CHAPTER V

MARKETING AND PRICING

1. INTRODUCTION
2. PRICE
3. AGRICULTURAL PRICING
4. COFFEE AND PRICE
5. FACTORS INFLUENCING COFFEE PRICE
6. REQUIREMENTS OF A MARKET MECHANISM
7. GLOBAL MARKET SITUATION
8. COFFEE MARKETING INDIAN SITUATION
9. ORIGIN OF THE COFFEE BOARD
10. ROLE OF COFFEE BOARD IN THE PRE-LIBERALISED ERA.
11. COFFEE BOARD AND MARKETING
12. GLOBAL PRICING OF COFFEE
1. INTRODUCTION

Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, services to create exchanges that satisfy individual and organisational goals\(^1\). It is typically seen as a task of creating, promoting and delivering goods and services to customers and business. In fact, marketing people are involved and includes 10 types of entities goods, services, experiences, events, persons, places, properties, organisations, information and ideas\(^2\). Marketing as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others\(^3\).

The term marketing has variety of meanings to different people in the marketing chain. For a farmer, it is selling a commodity, while for a handler, it means storing, processing, shipping and promotion\(^4\).

Since Coffee is an agricultural commodity, the meaning of Agricultural Marketing is needed -

The National Commission on Agriculture defined Agricultural Marketing as, “a process which starts with a decision to produce a saleable farm commodity and it involves all aspects of market structure”\(^5\). Marketing is one of the manifold problems which have direct bearing upon the prosperity of the cultivator\(^6\).
2. PRICE

Price is a strategic marketing tool to achieve certain objectives\(^{(7)}\). Prices are a key positioning factor and must be decided in relation to the target market, the product and service assortment mix and competition\(^{(8)}\). Adam Smith observed, "the real price of everything ..... is the toil and trouble of acquiring it\(^{(9)}\). Price is the value of something that a buyer gives up in an exchange\(^{(10)}\).

Before Marshall, there was a dispute among economists on whether the force of demand or the force of supply is more important in determining price. Marshall gave equal importance to both the demand and supply in the determination of the price\(^{(11)}\).

3. AGRICULTURAL PRICING

The Price policy plays an important role in the development of agriculture. It has been recognised as an insurance against the vagaries of the market. An important aspect of the agricultural price policy is the assurance to the farmer that his efforts to augment production through adoption of improved technology would not become unremunerative through the price factor. Such a policy is the sine qua non of building a modern scientific agriculture\(^{(12)}\). Agricultural price policy in India has taken a concrete and definite shape only after the establishment of the Agricultural Prices Commission in 1965. The agricultural commodity pricing is being increasingly recognised as important in the marketing process\(^{(13)}\).
Thus price is the mechanism or device for translating into quantitative terms, the perceived value of the product to the customer at a point of time\(^{(14)}\). The Marxian view of price includes the cost of raw material, cost of labour, the rent for land and interest for capital. Throughout the study the reference point of price is not taken on the basis of above reference but on the price Index of International Coffee Organisation.

4. COFFEE AND PRICE:

Coffee being one of the World’s leading trading commodities is often subjected to major fluctuations in price. One word that often aptly describes the coffee price is “VOLATILE”. As any other agricultural commodity, coffee has its own and fundamental factors that cause sharp variations in prices. Coffee prices are very volatile and move at the slightest change in perceptions of worldwide demand and supply situation.

Coffee pricing is the important consideration both to the planter and consumer. It is very important to note that coffee can not be stored for a long time, the quality will be affected and hence hoarding is not possible. This very much favours the final consumers, because artificial inflation in price of coffee by hoarding can not be effected. While fixing the price the persons have to apply their minds together and establish certain ranges of prices which during a particular period of time would be remunerative to the growers and at the same time fair to the consumers.
In the beginning barter system was adopted in market system. Under this system, goods were exchanged for goods by the counterparts. The introduction of money as a means of exchange has drastically changed the equation of production and marketing. The Industrial revolution and the laissez-faire system of economy preferred by the west, particularly the US has revolutionised marketing concept and strategy.

Today marketing includes a variety of software and hardware components. The software components include advertising, financing and quality upgradation whereas, the hardware components include storage, warehousing, transport. etc...

The theoretical aspects of marketing and pricing are discussed briefly under the importance of coffee pricing factors influencing pricing and requirements of marketing mechanism.

5. FACTORS INFLUENCING COFFEE PRICE.

The price of coffee is influenced by many factors like cost of production, competition, storage of seeds, packaging, channels of distribution, legal aspects, quality, demand, international monetary exchange rate, IQS of Coffee Board etc.
(i) Cost of Production:

In earlier days, the fixing of Coffee price was very easy. Simply adding up the cost incurred i.e., from the production point to the coffee sent to pool (distribution point) and divide the total amount by the number of kilograms. Now this system is totally changed. All the costs incurred during production and also the duties and taxes are added up. The following charges are also added.

(a) Crop charges i.e., Labour incurred for picking, estate curing charges such as drying and pulping, cost of maintaining pulp house, cost of mats & bags, transportation charges from estate to curing works.

(b) Curing charges.

(c) Amortised development cost, i.e., total expenditure incurred on the plants from the seeding stage up to the bearing stage.

(d) Gratuity & Bonus to the plantation labourers and supervisory staff.

(e) Taxation, interest and return on capital bases on assumed Debt- Equity Ratio.

(ii) Competition:

Competition is the indicator of the market economy. The Governments with command economy avoid competition by fixing production quotas in response to the demand. In the market economy prices must be decided by considering competition in the market.
The Indian coffee industry faced competition prior to 1936. There had been no mechanism to regulate supply and price. To avoid this uncertainty, the English Planter named Shri. Bonish L. Villa suggested to the British Govt. to constitute a local authority to regulate coffee production. This is the genesis of coffee Board. This trend resulted in wide fluctuation in the price of coffee. The silver lining of this dark scenario is that there has been an unanimous consensus among the coffee growing countries to extend International Coffee Agreement till 2001.

(iii) Storage of Seeds:

The seed viability of coffee was prolonged for 6 to 13 months in case of Robusta and for one year in case of Arabica. After that the seeds lose their quality and value. Therefore, importance should be given to storage of seeds, which is also one of the factors that affect the price of coffee.

(iv) Packaging:

Packaging includes, the activities of designing and producing the container for a product. The first requirement in transporting coffee is to provide a container of some sort in which to pack the beans. The price of jute bags also affects the coffee pricing. Coffee is packed in new jute bags of 60 kilograms, after processing, packaging gives protection and broad name to each and every products. This will also affect the price of the coffee considerably.
(v) International Marketing Objectives
(vi) Product differentiation
(vii) Exchange rate
(viii) Market Characteristics
(ix) Image of the company etc. (17).

6. REQUIREMENTS OF A MARKETING MECHANISM.

The market of any commodity is fixed by the interplay of demand and supply. Apart from that, four factors are recognised as key components of a marketing mechanism.

i). Storage / Warehousing

Immediately after the production, the producer requires facilities to store them and preserve for marketing. Every industry has to store finished goods until they are sold because production and consumption cycle rarely match(18). There are perishable and non-perishable goods which require different types of storage facilities. These facilities shall be accessible to the producers to avoid higher cost for storage.

ii). Transport

This is a major cost consuming sector of marketing. The production point and the marketing point shall have road and vehicle facility to ensure safe transportation. The easy accessibility to the market is the basis for profitable transport. Transportation choices will affect product pricing on time.
delivery performance and the conditions of the goods when they arrive\(^{(19)}\).

iii) Finance:

The market finance is the backbone of a marketing system. The wheel of marketing system cannot grind smoothly without the monetary lubricant. The institutional credit shall be made available to the producers at reasonable cost to assure that they market the produce without any financial constraint.

iv) Statutory Provisions:

The buyer and seller shall have a statutory provision favourable to both of them to have a free and fair marketing arrangement, which shall be that the market forces shall in no circumstances harm the buyer or seller at higher or lower prices respectively.

7. GLOBAL MARKET SITUATION

Analysis of the marketing structures and mechanism at national and international level and that impact on prices of coffee shall give more insights to understand the consumption in a right perspective. Recognizing the exceptional importance of coffee to the economies of many countries which are largely dependent upon this commodity for their export earnings, the coffee producing countries made an agreement called, “International Coffee Agreement” in 1962. The agreement was signed by major coffee producing
and coffee consuming countries of the world. This is an International
Mechanism to Regulate Production and Prices of Coffee.

The main objectives of the agreement are --

(1) To achieve a reasonable balance between supply and demand on a
basis which will assure adequate supply of coffee to consumers and markets
for coffee to producers at equitable prices and which will bring about long
term equilibrium between production and consumption.

(2) To alleviate the serious hardship caused by burdensome surpluses
and excessive fluctuations in the prices of coffee to the detriment of the
interest of both producers and consumers.

(3) To contribute to the development of productive resources and to the
promotion and maintenance of employment and income in the member
countries and thereby helping to bring about fair wages, higher standards and
good working conditions.

(4) To assist in increasing the purchasing power of coffee exporting
countries by keeping prices at equitable levels and by increasing
consumption.

(5) To encourage the consumption of coffee by every possible means.
(6) In general in recognition of the relationship of the trade in coffee to the economic stability of markets for industrial products, to further International Co-operation in connection with worlds coffee problems. But ICA almost ceased to exist in 1989, when the United States as the biggest consumer of coffee in the world around 19 million bags coffee consumed failed to ratify the ICA. The USA, the proponent of free market policy insisted that coffee sector shall also fall in line with the globalisation process.

Following the collapse of ICA, Brazil, Columbia and other coffee producing countries formed an Association of Coffee Producing Countries abbreviated as ACPC on 24th Sep. 1993. They decided to avoid the causes leading to the downfall of ICA. They adopted a new strategy called “Retention Scheme”. Retention programme is an agreement to withhold a certain percentage of export when prices fall below a set level and conversely to reduce that percentage as prices rise. The first retention scheme was put into effect in October 1993 by eleven Countries.

From 1962 to 1989 Coffee market and global demand situation had been more or less stable. Each country was given certain quota system to fulfil. The surplus stock was sold to non-quota coffee consuming countries by the producing countries. For instance - during this period, India exported
considerable quantity of exportable surplus to the then Soviet Union. The quota system was aimed at a stable and remunerative price for producers and economical price for consumers of coffee in the world by regulating the supply according to the changes in demand.

In July 1989, the quota system was suspended due to a disagreement among the ICA members on how to allocate quotas among exporting countries by coffee types. An immediate consequence of this suspension was the sharp decline in the price of coffee. Since then, the world prices of coffee were determined by free (or) unregulated market conditions of supply and demand.\(^{(23)}\)

8. COFFEE MARKETING INDIAN - SITUATION.

Coffee is a seasonal and peculiar product harvested in the first four months of the calendar year but required for marketing throughout the year.\(^{(24)}\) The task of marketing system is to adjust the production of goods and services to the needs of customers.

Before 1993, the domestic marketing in India was characterised by a single buyer or monopolist viz - the Coffee Board which was pooling entire coffee in the country. Further, the Board was vested with monopoly in allocating the coffee between domestic consumption and exports. Thus the underlying market structure before 1993 was a combination of
non-competitive market structures viz - Monopsony and monopoly (25).

Consequent upon the introduction of liberalisation measures and changes in world market conditions under the collapse of the ICA, the market structure has changed from non-competitive structures to a competitive market structure, where the market is determined by the interplay of supply and demand in the world as well as in the domestic markets. Thus, the changed domestic market structure and competitive pricing are important impacts of liberalisation measures on India’s coffee sector. In this juncture, to understand the structure and role of the Coffee Board in marketing of coffee is essential.

9. ORIGIN OF THE COFFEE BOARD

It was in 1935, that the coffee planters led by Ivor Bull of Conscoffee convinced the Government to have a strategy to cope with the problems of coffee (26). Such an agency would ensure better price realisation to the growers and prevent any fall in the prices of coffee in the domestic market due to over supply. The growers badly needed a national level agency to deal with the quotas for exports. The result was the establishment of Coffee Board, a statutory body under the Coffee Act 1942 (27).
Coffee Board

Coffee Board is a statutory organisation constituted under the Coffee Act VII of 1942 and comes under the administrative control of the ministry of Commerce, Government of India. The Board comprises of 33 members including the Chairman who is the Chief Executive.

The functions assigned to the Board are:

I. Promotion of the sale and consumption in India and elsewhere of the coffee produced in India.

II. Promotion of Agricultural and Technological research in the interest of the Coffee Industry.

III. Assistance to Coffee Estates for their development.

IV. Securing better working conditions and the provision and improvement of amenities and incentives for workers and

V. Management of the other operations as per the provisions of the Coffee Act (28).
Coffee was being marketed through a centralised pooling system for nearly half a century under the auspices of the CB. The CB itself came into existence at the request of the growers who found it difficult to market their coffee in the post-war critical period. All coffee was pooled as per the provisions of the coffee Act, with the Coffee Board. Later, the curing and grading coffee was marketed through a dual action market auctioned in two different auctions, one meant for international markets, where exporters only participated, and the other for domestic markets where the domestic exporters participated. Since coffee is regarded as a foreign exchange earner, the emphasis was more on exports. Suppliers to domestic market were often regulated and domestic prices were kept low, by controlling the releases by the CB. The controlled releases of pooled coffee through regular auctions helped in maintaining an “average price” realisation for the growers. CB provided all the marketing and infrastructural support required by the growers, curers, traders and exporters, thus, creating a highly protected and paternalistic atmosphere. It also provided a very valuable research and extension support. The Board in effect has a virtual control over the total value chain.
Up to 1993, Coffee grown anywhere in India was the property of the Coffee Board, except where the Board had exempted the pooling of coffee. Further, the Board had regulated the allocation of total production between domestic consumption and exports, to attain a stable and remunerative prices for producers and economical price for consumers.

The year 1993 marked the beginning of the most important changes in the marketing and exporting of coffee in India. They were: introduction of internal sale quota (ISQ) in 1993-94 and free sale quota (FSQ) in 1994-95. Under the ISQ (or FSQ) all coffee growers were entitled to sell 30 percent (or 50 percent) of their production within (and / or outside) the country either individually or co-operatively. And, the remaining 70 percent (or 50 percent) of the production had to be pooled with the Coffee Board.

In April 1995, the FSQ was raised to 70 percent for the large growers (that is, growers with estate size of more than or equal to 10 hectares) and 100 percent for small growers (those with estate size of less than 10 hectares). And, from September 22, 1997, the FSQ was extended to all growers.
As a consequence of these institutional changes, the domestic market is integrated with the world market of coffee, especially at a time when the prices in the latter have been higher than in the former.

This integration has resulted in -

(a) equating the domestic market prices with higher world market prices and
(b) increased exports at the expense of less supply to domestic consumption, but at world market prices.

These results imply that the liberalisation measures are partly responsible for the domestic price rise, and the rest is contributed by changes in world market conditions.
Export : India Vs World

When we look into the export trends of coffee, India’s share in the world market is very low i.e., ranges from 4 to 5 percent. India’s share during 1990-91 was very low and then it increased and decreased in alternative years. Particularly from 1993-94 a consistent increase was attained. This implies that the exports of coffee in terms of both value and volume have consistently increased since the start of liberalisation measures in the sector.

Table - 5.1

Export : India Vs World (in ‘000 bags)(29)

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>India</th>
<th>India’s Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>76319</td>
<td>1510</td>
<td>1.98%</td>
</tr>
<tr>
<td>1991-92</td>
<td>79627</td>
<td>2024</td>
<td>2.54%</td>
</tr>
<tr>
<td>1992-93</td>
<td>76694</td>
<td>1822</td>
<td>2.38%</td>
</tr>
<tr>
<td>1993-94</td>
<td>73911</td>
<td>2907</td>
<td>3.93%</td>
</tr>
<tr>
<td>1994-95</td>
<td>65701</td>
<td>2070</td>
<td>3.15%</td>
</tr>
<tr>
<td>1995-96</td>
<td>73962</td>
<td>3572</td>
<td>4.83%</td>
</tr>
<tr>
<td>1996-97</td>
<td>81395</td>
<td>2476</td>
<td>3.04%</td>
</tr>
<tr>
<td>1997-98</td>
<td>77338</td>
<td>3691</td>
<td>4.77%</td>
</tr>
<tr>
<td>1998-99</td>
<td>82104</td>
<td>3426</td>
<td>4.17%</td>
</tr>
<tr>
<td>1999-00</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>
Marketing Structure.

The activities of the Coffee Board have been considerably reduced following the drive to fall market liberalisation. Both large and small growers are now free to market their coffee in any way they choose. Nevertheless, the Coffee Board undertakes a variety of roles to the benefit of the industry in general.

The Organisational Structure of the Coffee Board is Shown in Chart (30)

5.1

Chart 5.1

COFFEE BOARD OF INDIA

Chairman

Chief Coffee Marketing Officer Secretary Director of Finance Director of Research

* Marketing * Administration * Accounts * Research

* Promotion * Extension * Finance

* Development
Eventhough CB in effect had a virtual control over the total value chain, there is criticism from certain sectors that, CB can no longer control the domestic market or returns to growers. CB inspite of its vast establishment failed to create an image or a brand name for Indian coffee till today (31).

Since marketing and pricing are closely interlinked and either of them can not exist independently, it is necessary to have thorough look into the global pricing, national price situation and pricing policy to complete the study of this chapter.

12. GLOBAL PRICING OF COFFEE.

Global market prices of coffee are not only influenced by the fundamentals such as supply or demand and stocks, but also most of the other factors including speculation and as such they have become volatile (32).

The price of coffee enjoyed a certain degree of stability as the global marketing, thanks to the quota system of ICA. In principle, the quota system was aimed at stable and remunerative price for producers and economical price for consumers of coffee in the world. As already discussed in the marketing chapter, in the early July 1989, the quota system of the ICA was
suspended. An immediate consequence of the suspension of the quota system, was the sharp decline in the price of coffee from Us 253 cents per kg in May 1989 to 134 Us cents per Kg in October 1989 in terms of the ICA Composite Indicator price.

Table 5.2 illustrates the trend in the world market price of coffee by types from 1989 to 2000. From 1989 onwards the price of coffee by all types registered a sharp decline until 1993. But from 1993 to 1995 it recovered from the fall and started rising. This is mainly due to low production in major exporting countries especially, in Brazil due to frost and the stock Retention Scheme under taken by the ACPC.
### Table 5.2


<table>
<thead>
<tr>
<th>Year</th>
<th>Robusta</th>
<th>Arabica</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>1.66</td>
<td>2.4</td>
</tr>
<tr>
<td>1990</td>
<td>1.18</td>
<td>1.97</td>
</tr>
<tr>
<td>1991</td>
<td>1.07</td>
<td>1.87</td>
</tr>
<tr>
<td>1992</td>
<td>0.94</td>
<td>1.41</td>
</tr>
<tr>
<td>1993</td>
<td>1.16</td>
<td>1.56</td>
</tr>
<tr>
<td>1994</td>
<td>2.62</td>
<td>3.31</td>
</tr>
<tr>
<td>1995</td>
<td>2.77</td>
<td>3.33</td>
</tr>
<tr>
<td>1996</td>
<td>1.81</td>
<td>2.69</td>
</tr>
<tr>
<td>1997</td>
<td>1.33</td>
<td>2.32</td>
</tr>
<tr>
<td>1998</td>
<td>1.46</td>
<td>2.14</td>
</tr>
<tr>
<td>1999</td>
<td>1.75</td>
<td>2.2</td>
</tr>
<tr>
<td>2000</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

(Source Coffee Board)
The downward trend came to a half in 1996 the price rose to dizzy heights with Other Mild Arabicas touching 267 cents. Though the down trend started thereafter, 1997 finished off with better averages. This increase is rather caused by worries about supply problems in Latin America. As a result of weather damage and industrial action at force in Colombia and Brazil the price remained more or less static in the remaining period.

13. COFFEE PRICE TREND IN INDIA

After the liberalisation, pricing of coffee in India closely reflects the global pricing trend. The 100 percent FQS and the absence of the regulatory mechanism such as CB have integrated Indian Coffee market into the global market and hence the price for coffee assumes great importance.

In the absence of future trading / marketing, all domestic prices of Coffee in India refer to spot cash prices. However, these spot prices were generated by different processes before and after 1993, and they were different for different grades. For instance, before 1993 domestic and export prices of coffee were determined by a process of open-auctioning of the pooled coffee by the Coffee Board. Since 1993, private auctions have come into being, especially the Indian Coffee Traders Actions (ICTA) at different trading centres. Further there exists different prices for different grades of coffee, for instance, farm gate prices are for raw coffee ( unhulled
and ungraded) Indian Coffee Traders Actions auction prices are for major grades of clean coffee, whole sales prices are for clean coffee seeds of main varieties, and retail prices are for coffee Powder.

The nature of average price movement from 1990 to 1993 under the Coffee Board’s pool sales and from 1993 to 1999 under the Indian Coffee Traders Associations auction sales are given in Table: 5.3. In particular, the data confirm the upward movement of these prices of coffee, especially since 1993-94 as an indicator of the impact of integration of domestic market with the world market for coffee due to rising prices, the earnings of domestic growers and exporters have gone up. For instance, the average earnings of domestic growers and exporters have gone up. For instance the average earnings from exports increased from about Rs. 43/Kg in 1993 - 94 to Rs. 80/Kg in 1995 - 96 (33).
Table 5.3

Annual Average Domestic Price of Coffee by Types in India

(Powder)

<table>
<thead>
<tr>
<th>Year (Calendar)</th>
<th>Arabica</th>
<th>Robusta</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>28.39</td>
<td>29.31</td>
</tr>
<tr>
<td>1991</td>
<td>31.90</td>
<td>29.35</td>
</tr>
<tr>
<td>1992</td>
<td>30.91</td>
<td>28.17</td>
</tr>
<tr>
<td>1993</td>
<td>36.13</td>
<td>33.18</td>
</tr>
<tr>
<td>1994</td>
<td>106.42</td>
<td>91.58</td>
</tr>
<tr>
<td>1995</td>
<td>87.05</td>
<td>84.19</td>
</tr>
<tr>
<td>1996</td>
<td>76.36</td>
<td>63.86</td>
</tr>
<tr>
<td>1997</td>
<td>96.61</td>
<td>64.87</td>
</tr>
<tr>
<td>1998</td>
<td>95.48</td>
<td>68.72</td>
</tr>
<tr>
<td>1999</td>
<td>63.18</td>
<td>60.28</td>
</tr>
<tr>
<td>2000</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source - Computed from the basic data on the average price per Kg under pool sales (upto 93) auction sales provided by the statistical division coffee Board Bangalore.
14. SURVEY ANALYSIS

The same methodology was adopted to assess the marketing and pricing trend. The retailers from the four states are unanimously of the opinion that, coffee marketing enjoyed a reputation and status during the heydays of Coffee Board. They feel that coffee trade was considered a respected business for the following reasons.

First it was structured and state controlled. Second, it was a highly disciplined trade. The researcher posed a question whether coffee is still considered a respected business to the respondents their response is given in Table: 5.4

Table: 5.4

The Status of Coffee Business

<table>
<thead>
<tr>
<th>Area</th>
<th>Respected Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Karnataka</td>
<td>6</td>
</tr>
<tr>
<td>Kerala</td>
<td>4</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>7</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>38</td>
</tr>
</tbody>
</table>
The respondents who responded “no” are mainly traditional retailers. Whereas, those who said “Yes” are mostly new entrants with very little knowledge of the history of the Indian Coffee Industry.

Shri G. Gopalan Nair who has his retail shop at Thiruvananthapuram for the last 50 years said that their family is traditionally coffee retailers. Today, he feels that coffee business has fallen into depths as every Tom Dick and Harry with very little knowledge on coffee entering into the fray.

In Andhra State about 80 percent respondents answered that it is a respectful business and the remaining respondents said that it is not so. It is noted here that in Andhra State most of the retailers are new entrants. In the remaining three states, the majority of the respondents feel that it is not a respectful business.

The Ayyanar coffee proprietor who was a leading retailer in Thirunelveli said that the marketing promotional measures in Tamil Nadu are very poor and inadequate. He went out of business due to poor marketing facilities.

The same opinion was echoed by the Indian coffee house erstwhile owner Mr. R. Xavier Chandren from Thiruvananthapuram. The coffee house was started with much fanfare in the 1980’s. He also went out of business within four years. The reason is the poor demand because of inadequate market promotion measures.
The picture is entirely different in Karnataka. The retailer Mr. K. Nagappa from Bangalore says that his business has really improved during the last 5 years. He is getting regular orders from the Coffee Houses and from small retailers in the city.

**Coffee and Price**

Table 5.5 depicts the response of retailers on pricing being 100 retailers were interviewed.

<table>
<thead>
<tr>
<th>Areas</th>
<th>Price is High</th>
<th>Price is Low</th>
<th>Price is Normal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Karnataka</td>
<td>15</td>
<td>2</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>2. Kerala</td>
<td>17</td>
<td>3</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>3. Tamil Nadu</td>
<td>20</td>
<td>2</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>4. Andhra</td>
<td>17</td>
<td>4</td>
<td>4</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>69</strong></td>
<td><strong>11</strong></td>
<td><strong>20</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 5.5 shows that majority of them i.e., 69 percent of respondents suggested that the price of coffee is high in comparison to tea. 20 percent
of the respondents opined that the price of coffee is normal. But only 11 percent said that the price of coffee is not high.

A total of 120 consumers have been interviewed in the four states to elicit their views on pricing. They are summarised in Table 5.6.

<table>
<thead>
<tr>
<th>Table 5.6</th>
</tr>
</thead>
</table>

**Income Break-up Table**

<table>
<thead>
<tr>
<th>Area</th>
<th>Income Category</th>
<th>Above Rs. 10,000</th>
<th>Rs. 5,000 to 10,000</th>
<th>Below 5,000</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Karnataka</td>
<td></td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Kerala</td>
<td></td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td></td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Andhra</td>
<td></td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>120</td>
</tr>
</tbody>
</table>

The response from the respondents vary for different periods from Table 5.7 it is clear that the first category of the respondents (above Rs. 10,000) said that price increase has not affected them. They are not at all concerned about the price rise. The second category (Rs. 5000 to Rs. 10000) responded that they are concerned about the pricing. Out of the 10 respondents in Karnataka, 20 percent feels that the rise in the price of coffee affects them.
But 30 percent of the respondents from Kerala, Tamil Nadu and Andhra said that the raise in the price of coffee affects them. But they have not altered their consumption pattern.

But the third category (below Rs. 5000) mostly from the working class said that they are concerned about price rise. Though all the categories of the respondents feel that the price of coffee is somewhat high only the lower income category experience the price rise.

| Table 5.7 |
| Response of the respondents against price rise |
| Area | No. of Persons affects with raise in price of coffee |
|      | Above Rs. 10,000 | Rs. 5000 to 10000 | Below 5000 |
| Karnataka | -- | 2 | 10 |
| Kerala | -- | 3 | 10 |
| Tamil Nadu | -- | 3 | 10 |
| Andhra | -- | 3 | 10 |
COFFEE BOARD OFFICIALS

The coffee board officials 12 members from Karnataka, 4 members from Kerala, 2 members from Tamil Nadu and 2 members from Andhra were interviewed to analyse the marketing mechanism available in the states. 60 percent of respondents were taken from Karnataka since it is the Head Quarter of Coffee Board.

The respondents unanimously concluded that Coffee Board was the only source for marketing the coffee. More than 80 percent of the coffee was marketed through Coffee Board before liberalisation. The officials said that the introduction of 100 percent FSQ system has absolved them of the responsibility of marketing which was not the case during the Quota system.

Most of the respondents feel that the collapse of Coffee Board has decentralised the market structure. Thus the price is determined by market forces. This entails a sense of uncertainty among coffee growers and retailers. The fluctuations in international market directly influence the stability of local price.
The liberalisation has further complicated the situation. Hence more than 80 percent of the respondents feel that Coffee Board needs to be reviewed. This clearly shows that the Govt. does not have a reliable policy on coffee industry. Rather the policy of the Govt. is dictated by political and economic changes at international level than by local needs.

The pricing of coffee is determined by a host of factors such as cost of production, competition, storage of seeds, packaging, land holdings etc. Also natural forces affect production and prices. To ensure a stable price affordable by consumers and viable to growers the CB regulated the market till 1991 with quota system.

But liberalisation of the economy forced CB to deregulate market system through free quota system. Now price is determined by the market forces of demand and supply.
REFERENCE

1. MICHEAL GEORGE, ANTHONY FREELING and DAVID COURT


8. PHLIP KOTLER - Marketing Management - Eastern Economy Edition -
North Western University - Prentice Hall of Pvt. Ltd. Tarum Offset Printers - New Delhi - 1999 - P - 528.

9. N. VENUGOPAL & N.S. BALASUBRAMANIAM - General Economics
- Uma Sugant Publications - Madurai - 1978 - P E. 2

10. STEVEN. J. SKINNER - University of Kentucky - Houghton mifflin Co.

11. KEWAL KRISHNAN DEWETT - Price Theory - Shyam Lal Charitable
Trust - New Delhi - S. Chand & Company Ltd - 1984 - P - 193.

12. Dr. B.P. TYAGI - Agricultural Economics and Rural Development - Jai

13. WILLIAM - A. COCHEN - California State University - The Practice of


17. Shri. FRANCIS CHERUNILAM - International Marketing - Himalaya
Publishing House - 2000 - P 132

18. Ibd - 2
19. PHILIP KOTLER - Marketing Management prentice Hall of India Pvt Ltd.
   New Delhi - 1999 - Tarun Printers - New Delhi - P - 542.


30. ICO - London - Coffee Profile India - 1997 - P - 14

Vol. LXI. No 12 - P - 19.

32. Dr. S. RADHAKRISHNAN - Dy. Director - Coffee Board. The Hindu

33. World Bank - Price prospects for major primary Commodities - 1993 -
2005 Vol. II Agricultural Products - Fertilizers and Tropical Timber - The