

CHAPTER - 1

THE BACKDROP

Marketing, in the usage of agricultural economists, encompasses virtually all activities relating to agricultural commodities from production by the farmer producer to the purchase by final consumer. It includes buying, selling, pricing, trading practices and the structure of markets.

- It also includes related activities such as grading and standardisation of products, provision of market information, financing of trade, bearing and shifting of risks, advertisement and product innovations. It further includes related governmental activities such as those aimed at regulating and financing trade or intervening in prices.

From the point of view of marketing, agricultural produce may be grouped into two broad classes : (a) raw materials and (b) Consumption goods. Raw materials comprise food, fibre and pulses. In food category are included the grains (i.e., wheat, barley rye etc.), livestock sugarcane, etc. Fibre group includes jute, wool, cotton, etc. and pulses include gram, tur, matar, etc. Some goods move directly into consumption without any change in form by manufacturing process. Milk cream, poultry eggs, fruits and vegetables are included in this group. This distinction is rather broad but is necessary to study the peculiar features of marketing of these products.

There are some special problems in the marketing of agricultural produce. First, concentration process is more important and channel of distribution is longer involving a number of middlemen, for the reason that raw material needed by manufacturers is produced over a wide area by innumerable relatively small producers. Secondly, there are peak demands for transportation and storage facilities during the harvest season to

handle peak seasonal load. They in turn, give rise to demand for marketing finance, which depends on the quantity of production and distance to be covered from farm to the market. Lastly, standardisation and grading assume special significance.

CHARACTERISTICS OF AGRICULTURE PRODUCE

1. Small-scale and Scattered production :

Farming is done by a very large number of small producers, so that a substantial quantity of agricultural produce comes from the small farmers. But they possess least of ability and knowledge of marketing of their produce. On the other hand, grading, storing, selling, etc. of the produce can be done economically when quantity is large. That is why most of the producers cannot market their produce effectively in isolation. In such a situation, they have to depend upon middlemen for demand creation. Hence widespread marketing system has a gross task of first assembling the agricultural produce and then redistributing it through a network of market functionaries.

2. Seasonal nature of produce :

Agricultural goods are ready for market at a certain period of time. But the demand for agricultural goods is spread throughout the year. Seasonal nature of production gives rise to the problems of inadequate facilities of transportation, storage and financing. Poverty and cash needs of the farmer compel him to sell his produce in market in peak time.

Lack of waiting power on the part of the producer is the main cause of glut in the post-harvest market leading to depressed prices. Hence purposeful efforts have to be made to strike a proper balance between seasonal outflows of and continuous consumer demand for specific agricultural products.

3. Biological Production Process :

It is out of reach of farmers to protect their products from frost, drought, flood, diseases, insects, etc. Due to this, the cultivator cannot control the quantity and quality of products which are highly perishable. Hence quality of products varies from unit to unit within an area. The agricultural production process, therefore, does not yield standard products.

4. Time-lag in adjusting production and supply to change in price :

Price and product relationship produces fluctuations in the economy due to short-term gaps between demand and supply of particular agricultural product. This means that given the demand, price is largely determined by current supply and current supply is determined mostly by the price in preceding season. Thus, fluctuations in price and production continue indefinitely without an equilibrium being reached.

5. Inelastic demand :

Generally, demand for agricultural goods is inelastic. Consumers, therefore, are unlikely to vary the total consumption of these goods to a large extent in response to changes in the general level of farm prices. This is true in case of agricultural goods in aggregate. Individually, however, the demand for agricultural goods may be more or less elastic. Therefore, the issue of stabilisation of agricultural prices attains a significance different from that of industrial prices.

These conditions of production have several consequences so far as marketing of agricultural produce is concerned. Marketed surplus of the produce varies seasonally, seasonal peaks are very short, and variability of product quality makes market valuation difficult and complicates the processing work.

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II SINE QUA NONS OF EFFICIENT MARKETING OF AGRICULTURAL PRODUCE

Marketing had its beginning in agriculture. Marketing activities developed only after the man was able to produce more than he needed for himself and only after he had found a way of exchanging the product of his labour for those of others. Agricultural marketing involves putting up the surplus in market through definite channels. The surplus may be marketable or marketed. Marketable surplus indicates the residential quantity left with the producer after meeting the requirements of family and farm. Marketed surplus refers to the quantity of produce brought to the market by the producer irrespective of his domestic and other requirements. As the marketable surplus increases; it becomes necessary for the farmer to exchange goods in larger quantity. Hence his dependence on marketing structure increases. He feels the need to know the marketing mechanism in deep. But there are number of problems that are generally encountered by the farmer-producer.

1. Transportation :- It is prime obstacle in improvement of marketing. When large production surplus remains either on the field or in the market-yard because of inadequate rail and road transport facilities, it has a dampening effect on production. The produce has to be transported several times before it reaches the hands of the final consumer. Transport of produce enhances the value of the produce through creation of place utility. This speaks for the need of efficient and adequate transport and communication facilities for the agri-

cultural sector. Any deficiency in it would adversely affect the marketing process ultimately leading to non-clearance of the market arrivals at the appropriate time. Glut of market thus created would have a depressing effect on the realised prices of the agricultural produce.

2. Co-ordinating the production and marketing :- This activity assumes primary importance as integrated production and marketing system is a way to prosperity of farmers as well as the nation. Emergence and growth of marketable surplus depends upon efficient marketing. Moreover, growth of surplus helps development of agricultural markets. Marketing conditions as reflected in price serve as signals to the farmers in deciding what and how much to produce in the next season. In case of imperfect markets, the farmers are unable to get clear picture of the market conditions and hence production decisions are based on haphazard considerations. More often, the farmer is faced with an imperfect market so that production decisions remain uncorelated to the needs of the market.

3. Storage :- Now-a-days storage has become a part and parcel of productive activity. It is also a major marketing function. Storage is a process of holding of goods from the time they are produced until they are needed for consumption. By creating time utility storage helps to producers, distributors, wholesalers, and retailers to hold stocks for ensuring continuous flow of goods to the market. Agricultural goods produced seasonally must be stored because consumers demand

them throughout the year. Proper storage facilities are useful to adjust demand and supply and for stabilisation of prices. In practice, a very large number of the farmers is lacking in sufficient and proper storage ~~in~~ facilities of their own. As such, they have to rely on public warehouses. Usually, such a storage arrangement is found to be insufficient in general and locationally inconvenient for many. Often, efforts on national and regional basis are made to grow more agricultural produce through improved technology without simultaneously arranging for its storage. Inadequate and improper storage arrangements result into wastage and quality deterioration of the agricultural produce as also distress sales eventhough the market conditions are unfavourable.

4. Handling and Packing :- Now-a-days these are considered inevitable marketing functions. Proper care must be taken while handling the agricultural produce through the entire process of marketing. Handling and packing depends upon the nature of commodities, their peculiar quality features, sales requirements and climatic conditions. Special care must be taken while handling highly perishable commodities. Crops like cereals must be properly dried and kept free from weymin. Farmers have to depend on traders for the packing-material like gunny bags and also to spend a good amount if to own it. In case of certain commodities specially prepared packing material has to be used for which initially the farmer has to spend money thus adding to his financial problem.

5. Market information :- Market information is of vital importance to the producers and traders in marketing decision. For foodgrains domestic demand is generally stable in character and reasonable forecast of the future conditions could be assumed while making production decisions. But as regards commercial crops, where the aggregate demand for a particular commodity is dependent on several external factors, it is necessary to make serious study of anticipated pattern of demand, supply and related market conditions. Due to inadequate and unreliable market information and data on production, demand, supply, stocks, exports, prices, etc., usually the farmer is seen groping in the dark. Consequently, supply and demand adjustment becomes difficult and speculation is rampant. If the market information percolates, systematically upto the producer, the decisions of the producers and the market functionaries together would contribute to creation of market conditions much nearer to perfect competition and also help in making price policy effective.

6. Finance and Credit :- Agricultural producers are not only unorganised but also operate generally on a small farm so that they have no holding power. Because of scanty financial resources they have to resort to borrowing from various sources even at high rates of interest with a consequent obligation to route their sales through some of their creditors, particularly the private agencies. Thus, private credit is linked with marketing. This works against the farmer in getting a remunerative price for his produce. An improvement in production

and marketing finance for agriculture is, therefore, the need of the time. Co-operative marketing or state trading are usually contemplated as suitable alternatives to meet even this type of difficulty.

7. Standardisation and Grading :- These terms are not identical. Standardisation precedes grading and is used in a broader sense. It implies establishment of specific categories of the agricultural produce in the light of its peculiar and distinguishing features. Thereafter, in each category, the produce is graded scientifically on the basis of the physical quality; specific norms for each grade are established and are uniformly applied in all the markets of a commodity if the markets are regulated. After standardisation, goods are graded according to uniform lots. Marketing services of the kind help to bring additional returns to producer as sale by sample is made possible and much objectivity is introduced in price-fixation. It reduces the cost of marketing and the rational valuation of produce is feasible. If the market structure lacks this vital facility, the fate of the farmer is totally in the hands of the buyer-trader and chances of fair returns to the farmer-producer remain remote. Farmer would be a loser by all means.

8. Weights and Measurements :- Use of false weights and measures is another way of cutting the feet of the farmer-sellers. Letters of law alone do not suffice; effective enforcement of licensed weightmen and ensuring their integrity and honesty of work alone would guard the farmer from exploitation in this context.

III MARKETING CHANNELS OF AGRICULTURAL PRODUCE

The pattern of agricultural marketing varies considerably from commodity to commodity among countries and regions. Even then, it is general for the agricultural commodities to change hands two to five times between producers and the ultimate consumers. In the process the commodity values are enhanced through the creation of time, place and form utilities.

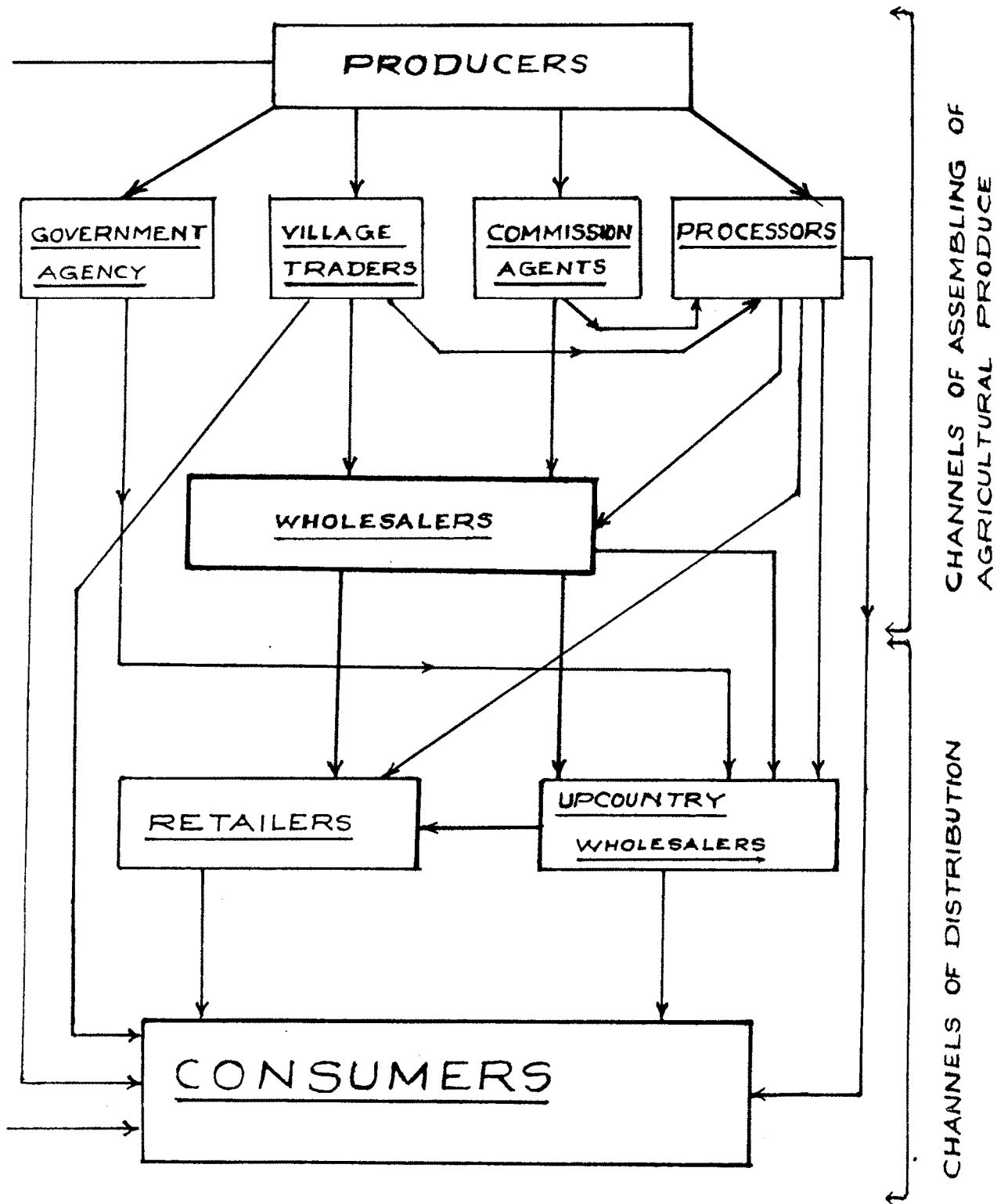
The chain of intermediaries through which the agricultural produce passes constitutes the marketing channel. A broad picture of this, as it exists in the less developed countries, can be depicted as shown in Chart-1. The chart brings out the channels through which the agricultural produce flows from the producer to the final consumer. Of course, the flow channels will not be uniform for all the agricultural commodities; they will vary with commodities. The chart indicates a general pattern incorporating in it the maximum possible links among the market functionaries. The structure of marketing resulting from the functional linkage of the marketing channels is an indicator of the degree of perfectness or imperfectness of the market itself. A few points may be noted.

1. When the farmers sell their produce to the consumers directly, they enjoy full share of the consumers' price.
2. The government purchases the produce directly from the farmers at village level for various purposes; viz. to protect the interest of the farmers as well as the consumers, export,

CHART 1

MARKETING CHANNELS OF
AGRICULTURAL PRODUCE

(GENERAL PATTERN)



creation of buffer stocks, stabilisation of prices etc. When the government purchases a part of the produce by statutory provision of levy, technically its limit can be 100 percent. Monopoly procurement is the outcome if this final limit is reached. Besides this, the government makes direct purchase from open markets at stipulated prices. A part or whole of the purchased and procured quantity is used for controlled distribution through the network of public distribution system, as also for exports and maintenance of buffer stocks.

3. Processors also enter into primary market for purchasing of produce and selling it in the wholesale market in the processed form.

4. In the areas of heavy production of an agricultural commodity, particularly the farmers with larger produce usually bypass the village traders or commission agents and sell directly in the wholesale markets.

5. When the produce reaches to the wholesalers, the assembling function ends and distribution function begins. The produce is brought here by cultivators and other collecting agencies and here onwards it is sent to the terminal market for large-scale accumulation, exported to upcountry markets directly or via terminal market or sold to the consumer either directly or through the retailer.

In brief, marketing embraces every step, which effects transfer of ownership of goods and cares for their physical distribution. "Marketing consists of series of operations and these operations may be performed several times either by producers or middlemen till the commodity reaches into the hands of the consumers."¹

1 Clerk F.E. and Clerk C.P. : Principles of Marketing, The Macmillan Company, New York, 1933, p.1.

IV NEED FOR GOVERNMENT INTERVENTION IN AGRICULTURAL MARKETING

Development of agriculture is a part of the overall strategy of planned economic development and so marketing of agricultural produce has an important place in economic life of the people. In view of this, it is necessary to improve marketing structure of agricultural products. Small farmers can do nothing individually. They are scattered all over the wide area and have no organisation to guide them or to protect their interest. They are exploited by large number of middlemen who operate on large-scale and are organised. Lack of sufficient storage space, inadequate transport and communication facilities, rampant malpractices, high peaks and troughs of agricultural prices, absence of standardisation and grading facilities and dearth of production and marketing finance results into sale of agricultural produce at an unfavourable place, time and terms. Individually the farmer is unable to remove these inefficiencies and drawbacks. The possible way out to provide strength to him is through a co-operative action by all farmers and/or government action.

(A) GOVERNMENT ACTION(1) Regulated Marketing :-

Once it is accepted that the government cannot be a passive spectator to the problems of agricultural marketing, what form of government intervention would be appropriate

becomes merely a matter of decision-making, vis-a-vis the situation. Commonly tried solutions are mentioned below.

1. Regulated Markets :

Establishment of regulated markets is one of the ways or methods of state intervention. The government attempts to regulate the entire marketing activity of agricultural commodities through the passing of a Market Act. Such a piece of legislation is a powerful instrument to improve markets by creating near-to-competitive conditions while strengthening the bargaining power of the farmers. A major objective of regulated markets is to regulate sale and purchase of agricultural products so as to create conditions congenial to fair business. The idea behind this is that the prosperity of agriculturists and the success of any policy of general agricultural improvement depend on the extent and nature of facilities available for the disposal of their produce to the best advantage. For achieving the contemplated objectives, market committees are established wherein representatives of growers, traders, government, social bodies, and co-operative marketing societies are included. Market Committee is responsible for the enforcement of the provisions of the Market Act. It cares for improving marketing practices, providing amenities and facilities of marketing at the market place and in general creating orderly conditions of marketing. Market fees and licence fees are the main source of income to meet the expenses of the market committee.

There are certain advantages of the regulated markets.

They are :

- (a) reduction in village sales and market charges;
- (b) system of competitive buying is introduced through open auction;
- (c) correct weights and measures are ensured;
- (d) a suitable machinery is established for ensuring healthy relations between sellers and buyers;
- (e) well planned market yard with all facilities increases waiting power of the farmers;
- (f) reliable and up-to-date market information helps producers in planning production and sales;
- (g) quick payment is assured; and
- (h) standardisation and grading facilities help producers in getting remunerative prices.

In short, regulated markets provide basic infrastructure for improvement of agricultural marketing.

2. Government buying :

Passing of the Market Act and thereby providing for establishment of regulated markets is an indirect way of

government intervention in the agricultural produce market. Often this may not suffice to serve the interest of the producers; a direct action may be called for by the circumstances. For this, the government assumes the role of a trader, either the sole trader or a powerful competitor. Through its various agents the government makes direct purchases from the producers at certain declared prices. The objective behind such an action is to protect the interest of both the producers and final consumers and to maintain a fair degree of price stability of that commodity over the year. Buffer stocks are created out of this activity. Mostly purchase, procurement of a part of the produce through compulsory levy and open market purchases at guaranteed prices are the methods used by the government. State trading in agricultural produce through monopoly purchase is supposed to be the most effective of all these methods as the government establishes full control over the entire stock of the marketed surplus, which can be purchased and sold according to the government's policy frame. It is maintained that this is the best method for assuring reasonable prices to the producers and the consumers as well. Levy system is a via media between free trade and complete monopoly. Proportion of levy may be determined according to the needs. Levy price is usually fixed at relatively low level. Purchases in open market may be at the declared purchase prices. In the event of deficiency of domestic supply, the government interferes

the markets by augmenting market supplies through imports of the specific agricultural commodities.

3. Fixation of prices :

Fixation of prices by government agencies has introduced an element of certainty in the market. It results in reduction of uneven and large fluctuations in the prices of principal agricultural commodities. Its objective is that producer should get at least such a price which would cover production cost and leave something over and above that. The level of assured prices is maintained by the government's standing offer to buy at the stipulated rates. Guaranteed prices work for the producers as an insurance against heavy losses in case of heavy slump in prices. So it is a boom to the producers. But at the same time, determination of such prices is said to be rather a complicated job as opinions differ as to what items should be accounted and in what manner in order to evolve a workable formula to arrive at a price generally acceptable. Opinions are stretched even to the extent that cost of production does not provide a realistic base for price determination and hence should be discarded in favour of an alternative formula. However, an acceptable and realistic alternative is not yet given by any expert, so that cost consideration still dominates the fixation of guaranteed prices of agricultural commodities.

4. Warehousing facilities

Through various statutory organisations the government attempts to provide warehousing facilities wherever possible. The warehouses provide scientific storage places at reasonable rates. Warehousing assists in maintaining continuous flow of goods which reduces fluctuations in prices of agricultural commodities. On producing warehouse receipts the farmers can get credit from co-operative societies and commercial banks which increases the buying power of the needy farmers.

(B) CO-OPERATIVE ACTION

Co-operative form of organisation can play significant role in improving the system of marketing of agricultural produce. Co-operative marketing societies are the voluntary organisations of the farmer-producers and can be well utilised to overcome the individual weaknesses of the farmers. Marketing societies convert the smallness of an individual farmer into a big entity, possessing strong bargaining power in the market. Through its manifold services, the societies can confer a number of benefits on the member farmers. The government also can help the societies in their endeavour by making available funds, providing training facilities to the personnel, surveying progress and problems, and so on. Though co-operative societies are voluntary organisations and should be best left to the individuals, in underdeveloped countries, government help becomes indispensable. It is

essential to devote resources towards educating farmers about the need and importance of co-operation for marketing their surplus. If co-operative marketing societies realise the importance of the role they can play in agricultural marketing and act accordingly, certainly they would do a yeomen service to the member farmers.

V RESEARCH FRAMEWORK

(a) OBJECTIVES

In Satara district of Maharashtra State, presently Phaltan is the only place where cotton market exists since long and is considered to be a well developed market. Already a regulated market in cotton existed at Phaltan since 1957-58 so that a good deal of discipline in the market was established to the benefit of the grower of cotton. The marketing situation became more systematic and assuring with the introduction of the monopoly purchase scheme by the Government of Maharashtra. This change not only cemented the market discipline but as an added advantage to the grower provided price guarantee. Indeed, it was a step forward from the market regulation. Nay, we can say that this is all ^{that} the government can do for the growers to guard their vested interests. But, can we positively say that monopoly purchase of an agricultural commodity with price guarantee is the last step in the attempts to give the grower a fair deal? This is rather a crucial point which needs to be

attended by all concerned. This work is an attempt in the direction.

The main objectives of the study are as follows :

- (1) to study the history and growth of Phaltan as a cotton marketing centre;
- (2) to study the working of the monopoly purchase scheme of cotton initiated by the Government of Maharashtra in the Phaltan market;
- (3) to study the role of various institutions in Cotton Marketing; and
- (4) to investigate into the declining market arrivals of cotton in Phaltan market since mid-seventies particularly.

(b) HYPOTHESIS

The study presumes that an efficient marketing system for an agricultural commodity helps to ^{give} proper justice to the cultivators. Monopoly purchase scheme is supposed to be the best of all systems of marketing of an agricultural commodity. This system is prevailing in cotton marketing in the Maharashtra State for a decade or so. It has provided an infrastructure conducive to increased market arrivals through increased production. In fact, incentive to more production is one of the objectives of the scheme. However,

provision of an infrastructure of Monopoly Marketing without due attention to the productivity of the crop would defeat the purpose of the Scheme in case of falling productivity of the commodity in question. We are attempting to test this hypothesis in the light of the Phaltan market.

(c) METHODOLOGY

As this study was concerned fully with an investigation into the working of monopoly purchase scheme of cotton in Phaltan market of Satara district of Maharashtra, from almost the entire information we had to depend on the official records and documents of various individuals and agencies especially in Phaltan taluka. As such the annual reports, special reports, notes prepared for various occasions, official files and registers of the Agricultural Produce Market Committee, Phaltan, Zonal Office at Phaltan of the Maharashtra State, Co-operative Marketing Federation, The Phaltan Taluka Co-operative Marketing Society Ltd., Phaltan, The Phaltan Cotton Sale, Ginning and Pressing Co-operative Society Ltd., Phaltan and Office of the Tahsildar Phaltan. Besides referring to the documents, personal discussions also were carried on with the important persons in these institutions.

The Nimbkar Agricultural Research Institute, Phaltan needs a special reference. We needed authentic information about the cost structure in cotton cultivation for the period between 1971-72 and 1979-80. As is well known, cost compu-

-tation of any agricultural commodity has become rather a headache and any computation if done may not be fully convincing to all the parties concerned. To frame the cost data on the basis of questionnaire filled by a sample of cultivators in Phaltan taluka was also a task beyond capacities. Moreover, getting cost details from either illiterate or less literate cultivators without any written record for many years would have become an impossible task. Under such a situation the Nimbkar Agricultural Research Institute, Phaltan came to our help. It provided us the necessary data on cost of cotton cultivation as computed by it from time to time in the light of actual conditions prevailing in respective years. The data of the institute is therefore used as authentic one.

In addition to the above sources various books and articles related to the subject also were used. Discussions with the traders and progressive cultivators in Phaltan were also done.

(d) SCHEME OF STUDY

This is a study of marketing activities of cotton in Phaltan. It has been divided into five chapters.

Chapter One is introductory and provides a backdrop for the study.

Chapter Two deals with the description of Phaltan taluka and town as a marketing centre and gives a historical account of its emergence as a marketing centre in Western Maharashtra.

Chapter Three is concerned with an account of the birth and working of Monopoly Purchase Scheme of cotton in Maharashtra State including its operations and problems.

Chapter Four deals with the marketing activities before and after Monopoly Purchase Scheme of cotton, role of co-operative societies in marketing, processing units, working of the Agricultural Produce Market Committee, Phaltan etc.

Chapter Five is devoted fully to a deeper investigation of the causes of declining market arrivals of cotton in Phaltan Market in recent years.

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