

# READING MATERIAL

**Ag Econ 477 (1+2)**

**Marketing Management**

**(Agricultural Import-Export Policy of Government of India & Business Law)**

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# Course Contents

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## Theory

Marketing management – definitions, concepts and managerial functions, ‘Four Ps’ of marketing-mix, market and marketing environment, consumer behaviour- learning and consumer’s involvement, communication and persuasion, legal aspects of marketing, business law and political system, legislation in marketing of agro products, consumer protection, etc; sales forecasting; marketing planning; marketing strategy; new product development, pricing strategy for new products, product life cycle (PLC), physical distribution, distribution channels, pricing; advertising management-communication, publicity; sales promotion-importance; sales management; marketing organization – definition, principles, models, factors influencing, etc; marketing information system - types, basis, need, characteristics, marketing intelligence; marketing control, steps in marketing control; agricultural price policy-objectives, levels of support; international trade, importance, terms of trade, trends and composition of India’s foreign trade and foreign trade policy.

## Practical

Preparation of flow chart of holistic marketing dimensions; market survey and preparation of market schedule; a case study of an organization, its marketing strategy, implementation and control processes; analysis of legislations affecting marketing; temporal analysis of export-import of major agricultural commodities including fruits, vegetables, livestock products, processed animal feed, fishery, etc; study of emerging patterns; analyzing commodity wise market arrivals and price trends; a case study of an important marketing institution its functions and organizational set up; analyzing trends in procurement prices and the quantity of purchases under the system from different regions; a case study of functioning of contract farming and *Kisan mandies*; temporal analysis of domestic and international prices of selected agricultural commodities; preparing list of SEZs functioning in north India, commodities being produced and exported.

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## Detailed Plan of Teaching Manual

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# UNIT-1

## MARKETING MANAGEMENT

### -Definitions, concepts and managerial functions

#### Definitions of Marketing Management

Marketing management is defined as the process of analysis, planning, implementation and control of the programmes designed to bring about desired exchanges with target audiences for the purpose of mutual or personal gain. It relies heavily on the adaptation and coordination of product, price, promotion and place of achieving effective response.

-Philip Kotler

Marketing Management is concerned with the direction of purposeful activities towards the attainment of marketing goals..... *It directs purposeful activities* consciously planned, organized, coordinated and controlled. Managerial effort in marketing is *goal directed*, i.e., knows where it is going.

-Still and Cundiff

Marketing Management is a process of planning, organizing, implementing and controlling marketing activities in order to effectively and efficiently facilitates and expedites exchanges. The effectiveness and efficiency dimensions are two important components.

-Pride and Ferrel

#### Basic Concepts in Marketing Management

To explain marketing management, we need to know the following important terms:

##### Needs:

- The most basic concept underlying marketing is that of human needs.
- Human needs are states of felt deprivation.
- Human have many complex needs:
- Physical needs for food, clothing, warmth, and safety
- Social needs or belonging and affection
- Individual needs for knowledge and self – expression

##### Wants:

- Wants are the form taken by human needs as they are shaped by culture and individual personality.
- People have almost unlimited wants but limited resources.
- They want to choose products that provide the most value and satisfaction for their money.

**Demands:**

- When backed by buying power, wants become demands.
- Consumers view products as bundles of benefits and choose products that give them the best bundle for their money.

**Product:**

- Anything that can be offered to a market to satisfy a need or a want.
- The concept of product is not limited to physical objects only but anything capable of satisfying a need can be called a product.

**Services:**

- Besides tangible goods, products also include services, which are activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything.

**Values:**

- Customer value is the difference between the values the customer gains from owning and using a product and the costs of obtaining the products.
- Customers often do not judge product value and costs accurately or objectively. They act on perceived value.

**Satisfaction:**

- Customer satisfaction depends on a product's perceived performance in delivering value relative to a buyer's expectation.
- If the product's performance falls short of the customer's expectations, the buyer is dissatisfied.

**Quality:**

- Customer satisfaction is closely linked to quality.
- Quality has a direct impact on product performance.
- Quality can be defined as "freedom from defects".
- Total Quality Management (TQM) programs are designed to constantly improve the quality of products, services, and marketing processes.

**Transaction:**

A trade between two parties that involves at least two things of value, agreed – upon conditions, a time of agreement, and a place of agreement.

## Box 1.1

### Significance of Agricultural Marketing

1. Efficient marketing increases national income
2. Reduction in marketing cost and benefits to society
3. marketing brings new products, quality, variety and beneficial goods to consumers
4. Scientific marketing and price stability
5. Marketing as a catalyst for development
6. Supply and demand equalization
7. It adds value to goods and services by way of utility creations
8. Essential for full employment
9. Improving living standards
10. Integration of various sectors
11. Development of entrepreneurial and managerial class of people

### Some Basic Facts about Marketing Management

1. It is a management process and includes analysis, planning, implementation and control activities.
2. It is a purposive activity which aims at bringing about desired exchanges, which may be good or services.
3. It may be carried on for personal or mutual gain.
4. It stresses the adaptation and coordination of product, price, promotion and place of achieving effective response.

### Evolution of Marketing Management

Marketing management has been developing since the Industrial Revolution. Authorities on the subject are of the opinion that it has gone through three distinct stages:

**First Stage:** There is no marketing department and sales departments under the sales manager, involves only operating a sales force. Other marketing activities are rather unknown. Product planning and budgeting are done by production manager and financial manager.

**Second Stage:** Better understanding develops about the scope of sales management, which deals with two important changes in the organizational structures of many marketing firms. First, all marketing activities are placed under one marketing executive. Second, activities like (sales, training, product servicing) which were carried out by other departments now comes under marketing.

**Third Stage:** Fully integrated marketing management develops under the Chief Marketing Officer which means that marketing is now accorded a key role in management. The marketing man becomes marketing oriented. At this stage, several activities which traditionally belong to the product manager are now placed under the charge of marketing manager.

## Marketing Management Concept

### Meaning

Marketing concept is a 'way of thinking' or a 'management philosophy' about an organization's total marketing activities. When the philosophy is adopted, it affects not only marketing activities but also all the organization's activities.

### Modern Concept:

The performance of business activities that direct the flow of goods and services from producer to the consumer

### Goal/Purpose of Marketing Concept

Marketing concept assumes that "the purpose of business is to create a satisfied customer and that profit is not meaningful objective by itself but rather the reward for delivering customer satisfaction."

#### Box 1.2

##### Modern Marketing

- Business decision should be "market or customer oriented" rather than product oriented.
- Marketing is dynamic business process- A total integrated process rather than a fragmented assortment of institutions and functions.
- The marketing programmes starts with the generation of product idea and continuous till the customer wants are completely satisfied.
- Marketing programme is done with a maximum of effectiveness and with a minimum of cost.
- Marketing must increase profitable sales over the long run.

#### Box 1.3

##### Essentials of Modern Marketing

- Approach of modern marketing is dynamic, progressive and active
- Modern marketing tends to equalize supply and demand
- It has Consumer orientation
- Modern marketing attempts to build markets
- It aims at Distributive justice
- Modern marketing creates customers than to create products
- Modern marketing portrays concept of total business process beginning with product, planning, development and ends with consumers.

Marketing is the delivery of customer satisfaction at a profit. The main goal of modern marketing is to attract new customer by promising superior value, and to keep current customers by delivering satisfaction. Marketing, more than any other business function, deals with customers.

Creating customer value and satisfaction are at the very heart of modern marketing thinking and practice.



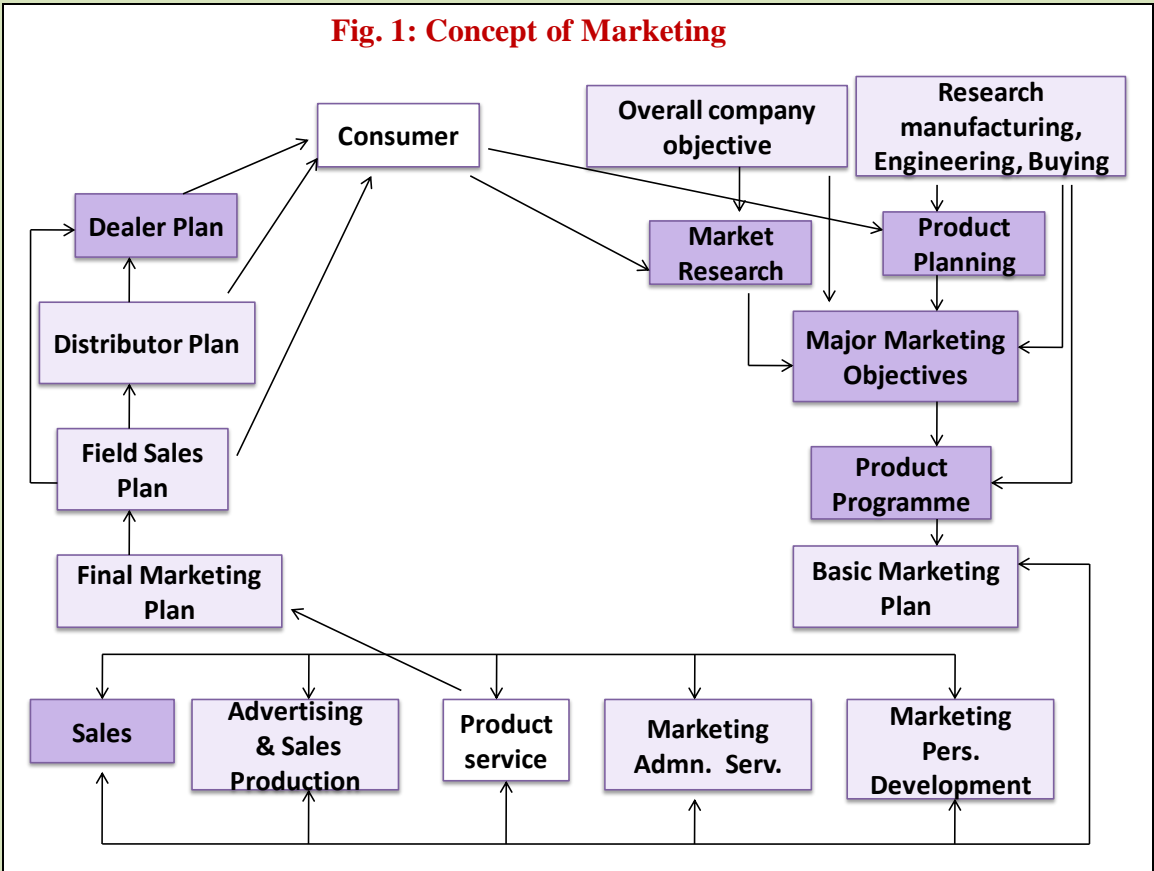
Some people believe that only large business organizations operating in highly developed economies use marketing management, but sound marketing is critical to the success of every organization – whether large or small, for profit or non – profit, domestic or global.

Therefore, marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

**Box 1.4**

Old Marketing Concept: Product ----- Selling/Promoting----- Profit through sales volume

New Marketing Concept: Customer needs---Integrated marketing-----Profit through customer satisfaction



The role that marketing plays within a company varies according to the overall strategy and philosophy of each firm.

There are five alternative concepts under which organizations conduct their marketing activities:

- Production concept
- Product concept
- Selling concept
- Marketing concept
- Societal marketing concepts

### **Production Concept**

The philosophy that consumers will favour products that are available and highly affordable and that management should therefore focus on improving production and distribution efficiency.

### **Product Concept**

The philosophy that consumers will favour products that offers the most quality, performance, and innovative features.

### **Selling Concept**

Selling concept is the idea that consumers will not buy enough of the organization's products unless the organization undertakes a large-scale selling and promotion effort.

### **Marketing Concept**

The marketing management philosophy holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do.

### **Societal Marketing Concept**

The idea that the organization should determine the needs, wants, and interests of target markets and deliver the desired satisfactions more effectively and efficiently than competitors in a way that maintains or improves the consumer's and society's well – being.

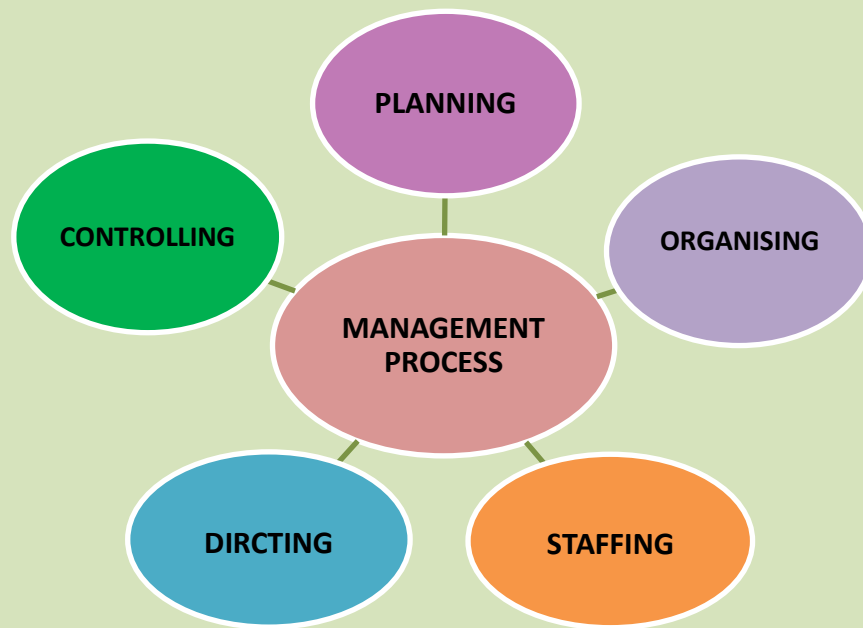
For implementing the marketing concept, the business firms should focus on;

- i. Development of a favorable attitude among the top management people.
- ii. Establishment of the information system.
- iii. Reorganization of the firm
- iv. Understand its usefulness in strategic planning
- v. To make marketing programmes successful.

### **Functions of Marketing Management**

Koontz and O'Donnel classify the management functions as follows

- Planning
- Organizing
- Staffing
- Directing
- Coordinating
- Controlling



### **Planning**

The planning of action is, at one and the same time, the result envisaged, the line of action to be followed, the stages to go through, and the methods to be used. It is a kind of future picture wherein proximate events are outlined with some distinctness. Managers cannot leave business to chance. Their success lies in preparing for the future in a planned way. The planning process involves:

- Determination of business objectives in quantitative terms.
- Breaking down the business objectives into goals for each sub- division so that each unit knows clearly what is expected for it.

### **Organizing**

Organized effort is essential for success of any enterprise. The process of organizing consists of dividing activities, assigning duties and delegating authority for effective operation and achievement of goals

#### **Steps involves in organization process**

- Identification of activities
- Dividing activities into convenient group
- Allocating activities to different departments
- Coordination of these activities throughout the organization.

### **Staffing**

Staffing process provides the organization with adequate, component and qualified personnel at all levels in the organization. The function of staffing comprises the activities of defining the requirements with regard to the people for the job to be done, selecting suitable person for position and training and developing subordinates to accomplish their tasks as effectively as possible.

## Directing

Directing process in business was identified by Henry Fayol with command, management thinkers of today; however, include the following functions in it.

- Communication
- Motivation
- Leadership

## Coordinating

Coordination is all – pervasive and permeate every function of the management process. Thus planning, organization, staffing, directing and controlling all helps managers to achieve proper coordination.

## Controlling

The function of controlling consists of the steps taken to ensure that the activities of the people conform to the plans and objectives of the organization.

The control system should be such that one can study the past, note the pitfalls and take corrective measures so that similar problems may not occur in future.

## Characteristics of Agricultural Products

Related to Production System	Related to Farm Products	Related to Consumption
<ul style="list-style-type: none"><li>• Small scale production</li><li>• Production on widely scattered farms</li><li>• Production is in specialized areas</li><li>• Seasonally in production</li><li>• Production of joint products</li><li>• Irregularity in production</li></ul>	<ul style="list-style-type: none"><li>• Perishable products</li><li>• Bulky nature of products</li><li>• Varying quality of products</li></ul>	<ul style="list-style-type: none"><li>• Need for processing before consumption</li><li>• Consumption is continuous on daily basis.</li><li>• Inelastic demand for most products</li><li>• Consumption on products is necessary from birth till death.</li></ul>

## UNIT-II

# MARKETING MIX

### -Four Ps' of marketing-mix, market and marketing environment

Marketing-mix plays important part in formulation of a marketing strategy for a product. The figure given below shows the 4 P's of marketing-mix.



#### 4 Ps in Marketing are;

- Product
- Price
- Place
- Promotion

#### Product

The first "P" of the marketing mix deals with the **product**. The positioning, packaging, etc.

- The Marketing Mix
- Product - what is it that you are going to sell.
- Product Mix - range of PRODUCTS or SERVICES offered for sale
- Product Features- color, packaging, quality, brand name
- Product Support - maintenance, after-sales Service, pre-sale like advice and Quotations
- Product Width – how many product lines a company has
- Product Length – how many products are there in a product line
- Product Depth – how many variants of each product exist within a product line

- Product Consistency – how closely related the product lines are in end use

### Price

- The second "P" of the marketing mix is price.
- There are several options to consider regarding price: like; 1) *Price matching*, 2) *price making*, 3) *introductory penetration pricing*, and 4) a *competitive upgrade price strategy, etc.*

Pricing - not just how much you charge for a product but how the price fits your target market positioning and the image you wish to develop.

Pricing Methods depends on:

- competition in the market and your marketing strategies
- demand for your product
- controlled pricing
- your costs
- perceived value

### Place

The 3rd "P" of the marketing mix deals with product placement--the width of distribution

Location - the place of the business "locate your business where the market is".

- Take into consideration factors in selecting an area:
- Customer accessibility
- Adequacy of transport/communication facilities
- Supply of skilled labour
- Population trends
- Distribution - how your products or services reach your customers
- Distribution methods
- Customers come to you
- You take the product/service direct to the customer
- You use an agent merchant franchise etc. to reach your customer

### Promotion

Advertising and Promotion - are aimed at making potential customers aware of the existence of your business, your product and services and to encourage them to buy from you.

- Our promotions are designed to create demand.
- Public Relations (PR), Online Marketing, Advertising, Direct Marketing and Event Marketing.
- Different Methods of promoting your product or service
- Public Relations - establishing a favorable image
- Publicity - feeding media of information that is Of public interest (free advertisement)
- Sales Promotions
- Merchandising - point-of-sale display

## Box 2.1

### Market

A Market may be a place, a region, country or whole world where the business relationship or intercourse exists between buyers and sellers.

### Classification of Markets

Market can be classified on the basis of twelve dimensions. These are as follows

- 1. On the basis of place or location**
  - a. Village market
  - b. Primary market
  - c. Secondary wholesale markets
  - d. Terminal markets
  - e. Modern terminal markets
  - f. Seaboard markets
- 2. On the basis of area/ coverage**
  - a. Local or village market
  - b. Regional market
  - c. National markets
  - d. International markets
- 3. On the basis of time span**
  - a. Short period markets
  - b. Periodic markets
  - c. Long period markets
  - d. Secular markets
- 4. On the basis of volume of transactions**
  - a. Whole sale markets
  - b. Retail markets
- 5. On the basis of nature of transactions**
  - a. Spot or cash markets
  - b. Forward markets
- 6. On the basis of number of commodities**
  - a. General markets
  - b. Specialized markets
- 7. On the basis of degree of competition**
  - a. Perfect markets
  - b. Imperfect markets
- 8. On the basis of nature of commodities**
  - a. Commodity markets
  - b. Capital markets
- 9. On the basis of stage of marketing**
  - a. Producing markets
  - b. Consuming markets
- 10. On the basis of extent of public intervention**
  - a. Regulated markets
  - b. Unregulated or informally regulated markets
- 11. On the basis of type of population served**
  - a. Urban markets
  - b. Rural market
- 12. On the basis of accrual of marketing margins**
  - a. Farmers market
  - b. Co- operative markets
  - c. General markets

### **Analogous to 4 P's there are also four C's in marketing;**

- |             |                      |
|-------------|----------------------|
| ✓ Product   | Customer solution    |
| ✓ Price     | Customer cost        |
| ✓ Place     | Customer convenience |
| ✓ Promotion | Communication        |

### **Marketing Environment**

Business Environment consists of all those factors that have a bearing on the business

Any meaningful organization has certain goal, mission, objectives and a strategy to achieve them. The survival and success of the firm depend upon two sets of factors internal environment and external environment.

**Internal Environment:** Internal factors are generally regarded as controllable factors because the company has a control over these factors. It can alter or modify such factors as its personnel, physical facilities organizational and functional means, such as marketing mix to suit the environment.

**External Environment:** The External factors on the other hand, by and large, beyond the control of a company. The external environmental factors such as economic factors, socio cultural factors government and legal factors are therefore regarded as uncontrollable factors

### **Types of Marketing Environment:**

**Economic Environment:** Business fortunes and strategies are influenced by the economic characteristics and economic policy dimensions. The economic environment includes the structure and nature of the economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets, global economic linkage, economic policies etc.

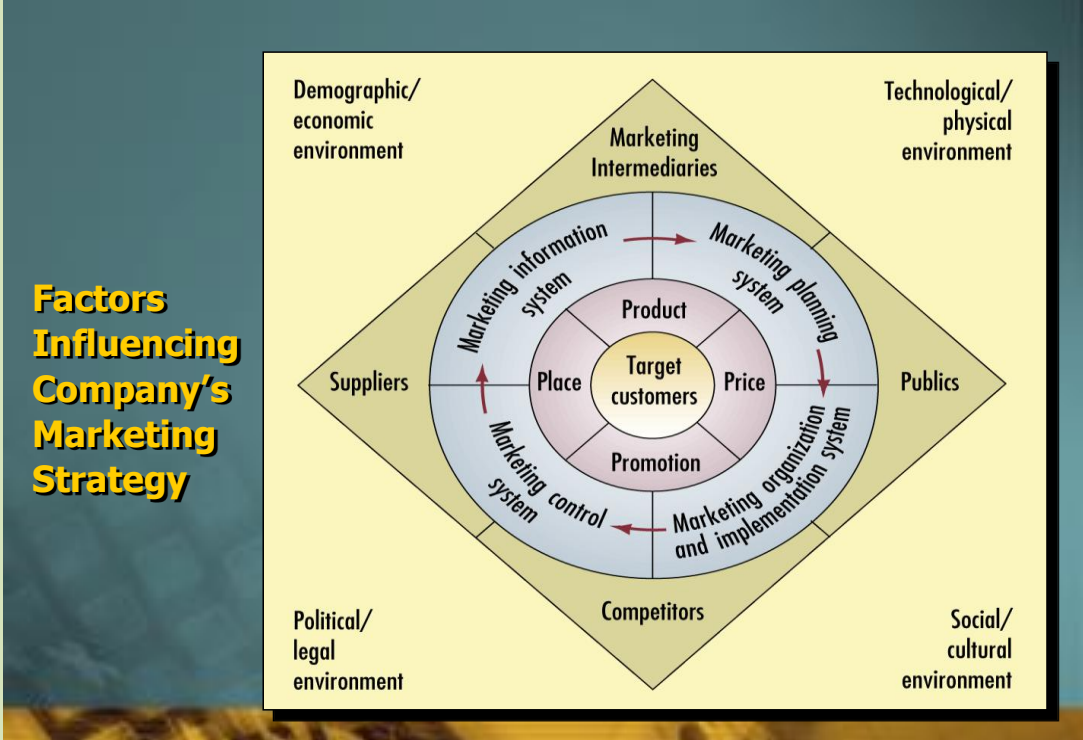
**Political Environment:** The political environment includes factors such as the characteristics and policies of the political parties, the nature of the constitution and government system and the government environment encompassing the economic and business policies and regulations. These factors may vary very considerably between different nations, between different provinces of the same nation and also over time.

**Social Cultural Environment:** Business cannot isolate itself from the rest of society. Today the whole society is a business's environment A business enterprise shall make profit only by accomplishing the socially accepted goals and by satisfying society. Business activities greatly influenced social attitudes, values, outlooks, customers etc., so it is very difficult almost impossible to change many elements of the social environment in the short terms. Hence, a business may have to adapt to these uncontrollable environment.

**Technological Physical Environment:** Technological Environment includes not only the knowledge or methods that are necessary to carry on or to improve the existing production and distribution of goods and services, but also entrepreneurial expertise and professional know-how. Technological environment includes the tools –both machines, and ways of thinking available to solve problems and promote progress between, among and between societies.



All these factors influence the marketing strategy of a business firm as shown in flow diagram shown below



## **UNIT-III**

### **CONSUMER/BUYER BEHAVIOUR**

#### **-Consumer's involvement, buying motives, communication and persuasion**

##### **Definition of Consumer/Buyer Behaviour**

Buyer Behaviour is all psychological, social and physical behaviour of potential customers as they become aware of, evaluate, purchase, consume, and tell other people about products and services.  
-Webster

Buying behaviour involves a complicated series of stimulus and response reactions to many factors or motives. These motives may be expressed or unexpressed and are based upon deep seated needs or more openly felt wants. When someone buys something, he psychologically satisfies both a need and a want.

Modern buyers want to know not only about the product features but also to know how and why the product will benefit them. They look not for what a product can do but also for what they mean.

In order to undertake this marketing programme among different segments, the marketing management must find out as, to

- Who influences the marketing decision?
- Who makes the buying decision?
- Who makes the actual purchase?
- Who use the product?

The decision to buy a product influences the marketing policies of the firm regarding its products, channels of distribution, and promotion.

##### **Needs of Consumer/Buyer**

The Psychological needs: which include hunger, thirst, sleep, shelter etc.

The Safety needs: which includes social security such and economic security, protection. The Belongness and Love needs: which includes avoid frustration and maladjustments in life.

The Esteem needs: which includes a high evaluation of self respect, prestige status etc.

Need for Self Actualization: which includes desire to achieve the maximum of one's capabilities.

The Aesthetic needs: This includes beauty etc.

##### **Motivation Models of Buying**

Various motivation behaviour models have been introduced by different authorities these are as follows

**Marshallian Model:** Given by Prof. Alferd Marshall. This model suggest that “purchasing decision were the result of largely rational and conscious economic calculations” and “a

rational being capable of carefully weighting the economic costs associated with achieving various satisfactions and of choosing the one with the greatest value.”

**Pavlovian Model:** Given by Ivan Pavlov. He concluded about the experimental studies of conditioning of dogs and animals and applying the results to human being that “behaviour could be explained by learning as an associative process.”

**Veblenian Model:** Given by Thorstien Veblen. He saw man as a social animal, motivated by a desire to conform his behaviour to the norms of the culture and to the specific standards of the group to which he belonged or aspired.”

**Freudian Model:** Given by Sigmund Freud, under the name of ‘psycho- analytic approach to motivation.’ He started with the assumption that “a child is born with instinctive needs that he cannot satisfy himself.”

## **Individual Consumer and his Buying Motives**

An individual consumer is one who buys goods or services to satisfy his personal or household wants.

An individual consumer purchases product for three important reasons:

1. He has a desire which needs to be satisfied
2. He has an urge which includes him to purchase
3. He has reasoning.

## **Types of Motives**

### **External Motive**

External motive are outside oneself. Since a consumer is the product of his environment, hence man’s attitudes and behaviour influence his culture and various factors like income, occupation, religion, culture, the family and social environment act as motives.

### **Internal Motives**

**Rational Buying Motives:** which are based on logical reasoning or thinking. They include the immediate monetary cost but also long range costs affecting the buyer- such as durability, depreciation, degree of labour needed and ultimate benefit.

**Emotional Buying Motives:** which are based on personal feelings and cover a wide range of irrational motives including impulses, instincts, habits and drives and are varied in nature.

## **Canfield’s Five Motives which causes people buy**

- Comfort and convenience
- Safety and protection
- Satisfaction of Pride and vanity
- Love and affection
- Gain and Economy Motive

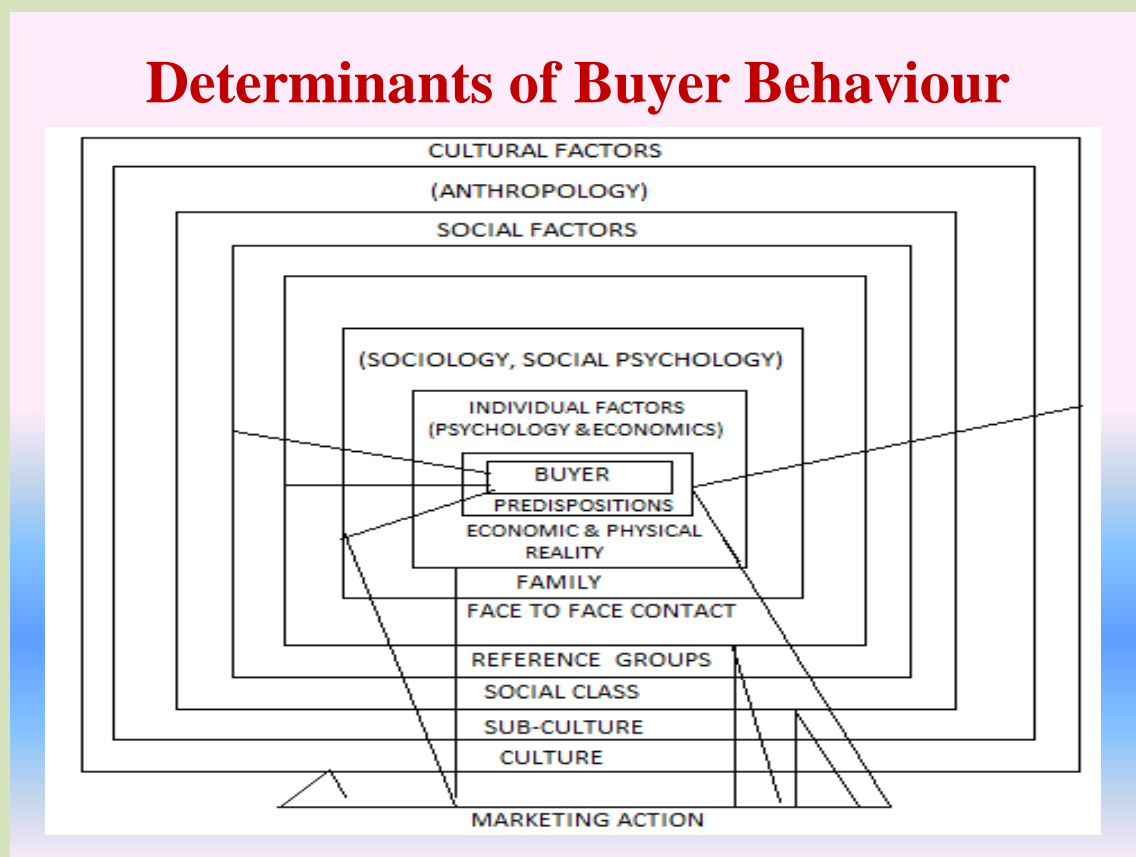
## Pattern of Buying Behaviour

**When consumers buy:** The marketing manager should know during which season and at what time of the day are the purchases made? Purchases are made seasonally like woolen in winters; cold drinks are in summer etc.

Buying at a time when the price is lowest is the objective of a good buyer. The funds at his disposal and the need and circumstances of a buyer make him to decide when to buy.

**Where consumers buy:** The marketing management should know where the buying decisions are made and where the actual purchases are made. Generally purchases made when visiting a store where a large number of products are on display.

**How consumers buy:** Consumers buying habits affect product, and pricing policies, promotional programmes and other management decisions so the marketing management should try to cope with the consumers 'needs.



## Communication

The word communication is derived from the Latin word "Communis" meaning common. There is communication only if there is "commonness" in the words or symbols used by both the sender and the receivers that is message must mean one and the same thing to both. Communication means "sharing of meaning" implicit in this definition is the notion of transmission of information.

Communication is complete when the receiver understands in the same sense and spirit that the communicator intends to convey

## Definitions

“Communication is an exchange of facts, ideas, opinions or emotions by two or more persons”

-W H Norman & Summer

“Communication is the sum total of all the things that person does, when he wants to create an understanding in the mind of another. It involves a systematic and continuous process of telling, listening and understanding”.

-Louis A Allen

## Importance

- Complexities of Business Organization
- Information Technology Revolution
- Growing Specializations
- Global Village
- Growing Competition
- Influence of Trade Unions
- Role of Communication Skill
- Changes in modern Management System

Communication is concerned with who say what to whom, through which channel, and with what effect. Such a communication may be made through written or spoken words or through gestures of some type.

## Value Framework

The value framework is a structure that will encompass all activities of a firm with the ultimate aim of delivering value to the customers.

## Importance of Value Framework

- Marketing is to be interpreted as ‘ a value delivery task’
- The frame work is not a tool or technique, it represents a point of view about business.
- The fortunes of the firm as a whole (not marketing alone) hinges on the frame work.
- The firm’s capability for competing in the marketplace is embedded in the framework

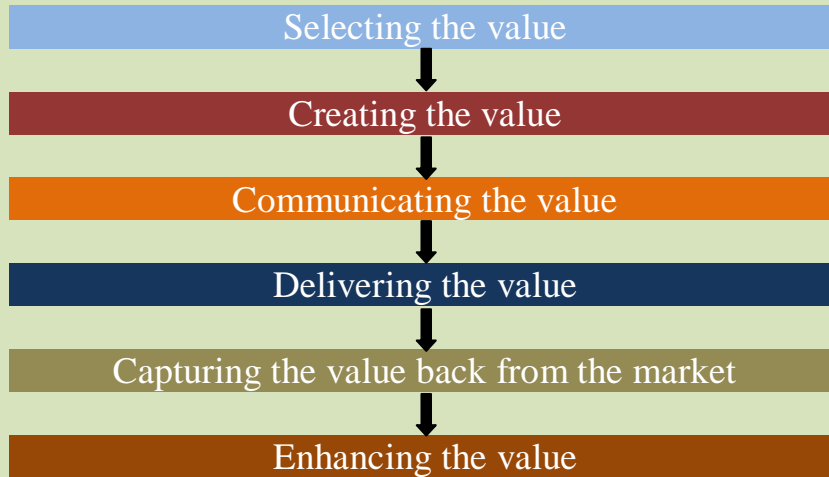
## Communicating the Value

Creating value is not enough for a company; it has to communicate the value of the customer. This is the special domain of marketing. It has to communicate the company’s offer to the customers. There are in fact two components in the step. The first work to a value proposition and then communicates it to the customers and second is communicating the value proposition.

The communication process is sender-encoding-transmission device-decoding-receiver, which is part of any advertising or marketing program. Encoding the message is the second step in communication process, which takes a creative idea and transforms it into attention-getting advertisements designed for various media (television, radio, magazines, and others). Messages travel to audiences through various transmissions. The third stage of the marketing

communication process occurs when a channel or medium delivers the message. Decoding occurs when the message reaches one or more of the receiver's senses. Consumers both hear and see television ads. Others consumers handle and read a coupon offer.

### The constituents of the value framework



#### Box 3.1

#### Communicating pricing also cast convincing effects such as;

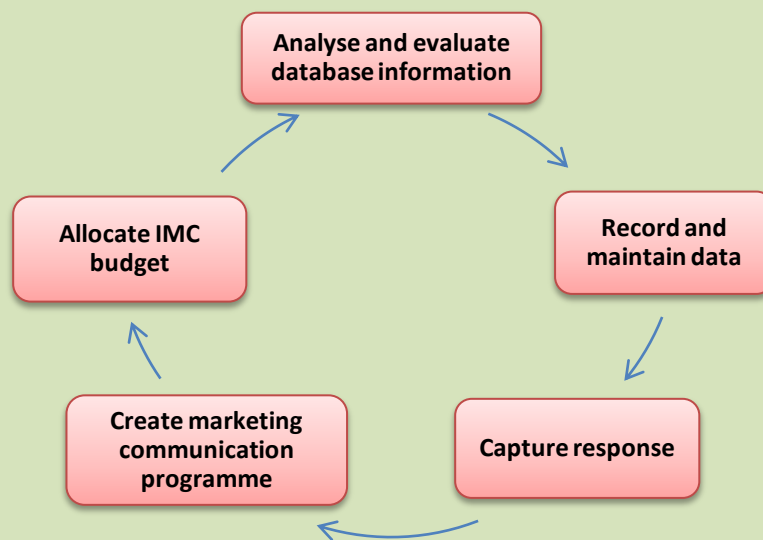
1. **Reference Price Effect** – buyer’s price sensitivity for a given product increases the higher the product’s price relative to perceived alternatives. Perceived alternatives can vary by buyer segment, by occasion, and other factors.
2. **Difficult Comparison Effect** – buyers are less sensitive to the price of a known or more reputable product when they have difficulty comparing it to potential alternatives.
3. **Switching Costs Effect** – the higher the product-specific investment a buyer must make to switch suppliers, the less price sensitive that buyer is when choosing between alternatives.
4. **Price-Quality Effect** – buyers are less sensitive to price the more that higher prices signal higher quality. Products for which this effect is particularly relevant include: image products, exclusive products, and products with minimal cues for quality.
5. **Expenditure Effect** – buyers are more price sensitive when the expense, accounts for a large percentage of buyers’ available income or budget.
6. **End-Benefit Effect** – the effect refers to the relationship a given purchase has to a larger overall benefit, and is divided into two parts: *Derived demand*: The more sensitive buyers are to the price of the end benefit, the more sensitive they will be to the prices of those products that contribute to that benefit. *Price proportion cost*: The price proportion cost refers to the percent of the total cost of the end benefit accounted for by a given component that helps to produce the end benefit (e.g., think CPU and PCs). The smaller the given components share of the total cost of the end benefit, the less sensitive buyers will be to the component's price.
7. **Shared-cost Effect** – the smaller the portion of the purchase price buyers must pay for themselves, the less price sensitive they will be.
8. **Fairness Effect** – buyers are more sensitive to the price of a product when the price is outside the range they perceive as “fair” or “reasonable” given the purchase context.
9. **The Framing Effect** – buyers are more price sensitive when they perceive the price as a loss rather than a forgone gain, and they have greater price sensitivity when the price is paid separately rather than as part of a bundle.

## Communication platforms

- Social Media
- Branding
- Focus

The process begins at the strategic development stage. This starts by creating a marketing communications program. At this point, decide what all will fall in advertising bracket. At the next stage, capture responses of consumers.

## Marketing Communication Process



These responses are then recorded and maintained as advertising data. The executives then analyze and evaluate the collected data. They generate the all important reports which will help to allocate the integrated marketing and communications budget.

The integrated marketing communications is a data-driven approach which identifies the consumer insights and develops a strategy with the right combination of offline and online channels which should result in a stronger brand-consumer relationship. It has grown manifolds in recent years due to several shifts in the advertising and media industry. This is the reason why it has developed into a primary strategy for the developers. Some examples of shifts are from media advertising to the multiple forms of communication, from general focus advertising to data based marketing and so on.

## Consumer Persuasion

Consumer persuasion means to motivate the buyers to buy a certain brand of product pertaining to a specific company or a firm. The customer's adoption and persuasion process includes following steps

1. Awareness of the product
2. Interest in the product
3. Real time valuation of the product

4. Trail and use of the product and
5. Adoption of the product

There are different categories of adopters and, thus, require different degrees of persuasion and communication. There are five such categories as given hereunder:

#### **Innovator (Venturesome)**

They are very eager to try new product or ideas and are always eager to look out for something new and stylish. This interest leads them out of a local circle of peer networks and into more cosmopolite social relationships. These include control of substantial financial resources to absorb the possible loss owing to an unprofitable innovation and the ability to understand and apply complex technical knowledge. The innovator must be able to cope with the high degree of uncertainty. Thus, the innovator plays a gate keeping roles in the flow of new ideas into a social system.

#### **Early Adopters (Respectable)**

Early adopters are a more integrated part of the local social system than are innovators. This adopter category, more than any other, has the greatest degree of opinion leadership in most social systems. Potential adopters look to early adopter for advice and information about the innovation. The early adopter is the individual to check with before using a new idea. They serve as a role model for many other members of a social system. The early adopter is respected by his or her peers, and is the embodiment of successful and discrete use of new products or ideas.

#### **Early Majority (Deliberate)**

The early majority adopt new products or ideas just before the average member of a social system. The early majorities interact frequently with their peers, but seldom hold leadership positions. The early majority's unique position between the very early and the relatively late to adopt makes them an important link in the adoption process. The early majority may deliberate for some time before completely adopting a new product or idea. They follow with deliberate willingness in adopting innovations, but seldom lead.

#### **Late Majority (Sceptical)**

The late majority adopt new products or new ideas just after the average member of a social system. Adoption may be both an economic necessity and social obligation. The late majority do not adopt until most others in their social system have done so. Their relatively scarce resources mean that almost all of the uncertainty about a new product or service must be removed before the late majority feel that it is safe to adopt.

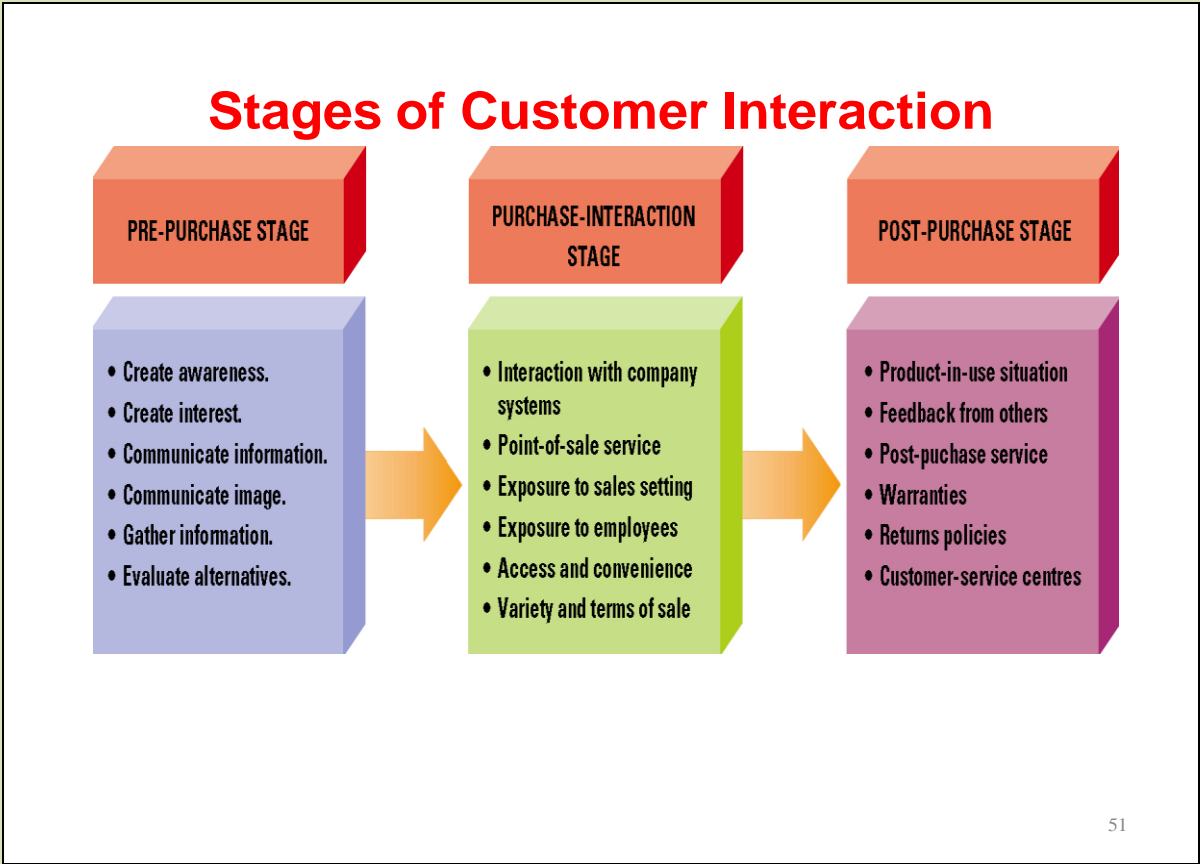
#### **Laggards (Traditional)**

Laggards are the last in a social system to adopt an innovation. They possess almost no opinion leadership. They are the most backward in their outlook of all adopter categories; many are near isolates in social networks. When laggards finally adopt an innovation, it may already have been superseded by another more recent product or service. Their traditional orientation slows the adoption process. This resistance to innovations on the part of laggards



may be entirely rational as their resources are limited and so they must be relatively certain that a new idea will not fail.

The flow chart given below elucidates the vital stages in customer interaction;



## UNIT-IV

### LEGAL ASPECTS OF MARKETING

#### -Market regulations, business law and political system, legislation in marketing of agricultural/agro-products, consumer protection

Efficient marketing is a prerequisite in the development process of any economy. The basic objectives of an efficient marketing are to ensure remunerative prices to the producers and a reduction in marketing costs and margins, to provide commodities to consumers at reasonable prices, and promote the movement of surpluses for economic development. There are many imperfections in the marketing system for agricultural commodities. To protect the interests of the various segments of society, government intervention in the market mechanism became necessary.

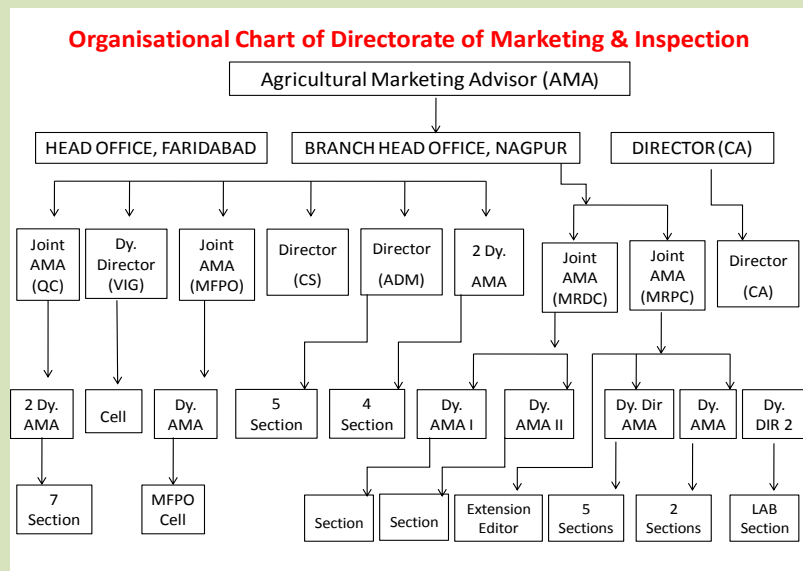
#### Directorate of Marketing and Inspection

On the recommendation of the Royal Commission on Agriculture, 1928, and the Central Banking Enquiry Committee, 1931, the Central Marketing Department was established in India in 1935. The office of Agricultural Marketing Advisor to the Government of India was established in India on January 1, 1935. The aim was to build up a body of knowledge of the marketing of agricultural commodities and suggest measures for the promotion of an orderly and efficient marketing system for farm product.

The Directorate of Marketing and Inspection implements the agricultural marketing programmes of the Union Government under the supervision and control of Union Ministry of Agriculture. Its aim at achieving integrated development of marketing of agricultural and allied products in the country.

The Directorate of Marketing and Inspection is assigned the task of implementing the Agricultural Produce Act, 1937; Cold Storage Order, 1980 and Meat Food

Products Order, 1973. The Directorate of Marketing and Inspection undertakes programmes of market research and surveys, training of market personnel, extension and publicity.



## Market Regulation

### Market regulation and control

In Agri oriented country like India, marketing plays a important role in development. An ideal marketing system is one that maximises the long run welfare of the society. It must be physically and operationally efficient.

Under the traditional system agri- products incurred high marketing cost and suffered various malpractices. The main objectives of regulated marketing was to create uniform marketing conditions so as to increase competition and increase bargaining strength of producer –seller. Above all, the objectives of regulation was also to remove malpractices

### Regulated market

A regulated market is one which aims at the elimination of the unhealthy practices, reducing marketing charges and providing facilities to producer in the market. Any legislation measure designed to regulate the marketing of agriculture produce in order to establish, improve and enforce standard marketing practices and charges may be termed as market regulation. Market regulation is a state subject and regulated markets come under the control of State Government.

### Objectives of Regulated Market

More specifically, the major objectives of market regulation are;

- To prevail explanation of farmers
- To make marketing system effective and efficient.
- To provide incentive prices to farmers
- To promote an orderly marketing
- To improve marketing infrastructure

### Categories of regulated markets

#### Box 4.1

Super A	Income >Rs. 2.5 crores /year
Class A	Income Rs. 1.5-2.5 crores /year
Class B	Income Rs. 0.75-1.5 crores /year
Class C	Income Rs. 0.25-0.75 crores /year
Class D	Income Rs. 0.25 crores /year

### Number of regulated markets in India

Year	Regulated markets %
1951	230 (3.23%)
1990	6217 (65.25%)
2007	7465 (100%)

## **AGMARK Act**

### **Meaning**

The term 'AGMARK' was coined by joining the words 'Ag' to mean agriculture and 'mark' for a certification mark. This term was introduced originally in the bill presented in the Parliament of India for the *Agricultural Produce (Grading and Marking) Act*.

The entire system of AGMARK, including the name, was created by Archibald Macdonald Livingstone, Agricultural and Marketing Advisor to the Government of India, from 1934 to 1941. He was supported by a staff of several hundred. The system was designed to benefit local growers throughout India who were, in the absence of a certification as to quality, exposed to receiving less for their produce from dealers than its true worth. The AGMARK Act came into being in 1937.

**AGMARK** is a Certification Mark employed on agricultural products in India, assuring that they conform to a set of standards approved by the **Directorate of Marketing and Inspection**, an agency of the GOI. The AGMARK is legally enforced in India by the Agricultural Produce (Grading and Marking) Act of 1937 (and amended in 1986).<sup>[1]</sup> The present AGMARK standards cover quality guidelines for 205 different commodities spanning a variety of pulses, cereals, fruits and vegetables, vegetable oils, etc.

### **Testing, Research and Standardization Facilities**

Directorate of Marketing and Inspection has a set up for quality certification of agricultural produce through the net work of 22 Regional AGMARK Laboratories at different places in the country with Central Agmark Laboratory, Nagpur as the apex laboratory. These laboratories have been established to formulate standards and conduct physical and chemical analysis of agricultural and allied commodities in accordance with APGM Act 1937.

The Central AGMARK Laboratory has the following specialized commodity divisions for carrying out research and standardization work more efficiently.

- Agricultural Products (Foodgrains)
- Spices and Essential Oils
- Oils and Fats
- General Chemistry
- Livestock Products including microbiology
- Toxicology

### **Functions of Central AGMARK Laboratory:**

To work as apex laboratory for challenged sample under APGM Act 1937

- a) To evolve/standardize methods of analysis/tests of agricultural and allied commodities and meat products.

- b) To advise on technical matters to various quality control agencies and State Government Grading Laboratories, in relation to grading of various agricultural commodities, food under Agmark.
- c) Formulation of specifications for new commodities for bringing under the purview of Agmark.
- d) Revision of specifications of various agricultural, allied products, meat products etc. periodically.
- e) Training to the personnel engaged in the analysis of various commodities under Agmark.
- f) To create awareness with regard to grading, standardization and quality of various agricultural and food products.

<b>Box 4.2</b>					
<b>Grading Standards of Important Commodities in India</b>					
<b>Wheat</b>					
Grade Designation	Foreign matter (% by wt.)	Other food grains (% by wt.)	Other wheats (% by wt.)	Damaged grains (% by wt.)	Slightly damaged grains (% by wt.)
I	1.0	1.6	5.0	1.0	2.0
II	1.0	3.0	15.0	2.0	4.0
III	1.0	6.0	20.0	4.0	6.0
IV	1.0	8.0	20.0	5.0	10.0

**Note :** In foreign matter, not more than 0.25% by wt. shall be mineral matter and not more than 0.10% by wt. shall be impurities of animal origin.

<b>Paddy</b>				
Grade designation (1)	Special Characteristics			General Characteristics (5)
	Maximum limit of tolerance			
	Foreign Matter (% by wt.) (2)	Admixture (% by wt.) (3)	Damaged Immature, Weevilled (% by wt.) (4)	
I	1.0	5.0	1.0	a) be the dried mature grains with husk of <i>Oryza sativa, L</i> ; b) have uniform size, shape and colour; c) be hard, clean, wholesome and free from moulds, weevils, obnoxious smell, discolouration, admixture of deleterious substances and all other impurities except to the extent indicated in the Schedule; d) be in sound merchantable condition; e) not have moisture exceeding 14%.
II	2.0	10.0	2.0	
III	4.0	15.0	5.0	
IV	7.0	30.0	10.0	

The Regional AGMARK Laboratories are engaged in analysis of agricultural and food commodities for evaluating the quality of the product. The main activities of Regional Agmark Laboratories are as follows:

- Analysis of commodities covered under AGMARK
- Technical advice to approved grading laboratories

- Training of grading chemists of the private approved labs., State Grading Lab and other similar organization.
- Associate with Central AGMARK Laboratory, in collaborative studies/research/standardization work of various agricultural, food and livestock products.
- To organize Awareness programmes in grading, standardization and quality control.

**Box 4.3**

**Grade Standards of Apples**

Under AGMARK, only two Quality Grade Apples i.e. 'EXTRA FANCY' and 'FANCY CLASS 1' are offered for export. The broad parameters of the Quality are that the fruit must be sound, clean, fully developed, coloured, juicy and full of flavour and freshness.

Size of Apple	Diameter (mm)	No of Apple Pocket in a Tray	No of trays in a Carton	No of Apples in a Carton
Extra Large	80 to 85	20	4	80
Large	75 to 80	20	5	100
Medium	70 to 75	25	5	125
Small	65 to 70	30	5	150
Extra Small	60 to 65	35	5	175

**Indian Standards Institution (ISI)**

ISI was set up in 1947 with the achieve support of the industrial, scientific and technical organisations in the country. The ISI frames standards in consultation with, and as a result of the co- operations of the community- industrialists, scientists and public.

Standardisation plays a vital role in the industrial development of the country. A standard leads to the best utilisation of the human and material resources of a country.

The institution operates under an Act of Parliament (ISI Certification Mark Act) under which manufactured items are stamped with the ISI mark of certification.

This international organisation now has one lakh experts from 82 countries directly involved in its work, and help it to create more and better international standards.

The aim and objects of the ISI are:

1. Preparation of standards for products, commodities, materials and processes on national and international bases.
2. Promotion of the general adoption of the standards prepared by it at quality goods.
3. Certification of industrial products and assistance in the production of quality goods.
4. Dissemination of information relating to standards and standardisation.
5. Collaboration with international organisation dealing with standardisation for promotion of international trade.
6. Performing a watching function in regard to the quality of Indian exports

ISI also uses different media for public relations and publicity to spread the message of standardisation.

The Indian Standards Institution has been renamed as the Bureau of Indian Standards (BIS) w.e.f. April 1 1987. Along with the change in its name, its status and scope of activities have

also been enlarged. The Bureau of Indian Standards carry on all the functions of ISI as before with greater thrust to consumer protection, improving the level of quality of Indian products.

The Bureau has been established by the Bureau of Indian Standards Act, 1986 and has become a statutory body. As such all the activities of the bureau viz, standards formulation, product certification, quality assessment, testing and development of test methods have assumed statutory status.

**Some of the highlights of BIS activities are:**

- BIS has adopted IS/ISO 9000 series of standards. Now BIS quality certification is on the lines of international norms and is accredited by RVA Netherlands.
- With growing concern for environment friendly industrial activity, BIS has started ISI 14001 EMS certification.
- BIS also works as central enquiry point for WTO
- BIS has so far formulated more than 17000 standards.
- BIS has also formulated three Indian standards for water

**Mark of FPO**

The products carrying a mark of FPO in an oval with two hanging strips (Making inverted – V shape) is mandatory on packed containers of fruits and vegetables processed products. This indicates the quality of the product and conveys that the production of processed fruit products has been carried out under clean and sanitary conditions. This mark is issued by the Ministry of Food Processing Industries of Government of India, New Delhi.

**Box 4.4**

		
AGMARK- Quality assurance for agri-products	FPO Mark- Quality assurance for processed food products	ISI Mark- Quality assurance for industrial/manufactured products

**APMC Model Act- New Dimension in Marketing**

GOI has passed New APMC Model Act 2003 and asked the states to pass the similar acts in their respective states based on the Model Act. Himachal Pradesh passed and adopted APMC Act in 2005. The Act is known as The Himachal Pradesh Agricultural and Horticultural Produce Marketing (Development and Regulation) Act, 2005. The brief provisions of the Act are;

- Provision for development of efficient marketing system
- Promotion of agro-processing and agricultural exports
- Putting in place an effective infrastructural.

- Legal persons, growers and local authorities permitted to apply for the establishment of new markets
- No compulsion on the growers to sell produce through existing markets administered by APMC.
- APMCs have been made responsible for ensuring complete transparency in pricing system and transactions in market area, providing market-led extension services to farmers, publicizing data on arrivals and rates and promote public-private partnership in the management of agricultural markets.
- A new Chapter on ‘Contract Farming’ added to provide for compulsory registration of all contract farming sponsors, recording of contract farming agreements, resolution of disputes, if any, and to provide for indemnity to producers’ title/possession over his land from any claim arising out of the agreement
- Provision for the establishment of consumers’/ farmers’ markets to facilitate direct sale of produce to consumers.
- Market Committees permitted to use its funds for development of modern marketing system.
- The State Agricultural Marketing Board made specifically responsible for:
  - ✓ Setting up of a separate marketing extension cell to provide market-led extension services to farmers. Promoting grading, standardization and quality certification by setting up Agricultural Produce Marketing Standards Bureau.
  - ✓ Funds of the State Agricultural Marketing Board permitted to be utilized for promoting either on its own or through public private partnership, for the following: market surveys, research, grading, standardization, quality certification, etc.; development of quality testing and communication infrastructure, development of media, cyber and long distance infrastructure relevant to marketing and export of agricultural and allied commodities.

## Business Laws

There are many business laws enacted in the country for manufacturing and sale of products. Some of these laws along with their brief discussion are given below.

Sr. no.	Business laws	Brief discussion
1	Factory Act 1948	A factory is a premises where ten or more persons are engaged and power is used or 20 or more person are engaged without use of power in a manufacturing process.  The state government is empowered for approval licensing and registration of factories. The act also makes detailed provisions to various matters relating to help safety and welfare of the workers.
2	The workman Compensation , 1923	This act has been passed by the Govt. of India for ensuring the social security of the workman. The act is applicable to the whole of India and it applies to the workers employed in the factories, mines, plantations transports, construction work and



	and  The Employees State Insurance Act, 1948	other hazardous occupations. The compensation has been paid to the workers depending upon the nature of injuries resulting into partial or permanent disablement.  This act is a piece of social security legislation that every employer has to provide to its employees against sickness maternity and other disabilities caused at the time of working in the company. This act extends to whole of India and applies to all factories
3	Payment of Wages Act, 1936  and  The Minimum Wages Act, 1948	This act is applies to the payment of wages employed in the any business establishment. This act is not applicable to the persons who are employed permanently and whose wages exceed Rs.6500 per month. According to this act every employer shall be responsible for the payment to person employed by him of all wages required to be paid under the Payment of Wages Act.  Under this act every employer shall maintain register and records of the persons employed by him.  The objective of this act (Minimum Wages Act, 1948) is to secure the welfare of the workers in the competitive market by fixing the minimum rates of wages. This act embodies the various provisions for fixing of minimum rate of wages, revision of wages, time duration of working etc.
4	Indian's Company Act, 1956  Partnership Act, 1872  Food Safety and Standard Regulation Act, 2011  SEZ Act, 2005	Includes Company laws like registration the company, regulation and administration of the company  Rules and regulations about proprietorship and partnership  Includes food products and additives, containments toxins and residuals regulation, laboratory testing and sample analysis.  Establishment and operation of SEZ in India.

## Consumer Protection

Consumer protection laws are a form of government regulation, which aim to protect the rights of consumers.

Consumer protection is a group of laws and organizations designed to ensure the rights of consumers as well as fair trade competition and the free flow of truthful information in the marketplace.

## **Consumer Protection Act, 1986**

An Act to provide for better protection of the interests of consumers and for that purpose to make provision for the establishment of consumer councils and other authorities for the settlement of consumers' disputes and for matters connected therewith.

Citation	Act No 68 of 1986
Date commenced	24 December 1986

## **State Consumer Protection Council**

It is established by the State Government which consists of the following members:

- The Minister in charge of consumer affairs in the State Government – Chairman.
- Such number of other official or non-official members representing such interests as may be prescribed by the State Government.
- Such number of other official or non-official members, not exceeding ten, as may be nominated by the Central Government.

## **Objectives of Central Council**

The objectives of the Central Council are to promote and protect the rights of the consumers such as:

- a) The right to be protected against the marketing of goods and services which are hazardous to life and property.
- b) The right to be informed about the quality, quantity, potency, purity, standard and price of goods or services, as the case may be so as to protect the consumer against unfair trade practices.
- c) The right to be assured, wherever possible, access to a variety of goods and services at competitive prices.
- d) The right to be heard and to be assured that consumer's interests will receive due consideration at appropriate forums.
- e) The right to seek redressal against unfair trade practices or restrictive trade practices or unscrupulous exploitation of consumers
- f) The right to consumer education.

## **Consumer Disputes Redressal Agencies**

**District Consumer Disputes Redressal Forum (DCDRF):** Also known as the "District Forum" established by the State Government in each district of the State. The State Government may establish more than one District Forum in a district. It is a district level court that deals with cases valuing up to 20 lakh.

**State Consumer Disputes Redressal Commission (SCDR):** Also known as the "State Commission" established by the State Government in the State. It is a state level court that takes up cases valuing less than 1 crore.

**National Consumer Disputes Redressal Commission (NCDRC):** Established by the Central Government. It is a national level court that works for the whole country and deals with amount more than 1 crore.

### **Consumer Rights in India**

The definition of Consumer right is 'the right to have information about the quality, potency, quantity, purity, price and standard of goods or services', as it may be the case, but the consumer is to be protected against any unfair practices of trade. It is very essential for the consumers to know these rights. These rights are;

- The right to be protected from all kind of hazardous goods and services
- The right to be fully informed about the performance and quality of all goods and services
- The right to free choice of goods and services
- The right to be heard in all decision-making processes related to consumer interests
- The right to seek redressal, whenever consumer rights have been infringed
- The right to complete consumer education

## UNIT-V

### SALES PROMOTION

#### -Sales forecasting; marketing planning; marketing strategy; new product development, pricing strategy for new products, product life cycle (PLC)

#### Product Life Cycle (PLC)

#### Product Planning and Development Process

Different steps in product planning and development are outline below

1. **Generation of an idea of a new product:** This is the first foremost step in product development. To conceive an innovative idea about a new product. There may be different alternative ideas.
2. **Screening of the idea:** this step is followed in order to know whether it is feasible, creative or innovative and practically applicable/realistic or not.
3. **Concept development:** This includes type of production quality image engineering aspects etc.
4. **Testing the concept:** the concept is tested for its validity and most appealing and feasible concept is chosen
5. **Development of marketing strategies:** To develop a marketing mix to take the product to the customers. this may include application of different strategies and marketing mix
6. **Business analysis of strategies:** this step includes demand estimation/ forecasting profit estimation, break even analysis, risk analysis etc.
7. **Product development:** After assuring that all the six steps are confirmed ultimately the product is developed as per approved plan, its size, colour, packaging, quality testing and branding
8. **Quality testing of product:** generally there are three testes are followed to check the quality of the test

$\alpha$  test: Testing within the company itself

$\beta$  test: Testing the product with the selective customer who have good knowledge of quality

Customized test: In this test the product is popularized in a given area and the feedback is obtained and improvement made if any

- 9 **Test marketing:** It is very important phase of product development and marketing. There sure different standard tests such as full marketing campaign this is done in selective area or market where the product is launched

- 10 **Control test market:** The product launched in the fewer stores in few towns and is monitored for its performance.
- 11 **Sales wavered search:** this test is done to know the effect of pricing strategies like price discount, quantity discount, special occasion discounts etc. on volume of sales.
- 12 **Simulated market test:** This test is done in a simulated environment along with customers which is close to the real situation.

## **Product Life Cycle (PLC)**

Product life cycle (PLC) is the cycle through which every product goes through from introduction to withdrawal or eventual demise.

### **Significance of Product Life Cycle (PLC)**

PLC analysis, if done properly, can alert a firm or a company as to the performance of the product in relation to the market it serves. PLC also forces a continuous scan of the market and allows the business firm to take corrective action faster.

The product life cycle is an important concept in marketing. It includes stages that a product goes through from when it was first thought of until it is eliminated from the industry. Not all products reach this final stage. Some continue to grow and others rise and fall.

### **Stages of PLC:**

There are four distinct stages in PLC. These are described briefly as under;

#### **Development Stage**

In the development stage, the product goes through testing and a prototype is developed. This is after considerable market research to identify consumer needs and wants. If the product is deemed commercially viable, then the product may be put into mass production and launched. At this stage expenditure for the company is high but no income is being received as there are zero sales.

#### **Introduction Stage**

This is the stage in which a new product is first made available in the market. In the introduction stage, product is a super speciality product, customers are few, competition is less, sales are low, risk is high and profits are low or nil. There are heavy distribution and promotion expenses. This stage is full of risks and uncertainties. Prices are also high because (1) costs are high due to low level of output.(2) technological problems in production may not have been solved, and (3) high profit margins are required to support the heavy promotion expenditure. Sales take off slowly in this stage and the need is to create awareness, not profits.

#### **Growth Stage**

In this stage, the product becomes more popular among consumers, and sales will start rising. It may be a rapid growth or a slower one. In this stage, sales take off, the market knows more

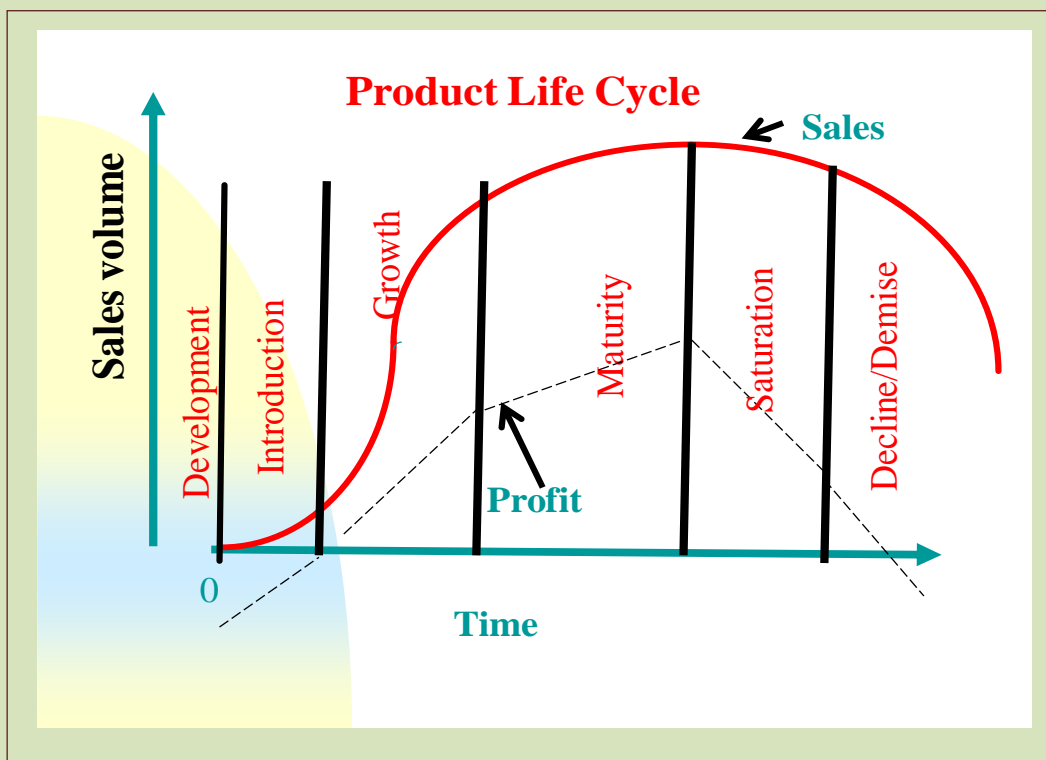
about the product; profits begin to come in and market share stabilize. Advertising is often substantial at this stage.

### **Maturity**

Once the product is well established and consumers are satisfied, then the product is widely accepted and growth slows down. The product no longer is a speciality and it becomes a commodity. Before long, however, a successful product in this phase will come under pressure from competitors. The producer will have to start spending again in order to defend the product's market position or introduce extension strategies. In this stage, sales grow at slowing rates and finally stabilize. It may only be in the maturity stage where companies will receive a return on their original expenditure and investment due to potentially high adoption rate and economies of scale. At the very end of the maturity stage, and where there is no further growth possible, saturation occurs. This is also referred to as Saturation Point.

### **Decline/Demise Stage**

The fourth stage is decline. Here, sales drop, as consumers may have changed and the product is no longer relevant or useful. Sooner or later sales and profits fall due to changes in consumer tastes or new choices are available from competitor's products. Some new, better and cheaper substitute may be developed. Price wars continue, several products are withdrawn and cost control becomes the way out for most products in this stage. Again, the company has to go in for new product design or quality to keep the product alive. These states are shown in figure below;



### **Sales Promotion**

Sales promotion may be defined as the coordination of all seller initiated efforts to set up channels of information and persuasion to facilitate the sales. Sales promotion is an exercise

in information, persuasion and influences the prospective customers to buy a commodity or a service.

### **Objectives of Sale Promotion**

1. To introduce new products
2. To increase the number of potential of customers through communication and information system.
3. Bring an improvement in physical distribution through expended limits of markets.
4. The wholesalers and retailers also need to be informs of benefits of the product quality of the product and techniques of use etc.
5. When the sales begin to decline there is a need to work out promotion programme to restore the demand of the product.

### **Sale Promotion Mix**

Sale Promotion Mix is generally included advertising personal selling and sales promotion. It is combination of use of different media of information and communication. The sale promotion strategy is depends upon four factors.

1. Nature of the product
2. Nature of the customer
3. Life cycle of the product
4. Funds available for sales promotion.

### **Sales promotion strategies**

1. Identify the audience to be reaching and pin point the single selling idea depending upon customer needs and attitudes.
2. Create the most effective and appealing expression of idea such that message is clear distinctive and conveycing.
3. Find the most effective media of communication that is best capable of carrying the massage to large number of people with minimum cost.
4. Eliminate uncertainty as far as possible by assuring technical advice and clear presentation of the results.

### **Merchandising and Sales Policies**

Dealing with the planning and supervision involved in marketing the goods and services at the places, prices time and in the quantity which will best serve to realise the marketing objectives of the business.

The following are the component of sales merchandising and sales policies;

- 1. Packaging:** Packing is the general group of activities which concentrate in formulating a design of the package, and producing an appropriate and attractive container or wrapper for the product. The major functions of packaging are containment, protection of the product, identification in the store or shop, convenience in handling, attractive appearance and promotional; appeal of a brand. The good packaging may lead to increased sales and profits.

**2. Labelling:** Label is a part of the product which carries verbal information about the product of the seller. It may be a part of a packaging. A brand label specifies brand of the product, grade label identifies the quality as A, B, C and a descriptive labels may give the written illustrative and other features of the product.

Marking means putting some identification mark of the packages during transportation and storage.

**3. Branding:** Branding is a term use to identify the products while branding a practice of identifying the product by a special name of a symbol. Brand equity means the faith or loyalty of a customer in a particular brand. Therefore brand is a name term symbol or design to identify the goods or services of company and to differentiate from other. A brand name may be a personnel name company name and a dictionary word. Branding is very important for sales promotion for a seller it works as vehicle of goodwill, f or consumers brand name ids a mark of originality and quality. The brand is often of greater help in demand stimulation. Therefore, the brand name should be attractive, short, suggestive and easy to master.

A trade may also or may not present the brand. A trade mark is any sign, mark or symbols that indicate the ownership of the product. A trade mark must be registered and it cannot be copied by other firm. The trade mark and branding create a sort of monopoly for selling a particular product.

**4. Warrantee or guarantee:** A Warrantee is assurance of quality service and performance given by the producer or manufacturer to the consumer. It is a written guarantee and points out the responsibility of the maker for repairs service and maintenance in case of durables.

On the other hand guarantee is the promise given by the supplier to replace the product within a specified period if found defective. The guarantee and warrantee ensure the integrity and credibility of the firm and act as sales stimulators.

**5. Sale promotion by sampling:** sampling is also a trade custom and a mean of advertising. Many companies provide a sample of a product before its actual purchase.

**6. Sale promotion by pricing policies and terms of payments:** Many companies offer various types of discounts such as price cuts, quantity discounts, trade discounts, gift hampers, special occasion discounts etc. and frame price policy accordingly. Different types of prices strategies are used to increase sales profits.

## **Sales Forecasting**

Forecasting is the estimation of future conditions in markets. Forecasting is important for decisions making and planning of formulating marketing strategies.

### **Role of forecasting in business**

1. Understanding changes
2. determining the critical failures of changes
3. Selecting and compiling data to be collected.
4. Analysing data



### Sources of sales forecasting:

- Past sales and trends
- Market survey by sales men
- Consumers survey
- Test marketing results
- Executive judgement

### Methods of forecasting

- 1. Business barometer:** In this method indices are worked out and based on these indices the volume of sales is projected.
- 2. Extrapolation:** This is the simplest method in which it is assumed that variable will follow established pattern. The trend curves can be used. n some of the tools used are
  - i. Arithmetic trend:** i.e. series will grow by constant amount.
  - ii. Semi log trend:** Series will increase by constant per cent each year.
  - iii. Modified exponential trend:** that growth will be a constant per cent less than 100
  - iv. Logistic trend:** having lower asymptotic and upper asymptotic values
- 3. Regression Analysis:**  $Y = a + bx$   
Where Y is dependent say volume of sales, X independent variable say time, a is a constant and b is rate of change in sales per unit time.

### Market Segmentation

Market segments are grouping of two or more consumers for a product or service, so that their needs are better served.

According to W. J. Stanton 'Market segmentation consists of taking the total, heterogeneous market for a product and dividing it into several sub- markets or segments each of which tends to be homogeneous in all significant aspects'.

### Advantages of Market segmentation

- Spotting and comparing market opportunities by examining the needs of each segment and how far these needs are being tried to be satisfied.
- Using knowledge of the marketing response differences of various consumers the seller may decide how much market funds may be allocated to different segments.

# Basis of market Segmentation

## Geographic

Zones Villages Cities Density Climate  
Region

## Demographic

Age Sex Education Income Occupation Religion Family  
Size

## Psychographic

Compulsiveness Gregariousness Autonomy Conservation Leadership Authoritarianism Ambitiousness

## Buyer Behaviour

Using Rate Readiness Stage Benefits Sought End use Brand Loyalty Market factor

# **UNIT-VI**

## **PHYSICAL DISTRIBUTION AND SUPPLY CHAINS**

### **-Distribution channels, marketing models, pricing; advertising management-communication, publicity; sales promotion- importance**

Physical distribution can be defined as those activities involved with the storage and movement of products from the producers to the consumers.

Physical distribution creates 'time' and 'place' utility, which maximizes the value of products by delivering them when and where they wanted.

#### **The basic elements that make up physical distribution**

- Materials handling
- Inventory planning and Control
- Other Processing
- Transportation
- Communications
- Organisational structure

#### **Objective of Physical Distribution**

- To provide better customer services by improving the physical distribution system, the firm's promotional efforts are strengthened.
- To increase sales, by making certain that basic products in regular demand are always available and plans for quick order processing of items.
- To reduce cost, by managing the physical distribution system the optimum number and location of warehouses, improving material handling and using sealed containers to ship products.

#### **Marketing Strategies**

1. Product Planning and Development
2. Quality Management
3. Marketing Mix
4. Packaging
5. Labeling and Branding
6. Market segmentation

#### **Marketing Agents of Distribution Channels**

Marketing agent is one who specializes in performing marketing operations or rendering services that are directly involve in sale and purchase of goods.

Different types of marketing agents are

- A. Agent middlemen
- B. Merchant middlemen
- C. Processors
- D. Speculators
- E. Facilitative agents

**Agent middle men** are those who perform business on behalf of their clients (seller or buyer) but do not take the title or own the produce. Different types of agent middlemen are

- i. Commission agents (Arthtyas) act on behalf of the seller produce and charge commission either from the seller or buyer or from both. Kacha Arthtya who perform on behalf of produce. He may also advance loans to the producers. They may be having their own or rented market yard or shop. Pucca Arthtya performs on behalf of traders or millers. Sometimes the wholesalers may also employ them for the procurement of produce
- ii. Brokers: They have no their own shop or establishment. They bring together buyer and sellers. Brokers also do not take title of goods and receive brokerage from buyer or seller or both.

**Merchant middlemen:** are the traders who take title of the good they purchase. They buy or sell and are accountable for both profit and loss. There are different type of merchant middle men and some of are as follows

- Local trader or village trader: Local trader is a small businessman. he purchases the produce from the producers in the local area and may sell either in the local market or in the distant markets.
- Itinerant: are the village merchant who moves from place to place and collect the produce for further sale in the markets.
- Wholesalers: are the traders who buy and sell in bulk. They sell the goods from larger area. They are key functionaries in the marketing chains performing important functions like assembling, grading, storage, financing, regulating the flow of commodities or goods. They have a large network of facilitating agents infrastructure and their own establishment
- **Retailer:** is a trader who operates in the consuming market. He sells the commodity in small quantity or packs to the consumers. He is the most intimately linked with the consumers and play important role in demand creation and price determination. the retailer are of different types as under
- **Hawker:** who sells the commodity by moving from place to place.
- **Mashakhore:** is a big retailer or a small wholesaler. He purchases either from commission agent or wholesalers and supplies to bulk consumers like army cantonments, hotels, hospitals etc.

**Processors:** change the form of the commodities they take title of the produce and process into final products though there may be tiny or small processing units providing custom processing services. The processors may be intermediate processors or the main processors.

The intermediate processors process the semi finished products like cane crushers, fermented products, additives, preservatives etc. The main processors manufacture final or the end products like rice mills, bakery products, vegetable and food products, spices and condiments, milk products, confectionery items etc.

**Speculator:** Speculator is a special type of trader who takes title of the produce with a view of making profit. He may or may not be a regular buyer or seller. He is specialized in risk taking and earn profit from 'wind –fall gains' due to fluctuation in prices.

**Facilitating middlemen:** These are the class of middlemen who do not buy or sell but facilitate in marketwise business. These are the; *Hamals* (labourers), weighmen, graders/ tasters, transport/ forwarding agents, consultants, accountants, advertising agency, auctioneers etc.

## Marketing Channels

When the product is finally ready for the market it has to be determined what methods and routes will be used to bring the product to the market and to the ultimate consumers. A channel of distribution for a product is the rent taken by the goods and services as they move from producer to the consumer.

According to Cundiff E.W., "A marketing channel may be defined as the path traced in the direct or indirect transfer of product as it moves from a producer to ultimate consumers".

Backmann, G.N and Maynard, H.M., "The course or path taken by a commodity constitutes a channel of distribution"

According to American Market Association "A market channel is the structure of various agents or dealers through which a commodity, product or a service is marketed"

In general, a market channel is a group of interrelated intermediaries who direct products to consumers or channel means the pathway followed in the direction of goods and services from place of production to ultimate consumers.

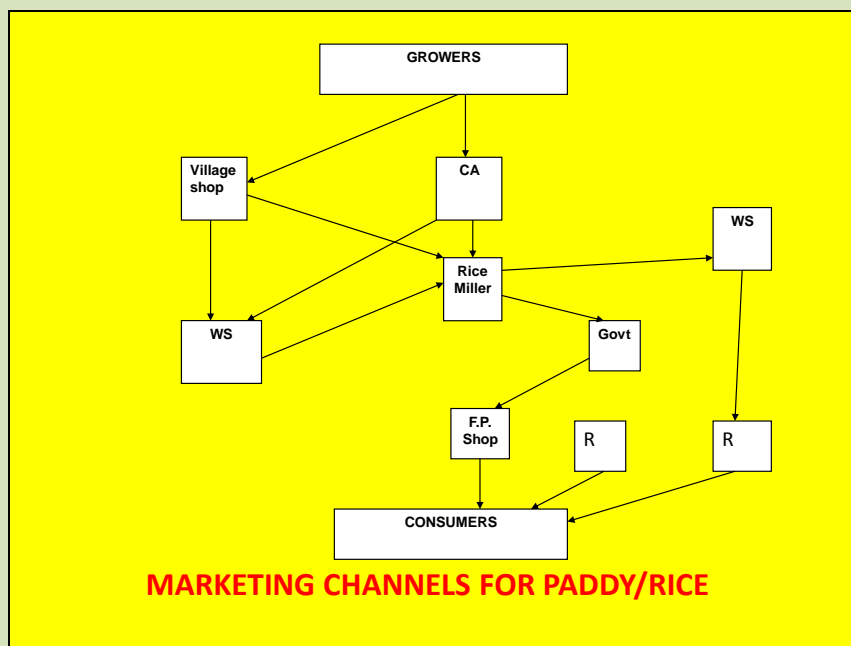
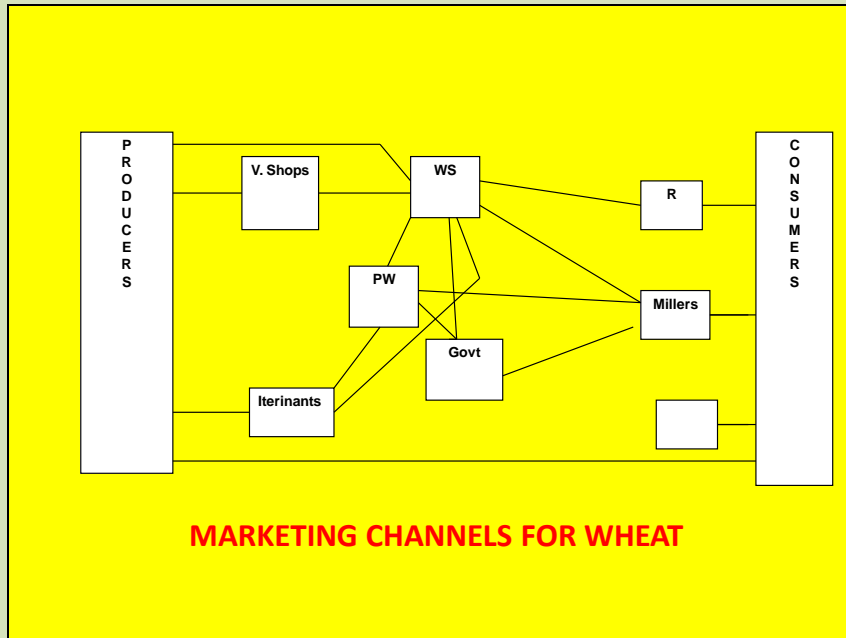
### Types of channels of distribution

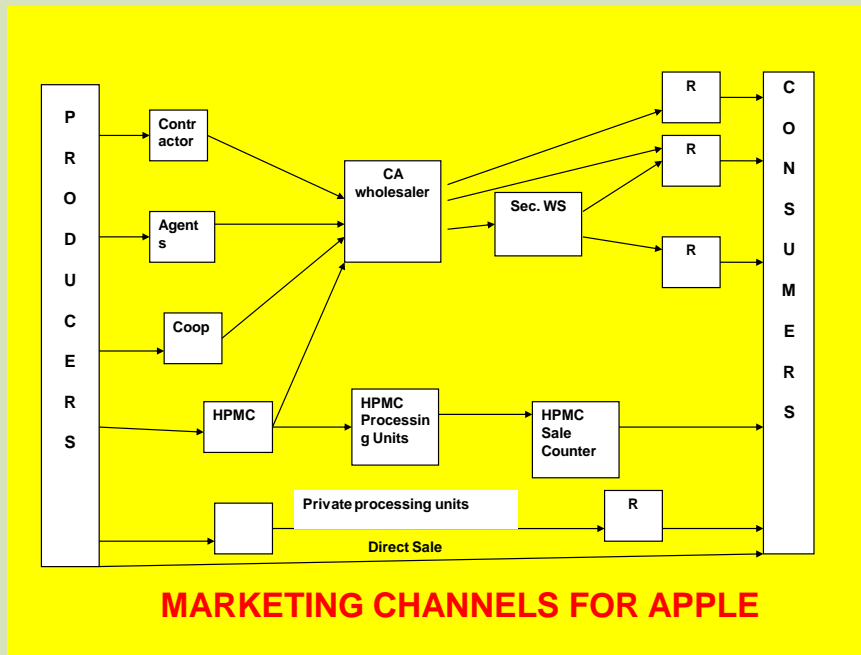
Different marketing agents solely or collectively form a supply chain or channel. The number of middlemen may vary depending upon the type of marketing strategy of a firm. The cost of marketing largely depends upon the type of distribution channel adopted. Generally, longer the channel higher the marketing cost. There can exist many distribution channels for a single commodity. Few of these can be;

1. Producer-----Consumer (no Middlemen)
2. Producer-----Retailer-----Consumer
3. Producer----- Wholesaler-----Retailer-----Consumer
4. Producer-----Coop Marketing Society----- Wholesaler-----Retailer-----Consumer
5. Producer----- Commission Agent-----Wholesaler-----Retailer-----Consumer
6. Producer----- Itinerants-----Wholesaler-----Retailer-----Consumer
7. Producer----- Primary Wholesalers----Secondary Wholesaler-----Retailer-----Consumer
8. Producer----- Primary Wholesaler-----Miller-----Consumer

9. Producer----- Primary Wholesaler-----Govt. Procurement-----Miller-----Fair Price Shops-----Consumers (wheat and paddy)

The following flow diagrams show the marketing channels adopted for sale of wheat, paddy and apple. The readers are advised to write down different channels from these figures





## Marketing Models

### Cooperative Marketing Model

Cooperative marketing composed of two words – Cooperative or cooperation & marketing.

Cooperative means a form of association of people to work together to achieve, a particular end, and marketing connotes all business activities involved in flow of goods and services from the point of production until they are in hands of consumers

Cooperative marketing refers to advertising and promotional programmes in which two or more organizations such as manufactures and retailers combine their resources.

Cooperative marketing is term used in the world of business advertisement to mean marketing initiative that involves more than institutions

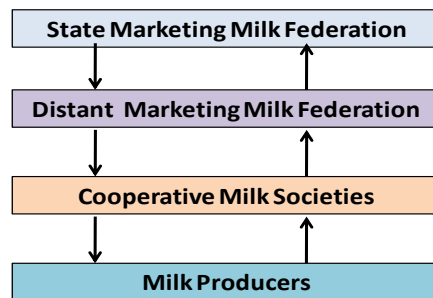
### Scope for the Development of Cooperative Marketing

- There is a great scope for the development of cooperative marketing societies, in the first place, there is the necessity to co-ordinate better farming, finance & marketing. At present efforts are being made to have one society which will perform all the three services for the farmers.
- The marketing societies should undertake processing of agricultural goods, several agricultural goods can be more favourable marketed if they are processed before sale.

### Importance of Cooperative Marketing

- Proper reward of production
- Storage facility
- No middlemen
- Elimination of speculation

## Cooperative Milk Marketing Model In Himachal Pradesh



### Contract Farming/Marketing Models

A contract is an agreement made between two or more parties enforceable by law. An agreement is defined as every promise and every set of promises, forming the consideration for each other. An agreement is again of two components viz; offer and acceptance. An agreement is a very wide term. It may be a social agreement or a legal agreement. All contracts, therefore, are agreements but all agreements are not contracts.

Contract farming can be defined as a system for the production and supply of agricultural produced under forward contracts, the essence of such contracts being a commitment to provide agricultural commodities of a type, at a time and a price, quality required by known buyers. It basically involves for things pre-agreed price, quality, quantity or acreage (minimum/maximum) and time. Contract farming may exist between a farmer and a cooperative or processing organization, for example, to grow seeds of potatoes or vegetables etc., these are commodities, which are often brought in advance, and on a certain level of quality.

Corporate farming and contract farming are the means for facilitating the entry of the corporate sector into agriculture. The multinational companies (MNCs) have entered India's country side in a big way, by taking part in wasteland development and also by linking their processing activities with direct agricultural production after the introduction of liberalization, privatization and globalization policy in the country.

Generally three types of price fixation models are observed in contract farming in the country and these are:

- Pepsi model
- Tripartite model
- Tamil Nadu (T.N.) model.

#### Pepsi Model

Pepsi model of price fixation is decided directly between producer and company. Farmer entered into contract production due to incentive price and assured market. The individual farmer is not able to bargain with company on equal footing. Since the nature of contract and



terms and conditions of contract are decided arbitrarily and can hastily be distorted in favour of company. This is the most exploitative model prevailing in contract farming.

### **Tripartite Model**

Tripartite price model is generally followed for procuring quality raw material in agri-export zones for exporting the finished products. The procuring/processing firms made contract with producer and price is decided by government agency after consultation with both the parties. None of the parties can breach the contract and is liable to penalty in case of noncompliance of terms and conditions of contract. Here the contract is enforced by government agency.

### **Tamil Nadu (T.N.) Model**

Tamil Nadu is the only state in the country that has enacted act on contract farming. In T.N. model, the producer and company are free to set price as they mutually agreed upon. Once the price is discovered has to submit to enforcement officer of state government. Arbitration is a method of settling out of court disputes and differences between two or more persons through another independent and impartial person if there is breach of contract by either party. The award is given by law enforcement agency after proper investigation and hearing. Both parties are liable to comply with the final award of arbitrator.

### **Strengths of Contract Farming**

- Acceleration of technology transfer.
- Increased private capital flows in agriculture.
- Assured markets for crops such as oilseeds, cotton and horticulture through contract farming system
- By contract farming farmers are able to access of technology, supply of inputs and extension services.
- Contractors got a guaranteed and steady source of supply, which allowed investment in large scale processing system.
- Contract farming is an essential for entrepreneurs
- Farmers have to exercise extra care to maintain the pre-agreed quality, results in reduction of both production and price risks.

### **Weaknesses of Contract Farming**

- The distribution of risks depends largely on such factors as bargaining power, availability of alternatives and access to information, which are generally lacking with farmers.
- For contracted growers it often brings strict production regimes and oppressive new forms of management.
- The core question pertaining to contract farming relates to the ownership of decision making where decision making is partly removed from farmers, there arise issue of sustainability of field crops in long run.
- Mono-culture breeds insect-pest and waste resources.

- There is lack of statutory validity of the contract and mechanism for redressal of grievances of parties due to any breach of contract.

### **Suggestions**

- Agriculture Produce Marketing Act will be amended to enable farmers to sell directly to contractors/processors.
- A suitable legal framework needs to be put in place to ensure smooth operation of otherwise potentially sound concept of contract farming.
- It must be proposed to development of product specific regions linked to export channels.
- Prices of the produce must be reviewed and renewed every year.
- Shift from a piece meal approach to an integrated chain and look at all aspects for a particular produce.
- Shift of focus from production to market based on principle of comparative advantage.

### **Some Innovating Marketing Models (Direct Marketing)**

#### ***Apni Mandi/Kisan Mandi***

Apni Mandi concept was started in Punjab in 1987. Now this model is functioning in many states. Market committee allots certain area; provide sheds, water, counters and other facilities to farmers though there is resistant from traders. APNI Mandi model ensures direct contact between producer to consumer

#### **Objectives of Apni Mandi**

- i. Better and efficient marketing of agricultural commodities
- ii. Higher producer's share
- iii. Ensuring direct contact P-C
- iv. Ensuring the availability of fresh fruits marketing.
- v. Ensuring farmers to participate in retailing
- vi. Additional employment to producers
- vii. National integration, selling produce in other states in Apni Mandi

#### **Hadaspar Vegetable Market**

This is another model market concept for direct marketing of vegetable in Pune city Maharashtra. There are no middlemen. Buyers purchase in the lot of 100 no. or 100kg. The payment is made directly to farmer. The purchaser is allowed to leave the market after showing sale bill. If dispute any, is settled by supervisor of market committee. Market fee is 1% for service provided.

#### **Rythu Bazar**

In major cities of AP with main objectives of direct link between farmers and consumers in marketing of fruits and vegetable produces shows is quite high (15-40% more than common channels) and consumers get fresh vegetables at 20-35% cheaper rate.

Rythu Bazar started functioning in AP in 1999. Within five years there were 96 Rythu Bazar operating in 23 districts of AP. Major features are:

1. The farmers themselves decide prices on the basis of prices in wholesale/retail markets.
2. District collectors are making land available
3. Permanent infrastructure by APMC
4. Producers in notified area provided photo identity cards and are permitted to sell vegetables & fruits
5. State govt. arranges special buses
6. Coordination among revenue, market & Horticulture Department for smooth functioning
7. Vegetable production programme is taken by Horticulture Department to ensure regular supplies of vegetables and fruits..

### **Uzhavar Sandies**

Uzhavar Sandies (Farmer's Market) were established in selected MC and Panchayat area of Tamil Nadu by State Govt. farmers enjoy better market infrastructure free of cost and received better prices. Farmers also benefit from mutual interaction with other farmers and govt. officials. They get good quality seeds & other inputs in market yard itself.

### **Shetkari Bazar**

Shetkari Bazar in State of Maharashtra for direct marketing of fruits & vegetables

### **Krushak Bazar**

On the idea of Rythu Bazar, Krushak Bazar concept was established in Orissa in 2000-01. The major features are;

1. The govt. provides: 1-2 acres of land at suitable place free of cost for Krushak Bazar
2. Cluster of villages and farmers growing vegetable are identified
3. They are allowed to use market facilities so that there is no intervention of middlemen.
4. Public facilities- drinking water, electricity, canteen, rest house provided to farmers.
5. Inputs supplied
6. Storage facilities

### **Safal Market**

*Safal* Market is an innovative concept implemented by NDDDB to introduce a transparent and efficient platform for marketing of fruits and vegetables by connecting farmers to market through growers associations. NDDDB started a retail chain in fruits & vegetables in Delhi. Vegetable and Fruit Promotion Council, Keralam (VFPCCK) in Kerala State under Kerala Horticulture Development Programme. The markets are made by the farmers. So far more than 300 Karshaka Sangam each having 15-20 SHGs of farmers under them. Farmers bring their produce to Swasraya Karshaka Sangam (SKS) where it is auctioned to highest bidder. VFPCCK-SKS-SHG model has helped more than 1 lakh producers.

VFPCCK has organized SHG as a basic local unit. Now nearly 5800 SHGs & about 1.11 lakh producers, now institutions enjoys collective bargaining strength, quality inputs sourcing,

advanced production technology micro finance & development of farmers markets. The market information centre (MIC) makes available the daily market prices.

### **Sale Promotion with Advertising**

Advertising is mass paid communication, the ultimate purpose of which is to promote sales of the product(s). Advertising are of non-personal methods of stimulating sales

Media: Press, newspapers, magazines, journals, direct mails, outdoor or traffic, radio, TV, movie slides, House to house, dealer aids, brand ambassadors.

BBB (Better Business Bureau) and AAE (American Adv. Federation) have prepare the following code of advertising

- Truth
- Responsibility
- Haste and decency
- Disparagement, advertising on merit refrain from attacking competitors
- Avoid misleading claims
- Avoid use of improbable claims
- Creative code
- Educational

### **Suggestions to reduce marketing costs**

- i. Increasing efficiency
- ii. Regulation and control
- iii. Market information

### **Pricing Strategies/Methods**

A business firm can use a variety of pricing strategies when selling a product or service. The price can be set to counter the competitor and to maximise profitability for each unit sold or from the total market. It can be used to defend an existing market from new entrants, to increase market share within a market or to enter into a new market. The business firms may benefit from lowering or raising prices, depending on the needs and behaviours of customers and clients in the particular market. Finding the right pricing strategy is an important element in running a successful business enterprise. Following are the different methods of pricing that a firm can adopt keeping in view the market position:

#### **Absorption pricing**

Types of pricing in which all costs are recovered. The price of the product includes the variable cost of each item plus a proportionate amount of the fixed cost and is a form of cost-plus pricing

#### **Margin-based pricing**

Contribution margin-based pricing maximizes the profit derived from an individual product, based on the difference between the product's price and variable costs (the product's contribution margin per unit), and on one's assumptions regarding the relationship between the product's price and the number of units that can be sold at that price. The product's

contribution to total firm profit (i.e. to operating income) is maximized when a price is chosen that maximizes the following: (contribution margin per unit)  $\times$  (number of units sold).

### **Cost-plus pricing**

A company first determines its break-even price for the product. This is done by calculating all the costs involved in the production, marketing and distribution of the product. Then a markup is set for each unit, based on the profit the company needs to make, its sales objectives and the price it believes customers will pay. For example, if the company needs a 10 percent profit margin and the break-even price is Rs. 5, the price will be set at Rs. 5.50 (i.e.  $5 \times 1.10$ ).

### **Skimming the market pricing**

In most skimming, goods are sold at higher prices so that fewer sales are needed to break even. Selling a product at a high price, sacrificing high sales to gain a high profit is therefore "skimming" the market. This strategy is often used to target "early adopters" of a product or service having a higher disposable income. This strategy is employed only for a limited duration to recover most of the investment made to build the product.

### **Freemium**

Freemium is a business model that works by offering a product or service free of charge (typically digital offerings such as software, content, games, web services or other) while charging a premium for advanced features, functionality, or related products and services. The word "freemium" is a portmanteau combining the two aspects of the business model: "free" and "premium". It has become a highly popular model, with notable success.

### **High-low pricing**

Method of pricing for an organization where the goods or services offered by the organization are regularly priced higher than competitors, but through promotions, advertisements, and or coupons, lower prices are offered on key items. The lower promotional prices are designed to bring customers to the organization where the customer is offered the promotional product as well as the regular higher priced products.

### **Limit pricing**

A limit price is the price set by a monopolist to discourage economic entry into a market, and is illegal in many countries. The limit price is the price that the entrant would face upon entering as long as the incumbent firm did not decrease output. The limit price is often lower than the average cost of production or just low enough to make entering not profitable. The quantity produced by the incumbent firm to act as a deterrent to entry is usually larger than would be optimal for a monopolist, but might still produce higher economic profits than would be earned under perfect competition.

### **Loss leader pricing**

A loss leader or leader is a product sold at a low price (i.e. at cost or below cost) to stimulate other profitable sales. This would help the companies to expand its market share as a whole.

### **Marginal-cost pricing**

In business, the practice of setting the price of a product is done to equal the extra cost of producing an extra unit of output. By this policy, a producer charges, for each product unit sold, only the addition to total cost resulting from materials and direct labour. Businesses often set prices close to marginal cost during periods of poor sales.

### **Market-oriented pricing**

Setting a price based upon analysis and research compiled from the target market. This means that marketers will set prices depending on the results from the research. For instance if the competitors are pricing their products at a lower price, then it's up to them to either price their goods at an above price or below, depending on what the company wants to achieve.

### **Pay what you want**

Pay what you want is a pricing system where buyers pay any desired amount for a given commodity, sometimes including zero. In some cases, a minimum (floor) price may be set, and/or a suggested price may be indicated as guidance for the buyer. The buyer can also select an amount higher than the standard price for the commodity.

### **Penetration pricing**

Penetration pricing includes setting the price low with the goals of attracting customers and gaining market share. The price will be raised later once this market share is gained.

### **Premium pricing**

Premium pricing is the practice of keeping the price of a product or service artificially high in order to encourage favourable perceptions among buyers, based solely on the price. The practice is intended to exploit the (not necessarily justifiable) tendency for buyers to assume that expensive items enjoy an exceptional reputation, are more reliable or desirable, or represent exceptional quality and distinction.

### **Price discrimination**

Price discrimination is the practice of setting a different price for the same product in different segments to the market. For example, this can be for different classes, such as ages, or for different opening times.

### **Price leadership**

An observation made of oligopolistic business behaviour in which one company, usually the dominant competitor among several, leads the way in determining prices, the others soon following. The context is a state of limited competition, in which a market is shared by a small number of producers or sellers.

### **Psychological pricing**

Pricing designed to have a positive psychological impact. For example, selling a product at Rs. 299.99 rather than Rs. 300. A minor distinction in pricing can make a big difference in sales. The company that succeeds in finding psychological price points can improve sales and maximize revenue.

### **Target pricing**

Pricing method whereby the selling price of a product is calculated to produce a particular rate of return on investment for a specific volume of production. The target pricing method is used most often by public utilities, like electric and gas companies, and companies whose capital investment is high, like automobile manufacturers.

### **Time-based pricing**

A flexible pricing mechanism made possible by advances in information technology, and employed mostly by Internet based companies. Dynamic pricing allows online companies to adjust the prices of identical goods to correspond to a customer's willingness to pay. The airline industry is often cited as a dynamic pricing success story.

### **Value-based pricing**

Pricing a product based on the value the product has for the customer and not on its costs of production or any other factor. This pricing strategy is frequently used where the value to the customer is many times the cost of producing the item or service. For instance, the cost of producing a software CD is about the same independent of the software on it, but the prices vary with the perceived value the customers are expected to have. It is also known as Perceived-value pricing.



## UNIT-VII

### INFORMATION TECHNOLOGY IN MARKETING

#### – Role of information technology and telecommunication in marketing, definition, principles, models, factors influencing, types, basis, need, characteristics

#### Market Information

Market information is an important marketing function which ensures the smooth and efficient operation of the marketing system. Accurate, adequate and timely availability of market information facilitates decision about when and where to market the products. Market information creates a competitive market process and checks the growth of monopoly or profiteering by individuals.

Market information may be broadly defined as a communication or reception of knowledge or intelligence. It includes all the facts, estimates opinion and other information which affect the marketing of goods and services

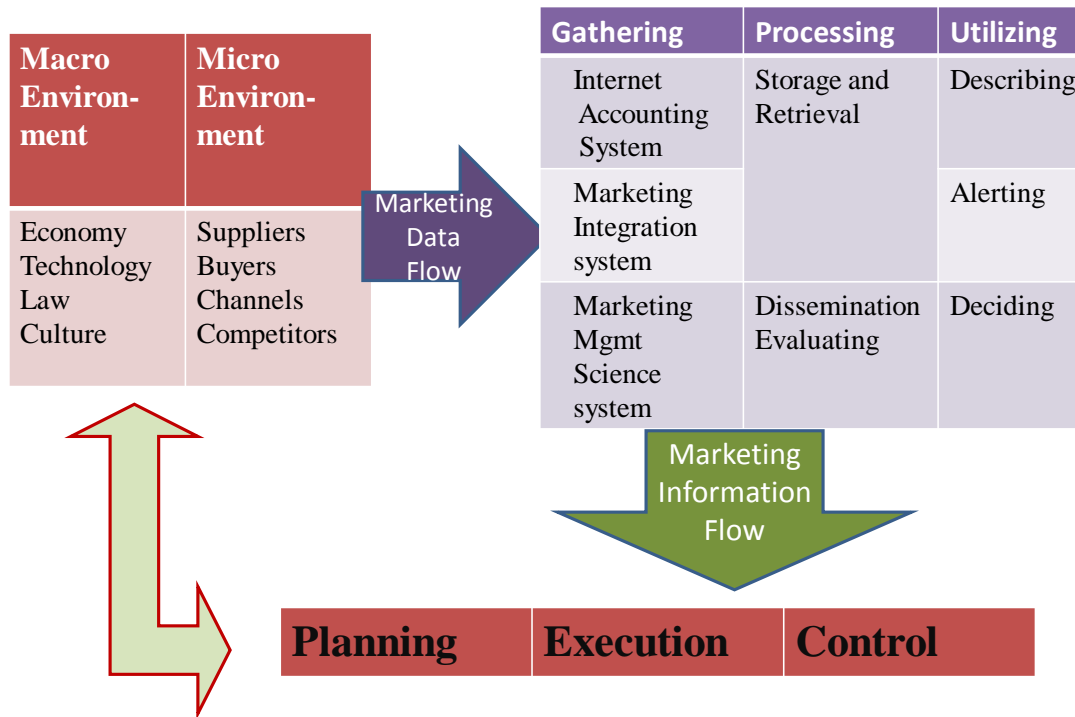
#### Importance of Market Information

Market Information is essential for the government, for creating a policy environment for a smooth conduct of the marketing business, and for the protection of all the groups of persons associated with this. Market information is essential at all the stages of marketing, from the sale of the produce at the farm until the goods reach the last consumers.

- A Farmer-producer:** market information helps in improving the decision making power of the farmer. A farmer is required to decide when, where and through whom he should sell his produce and buy his inputs. Price information helps him to take these decisions.
- B. Market middlemen:** needs market information to plan the purchase, storage and sale of goods. On the basis of their data they project their estimates and take decisions about whether to sell immediately or stock goods for some time.
- C. General Economy:** Market information is also beneficial for the economy as a whole. In a developed economy, there is need for a competitive market process for a commodity, which regulates the prices of the product. The competitive process contributes to the operational efficiency of the industry.
- D Government:** market information is essential for the government in framing it agricultural policy relating to the regulation of markets, buffer stocking, import-export, and administered prices.



## Study about Marketing Information System



### Types of Market Information

Market information is of three types-

- A. Market intelligence:** It is of historical nature. However, analysis of past helps us to take decision about the future.
- B. Market news:** This term is refers to current information about prices, arrivals and changes in market conditions. This information helps to farmers in taking decisions about when and where to sell his produce.
- C. Market outlook:** refers to the market situation that is likely to be prevail in the near future. This is of considerable use to farmers, traders and processors.

### Criteria for Good Market Information

- Comprehensive
- Accuracy
- Relevance
- Confidentially
- Trustworthiness
- Equal and easy accessibility
- Timeliness

### Collection and Dissemination of Market Information

- A Collection of Market information:** different institutions collect and process market information.

- B Dissemination of market information
  - a. Personal contacts
  - b. Post and telephones
  - c. Newspapers
  - d. Magazines
  - e. Government agencies Reports
  - f. Price Bulletins
  - g. Radio and television
- C. Interpretation of market Information

### **Criticism of Market Information**

- Market information provided by the farmers cannot be evaluated by them because of their illiteracy and poor communication ability.
- There is manipulation in the collection market information if the collector is biased.
- Most of the time the news reported is so late that it is of no use.
- Most of the information pertains to wholesale marketing. Very little information on retailing is available.
- The use of market information mostly for buyer not for farmers who are selling their product.

There is therefore, a strong case for effecting improvements in the existing market information system.

### **Suggestions for Improvement in Market Information**

- There should be standardized system of quoting the prices of the different varieties of a commodity and units of quotations, so that the prices may be compared over time and space.
- Arguments for the display of prices on notice- boards at important public places like hospitals, schools, panchayats etc. Should be made.
- Interpretation of market information made for farmers should be correct.
- There must be educational programme for the users of market information so that they may evaluate it and take the best advantage of it.
- There must be proper co-ordination between market intelligence.
- Market news should be correct there should be no place for rumors.

### **Use of Information Technology (IT) in Agri-Marketing**

Marketing requires connectivity between different agents in marketing chain through a wide network of national and international linkages so as to provide day to day information. The information is required w.r.t. arrivals, prices to provide online information for domestic and export markets. National Horticulture Board (NHB), National Institute of Agricultural Management (NIAM), Agricultural Processed and Export Development Authority (APEDA) and State Agricultural Marketing Board (SAMBs) and other organization are providing IT networks to promote use of IT in marketing. In marketing improves following tasks

1. Linking and networking of agricultural marketing
2. Computer aided auction displays
3. Market information system
4. Commodity information system
5. High way automatic system

### **There are four way of making use of IT in agricultural marketing**

1. **Holistic and integrated management:** IT has provided unimaginable scope for integrated management. All the departments of the organization are fully integrated and well informed about policies, production programme and marketing network. Therefore, it becomes easy for the management to manage business complexities efficiently.
2. **Electronic auctioning system:** IT has improved marketing system in a big way due to:
  - Minimization of paper work
  - Automatic billing
  - Improved efficiency in accounting
  - Transparency in dealing
  - disciplined structure
  - easy and efficient computing
  - Security of data / information
3. **E- Catalogue for commodity profiles:** for export competitiveness every product needs to be popularized highlighting its quality, purity, nutrition, quantity available and prices. A brief profile on the internet can help the buyer in marketing decision
4. **National Atlas of markets:** Mapping of agricultural markets in the country prerequisite for planning and development. Atlas of markets can give a sign of synoptic distribution of markets, infrastructure, volume of transactions, area / population served, outflow/ inflow of commodities. Atlas is based on GIS tools. NIAM has taken initiative in preparing markets atlas in India.

### **Use of Information and Communication Technology (ICT) in Marketing**

Information and Communication Technology (ICT) is a large umbrella term that covers all the technical equipment to process and communicate information. ICT covers two aspects of information technology and communication technology. Information technology encompasses all matters relating to the processing, use as a tool, manipulation, and management of information.

While communication technology is everything associated with the use of tools to process and transfer data from one device to another. Therefore, the information technology and communication technology are two inseparable concepts. So the Information and Communication Technology (ICT) contains the broadest sense of any activity related to the processing, manipulation, management, transfer of information among media. In fact, sophisticated analysis of these databases is often known as **data mining**.

## **Market Research**

ICT can be useful in helping with primary market research, such as **on-line surveys and questionnaires**. Firms that run Ecommerce websites can request customers to participate and often offer some kind of incentive for doing so, such as a code that can be entered for a discount at their next visit.

## **Target Marketing**

Customer data can provide marketing with a very powerful means of closely targeting

- Direct mail
- Email
- Telemarketing

Campaigns can be refined to choose only people meeting the right criteria for a given product or service, hopefully improving the response rates to the campaign. One reason that consumers find ‘junk mail’ so irritating is that much of it is poorly targeted; whereas many do buy as a result of receiving information about products they are actually interested in.

## **Online Shopping/Advertising**

Many businesses advertise through ‘banners’ and similar advertisements on other websites. This offers potential customers a quick and easy way to respond to an advertising message. Of course there is so much on-line advertising that careful targeting is essential, otherwise effort is wasted. The good news is that large popular websites such as Google have very sophisticated systems to help ensure that advertisements on their websites are presented according to what the particular ‘surfer’ seems to be looking for on that website. Payment for web advertising tends to include an element linked to the number of ‘click-through’ – in other words the number of surfers who actually click on the advertiser’s link.

## **Corporate Websites**

Most medium to large business, and many small businesses, maintain a website. This would usually include basic contact information as well as key marketing messages about the business and its products. The website offers a good place to keep public relations information such as press releases and other announcements.

## **Geo-Demographics**

This is a software package that overlays demographic data over a map. For example, a retailer might choose its location partly on the basis of the demographic make-up of the local population. This could help them to place their store in the most convenient place for a suitable size of target market.

Demographics is all about measuring and classifying populations according to criteria such as; age, sex, income, level of education, household composition, car ownership and so on.

### Box 7.1

#### **Brief chronology of ICT**

The term ICT emerged after the combination of computer technology (both hardware and software) and communications technology in the mid-20th century. The combination of both technologies are rapidly evolving beyond other technology areas. Until the beginning of the 21st century ICT continue to experience a variety of changes and have not seen the point of saturation.

There are a few milestones of technological development significantly contribute to the development of ICT to date. First, the findings of telephone by Alexander Graham Bell in 1875. Entering the 20th century, precisely between the years 1910 and 1920, realized a wireless voice transmission through the radio broadcasts. This, then followed by an audio-visual transmission without wires, in the form of television broadcasts in the 1940s.

The first electronic computer became operational in 1943 followed by the integrated circuit (electronics) in 1957. The development of electronic technology, which is the forerunner of the current ICT, get golden moments in the Cold War era. Miniaturization of electronic components through the creation of an integrated circuit is the birth of microprocessor- the 'brain' of the computer hardware and continues to evolve until today. Analog technology has begun to show the limits of its maximum explorations. The digitalization of telecommunications equipment and then converging with computer equipment that currently also appear in the form of mobile phones.

#### **Marketing Organizations and Institutions**

Marketing institutions are business organizations which have come up to operate the marketing machinery, including formulation and implementations of rules of the game. In addition to individuals, corporate, co-operative and government institutions are operating in the field of agricultural marketing.

#### **Some institutions of agricultural marketing are;**

##### **(a) Public Sector institutions**

- Directorate of marketing and Inspection (DMI)
- Commission for Agricultural Costs and Prices (CACP)
- Food Corporation of India (FCI)
- Cotton corporation of India
- Jute Corporation of India (JCI)
- Specialized Commodity Boards

##### **Specialized Commodity Boards**

- Rubber Board
- Tea Board
- Coffee Board
- Spices Board
- Coconut Development Board
- Tobacco Board
- Cardamom Board
- Coir Board
- Silk Board
- National Horticulture Board

##### **Others**

- National Dairy Development Board

- Central warehousing Corporations
- State trading corporation
- Agricultural and Processed Food Export Development Authority (APEDA)
- Export Inspection Council
- Marine Products Export Development Authority (MPEDA)
- Silk Export Promotion Council (SEPC)
- The cashew nuts Export Promotion Council of India (CEPCI)
- Agricultural Produce Market committees (APMCs)
- State Agricultural Marketing Boards (SAMBs)
- Council of State Agricultural Marketing Boards (COSABM)
- State Directorates of Agricultural Marketing
- Research Institutions and Agricultural Universities

#### **b) Cooperative Sector Institutions**

- National Cooperative development corporation (NCDC)
- National Agricultural cooperative marketing Federation (NAFED)
- National Cooperative Tobacco Federation (NTGF)
- National consumers cooperative Federation (NCCF)
- Tribal Cooperative Marketing Federation (TRIFED)
- Special commodity Cooperative Marketing organizations (sugar cane, cotton, milk)
- State cooperative Marketing Federation
- Primary Agricultural Cooperative marketing

#### **c) Associations (Formal or Informal)**

- Traders Associations (like Grain Traders Associations and Fruit merchant Associations)
- Processors associations (like Soybean Processors Associations –SOPA and Oilseed Processors Associations)
- ‘Hamal’ or Market labour Associations.

### **Marketing Organization**

Organisation is simply a group of people working with a common objective with a motive of profit earning. Organisation is a mechanism through which managerial philosophy is translated into action.

Marketing organisation is an orienting point for cooperative endeavors and a structure of human relationship. It is composed of group of individual straining jointly to reach qualitative and quantitative personnel selling objectives and bearing both informal and formal relation to one another. Marketing organisation is the foundation of effective sales planning for systematic execution of plan and policies.

Marketing is not about providing products or services it is essentially about providing changing benefits to the changing needs and demands of the customer Organization: a group of people who work together Marketing Organization provides a vehicle for making decisions on products, marketing channels, physical distributions, promotions and prices.

## Principles of Marketing Organisation

**Principle of Objectives:** objective of business organisation 'maximisation of profit' should be clearly defined.

**Principle of Specialisation:** The activities of the member, employee, executive manager and other individuals should be confined to a single function.

**Principle of Co ordination:** The works so assigned to an individual or a group of individuals are interrelated. One function cannot be performed in isolation from other function.

**Principle of Authority:** Depending upon the level at which the person is working in the hierarchy; the nature of authority delegation would differ.

**Principle of Responsibilities:** Authority and responsibility are co-related.

**Principle of Definition:** To define means to bring to an end or to decide, or to fix the bounds or limits.

**Principle of Correspondence:** The process of action and reaction or the process of intercourse between individuals.

**Principle of Span of Control:** span means total spread, stretch and area of jurisdiction or compass of control.

**Principle of Balance:** it cannot be sound in every part unless the whole organization is directed to the same end.

**Principle of Continuity:** it suggests that the organizational structure should be flexible or elastic. The organization builder cannot simply build for today or tomorrow, he must build a fabric which can stand through years.

## Importance of Marketing Organisation:

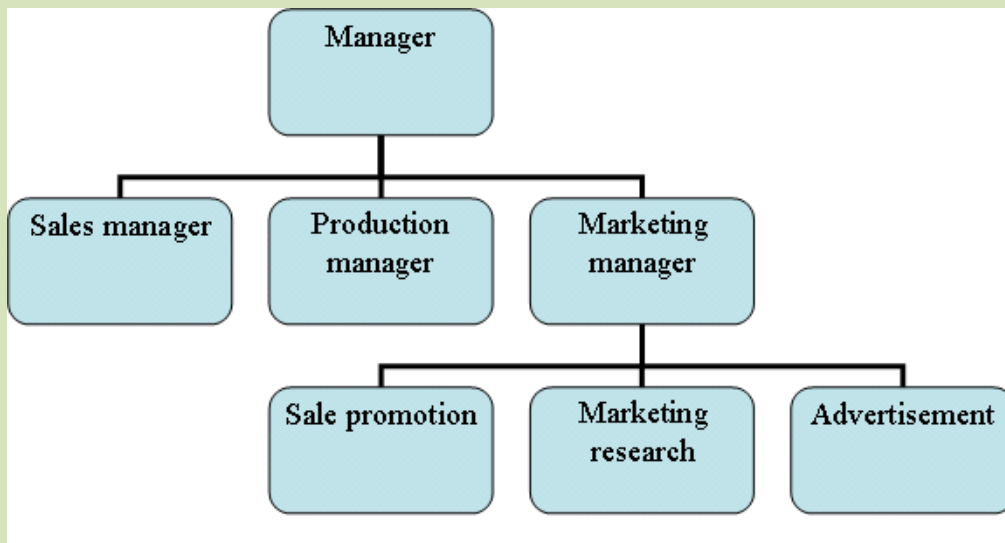
- It helps in administration and management of marketing policies.
- It helps in expansion and growth of organisation and its activities.
- It helps in unity of command. it helps in achieving objectives
- Its permits optimum use of resources.
- Co-ordination of different departmental activities.
- Effective marketing manager can satisfy various types of consumer and their different tests with the same product by converting them properly.

## Types of Marketing Organization

1. **Functional marketing organization:** It is one of the common forms of organisation. All the activities are divided into line and staff functions. In Functional type of organisation the activities are grouped on the basis of function to be performed as product planning, marketing research, advertising and sales. This is the most simple and common type of organisation structures of marketing tasks. Each main function is sub-divided into various sub-functions to be performed to attain the objectives such as marketing, finance and production. Each sub-function is delegated to separate manager under the control of

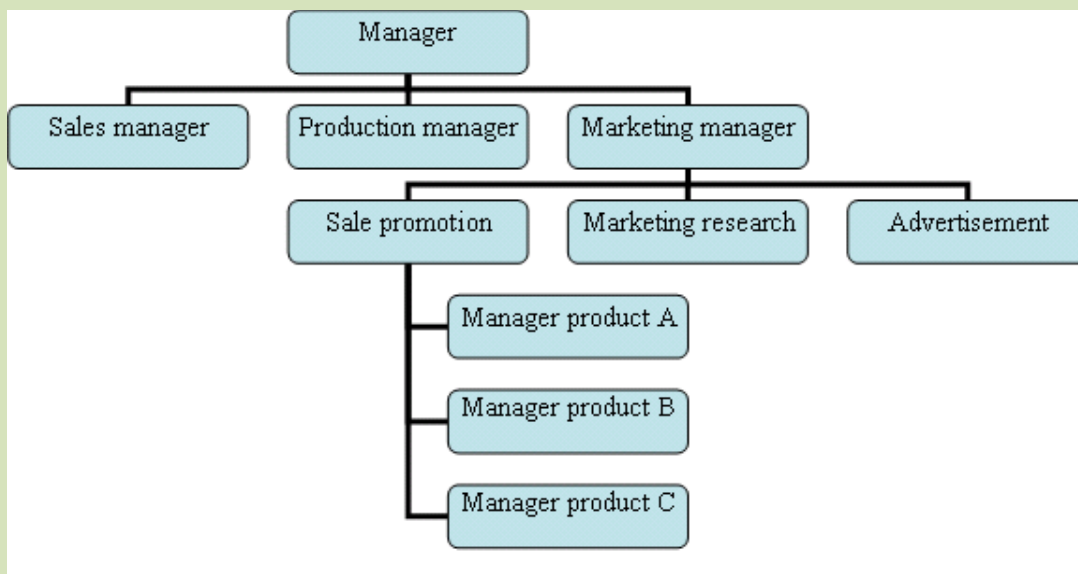


marketing manager and such manager are responsible to marketing manager who report to executives



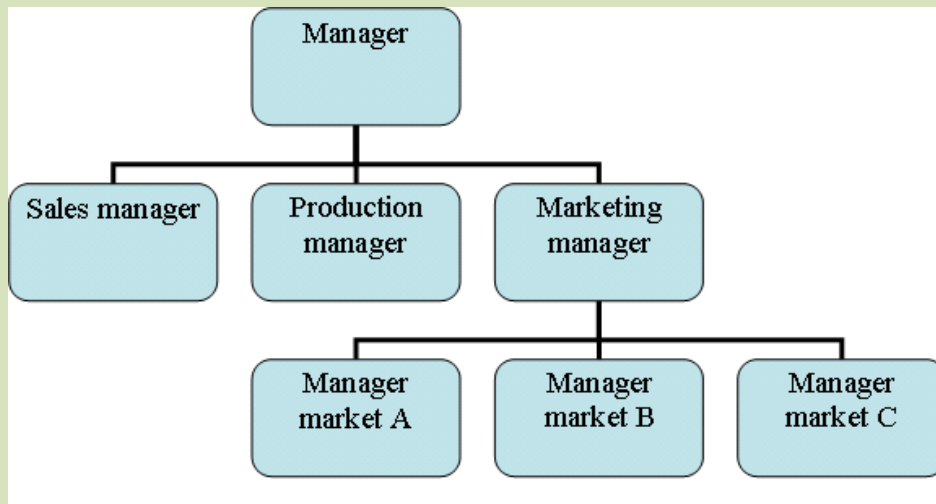
**2. Product oriented marketing organization:** Organizations that produce wide variety of products often organize marketing, trading and promotion with respect to a product. In Product marketing organisation forms assigns to product manager with the responsibility for marketing decisions of particular product or groups of product. The product manager acts as a little manager.

The product manager takes and executes decision regarding matter like advertising and sales promotion. This type of structure is best suited to industries producing different products or brands .e.g. Amul, Hindustan uniliver.etc.



**3. Geographical or market or territory oriented organisation:** This type of organisation is made in case the company is selling the product worldwide. In a territory oriented marketing organization, the responsibilities for marketing of various products rests almost entirely with lines executives. The territory managers are given varying nomenclatures like depot manager, district manager, area manager, zonal manager, divisional manager etc





4. **Divisional or complex organisation:** Usually big organisations have combination of all the above three of the organisation that's why such type of organisation is called complex organisation.

## **UNIT-VIII**

### **MARKET INTELLIGENCE**

#### **-Importance of marketing intelligence, marketing control, steps in marketing control**

Market intelligence is an essential function for the formulation of a sound price and trades policy and its successful implementation. This system provides the necessary data for such an analysis and for an understanding of the behaviour of the relevant factors and also helps in the evolution of a proper policy and generating outlook information.

#### **Role of Market Intelligence**

- To provide better understanding of the force that are operating in a particular situation as well as anticipating the situation that is likely to be develop.
- To provide regular and continuous appraisal of market behaviour and of various factor that influence the market behaviour.
- To offer the clue of the probable behaviour of the market and the force that is likely to influence it in the near future.

#### **Importance of Market Intelligence**

- It is important for traders, researchers, organizations, farmers, consumers and Govt. organization for formulation of plans policies and also their effective applications.
- The different committees which have been appointed from time to time have emphasized e importance of data on market intelligence and al lot of market authorities.

#### **Domestic and Export Market Intelligence Cell (DEMIC)**

The Domestic and Export Market Intelligence Cell (DEMIC) offers price forecasts for crops. Market forecast helps farmers select while sowing and similarly empowers them to decide where to sell. Market intelligence plays a vital role in taking timely decisions on production, marketing including storage, and when and how to sell. All these require collection and proper analysis of crop output, arrivals in market and prices prevailing in different commodity markets. DEMIC has been proposed to be set up in all State Agricultural Universities by the Indian Council of Agriculture under the National Agriculture Innovation Project to aid and support poverty alleviation and income generation by research in partnership with farmers' groups and the private sector. In addition to forecasting of prices of major commodities, the cell also takes up training programmes for farmers and state agricultural officers. This cell has been established to disseminate real time price information and domestic and export market intelligence on agricultural commodities for better scientific decision-making by farming community, traders, firms and researchers. This type of price forecasting is the first of its kind, offered by an Agricultural University in the country.

## **E-Choupal**

**e-Choupal** is an initiative of ITC Limited, a conglomerate in India, to link directly with rural farmers via the Internet for procurement of agricultural and aquaculture products like soybeans, wheat, coffee, and prawns. e-Choupal tackles the challenges posed by Indian agriculture, characterized by fragmented farms, weak infrastructure and the involvement of intermediaries. The programme installs computers with Internet access in rural areas of India to offer farmers up-to-date marketing and agricultural information.

## **Market Intelligence Scheme in India**

Market Intelligence Scheme in India provides for the collection of data on prices, arrivals, dispatches and stock of important agricultural commodities for the selected market centers of the country. These data are reported by technical persons. However, there is a considerable gap in the ideal system of market intelligence and the existing coverage.

## **Recommendations for Improving Market Intelligence System**

- Efforts are made to issue periodical reports on outlook for future.
- The studies on cost and margins should also form a part of market intelligence.
- The market intelligence should be extended to more centers and crops.
- All regulated markets should be made reporting centers for the purpose of market intelligence.
- The scope of market news service should be extended.
- Foreign market intelligence should also be made an essential part of the market intelligence in the country.

## **Marketing Control**

Marketing control is the tool for ensuring that marketing programmes of the firm are always directed towards its marketing objectives. The goals are set up in the planning stage and achieved subsequently.

## **Types of Market Control**

- Annual plan control
- Profitability control
- Efficiency control
- Strategic control

## **Steps in Market Control**

The steps involved in marketing control are

- Start with the marketing objectives that have been set
- Decide the parameters to be controlled
- Set measures/ metrics of performance.
- Define the levels at which different controls are to be achieved.
- Choose the tools and techniques of control.
- Measures of performance.
- Develop a system that would provide feedback on performance to different levels.
- Observe, analyze, interpret and evaluate the variances.

- Develop a mechanism that can correct existing activity, so as to achieve the pre-determined norm/objective.

In marketing control system the firms should monitor the key areas of the marketing such as

- a) Sales volume/ value
- b) Market share
- c) Market standing
- d) Marketing costs
- e) Profits
- f) Productivity in each marketing activity i.e. supply chain effectiveness, promotion/ advertisement and sales force productivity

### Tools and Techniques of Marketing Control

- Marketing audit
- Marketing cost analysis
- Credit control analysis
- Market share analysis
- Ratio analysis like return on investment, return on equity, gross profit to sales ratio, turnover ratio
- Besides, other tools like SWOT Analysis, PAM, Matrix, Gap Analysis and HACCP Analysis are also employed

#### Box 8.1

##### Market Gap Analysis

As business companies continue to move forward, they are consistently challenged with making investment decisions on which new geography markets to expand into, what new business verticals to compete in and what type of development staff they should hire.

The correct answers to these questions help their businesses grow.

Incorrect decisions can waste investment funding and delay time to market, or worse, create corporate chaos that affects the very foundation of the firm's financial stability.

One way to minimize incorrect business decisions is through the use of Market Gap Analysis as a decision tool to help executive teams identify and validate the potential for new market opportunities, current market penetration success capabilities and investment criteria for new product or service options.

The Format of Gap analysis is;

Issues

Policy

Procedure

Systems

Issues	What is existing	What should be in future	Recommendation for gap to be filled
Processes			
Procedures			
Technology			
Human resources			
Infrastructure and Organizational structure			

### **Box 8.2**

#### **SWOT Analysis**

Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis is a form of gap analysis used by management to gauge company operations. This type of analysis can be very detailed and involves more than just the internal departments of a company. Strengths and weakness analysis is a form of gap analysis that lists how well each department is performing too management or industry standards. This is an internal review of company operation.

Opportunities and Threats are a review of external environment/conditions that threaten a company's success in its industry. While some say that this is too involved for gap analysis, external factors can impact a company suffering from poor internal controls. Looking at how well competitors are functioning can help management improve poor performing departments by using the other company's model for success.

### **Box 8.3**

#### **Hazard Analysis Control and Critical Point (HACCP)**

There are seven main steps in conducting HACCP of a market plan;

- Conduct a hazard analysis.
- Identify critical control points.
- Establish critical limits for each critical control point.
- Establish critical control point monitoring requirements.
- Establish corrective actions.
- Establish procedures for ensuring the HACCP system is working as intended.
- Establish record keeping procedures.

## **UNIT-IX**

### **AGRICULTURAL PRICE POLICY**

#### **-Agricultural price policy- objectives, levels of support**

The major concern of Indian Agriculture is price fluctuation. Therefore price stabilization is the main aim of price policy; stable price means stable income and sustainable growth in agricultural sector.

The importance of fixing fair prices been advanced since long. The incentive price to producer would increase production in the country. ‘The paradox of poverty is plenty’ is seen in agriculture. Increased production does not have to increased income. This is also high risk in agriculture. So that is a need to guarantee stable income to farmers.

Prices and price policies are of great help for;

- Proper allocation of resources
- Providing incentive price to producers
- Distribution of income

#### **Objectives of Agricultural Price Policy**

- To ensure reasonable relationship between prices of food and non food and between agriculture and non agricultural sectors.
- To achieve an economic balance between both producer and consumers to produce price spread
- To stabilize prices in the country
- Interaction of market and prices in different regions
- To maintain proper relationship between output and input prices
- To encourage production of certain commodity in the national interest.

#### **Price Stabilization Measures for Foodgrain Prices in India**

- Procurement of food grains
  - a. Monopoly procurement
  - b. Producers compelled to sell certain production to government
  - c. Purchases are made by the government under open market at same prices before, other agencies produce purchase.
- Distribution of food grains
- Import of food grains
- Creation of buffer stock
- Increase in domestic production of food grains
- Minimum support and procurement of prices. MSP announce in advance so that producer can plan their production. Procurement prices and prices which FCI procure food grains generally higher than MSP.

CACP (Commission on Agricultural Costs and Prices) was established in 1965 to advise the GOI on price policy. CACP fixes MSP for different crops on the basis of:

- Cost of cultivation
- Parity between output and input prices
- Market prices
- General price level
- Keeping in view the general interest of the producer/consumer
- International prices etc.

Out of these, cost of cultivation is the major component considered for MSP

The CACP considers the following aspects:

- The need for incentives for the farmers
- Need for the rational utilization of land and other production resources
- The likely effect on rest of the economy

<b>Box 9.1</b>				
<b>Trends in Minimum Support Price (MSP)</b>				
Year	Paddy Common	Wheat	Gram	Urad
2000-01	510	610	1100	1200
2001-02	530	620	1200	1320
2002-03	530	620	1220	1330
2003-04	550	630	1400	1370
2004-05	560	640	1425	1410
2005-06	570	690	1435	1520
2006-07	580	750	1445	1520
2007-08	640	1000	1600	1700
2008-09	850	1080	1730	2520
2009-10	950	1100	1760	2520
2010-11	1000	1120	2100	2900
2011-12	1080	1285	2800	3300
2012-13	1250	1350	3000	4300
2013-14	1310	1400	3100	4300

## **UNIT-X**

### **INTERNATIONAL TRADE**

#### **-International trade, importance, terms of trade, WTO, trends and composition of India's foreign trade and foreign trade policy.**

International Trade is the study of the flow of goods and services among the nations of the globe. The primary focus is on how and why goods are traded, especially the identification of key principles such as the law of comparative advantage.

The central economic principle underlying the study of international trade is the law of Comparative Advantage.

This law states that every nation has a production activity that incurs a lower opportunity cost than that of another nation, which means that trade between the two nations can be beneficial to both if each specializes in the production of a good with lower relative opportunity cost.

The study of foreign trade also gives rise to three related terms -- exports, imports, and net exports.

- **Exports:** Exports are goods (or services) produced by the domestic economy and purchased by the foreign sector. These are goods that flow out of a domestic economy.
- **Imports:** Imports are goods (or services) produced by the foreign sector and purchased by the domestic economy. These are goods (or services) that flow into a domestic economy.
- **Net Exports:** Net exports are the difference between exports and imports. This is the difference between goods flowing out of the domestic economy and goods flowing into a domestic economy.

From the domestic view of foreign trade, the goal of a given nation is usually to promote exports, restrict imports, and thus create the biggest possible net exports difference between exports and imports. This difference between exports and imports is indicated by what is termed a nation's Balance of Payment (BOP).

#### **Importance of International Trade**

1. It broadens the mental outlook of the people by enabling them to think and act beyond narrow confines of the national/regional considerations
2. It is a hard truth that national prosperity cannot be sustained for long in a world surrounded by poor countries
3. Factor movements play a significant role in the development of national economics



4. It is realized that different nations are interdependently and can exist and prosper if they act in the mutual spirit of give and take because no nation is self sufficient in the or factor endowments
5. The International outlook is also essential for tackling many economic problems like mass poverty, unemployment, unequal distribution of health etc
6. Many problems which cannot be studied single handed by a country can be solved very easily with international cooperation
7. The study of international trade also helps us in understanding the monetary system of different countries and mechanism of exchange operation

### **Significance of International Trade**

1. **Earn foreign exchange:** International business exports its goods and services all over the world. This helps to earn valuable foreign exchange. This foreign exchange is used to pay for imports. Foreign exchange helps to make the business more profitable and to strengthen the economy of its country.
2. **Optimum utilisation of resources:** International business makes optimum utilisation of resources. This is because it produces goods on a very large scale for the international market. International business utilises resources from all over the world. It uses the finance and technology of rich countries and the raw materials and labour of the poor countries.
3. **Achieve its objectives:** International business achieves its objectives easily and quickly. The main objective of an international business is to earn high profits. This objective is achieved easily. This it because it uses the best technology. It has the best employees and managers. It produces high-quality goods. It sells these goods all over the world. All this results in high profits for the international business.
4. **To spread business risks:** International business spreads its business risks. This is because it does business all over the world. So, a loss in one country can be balanced by a profit in another country. The surplus goods in one country can be exported to another country. The surplus resources can also be transferred to other countries. All this helps to minimise the business risks.
5. **Improve organisation's efficiency:** International business has very high organisation efficiency. This is because without efficiency, they will not be able to face the competition in the international market. So, they use all the modern management techniques to improve their efficiency. They hire the most qualified and experienced employees and managers. These people are trained regularly. They are highly motivated with very high salaries and other benefits such as international transfers, promotions, etc. All this results in high organisational efficiency, i.e. low costs and high returns.
6. **Get benefits from Government:** International business brings a lot of foreign exchange for the country. Therefore, it gets many benefits, facilities and concessions from the government. It gets many financial and tax benefits from the government.

7. **Expand and diversify activities:** International business can expand and diversify its activities. This is because it earns very high profits. It also gets financial help from the government.
8. **Increase competitive capacity:** International business produces high-quality goods at low cost. It spends a lot of money on advertising all over the world. It uses superior technology, management techniques, marketing techniques, etc. All this makes it more competitive. So, it can fight competition from foreign companies.

### **Terms of Trade (TT)**

The rate at which one country's goods are exchanged against those of another is referred to as TT. The TT depends upon the prices of commodities entering into foreign trade. Thus, TT express the relation between export prices and import prices and are said to be favourable to a country when the prices of export are high relatively to the prices of imports when the prices of imports are higher than exports then unfavourable.

Terms of trade is the ratio of a country's export price index to its import price index, multiplied by 100. The terms of trade measures the rate of exchange of one good or service for another when two countries trade with each other.

There are different forms of TT like barter terms of trade, income terms of trade

### **Reciprocal Demand**

Ricardo's theory of comparative cost envisages the gain from trade in the form of saving the resources. The reciprocal demand elasticity may be defined as the ratio proportional change in the quantity of import demanded to the proportional change in the prices of export relative to prices of imports.

### **Factors affecting Terms of Trade**

1. Elasticity of demand for import
2. Elasticity of demand for its export by foreign country
3. Elasticity of supply of its export
4. Elasticity of supply of its import

The other factors which affect the intensity of demand are:

1. Size of population
2. Resourcefulness of the export supply
3. Nature of goods imported & exported i.e. Primary products inelastic demand manufactured goods elastic
4. Diversification of products which influence elasticity of supply. A large variety of goods will have high export intensity & less import intensity
5. Tastes and capacity to buy
6. Govt. policy

## **WTO and General Agreement on Tariffs and Trade (GATT)**

- A Multilateral treaty that prescribes rules for international trade
- Acts as both code of rules as well as forum in which member countries can discuss solutions to their trade problems and negotiate the reduction of various trade restrictive and distortive measures
- At first, GATT agreements focused solely on lowering tariffs which have fallen from global average of 40 per cent just after World War II to about 5 per cent. Eventually it moved towards other forms of protection like non tariff barriers etc.
- It has sponsored eight rounds of multilateral trade discussions, The latest of which, the Uruguay round, is named after the country in which the discussion started in 1986. These are;
  - 1947- Geneva (first multilateral trade negotiations were held)
  - 1949- Annecy
  - 1950- Torquay
  - 1956- Geneva
  - 1960- Dillon Round
  - 1962- Kennedy Round
  - 1973- Tokyo Round
  - 1986-94- Uruguay Round

In 1986, Sir Arthur Dunkel submitted a consensus document, known as Dunkel Draft (DD) and this document embodies; the package of proposals which each country had to accept or reject it in its entirety

Contents of Dunkel Draft relate to

- Agriculture
- TRIPS
- Textiles
- TRIMS
- Trade in Services

## **Birth of World Trade Organization (WTO)**

In January 1, 1995, WTO came into being. WTO is an international organization dealing with the rules of trade between nations and aims at facilitating trade among nations by creating fair and equitable conditions of competition.

## **Functions of WTO**

- Exercises continuous surveillance on trade measures taken by countries, with a view to ensure that the measures are in full conformity with the prescribed rules of various Agreements
- Provides a forum for negotiations on the removal of barriers to trade in goods and services and for development of trade in new areas

- Provides a forum for settlement of differences and disputes among member nations on issues related to their obligations under the WTO trade rules.

<b>Box 10.1</b>		
<b>Major provisions of GATT under Agreement on Agriculture (AoA)</b>		
<b>Provisions</b>	<b>Developed countries</b>	<b>Developing countries</b>
<b>A Domestic support (Yellow/Amber Box)</b>		
(a) AMS (aggregate Measures of support)	AMS to be reduced by 20 % in 6 years.	AMS to be brought down by 13.3 % in 6 years
(b) Product specific support	In excess of 5% value of product to be included in AMS	In excess of 10% value of product to be included in AMS
(b) Non-product specific support (subsidies on electricity, fertilizers, transportation, irrigation livestock/crop insurance etc.	In excess of 5% total value of agriculture included in AMS	In excess of 10% value of agriculture included in AMS
(d) <b>Green Box</b> Measures (exempted from AMS)	Minimum trade distorting items like Govt. assistance on general services (1) Research, pest and disease control training, extension advisory services. (2) Public stock for food security viz. (3) Target PDS to poor (4) Direct payment to producers under income insurance and, safety nets, natural disaster ,environmental assistance programme ,	Minimum trade distorting items like Govt. assistance on general services (1) Research, pest and disease control training, extension advisory services. (2) Public stock for food security viz. (3) target PDS to poor Direct payment to producers under income insurance and, safety nets, natural disaster, environmental assistance programme.
(e) <b>Blue Box</b> (exempted under special and differential treatments)	Direct payments to farmers under production limiting programmes, investment subsidies to below incomes and resource poor farmers.	Direct payments to farmers under production limiting programmes ,investment subsidies to below incomes and resource poor farmers
<b>B Export subsidies and Quotas</b>	To be brought down to 36% in 6 years in 21% of the commodities starting from 1995-96	To be brought down to 24% in 6 years in 14% of the commodities starting from 1995-96
<b>C Market Access</b>		
a) Tariff regulation		
i. ordinary custom duties	Reduction commitments to be implement or duty levels as of 1986-88 days	Reduction commitments to be implement or duty levels as of 1986-88 days
ii. Tariffication of non- tariff barriers	To be converted into ordinary bound customs	To be converted into ordinary bound customs
iii. Tariff reduction	i and ii to be reduces by 36% on an average with a minimum of 15 % of each tariff line	I and ii to be reduces by 24% on an average with a minimum of 10 % of each tariff line
b) Minimum market access	3 % of base period (1986-88) consumption to be imported. This must increase 5% in 2000	3 % of base period (1986-88) consumption to be imported. This must increase 5% in 2000

### **Ministerial Conferences of WTO**

1. First Ministerial Conference, Singapore, Dec 9 -13 1996.
2. 2<sup>nd</sup> Ministerial Conference, Geneva, May 18-20 1998.
3. 3<sup>rd</sup> Ministerial Conference, Seattle Washington State, USA Nov 30-Dec 3, 1999.
4. 4<sup>th</sup> Ministerial Conference, Doha quarter Nov 9-13 2001.
5. 5<sup>th</sup> Ministerial Conference, Cancun, Mexico Sep10-14 2003.
6. 6<sup>th</sup> Ministerial Conference, Hong Kong China, Dec 13-18, 2005.
7. 7<sup>th</sup> Ministerial Conference, held in Geneva, Switzerland, Nov 30 to Dec 2, 2009.
8. 8<sup>th</sup> Ministerial Conference, in held in Geneva, Swiss, Dec 15-17, 2011.

### **EXIM Policies of India**

India started pursuing the path of planned economic development in the early fifties. Since then more than four decades have passed and there have been substantial changes in India's trade policy. After independence, the composition of India's trade has undergone a substantial change and now non-primary commodities are being exported on a considerable large scale. During the planned development, there has been an important change in India's trade policy affecting value, composition and direction of countries foreign trade.

#### **Objectives of EXIM Policy:**

- To facilitate sustained growth in exports from India and import in India.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods scheme required for augmenting production and providing services.
- To enhance the technological strength and efficiency of Industry Agriculture industry and services, thereby improving their competitive strength while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality.
- To provide clients with high-quality goods and services at globally competitive rates. Canalization is an important feature of EXIM Policy under which certain goods can be imported only by designated agencies. For an example, an item like gold, in bulk, can be imported only by specified banks like SBI and some foreign banks or designated agencies.

### **An Overview of Trade Policies of India**

Trade policy of any country which has trade relations with other countries, constitutes both import and export policies. The import policy tries to reduce the expenditure on imports Export policy aims at increasing the export earnings, so that the balance of payments problem, if any, can be solved.

During the First Plan period food grains production was comfortable and industrialization was not yet a priority area for the planners. As the government was not called on to provide for imports of capital goods and machinery on a large-scale, it adopted a lenient approach towards imports of these items. It was only in 1956-57, when balance of payments crisis struck the country; government had resorted to severe quota restrictions on imports.

The Second plan contemplated a large scale program of industrialization for the country and as a result it was necessary to restrict imports all non-essential goods. The axe also fell on imports of consumer goods to enable the country to go ahead with the ambitious industrialization program.

The Government of India devalued the rupee in June 1966 and as a result imports were somewhat liberalized. Such liberalization was offered to 59 priority industries consisting of export industries, capital building industries and industries cater in to the needs of common usage like sugar and cotton textiles.

The year 1966 also saw the advent of 'Green Revolution, which necessitated a large-scale import of fertilizers, seeds, pesticides and insecticides to implement the new strategy. However, the policy of import restrictions was rigorously pursued by the government for full two decades right up to the end of the seventies.

During the Third Plan, the import restrictions were to a certain extent removed and remained so till 1977-78. The years 1977-78 saw a new era of import liberalization in the country. This process of liberalization was carried forward to the eighties as well. During 1980-85, the import policies announced annually were aimed at providing necessary imported inputs for the industrial sector. However, the real thrust for the process of import liberalization was given from 1985 onward when the planners formulated 3 years export-import policies.

The first 3-year EXIM policy covered the period 1985-89 and second had to cover the period 1988-91. But due to unforeseen political changes, the second policy was terminated one year earlier. Third policy, covering the period April 1, 1990 to March 31, 1993 was announced by the government on March 30, 1990.

In a major policy shift to simplify the import procedures the five-year EXIM policy 1992-97 has made a major attempt to simplify import procedures. Only two types of import licenses viz., Advance licenses and Special Import Licenses have been allowed to continue against several licenses including the OGL under the earlier regime. The 1992-97 policy contains a number of new incentives for generation of exports. Duty free imports relating to export production have been liberalized and import duty on capital goods reduced with increased export obligation while deemed exports have been accorded favourable treatment, the policy has virtually eliminated canalization of imports. Except for some petroleum products, edible oils, fertilizers and cereals, all other items have been decanalized. Large-scale decanalization is an important step towards opening up more areas of the economy to the private sector.

Major changes were effected in Exim Policy 1997-2002 under the EPCG scheme, gem and jewelry scheme, deemed exports, software, agro-sector and the incentives available to export houses, trading houses and star trading houses under the scheme. Considerable procedural simplification has been made under the Duty Exemption Scheme, Advance License Scheme and other export promotion schemes. Further promotion measures like Deemed Export benefit, relaxation granted in criterion for recognition of EH/TH/STH/SSTH, new DEPB scheme was implemented. Recently, a new foreign trade policy has been announced for the period 2009-2014. The main features of this policy are being highlighted hereunder.



## **India's Foreign Trade Policy 2009-14**

To arrest and reverse declining trend of exports is the main aim of the policy. This aim will be reviewed after two years.

To Double India's exports of goods and services by 2014.

To double India's share in global merchandise trade by 2020 as a long term aim of this policy. India's share in Global merchandise exports was 1.45% in 2008.

Simplification of the application procedure for availing various benefits

To set in motion the strategies and policy measures which catalyse the growth of exports To encourage exports through a mix of measures including fiscal incentives, institutional changes, procedural rationalisation and efforts for enhance market access across the world and diversification of export markets.

The policy aims at developing export potential, improving export performance, boosting foreign trade and earning valuable foreign exchange. FTP assumes great significance this year as India's exports have been battered by the global recession. A fall in exports has led to the closure of several small- and medium-scale export-oriented units, resulting in large-scale unemployment.

## **Highlights of Foreign Trade Policy 2009-2014**

Higher Support for Market and Product Diversification

- a. Incentive schemes under Chapter 3 have been expanded by way of addition of new products and markets.
- b. 26 new markets have been added under Focus Market Scheme. These include 16 new markets in Latin America and 10 in Asia-Oceania.
- c. The incentive available under Focus Market Scheme (FMS) has been raised from 2.5% to 3%.
- d. The incentive available under Focus Product Scheme (FPS) has been raised from 1.25% to 2%.
- e. A large number of products from various sectors have been included for benefits under FPS. These include, Engineering products (agricultural machinery, parts of trailers, sewing machines, hand tools, garden tools, musical instruments, clocks and watches, railway locomotives etc.), Plastic (value added products), Jute and Sisal products, Technical Textiles, Green Technology products (wind mills, wind turbines, electric operated vehicles etc.), Project goods, vegetable textiles and certain Electronic items.
- f. Market Linked Focus Product Scheme (MLFPS) has been greatly expanded by inclusion of products classified under as many as 153 ITC(HS) Codes at 4 digit level. Some major products include; Pharmaceuticals, Synthetic textile fabrics, value added rubber products, value added plastic goods, textile made-up, knitted and crocheted fabrics, glass products, certain iron and steel products and certain articles of aluminum among others.

## Box 10.2

### SPECIAL ECONOMIC ZONES

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000.

This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

#### Objectives of the SEZ Act are:

- (a) Generation of additional economic activity
- (b) Promotion of exports of goods and services
- (c) Promotion of investment from domestic and foreign sources
- (d) Creation of employment opportunities
- (e) Development of infrastructure facilities

#### SEZ Rules provide for:

Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;

- Single window clearance for setting up of an SEZ;
- Single window clearance for setting up a unit in a Special Economic Zone;
- Single Window clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self certification

#### The major incentives and facilities available to SEZ developers include:-

- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA.
- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act.
- Exemption from dividend distribution tax under Section 115O of the Income Tax Act.
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act).

#### Administrative set up of SEZ

The functioning of the SEZs is governed by a three tier administrative set up. The Board of Approval is the apex body and is headed by the Secretary, Department of Commerce. The Approval Committee at the Zone level deals with approval of units in the SEZs and other related issues. Each Zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee.

Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ. All the proposals for setting up of units in the SEZ are approved at the Zone level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government. All post approval clearances including grant of importer-exporter code number, change in the name of the company or implementing agency; broad banding diversification, etc. are given at the Zone level by the Development Commissioner. The performance of the SEZ units is periodically monitored by the Approval Committee and units are liable for penal action under the provision of Foreign Trade (Development and Regulation) Act, in case of violation of the conditions of the approval.

Benefits to these products will be provided, if exports are made to 13 identified markets (Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Vietnam, Cambodia, Australia and New Zealand).



- g. MLFPS benefits also extended for export to additional new markets for certain products. These products include auto components, motor cars, bicycle and its parts, and apparels among others.
- h. A common simplified application form has been introduced for taking benefits under FPS, FMS, MLFPS and VKGUY.

Higher allocation for Market Development Assistance (MDA) and Market Access Initiative (MAI) schemes is being provided.

#### Box 10.3

#### **Agricultural and Processed Food Products Export Development Authority (APEDA)**

The Agricultural and Processed Food Products Export Development Authority (APEDA) came into existence in 1986 to further develop our agricultural commodities and processed foods, and to promote their exports. Its goods are to maximize foreign exchange earnings through increased agro exports, to provide better income to the farmers through higher unit value realization and to create employment opportunities in rural areas by encouraging value added exports of farm produce. APEDA went about achieving these by identifying new markets, providing better support systems to our exporters and manufactures, and introducing new products to the international market. Headquarter of APEDA is New Delhi. It has 4 Regional Offices (Bombay, Hyderabad, Calcutta and Bangalore) and 12 Virtual Offices.

#### **Functions of APEDA**

1. To promote agricultural exports
2. To coordinate with different institutions/agencies to implement EXIM policy in the country.
3. To provide export-import information of sourcing countries.
4. To organize agri-trade fairs.
5. To act as nodal agency for certification accreditation and import-export regulations.
6. To advise the Govt. and different agencies regarding trade related issues
7. To identify SEZs, EPZs, AEZs and provide infrastructural support

#### Box 10.4

#### **Other Organisations Promoting Foreign Trade**

Sr. No	Name	Functions
1	Department of Commerce	Framing of trade policy
2	Directorate General of Foreign Trade (DGFT)	DGFT is responsible for execution of Import -Export policy announced by the Government Of India
3	Directorate General of Commercial Intelligence And Statistics (DGCI&S)	Responsible for collection compilation and dissemination of trade statistics and commercial information.
4	Directorate General of Anti-Dumping And Allied Duties (DGAD)	Responsible for carrying out anti- dumping investigations and recommendation wherever required.
5	Export Promotion Councils (EPCs)	There are 21 EPCs. The basic objective is to develop and to promote exports of specific products from India
6	Marine Products Export Development Authority (MPEDA)	The main objective of MPEDA is regulation and promoting exports of marine products.
7	Export Inspection Council (EIC)	Responsible for enforcement of quality control and compulsory pre-shipment inspection of commodity ment for exports.
8	Indian Council Arbitration (ICA)	To promote arbitration as a means of setting commercial disputes.
9	National Centre of Trade Information (NCTI)	Responsible for collection dissemination of trade data and improving information services to exporters

10	Export Credit Guarantee Corporation (ECGC)	To provide credit insurance in order to protect exporters from consequences of payment risks.
11	EXIM Bank of India	To provide financial assistance to exporters and importers.
12	Indian Institute of Foreign Trade (IIFT)	To impart professional education in the area of international business.

**Box 10.5**

**Trends in Foreign trade of India (Rs. in Crores)**

Year	Total exports (excluding re-exports)	Total imports	Trade Balance (- deficit )
1990-91	32553	43198	-10645
1995-96	106353	122678	-16325
2000-01	203571	230873	-27302
2005-06	456418	660409	-203991
2006-07	571779	840506	-268727
2007-08	655864	1012312	-356448
2008-09	840755	1374436	-533681
2009-10	845534	1363736	-518202
2010-11	1142649	1683467	-540818
Total	4855476	7331615	-2476139

**Box 10.6**

**Composition of Agricultural exports from India, 2006-07**

Sr. No.	Particulars	Value (Rs. in Crores)	Per cent
1	Fish and fish preparations	8001	15.77
2	Rice	7036	13.87
3	Raw cotton	6108	12.04
4	Oil cakes	5504	10.85
5	Fruits, vegetables and pulses	4383	8.64
6	Meat and meat preparations	3314	6.53
7	Sugar and Molasses	3260	6.43
8	Spices	3158	6.23
9	Cashew kernels	2506	4.94
10	Tea and mate	1970	3.88
11	coffee	1969	3.88
12	Tobacco	1685	3.32
13	Miscellaneous	1836	3.62
	Total	50730	100.00