CHAPTER - 1

INTRODUCTION

AND

DESIGN OF THE STUDY
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1.1. INTRODUCTION

Marketing is the crux of the whole food and agricultural problem. It would be useless to increase the output of food, it would be equally futile to set up optimum standards of nutrition, unless means could be found to move food from the producer to the consumer at a price which represents a fair remuneration to the producer and it is within the consumer's ability to pay.

UNITED NATIONS

A number of agricultural production programmes have been implemented in India under the successive five year plans and this has helped in achieving a substantial rise in productivity. In 1950's there were shortages in every front but in 1990's the country has emerged as an exporter in certain crops like cotton and sugarcane. Farmers are now earnestly looking towards Government intervention more on the output front. In brief the focus has been shifted from production to output marketing. The efforts of the Government to protect the farmers through the introduction of price support, regulated markets and similar other activities though desirable, were not sufficient to safeguard
the interests of the farmers. Due to natural constraints and the weaknesses of the indigenous, unorganised institutional structure, agricultural marketing suffers from number of deficiencies and malpractices on the part of the powerful vested interest. Farmers need agencies which can market their produce rather than just handling. Cooperative marketing societies are the suitable agencies to fulfil this task. "Cooperative Marketing is the marketing for the producers and by the producers that aims at eliminating the chain of middlemen operating between producers and the ultimate consumers and thus securing the maximum price for their produce." "Cooperative marketing is the formation of an association by producers for self-help in marketing their produce collectively and securing economies emerging from large scale business."

Cooperative Marketing is a collective and institutionalised form of rural marketing that strives to raise producer's share in consumer's rupee by eliminating the middlemen from the process of marketing. One of the prime objectives of cooperative marketing is to secure the economies emerging from large scale business which an

individual cultivator cannot secure due to small marketable surplus and other handicaps such as transport bottlenecks, lack of suitable storage facilities, inadequacy of marketing finance, exploitative marketing practices and notorious middlemen.

The disabilities of Indian farmer in respect of disposing his produce provide the justification for cooperative marketing which strengthens the farmer's position as a seller, ensures him of the regular trade outlet and enable him to obtain better prices." Besides, individual farmers are in a worst bargaining position as the local merchant is also money-lender and the marketing system usually degenerates as a truck system that embraces the weaker partner in a complicated network of indebtedness, obligations and eventually economic exploitation."

When small farmers produce variety of crops in small quantum the advantages of cooperation would be substantial by increasing the scale of marketing. Further it would reduce handling costs and improve sales through joint action.

In the Indian context agriculture occupies importance as nearly 80% of the total population depends on agriculture for their livelihood. Nearly 45 percent of national income is derived from agricultural sector. Indian manufacturing industries rely mainly on agricultural sector for major requirements of raw materials. Moreover, in India, economic development cannot be achieved without developing the rural areas. For accelerated rural development major emphasis has to be laid on agricultural development. The country over the years has made tremendous progress in achieving the self-reliance in foodgrains, fruits and vegetables and other commodities like tea, coffee etc. The foodgrain production has been of the order of 150 million tonnes, a record production during 1983-84. During the year 1989-90 the terminal year of the VII Five Year Plan the food grain production has touched 170 million tonnes. This helps in improving the unhinderd supply of essential commodities to the consumers throughout the year.

The tragedy, however, remains with the producers particularly small farmers, who have no support but to loose their rights in realising the realistic or remunera­tive price for their produce due to inadequate infrastru­c­ture of scientific marketing system in the country.
Marketing of agricultural products is an important subject; especially for Indian agrarian economy where the disparity between the final price paid by the consumer and initial price realised by the farmer is larger than anywhere in the world.

In the developing countries like India for improving the marketing practices as well as for getting the producer a larger and more legitimate share of the final price for his product, can not be wholly ensured by expansion of commercial marketing practices. In addition, cooperative marketing can give him that education and training in democratic discipline which is so important for the successful functioning of the vast political democracy in India.

A planned economy and a vast agricultural population cannot go together either peacefully, or democratically, or efficiently unless the cultivators are organised into cooperatives. Cooperative marketing units can be the media through which the cultivators can function in their relations with Government both in respect of getting supplies of seed, fertilisers and other producer goods required for agriculture and in respect of furnishing to Government and the public supplies of agricultural goods which are the results of their productive activity. Rationing, procurement, control, planned development of agriculture, all these are activities which can function efficiently
only with the help of organised agricultural population, and the best way of bringing about such organisation is by developing cooperative marketing units.

In India for rural economic development, we can no more rely on supply of credit alone but on a larger scale pay attention to the problems of supply and sale of agricultural production. Thus the future of cooperation lies in marketing and in the development of processing work as subsidiary occupation to the agriculturists.

The end objective of marketing is to satisfy human wants and help improve the quality of human life. The earning of revenue is an incentive for the performance of this useful activity. In developing countries, marketing is the most important 'Multiplier' of economic development.

It is certain that cost of marketing takes away a large chunk of the ultimate price paid by the consumer. In developing countries, added marketing cost has, by and large contributed to increase in efficiency of marketing. Correspondingly, in the less developed countries marketing costs are high because of defective and inefficient marketing process. The system obtaining in those countries is inequitable for both the producer and consumer who stand exploited by the unproductive vested interests who constitute superfluous intermediaries in most cases.
The function of buying (assembling) and selling (distribution) are complementary to each other. Pricing is the problem concerned with buying and selling. The pricing function regulates production and distribution activities and provides direction of future production and marketing activities. Since marketing is concerned with the decision making for future, the natural and manmade risks assume special significance in the marketing process. In developing countries the distribution channels are by and large, circuitous and wasteful. All these various functions constitute the process of marketing and influence the marketing costs and when added to the cost of production of the commodity to be marketed, constitute the total cost of product at which it is sold to the final consumer.

1.2. FEATURES OF AGRICULTURAL PRODUCTS

The nature and scope of agricultural marketing has to be understood against this background. Further the agricultural dimension confers special characteristic features on marketing of agricultural commodities. The bulky nature of the raw farm produce in relation to its value makes special demands on activities that constitute part of the marketing process.

Agricultural production is also seasonal in character while the demand from consumers is spread over the whole year. The agricultural marketing system should help to
secure balance between the seasonal flow of produce from the farm and the relatively steady and sustained demand from the customers. Many farm products arrive at the primary markets in the form of small surplus which are assembled at the secondary and terminal markets for their final disposal to the consumers concentrated in the urban areas. The losses on account of leakage, driage and deterioration in quality have to be provided for or prevented through some kind of processing and preservation at different stages.

1.3. NEED FOR COOPERATIVE MARKETING

The concept of marketing arises on account of the fact that the producers should feel that they get optimum return on the materials produced by them so that they continue the production, improve the methods of production, increase the productivity and also take care of the customers/consumers (who will not be required to pay more price than a fair price for a required quality of goods/commodities) on whom the production activity veers round. To enhance their prospects, the producers are left with two important means. They are:(a) to increase the value of their output either by increasing the quantity or improving the quality or both, and (b) to secure major share of the value to themselves. More often than not, they are denied their larger share because of middlemen and wasteful marketing system. Myriads of process( such as assembling/
pooling, transporting grading and standardising, processing, warehousing, weighing, packing, branding, bringing together the buyer and seller, etc involved in taking the produce from producer to the ultimate consumer make modern marketing a complex phenomenon which is necessarily to be done in an organised fashion. That is a homogeneous group of producers join together to carry on various marketing operations with the objective of raising their income through securing higher prices for their goods without raising the price to the consumer.

As production/manufacturing create form-utility, marketing create possession-utility(sales), time-utility (warehousing), place-utility (transportation) and service utility. Thus marketing include creation of utilities, holding of price line, product diversification according to the need of situation, determining the channels of distribution of produce from the production point to the last consumer and the promotional strategies to sell hard among the fierce competitors in the open market.

In the days of yore, when there was self-sufficiency and self-reliance there was no need for any strenuous effort to resort to marketing activity. Now-a-days with the increase in the gap between the demand and supply of production, unification between the producers and consumers to protect their interest viz. get better return for the farmers produce and securing pure and unadulterated goods/commodities at a fair price, if not cheap respectively,
started taking shape. Consumer, being the sovereign the producer has to adopt himself to the situation. That is how even in villages today, the system of centralisation and then decentralisation is taking place in disposing the agricultural commodities produced so that the producers are not squarely exploited by the consumers. For example, even vegetables grown in villages are not just plucked and sold then and there, as was done in the past. All the produce are pooled in town markets, the produce again flows back to rural areas through retail selling. This is mainly done only to strengthen the bargaining power of the producers. The other reasons are the production is in excess of local need; storage is a main problem; grading, processing follows; finance or credit needs is yet another problem which make the cycle of production go on. Above all marketing cooperatives can control the fluctuations in prices which stabilises the incomes of primary producers provide the built-in mechanism for recovery of production credit by linking of credit with marketing, provide equal opportunity for both small and big farmers alike (the private trade has tendency to neglect the small farmer and favour big ones) can reduce the cost of inputs supplied, fertiliser, seeds, etc. and equipment to its members by purchasing them through cooperative activity.
In short, well organised marketing cooperatives would improve the economic status of farmers by undertaking necessary marketing jobs aimed at giving better price to the producer, viz. farmer without adversely affecting the legitimate interest of the consumer.

Flowing from the concept, the marketing cooperatives have the following objectives.

(a) To arrange for the sale of produce and products belonging to members or purchased by the society to the best advantage.

(i) To prepare the produce for markets by sorting, grading, packing and repacking

(ii) To transport produce from member's residence, farms or godowns to markets.

(b) To encourage members to grow improved and standardised varieties of produce

(c) To accept deposits or to borrow funds from the cooperative central bank to which it is affiliated or from others.

(d) To advance loans to members on the security of their produce, raw or processed.

(e) To rent or hire or own godowns, processing yards and plants to facilitate storage, processing and sale of produce belonging to members or members affiliated societies or purchased by the society

(f) To undertake the purchase or procurement of the agricultural, domestic and other requirements of its members for sale or distributing among them
(g) To purchase and own pumpsets, tractors, and other agricultural implements for hire to its members.

(h) To work in collaboration with the cooperative central bank to which it is affiliated and primary credit societies which are affiliated to it so as to link up supply of credit by the credit societies to member producers with the marketing of their produce and for that purpose to act as agent of the credit societies for recovery of production loans given by them to their members.

(i) To act as agent of affiliated societies in the matter of receiving for safe custody in its godowns or elsewhere the produce pledged to such societies by their individual members.

(j) To act as the agent of District Consumer Cooperative wholesale stores for the purchase of commodities which it may require.

(i) To propagate and supply pure seeds.

(l) To disseminate among members, knowledge of the latest improvements in agriculture by arranging actual demonstration carried out by each individual member in his own land according to the advice of the Agricultural Department.

(m) To act as a warehouseman under the Madras warehouse Act 1961.

(n) To encourage thrift, self-help and cooperation among members.

(o) To undertake all other activities calculated to further objects of the society.
The marketing activities have been planned by the state, policies were framed and implemented by creating a vast superstructure and provided variety of paternalistic assistance for the marketing cooperatives growth and development in Tamilnadu state.

1.4. STATEMENT OF THE PROBLEM

In India agriculture has developed at a rapid pace especially during the last 25 years owing to Green Revolution. In 1950's there were shortages in every front but today India has emerged as an Exporter in certain commercial crops. Consequent on this Indian farmers are now seeking government intervention more on the output marketing front. In order to motivate the farmer to keep up the tempo of production, he should be in a position to realise a reasonable price for his produce. This can be possible only through an efficient marketing system. It is for this reason cooperative marketing is encouraged. Identifying problems of cooperative marketing structure and appropriate solutions for them is, therefore, a Sine qua non in the present context.

1.5 REVIEW OF CURRENT LITERATURE

A lot of descriptive material is available on the history, functions and growth of cooperative sector in India. A host of studies have been undertaken on cooperative Marketing in India during the post-independent period. Reports of the several committees appointed by
Central and State Governments and studies undertaken by Vaikunth Metha National Institute of Cooperative Management, International Cooperative Alliance, International Labour Office, National Agricultural Cooperative Marketing Federation Ltd., and several other individual scholars have dealt with several aspects of cooperative marketing.

The Government of India has set up the committee on Cooperative marketing, with Prof. M. L. Dantwala as its Chairman, with a view 1) to review the present pattern of Cooperative marketing of Agricultural produce, distribution of production requisites and supply of consumer articles at village, regional, state and National levels and indicate the future pattern of development with particular reference to relationship that interlinks the organisation at different levels; and 2) to indicate the role of cooperative marketing as an integrated structure of credit, supplies and processing and how best to see that this role can be discharged.

5. Ministry of Food and Agriculture Community Development and Cooperation; Report of the Committee on Coop. Marketing (Govt. of India 1967).
Report of the Export's conference on Cooperative Marketing, (1967) reviewed the evolution of Cooperative marketing in South East Asian countries and made recommendatory suggestions regarding the development of more systematic cooperative marketing, procurement policies for domestic and foreign trade, financial planning, sales promotion, sales organisation, administrative set up for policy making, controlling, organisation of cooperative marketing, product improvement programme, technical advise, management development programme, and federating marketing cooperatives.

Narasa Reddy in his study touched the problems of farmers in marketing their farm products. He has dealt with the functioning of Cooperative Marketing Federation in Andhra Pradesh extensively and at the end stressed the importance of the cooperation and has suggested that

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initiative should be taken by the members and public to strengthen the movement?

Subbi Reddy and Narasimham (1967) in their article discussed objectives, business practice and functioning of primary cooperative societies in Andhra Pradesh. They also pointed out general problems like inadequate finance, inadequate trained personnel and suggested various measures like recruitment of trained personnel, priority in allotting quotas, linking agricultural credit societies, producers and consumers societies with marketing societies.

Briz. Bhusan (1981) selected to study "Organisation and working of the Haryana State Cooperative supply and Marketing Federation Ltd" with a view to explore and identify the factors affecting its organisation, administration and working in achieving the resultant output and to suggest remedial measures.

Dubhashi, in his article on "Efficiency in Cooperative Enterprise" emphasises that Cooperative efficiency can be judged by maximisation of service at least cost to their

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members. Addition to this, cooperative efficiency can be measured by the extent to which services are rendered to small and marginal farmers.\(^5\)

Goel and Anil Dogra (1988) in their article selected two societies each hailing from one developing district (viz Karnal and Gurgaon) respectively to analyse their performance such as membership, general management, financial management, operational achievements, credit, transport facility, processing facility and distribution of consumer goods.\(^6\)

Balakrishnan in his study identified indebtedness of farmers, unfavourable prices, non-availability of transportation, storage and drying facilities as serious hurdles in improving market efficiency.\(^7\)

Srinivasan, while discussing the developments of agricultural marketing in northern region of Tamilnadu observed that Marketing of agricultural commodities was not well organised. He suggested better enforcement of regulations as a remedy.\(^8\)


Tewari and George studied the unpopularity of Cooperative Societies among farmers and suggested that Cooperative Societies should follow the business practices followed by commission agents to attract customers. The marketing societies should adopt a strategy of cultivating personal relationship with the farmers by increasing their contact with them.\(^\text{14}\)

Shankara Murthy (1988) selected 100 Taluk Agricultural produce Cooperative Societies, 6 Special commodity marketing societies, and 2 processing cooperative societies to study the working of these societies and to analyse the degree of association of different variables with the working of cooperative marketing societies based on the opinion survey of the policy makers and officials of the member society.\(^\text{15}\)

These studies are more in general and do not throw much light on the specific functioning of primary cooperative marketing societies. Moreover, a comprehensive study of Management of primary cooperative marketing societies of Tamil Nadu has not been undertaken. As such, it was felt necessary to study management of primary cooperative marketing societies of South Arcot District in detail.

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1.6. SCOPE

Cooperatives in India started with the prime object of providing institutional credit for farmers and release them from the clutches of money lenders. Later they added supply of inputs for production. Now with changing agricultural scenario, the cooperatives have to gear themselves to face the challenge of ensuring a fair deal to the farmers in marketing their farm produce. Towards this end there is a dire need to make the primary cooperative marketing societies, which are operating in the grass root level, more effective and efficient to safeguard the interest of small farmers in a big way. This necessitates strengthening cooperatives based on their past performance. To judge their performance against the set objectives, overall achievements of the societies in their various aspects such as membership, share capital, owned funds, amount of produce handled, amount of pledge loan sanctioned and recovered, profit or loss position etc have to be analysed. A comprehensive study of management of marketing cooperatives does not appear to have been undertaken so far and hence the study of management of primary marketing cooperatives assumes pivotal importance. The results of this study may be useful to the policy makers at the Govt. level, especially the department of cooperation and the administrators/managers of these cooperative societies.

1.7. OBJECTIVES

The broad objectives of the study are:

(a) To evaluate the achievement of the primary cooperative marketing societies through the appraisal of their past
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(b) To identify the specific problem areas of these societies; and

(c) To evolve appropriate policy framework and strategies to strengthen them.

1.8. **HYPOTHESES**

The societies could not get a sizeable market share because

(a) They have failed to create the awareness about their existence and role among the farmers (members and non-members)

(b) The existence of inter-tier problems in doing marketing activities

(c) The concept of linking of credit with marketing is not effective

(d) The public distribution activity in which they are engaged became the main activity at the cost of their primary objective i.e. Marketing of Agricultural produce, granting of produce pledge loan etc.

1.9. **METHODOLOGY**

Survey method was adopted. Data was directly collected from Cooperative Marketing Societies - from the records and interviewing the executives and members concerned.
1.10. **SAMPLING**

There are 19 districts and 112 Cooperative marketing societies in Tamilnadu; but for the purpose of the study only one district i.e. South Arcot has been selected and all the 10 Cooperative marketing societies have been studied.

The district has been selected as a unit of investigation to facilitate the intensive study of individual marketing cooperatives and to identify the factors that have led to the success of some societies and failure of others. The following criteria applied for selecting the district.

(a) The extent of development of cooperative marketing judged by number of societies;
(b) Relatively long period for which these societies were working;
(c) Presence of irrigation facilities;
(d) The Regulated Markets in this district rank first among 19 districts of Tamilnadu;
(e) Reasonable proportion of acreage devoted to food crops;
(f) In respect of net cropped area the district ranks first among the districts of Tamil Nadu;
(g) Net area under non-food crops and oilseeds is largest in the district;
(h) Area under cash or commercial crops is also highest in the district (sugarcane and cashewnut)
(i) The possibility of easy communication with farmers of this region.

The conclusions arrived at may be applicable to other districts as well because all the 112 marketing societies are working more or less in similar environment.

On simple random sampling basis at the rate of 5 members from each of the 10 cooperative marketing societies and two well-informed individuals in the area were purposively selected for eliciting their opinion about their understanding of the societies, their usefulness, problems and prospects.

In the area of 10 cooperative marketing societies 5 members of the Primary Agricultural Cooperative Society preferably the President/Board of Directors/ enlightened members were interviewed to get their opinions and reactions about the problems/prospects/gaps existing in the present functioning of primary agricultural cooperative societies and cooperative marketing societies.

1.11. PERIOD AND SOURCES OF DATA

For the purpose of analysis, collection of primary data from the 10 Cooperative Marketing Societies in the district for the five years ending 1988-89 (1984-85 to 1988-89) was collected. Secondary data from Directorate of statistics, Registrar of Cooperative Societies, National Cooperative Marketing Federation, Directorate of Agriculture and South Arcot Market Committee was also culled and used.
1.12. TOOLS AND TECHNIQUES

Pre-tested questionnaire - cum - schedule was used for collecting data from Cooperative marketing societies. Opinion schedule/interview guide for member beneficiaries, for well-informed individuals and for members of primary cooperative Banks was used for interviewing and eliciting information.

1.13. LIMITATION

The data for the study was collected through survey method by conducting personal interviews with a sample farmers, who maintain no records of accounts. Therefore, the data collected will be subjected to their recollection bias.

1.14. CHAPTERISATION SCHEME

CHAPTER: I
Introduction and design of the study

CHAPTER: II
Profile of Marketing Cooperatives

CHAPTER: III
Analysis of past performance

CHAPTER: IV
Problem areas of Cooperative Marketing Societies

CHAPTER: V
Cooperative Marketing Societies Vis-a-vis Regulated Markets
CHAPTER: VI
Managerial Effectiveness

CHAPTER: VII
Summary of conclusions and suggestions.