Chapter Seven

APPRaisal OF AUCTION AS THE MARKETING MECHANISM FOR
THE WOOD PRODUCTS

Forestry System in India was elaborated. The Marketing
and Marketing Concepts were introduced and their relevance in
forestry was established. It was seen that Social Marketing
could play an important role in coming years. Available
literature was reviewed and important view points regarding
forestry and the disposal of forest products were noted. The
auctions were found to be the most common means of releasing
wood and other forest products for public consumption in the
publicly owned forestry system. In the light of the discussion
certain hypotheses were formulated. Wood products, their
market and its structure were described. The existing market-
ing efforts in Forest Departments were seen. Auction and its
kinds were defined. The activities and procedures involved
in bringing wood to the auction point and in conducting the
auction were noted. This helped in understanding the
operational aspects of auction. Pricing Methods in forestry
were then looked into. Auction prices were seen in relation
to the market prices and also from the viewpoint of the
seller. With this background it is now possible to look at
the auctions critically to see how far auctions support the
hypotheses formulated.
Forestry and Forest Products Marketing:

Before proceeding with the evaluation of auctions proper, it will be worthwhile to produce a resume of the relevant facts that emerged, (i) through the review of literature; (ii) from the understanding of Indian Forestry and Forestry System; (iii) from the discussion on wood products and their markets; and (iv) from the operational and pricing aspects in auctions and in other methods of sale of forest products. Following important features of Forestry and Marketing timber have been highlighted. Consideration of these will help us in seeing auctions in their correct perspective:

(i) Wood is almost entirely a producers' good, and versatile raw material. (Worrel)

(ii) Standing timber has only potential value. The actual value is determined by the end products manufactured in conversion plants. (Gregory)

(iii) Forest products such as timber go through a series of processing and marketing stages between trees and the ultimate consumer. At each stage a price is developed. Prices become progressively higher as the product moves along. (Worrel)

(iv) The marketing of timber tends to be highly structured and complex. (Bentley, et al)

(v) Timber markets may not be freely competitive, because of distance barriers and deficiency of information. (Bentley, et al)
(vi) Markets for sawn timber and plywood are considered to be competitive. (Gregory)

(vii) The geographic area for an effective competition for timber is relatively small, hence supply of timber is inelastic, particularly in public ownership, since most of the rules for allowable cut disregard price. Competition where effective provides a large premium over the appraised price. (Bentley, et al)

(viii) The extent of competition in timber sales is a positive logarithmic function of the number of active bidders. A significant negative relationship exists between the size class of buyers and the extent of competition giving a net power position to large firms. Larger the sale size lesser is the degree of competition. Small firms pay higher premium over the appraised price than larger firms. (Mead)

(ix) Stumpage appraisal method (Valuation of standing trees) commonly followed is to treat stumpage price as a residual value. All considerations of costs in determining Upset Price are for the operator of average efficiency, and data is gathered by purposive sampling. Appraisal value arrived at is an unrealistically low statement of the timber's fair market value. (Mead)

(x) Business of growing trees is mostly a government function, or an agricultural adjunct or more or less an inadvertent sideline in other land-use activities. Larger the extent of public ownership, the greater is the monopoly power of the government. However, private firms have a free access to the public timber via auction markets. (Mead)
(xi) At the occasions chosen by the government agencies timber is auctioned off to the highest bidder. Almost all public sales of timber are handled this way. (Mead)

(xii) Auctions appear to be the most widely used where actual inspection of the product is desirable in order to determine its quality. Auctions provide an exceptionally rapid and effective means of disposing of goods. A product to be successfully auctioned off should possess certain characteristics. (Encyclopedia Britanica)

(xiii) Competitive bidding usually leads to higher prices, at least in the long term, than does negotiated sales. Sealed bidding and oral bidding can lead to different results, but sealed-bid (tender) sales do not result in bid/appraisal ratios significantly higher than those for other sales. (Bentley, et al)

(xiv) In auctions it is presumed that it does not matter who one sells to, as there is always some one present to buy. There is no personal involvement. (Tilles)

(xv) Prices vary in all markets. At any given point of time, different prices exist for the same product under the same terms. Price dispersion is the manifestation and the measure of ignorance in the market. Key to the achievement of both operational and pricing efficiency is the existence and transmission of complete and accurate market information. (Dahl and Hammond)

(xvi) Existence of a uniform and generally accepted system of measuring and classifying or grading products is important to the operations of the market. (Dahl and Hammond)
(xvii) The degree of development of the information function tends to be low where market participants are many and small and the product is highly variable. It tends to be high where market participants are few and large and product is uniform. (Bentley, et al)

(xviii) Advertising protects seller of timber by stimulating competition among buyers. (Bentley, et al)

(xix) Product differentiation is not as important in lumber (sawn timber) industry as in case of other industry. Public seems to consider it as a homogeneous product. (Mead)

(xx) The administrators of public forests usually are restricted as to how they can sell timber, mainly because of public accountability and assumption of 'fair play' in administration. Public forest owners do not have the same motive of making maximum profit as with private owners. Public forests are managed for multiple use and hence maximising profits is not the sole aim in their management. (Worrel)

(xxi) At present, the home wood trade (in India) is in the doldrums and little marketing skill or effort is being put into a moribund business. Government is the largest timber producing agency in the country. Sale of timber is done mostly by auction and in standing form. Chaotic state is existing in the timber producing, selling and buying organizations. (Singh)

(xxii) Marketing planning and production planning go together in a single purpose in forestry. This purpose is to produce highest profit to the firm through the best combination of product cost and product return. Because: (a) There is variability in raw material (wood) in number of species, range in sizes
of logs, variations in their quality, (b) There is variation in the production capacity in each operating unit (Forest Block), (c) There is a wide choice of product category that can be produced from any particular size, grade and species of log. (Skrivan)

(xxiii) The traditional criterion in wood products has been realisation from the log rather than realisation from the market. (Singer)

(xxiv) Forest Marketing is a process of planning and managing sales in order to marry supply and demand to the best advantage of the forest enterprise. (Johnston, et al)

Criteria for evaluation of Marketing functions and related activities in Forestry:

Marketing involves four functions, viz Seeking, Matching, Programming, and Consumating.¹ And in forest products marketing important activities required to be undertaken are, (i) Information generation and its transmission, (ii) Effecting the exchanges, (iii) Handling the commodities, (iv) Facilitating processes, and (v) Performing related social services.² To successfully achieve these functions and activities the marketing system needs to be efficient. The efficiency of the system can be judged from its performance. The performance is measured by reference to the efficiency achieved by the system in its operations, pricing of its products and by its responsiveness. Operational efficiency is achieved,

in various marketing activities, such as assembly, processing, transportation, storage and distribution, through minimum costs. Ability of prices to obtain adequate returns to the seller and to allocate the commodities effectively among buyers, indicate pricing efficiency. The responsiveness of the marketing system is judged from the existence of and transmission of complete and accurate information. The marketing information has two components, viz (i) The information on the delivery system which reaches the goods and services to the consumers, and (ii) The information on the system of classifying, grading and measuring the commodities, which facilitates comprehension and comparison. The auctions will be examined with reference to these criteria for all the functions and activities involved in the marketing of wood.

Seeking Function and Auctions:

The primary function of seeking is to discover customer's wants. As said earlier almost all the forests in India are government owned. Wood is also a versatile raw material and is used in raw form as well as in the most sophisticated form after processing. People need wood in some form or other throughout their life. As such people know the wood and they try to procure it not only from government forests but also from other areas. Most of the wood that is auctioned in

government sales depots is in round log form. At times it is sold after primary processing as sawn timber. Part of the production is sold in form of standing trees. As far as these forms of wood are concerned, there are no consumer preferences which are sought. Because of uneven spatial distribution of forests there are many areas without forests in the country. There are also shortages of wood, otherwise due to various reasons, but mainly due to inadequate production. Hence the people buy whatever is offered. The production of wood also depends fundamentally on biological and silvicultural considerations. And the annual cuts are based on working plan prescriptions except in case of Forest Corporations. Presently sixteen FDCs cover approximately two per cent forests areas in the country. There is rarely any conscientious effort on the part of the Forest Department to seek customers. Customership is built over by tradition and government auctions generally find sufficient response, every time, everywhere. The Department makes effort to offer the wood in auctions in the form desired. For example, the pulp wood is sorted out from firewood. Special sorting is done for odd and bent pieces of species for bullock cart parts or for boat building. Wood is sold after debarking. More number of sales depots are now opened. Sales are advertised widely. This shows the realization, though of recent years, that the Department values its customers and tries to satisfy their wants as far as possible, through the auctions.
Matching Function and Auctions:

This involves production of a desired product. In forestry this involves two activities. Firstly, growing of desired wood of certain favoured species like Teak. Secondly, to offer the wood in the suitable form to the customer. Till about two decades back only a few tree species had market in India. Technological developments have created uses for almost all the species now, especially for pulping. Thirdly, the Department and FDCs now grow the species like Koo-Babul and Agasthi, for pulp wood on very short rotations and by intensive cultivation practices. In auctions wood is placed in convenient lots. It is also sorted according to different species. And wood is graded into different categories which helps the buyer to choose his requirements better. Thus matching function can be said to be well attended to in forestry auctions.

Programming function and Auctions:

This concerns the entire gamut of the marketing mix. In forestry it involves all the activities from growing trees to the ultimate delivery of wood at auction point or at the users' door as in case of industries. One, however, has to always keep the government ownership of forests and its social responsibilities in mind. Forests are not grown only for industries, nor for any other single purpose. They are grown
and managed for a variety of purposes. Trees themselves satisfy many purposes while grown for a purpose like wood. Forests are grown and managed for the overall well-being of the people. And the well-being objective can include everything conceivable from supply of firewood to households to offering scenic beauty to urban elites. Wood as a product is not promoted. But many aspects of forest conservation including wildlife and environment are vigorously promoted. Promotion of Social Forestry in recent years is a case in point. The wood is now offered for auctions in more Sales Depots, conveniently located. Distribution beyond auction point is however not done by the government. It is left to the middlemen. Forests are also opened up by increasing network of roads. Very difficult and interior areas are opened by skyline cranes and ropeways in the hills.

Pricing of the forest product is another component of the mix. Pricing of standing timber is not to the advantage of the Department in particular and the society in general. It is a method which subsidizes private traders. Pricing for raw material supplies similarly amounts to a heavy subsidy and results in a prodigal use of raw materials by industries. Pricing for departmental supplies is based on imputed prices and is justified because the government transfers a product from its own producing unit to its other user units. The pricing for timber and firewood in sales depots can be said to be rational and generates competitive auction prices.
Prices obtained in auctions can also be said to be the best share of market prices for the kind of product sold. However, the prices obtained for primary processed wood in the government saw mills and integrated units do not reflect true market prices. Moreover such processing does not add values to products due to various reasons such as larger overheads, inefficient handling, idle machinery, etc. There are no economies of scale in processing in Saw Mills (Nautiyal)\(^4\) Hence the most efficient way of timber and firewood disposal for the Department is to auction it. Clawson\(^5\) also suggests similar action in case of management of National Forests in USA. It will thus be seen that programming function, along with the marketing mix, is satisfactorily achieved by the Department through auctions of timber and firewood at its sales depots.

**Consumating Function and Auctions:**

This involves all the activities which help to effect exchange. The auctions are conducted with elaborate terms and conditions binding on the buyer as well as the seller. The wood description and its measurements are open for public reference. Standard grading rules help sorting the wood in convenient categories. Buyers are offered an equal opportunity to offer their bids openly. There are instalments


offered for facilitating payments for the quantity purchased. Over and above, the material is generally offered at best possible location which has all the facilities like railway, banking, etc. Payment is accepted in cash, by receipted treasury challans, bank drafts, and very recently by certified cheques from nationalized banks. Buyers are also looked after well at the auctions. Arrangements for their boarding and lodging are now being provided. In Ballarshah Depot in Maharashtra buyers are provided transport by the Department within the Depot for movement from sections to sections during auctions. Thus the Department takes all the necessary steps to facilitate the consumption in its auctions.

Information Flow and Auctions:

The most important activity in marketing is the generation and transmission of information. Auctions are conducted with due publicity, atleast a fortnight before the date of sale. Detailed sale-lists which describe the wood species, dimension, its cubic contents and grades are prepared and provided to the buyers. Sale results are also published likewise. Thus the interested buyers and timber markets are normally kept informed by the Department. Unfortunately, the flow of information from the market to the Department is rarely existing. There is no conscientious effort to monitor timber market in the Department. Auction prices are the only indicators of the kind of wood preferred by buyers and their ruling
market trends. This is one of the weak points in today's forestry in India. Another difficulty, from the buyers' point of view, is that the quantity that will be auctioned is not known sufficiently in advance to them. They come to know of it only when sale notices are issued. The buyers cannot plan their purchases timely nor can they arrange finance in advance. For example, at Paratwada Depot 28,570 m$^3$ Timber was sold in 1979-80 as against 44,738 m$^3$ in 1978-79 and 36,627 m$^3$ in 1977-78. At Ballarshah Depot, the FDCM sold 92,945 m$^3$ in 1976-77 and 35,576 m$^3$ in 1978-79. Such wide fluctuations, at a few places of wood concentration, affect the market as well as the returns to the government. They also create operational problems in transport, storage and financing. Moreover, they create uncertainties in the business. The information flow in marketing timber is not efficient as it should be and to that extent the present day auctions fall short as marketing mechanism.

Wood Handling and Facilitating Activities in Auctions:

Activities that are involved are, logging, transportation, storage, processing and deliveries. The efficiency of all these activities should reflect in the costs of the delivered material at auction point. There is no doubt an emphasis in the department on rationalizing costs. But compared to the private operators the costs of departmental handling are always higher. Same is the case with Forest Corporations.
and Forest Cooperative Societies. There are certain reasons for this. Firstly, the government policy of minimum wages for forest labourers' make the costs of operation higher. All the expenditure is according to the Circle Wage Board rates, revised and fixed every year (Appendix VIII). Secondly, comparatively a large number of government staff is employed for the job which is accomplished by an Agent or Munim of a contractor. Hence larger overheads contribute to higher operational costs. Thirdly, the rules and regulations of the Department delay certain essential purchases, like spare parts for machinery, and affect efficiency. Fourthly, there is no feeling of personal involvement in government works, neither there is any motivation to do so in form of rewards etc. FLCS exhibit this indifference more prominently as experienced over last three decades of this working in Maharashtra. All these factors effect the operational efficiencies. However, one of the social obligations of the government, of creating employment, is achieved. So also the aim of involving people themselves as partners in the working is achieved through FLCS working. It can be said that eventhough the operational expenses tend to be higher, they are justifiable in the existing forestry situation. This apart, other activities of storage and processing are comparatively efficiently handled. Logs are trimmed, debarked and fashioned to make them more saleable and economical for transport. Wood deterioration is prevented by taking necessary precaution in the depots. Log ends are
protected against cracking. Elaborate grading and classifications procedures are followed to sort out timber and they are generally accepted by the trade. Records are meticulously kept and access to data is reasonably quick considering the fact that all operations are manual. Auctions proper are conducted in a business like manner. Convenient instalments and periods are offered to buyers for making payments. On the whole it can be concluded that the handling and facilitating activities are performed reasonably efficiently, in government timber auctions.

Social Services through Auctions:

Primary social service rendered by the Department in auctions is the generation of revenue. Secondly, the logging activities involve employment and training of forest labour. PICS has made tribal people partners in the forest business of timber harvesting. Welfare of the labour and employees is also a part of the Department's obligation. Auctions do the most important service of making available the forest produce to the public. This is done by adhering to the tenets of impartiality and fair play. The material is also made available at the prices decided in open competitions, at the satisfaction of the buyers as well as the Department. There is, however, a serious social objection to the auction, which is about the role of middlemen. They buy the wood at auctions
and take all further steps to reach it to the consumers situated in farthest corners of the country. Departmental working, establishment of forest corporations and encouragement of Forest Labourers' Cooperative Societies has no doubt removed the contractors' working from the forest proper. But contractors are still entrenched in the timber trade. This is mainly because the markets for the forest products are not well developed in India. And the weak market development has two effects (Romm). Firstly, the government is deprived of a system of incentive formation that it could use to influence private decisions. Secondly, a relatively large share of the value of produce goes to middlemen willing to assume the costs and risks of a disorganized market, and a small share goes to the producer. This is true as far as auctions of standing trees in the forest are concerned. This is however not true in case of auctions of timber held at sales depots.

The round wood or firewood offered in auctions realizes fair share of the market price for the government. As noted earlier the price is added at each stage of handling and processing. Moreover the end-product price and auction price of round wood, from which the product is made, are necessarily different. They cannot be said to be comparable. For example, round logs of Rosewood fetched prices between Rs 7000 to Rs 15000 per cubic metre in Karnataka government depot auctions.

Jeff Romm: The Uncultivated Half of India: The Indian Forester Vol 107 Nos 1 and 2, Jan-Feb 1981
But a sofa set produced from the Rosewood from a fraction of that volume, by the reputed furniture manufacturing firms in Bombay, fetches Rs 20,000 each in elite market. Question involved is therefore of comparing prices of similar product in a normal market situation. Middlemen may be unwanted today but the Department also cannot replace them because of many important reasons. The market is diverse and scattered. Paucity of staff and larger overheads make the departmental efforts to reach the consumer directly uneconomical to both sides. Over and above, the department lacks the knowledge of trade and its subtle tricks. In the existing situation middlemen appear to be indispensable and render important social services. They generate wealth as well as employment in the society. Until the government is not in a position to replace them, the middlemen will be an essential feature of the forestry system.

Auctions and the Utilities:

Let us have a look at auctions from the point of view of utilities. Production is the set of creating wantedness. The wantedness or satisfactions or utilities are of four kinds. Satisfaction of form, of possession, of place and of time. Marketing is directed towards these satisfactions of the consumer.

In forestry management the silviculture decides what trees to grow and how to grow them and rotation decides when to cut them. Both thus create the form utilities. Logging i.e. falling and conversion of trees into logs or other forms of wood also creates form utility. Forests are situated away from most of the markets. Transportation and assembly of cut wood from such forests to sales depots therefore creates place utilities. It becomes easier for the buyers to go to such depots to procure timber and take it where it is needed. Timber merchants also make it available in local town markets and satisfy place utilities. Looked at this way, auction of standing timber in the forests creates no place utility. Periodical auctions in sales depots also create time utility. Most of the auctions held at the time of peak demands, such as after rains and near festivals, fetch good prices for wood. In Kasa Depot of FDCM in Maharashtra and Delhi Sales Depot of Madhya Pradesh Forest Department, auctions are held every month on fixed dates. Retailers and other timber merchants also create time utility by supplying timber when wanted by the customer. As regards ownership utility, consumers fulfill their requirements through local timber merchants. Some of them also acquire timber from department's auctions. But in most of the auctions department passes the ownership to the buyers of larger quantities. It is thus evident that auctions do create form, place, time utilities. Possession utilities are created to a greater extent, if not fully.
Conclusion:

- All the aspects of the auctions in forestry have now been considered. Marketing functions and activities performed through auctions were discussed. Utilities satisfied by auctions were highlighted. The short-comings of auction as a marketing mechanism and bias involved towards certain class of buyers were also underlined. Operational and pricing efficiencies of auction were compared. Auctions need also to be seen in a correct perspective of the existing forestry situation in India. The primary objective of Forest Management is to contribute towards well-being of the society.

Forests are grown, maintained and managed for different purposes in a public-owned forestry system where timber production or profit maximization may be one of the objectives among many. Managers of government forests have to aim for a good mix of physical - biological feasibility, economic efficiency, economic equity, social acceptability, and administrative practicability. Auctions may not be the ideal marketing mechanism in forestry today, but they do account for a major share in forest produce disposal and to a large extent satisfy all above considerations. Viewed in this light the study leads us to following conclusions:
Auction is the most common method used by the Forest Departments to sell their produce. Despite its shortcomings and subject to fulfilment of certain conditions it is the best available means for the forest managers to market their products in the existing forestry situation in India.

The Auction of timber and firewood, that is harvested and transported to government sale depots by departmental agency, is the best approximation of the Marketing Concept.

The Auction of standing trees in the forest though administratively convenient, involves sacrifice on the part of the department. Because, firstly, the department is deprived of the fair return for its product. Secondly, such auction supports a few buyers who then control the timber market. Such auctions thus entail social costs. Therefore auction of standing trees in government forests does not qualify as a marketing mechanism.

In the system of forest auction, the distribution of forest produce beyond the point of auction rests with middlemen. These middlemen play useful role in timber trade. Such middlemen are therefore necessary in the present system, unless the operation of distribution channels is taken over by the forest managers themselves.

There is scope to improve the forest auctions and make them more effective.

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