CHAPTER VII

SUMMARY AND CONCLUSIONS

7.1 Introduction

Cooperatives are service oriented institutions based on the principle of each for all and all for each. The basic objective of the cooperative movement is to achieve the welfare of the members concerned and to protect them from exploitation. Consumer cooperatives are organised to serve as the best custodians of the unorganised consumers by supplying quality products and services at reasonable prices and in correct weights and measurements. The process of economic reforms under the World Trade Organisation (WTO) has further increased the relevance of the cooperative institutions. Indian consumer cooperative movement is about a century old and the first consumers' cooperative society was started at Madras in 1904 and later the movement spread to different parts of the country including Kerala.

Since the formation of the Kerala state in 1956, the growth of consumer cooperatives in Kerala was steady. As on 31st March 1998, there were 915
primary consumers' cooperative societies with a membership of 2.53 lakh, the average number of members in a store being 277. The sales turnover made by the primary consumers’ societies in the state during 1997-98 was Rs.285.09 crore. The membership and sales turnover of the primary consumer cooperative societies in Kerala is relatively low compared to all India average and the performance in some other states in South India. This low membership base and low sales turnover is reflected in the financial performance also. Though profit making is not the sole objective of consumer cooperatives, they must be financially self-reliant like other forms of business organisations. In Kerala, only a few societies (about 25 per cent) were able to generate profit or sustain the nominal profit. Further, a consumer cooperative society has to serve the members, particularly the common man by distributing essential and other consumer articles in the right place and at right time. Viewed from this angle, the consumer cooperative stores are expected to have a major role in the public distribution system of the state. The introduction of ‘Sarvapriya Yojana’ by the government of India is a step in this direction. Though the number of public distribution centres (fair price shops, also known as ration shops) in Kerala shows an increasing trend, the progress of public distribution centres in the cooperative sector shows a declining trend in the state. For instance while the proportion of cooperatives in the PDS was 21 per cent at the all India level, in Kerala it was only 7.39 per cent in 1997 (NCDC Annual Report, 1999). Further, in the wake of liberalisation, privatisation and globalisation in the
Indian economy, consumer cooperatives are to be developed as viable and vibrant institutions to protect the interests of common consumers in the state.

An *a priori* judgement on the performance of consumer cooperatives based on available literature and data suggested that the consumer cooperative societies in Kerala are suffering from different issues like low membership base, declining unit sales turnover, declining profitability, declining customer satisfaction and declining role in the public distribution system. In order to examine these issues in detail, the present study was conducted with the following objectives.

**Objectives**

1. To evaluate the financial performance of the consumers’ cooperatives in Kerala.

2. To analyse the attitudes of customers towards the consumers’ co-operative stores in the state.

3. To examine the role of consumers’ cooperatives in the public distribution system of the state.

4. To identify the major problems in the working of consumers’ cooperatives.

**Hypotheses**

1) There are regional variations in the financial performance of primary consumers’ cooperative societies in Kerala.
2) There is lack of loyalty on the part of the members of the consumer cooperative stores.

3) Consumer cooperative stores fail to attract the upper income group customers.

4) Absence of sound policies and professionalism in management adversely affect the financial performance of consumer cooperative stores and satisfaction of customers.

5) The users of public distribution system prefer the public distribution centres run by the consumer cooperative stores.

The study was conducted for a period of ten years from 1990-91 to 1999-2000. The major sources of secondary data were Handbook on Cooperative Movement in Kerala, Administration Report of the Cooperative Department issued by the Registrar of Cooperative Societies, the reports and statistical statements published by the Departments of Government of India and state governments, the reports and journals of the Reserve Bank of India, National Bank for Agricultural and Rural Development (NABARD), National Cooperative Development Corporation (NCDC), National Cooperative Consumers’ Federation of India Ltd. (NCCF), Planning Commission, State Planning Board, National Cooperative Union of India and State Cooperative Union.
Both primary and secondary data were collected for the study. The details on the financial performance of the stores were collected from the audit reports and books of accounts of the selected primary consumers cooperative societies. The bylaws of the societies, annual reports and registers of the primary consumer cooperative societies also provided the required information. The customer attitudes towards the consumers' cooperatives were measured on the basis of field survey with the help of pre-tested schedules. The problems faced by the consumers' cooperative societies were identified with the help of discussions with the office bearers, secretary and other employees of the store, besides the customers of the store.

In order to gather primary data, 24 primary consumer cooperative societies were chosen from the entire state dividing state into three regions, namely, southern region, central region and northern region. The customer attitudes towards the consumer cooperatives were gathered from a sample of 300 respondents spread over the entire state with the help of pre-tested schedules. Collected data were analysed using conventional arithmetic techniques like percentages, averages, and accounting ratios. The inter-regional variations were examined with the help of critical difference test. Kendall's coefficient of concordance was applied to measure the degree of satisfaction towards the specified parameters. The major findings emerged from the study are the following.
7.2. Capital Structure

The capital base is a very important component which decides the performance and prospects of an enterprise. The capital structure of a primary consumer cooperative society consists of paid-up share capital, reserve funds and long term borrowings. Based on the data published by the Registrar of Cooperative Societies, Government of Kerala, it was found that the average paid-up capital of a primary consumer cooperative society declined from Rs.32961 in 1988-89 to Rs.25368 in 1994-95. It was also noticed that over the years, the capital base of the sample primary consumer cooperative societies broadened, but not with paid-up capital, but with borrowings, reserves and other funds. The strengthening of capital base with the support of other funds, particularly borrowings is not a healthy trend.

One of the major supports for cooperative societies usually come from government contributions towards share capital. Over the years, the government’s contribution towards the share capital of primary cooperative societies has fallen significantly. A decline in government contribution compelled the primary societies to depend more on borrowings. However, in recent years, there is a marginal improvement because of the liberal assistance under Integrated Cooperative Development Project.

Working capital mainly consists of cash-in-hand, cash-at-bank, stock in trade and advances to customers. Based on the study, it was found that the
working capital position is relatively stable mainly because of large inventory and liquidity. Even though these trends are apparently found to be good, from the angle of a financial analyst this cannot be judged as a positive indicator because liquidity reduces profitability and large inventory signifies low sales volume or increased and unnecessary purchases. Regarding the adequacy of internal resources in the selected stores, 87.50 per cent reported that the internal resources of these stores are inadequate. The main reason for the inadequate internal resources were attributed to the limited profits and the incurrence of losses resulting from trading operations.

Paid-up capital of sample societies significantly increased in all the regions, but the government's contribution has recorded an increase only in central region and northern region. Compared to other parameters, the variability in capital structure across the regions is only nominal.

7.3 Purchases

As far as a primary consumers' cooperative store is concerned, the pattern, volume and frequency of purchases are very important because the sales performance and consequently financial performance is based on purchases and the purchase policy. As per cooperative ideology a well-defined hierarchy is to be maintained in the purchases. For instance, a wholesale consumer cooperative store is expected to make purchases from the State Cooperative Consumers' Federation. But the study revealed that in practice
there is no linkage between the different tiers of consumer cooperatives in the matter of purchases. Regarding the frequency of purchases, 87.50 per cent reported that there is no specific plan or procedure for determining the frequency of purchases for different items. Also, none of the societies under study had fixed minimum or maximum or economic order quantities for the different types of goods. The quantities to be purchased on certain products were mainly based on the offer of credit facilities extended by the dealers.

Based on survey data it was found that over the years, the purchases of all sample stores increased over the years and the major items of purchases included groceries, provisions, and stationery. Across the regions, purchases are found to be more in central region, followed by northern region. The purchases are found to be higher in central region because of the wholesale PDS activities undertaken by two stores in that region.

7.4. Sales Volume

Sales are directly linked to purchases. In the case of all selected stores, sales volume made rapid progress over the years and the major items demanded by the consumers include grocery, provisions and stationery. However, the real growth in sales can be separated only if, we go for sales quantity details. Because of the non-availability of such details it is not attempted here. But the data analysis indicated that there is stock accumulation over the years. This may be due to a fall in sales or indiscriminate purchases rather than the volume
of sales. Sales strategies and customer attitudes are more relevant in the working of a consumer cooperative society in the era of liberalisation. These details are explained later.

Eventhough there is an increase in sales volume in all the regions, the central region outstands other regions as a result of large volume of sales recorded in the societies because of their PDS activities. Compared to southern region, the sales volume is more in northern region.

7.5. Price Policy

As far as a consumer cooperative store is concerned, one of the important factors deciding sales volume is the reasonable price from the customers' point of view. During the course of the survey, majority of the customers opined that the prices prevailing in the primary consumer cooperative stores are reasonable and attractive. But they also felt that for certain items, the prices are relatively high, compared to the open market price. This aspect was examined by the scholar and found that this price difference is due to the absence of active price policy, which takes into account the day-to-day fluctuations in the open market. Absence of scientific pricing strategy may be one of the reasons for stock accumulation also. Thus, in order to compete in the era of openness, a pre-requisite is the amendment in the pricing strategies, taking into account the micro and macro market environments.
7.6 Cost of Management

Cost of management includes salary to employees, office expenses like rent, lighting expenses etc. The study revealed that the components of cost of management made steady progress in all the regions and the growth in establishment and contingency charges was not in proportion to the growth in sales. Among the regions, the establishment and contingency charges as a percentage of sales turnover is found to be high particularly in southern region.

7.7 Profitability

In order to examine the profitability, financial analysts depend on gross profit and net profit. For all the sample units, the gross profit is positive and significant. But peculiarities were observed in the behaviour of net profit. Among the sample units, many units recorded marginal net profit or loss. This low net profit or loss led to the dormancy of many cooperative stores. Various reasons can be attributed for this trend. The main being high establishment cost, high interest liabilities disproportionate to the sales volume etc. For instance, among the selected stores, 79.17 percent had availed loans and advances from the district cooperative banks at a high interest rate. Among the regions, net profit is found to be stable in northern region, followed by central region and southern region. In central region, gross profit is found to be low compared to a high net profit. This is due to very high sales volume as a result of wholesale PDS activities and relatively steady increase in establishment and
contingency charges. The high net profit in northern region is the result of business diversification launched by two stores in that region.

In the above paragraphs we have summarised the behaviour of the major financial indicators. The trends clearly revealed variations in their behaviour across the regions. In order to test this, ANOVA (RBD type) and critical difference tests were applied, which also validates this claim. Hence our hypothesis that "there are regional variations in the financial performance of primary consumers' cooperative societies in Kerala" is accepted.

7.8 Behaviour of Ratios

In order to examine the financial performance, certain ratios like capital employed turnover ratio, total assets turnover ratio, stock to current assets ratio, stock turnover (times), current ratio, quick assets ratio, direct operating ratio, gross profit ratio, net profit ratio, and stock productivity were worked out. The analysis helped to segment the behaviour of ratios into two categories, reasonable and unfavourable.

The behaviour of ratios are found to be different in regions also. The healthy behaviour of northern region is revealed from the behaviour of ratios in that region. These trends establish our hypothesis that there are regional variations in the financial performance of primary consumers' cooperative societies in Kerala.
7.9 Inventory Policies

As mentioned just above, stock accumulation is found to be an important problem in consumer cooperatives. Eventhough this issue was not rigouressly touched upon by the scholar, the discussions with the officials and employees of the primary consumers’ cooperative stores indicated that the stores doesn’t follow any scientific inventory policies. They also felt that accumulation of slow moving items and launching upon uneconomic ventures have adversely affected the functioning of primary consumer cooperative stores.

7.10 Customer Attitudes

The prosperity and prospects of a consumer cooperative store depends on the preferences of customers towards consumer cooperative stores. This was examined in detail and the major inferences are the following.

a) Majority of the customers who prefer a consumers’ cooperative store belong to the category of a middle class or even lower middle class with respect to education, occupation and income. This is true for all regions. This validates our apriori feeling that the majority of the customers of the consumers’ cooperative stores belong to a low social status category. Hence the hypothesis that “consumer cooperative stores fail to attract the upper income group customers” is validated.

b) A customer wants to purchase different types of goods and they are conventionally grouped into (a) food grains, (b) provisions and groceries,
(c) beverages, stationery and cosmetics, (d) vegetables and cold storage items, (e) textiles, (f) utensils, gift articles and consumer durables. An attempt was made to identify the customers’ first preferred stores during the course of survey. From the survey results it was revealed that two major groups frequently preferred by the customers are provisions and groceries (53 per cent) and food grains (33.33 per cent). The share of the customers who prefer primary consumers’ cooperative stores for the purchase of vegetables and textiles are nominal. Thus we may infer that the preferences towards primary consumers’ cooperative stores is limited to a few items only. During the course of the survey the customers also opined that preferred brands were not always available in a primary consumers’ cooperative store. This provides enough potential for further business diversification which is quite relevant in the era of globalisation, liberalisation and privatisation.

The survey also revealed that a good percent of non-members (46.33 percent) also prefer primary consumers’ cooperative stores. Region-wise, members constitute only 56 per cent in southern region, 44 per cent in central region and 61 per cent in northern region. Relatively higher percent of member customers in northern region is the result of cooperative spirit prevailing in that region. Limited first preferences and large share of non-member customers infer the lack of loyalty of the members. Hence our hypothesis that "there is
lack of loyalty on the part of the members of the consumer cooperative stores" may be accepted.

c) Store preferences are decided by many factors such as purchase rebate, nearness to residence, nearness to office, superior quality of goods, attractive price, proper weighment and measurement, quick service, availability of credit and spirit of prompting cooperation. In this survey also, an attempt was made to identify the motivating factors behind the store preferences with the support of Kendall's coefficient of concordance. The analysis helped to identify three factors such as the superior quality of goods, attractive price and proper weighment and measurement as the major motivating forces.

d) Selling techniques play a very crucial role in attracting the customers and increasing the sale volume. The effectiveness of selling techniques in a consumer's cooperative store were assessed during the survey. The survey helped to identify certain constraints in the sales strategies and practices and the major constraints are: absence of prompt service, poor display of products, attitudes of sales personnel, and lack of innovative sales promotion techniques.

7.11 Consumer Cooperatives and Public Distribution System

The distribution of essential articles to the poor people at a fair price is the objective of the public distribution system. The consumer cooperatives are
also expected to play the same role. Thus a consumers’ cooperative society must enjoy a higher status in the PDS. But the national level studies and the present study also explained only a limited role for consumer cooperatives in the PDS. The role is found to be much lower in Kerala state compared to national scenario. For instance, while the fair price shops under the cooperative sector in India is 21 per cent in 1997, in Kerala it was only 7.39 per cent. This limited involvement of the consumers’ cooperative stores in PDS is mainly due to uneconomic operations. But at the same time, during the course of the survey 61.94 per cent of customers felt that the involvement of consumers’ cooperatives in the ownership and management of public distribution centres is necessary. Region-wise this percent came to 47.76, 70.89 and 68.67 respectively in southern region, central region and northern region. Further among those customers who are the regular purchasers from cooperative run PDS, 55 per cent strongly agreed to the view that PDS supplies are satisfactory. These trends lead to the conclusion that the customers still prefer the involvement of consumers’ cooperatives in the PDS. Hence the hypothesis that “the users of public distribution system prefer the public distribution centres run by the consumer cooperative stores” may be accepted.

In recent years, decentralisation became the motto of national planning and to achieve this, local governance was implemented at different stages from 1993. In the Local Governance Acts the necessity of complimentarity between people’s participation, local bodies and consumer cooperatives is highlighted.
According to the provisions of the Kerala Panchayathi Raj Act, 1994, panchayaths at three tiers have the responsibility for the organisation of cooperatives within the jurisdiction of the panchayath and to strengthen the existing cooperatives under its jurisdiction. Revamping the public distribution system through the promoting and strengthening of consumer cooperatives paves the way for democratic decentralisation and meaningful participation at the lower levels. In the customer survey also, 70.33 per cent were in favour of granting assistance to the consumer cooperatives by the panchayathi raj institutions.

7.12 Major Problems of Consumer Cooperatives

One of the objectives of the study was to identify the major problems of the consumer cooperative societies. As part of the study, an attempt was made to identify the major problems of the primary consumers' cooperative societies with the support of the primary survey and discussions with the employers and employees. The major problems identified were inadequate share capital base, limited internal resources, high cost of borrowings, absence of scientific purchase policy, low volume of sales, stiff competition, defective pricing policy, non-availability of preferred brands, absence of prompt service, poor display of products, lack of innovative sales promotion techniques, lack of trained and experienced staff, insufficient infrastructural facilities, heavy administrative overheads, lack of diversification of business and excess government control. When we make a microscopic look into the problems and
the findings discussed above, it is strongly felt that the working of primary consumers' cooperative stores is dominated by rigid policies, outdated approaches, ill-equipped human resource development strategies, limited finance and so on. To put in a single word, lack of professionalism is the most important weakness of the consumers' cooperative societies, particularly in the era of liberalisation and globalisation. Viewing in toto, the hypothesis that "absence of sound policies and professionalism in management adversely affect the financial performance of consumer cooperative stores and satisfaction of customers" is validated.

7.13 Recommendations

1. Since the consumers' cooperative stores has no fixed charge commitment for the share capital contribution, primary consumers' cooperative societies may try to strengthen their capital base. One of the suggestions is to enhance the value of a share to Rs.100.

2. Interest liabilities mount pressure on the profitability of the primary consumers' cooperative societies. The primary consumers' cooperatives may tap the financial resources of members by the introduction of interest free deposit scheme suggested by the Consultancy and Promotion Cell of National Cooperative Consumers' Federation of India Ltd. (NCCF).

3. In majority of the primary consumers' cooperative societies, there is no specific plan or procedure for determining the frequency of purchases for
different items. In all the primary consumers’ cooperative societies scientific methods like economic order quantities may be introduced for purchases. Minimum and maximum stock levels are also to be determined scientifically.

4. In 62.50 per cent of the sample stores, there is no sub-committee of the Board of Directors to monitor the purchases. There should be effectively functioning purchase committees in the primary consumers’ cooperative societies.

5. The assortment policy of consumer cooperatives should be such that it should meet the entire requirements of the customers and the population within the catchment areas by supplying different product lines.

6. In many cases, the specific brands of some products preferred by the customers were not available in the primary consumers’ cooperative societies. Thus, the consumer cooperatives should pay more attention to make available the brands demanded by the customers.

7. Primary consumers’ cooperative societies may facilitate window display of stationery items, consumer durables etc so as to attract the customers into the store which may result in the promotion of sales volume. They may also intensify strategies like free home delivery, free supply of carry bags with the message of cooperative spirit, introduction of gift schemes, discounts etc.
8. In order to speed up the delivery of goods to the customers, the primary consumers' cooperative societies may introduce self service system with pre-packed goods and installing computerised billing system.

9. Lack of professionalism of management is a serious problem experienced by the consumer cooperatives. The members of Board of Directors of all the sample stores had not attended any training programmes or management development courses. The State Cooperative Union should evolve some programmes to impart training to the Board of Directors. The employees in the primary consumers' cooperative societies should also be equipped with necessary skills, knowledge and experience to serve the customers. In order to equip the employees, periodical training programmes are to be organised by the cooperative training institutions.

10. In the era of globalisation, because of free market economy and competition from private agencies, the diversification of business is inevitable in the primary consumers' cooperative societies. Diversification may be in the form of launching innovative activities like providing internet services, running STD-ISD public call offices, distribution of cooking gas (LPG), undertaking canteen services etc.

11. Since primary consumers' cooperative societies in Kerala are facing stiff competition from department stores and retail branches of district wholesale stores, Neethi stores and Triveni stores run by the Consumerfed, the
unhealthy competition among the cooperatives are to be restricted by the amendments in legislation.

12. The consumer cooperatives should adopt the system of active price policy in the fixation of prices for the goods and commodities. The government, semi-government and panchayathi raj institutions may give some preferential treatment to the consumer cooperative societies in the matter of making purchases.

13. Majority of the sample respondents suggested that the consumers’ cooperatives may be involved in the Centre sponsored public distribution system. But the consumer cooperatives keep some reservations because of low margin on the dealings. Thus the government may initiate measures to compensate this loss.

14. As the government of India has discontinued the Centrally Sponsored Scheme with effect from 1-4-1992 and the strengthening of existing cooperatives is one of the general functions of the panchayathi raj institutions under the Kerala Panchayathi Raj Act, 1994 (Third schedule), the panchayaths at three tiers may contribute to the share capital base of primary consumers’ cooperative societies. An effective link may be established between the public, cooperatives and panchayathi raj institutions.
15. 79.19 per cent of the sample stores reported that infrastructural facilities like floor space for trading, warehouse space, furniture and fixtures etc are not sufficient. The panchayathi raj institutions at three tiers may make allocations to the primary consumers’ cooperatives to create the necessary infrastructural facilities in the stores.

16. Among the selected stores, only 29.17 per cent had female representatives in the Board of Directors. Hence the recommendation made by 14th Indian Cooperative Congress (2001) that cooperative laws should provide for reservation of at least 10 per cent for women in the management committees of cooperatives is relevant for the primary consumers’ cooperative societies also.

17. The authorities of 79.17 per cent sample stores opined that there is excess government and political intervention in the affairs of the primary consumers’ cooperative societies. The excess government intervention is to be curtailed by the amendments in the Cooperatives Societies Act.

18. The audit of accounts are delayed for more than two years in 75 per cent of the selected stores. 79.17 per cent stores opined that audit report prepared by the staff of cooperative department hardly contain any suggestions for the improvement of business in the primary consumers’ cooperative societies. Hence the Cooperative Societies Act may be amended to provide for the appointment of chartered accountants as auditors of consumers’
cooperative societies. The present system of accounting methods in the primary consumers' cooperative stores may also be replaced by the management accounting system.

19. Intensive awareness and education programmes may be worked out and implemented through cooperative unions, training institutions, panchayathi raj institutions and educational institutions to attract members and customers to the primary consumers' cooperative societies.

20. The primary consumers' cooperative societies may organise annually the customers' meet on a day in the cooperative week and the evaluations and suggestions of customers are to be entertained.

9.14 Contribution of the Researcher

The researcher has tried to critically evaluate the available literature on consumer cooperatives. The majority of the materials were merely in the form of popular articles and not based on any scientific and systematic methodology. Further, a few serious works available were also not related to the Kerala state. Hence a research gap was identified in the working of consumer cooperatives. The researcher made a humble attempt to fill this gap.

The researcher examined four aspects in this study. In the first objective an attempt was made to examine the financial performance of
selected primary consumer cooperative stores. The second objective was to assess the customer attitudes towards primary consumers' cooperative stores with the help of a primary survey. These approaches on the working of primary consumers' cooperative stores in Kerala were not tried by any of the scholars earlier. The attempt to examine the role of primary consumer cooperative stores in the working of PDS of the state is also a novice attempt. The researcher was also able to identify further areas for future research.

7.15 Areas for Future Research

No research is complete in all respects. But a serious work generates a large number of inferences and also help to identify a few research areas. The present study also helped to list out a few research areas for future researchers.

a) The present study covers only the primary consumers' cooperative societies, the institutions at the grass root level. Similar studies can be conducted on district wholesale stores operating at the district level or on state level federations.

b) One of the major problems of primary consumer's cooperative stores is the large stock accumulation. But so far, not a single scholar attempted to study the inventory management practices in detail in consumer cooperatives.
c) Cooperation among the cooperatives is one of the golden rules of cooperation. But in practice, the linkage and integration among the cooperatives is found to be weak or even absent. A scholarly attempt on this issue will help to promote cooperative spirit and ideology.

d) Even though an attempt is made to assess the role of consumer cooperatives in the public distribution system, in this study, it is not complete because of the dearth of data. Thus there is further potential to continue studies on this direction.

e) Professionalism in cooperatives is widely debated in recent years. But the studies covering professionalism and management practices in consumer's cooperatives are absent.

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