CHAPTER 5
PRICING POLICY

Concept:
A processing cooperative is set up to ensure higher return to the growers on their produce. It is to process the produce of the growers and transfer to them the benefit of the value-added. The benefit to the growers can be offered either by paying them higher price for the produce supplied or by distributing amongst them surplus arising out of processing. The magnitude of the surplus left with a processing cooperative depends to a considerable extent, among other things, on the price which it receives for its end-products. So pricing in processing cooperatives can be studied from two aspects:
(i) Pricing with regard to raw-materials;
(ii) Pricing with regard to end product/products.

The pricing policy pursued by a processing cooperative with regard to raw-material and end product/products affects to a considerable extent its profitability, growth and financial position. Pricing in a processing cooperative is a challenging task involving reconciliation of the interest of the growers, consumers and the need for earning a reasonable level of profit. In a mixed economy, processing cooperatives are to operate in a competitive market and are subject to all the risks like any other unit. In such circumstances the need for making a reasonable level of profit cannot be over-emphasised. The issue would be discussed in detail in the next chapter on profitability.
In order to study the pricing of any commodity it is necessary to take into account the following factors:

(a) Nature of the market;
(b) Cost of production;
(c) Statutory position.

(a) Nature of the Market:

A market may be perfectly competitive, monopoly, monopolistic competition, oligopoly, etc., depending upon the conditions of demand and supply. In perfect competition price is equal to the average cost of production and the producer can make normal profit only. Perfect competition rarely exists in practice and most of the goods are bought and sold under the conditions of imperfect competition. If prices are allowed to be fixed independently in monopolies it will lead to exploitation because the consumer who cannot go without it will have to pay the higher price. Therefore, it will prove to be a cloak on inefficiency. In monopoly conditions the seller may put up prices to the consumer to such an extent that the demand may get unnecessarily depressed.

(b) Cost of Production:

Prices in any economy are to be related to the cost of production. Cost may be average cost or marginal cost.
(i) **Average Cost Pricing:**

Average cost pricing has been insisted in literature to recover full cost of operation of the plant. This fits with the task of project evaluation and selection. This will help to attain the desirable resource allocation and new investments will simply go to that sector where at least average costs are met. While making calculations of cost besides other elements of cost two important overheads which cannot be ignored are cost of capital employed and the amount of depreciation.

This method of pricing has some merits such as optimum volume of supplies is provided cheaply, entire cost is paid by the purchaser, leads to non-exploitation and ensuring that entire expenditure is covered, it secures viability. This method is not free from criticism. It may put undue restriction on investment, even where potentialities exist. It is also not sufficiently flexible to accommodate price adjustments. Moreover, it does not provide incentive to the management to reduce the costs.

(ii) **Marginal Cost Pricing:**

The price of a product or service should reflect its true cost, otherwise it would either result in excess demand for scarce resources, or if over-priced, full use of available resources will not be possible. The true cost, it is often contended is the marginal cost, the cost of producing an
additional unit. The rationale behind the marginal cost principle is that if the consumer is willing to buy extra output, welfare is enhanced if that output is made available to the consumer and vice-versa. Under this system, the resources would get allocated to an enterprise whose output is of greater value than that of the other enterprises. It leads to optimum and efficient allocation of resources.

Prof. Hotelling suggested this type of pricing in a mixed economy. The marginal cost pricing in a socialist economy was advocated earlier by A.P. Lerner.

Two distinct points of merit are claimed in favour of marginal cost pricing. Firstly, the absorption of output is greater than under average cost pricing and still greater than what is envisaged under profit maximising principle. The second point of merit is that marginal cost rule implies adjustment at the margin and thus ensures rational allocation of resources. Therefore, the supporters of marginal cost pricing argue that it leads to a rational allocation of (scarce) resources and provides a criterion for the optimum expansion of the undertaking. It also provides a reasonable economic calculus.

2. Ibid., p. 8.
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The theory of marginal cost pricing suffers from many defects and there have been arguments against this policy. The theory is very difficult to be practised in developing countries which are in the initial stages of industrial development because marginal cost in the short-run is bound to be different from the long-run cost and hence it is necessary to take into consideration not only the current cost but to be able to forecast with certainty the cost in the future. It is very difficult to ascertain the marginal cost in the case of multiple products being produced by the same plant...the determination of the marginal cost of each item separately is administratively very difficult if not impossible.

(c) **Statutory Position:**

In a welfare state, Government assumes the responsibility of ensuring remunerative price to the producers/growers on the one hand and making available essential goods to the consumers at reasonable rates on the other. In order to discharge this responsibility Government may fix the price of a commodity and


regulate its supply. Products of agro-based industries like sugar, rice, vanaspati constitute an integral part of the consumption of a common man. Government has to reconcile many conflicting interests such as that of the growers, mills and the consumers while regulating the price of these commodities. A price which satisfies fully any one of these interests cannot concurrently meet the requirements of other interests. In this area of clash of interest, actual prices adopted are determined in a variety of ways which naturally involve some compromise and give and take.

In 1970, the Government of India set-up Bureau of Industrial Costs and Prices (BICP) to give advice to the Government on a continuing basis in the matter of fixation of prices of industrial goods.

Before studying the pricing policy of the units with regard to raw material and end-products it would be worthwhile to examine various pricing techniques.

1. Cost Plus Pricing:

All costs are recovered through prices and the predetermined excess (say 10 per cent of cost) implies a deliberate surplus design. This type of pricing may be usefully adopted in the early stages of an enterprise in a new-technology area.

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Because of the production problems in such cases, it is very difficult to predict the long-term cost conditions. Inefficiency in this technique is not penalised but on the other hand it tends to place a premium on inefficiency. If the cost goes up because of material wastages, work stoppages or labour inefficiency the 'plus' rises too.

2. Marginal Cost Pricing:
   The technique has already been discussed in detail.

3. Discriminatory Pricing:
   This method if used may prove to be an important instrument of promoting economic welfare. In some cases it makes possible the provision of a service where it would not be possible otherwise. Discriminating prices are quite suitable where richer class possesses the capacity to pay higher price. The best example is that of railways where prices are fixed on the principle of 'what the traffic will bear' or electricity where higher consumers pay more.

   An economy aspiring for the stimulation of growth rate is to encourage investment and discourage consumption. Some goods are such as may be used for consumption as well as for production. The prices of coal, electricity, etc. may be fixed so as to discourage the use of these resources for the purpose of consumption and encourage for the production purposes.
rprof. Lewis who had been in favour of discriminating prices said that the man who has to cross Dupit's bridge to see his dying father is mulcted thoroughly, the man who wishes only to see the scenery on the other side gets off lightly.

4. **Import Price Basis:**

In the case of those enterprises which have no comparable units in the country and whose costs of production are far higher than the prices at which the products can be imported, the import price may be taken as the reasonable basis for the determination of prices. The following are the two versions of this basis:

(a) Landed cost basis;

(b) International parity prices.

(a) **Landed Cost Basis:**

The main idea here is that the consumer should not be burdened with the high cost of production. Two difficulties may be experienced in this regard. Firstly, the quality and technical composition may not be similar and secondly the prices of the imports may be artificially low as a matter of the dumping policy adopted by the exporters.

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b) **International Parity Prices:**

The difference between the cost of production and the international parity prices is made good by the government. The difference between this and the landed cost basis lies in the large magnitude of deficit involved coupled with the well-determined assumption by the government of subsidising the cost price differentials. Enterprises to which landed cost basis applies are expected to break-even after a few years, which seems to be matter of doubt in the latter case.

c. **Externally Determined Prices:**

Two categories may be studied under this head.

(i) The Government may control the prices of such commodities as are considered to be essential and/or scarce. For quite some time price control is being exercised by the Government of India on the price of sugar, vanaspati, steel, coal, oil, cement, etc. In case of monopolistic conditions also the Government may resort to price control so that the consumers may not be exploited by the monopolist by 'take it or leave it policy' when the consumers have no alternative source of supply.

(ii) **Arbitrated Prices:**

When prices are determined through arbitration, the prices so determined are said to be arbitrated prices. In practice this method is 'rarely used.'
6. **Indefinite Margin Prices:**

When there is no control by the Government on the price of a particular commodity the enterprise may earn profit or incur loss. There may exist a wide fluctuation in the profitability of an enterprise. In India a large number of enterprises are covered under this system.

As mentioned in the beginning of the chapter pricing policy of processing cooperatives can be studied from two aspects:

1. Pricing of raw materials;
2. Pricing of end products.

1. **PRICING OF RAW MATERIALS**

The problem of the price to be paid for the raw material supplied by the grower-members is one of the central points in the working of a processing cooperative. The grower-members who are the principal owners of a processing cooperative shall be naturally interested in having as high a price as possible for their produce. On the other hand, considerations of having enough funds for working and for normal expansion, of providing for fluctuations and repayment of loans and State Government's share in the share capital make it necessary to follow a cautious policy regarding the price to be paid for raw material. The management of a processing cooperative has to reconcile these conflicting points while fixing the price of raw material.
Agro-processing industries draw their raw-material from agriculture. With a view to ensuring remunerative prices to the growers the Government of India has been fixing support price for various agricultural commodities like raw-cotton, paddy, wheat and other cereals. Prices are fixed by the Union Government on the recommendations of the Agricultural Price Commission (APC)*. For procuring a particular commodity from the members, a processing cooperative is to keep in mind the statutory support price of the commodity fixed by the Union Government.

In the case of sugarcane statutory minimum price is fixed by the Union Government for the purpose of fixing the price of levy sugar. Cooperative sugar mills can give any price to the cane-growers depending upon their capacity and efficiency of processing subject to the minimum price fixed by the Union Government. Minimum price of sugar is linked to a basic rate of recovery (say 8.5%) and is subject to additional premium at a fixed rate with every given percentage increase in recovery. For example, minimum cane price as fixed by the Government of India was Rs 13.50 per quintal for the season 1983-84 linked to a basic recovery of 8.5%. This minimum price was subject to additional premium @ Rs 0.15824 for every 0.1% increase in recovery. 7

* APC is being reconstituted as Agricultural Costs and Prices Commission (ACPC).
### Table 5.1: Minimum Lone Price (as fixed by the Gvt. of India) and Actual Price Paid by the Cooperative Sugar Mills in Punjab and Haryana

#### Price in Rs. per quintal

<table>
<thead>
<tr>
<th>Year</th>
<th>The Janta Cooperative Sugar Mills Ltd., Hapur</th>
<th>The Batako Cooperative Sugar Mills Ltd., Batako</th>
<th>The Morinda Cooperative Sugar Mills Ltd., Morinda</th>
<th>The Danaka Cooperative Sugar Mills Ltd., Sonipat</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Minimum Price Paid</td>
<td>Minimum Price Paid</td>
<td>Minimum Price Paid</td>
<td>Minimum Price Paid</td>
</tr>
<tr>
<td>1966-67</td>
<td>5.68</td>
<td>5.36</td>
<td>5.68</td>
<td>5.68</td>
</tr>
<tr>
<td>1967-68</td>
<td>7.37</td>
<td>7.37</td>
<td>7.37</td>
<td>7.37</td>
</tr>
<tr>
<td>1968-69</td>
<td>7.37</td>
<td>7.37</td>
<td>7.37</td>
<td>7.37</td>
</tr>
<tr>
<td>1969-70</td>
<td>7.37</td>
<td>7.37</td>
<td>7.37</td>
<td>7.37</td>
</tr>
<tr>
<td>1970-71</td>
<td>7.37</td>
<td>7.37</td>
<td>7.37</td>
<td>7.37</td>
</tr>
<tr>
<td>1971-72</td>
<td>7.37</td>
<td>7.37</td>
<td>7.37</td>
<td>7.37</td>
</tr>
<tr>
<td>1972-73</td>
<td>8.00</td>
<td>8.00</td>
<td>8.00</td>
<td>8.00</td>
</tr>
<tr>
<td>1973-74</td>
<td>8.50</td>
<td>8.50</td>
<td>8.50</td>
<td>8.50</td>
</tr>
<tr>
<td>1974-75</td>
<td>9.10</td>
<td>9.10</td>
<td>9.10</td>
<td>9.10</td>
</tr>
<tr>
<td>1975-76</td>
<td>8.50</td>
<td>8.50</td>
<td>8.50</td>
<td>8.50</td>
</tr>
<tr>
<td>1977-78</td>
<td>11.06</td>
<td>11.06</td>
<td>11.06</td>
<td>11.06</td>
</tr>
<tr>
<td>1980-81</td>
<td>15.15</td>
<td>15.15</td>
<td>15.15</td>
<td>15.15</td>
</tr>
<tr>
<td>1981-82</td>
<td>15.60</td>
<td>15.60</td>
<td>15.60</td>
<td>15.60</td>
</tr>
</tbody>
</table>

**Source:** Records of the Haryana State Federation of Cooperative Sugar Factories Ltd. and Case Department, Punjab.

Cane Jom t.d salon, Punjab.
Sugar mills under study have been called upon by the State Governments to pay a price much higher than the price fixed by the Union Government. Table 5.1 shows the statutory minimum cane price fixed by the Government of India as applicable to each sugar mill under study (depending upon its rate of recovery) and the actual cane price paid by these mills to the growers for different years. The Table clearly shows that the actual price paid by these mills is much higher than the minimum price as fixed by the Government of India. During the year 1981-82 while the statutory price in the case of cooperative sugar mills in Haryana was below Rs 13.80 per quintal, the actual price paid by the mills was as high as Rs 22 per quintal. Similarly in the case of cooperative sugar mills in Punjab while the statutory price was below Rs 14.60 per quintal during 1980-81, actual price paid was Rs 23 per quintal. In this way Rs 3493.45 lakhs have been paid by the sugar cooperatives in Haryana as extra cane price over and above the minimum price fixed by the Government of India by 1982-83. This has been the case in most of the years covered by the Table. The mill managements contend that such a high price is recoiling upon the health and profitability of these units.

8 From the records of The Haryana State Federation of Cooperative Sugar Factories Ltd, Chandigarh.
Interference by the State Governments in these states in the fixation of cane prices has given rise to another problem with regard to the quantum of working capital advances by the banking sector to the sugar mills. As per the directives from the RBI, the commercial banks and cooperative banks grant working capital advance to these mills based upon the statutory minimum price of cane as fixed by the Government of India and not on the basis of actual higher price which these mills are called upon to pay as per the advice of the respective state government. This is partly responsible for the mounting cane arrears as discussed in the chapter on 'Financial Planning'. Mills are facing liquidity problem in having smooth flow of operations.

It would be worthwhile to mention here the model adopted by the sugar cooperatives in Maharashtra and Gujarat regarding fixation of cane-prices. A provisional price (which is generally near to statutory minimum) is paid to the growers at the time of cane supplied by them. After the crushing season is over and the final recovery for the season known, surplus after charging provisional price and other expenses is ascertained. Out of this surplus certain part is transferred to reserves and the remaining part is distributed amongst the growers as a part of the final price. In this way each mill pays a price to the growers which it can afford to pay taking into account other costs and retention requirements. But this system of fixation of cane price can operate successfully only
if these mills are run efficiently and the growers possess the needed confidence in their working.

The Hansi Cooperative Spinning Mills Ltd., Hansi and The Abohar Cooperative Spinning Mills Ltd., Abohar meet their raw-material requirements by purchasing cotton (in ginned and baled form) from the private parties in the open market. In both these mills cotton purchase committees have been formed. In the case of The Abohar Cooperative Spinning Mills Ltd., Abohar advertisement for the purchase of cotton is given in the 'Punjab Cotton Bulletin' and meetings are held at Bhatinda. The suppliers come with their samples of cotton and quote the rates. The cotton is purchased at the lowest price considering of course the quality of cotton.

In both these cooperative spinning mills necessary link between the grower-members and the mills was found lacking. A growers' spinning mill is set-up to ensure the growers higher return on their produce. This is possible only if the cotton is directly purchased from the grower-members and the benefit of value-added is partly transferred to them in proportion to the cotton supplied. This cooperative character in both these spinning mills was completely lacking and these mills were working like private mills. The absence of cooperative character defeats the very purpose of setting-up a cooperative spinning mill for the benefit of the growers.
Raw-material for the rice mills is paddy. As mentioned in the beginning of the chapter procurement price of paddy is fixed by the Union Government. The rice mills under study are run by the state level apex marketing Societies (MARKFED and HAFED). These societies are having procurement cells comprising a network of field staff. The field staff procures paddy from the market at the procurement price fixed by the Union Government or higher market price depending upon the market conditions of demand for and supply of paddy.

One of the objects of these state level apex marketing societies is to strengthen and facilitate the working of the member societies. The fulfilment of this object demands that MARKFED and HAFED should procure the paddy through the member societies rather than procuring it directly from the market (in competition with the member societies). Same is the case with regard to the procurement of other products by these apex societies. Under such circumstances they cannot claim to be called as cooperative undertakings working for the benefit of the members.

Markfed Vanaspati and Allied Industries Khanna has three units namely Oil mill, extraction plant and vanaspati unit. Oil mill is not working due to the non-availability of groundnut in the local market. Due to the advent of high yielding varieties (HY.V.) of wheat and rice farmers in Punjab have shifted their cropping pattern from groundnut to wheat-paddy
Moreover there are restrictions by the government on the crushing of groundnut by the medium and large expellers. Groundnut crushing has been reserved for the small scale units only. In the extraction plant raw material used is rice-bran. Some quantity of rice bran is available at the levy price. A major part of the requirement is met by purchasing it from the open market. Raw material for the vanaspati plant consists of palm oil, rapeseeds oil, soyabean oil, til oil and cottonseed oil. Palm oil, rapeseed oil and soyabean oil are imported by the State Trading Corporation (STC) and supplied to the various vanaspati plants at a rate fixed by the government. Other oils are procured from the market at the open market price.

Markfed Refined Oil and Allied Industries Kapurthala has also three units namely oil mill, oil refinery unit and cattle feed plant. Raw material for the oil mill is groundnut. The oil mill of this unit is also not working due to the reasons mentioned above. The raw materials for the refinery plant are the groundnut-oil and cotton-seed oil which are procured at market price from the open market. Groundnut oil is also obtained from other states like Gujarat in case there is no ban on sale of groundnut oil outside the state. The raw material for the solvent extraction plant consists mainly of rice bran. It is available partly at levy rate and partly at market rate as discussed earlier.
Raw material for the Markfed Cottonseed Processing Plant Gidderbaha is cotton-seed. Cotton-seed available from the ginning factories run by the MARKFED is processed in this plant. Some quantity of cotton-seed is also procured from the market at market rate. The unit is charged on the basis of market price for the cotton-seed obtained from the Markfed ginning-factories.

Raw material for the Markfed Canneries Jalandhar consists of fruits and vegetables which are procured at the market price. The capacity of the plant is much higher than what can be operated by the fruits and vegetables in the local market. Raw material is obtained from the far away areas. This results into high transportation cost besides reducing recovery. As mentioned in the chapter on Project Planning, the basic point regarding the availability of raw material was ignored while setting-up this unit.

Raw material for the cotton-ginning factories is the raw cotton which is procured from the open market at the market rate. These mills also do custom-ginning on behalf of the Cotton-Corporation of India (CCI) in consideration of custom-charges fixed by the State Government.

2. PRICING OF FINISHED PRODUCTS:

Products of agro-industries like sugar, rice, refined oil, dal, ginned cotton, cotton yarn etc., are either consumed directly
by the consumers or are used in the manufacture of consumer goods (like the use of cotton yarn in the manufacture of textiles). The primary responsibility of the processing cooperatives is to promote the grower-members interest. In addition to it, they have obligation towards the society as well because of their very nature. Pricing policy of the processing cooperatives is directly influenced by their concern for the consumers and society at large. Cooperation is defined as 'morality applied to business'. So the practices like profiteering, adulteration, misleading advertising, etc., are against the basic tenets of cooperative movement.

In the following paragraphs an attempt has been made to study the pricing of the units under study with regard to their end-products.

Sugar Industry has been constantly witnessing periods of control, partial control and decontrol for quite a long-time. Presently there is a system of partial control over the sugar. Under this system sugar mills are required to supply 65% of the sugar produced to the Government for the public distribution system at a rate below cost. Price of this sugar (which is called levy sugar) is fixed by the Union Government. Mills are required to make good loss suffered on the sale of levy sugar by selling remaining 35% sugar in the open market.

*Newly set-up sugar mills and expansion projects are allowed higher free-market quota for specified number of years based on the Sampath Committee recommendations. This is done to improve the viability of new projects because of escalation in the project cost.*
The release of 35% free market sugar are also controlled by the Department of Food, Ministry of Food and Civil Supplies of the Union Government. Mills are informed of the monthly free market release quota by the Directorate of Sugar in the aforesaid ministry. Bureau of Industrial Costs and Prices (BICP) conducts cost studies of the sugar industry and gives recommendations to the Union Government for the purpose of fixing levy price. For the purpose of fixing levy price, the whole country has been divided into sixteen zones.

Each of the sugar mills under study is having the sales department which is entrusted with the task of supplying levy sugar to the government agencies and affecting sale of free market sugar. Watching the market trend, the above department effects sale of free-market sugar through a network of commission agents and dealers appointed for the purpose.

Cooperative spinning mills under study are operating in a competitive market. On looking to the market trend, sale of yarn is effected through a network of commission agents and dealers appointed for the purpose. In the case of The Abohar Cooperative Spinning Mills Ltd., Abohar, sale of yarn is effected by a committee constituted for this purpose. Watching the market trend, yarn is sold in advance of one or two months production and supplies are made as and when it is ready against these contracts.

Markfed Refined Oil and Allied Industries Khanna is engaged in the production of Vanaspati. The product is sold under the brand name 'SOHNA'. The ex-factory price of 16.5 kg tin (bulk packing) and 1 Kg. pouch (consumer packing) is fixed by the Union Government. Price of other packings is governed by the market forces. The unit is facing acute competition from the established brands like 'DALDA', 'GAGAN', 'RATH' etc. Keeping in view the market trend sale is effected through dealers appointed for the purpose.

Markfed Refined Oil and Allied Industries, Kapurthala is engaged in the production of refined groundnut oil and cottonseed oil. The product is sold under the brand name 'Markfed'. Initially this product did not receive good response in the market. The unit had to resort to aggressive advertising to popularise the brand. The unit is operating in the competitive market. It is facing acute competition from the giants like 'POSTMAN', 'RUBI', etc.

Markfed Cotton-seed Processing Plant, Gidderbaha is engaged in the production of cotton-seed oil. The unit is operating in the competitive market. Cotton-seed oil produced is supplied to the Markfed Vanaspati and Allied Industries, Khanna and

* Recently the Government of India has standardized the packing size of the vanaspati and edible oils as follows:

<table>
<thead>
<tr>
<th>Packing Size</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 Kg. Tin</td>
<td>2 Kg. Tin</td>
</tr>
<tr>
<td>10 Kg. Tin</td>
<td>1 Kg. Polyback</td>
</tr>
<tr>
<td>5 Kg. Polypack</td>
<td>1 Kg. Sachet</td>
</tr>
<tr>
<td></td>
<td>500 gms</td>
</tr>
</tbody>
</table>
Markfed Refined Oil and Allied Industries, Kapurthala. Certain portion is also sold outside at the market rate. Because of the high administrative cost the unit is finding it difficult to sell its end-product at the competitive rate. The unit suffered a net loss of ₹ 3.11 lakhs on the production of 562 metric tonnes oil during January 1984, as shown below:

<table>
<thead>
<tr>
<th>1. Total Variable Cost</th>
<th>Per M.T. (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2913.71</td>
</tr>
<tr>
<td>2. Realisation</td>
<td>2975.09</td>
</tr>
<tr>
<td>3. Contribution (2-1)</td>
<td>61.38</td>
</tr>
<tr>
<td>4. Total contribution</td>
<td>0.34</td>
</tr>
<tr>
<td>(61.38 X 562)</td>
<td></td>
</tr>
<tr>
<td>5. Fixed cost in lakhs</td>
<td>3.45</td>
</tr>
<tr>
<td>6. Net Profit/Loss in</td>
<td>3.11</td>
</tr>
<tr>
<td>lakhs (4-3)</td>
<td></td>
</tr>
</tbody>
</table>

The entire rice-milling industry is subject to Government control with regard to the sale of rice produced. Under the millers' levy quota (which is fixed by the State Government every year) a major part of the rice produced is supplied to the Food Corporation of India (FCI) and other Government agencies for the public distribution system. A very small portion of the total output (say 10%) is available for sale in the open market. As discussed in the chapter on 'Financial Control' considerable delay was noticed in supplying rice to the concerned agencies in some of the rice-mills of HAFED resulting into higher burden of carrying cost. In the case of the Markfed Modern Rice Mill Rajpura, the rice to be supplied to FCI under the levy quota was rejected by it because of poor quality during the year 1982-83 and 1983-84.
Markfed Canneries Jalandhar is engaged in the production of canned fruits and vegetables. Products produced are fruit jam, squash, sauce, dehydrated peas, vinegar, etc. Products are sold under the brand name 'Sohna'. The unit is operating in the competitive market. The unit is operating at a very low level of installed capacity due to the non-availability of sufficient raw-material. This has resulted into higher cost of production per unit. The unit is facing problem in selling its products at a profitable price. The magnitude of losses is quite high. The unit suffered a net loss of ₹ 1.5 lakhs on two its products (Jam and Vinegar) during September 1983 alone, as shown below:

<table>
<thead>
<tr>
<th></th>
<th>Jam</th>
<th>Vinegar</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Units of output</td>
<td>972</td>
<td>2080</td>
</tr>
<tr>
<td>2. Selling price per unit</td>
<td>₹ 7.50</td>
<td>₹ 3.75</td>
</tr>
<tr>
<td>3. Variable cost per unit</td>
<td>₹ 7.32</td>
<td>₹ 3.44</td>
</tr>
<tr>
<td>4. Contribution per unit (2-3)</td>
<td>₹ 0.18</td>
<td>₹ 0.31</td>
</tr>
<tr>
<td>5. Contribution on total output (972 x 0.18 and 2080x 0.31)</td>
<td>₹ 175.00</td>
<td>₹ 645.00</td>
</tr>
<tr>
<td>6. Total contribution on both the products (175+645)</td>
<td></td>
<td>₹ 820.00</td>
</tr>
<tr>
<td>7. Fixed cost</td>
<td>₹ 1,52,700.00</td>
<td></td>
</tr>
<tr>
<td>8. Profit/Loss (loss) (7-6)</td>
<td>₹ (1,51,880.00)</td>
<td></td>
</tr>
</tbody>
</table>

As mentioned earlier in the chapter on 'Project Planning', raw material availability and marketing considerations were ignored while setting-up this unit.
Ginning factories set-up by MARKFED are engaged in the ginning of raw cotton. Most of the times these factories do custom-ginning on behalf of the Cotton Corporation of India (CCI) in consideration of custom-charges fixed by the State Government. Sometimes these factories also do ginning on their own on trading basis. For this purpose these factories operate in a competitive market. These factories are also operating at a very low level of capacity leading to higher per unit cost of production. As a result of this these mills are finding it difficult to dispose of their output at a profitable price.

Summary:

The prices of the raw materials (like sugarcane, raw cotton, paddy, edible oils, etc.) for the units under study are fixed and controlled by the Government. In case of the units like fruit and vegetables processing, oil refineries and solvent plants, raw material is procured at the market price. State Governments' interference in the matter of fixation of sugarcane price has jeopardised the working of cooperative sugarmills in these states. This has adversely affected the liquidity and profitability of the cooperative sugar mills in these states. Cooperative spinning mills and apex cooperative societies in these states (MARKFED and HAFED) procure raw material for their processing units from the open market rather than procuring it from the grower-members/member societies. Sometimes, the apex societies operate even in competition with the member-societies. All this is contrary to the
spirit of cooperative movement and under such circumstances these concerns do not deserve to be called as genuine cooperatives.

Products of most of the agro-processing units can be categorised as basic consumer goods (like sugar, rice, edible oils, etc.). The prices of end-products of most of the units are controlled by the Government. Accordingly not much scope exists for these units to pursue their own pricing policy with regard to these products. Some of the units are operating in the competitive market for selling their products (yarn, refined oil and canned products).

Some of these units are facing the problem of inadequacy of demand for their products. In certain cases sufficient attention has not been given to the vital aspect of quality control. There is need for long-term uniform policy with regard to sugar to facilitate planning on long-run basis. Since most of the units are operating in the competitive market or under the conditions of administered prices, the only alternative left for these units is effective cost control if they want to improve upon their profitability.

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