, and, in turn, of the economy.

## **Urbanisation**

Urban people are the main buyers of agricultural surpluses. The growing population of urban India and the faster transition from rural India to urban India has necessitated a faster growth of agricultural marketing.

## **Transportation and communication**

The increasing transportation and communication facilities have widened the market for farm products. The length and breadth of the market to which a product is taken from the production areas have increased. In the absence of these facilities, the movement of produce from one area to another was limited, and the consumption of a product was restricted only to the areas of production or, at the most, to nearby areas.

## **Technological change in agriculture**

Technological developments in agriculture, such as the evolution of high-yielding varieties of seeds, increased use of modern inputs and cultivation practices in the agricultural sector, have resulted in

substantial increase in farm production. The marketed surplus of the agricultural produce has therefore increased. Production-conscious farmers have also become income conscious. This has resulted in the growth of the marketing system.

The importance of an efficient marketing system as a vital link between the farmers and the consumers was recognized way back in 1928 by the royal commission on agriculture. Since then, a good deal of progress has been made in organizing agricultural marketing by the adoption of the various administrative and legislative measures by the government from time to time. the establishment of the Directorate of marketing and inspection in 1935, the enactment of the Act for the grading and standardization of agricultural commodities, the conduct of commodity market surveys, and the establishment of regulated markets in the country- these are some of the measures which have been taken up to improve the marketing situation and to make agricultural marketing as efficient as possible.

During the first and second five year plans, agricultural marketing did not receive importance. Whatever development that took place in the sphere of marketing was due to the gradual progress towards the commercialization of agriculture, as a result of its own dynamic nature, and not because of any specific government efforts.

The National Commission on Agriculture remarked "There is an increasing awareness that it is not enough to produce a crop or animal product, it must be marketed well. Increased production, resulting in a greater percentage increase in the marketable surplus accompanies by the increase demand from urban population, calls for a rapid

improvement in the existing marketing system". This statement emphasized the increasing importance of marketing of agricultural commodities and the need for the adoption of measures to increase production.

## **7.6 SUMMARY**

Rural marketing has two constituents-marketing inputs and outputs. The marketing output is agricultural marketing which deals in marketing of village produce. The modern form of agricultural wholesale and retail markets have evolved in response to competitive market pressures, changes in consumer market and attempts to improve marketing operational efficiency and satisfy consumer wants. Commodities in agriculture marketing include all farm produce and animal produce. Agricultural marketing gives a multiplier effect to the growth of agriculture in addition to enhancing efficiency and effectiveness.

The history of agricultural marketing in India is five decades old. Science and technology are helping to grow more agricultural produce of quality at affordable prices. The growth of agriculture in India since independence is impressive.

## **7.7 KEYWORDS**

**Urbanisation:** The process of migration of people from rural areas to urban areas for permanent settlement.

**Middleman:** The people that who carry out operational task and help in exchange of products between a producer and a consumer.

**Firm utility:** The processing function adds form utility to the product by changing the raw material into a finished product.

**Optimisation of resources:** An efficient system of marketing in which there is an efficient use of resources and output management.

**Widening of markets:** Taking the products to remote corners both within and outside the country from the production point.

## **7.8 SELF ASSESSMENT QUESTIONS**

1. What do you understand by 'agricultural marketing'?
2. List out the detailed classification of different agricultural produce
3. Describe in detail the association of agricultural marketing and economic development.
4. Briefly explain the evolution of agricultural marketing in India.

## **7.9 REFERENCES/SUGGESTED READINGS**

1. Agricultural marketing in India by Acharya and Agarwal.
2. Rural and agricultural marketing by T.P. Gopaldaswamy.
3. Rural marketing by R.V. Badi and N.V. Badi.

Subject: <b>RURAL &amp; AGRICULTURAL MARKETING</b>	
Course Code: <b>MM-310</b>	Author: <b>Dr. V.K. Bishnoi</b>
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## **ROLE OF WAREHOUSING**

### **STRUCTURE**

- 8.0 Objective
- 8.1 Introduction
- 8.2 Meaning of warehousing
- 8.3 The functions of warehouses
- 8.4 Types of warehouses
- 8.5 Warehousing in india
- 8.6 Growth of warehouses
- 8.7 Warehouses capacity utilisation
- 8.8 Reasons for warehouses under utilisation
- 8.9 Warehousing improvement suggestions
- 8.10 Summary
- 8.11 Keywords
- 8.12 Self assessment questions
- 8.13 References/Suggested readings

### **8.0 OBJECTIVE**

After reading this lesson, you will be able-

- To discuss the concept of warehousing.
- To see the functions of warehousing.

- To learn about the role of warehousing in the development of agriculture.

## **8.1 INTRODUCTION**

The practice of storage and warehousing is as old as civilisation. Only the methods, quantity, and safety factors have improved in the modern times. Undoubtedly it is one of the important marketing functions that involves holding and preserving goods from the point of time they are produced until they are needed for consumption. Storage is an exercise of human foresight by means of which commodities are protected from deterioration, and surplus supplies in times of plenty are carried over to the season of scarcity. The storage function, therefore, adds the time utility to products.

Agriculture, particularly in India, is characterized by relatively large and irregular seasonal and year-to-year fluctuations in production. The consumption of most farm products, on the other hand, is relatively stable. These conflicting behaviours of demand and supply make it necessary that large quantities of farm produce need to be stored for a considerable period of time.

## **8.2 MEANING OF WAREHOUSING**

Warehouse is scientific storage structure especially constructed for the protection of the quantity and quality of stored products. Warehousing may be defined as the assumption of responsibility for the storage of goods. It may be called the protector of national wealth, for the produce stored in warehouses is preserved and protected against

rodents, insects and pests, and against the ill-effect of moisture and dampness.

### **8.3 THE FUNCTIONS OF WAREHOUSES**

The warehousing scheme in India is an integrated scheme of scientific storage, rural credit, price stabilization, and market intelligence and is intended to supplement the efforts of co-operative institutions. The important functions of warehouses are:

- (i) Price stabilisation-** Storing in a warehouse assures food availability safety to the public and better storage for farmers. Farmers are protected from low price due to glut in the market. They can sell later on whenever the price is favourable to them and till then their commodity is safe. By releasing goods in instalments in a staggered manner, the goods prices are kept in a range without much fluctuation.
- (ii) Scientific storage-** The system followed in large size warehouses is unique. Here, a large bulk of agricultural commodities may be stored. The product is protected against quantitative and qualitative losses by the use of such methods of preservation as are necessary.
- (iii) Market intelligence-** The warehouse offices keep informing the stock holder about prices of various items on a weekly basis. This enables the farmer to know when to sell the goods. By this possibility of discount, sale is avoided. Since there is no risk in keeping goods in warehouses and as bank

advance is received, the farmer can afford to wait and sell his produce at an appropriate time.

- (iv) **Financing-** Warehouses meet the financial needs of the person who stores the product. Nationalised banks advance credit on the security of the warehouse receipt issued for the stored products to the extent of 70 to 80 per cent of their value.

## 8.4 TYPES OF WAREHOUSES

Warehouses may be classified into different category on the following basis:

### I. On the basis of ownership

- (a) **Public warehouses:** These are government owned warehouses where the public or farmers can store their produce. The space-wise, bag-wise storage rates are fixed and levied accordingly. Co-operative warehouses are also working in a similar way but the storage offer is open to its members only. These are common storage places and very commonly used by the rural people.
- (b) **Private warehouses-** These are owned by individuals, large business houses or wholesalers for the storage of their own stocks. They also store the products of others.
- (c) **Bonded warehouses-** This is commonly referred to as dealing in import clearance at seaports and airports. This facility is provided by the government since all are not in a

position immediately pay the customs duty and clear the imported goods. Until they clear the duty, the provision to store is made in bonded warehouses. This also enables the buyer to clear in lots if finance is constraint to clear full goods at a time. The license is issued to the warehouse by the customs office that the goods will be cleared only after collecting the customs duty. The rules and procedures are to be followed strictly for taking out the goods. However, the warehouse officials have to face queries and questions of the customs officials everyday. The following services are rendered by the bonded warehouses:

(i) The importer of goods is saved from the botheration of paying customs duty all at one time because he can take delivery of the goods in parts.

(ii) The importer has the choice to delay the collection and also to collect in small quantities.

(iii) Through this process, re-export of goods becomes possible. The importer may take delivery of the goods without paying the customs duty if they are to be re-exported. He is thus, saved from the botheration of first making the payment of customs duties on imported goods and then getting a refund on re-exported goods.

## **II. On the basis of types of commodities stored**

(a) **Warehouse for special commodities-** Some items are so special that it is impracticable to combine the storage with others. They need special protection from fire like cotton

bales, tobacco, oil products, woollen, and cotton materials. Warehousing has to be protected from fire and there should be no scope to spread fire.

- (b) **Refrigerated warehouse-** These are the kinds of warehouses where temperature is maintained as per requirements and are meant for such perishable commodities as vegetables, fruits, fish, eggs, and meat. The temperature in these warehouses is maintained below 30° to 50°F or even less, so that the product may not get spoiled by high atmospheric temperature.
- (c) **General warehouses-** These are ordinary warehouses used for storage of most of foodgrains, and fertilizers etc. in constructing such warehouses no commodity-specific requirement is kept in view.

## 8.5 WAREHOUSING IN INDIA

In pre-independence era, the warehousing concept was in the form of large storages controlled by the rich farmers or '*Zamindars*'. They were having facilities and resources to take care of large scale storage, hoarding and then selling at their convenience. The British rulers did not contribute in such development activities as they were mainly spending time in governance and curbing of the independence movement. It is only after independence that the Indian government through its five year plans gave priority to agriculture and related activities. The first elected independent Indian government set up an expert committee in 1951 to suggest methods to give rural credit for agro-based activities. The

committee gave its recommendations in the year 1954. Based on these recommendations the government of India enacted the Agricultural Produce Corporation Act, 1956. This Act in turn has promulgated the following corporations.

- (i) National Co-operative Development and Warehousing Board in 1956;
- (ii) Central Warehousing Corporation in 1957; and
- (iii) State Warehousing Corporation in various States in 1957-58.

The original APC Act 1956 was split in 1962 as (a) the National Co-operative Development Corporation Act 1962 and (b) The Warehousing Corporation Act, 1962. This was done due to growing importance of each activity and the need to develop both the areas in tune with increasing need to develop both the areas in tune with increasing need of foodgrains in terms of quality and quantity.

- (i) **National Co-operative Development and Warehousing Board-** This was set up on 1<sup>st</sup> September 1956 to perform the following functions:

- (a) To advance loans and grants to state governments for financing co-operative societies engaged in the marketing processing or stage of agricultural produce, including contributions to the share capital of these institutions.

- (b) To provide funds to warehousing corporations and the state governments for financing co-operative societies for the purchase of agricultural produce on behalf of the central government.

(c) To subscribe to the share capital of the central warehousing corporation and advance loans to state warehousing corporations and the central warehousing corporations.

(d) To plan and promote programmes through co-operative societies for the supply of inputs for the development of agriculture and

(e) To administer the National Warehousing Development Fund.

In March 1963, the Board was converted into the National Co-operative Development Corporation and its functions were limited to co-operative development.

**(ii) Central Warehousing Corporation-** This corporation was established as a statutory body in New Delhi on 2<sup>nd</sup> March, 1957. Under the new Act, the Central Warehousing Corporation was formally re-established on March 18, 1963. this corporation which made a modest start with seven warehouses with 7,000 tonnes capacity, in December 1957, had set up 458 warehouses in different places in the country, with a total storage capacity of 65.92 lakh tonnes at the end of March, 1991. Of this, the present utilization is nearly 85 per cent of the total available capacity. The central warehousing corporation provides safe and reliable storage facilities for about 120 agricultural and industrial commodities. The area of operations of these central warehouses include centres warehousing corporations are:

(a) To acquire and build godowns and warehouses at suitable places in India;

(b) To run warehouses for the storage of agricultural produce, seeds, fertilizers and notified commodities for individuals, co-operatives and other institutions;

(c) To act as an agent of the government for the purchase, sale, storage and distribution of the above commodities;

(d) To arrange facilities for the transport of above commodities;

(e) To subscribe to the share capital of state warehousing corporations; and

(f) To carry out such other functions as may be prescribed under the Act. While foodgrains, sugar and fertilizers occupy 78 per cent of the total utilized storage capacity, in the remaining 22 per cent are stored cement, chemicals and other commodities. Warehouses of the corporation are fairly full all through the year. Besides the conventional storage godowns, the central warehousing corporation is running air-conditioned godowns at Calcutta, Bombay and Delhi, and provides cold storage facilities at Hyderabad. Special storage facilities have been provided by the Central warehousing corporation for the preservation of hygroscopic and fragile commodities. The corporation has been able to evolve a technique for a proper and scientific preservation of jaggery during the hot and rainy seasons by selective aeration and controlled conditions. It has set up special warehouses at some centres for the storage of jaggery. The jaggery stored in warehouses fetches a premium price in the market. The corporation has also evolved techniques for the storage of species, coffee, seeds and other commodities.

The corporation is operating a number of customs bonded warehouses at important centres in Delhi, Amristar, Ludhiana, Calcutta, Kandla, Ahmedabad, Baroda, Surat, Bhopal, Cochin, Ernakulam and Bombay to enable exporters/importers to keep their commodities in a good condition particularly pending at the time of their shipment. It has also undertaken the storage and handling of export and import cargo at the international air-port at Palam, New Delhi. At this complex, all the facilities, including inspection and clearance by customs, the payment of duty into the bank, and space for clearing agents, have been provided by the corporation. It has put up a similar air cargo complex at Amristar for the export/import of goods. It has been expanding its capacity at the port towns to serve the industry and co-operative bodies. It has already established a sizeable capacity at Bombay, Calcutta, Cochin, Chennai, Mangalore, Paradeep, Kandla, Haldia and Vizag. The corporation has introduced a scheme, called the Farmers Extension Service at selected centres to educate farmers in the benefits of a scientific storage and use of public warehouses. The central warehousing corporation also provides a package of services, such as handling and transport, safety and security of goods, insurance, standardization, documentation, and other connected services and facilities.

**(iii) State warehousing corporations (SWCs)-** Separate warehousing corporation were also set up in different state of the Indian union. The first warehouse was set up in the State

of Bihar 1956. At the end of March, 1994, state warehousing corporation were operating 1364 warehouses with a total capacity of over 98 lakh tonnes.

The area of operation of the state warehousing corporations are centres of district importance. The total share capital of the state warehousing corporations is contributed equally by the concerned state governments and the central warehousing corporation. The SWCs are under the dual control of the state Government and the central warehousing corporation.

## 8.6 GROWTH OF WAREHOUSES

There has been steady growth in India in the number of warehouses and consequently the total capacity of storage has increased. The main contributors to capacity rise are CWC, SWC, FCI and very few private agencies. The godowns have come up in most of the cities, towns and few rural areas. There is equi-distribution of godowns thus ensuring to take care of price stability. Table 8.1 shows the number and capacity growth in four decades.

TABLE 8.1: GROWTH OF WAREHOUSES

Year	Numbers			Capacity in lakh tonnes		
	CWC	SWC	Total	CWC	SWC	Total
1957-58	7	-	7	0.07	-	0.07
1960-61	40	266	306	0.79	2.28	3.57
1970-71	102	601	703	8.36	18.11	26.47
1980-81	330	1050	1380	37.89	50.00	87.89

Year	Numbers			Capacity in lakh tonnes		
	CWC	SWC	Total	CWC	SWC	Total
1990-91	495	1331	1826	66.48	93.04	160.02
1992-93	465	1350	1815	64.41	90.74	155.15
1993-94	458	1364	1822	63.73	95.58	159.38
1994-95	457	1370	1827	64.31	101.72	166.03
1995-96	458	1371	1829	69.24	114.71	183.95

Source: Government of India, Ministry of Agriculture.

The growth in numbers and capacity shows that the farmers' confidence has grown for use of warehouses. Moreover, foodgrains are national wealth. It is responsibility of one and all to protect them, consume them and sell them so that losses are avoided or minimal. It will be unfair treatment to farmers if their produce are not protected by the officials connected with agricultural and warehouses departments.

## **8.7 WAREHOUSES CAPACITY UTILISATION**

Though the central and state warehousing godowns are mainly built for use by farmers, these are being mainly used by traders, wholesalers and for government procurement. Since their inception warehouses have gradually become popular and are in continuous usage. In the beginning stages of 1955-60, the utilisation was around 50% and gradually it touched to 95%. The purpose is served and hence investment is proved worthy. The only thing to improve is that farmers are not making best use of it. Some of the reasons for non-use by farmers are as follows:

- (i) The farmers' community may find the distance of warehouse location as far for them;
- (ii) Many farmers are ignorant about this facility;
- (iii) They are not accustomed to do paper work and hence avoid government warehouses; and
- (iv) They want quick money in needy time and hence prefer to pledge with traders and village chief rather than try and wait for bank loans.

## **8.8 REASONS FOR WAREHOUSES UNDER UTILISATION**

Since the warehousing storage is on rental basis, many farmers store their produce in their homes than in warehouses. They fail to realise the safety and care being taken at the warehouses. Since many farmers are small, they want to have facilities to sell goods whenever they want without formality hassles. Farmers are not aware of difference haphazard storing at their premises and scientific storage in warehouses. They are yet to learn that losses due to insects, pests, moistures and pilferage at their premises will be much more than the rent they would have paid at warehouse godown. With improved cultivation, the output of agricultural production is increasing year, after year. This has led to price stability and very less difference in season and off season rates for foodgrains. Hence farmers storing goods at their places for better prices may not always be beneficial. The recent example of excess wheat production in Punjab-Haryana agricultural belts is a case in point. Due to surplus production not only was there no place in godowns, even there was shortage of goods wagons to move the produce to different parts of

the country. Thus, the reason for under utilisation can be summarised as follows:

- (i) Farmers will have to do grading for warehouse storage. Many farmers did not do the same due to lack of awareness.
- (ii) Small farmers feel that whatever little surplus is available should be stored in their premises. This gives them some kind of security. They are not accustomed to the formalities of government departments.
- (iii) Most of the warehouses are in towns and cities. Farmers find it cost-prohibitive. Hence traders use these facilities and not much appreciated by farmers. Thus farmer's interests are indirectly protected through the traders.
- (iv) Due to uncertainties of rains and output quantum, farmers want to retain the produce for their production.

## **8.9 WAREHOUSING IMPROVEMENT SUGGESTIONS**

The utilisation of existing warehouses (CIWC and SIWC) and FCI godowns is nearly satisfied. Now the issue is that food grains and other rural produce will continue to grow and with this the need to have more storage capacity increases. The next arrangements would have to be made taking care of the remarks made on existing facilities. In order to look into the arrangement, the Union Government has sought the recommendations of a team of working group on warehousing. The working group studied all possible details and the same are given hereunder:

- (i) Personnel to manage the storage, the panchayat should be recruited by CWC or SWC. This will ensure better care of the stores and commodities;
- (ii) There should be facility to farmers to draw smaller quantities whenever they want. On the backside of the receipt, upgradation of quantities should be done for convenience of the farmers;
- (iii) Banks should give loan against the godown receipts and based on market value of the goods; and
- (iv) There must be half yearly ending of the stores working and this subject should be discussed on panchayat meetings for clarity and transparency.

## **8.10 SUMMARY**

Warehousing and storage functions are essential part of marketing functions- storage of farm produce is done at farmers house, processing units, traders place, wholesalers godown, co-operative godown and at central and state warehousing corporations. In older days underground storage was practiced. This is inconvenient for large scale storage. Above ground storage with platform and cover, sheds, garages are used for smaller lots. For large scale storages silos, warehouses, big size concrete binds are used. The storage function costs in term of maintenance, protection from pests, rodents, fire, water and labour and handling costs. All these have to be provided to take care of the materials stored.

The states producing more farm produce need more warehousing capacity. Hence, rich farmers develop their own big godowns to have self care. Even traders and wholesalers keep grains in CWC/SWC or FCI godowns. This is essential for safety and protection. For certain perishable like fruits, vegetables, meat products, eggs etc cold storage is preferred. At present cold storage facility is inadequate and need to be increased, with growth in agro-produce the need for more and more storage facility would increase.

### **8.11 KEYWORDS**

**Market intelligence:** It is a system in which a firm keeps monitoring the situation of the market and the competitors. In case of warehousing, the office enables the farmers regarding the prices of their products on weekly basis so that they can sell their products accordingly.

**Price stabilisation:** A method by which prices are kept in a range without much fluctuation of a commodity.

**Refrigerated warehouse:** These are the kinds of warehouses where temperature is maintained as per requirements for perishable products.

**Warehouse receipt:** This is the receipt issued by the warehouse manager to the owner of the commodity at the time of storing.

### **8.12 SELF ASSESSMENT QUESTIONS**

1. Explain how storage warehouses contribute to the marketing function of rural produce. Give suitable examples.

2. What do you know about different types of storages. Explain with sketches.
3. Write notes on the following:
  - a) Risks in storage
  - b) Storage structure
  - c) Costs of storage
  - d) Warehousing in India
4. Explain different types of warehouses and their functions. Discuss the future scope of warehouses in India.
5. Writes notes on the following:
  - a) Central Warehousing Corporation (CWC);
  - b) State Warehousing Corporation (SWC); and
  - c) Warehouse functions.

### **8.13 REFERENCES/SUGGESTED READINGS**

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Course Code: <b>MM-310</b>	Author: <b>Dr. Tejinder Sharma</b>
Lesson: <b>9</b>	Vetter: <b>Dr. V.K. Bishnoi</b>

## **PROCESSING OF SELECT AGRICULTURAL PRODUCTS**

### **STRUCTURE**

- 9.0 Objective
- 9.1 Introduction
- 9.2 The Indian consumers' food habits
- 9.3 Considerations in growth of food-processing industry in India
- 9.4 Existing infrastructure in India
- 9.5 Growth outlook
- 9.6 Meaning of processing
- 9.7 Advantages of food processing
- 9.8 Processing of agricultural commodities
- 9.9 Processing of wheat
- 9.10 Baking
- 9.11 Processing of Paddy
- 9.12 Processing of pulses
- 9.13 Processing of oilseeds
- 9.14 Summary
- 9.15 Keywords
- 9.16 Self assessment questions
- 9.17 References/suggested readings

## **9.0 OBJECTIVE**

After reading this lesson, you will be able-

- To learn about the concept of food processing industry.
- To discuss the potential of processing industry in India and the application of the latest technologies.

## **9.1 INTRODUCTION**

The agro products and food processing industry sector in India is one of the largest in terms of production, consumption, export and growth prospects. India is the world's second largest producer of fruits & vegetables, but hardly 2 per cent of the produce is processed. India is the land of spices and its production amounts to 25-30 per cent of the world production. It is also the largest producer of milk in the world. And, if you take into account India's varied agro-climatic zones, then what we have is a nation blessed with all the right ingredients for success in agriculture.

The government has accorded the agro products and food processing industry high priority, with a number of fiscal relieves and incentives, to encourage commercialization and value addition to agricultural produce, for minimizing pre/post harvest wastage, generating employment and for export growth.

Agro-processing industry has received the focus of the government because as per the CII-McKinsey report on India's food, agro products and food processing sector titled FAIDA, the turnover of the total food market is approximately Rs. 2,500,000 million (US \$ 69.4 billion) out of

which value-added food products comprise Rs. 800,000 million (US \$ 22.2 billion).

Since liberalization in Aug '91 till Dec. '98, proposals for projects of over Rs. 720,000 million (US \$ 18 billion) have been proposed in various segments of the food and agro-processing industry. Besides this, the government has also approved proposals for joint ventures, foreign collaboration, industrial licenses and 100% export oriented units involving an investment of Rs. 187,000 million (US \$ 4.70 billion) during the same period. Out of this, foreign investment is over Rs. 88,000 million (US \$ 2.2 billion).

Agro products and processed food exports were at over Rs. 110,000 million (US \$ 2.75 billion) in 1997-98, and constituted about 10 percent of total exports from the country. Out of these exports, rice accounted for 29 per cent, whereas marine products accounted for over 42 per cent.

Food Processing Industry can be segmented as follows:

- Food grain/pulse milling
- Fruit vegetable processing
- Milk and milk products
- Beverages
- Fish and poultry products (eggs)
- Meat and meat products
- Aerated water/soft drinks
- Beer/alcoholic beverages
- Edible oil/fats
- Breakfast cereals; bread, biscuits, confectioneries, malt protein, weaning and extruded food products

## 9.2 THE INDIAN CONSUMERS' FOOD HABITS

A survey done by CII and McKinsey has made the following observations about the Indian consumer's food habits:

- Consumers in India spend a mammoth Rs 3924 billion (53.4% of their total private final consumption expenditure) on food, beverages and tobacco. It is the largest component in the consumer's expenditure basket.
- Most women in India are housewives and do not work for their livelihood. They therefore cook food at home and have a feeling of guilt in buying semi- processed/processed food products.
- Traditionally and culturally, Indians like home made and freshly cooked foods. This is a deterrent for ready-to-cook/ready-to-eat foods.
- There is a strong perception that outside food is not good for health. This perception is a result of the dominance of small, unorganized players, who cannot maintain quality hygiene standards.
- Most of middle/higher income consumers, who are target segments for value added food products, typically have servants and therefore there is no incentive to buy convenience foods, unlike their western counterparts.

### **9.3 CONSIDERATIONS IN GROWTH OF FOOD-PROCESSING INDUSTRY IN INDIA**

Despite a huge potential, the food processing industry has not really taken off very well in India. Some of the reasons behind are:

1. The industry requires about Rs 290,000 million in investment over the next five years to 2005 to create necessary infrastructure, expand production facilities and attain state-of-the-art-technology to match the international quality and standards.
2. Nothing much has happened in terms of any major breakthrough in process technology in India. Our food research institutes including universities have done very little in terms of technology upgradation and new product development that are of any commercial significance. Whatever little we have seen in new product development and product quality up gradation is the result of the efforts on the part of the industry, largely triggered from the need as a survival strategy in the face of competition.
3. Another factor responsible for the general failure of food processing activities is that there were little or no collaborative efforts between industry and research institutions.
4. The Indian palate is accustomed to traditional foods, mostly wheat and rice-based, rather than potato and corn-based

western palate. In a marketing perspective, this is considered an important factor for foreign marketers.

5. India's middle class segment will hold the key to success or failure of the processed food market in India. Of the country's total population of one billion, the middle class segments account for about 350-370 million. Though a majority of families in this segment have non-working housewives or can afford hired domestic help and thus prepare foods of their taste in their own kitchens the profile of the middle class is changing steadily and hired domestic help is becoming costlier. This is conducive to an expansion in demand for ready-to-eat Indian-style foods.

#### **9.4 EXISTING INFRASTRUCTURE IN INDIA**

Types	Flour mills	Fish processing units	Fruit & vegetable processing units	Meat processing units	Sweetened & aerated water units	Milk product units	Solvent extraction units	Sugar mills
Number	820	578 + 476 cold storage units	5198	171	656	266	725	429

Source: [www.indiaainfoline.com](http://www.indiaainfoline.com)

#### **Government support to food processing industry**

The Government has now accorded food processing a priority sector status and has taken several initiatives to spur investment in the category. The major policy initiatives taken by the Government so far have been:

1. The industry has been included in the priority sector lending by Banks.
2. Most of the industries, with the exception of beer, alcoholic drinks and items reserved for small-scale sector have been exempted from licensing.
3. Several industry segments have been de-reserved from small-scale reservation since 1997.
4. Automatic approval for Foreign Technology Agreements.
5. Permission to agro based 100% EOU's to sell 50% of output in domestic tariff areas
6. EPCG scheme has been extended to Food Processing sector with a reduced threshold limit of Rs. 10 million.
7. Assistance for R&D, low interest loans to select cooperatives and non-Government organizations, etc have been the other policy initiatives.

Since liberalization in 1991, 5875 Industrial Entrepreneur Memoranda (IEM) involving investments of Rs 537.36 bn has been filed between July 1999 and December 1999. Out of these, 673 IEMs, involving investment worth Rs 75.1 7bn have already been invested. These investments have generated employment for 87000 people. Also 1120 approvals for investment of Rs. 191bn and employment of 275000 people have been approved, of which 248 proposals with investments of Rs. 42.25bn have been implemented.

Total Investment requirement of Rs. 282.5bn has been identified for the Food Processing sector during the Ninth Five-Year plan period. The Government is looking at various other initiatives such as rationalization of tax structure and fiscal incentives. The Government is also working towards establishment of an efficient infrastructure support such as effective cold chain facilities, improved transport facilities, storage warehouses, etc. These efforts are expected to boost investment and growth in the food-processing sector.

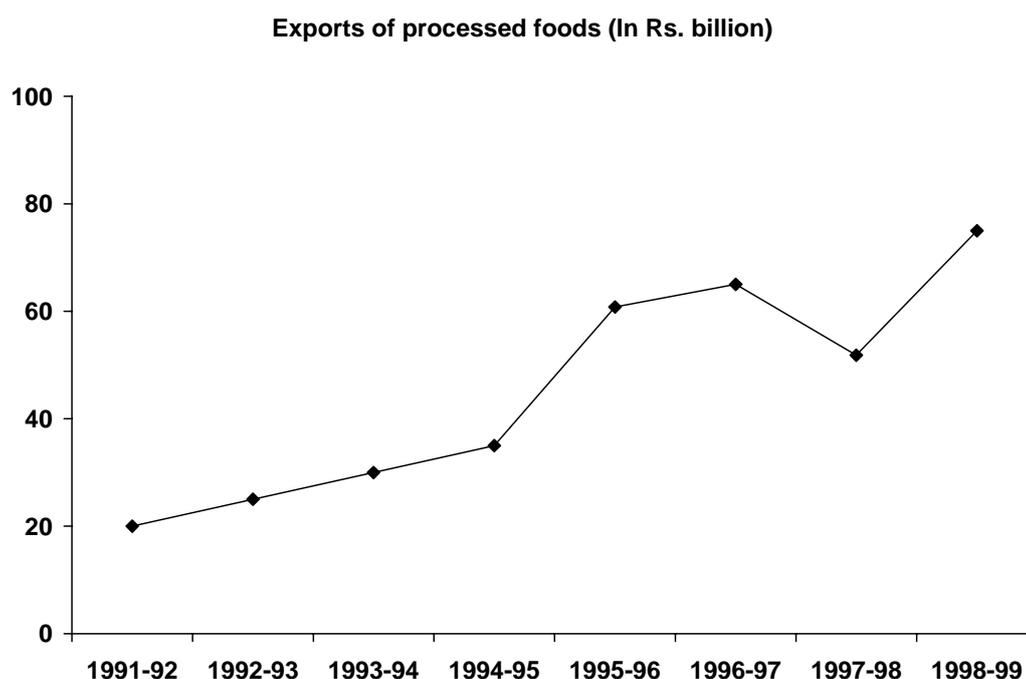
After lifting of restrictions on imports with effect from March 01, as per the WTO agreements, will have led to a flurry of activity in the sector, as quantitative restrictions on import of several food products have been lifted. Several large global players have already set up base in the country in diverse food product industries such as bakery, flour milling, convenience foods, dairy products etc. More investments will be made over the next couple of years, as demand for branded and quality food products is expected to rise with the changing lifestyles, consumer preferences and eating habits.

Recent steps taken by the Government include

1. State Governments to set up Food Parks- The UP Government has announced its plans to set up Food Parks in its state, which is rich in agricultural raw materials essential for the industry.
2. The Central Government is considering a 10-year tax holiday for the sector to spur the much required growth in the sector

3. The Government is also considering replacing the existing PFA act (Prevention of Food Adulteration) with a new Food Act.

### EXHIBIT 1: EXPORTS



Source: [www.indiainfoline.com](http://www.indiainfoline.com)

The projections and the existing scenario point to only one thing-if India is to take a giant leap into the international markets, then it is only through the routes of food processing and value addition. Circumstances also favour India: it is blessed with natural assets that few countries can hope for. It is also the subject of much international admiration right now

## 9.5 GROWTH OUTLOOK

The Indian market for processed foods is still in a very nascent stage of growth. The value addition to food in India is only 7 per cent against 23 per cent in China, 45 per cent in Philippines and 88 per cent

in UK. Also small scale and regional unorganized players, who still account for 75 per cent of processed food production, dominate the industry. A few large corporate and global food majors have now started investing in the Indian food industry and it is expected that the industry will grow at an accelerated pace from here.

There have been several factors that have thwarted growth in the past. Low purchasing power of the vast majority living in the country has been one of the major reasons for the slow growth of processed foods industry. High excise levies on branded foods have added to the burden, making most value added foods unaffordable for the masses.

The other major impediments to the growth of processed food Industry have been

1. Poor infrastructure with respect to road and telecommunications.
2. Transport is not geared to handle efficiently perishable food products. There are no reliable cold chains for fruit/vegetable storage or sale of frozen products like ice creams or temperature sensitive chocolates.
3. Food habits vary widely across the country. Therefore food products have to be adapted to varying local tastes in every region.
4. Technology is not available with small-scale players. For large players, the current small size of the market does not justify investment.

5. Cost of packaging and distribution is very high.

Retail business is dominated by family owned small stores that operate on low margins and do not have capital to invest in the requisite infrastructure for food products.

## **9.6 MEANING OF PROCESSING**

The processing activity involves a change in the form of the commodity. This function includes all of those essentially manufacturing activities, which change the basic form of the product. Processing converts the raw material and brings the products nearer to the human consumption. It is concerned with the addition of value to the product by changing its form. For example, converting live animals into meat, fresh peas into canned or frozen peas, wheat into flour or bread, paddy into rice, oilseeds into oil, sugarcane into gur and sugar, and milk into butter and ghee.

The term processing may be defined as a deliberate activity, which changes the form of a commodity. It converts farm products into a more usable form.

Food grain processing involves changing the form of the grain into flour, bread or biscuits. Food grains are processed to make them edible and palatable. Processing helps in increasing their “keeping” quality. Virtually all food grains are processed to some extent before their consumption by the ultimate consumers. However, the extent of processing varies from grain to grain and with the eating habits of the consumers.

There are several methods of processing foodgrains. But they continually undergo a change because of

1. A change in technology;
2. A change in capital-labour price ratio;
3. A change in managerial skills;
4. A change in the demand for product quality in the market;  
and
5. A change in the volume to be processed.

## **9.7 ADVANTAGES OF FOOD PROCESSING**

The processing of agricultural products is essential because very few farm products—milk, eggs, fruits and vegetables are consumed directly in the form in which they are obtained by the producer-farmer. All other products have to be processed into a consumable form. Processing is important, both for the producer-sellers and for consumers. It increases the total revenue of the producer by regulating the supply against the prevailing demand. It makes it possible for the consumer to have food articles in the form liked by him. The specific advantages of the processing function are:

1. It changes raw food into edible and palatable forms. The value added by processing to the total value produced at the farm level varies from product to product. It is nearly 7 per cent for rice and wheat, about 79 percent for cotton and 86 per cent for tea. It is generally higher for commercial crops

than for food crops. Examples of the products in this group are the processing of sugarcane to make sugar, gur, khandssari; oilseeds processing to make flour; processing to make oil; grinding of foodgrains to make flour; processing of paddy into rice; and conversion of raw mango into pickles.

2. The processing function makes it possible for us to store perishable and semi-perishable agricultural commodities which otherwise would be wasted and facilitates the use of the surplus produce in one season or in another season or year. Examples of the processing of the products in this groups are drying, canning and pickling of fruits and vegetables frozen foods, conversion of milk into butter, ghee and cheese and curing of meat with smoking etc.
3. The processing activity generates employment. The baking industry, the canning industry, the brewing and distilling industry, the confectionary industry, the sugar industry, oil mills and rice mills provide employment to a large section of society.
4. Processing satisfies the needs of consumers at a lower cost. If it is done at the door of the consumer, it is more costly than if it is done by a firm on a large scale. Processing saves the time of the consumers and relieves them of the difficulties and botheration experienced in processing.
5. Processing serves as an adjunct to other marketing functions, such as transportation, storage and merchandising.

6. Processing widens the market.

## **9.8 PROCESSING OF AGRICULTURAL COMMODITIES**

Agricultural products are processed by employing different types of machinery and technology. The type of processing ranges from simple drying, parboiling, husking, polishing, and grinding to the complex form of producing an altogether new product. The methods used in processing wheat, paddy, pulses and oil seeds have been given in the paragraphs that follow.

## **9.9 PROCESSING OF WHEAT**

Wheat milling involves grinding the kernel into a whole wheat flour and separating the bran' from the white dour (endosperm). About 90 per cent of the wheat in India is converted into whole wheat products like chappatis; the balance (10 per cent) into bread, biscuits buns and cakes.

The milling of wheat in India done in the following ways:

1. **Stone Grinding by Hand:** This method is used to grind wheat in most of the households. A housewife, by using stone chakkies which are operated by hand, mills 5 to 7 kg of wheat per day in the morning hours.
2. **Chakkies:** This is a low capacity power-operated grinding device used in villages. The cost of milling is high; but because of their convenience, they are widely prevalent in Indian villages.

- 3. Roller Mills:** Most of the heat flour in India is produced by roller flour mills. The steps involved in roller flour milling are:
- (a) *Cleaning:* Wheat is first cleaned of stones, dirt, weeds and foreign matter by separators, aspirators, scourers, magnets and washers.
  - (b) *Tempering:* The cleaned wheat is moistened and held tempering bins for 8 to 24 hours to toughen the outer coat and mellow the endosperm.
  - (c) *Blending:* Wheat grains of various protein contents are mixed to produce flour of the desired quality.
  - (d) *Grinding and Separating:* Wheat grain is first broken by a pair of corrugated rollers. The whole wheat flour is repeatedly rolled, sifted and purified till a complete separation of the bran has been achieved.

India's first roller flour mill was built in 1880 and since then, there is no looking back. Even the reputed multinationals such as HLL are entering this business. The leading roller flour-producing States are Maharashtra, West Bengal, Uttar Pradesh, Tamil Nadu, Karnataka, Assam, and Delhi. Roller flour-milling is a highly capital intensive industry.

## **9.10 BAKING**

India has a large baking industry, which is engaged in the manufacture of biscuits, bread, buns, cakes and pastries. This industry is growing rapidly because of the increase in urbanization, in population

and in the per capita income of the masses, and changes in tastes. In urban areas, a large number of bakeries, both small and large, are functioning.

### **9.11 PROCESSING OF PADDY**

Paddy-rice milling is one of India's largest industries, for the output of this industry exceeds the total of all the other foodgrain processing industries. Paddy consists of about 20 per cent husk, 6 per cent bran, 2 per cent germ and 72 per cent endosperm.

There are six major steps in the processing of paddy, depending upon the method used for processing.

- (1) Drying:** Drying refers to the reduction of the moisture content in paddy to about 14 percent. At the time of harvesting, paddy contains 16 to 18 per cent moisture. Drying can be done either in the sun or by means of a mechanical drier (forcing heated or unheated air through the paddy in a bin or a thin moving stream). Mechanical drying was introduced in India in 1965.
- (2) Cleaning:** Cleaning is done to remove the foreign matter present in the paddy.
- (3) Parboiling:** Parboiling involves soaking and steaming paddy to impart a desired flavour to it and to increase the out-turn. It reduced breakage in milling improves storage life, and helps in the preservation of vitamins and protein in the rice grains.

**(4) Husking:** Husking refers to the removal of husk from the rice grain. Rice milling is undertaken to remove the husk and a specified per cent or bran from the seeds and endosperm. Four principal rice milling methods are employed in, India. These are:

- (a) *Hand Pounding:* This method involves the pounding of paddy with poles or a pestle and mortar.
- (b) *Huller Mills:* The heart of a huller rice mill is a fluted metal cylinder rotating with 500 to 600 rpm within a hollow stationary cylinder. Husk and bran are removed in one operation by abrasive action. The rice is polished by a second and a third pass through the machine.
- (c) *Sheller Mills:* An under-run disc sheller consists of two stone or composition wheels, each 182 to 562 in diameter, and laid on top of one another. Between there two stones, paddy is husked by the rotation of the adjustable lower wheel. The bran is removed by polishing cans or rice hullers. The husk, bran and rice are separated mechanically.
- (d) *Rubber Roller Mills:* Each mill consists of a pair of rotating rubber rollers between which paddy is poured at one to four tonnes per hour, depending on the design of the mill. Shelling results from the abrasion created by the two roller turning at slightly different speeds. Soft rollers minimize breakage.

5. **Polishing:** Polishing is the removal of bran and germ from the rice grain.
6. **Separating:** This means separation of the parts of broken grain from whole grain.
7. **Grading:** Grading is separation of rice by size. Head rice is the grain that is  $\frac{3}{4}$ <sup>th</sup> of a whole grain and larger broken are smaller grains.

In addition to the processing of the above food groups, there are other food processing industries numbering about 16,000 and employing about 1.2 million people in the country. They produce biscuits, bread, confectionary, soft drinks, malt extracts, instant coffee starch, glucose, dextrose etc.

The relatively much sharper increase in the modern rice mills is due to their much superior milling efficiency at 70 to 72 per cent as compared to a meager 60 to 65 per cent for hand pounding, 61 to 65 per cent for hullers, and 65 to 68 per cent for shellers and huller-cum-sheller mills.

## **9.12 PROCESSING OF PULSES**

Pulses are rich in protein (lysine) and constitute 10 to 15 per cent of India's foodgrain diet. The important pulses are grain (Bengal gram), arhar or fur (red gram), moong (green gram), and urad (black gram). It has been estimated that more than 75 per cent of the pulse crops are consumed as dal (split grain). The other uses of pulse crops are parched gram, besan (dal flour) and cattle feed. Pulses are processed in different

ways. Dal is made in a series of steps, both at home and in the mills. The important steps involved in dal-making are:

- (i) **Cleaning:** Removing foreign matter from the main pulse.
- (ii) **Dampening:** Soaking the grain in water for the desired period of time.
- (iii) **Tempering:** Keeping the soaked grains after removal from water for drying in the sun.
- (iv) **Splitting:** Grinding the grain to make dal.
- (v) **Husking:** Removing the husk from the dal.

Dal may be further processed by grinding it into flour (besan). Dal-processing plants are located in the main pulse-producing and trading States of India. They range in size from cottage industries to multi-storeyed plants) using pneumatic -conveyors.

### 9.13 PROCESSING OF OILSEEDS

Oilseeds are a group of farm products which are consumed only after they have been processed. They contain oil and cake. The following methods are generally used in processing oilseeds. The method of selection depends on the type of oilseed to be processed and the availability of power.

- (i) **Bullock-driven Ghani Method:** Ghani is a traditional method of oilseed processing. A ghani consists of a wooden vessel in which oil is collected and which is attached to a wooden log rotated by a single bullock. The quantity of oil

seeds to be processed at a time is about 10 kg, and the process takes about 2 hours. The oil and cake extracted by this method are of better quality than those extracted by other methods. The processing cost for sesamum oilseed (til) by this method is about Rs. 40.00 per quintal.

- (ii) Electric-driven Ghani Method:** This is similar to the traditional bullock driven ghani except that, here, electric, instead of bullock, power is used to rotate the ghani. The process takes less time. The quantity of oil seeds processed per day is higher than that processed by the bullock driven method.
- (iii) Expeller Method:** This method has become very popular and is generally used nowadays. Expellers of different sizes are available. The capacity and time taken by each expeller vary with its size. The oil recovery percentage is higher by this method than by the ghahi methods. The cost of processing per quintal of groundnut shell/sesame ranges between Rs. 20.50 with a 6-bolt expeller and Rs. 15.50 with a 9-bolt expeller.
- (iv) Solvent Extraction Method:** By the above methods, 5 to 12 per cent oil is left in the cakes. To remove this extra quantity of oil, the solvent extraction method is used. The oil cake is treated with hexane to dissolve the oil present in it. The solution containing the oil and, the solvent is then passed through condensers, where oil is distilled. The distilled oil is non-edible and is used mainly in the soap industry. The

solvent-extracted meal is used as feed for dairy cattle because of its high protein content.

### **9.14 SUMMARY**

Considering the tremendous potential of the food processing industry in India, there is a need to devise but ways and means of developing the same. As the winds of liberalization are blowing, the Indian consumer is witnessing a sea change in his food habits. This offers great marketing opportunities in the days to come. The issues that deserve attention are the proper infrastructure and government support. Presently, a lack of proper standardization of the agricultural output and indiscriminate use of pesticides and fertilizers makes the processed foods unacceptable in the international markets. If the Indian food processing industry has to match with the international standards, a thorough development of the technology, both at the production of agricultural products and the processing stages is essential.

The potential is huge, what is required is the will power to match with the very best in the world.

### **9.15 KEYWORDS**

**Processing:** It is an activity which changes the form of a commodity. It converts farm products into a more useable form.

**Drying:** It refers to the process of reducing moisture content in any agriculture commodity.

**Cleaning:** It is the process of removing the foreign matter present in the paddy.

**Parboiling:** It involves soaking and steaming paddy to impart a desired flavour to it and increase the out-turn. It reduces breakage in milling and improves storage life.

**Separating:** This means separation of the parts of broken grain from the whole grain.

**Dampening:** Soaking the grain in water for the desired period of time.

### **9.16 SELF ASSESSMENT QUESTIONS**

1. Discuss the potential of food processing industry in India
2. What are various schemes of the Government of India, which aim at promoting the food processing industry in India.
3. Discuss the technology of processing of wheat.
4. What are various methods of processing of paddy?
5. Briefly explain the impact of contract farming on the processing of agricultural produce industry.

### **9.17 REFERENCES/SUGGESTED READINGS**

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Subject: <b>RURAL &amp; AGRICULTURAL MARKETING</b>	
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Lesson: <b>10</b>	Vetter: <b>Prof. M.S. Turan</b>

## **ROLE OF AGRICULTURAL PRICE COMMISSION IN INDIA**

### **STRUCTURE**

- 10.0 Objective
- 10.1 Introduction
- 10.2 Rationale of support pricing
- 10.3 Introduction to APC
- 10.4 Basic objectives of Commission
- 10.5 Determination of minimum support prices
- 10.6 Non price measures
- 10.7 Reports and publications
- 10.8 Minimum support price of selected commodities
- 10.9 Benefit to the farmers
- 10.10 Limitation of MSP
- 10.11 Summary
- 10.12 Keywords
- 10.13 Self assessment questions
- 10.14 References/suggested readings

### **10.0 OBJECTIVE**

The objectives of this lesson are-

- To acquaint the students with the pricing control mechanism of agri products.

- To discuss the role of Central Agricultural Price Commission in India.

## **10.1 INTRODUCTION**

Three of the basic foundations needed for building a sound agricultural economy are production technology package, efficient delivery services and remunerative and stable market prices regime. The market place in agriculture sector can indeed inflict undeserved losses on the farmer, even when he has applied modern technology and produced efficiently to meet the requirements of the economy. It is in this perspective that with the introduction of modern farm technology in mid-1960s, the Government simultaneously evolved a price support mechanism in the shape of an Agricultural Prices Commission (APC), renamed in 1985 as the Commission for Agricultural Costs and Prices (CACAP).

Alongwith announcement of agricultural prices, a public sector infrastructure, capable of launching when needed, an effective market intervention, is also necessary, to translate the government's policy into meaningful price support for the farmers. Towards this goal, organisations like the Food Corporation of India, Jute Corporation of India and Cotton Corporation of India were created. In the case of oilseeds and pulses the Government decided in 1985 to entrust the National Agricultural Cooperative Marketing Federation (NAFED) with the responsibility of price support. At present, the Government of India announces for each season, minimum support prices for 24 major agricultural commodities covering all important cereals as well as pulses, oilseeds, cotton, jute, sugarcane and tobacco.

## **10.2 RATIONALE OF SUPPORT PRICING**

The main objectives of the Government's price policy for agricultural produce are aimed at ensuring remunerative prices to the growers for their produce with a view to encouraging higher investment and production and to safeguard the interests of consumers by making supplies available at reasonable prices. The price policy seeks to evolve a balanced and integrated price structure in the perspective of the overall needs of the economy.

## **10.3 INTRODUCTION TO APC**

The Agricultural Prices Commission was set up in January, 1965 to advise the Government on price policy of major agricultural commodities with a view to evolving a balance and integrated price structure in the perspective of the overall needs of the economy and with due regard to the interests of the producer and the consumer. Since March 1985, the Commission has been known as Commission for Agricultural Costs and Prices. The Commission is composed of a Chairman, a Member Secretary, two official members and three non-official members. The non-official members are representatives of the farming community. They are usually persons with long field experience and active association with the farming community.

Assurance of a remunerative and stable price environment is considered very important for increasing agricultural production and productivity since the market place for agricultural produce tends to be inherently unstable, which often inflict undue losses on the growers, even when they adopt the best available technology package and produce

efficiently. Towards this end, minimum support prices (MSP) for major agricultural products are fixed by the government, each year, after taking into account the recommendations of the Commission for Agricultural Costs and Prices (CACP).

While formulating these recommendations, the Commission analyses a wide spectrum of data, covering the costs of cultivation/production, trends and spread of input use, production and productivity of the crop concerned, market prices, both domestic and global inter-crop price parity, emerging supply-demand situation, procurement and distribution, terms of trade between agriculture and non-agriculture sectors, and so on. Since the price policy involves certain considerations of long-run consequences, the Commission also looks at the yield-raising research being conducted by institutions like Indian Council of Agricultural Research. The basic data are generally collected from the

- (i) Directorate of Economics and Statistics
- (ii) State Governments
- (iii) Central Ministries and
- (iv) The nodal agencies concerned with the implementation of agricultural price policy.

Besides, the Commission undertakes field visits for close interaction with farmers in different parts of the country and also have wider consultation with senior officers, researchers and managers of relevant organizations.

## 10.4 BASIC OBJECTIVES OF COMMISSION

The basic objectives and the terms of reference of the Commission have been defined as under:

1. To advise on the price policy of paddy, rice, wheat, jowar, bajra, maize, ragi, barley, gram, tur, moong, urad, sugarcane, groundnut, soyabean, sunflower seed, rapeseed and mustard, cotton, jute, tobacco and such other commodities as the Government may indicate from time to time with a view to evolving a balanced and integrated price structure in the perspective of the overall needs of the economy and with due regard to the interests of the producer and the consumer.
2. While recommending the price policy and the relative price structure, the Commission may keep in view the following:
  - i) The need to provide incentive to the producer for adopting improved technology and for developing a production pattern broadly in the light of national requirements.
  - ii) The need to ensure rational utilization of land, water and other production resources.
  - iii) The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, industrial cost structure, etc.

3. The Commission may also suggest such non-price measures as would facilitate the achievement of the objectives set out in 1 above.
4. To recommend from time to time, in respect of different agricultural commodities, measures necessary to make the price policy effective.
5. To take into account the changes in terms of trade between agricultural and non agricultural sectors.
6. To examine, where necessary, the prevailing methods and cost of marketing of agricultural commodities in different regions, suggest measures to reduce costs of marketing and recommend fair price margins for different stages of marketing.
7. To keep under review the developing price situation and to make appropriate recommendations, as and when necessary, within the framework of the overall price policy.
8. To undertake studies in respect of different crops as may be prescribed by Government from time to time.
9. To keep under review studies relating to the price policy and arrangements for collection of information regarding agricultural prices and other related data and suggest improvements in the same, and to organize research studies in the field of price policy.

10. To advise on any problems relating to agricultural prices and production that may be referred to it by Government from time to time.

From time to time, the terms of reference of the Commission have been modified and expanded to keep in step with the changes in agricultural scenario of the country. From the year 1994-95 onwards, Niger-seed and Sesamum were included under the Minimum Support Price (MSP) Scheme of CACP, in addition to the edible oilseeds already covered by the Commission. Similarly, during 2001-2002, the government enhanced the terms of reference of the Commission by including one additional commodity, namely, lentil (masur). The number of crops covered by the MSP scheme has thus increased to 25.

### **10.5 DETERMINATION OF MINIMUM SUPPORT PRICES**

In formulating the recommendations in respect of the level of minimum support prices and other non-price measures, the Commission takes into account, apart from a comprehensive view of the entire structure of the economy of a particular commodity or group of commodities, the following factors:

- i) Cost of production
- ii) Changes in input prices
- iii) Input-output price parity
- iv) Trends in market prices
- v) Demand and supply
- vi) Inter-crop price parity
- vii) Effect on industrial cost structure
- viii) Effect on cost of living

- ix) Effect on general price level
- x) International price situation
- xi) Parity between prices paid and prices received by the farmers.
- xii) Effect on issue prices and implications for subsidy

The Commission makes use of both micro-level data and aggregates at the level of district, state and the country. The information/data used by the Commission, inter-alia include the following:

- (i) Cost of cultivation per hectare and structure of costs in various regions of the country and changes there in.
- (ii) Cost of production per quintal in various regions of the country and changes therein
- (iii) Prices of various inputs and changes therein.
- (iv) Market prices of products and changes therein.
- (v) Prices of commodities sold by the farmers and of those purchased by them and changes therein.
- (vi) Supply related information- area, yield and production, imports, exports and domestic availability and stocks with the Government/public agencies or industry
- (vii) Demand related information- total and per capita consumption, trends and capacity of the processing industry.
- (viii) Prices in the international market and changes therein, demand and supply situation in the world market.
- (ix) Prices of the derivatives of the farm products such as sugar, jaggery, jute goods, edible/non-edible oils and cotton yarn and changes therein.

- (x) Cost of processing of agricultural products and changes
- (xi) Cost of marketing- storage, transportation, processing, marketing services, taxes/fees and margins retained by market functionaries; and
- (xii) Macro-economic variables such as general level of prices, consumer price indices and those reflecting monetary and fiscal factors.

As already mentioned, 25 agricultural commodities are currently covered under the mandate given to the CACP for advising the government in respect of the price policy. The Commission is required to convey its recommendations to the Government well before the sowing season of the crop. With a view to interacting with various interest groups, the Commission follows the sequence of steps indicated below:

- (i) The Commission identifies the main issues of relevance for the ensuing season (short, medium or long turn).
- (ii) The Commission sends a questionnaire to Central Ministries, State Governments and other organisations related to trade, industry, processors, and farmers both in the cooperative and the private sector and seeks their views on certain issues and factual information on related variables.
- (iii) After the first step, the Commission holds separate discussions with the State Governments, Central Ministries/Departments and other organisations. The Commission also interacts with research and academic institutions and keeps track of relevant studies and their findings.

- (iv) The Commission visits certain areas for on-the-spot observations and feed back from local level organisations and farmers.

## **10.6 NON PRICE MEASURES**

While recommending the price policy, the Commission also suggests such non-price measures as would facilitate achievement of the objectives of the policy. In this regard, the Commission has been emphasizing, inter-alia, the following:

- (i) Establishment/Strengthening of agencies for implementation of declared price support policy.
- (ii) Extension of proven technology to areas where it still needs to be adopted.
- (iii) Evolution of suitable technology for augmenting yield and production of crops.
- (iv) Reform of market regulations and setting up new markets in areas where agricultural production has made sizeable improvement.
- (v) Improvement in grading of agricultural produce and expansion of proper storage facilities.
- (vi) Arrangement for timely and speedy transportation of agricultural commodities from surplus areas.
- (vii) Buffer-stock operations to impart stability to domestic price stabilization.
- (viii) Utilizing the medium of external trade for domestic price stabilization;

- (ix) Fiscal measures including adjustments in duties/taxes/levies;
- (x) Development of appropriate technology for processing of agricultural produce.
- (xi) Improving the data base for formulation of price policy.

## 10.7 REPORTS AND PUBLICATIONS

The Commission brings out the following reports:

- (i) Report on price policy for kharif crops,
- (ii) Report on price policy for rabi crops,
- (iii) Report on price policy for sugarcane,
- (iv) Report on price policy for copra, and
- (v) Report on price policy for raw jute.

## 10.8 MINIMUM SUPPORT PRICE OF SELECTED COMMODITIES

For your reference, the minimum support price according to crop year as rupees per quintal are shown in the following table:

TABLE 1: MINIMUM SUPPORT PRICE OF SELECTED COMMODITIES

S. No.	Commodity	Variety	1997-98	1998-99	1999-2000	2000-01	2001-02
1	Paddy	Common	415	440	490	510	530
		Fine	-	-	-	-	-
		Super Fine	-	-	-	-	-
		Grade 'A'	445#	470	520	540	560
2.	Coarse Cereals	(Jowar Bajra & Ragi)	360	390	415	445	485
3.	Maize		360	390	415	445	485
4.	Wheat		510 ×	550	580	610	620
5.	Masur (lentil)		-	-	-	1200	1300
6.	Sugarcane @		48.45	52.70	56.10	59.50	62.05
7.	Sunflower Seed		1000	1060	1155	1170	1185
8.	Soyabean	Black	670	705	755	775	795

Source: <http://agricoop.nic.in/annrep/fnchap14.htm>

## **10.9 BENEFIT TO THE FARMERS**

The MSPs are perceived by the farmers as a guaranteed price from the Government. These are meant to enable the producer to pursue his efforts with the assurance that the price of this produce would not be allowed to fall below the level fixed by the Government. The MSPs are fixed at the incentive level, so as to induce the farmer to make capital investment for the improvement of his farms and for expanding the use of inputs to step up production and thereby his net income. The price policy followed by the government has paid rich dividends. The average annual production of foodgrains has gone up from a level of 87.8 million tonnes during the triennium ending 1968-69 to 200.41 million tonnes during the triennium ending 1999-2000. The rising production along with higher productivity has resulted in enhancing the net income of the farmers. The National Agriculture Policy (July 2000) has, inter-alia, mentioned that the Central Government will continue to discharge its responsibility to ensure remunerative prices for agricultural produce through the system of minimum support prices.

### **10.10 LIMITATION OF MSP**

Despite playing a very useful role by way of guaranteeing the farmers with a minimum support price, there are many problems with the system of minimum support price mechanism as explained below:

1. Its major limitation is that it poses a heavy burden on the exchequer. The government is under political compulsion to increase the prices, which are often unrealistic. They cannot be sustained in the market. The government is left with no

option, but to lift the entire produce at high prices and store it. Millions of tones of foodgrains are spoiled in the godowns of Food Corporation of India because they cannot be sold into the market.

2. Because of the MSP mechanism, the prices of agricultural products in India are much above the prevailing international prices. This makes the Indian products uncompetitive in the international markets.
3. There is little incentive for the farmers to diversify their crops. They are sticking to the traditional wheat and paddy crops, because of the high price that they get.
4. Under the WTO obligations, the government cannot continue with the MSP in future. The existing system has to be changed and the farmers should be prepared to face the coming situations.
5. The small land holdings and lack of capital with the farmers does not enable them to reap the economies of scale. The farmers find even the MSP as too low to cover the cost of production and very often demand a higher price, which cannot be allowed by the government in future. Unless the contract farming takes the place of the existing small individual farming, the economies of scale and the benefits of technological developments cannot be reaped. MSP makes the farmers conservative in their approach and they are not open to such newer ideas.

## 10.11 SUMMARY

In the situation in which Indian agriculture was at the time of independence, there was a need of security to be provided to the farmers. The government policy of MSP was a need of the time. However, in the present age of free market economy and in a situation where the land holdings are getting smaller and smaller, such a mechanism of regulated pricing needs to be looked again. The Indian agriculture has to be responsive to the changes in the international economic environment. The role of CAPC should also undergo a change in the times to come. It must consider the price, which can be sustained in the market and not the unrealistically high prices of agricultural commodities. In absence of such a change, it would continue to put burden on the government, which might become unbearable.

## 10.12 KEYWORDS

**Support pricing:** It is related with the pricing of the agricultural commodities where a minimum price of a commodity is set by the government.

**APC (Agricultural Price Commission):** It is a body which advises the government for minimum support price.

**Derivatives:** A market mechanism for agricultural commodities through which prices can be set in advance for a particular product.

**Buffer stock operations:** To maintain the system of stocks so that stability in prices does not get affected.

**Spot observation:** Getting feedback from local level organisations and farmers before setting prices.

### **10.13 SELF ASSESSMENT QUESTIONS**

1. Why is there a need for the regulation of agricultural prices in India?
2. What is Central Agricultural Price Commission? Discuss its objectives and role.
3. What are various considerations for deciding the MSP (minimum support price) for various agricultural commodities?
4. What are various non-price efforts of CAPC to provide remunerative prices to the Indian farmers?
5. “In the days to come, the Indian agriculture has to learn to function without the support of MSP.” Do you agree with this statement? Give reasons in support of your answer.

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Lesson: <b>11</b>	Vetter: <b>Dr. Karam Pal</b>

## **ROLE OF CO-OPERATIVE MARKETING IN INDIA**

### **STRUCTURE**

- 11.0 Objective
- 11.1 Introduction
- 11.2 Meaning of cooperative marketing
- 11.3 Role of cooperatives
- 11.4 Structure of cooperative marketing societies
- 11.5 Types of co-operative marketing societies
- 11.6 Membership
- 11.7 Functioning
- 11.8 Progress
- 11.9 Summary
- 11.10 Self assessment questions
- 11.11 References/suggested readings

### **11.0 OBJECTIVE**

The objectives of this lesson are-

- To make the students aware regarding the concept of cooperatives.
- To learn about the role and functions of cooperative marketing in India.

## 11.1 INTRODUCTION

Today cooperation has come to stay as an instrument of economic growth and social reforms all over the world. It was introduced in European countries over a century ago. The first cooperative society which was formed in England at Rochdale in 1844, gave philosophy and procedure of work on the basis of cooperative doctrine. It was found useful and got recognition in all the countries. The society consisted of twenty-eight weavers. These weavers were recognized as Rochdale pioneers in the history of cooperative movement as they were torch bearers and path finders.

Cooperation came to India in Germany was organized on the pattern of Raiffision. They were successful and the conditions of Germany was in those days were similar to that of India. Therefore, when F. Nicholson presented his report, he advised the Government to start cooperative activity on the basis of Raiffision method. In India cooperation was introduced by an Act in 1904. The purpose of this act was to alleviate the hardships caused by the agricultural indebtedness of the farmers which became a chronic economic melody.

There is nothing novel about the cooperative doctrine in so far as India is concerned. Sermons appear in Vedas about the necessity of United Cooperatives living and common worship. From the writings in Kautilya's Arthashastra, it is clear that during Maura Empire two thousand years ago, the village was regarded a social cooperative unit. Public utility works were a common obligation and joint responsibility of all the villagers in those days, autonomous guilds of workmen and industrial units worked on in cooperative manner and the earnings were

divided equally on as agreed upon. These are some prehistory examples of cooperative spirit.

After the attainment of independence in 1947 the nation adopted a policy of planned economic development for establishing and integrated and just society providing individual liberty, equality of opportunity and a basic economic minimum programme for all. In this context, cooperation was considered as an effective and important instrument for achieving the objectives of economic planning. For this purpose, All India Rural Credit Survey Committee's Report was considered. The committee felt that with the introduction of 50 years of cooperative movement in India, cooperative credit have become the needs of the farmers. It suggested that there should be cooperative apex banks, district central cooperative banks, and large sized primary agricultural credit cooperatives.

## **11.2 MEANING OF COOPERATIVE MARKETING**

Cooperative marketing organisations are association of producers for the collective marketing of their produce and for securing for the members the advantages that result from large-scale business which an individual cultivation cannot secure because of his small marketable surplus.

H. Calvert di defines cooperation "as a form of organisation, wherein person voluntarily associate together as human beings, on the basis of equality for the promotion of the economic interest of themselves". Whereas Prof. Paul Lumbert has defined that "Cooperative society is an enterprise formed and directed by an association of users,

applying within itself the rules of democracy and directly intended to serve both its own members and the community as a whole”.

From the definitions discussed above, we may conclude that a cooperative organisation is a voluntary business organisation established by its members patrons to market farm products collectively for their direct benefit. It is governed by democratic principles, and savings are apportioned to the members on the basis of their patronage. The members are the owners, operators and contributors of the commodities and are the direct beneficiaries of the savings that accrue to the society. No intermediary stands to profit or loss at the expense of the other members.

### **11.3 ROLE OF COOPERATIVES**

Cooperatives are expected to build up an organised system for under developed agricultural growth in particular and rural development in general. Specifically, the areas of effective contribution can be enumerated as given below:

- 1. Transfer of technology:** While agricultural cooperatives have obviously no role in the generation of agricultural technology, conceptually they can play a significant part in transferring such technology to the former members. In Japan, for instance, it is a normal function of the unit cooperatives to provide what is known as farm guidance. In the Republic of Korea also, agricultural cooperatives plays a distinct role in this regard. In Democratic People Republic of Korea (DPRK) cooperative farms have their own specialists

for providing on the spot guidance. In India, in a few sectors such as sugarcane and milk the specialised cooperatives have played significant role in providing agricultural know how. The contribution IFFCO in this direction needs to be appreciated.

- 2. Fertiliser production and distribution:** Cooperatives can help to a great extent in consumption of chemical fertilisers. In the Republic of Korea as well as DPRK, 100 per cent of the chemical fertiliser is supplied to farmers by cooperatives. In Japan, nearly 90 per cent of the fertiliser is accounted for cooperative distribution. In India, the latest share of cooperatives is reported to be around 43 per cent.
- 3. Irrigation:** The role of cooperatives in the spread of irrigation is subject to obvious limitations. In case of surface irrigation involving large dams, necessarily the responsibility remains with public agencies or government departments. However, in respect of minor irrigation, particularly ground water, when the source of water are owned by individual farmers, the cooperatives can play a significant role through agricultural credit for investment in tube wells and pump sets. Besides India, in the Republic of Korea, irrigated farmers associations are doing a great job in promoting water development and water use for new crops. In fact, no surface irrigation works is owned by the government but all are owned land operated by farmers associations set up under a special law.

- 4. Organised marketing:** Effective implementation of agricultural price policy requires an organised marketing infrastructure. This is an aspect where the cooperative can deliver a lot in India. During the past two decades, the development of agricultural cooperative marketing structure is found in Japan and the Republic of Korea. In these countries the share of cooperatives in overall agricultural marketing is very substantial. In Japan, more than 90 per cent of rice is handled by cooperatives, whereas in China supply and marketing cooperatives, have virtually monopoly in marketing of commercial crops such as tobacco.
- 5. Processing of agricultural produce:** The processing units organised in farmers cooperatives are an essential adjunct to the overall agricultural marketing system. In India, a substantial share of agricultural processing in respect of sugar, textile etc. is now in hands of cooperatives and this necessarily experts a decisive contribution to the growth of the relevant crops. India experience has attracted the attention, in some other countries such as Indonesia which is considering to establish a body similar to NCDC in India.
- 6. Agricultural credit:** Cooperative can go a long way to promote and strengthen institutional infrastructure for agricultural credit. In fact, in several countries of south-east Asia, agricultural cooperatives have played a significant role in the countries, other institutions such as commercial banks have tended to overshadow the role of agricultural credit cooperatives. In India the credit cooperatives are taking

appropriate steps to ensure a continuous and smooth credit flow to their members.

- 7. Package deal:** In the strategy of agricultural growth a number of elements such as agricultural technology, agricultural extension, other inputs, credit, marketing etc. have to come together and interact so as to set off and sustain a growth process, it is only package of technology, inputs and services which can ensure growth. It is in providing such a package that the cooperative system has a distinct advantage over other forms of organisation. There may be other alternatives in providing individual services or inputs, however, they are unidimensional in character. For instance, a rural bank may offer credits but it is not designed to offer auxiliary services and inputs. Similarly a private dealer may offer fertiliser but is unlikely to offer agricultural marketing and other connected services. It is the cooperative system which conceptually designed to offer to a farmer the entire range of inputs and services which are essential for a modern and highly productive agriculture.
- 8. Equity in agricultural development:** In agricultural development while growth is crucial, equity is equally important. As agricultural modernisation progress, the role of externally purchase inputs such as irrigation, fertiliser, seed, pesticides and also the role of marketing infrastructure substantially increases. Normally private marketing agencies tend to confine their operations in regard to fertilizer supply etc. at points where they are assured of substantial off take.

Thus, relatively underdeveloped agricultural areas tend to be passed and the same happens to the relatively smaller and marginal farmer. For instance in Thailand the level of fertilizer consumption has been stagnant around a low level of 17 kg per hectare for quite some time. The main reason is that the private sector, which is the main distributor of fertilizer in the country, does not consider it worthwhile to retail fertilizer in relatively underdeveloped areas. As such there are substantial areas where practically no retail points for fertilizer exist. This stagnation of fertilizer consumption has substantially contributed to stagnation in the per hectare yield of paddy also.

What has been in case of the chemical fertiliser also applies to the other inputs, agricultural credit and also other services. This leads to inequalities within different parts of the country as well as various sections of the farming community. Small and marginal farmers account as much as 70 per cent of more on the farming household. But their share of crop land is not more than 25 per cent. Thus, their production base is small. If vital inputs such as fertiliser water and credit also by pass them, it is inevitable that disadvantaged section of the farming community cannot get into the main stream of agricultural development. In this context the role of agricultural cooperatives cannot be over emphasised. That is why the first Cooperative Society Act which was passed in 1904, specially started that it, objectives was to enable persons of limited means to have cooperative societies for self help and mutual aid. In many countries of our region this has been the accepted social philosophy of cooperatives. In India also, cooperative have been referred

to as instrument of economic development of the disadvantaged particularly in rural areas.

## **11.4 STRUCTURE OF COOPERATIVE MARKETING SOCIETIES**

The cooperative marketing societies have both two-tier and three-tier structure. In the states of Assam, Bihar, Kerala, Madhya Pradesh, Karnataka, Orissa, Rajasthan and West Bengal, there is a two-tier pattern with primary marketing societies at the taluka level and state marketing federation as an apex body at the state level. In other states, there is a three-tier system with district marketing society in the middle. At the national level, NAFED serves as the apex institution. The pattern of the three-tier structure has been discussed in the paragraphs that follow:

- (i) Base level:** At the base level, there are primary cooperative marketing societies. These societies market the produce of the farmer members in that area. They may be single commodity or multicommodity societies, depending upon the production of the crops in that area. They are located in the primary wholesale market, and their field of operations extends to the area from which the produce comes for sale, which may cover one or two tensile, panchayat samitis or development blocks.
- (ii) Central/District level:** At the district level there are central co-operative marketing unions or federations. Their main job is to market the produce brought for sale by the primary co-

operative marketing societies of the area. These are located in the secondary wholesale markets and generally offer a better price for the produce. The primary co-operative marketing societies are members of these unions in addition to the individual farmer members. In the two-tier structure, the state societies perform the functions of district level societies by opening branches throughout the district.

**(iii) State level:** At the state level, there are apex (state) co-operative marketing societies. These state level institutions serve the state as a whole. Their members are both the primary co-operative marketing societies and the central co-operative unions of the state. The basic function of these is to coordinate the activities of the affiliated societies and conduct such activities as inter-state trade, export-import, procurement, distribution of inputs and essential consumer goods, dissemination of market information and rendering expert advice on the marketing of agricultural produce. The cooperative marketing network of the country includes 29 state level marketing federations, 173 district/regional marketing co-operative societies, 2478 general purpose primary marketing societies and 5028 special commodities societies.

## **11.5 TYPES OF CO-OPERATIVE MARKETING SOCIETIES**

On the basis of the commodities dealt in by them, the cooperative marketing societies may be grouped into the following types:

- (i) **Single commodity cooperative marketing societies:** They deal in the marketing of only one agricultural commodity. They get sufficient business from the farmers producing that single commodity. The examples are sugarcane cooperative marketing society, cotton cooperative marketing society and oilseed growers cooperative marketing society.
- (ii) **Multi-commodity cooperative marketing societies:** They deal in the marketing of a large number of commodities produced by the members, such as foodgrains, oilseeds and cotton. Most of the cooperative marketing societies in India are of this type.
- (iii) **Multi-purpose, multi-commodity cooperative marketing societies:** These societies market a large number of commodities and perform such other functions as providing credit to members, arranging for the supply of the inputs required by them, and meeting their requirements of essential domestic consumption goods.

## 11.6 MEMBERSHIP

There are two types of members of cooperative marketing societies:

- (i) **Ordinary members:** Individual farmers, cooperative farming societies and service societies of the area may become the ordinary members of the co-operative marketing society. They have the right to participate in the deliberations of the society, share in the profits and participate in the decision making process.

- (ii) **Nominal members:** Traders with whom the society establishes business dealings are enrolled as nominal members. Nominal members do not have the right to participate in decision making and share in the profits.

### **Source of finance**

In 1966, the Dantwala Committee estimated a capital base of Rs. 2.00 lakhs for a cooperative marketing society. At 1997 prices, it should be at least Rs. 30.00 lakhs. The following are the major sources of finance of a cooperative marketing society.

- (i) **Share capital:** Farmer members and the state Government subscribe to the share capital of co-operative marketing societies members may purchase as many shares as they like. They are encouraged to invest sufficiently in the share capital. They are also persuaded to invest their dividend and bonus in the shares of cooperative marketing societies.
- (ii) **Loans:** Co-operative marketing societies may arise their finance by way of loans from the central and state cooperative banks and from commercial banks by pledging and hypothecation and also by clean credit to the extent of 50 per cent of owned capital.
- (iii) **Subsidy:** The cooperative marketing societies get a subsidy from the government for the purchase of grading machines and transport vehicles to meet their initial heavy expenditure. They also get a subsidy for a part of the cost of

the managerial staff for a period of 3 years to make them viable.

## 11.7 FUNCTIONING

The important functions carried out by the cooperative marketing societies are:

- (i) **Sale on commission basis:** Co-operative marketing societies act as commission agents in the market, i.e., they arrange for the sale of the produce brought by the members to the market. The produce is sold by the open auction system to one who bids the highest price. The main advantage, which the farmer-members get by selling the produce through cooperative marketing societies instead of a commission agent, is that they do not have to accept unauthorised deductions or put up with the many malpractices, which are indulged in by individual commission agents. As there is no individual gain to any member in the marketing of the agricultural produce through cooperative marketing societies, no malpractices are expected to be indulged in. This type of marketing is not risky for cooperative societies. But sometimes traders in the market form a ring and either boycott the auction or bid a low price when the produce is auctioned on the cooperative marketing societies shops. These tactics of the traders reduce the business of cooperative marketing societies. Therefore, farmers hesitate to take their produce for sale in the market through cooperative marketing societies.

- (ii) Purchase of members produce:** Cooperative marketing societies also enter the market as buyers. A society participates in bidding together with other traders, and creates conditions of competition. The commodities thus purchased by a society are sold when prices are higher.

This system of the outright purchase by the society involves the risk of price fluctuation. If the managers of societies lack business experience, they hesitate to adopt the outright purchase system. In 1964-65, the National Cooperative Development Corporation recommended that the outright purchase system should be adopted only by a society which possesses in the following qualities:

- (a) The society has a trained manager, i.e., one who is capable of understanding the intricacies of the trade.
- (b) The society is financially sound and has adequate borrowing facilities.
- (c) The society is affiliated to a good viable central level society; and
- (d) The society possesses processing facilities.

- (iii) Advancement of credit:** Cooperative marketing societies advance finance to farmers against their stock of foodgrains in the godowns of the societies. Thus increases the holding power of the farmers and prevents distress sales. Generally, societies advance credit to the extent of 60 to 75 per cent of the value of the produce stored with them. The recoveries are affected from the sale proceeds of the produce of the farmer.

This function involves no risk to the society. Moreover, it increases the business.

- (iv) Procurement and price support purchases:** Co-operative marketing societies act as agents of the government in the procurement of food grains and other agricultural commodities at the announced procurement or support prices.

## **11.8 PROGRESS**

The value of agricultural produce marketed through the cooperative marketing societies increased from Rs. 53 crores in 1955-56 to Rs. 738 crores in mid-nineties. The produce marketed through these societies account for 8 to 10 per cent of the marketed surplus. The important commodities marketed by these societies are food grains, sugarcane, cotton, oilseeds, fruits, vegetables and plantation crops. The progress of cooperative marketing societies has varied from state to state and within each state from commodity to commodity. Maharashtra, Uttar Pradesh, Gujarat, Punjab, Karnataka, Tamil Nadu and Haryana together account for more than 80 per cent of the total agricultural produce marketed through cooperatives in the country. During the last 30 years the number of primary agricultural cooperative marketing societies increased from 3108 to 7506. These include 5028 special commodity societies and 2478 general purpose marketing societies. There has also been a fourfold increase the number of cooperative sugar factories and two-fold in cotton spinning and processing societies in the country.

### ***Reason for slow progress of cooperative marketing***

The main reasons of this slow progress are:

- i) Farmers are indebted to local traders and enter into advance contracts with them for the sale of the crop.
- ii) In some cases rivalries among farmer-members result in indecision, which hampers the progress of the societies.
- iii) Members lack confidence in cooperative organisations, for most of the cooperative sector enterprises run at loss.
- iv) Societies do not provide facilities of food and shelter to farmers when they visit the market for the sale of the produce.
- v) There is lack of sufficient funds with the societies to meet the credit need of the farmers against pledging of the produce brought fore sale. Nor do they make an advance payment of the value of the produce purchased or sold through them.
- (vi) Cooperative marketing societies are not capable of carrying on their business in competition with traders and commission agents, because of the absence of adequate business expertise among their employees.

### ***Suggestions for strengthening of cooperative marketing societies***

- i) Cooperative marketing societies should develop sufficient storage facilities in the mandi as well as in the villages.

- ii) The societies should give adequate representation to the small and marginal farmers in their organisational set-up.
- iii) In the selections of the officials of cooperative marketing societies, weightage should be given to business experience and qualifications. After their selection, the officials should be given proper training so that they may deal efficiently with the business of the society. The efficiency should be rewarded, wherever possible.
- iv) There is a need for bringing about a proper co-ordination between credit and marketing co-operative societies to facilitate the recovery of loans advanced by credit societies, and make available sufficient finance for marketing societies.
- v) Cooperative marketing societies should diversify their activities. They should sell the produce and inputs, and engage in the construction of storage facilities.

## **11.9 SUMMARY**

Today cooperation has been accepted as an instrument of economic growth and social reforms all over the world. This is not a new concept as far as India is concerned as certain illustrations of cooperatives can be seen in Vedas and Upanishads. In modern India, it got momentum after independence in 1947. cooperative marketing organisation are the associations of producers for the collective marketing of their produce and for securing for the members the advantages that result from large scale business which an individual cultivator can not secure because of his small marketable surplus.

Cooperatives are expected to build up an organised system for underdeveloped agricultural growth in particular and rural development in general. Transfer of technology, fertiliser production and distribution, irrigation, processing of agricultural products, and organised marketing etc. are some of the roles which are played by the cooperative sector very effectively. Base level, district level and state level are the apex cooperative marketing societies as far as structure of marketing societies are concerned.

There are two types of members of cooperative marketing societies i.e. ordinary member and nominal members. These societies generate their funds from sources such as loans, share capital, and scheme financing from the banks. Sale of different products/services on commission basis, purchase of members' produce, procurement of crops, and advancements of credit are the primary functions of these societies.

### **11.10 KEYWORDS**

**Package deal:** It is a strategy of putting up number of elements such as agricultural inputs, extension services, credit facilities and marketing etc. in a single basket to sustain growth.

**Nominal members:** The members of a cooperative society who establishes business dealings only and do not have the right to participate in decision-making.

**Multi-commodity societies:** The cooperative marketing society which deals in number of commodities produced by the members.

**Single commodity cooperative society:** The society which deals in only single commodity produced by the farmers.

### **11.10 SELF ASSESSMENT QUESTIONS**

1. Define 'cooperation'. Write in detail the evolution of cooperative societies in India.
2. Write a detailed note on the structure and types of cooperative marketing societies in India.
3. Elaborate the main functions performed by the cooperative marketing societies.
4. What are the main deficiencies in cooperative system? How can we strengthen the functioning and system of cooperatives.

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