Rural Management Value Chain and Integrated Communications

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सत्यमेव जयते

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About the Book

Decades ago Mahatma Gandhi said "India lives in villages" and that statement still holds good. Even today a large majority of our population, almost 68%, lives in rural areas. We have made significant progress post-independence and today we have the 6^{th} largest economy of the globe in terms of our GDP calculated at dollar exchange rate (3^{rd} largest on the basis of Purchasing Power Parity). Many of our companies have become global conglomerates and we have earned a name for ourselves in the services sector. We are taking significant strides in the manufacturing sector as well. However, within the country the urban – rural divide is still glaring.

It is estimated that by 2020, Urban India could house 35% of India's population and contribute 70-75% of its GDP, whereas only 25-30% would be contributed by our 65% rural population. As long as the rural economy, which includes agriculture and allied economic activities, is plagued with sustainability challenges, this urban skew would persists leading to a continued drag on the overall Indian economy. What has enabled the urban-based organizations to become more sustainable? Can the same principles be applied on rural businesses to make them stronger and profitable? What are those principles and how can they be translated for the benefit of the rural economy? Sustainability of any business is a function of multiple factors. Value Chain Management is precisely what is required to ensure that all these factors are mapped properly, their relevance is evaluated, flow and duration is estimated and wherever necessary, steps are rationalized so that the end consumer is delivered value in the form of product and/or service.

The first block of the book discusses on Value Chain Management. Case studies of some of the organizations have also been discussed to prove the stellar role of Value Chain Management in their success. With ever evolving technology, especially internet, the rural Value Chain is all set to be redefined. Already we are witnessing e-commerce playing a significant role in bridging the gap between the seller and the buyer. Technology is also playing a significant role in enabling support from financial institutions. The urban – rural divide would blur as more and more youth understand the potential of rural India, not just as producers but as consumers as well. And hopefully this course will inspire many youths to venture out and create a space for themselves in the rural landscape.

The second block of the book discusses on Consumer Behavior. It is a dynamic concept which has been related to attitude, nature of human being while in trading transactions. His previous work experiences with products and services , prices , availability of substitutes their quality standards of ingredients, grades, sizes, packing design and conditions for the timely supply of product are influencing factors to the consumers for taking decisions. The relations and credit facilities available with the suppliers and the market survey results also will have a great impact on the buyer behaviour in having the purchase of the product. Consumer purchases the product or services from his own consumption or for trading purpose for other consumers or customers. As a retailer, one must be very cautious while making purchases in a lot. One has to observe the market survey results of various products. This block include fundamental concepts, currents trends in consumer behavior, their motivations, personality, attitudes their innovative attitudes towards Customer Relations Management (CRM) concepts , consumer decision making models and cultures and subcultures of consumers were covered with live examples.

In this era of globalization and liberalization, global trade between the countries is bound to happen. In this context, export and import are expected and are unavoidable aspects of international business. Export is the need of the hour and needs to be addressed across all sectors and communities. The course on rural exports, procedures and documentation provides the student a conceptual overview of exports, and relevant aspects such as procedures, documentation, sources of finance, managing risks in export business, and strategy required for export along with methods of export, different registration procedures, methodology of selecting products and markets and so on. In addition, this course provides the student with relevant information about export assistance from banks, related schemes and incentives and information about some legal aspects.

This book represents the collective efforts of so many remarkable individuals. We would like to thank the contributors to this volume for their collective wisdom, experience and insight. We would like to thank our Subject authors: Dr Atindranath Bhattacharya, Chair; Professor of Marketing and Social Innovation, School of Inspired Leadership, Gurgaon; Dr Srinivasa Padmakar, Retired Lecturer in Commerce from Government Degree College; Dr Balamurali Krishna, Socio-Technologist, Karpagam Academy of Higher Education, Tamilnadu and Dr Manish M Pitke, Consultant, Shivaji University, Maharashtra.

I would like to thank MGNCRE Team Members for extending extreme support in completing this book.

Dr W G Prasanna Kumar
Chairman, MGNCRE

Block 1

Value Chain Management

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Where there is Rural Wellbeing there is Universal Prosperity

Contents

Chapter 1 Introduction to Rural Value Chain Management

Introduction

For sustainable development of rural India, it is essential to link it to the market-based economy. This essentially means that the entire rural economy has to be aligned as per the demands of the market and every effort should be made to provide consumers with what they desire. Till now, most rural businesses, specially agriculture, were operating in silos, oblivious of the needs of the market. This ignorance has long been exploited by the middlemen who procured rural produce at low rates and sold at high prices to the consumers. The term market-based essentially entails producing as per the demands of the consumer, delivering at the right time, in the right quantity, at the right price, through the right channel. This can be done through efficient Value Chain formation.

India has always faced the challenge of developing sustainable rural business, which has a direct impact on poverty and migration to urban places. Agricultural growth can be a great help in reducing the poverty levels in rural India as has happened in other sectors; thus, implementation and management of effective market-linked value chains could prove to be one of the most effective ways of solving socio-economic problems of farmers.

The basic framework of rural value chains includes a series of value adding activities, starting from production to final consumption, through steps like processing and marketing. Each section of the value chain has one or more backward and/or forward linkages. A value chain in rural sector identifies the set of activities and actorswho bring a basic rural or farm product from production in the field to the final consumer, where at each stage value is added to theproduct. It is worth mentioning that due to structural shortcomings, such as lack of qualityproducts and poor reliability, inadequate transportation, poor warehousing facilities etc., our domestic suppliers often fail to grab the opportunities offered by large companies/private firms.

A complete understanding of the value chain concept and the effective management of the different activities in the chain, will to a great extent facilitate the sustainability of the rural economy as well as make the rural market more accessible to the outside world.

Objectives

After going through this Chapter, one will have a fairly good understanding about the genesis of the Value Chain concept, as given by the original thought leader Michael Porter, and how it became a game-changer in the highly competitive modern business world. Through various examples, one will gather knowledge on the benefits of Value Chain Analysis and subsequently management of the various activities of the Chain. An attempt has been made to draw parallels between the urban and rural Value Chain process. One will also learn the application of Value Chain Analysis for the benefit of the stake-holders.

Structure

- Introduction to Value Chain Concept
- Value Chain Managemnet
- Value Chain Analysis
- Applications of Value Chain Managemnet
- The Rural Value Chain

1.1 Introduction to Value Chain Concept

The concept of Value Chain was first postulated by the famous thought leader of Harvard Business School, Michael Porter who in his epic book 'Competitive Advantage' (1985) talked about industrial firms gaining edge over others through efficient Value Chain Management.

As per Michael Porter, Value Chain is a collection of all such activities that are performed by a company to create 'value' for its customers. 'Value Creation' means adding value which leads to competitive advantage. Ultimately, this added value also gives rise to higher profitability for a firm.

A more elaborate definition was given by Kaplinsky (2000) and he says, "a value chain is the full range of activities which are required to bring a product or service from conception, through the intermediary phases of production, delivery to final consumers, and final disposal after use."

Let us see what could be the various activities that are essential to bring a product or service from conception to final consumption and disposal.

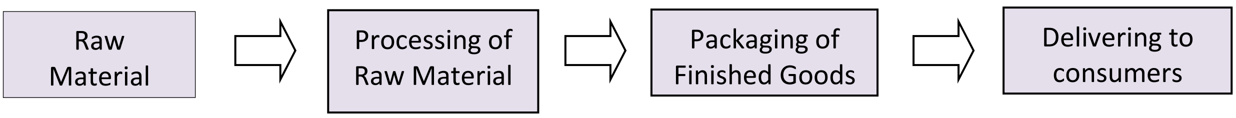

Figure 1.1 Fundamental Activities in A Manufacturing Organization

Each of the steps in Figure 1 have a number of sub-activities directly or indirectly affecting the step, and between each step there are many more sets of activities which add value to the input in that step. This essentially means that at each step the in-bound material is worked upon to create a value-added out-bound material.

Some of the activities could be – identifying the right source of raw material; negotiating the quantity, rate & payment terms of raw material; deciding the mode of transport; method of processing the raw material, decisions related to machinery; decisions on how much to produce; type of packaging etc. Not to mention the activities like manpower hiring and training, infrastructure, financing the entire process, transportation etc. The sum total of all these activities form the value chain.

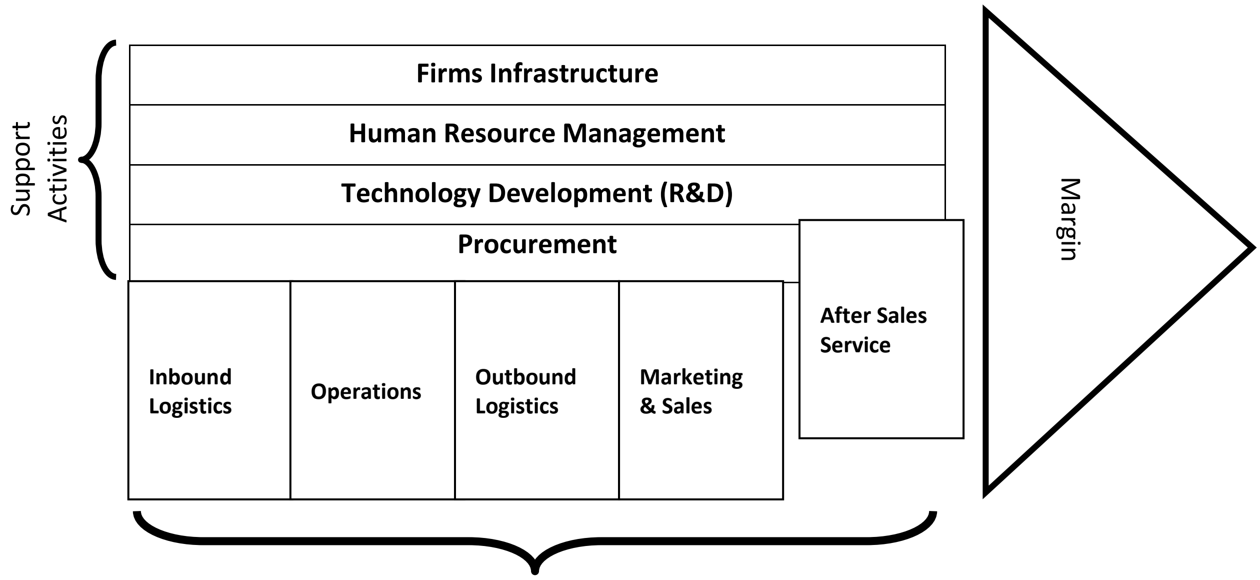

Figure 1.2 Porter's Value Chain Model

Porter says that in any business organization, the entire gamut of activities can be divided into two broad categories - Primary activities and Support Activities.

The effect of 'Primary activities 'is pretty direct on the production, processing, sales, support of the products or services to be supplied, whereas in case of 'support activities', they assist the primary activities and form the basis of any organization.

The Different Types of Primary Activities Undertaken by any Firm/Organization are

Inbound Logistics

These are all activities that are involved in the receiving, storing, and internal distribution of the raw materials or basic ingredients of a product or service. For value creation in this matter, it is essential to have strong relationships with the suppliers. Examples transportation, material handling, material storage, vehicle scheduling, returns to suppliers, communications, testing and others.

Production/Operations

In these activities, the inputs of products and services are converted into semi-finished or finished products. E.g. production floor or production line. Examples machining, packaging, assembly, equipment maintenance, testing, printing and facility operations.

Outbound Logistics

All activities related to final product and service delivery to the customer will fall under this category. Examples of storage, distribution (systems) and logistics would fall under this. Examples can be of finished goods warehousing, material handling, delivery vehicle operations, order processing and production/delivery scheduling.

Marketing and Sales

All such activities and processes which help put the finished product or service in the market would fall under this category. This would include managing and generating customer relationships. The guiding principles are fixing goals that are different from the competition and creating additional benefits for the customer. channel relations, promotion, sales force, quoting, channel selection, advertising and pricing.

After Sales Service

This would include all activities which involve maintenance of the value of the products or service for the customers as soon as a relationship developspost procurement of services and products. The Service Profit Chain Model is an alternative model, specifically meant for service management and institutional growth. Spare parts supply, product adjustment, installation, training and repair.

And the Different Types of Secondary Activities Undertaken by Any Firm/Organization are

Firm Infrastructure

This concerns the support activities within the organization that helps the organization to maintain its routine operations., e.g. Administrative handling, financial and line management, are good examples of activities that create value for the organization.

Human Resource Management

This activity encompasses all such activities that aim at the development of the workforce within an organization. Forexample, activities like recruiting and selecting staff, training and coaching of staff and compensating, motivating and retaining staff.

Technology Development (R & D)

All such activities that pertain to the development of the products and services of the organization, both internally and externally can be kept in this category of activities. Examples like IT, technological innovations and improvements and the development of new products based on new technologies. These activities create value using innovation and optimization.

Procurement

This refers to all the support activities related to the procurement of material and services essential to service the customer by the producer. Activities like tie-ups and entering into and managing relationships with vendors, price negotiations, making product purchase agreements with vendors and outsourcing agreements. Firms use primary and support activities as foundations to create value in products, services and create distinctiveness.

To Do Activity

Visit the local vegetable vendor near your residence and explore from him the entire process of how one purchases the vegetables for reselling. Where does one buy from, how does one check the quality, how does one pay, how does one transport, who all are involved in the process, and finally how does one decide where to resell and at what price. Map the entire process as a flow

1.2 Value Chain Management

Value Chain Management (VCM) is the process of managing and monitoring all the actors and activities that constitute a business. This could include procurement, manufacturing, processing, packaging, quality control, marketing, sales and distribution. It has gained importance over the past couple of decades due to increased competition and pressure on the bottom line of firms. Another factor which has played a significant role in developing Value chain management in India is ‘Globalization’. It has invited competition in the Indian market from foreign firms thereby forcing locals to implement Value Chain management.

How is Supply Chain Management different from Value Chain Management?

Supply Chain Management or SCM is the integration of all such activities in the process of sourcing procuring material and services, conversion of raw material, logistics and warehousing. Whereas, Value Chain Management refers to the series of business operations through which ‘value addition’ is done to the goods and services offered by the producer to enhance value for the customer.

Supply Chain can be referred to as the interconnected series of all such activities that starts with the conversion of raw material into the final finished product, and ends with the product reaching the final user. Value Chain, as opposed to Supply Chain, is that series of activities which focuses on creating or adding value to the product or service. Both, Supply Chain and Value Chain help customers avail quality products and services at reasonable prices. It is often seen that businesses contrast supply chain and value chain.

Table 1.1 Comparison between Supply Chain vs Value Chain

Basis of Comparison	Supply Chain	Value Chain
Meaning	The integration of all the activities involved in the procurement, conversion and logistics of the product is known as Supply Chain.	Value Chain is defined as the series of activities, that adds value to the product.
Originated from	Operation Management	Business Management
Concept	Conveyance	Value Addition
Sequence	Product Request - Supply Chain - Customer	Customer Request - Value Chain - Product
Objective	Customer Satisfaction	Gaining competitive advantage

Definition of Supply Chain

Supply Chain can be referred to as a set of connections between various actors involved in marketing or distribution through which a product or service reaches the end consumer. The actors could be channel partners like actors, suppliers, manufacturers, wholesalers, distributors, retailers, and the customer. Simply put, Supply Chain encompasses the flow and storage of the raw material, semi-finished goods and the finished goods from point of origin i.e. production, to its final consumption i.e. end consumer.

Supply Chain Management is the process which plans and controls the operations of the entire supply chain. It is a system which cuts across various functions that manage the movement of input material, within the firm and the movement of finished products out of the firm along with full customer satisfaction side by side. The following processes or activities are included in the supply chain

- Integration
- Sharing of Information
- Development of product
- Procurement
- Production
- Distribution
- Services to customer
- Performance analysis
- Definition of Value Chain

Definition of Value Chain

Those set of activities which help add value at every step of designing, producing, processing and delivering a quality product to the end customer can be referred to as Value Chain. Value Chain Analysis is the process of evaluating each activity within and around the firm, for its ability to provide value for money, goods, and services.

Michael Porter in 1985, first used the concept of Value Chain Analysis in his renowned book "Competitive Advantage". He said the two major steps involved in the value chain analysis are

- Identification of individual activities
- Analyzing the value added in each activity and relating it to firm's competitive strength.

Value Chains for agro products refers to a business model wherein farmers (producers) and buyers of farm products form alliances with other supply chain actors, like aggregators, logistics & warehousing agents, processors, distributors, large stores, and consumers, to enhance monetary returns through product differentiation that advances social or environmental values. Partners realize in these alliances that maximum value can be created for their products only if there is mutual interdependence, collaboration, and mutual support.

The Food Value Chain model is gaining popularity due to the fact that it responds to agricultural and food industry consolidation that has created severe market pressure on small and mid-sized farmers. It also elucidates the manner in which small and mid-sized farm operators' join hands together and respond to the market trends in the food-industry market. Such markets also include the ever growing consumerdemand for differentiated value-related food products such as "local," "regional," or "organic "food.

The central idea in the food value chain model is the idea that win-win situations can be achieved through transparent and trusting relationships between supply-chain partners. Consumers, farmers, sellers, distributors, retailers and others in such a chain model, reap rewards through efficient planning and planting to processing and selling. The benefits to producers are not at the cost of distributors or retailers, or vice versa, because the system of food value chain transactions ensures the sale of a wider variety of well-differentiated food products, priced in such a manner so as to take care of both social and private benefits, which are more closely customized as per the preferences of specific consumer sections. While producing value for partners and the community, such food value chain models exemplify the concept of 'creating shared value' that was given by Michael Porter and Mark Kramer. Businesses orient their core operations to together produce business success as well as social benefit. This is a paradigm shift from "social responsibility" which is primarily for public relations purposes.

Firms which adopt a 'shared value' concept typically follow the below mentioned practices and structural changes

- Re-look at their products and reconceive them and markets by identifying newer products and services that can fulfill social needs and/or serve overlooked customer segments
- Redefining the measure of productivity in the entire value chain, which could mean new options in areas such as processing, production, selling, marketing, and distribution and generate demand for equipment and technologies that save energy, protect environment, save resources, and support workers
- Ensure local procurement and relying on less dispersed partners through building supportive industry clusters at the firm's locations. This would take care of the social needs of the locality/geography.

Figure 1.3 Components of a Food Value Chain

To Do Activity

Visit the local milk seller in your locality and find out from him the entire process of how he gets the milk for reselling. Does he have his own dairy or does he buy from someone else? Where does he store the milk? How does he ensure that the entire milk gets sold? Draw the entire Supply Chain for this milkman. Now, suggest ways in which value can be added at each step so that all the actors in the chain are benefited.

1.3 Value Chain Analysis

The process of identifying and dividing different activities of a business into primary and support activities and evaluating their contribution towards value creation to the final product, is referred to as Value Chain

Analysis. This is done by studying the inputs and the consequent outputs generated, and then deciding cost and increasing differentiation.

This tool of Value Chain Analysis can help firms assess their competitive strength vis-à-vis competition, by identifying chain activities, within and around the firm and comparing them with those of competition. As we know products pass through the activities in a value chain, and while passing gain value at each stage. A producer uses this tool for strategic cost analysis, analyzing the cost viz-a-viz competitor's cost.

Specifically speaking Value Chain Analysis will not only identify activities that are valuable both in terms of

cost as well as differentiation, but will also identify the ones which need improvement to provide competitive advantage. In other words, a careful look into internal value chain activities can reveal all such activities which help the firm gain competitive advantage as well as all those activities which create disadvantage. A firm competing with 'differentiation' as the core concept, will try to perform all its activities better than the competitors. And similarly, the firm which keeps 'cost advantage' as its core will attempt at performing all its internal activities at a cost lower than the competitors. Profits are earned only when a firm can produce goods at a cost lower than the market price, or can produce goods that are superior than the available alternatives in the market.

Value Chain Analysis can be approached in two different ways depending upon the manner the firm wants to create competitive advantage

1. Value Chain Analysis for 'Cost Advantage'
2. Value Chain Analysis for 'Differentiation Advantage'

There are three stages in Value Chain Analysis

1. **Activity Analysis** In the first stage you map the entire value chain and identify all the activities that are undertaken to from input sourcing to final delivery f the finished goods or service to the final customer.
2. **Value Analysis** The second stage is when you evaluate each activity in terms of the value it is adding to the product/service and how it can be enhanced.
3. **Evaluation and Planning** In the third stage you evaluate whether it is worth making changes. Depending upon your decision a plan for action is created.

The step-wise process under both the approaches is given below

Traditionally the primary activities were considered most important as they were the ones which gave the maximum competitive advantage. But now increasingly the support activities are gaining importance as they are creating real differentiation. E.g. technological innovations and technology enabled processes are providing competitive advantage to most successful firms. Activities like ‘information systems’, ‘general management’ or ‘R&D’ are nowadays become most important and they are the source of differentiation advantage. Primary activities are usually the source of cost advantage and cost can be easily identified foreach activity through a value chain analysis and managed to the advantage of the firm.

Table 1.2 Steps of Value Chain Analysis

Cost-Advantage Approach	Differentiation-Advantage Approach
This approach is used when organizations try to compete on costs and want to understand the sources of their cost advantage or disadvantage and what factors drive those costs. Examples Amazon.com, Walmart, McDonald's, Ford, Toyota	The firms that strive to create superior products or services use differentiation advantage approach. Examples Apple, Google, Samsung Electronics, Starbucks
• Step 1. Identify the firm’s primary and support activities. • Step 2. Establish the relative importance of each activity in the total cost of the product. • Step 3. Identify cost drivers for each activity. • Step 4. Identify links between activities. • Step 5. Identify opportunities for reducing costs.	• Step 1. Identify the customers’ value-creating activities. • Step 2. Evaluate the differentiation strategies for improving customer value. • Step 3. Identify the best sustainable differentiation.

Cost Advantage

There is a five (5) step process to Analysis Value Chain for assessing cost advantage

Step 1

Identification of the primary and support activities of the firm. Each activity, from sourcing, receiving and storing raw material to processing, marketing, selling and after sales activities, are clearly identified and separated from each other. Thorough understanding of the entire operations of the firm is essential at this step. It is worth mentioning that value chain activities are not always organized in the same way as the firm itself. It is important to view each activity and see what value for the customer is being added and delivered.

Step 2

Each activity has its own relevance and in this step we need to establish the relative importance of each activity in the overall cost of the final product or service. In other words, the total cost of manufacturing goods or services must be broken down according to the activity and the relative importance of each is established. Now each activity can be benchmarked against similar activity of competitors, efficiency or inefficiency established using Activity Based Costing.

Step 3

Cost drivers for each activity are identified, as these drivers alone will help the analysts to improve them for better efficiency. For example, costs for labor-intensive activities will be driven by hours of labor put, speed of work, wages paid, etc. Different activities will have different cost drivers.

Step 4

All activities in a value chain are interlinked. In step 4, we identify the linkages between the activities and whenever there is a cost alteration in one activity there is bound to be an impact of the linked activities. Generally, reduction in cost at one activity leads to consequential reduction in subsequent activities. For example, in a firm engaged in manufacturing automobiles, a design change can lead to fewer requirement of components in the product which may lead to less faulty parts and lower service costs. In other words, identifying linkages between activities will help a firm understand better, how cost improvements at one activity can have a cascading effect in the entire value chain. Also, we have to be wary of the fact that sometimes-cost reductions in one activity can lead to increased costs for some other activities.

Step 5

Once the linkages are established between activities, the job is to identity areas where cost reduction can be done. By now the firm is aware of the inefficient activities as benchmarked against competition and the cost drivers. It can easily plan ways to improve the situation. E.g. If high wages to labor is a cost driver, then the company can try increasing speed of production or moving to automated process.

Differentiation Advantage

When the focus of a firm, for building competitive advantage, is not 'cost advantage' but 'differentiation' then the Value Chain Analysis has to be done differently. This becomes all the more important because in most cases the differentiation is enabled through creating superior products, adding additional features and catering to diverse customer needs. All this might lead to a much higher cost structure. On the one side this is essential to counter market forces, while on the other side it is necessary to understand whether the customer will appreciate the worth of the additional cost. A Value Chain Analysis will surely help to rationalize the activities and thereby help decision makers in the firm on improvements. The steps followed in this case are

Step 1

At the outset the entire value chain has to be mapped, from input sourcing to finally delivering the product/service to the consumer. Each activity has to be carefully evaluated and assessed in terms of their importance in creating value for the customer. All activities create some or the other value for the customer, but we now focus on the activities which create the most customer value. For example, the success of Apple products can be attributed more to their successful marketing activities than the great product features. There are many other companies who have similar high-quality features too but could not attain the type of pull Apple has.

Step 2

In this step the firm has to take a decision on which differentiation strategy would best suit them to gain competitive advantage. There are different alternatives for differentiation out of which the firm has to choose the one/s they want to implement

- Differentiation through added product features;
- Differentiation through increased focus on customer service and responsiveness;
- Provide customization to customers;
- Offer complementary products to customers.

Step 3

The catch is that the firm has to choose a strategy which is long-term as well as sustainable. In this step the best strategy is chosen which can help them gain and maintain competitive advantage. Usually, competitive advantage through better differentiation and improved customer value is an outcome of many interrelated activities and strategies employed. The combination giving the best results need to be identified and pursued for sustainable differentiation advantage.

To Do Activity

Study the Supply Chain model of Reliance Fresh and draw the same. Break each activity into as many single activities as possible. Now, apply the Vale chain Analysis concept to evaluate the process. Discuss with your friends and come up with suggestions.

1.4 Applications of Value Chain Management

For successful implementation of Value Chain Management, any organization should fulfill the following six requirements, which would help the organization contain costs and succeed in today's ultra-competitive business environment.

1. **Research and Development(R&D)**

   This step is to study the market, survey the customers and assess what your customers actually want. A careful analysis of the data can provide deep insights into what the customer expects from companies and product offerings can be crafted as per feedback collected. On the rural business level, this could mean working directly with different actors in the value chain and provide alternatives that suit the customers.
2. **Product Design**

   Based on the feedback received from the R&D stage, new offerings are identified or existing offerings are upgraded to meet the anticipated demand from the market. Now before full-scale production of the new offerings they need to be tested, and any shortcomings refined. Firms which are engaged in producing services, also follow a similar planning process.
3. **Production Process**

   One of the major factors governing the success or failure of a product is the place where the product is being produced/manufactured. When we analyze from a value chain perspective, the place of production can affect quality of the product/service, the cost and the value created. Since the time of globalization, a level playing field has been created thanks to many firms resorting to global sourcing and global manufacturing.
4. **Marketing and Sales**

   Competitive advantage cannot be gained only by providing product value. Successful firms need to offer service value as well the real differentiator called 'WOW Value'. The 'wow' goes beyond personal attention and service guarantees and warranty. What is that element in a product or service that creates a 'wow' in the hearts of the customer? There is a hotel chain in the US which allows its managers to "…..to permit every employee to spend upto $2000 to make any single guest satisfied". This was reported in the "Forbes" magazine of

Oct. 30, 2009. This gesture from the side of the management was instrumental in employees creating 'wow' experience for their customers.

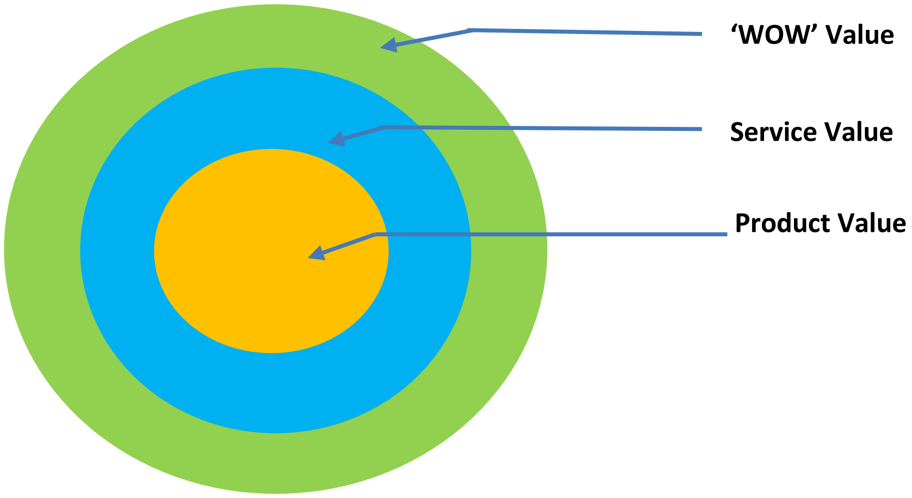

Figure 1.4 Value Offerings of a 'Successful Product'

5. **Distribution Management**
   Distribution management pertains to all those actors and activities in the value chain which are necessary for carrying the finished goods from the manufacturing point to finally the end customer through various intermediaries. Logistics, warehousing, material handling, packaging, transportation, stores etc are critical linkages in a value chain. And in today's digital age when ecommerce is becoming increasingly popular and cost efficient, distribution management becomes a very critical factor in any value chain. Also since the business environment is very volatile nowadays, thanks to technology, the systems and processes are all subject to review and change from time to time.
6. **Customer Service**
   Oftentimes lack of knowledge about product usage amongst customers leads to very good products failing in the market. Similarly lack of complaints handling, non-availability of spare parts, or lack of trouble shooting mechanisms etc., can be a major bottle neck in the success of any value chain. To ensure that value gets created through these support activities, the employees need training who in turn can educate the customers. Once the product or service has been sold, the customer expects that the firm will take care of the problems related to the product. This final link in the value chain is refined as needed and is used by the firm to collect feedback as well as measure customer behavior.

Though implementing Value Chain Management is encouraged, however firms should ensure clarity on a number of aspects before jumping into implementation. These aspects are

1. **Defining Value Chain,**The firm should first clearly identify the business units/products that is to be considered for implementing Value chain management, identify key functions and identify all relevant activities within each function
2. **Capturing Cost Data** The overall cost has to be divided amongst functions and within each function the cost has to be assigned to various activities of the value chain.

Identify competitors and assess their pattern of allocating cost to their activities. Identify the gaps and act accordingly. A firm should to compare its cost with competitors to understand the competitor's strategy.

3. **Controlling Costs** For each activity there is a cost and each of these have a cost driver. Identify the cost drivers for each activity and control them using appropriate strategy. For example
   a. For improving scale increase product lines and manufacturing facilities
   b. Linkage between actor and activities the supplier scheduling can be controlled, the location of warehouse can be altered, there could be review of the payment policies
   c. Timing of purchase of a technology or product could be a factor in cost reduction. Acquire when the prices are low, but not at the cost of sales.
   d. Investment Since value chain emphasizes on cost, focus on technology that helps reduce costs
   e. Procurement Keep Shelf Keeping Units (SKUs) to the minimum requirement for supply base for better volumes.
4. **Cutting Buyer's Cost** To enable that the buyer also does not end up spending more, the following guidelines can be followed; Follow these simple guidelines,
   a. Ensure lower setup time and cost
   b. For buyer's looking for finance, decrease the financing cost
   c. Rather than to spend money on spares and maintenance, improve the quality of the product which in turn will reduce inspection
   d. Better and improved quality will automatically reduce maintenance
   e. Buyer doesn't want to wait, speed up the processing time
   f. If possible, reduce required monitoring and control
5. **Determining Purchasing Criteria,**It always helps to gauge the customers behavior, understand his or her motivation behind the purchase. If a firm can figure out the key factors which govern the buyers' decision-making process then they can provide favorable delivery timing or improve product features, packaging and appearance or improve after sales/service
6. **Reconfiguring Value Chain** There should be no fixation in terms of the value chain flow. The firms can look at changing the way the activities are being done from time to time.

Example of Application of Value Chain Management

Starbucks A Successful Value Chain Model

The Starbucks journey began with a single store in Seattle in the year 1971 to become one of the most recognized brands in the world. Starbucks mission is "to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time."

Beginning from the process of obtaining raw materials to the final sale of the product, there are several steps involved in bringing a product to the market and to the customer. All of these activities add 'value' to the product. A value chain analysis provides the companies with a view of the activities in their production process. Managers can find out which parts can be optimized for better performance. This type of optimization does not just bring efficiency but can also be a source of competitive advantage. Aligning and optimizing the activities in the value chain enables the company to generate the expected results by reducing costs and increasing operational efficiency. The activity-wise break-up of Starbucks' value chain is given below

Primary Activities at Starbucks

1. **Inbound Logistics**

   Company-appointed coffee buyers select the finest quality coffee beans from Latin America, Africa and Asia. The green/unroasted beans are purchased directly from the farms by the Starbucks buyers, transported to the storage sites, and then roasted and packaged. The company does not outsource its procurement, ensuring high quality standards right from the point of selection of coffee beans. They are then sent to distribution centers, a few of which are company owned and some of which are operated by other logistic companies.

2. **Operations**

   Starbucks operates in 65 countries, either in the form of direct company-owned stores or licensees. Starbucks has more than 21,000 stores internationally, including Starbucks Coffee, Teavana, Seattle's Best Coffee and Evolution Fresh retail locations. According to its annual report, the company generated 79% of its total net revenue during fiscal year 2017 from its company operated stores while the licensed stores accounted for 10.5%.

3. **Outbound Logistics**

   There is very little or no presence of intermediaries in product selling. The majority of the products are sold in their own or in licensed stores only. As a new venture, the company has launched a range of single-origin coffees, which will be sold through some leading retailers in the U.S.; these are Guatemala Laguna de Ayarza, Rwanda Rift Valley and Timor Mount Ramelau.

4. **Marketing and Sales**

   Starbucks invests more in superior quality products and high level of customer service than in aggressive marketing. However, need-based marketing activities are carried out by the company during new products launches in the form of sampling in areas around the stores.

5. **Service**

   Starbucks aims at building customer loyalty through its stores' customer service. The retail objective of Starbucks is, as it says in its annual report, "to be the leading retailer and brand of coffee in each of our target markets by selling the finest quality coffee and related products, and by providing each customer a unique Starbucks Experience."

Support Activities at Starbucks

1. **Infrastructure**

   This includes departments like management, finance, legal, etc., which are required to keep the company's stores operational. Starbucks' well-designed and pleasing stores are complemented with good customer service provided by the dedicated team of employees in green aprons.

2. **Human Resource Management**

   The committed workforce is considered a key attribute in the company's success and growth over the years. Starbucks employees are motivated through generous benefits and incentives. The company is known for taking care of its workforce, a key reason for a low turnover of employees, which indicates great human resource management. There are many training programs conducted for employees in a setting of a work culture which keeps its staff motivated and efficient.

3. **Technology Development**

Starbucks is very well-known for use of technology, not only for coffee-related processes (to ensure consistency in taste and quality along with cost savings) but to connect to its customers. Many customers use Starbucks stores as makeshift office or meeting place because of the free and unlimited WiFi. Back in 2008, the company launched a platform where customers could ask questions, give suggestions and openly express opinions and share experiences; the company has implemented some of the suggestions, including for its rewards program, from this forum. Starbucks also uses Apple's iBeacon system, wherein customers can order a drink through the Starbucks phone app and get a notification of its readiness when they walk in the store.

(Source https//www.investopedia.com/articles/investing/103114/starbucks-example-value-chain-model.asp)

To Do Activity

Form teams of four students each. Visit your college canteen and observe the manner in which it is managed. Can you map the entire operations in the canteen? Once mapped can you apply Value Chain Management concept for better efficiency? Present it to your teacher and take his/her inputs.

1.5 The Rural Value Chain

As we know Value Chain is not an object that we can see. It is simply a useful way of understanding how the world of sourcing, producing, buying, selling and servicing things works. In some or the other way, we are all part of the Value Chain –may be as a consumer, producers, processor of goods and services, retailers, finance providers, etc. As consumers we all consume food, clothes, foot wear, medicines, books etc which links us strongly with the value chains – chains of grain crops, roots and tubers, fruits and vegetables, legumes, oils, and textiles etc. Such value chains start from the growers and reach out kitchens, bedrooms and study. At one end of the rural Value Chain we have the producers – the farmers who grow crops and raise animals. On the other end are the consumers who eat, drink, wear and use the final products. And in between there are many thousands of people, and small and large businesses. Each person and each business is engaged in one small step in the chain, and each adds value along the way – by growing, buying, selling, processing, transporting, storing, checking, and packaging.

Apart from the people and businesses mentioned above there are many more businesses that play significant role in the entire value chain. E.g. financial institutions like banks provide financial support, governments, as a part of their responsibility of governance frame laws and policies, and agricultural research organizations work towards developing ways for farmers to enhance their productivity. A simple agricultural value chain can be defined as a farm produce reaching the end consumer through a multitude of intermediaries. E.ga basic agricultural product like maize or vegetables or cotton from sourcing inputs likes seeds, fertilizers etc and production in the field to the consumer, through stages such as processing, packaging, and distribution. Even subsistence farmers, who are not large producers, form a part of the value chain. The vast majority of small holding subsistence farmers grow some crops or raise some animals for sale. Even in the most remote areas, many subsistence farmers are connected to markets, and sell small amounts of their produce in local markets or to traders who visit the farm. It can be safely said that value chains are all about human interactions. It is about linkages between people and businesses who transfer or exchange products, money, knowledge and information. In an effective value chain, people at different stages of the chain actively support each other. The inherent benefit of a value chain is that everyone in the chain supports everyone else, everyone does their job more efficiently, and everyone's livelihood is gets improved. Each person in the chain shares the common goal of satisfying consumer needs in order to increase their own profits.

The rural value chain concept has been used primarily by those working in rural development in developing countries. There is no universally accepted definition of the term, but it normally refers to the whole range of goods and services necessary for any rural/farm-based product to move from the farm to the final customer or consumer.

As mentioned in the previous units the primary objective of rural Value Chain Management is to ensure all actors in the chain cooperate to produce higher-quality products and generate more income for all actors along the chain. As was discussed previously, Value Chains differ from Supply Chains, which refer to logistics the transport, storage and procedural steps for getting a product from its production site to the consumer**.**

Look at typical activities in any farming business as shown in Figure 3 below

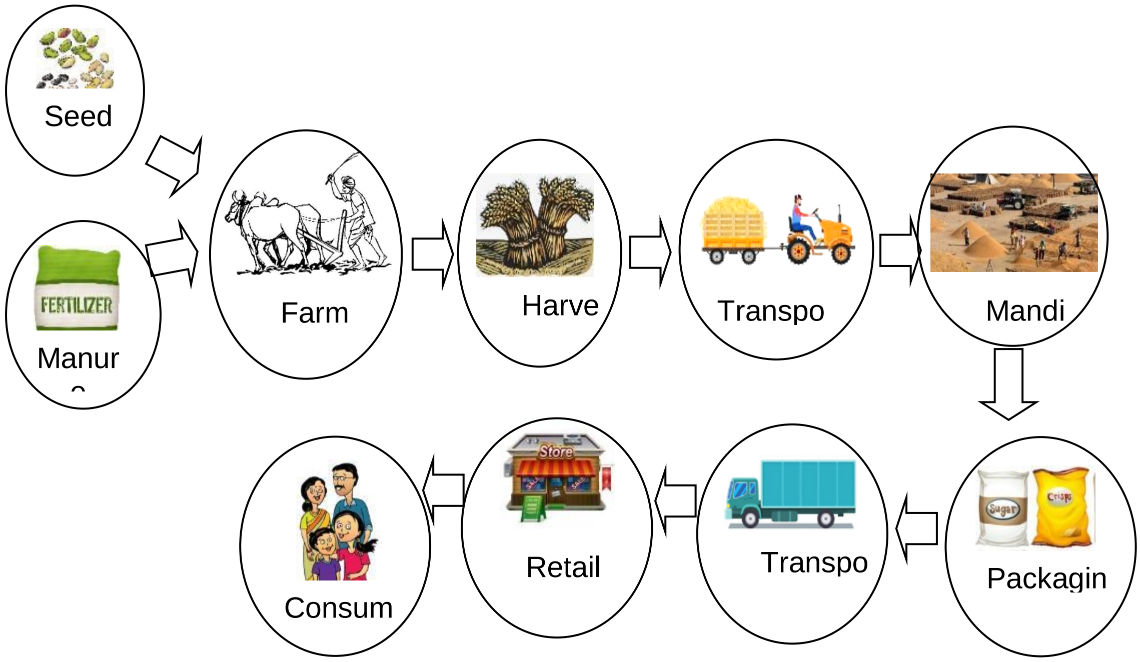

Figure 1.5 Activities in a Typical Farming Business

The functions involved in any value chain can range from flow of products, to knowledge and information, to finance, payments, as also the social capital needed to organize producers and communities. Similarly a rural value chain might include research &development of farm inputs like seeds etc., dissemination of plant and animal genetic material, supply of inputs, farmer organization, farm operations, post-harvest handling, processing, provision of technologies of production and handling, grading criteria and facilities, cooling and packing technologies, post-harvest local processing, industrial processing, storage, transport, finance, and feedback from markets.

Agriculture in our country often has dual value chains operating in parallel for the same product one informal or traditional, and the other formal or modern. Small holders are frequently involved in informal chains that deliver products to local middlemen and then to small local stores. Formal value chains can deliver the same product, usually in better or more uniform quality, from larger farms or more organized groups of small farmers to more commercial wholesalers and from there to supermarkets or exporters. This duality has been accentuated by the explosive growth of supermarkets in developing countries. It can limit many small producers to markets characterized by low-quality products, and low prices and low returns for them — hence a frequent concern is to find ways to integrate small producers into more modern value chains, both domestic and export-oriented.

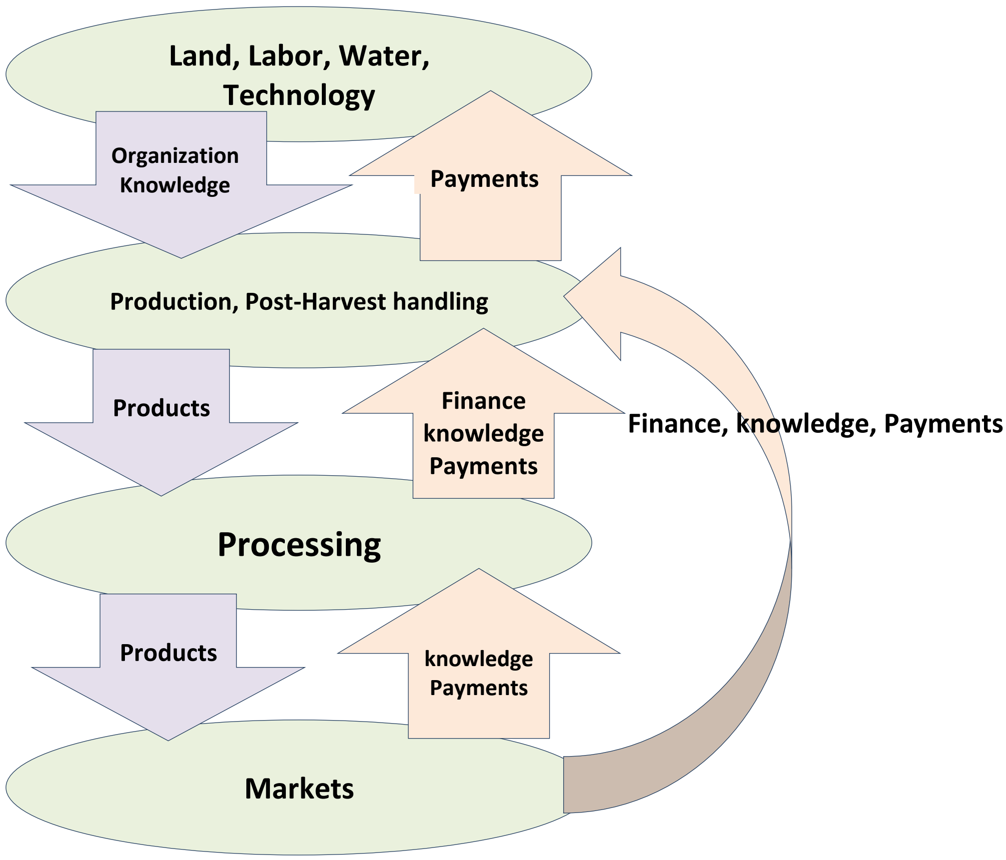

Figure 1.6 Overview of Rural Value Chain

Farmers have the potential to expand their returns if solutions were found for value chain issues such as

1. Poor quality of seeds and varieties inappropriate for the various uses.
2. Poor quality of product at harvest, with grains of inconsistent size and coloration.
3. Inadequate threshing techniques and post-harvest drying and storage, which reduce quantity and market quality.
4. Inadequate grading.
5. Insufficient market development and communication with markets regarding varieties and quality of produce desired.
6. Insufficient training and finance for improved post-harvest management.

Linking Farmers to Markets

One of the major activities of rural value chain development is linking producers to companies. Companies like Hindustan Unilever have fully integrated value chains that do not involve small-holders. Companies like Unilever operate tea estates and tea processing facilities in Kenya, blend and pack the tea in Europe, selling it as Lipton, Brooke Bond or PG Tips brands worldwide. Bulk of rural value chains involve sale of produce to companies from independent farmers who could be doing contract farming for the company. Under contract farming the farmer undertakes to supply agreed quantities of a crop or livestock product, based on the quality standards and delivery requirements of the purchaser, often at a price that is established in advance. Companies often also agree to support the farmer through input supply, land preparation, extension advice and transporting produce to their premises.

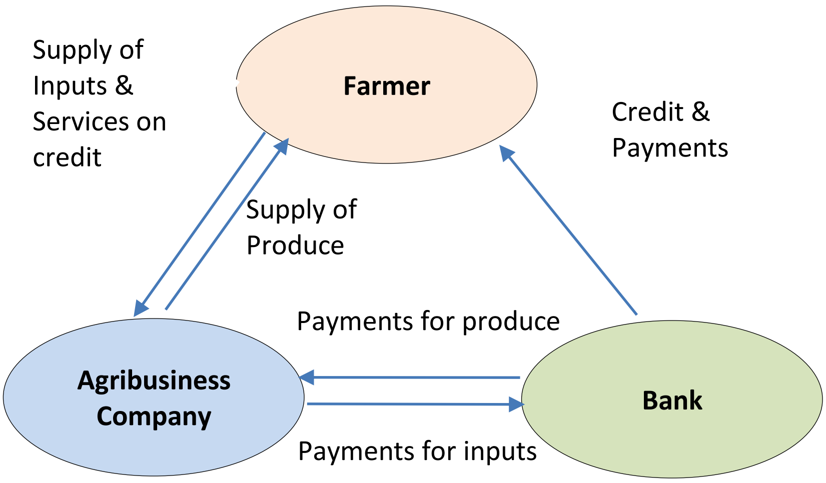

Figure 1.7 Tri-partite Model of Contract Farming

Rural Value Chain Finance

Rural value chain finance ensures the flows of funds to and within a Value Chain to meet the needs of different actors for finance. It could be to secure sales, to buy seeds, fertilizers, technology, or produce, or to improve efficiency. Creating such a Value Chain involves a holistic approach to analyze the chain, those working in it, and their inter-linkages. The linkages would facilitate financing to flow through the chain. For example, inputs can be provided to farmers and the cost can be repaid directly when the product is delivered, without need for farmers taking a loan from a bank or similar institution. This is common under contract farming arrangements (Figure 5). Types of rural value chain finance include product financing through trader and input supplier credit or credit supplied by a marketing company or a lead firm. Receivables financing is yet another way where the bank advances funds against an assignment of future receivables from the buyer and factoring in which a business sells its accounts receivable at a discount. Also asset collateralization falls under value chain finance, which is on the basis of warehouse receipts, and risk mitigation, such as forward contracting, futures and insurance**.**

ICT and Rural Value Chains

Information and Communication Technologies (ICT) have become an important tool in promoting rural value chain efficiency. Increasing affordability of mobile technology is playing a major role in the rapid expansion of rural value chain. Applications can support farmers directly through SMS messages.

ICTs are also being used to strengthen the capacity of extension officers and NGO field staff to reach farmers with timely and accurate information and, at the same time, help capture data from the field. The Grameen Foundation's Community Knowledge Worker (CKW) programme is an example. Farmer representatives are trained to use ICT applications on a smartphone to provide agricultural information and extension support. Most market price information is now delivered to farmers via SMS.

CC Mobile App A Farmer's App

Tracking health metabolic metrics and delivery of a parcel is a norm but this app goes beyond it. Interestingly, this time for farmers. Actually, "CC" is an acronym for Connected Crops and the app, compatible with Android and iOS, tends to connect farmers with their crop. The users can read the environment metrics like temperature, humidity, wind velocity and moisture remotely. They can also compare those metrics over a period of time, say weekly, fortnightly or monthly to assess the status of their crop. The sensor readings are available through SMS / email alerts, graphing and historical data.

Cropin Technology Solutions

The idea of providing SaaS based services to agribusinesses came to Mr. Krishna Kumar after observing the agrarian crisis looming large on the rural areas of Karnataka in 2010 where local farmers were facing a gamut of problems ranging from non-availability of finance, climatic vagaries, soil degradation, pest infestation and diseases, operational inefficiencies, and no predictability of yield. Taking a resolution on doing his bit to prevent farmers' suicides and avert the agrarian crisis, Kumar left his high rising career at GE and set up CropIn Technology Solutions- an agriculture technology solutions start-up that would address several pain points of millions of farmers across the country.

CropIn is an intuitive, intelligent, self-evolving system that delivers future-ready farming solutions to the entire agricultural sector. We deliver decisive decision-making tools that bring consistency, dependability and sustainability to agri-businesses. With capabilities of live reporting, analysis, interpretation and insight that span across geographies, we're digitizing every farm, while data-managing the entire ecosystem. Our smarter agri solutions are powered in real-time; for you to archive patterns, predict trends, to make a blueprint for your business in the times to come.

The provide Complete Farm Management solution
(source https//www.cropin.com/)

To Do Activity

Nowadays flowers are sold in cities and floriculture is gaining popularity. Visit the local florist and understand from him the entire process from farm to the streets of your city. Map the entire activities and draw the Value Chain. Is it a Value Chain or just a Supply Chain? Discuss with your friends and teacher.

Model Questions

1. Describe Porter's Value Chain concept? How are Primary Activities different from Support Activities?
2. What is the difference between Inbound Logistics and Outbound Logistics? Explain with the

help of suitable examples.

3. What is the difference between Supply Chain and Value Chain? Give examples to explain.
4. What do you mean by 'actors' in a Value Chain? Explain with the help of examples
5. What are the two approaches to Value Chain Analysis? Explain with the help of examples.
6. What are the different stages of Value Chain Analysis? Explain any one of them
7. What are the key requirements before Value Chain Management can be implemented in a firm?
8. Evaluate the Value Chain Analysis of Star Bucks Coffee and discuss the role of Primary Activities in value creation
9. How is the Rural Value Chain different from Urban Value Chain? Take one example from each and explain.
10. Technology is playing a major role in Rural Value Chain also. How?

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Chapter2 Value Addition through Value Chain

Introduction

Understanding rural value chains and developing them for local and external markets can be a powerful tool for economic upliftment in our country as well as other developing countries. It is all the more true for Indian farmers who produce agricultural products, such as fresh fruits and vegetables that have higher potential for value addition as compared to conventional crops, and if facilities for processing, marketing and distribution are provided, the value of the final product can be enhanced. How does Value Chain lead to value addition to the whole process? In modern market places, businesses no longer compete one-on-one, it is primarily their Supply Chains which compete. It is the Supply Chain which ensures faster delivery of goods and/or services to the customers – be it the finished product to the end consumer or the raw material to the manufacturer or even the finances from a lender to a lendee.

Businesses strive to develop competitive advantage over competitors by continuously striving to improve their processes. These processes could be input processes, operations process, or output processes. Improving the process means nothing but eliminating 'wastes'. We will discuss about the various types of wastes in the subsequent sections.

When all the players in a supply chain, strive to add value to their direct or indirect customers, and in the process keep removing 'wastes' in the processes, then the supply chain becomes a value chain. Or in other words we can say when value is added in a supply chain, it becomes value chain.

Objectives

This Chapter will help students to understand, through examples, how value addition can be done during each activity in a business process. The conceptual framework of rural value chains includes a sequence of value adding activities, from production to consumption, through processing and marketing. Each segment of a chain has one or more backward and forward linkages. A rural value chain identifies the set of actors and activities that bring a basic rural/farm product from production in the field to final consumption, where at each stage value is added to the product. This section will help students develop critical thinking power on how to revisit the existing rural actors and their activities to generate more value out of them.

Structure

- Understanding the Value Addition Process
- Identifying Wastes: The Crucial Steps towards Value Addition
- Activities in Rural Value Chain
- Farm Mechanization: Helping Enhance Value Chain
- Value Addition through Food Processing

2.1 Understanding the Value Addition Process

An agricultural/rural value chain is defined as the actors and activities that bring a basic farm produce, from obtaining inputs and production in the field to the consumer, through stages such as processing, packaging, marketing, sales and distribution. Within each of these activities there would be many steps and each has to be essentially mapped.

Adding value means, creating and offering solutions as per the requirements of the direct or indirect customer/s. The Customer feels like they are getting real value for their money. This can happen through

- Understanding & being close to the customer/consumer
- Committing to quality
- Maintaining a high level of all-round service
- Reacting speedily to competitive opportunities and threats
- Constant innovation

One of the pre-eminent steps towards Value Addition is identifying wastes and eliminating them. To understand this better we need to understand the nature of Agri business in our country, our rural supply chain, our food value chain, and the agriculture marketing in our country.

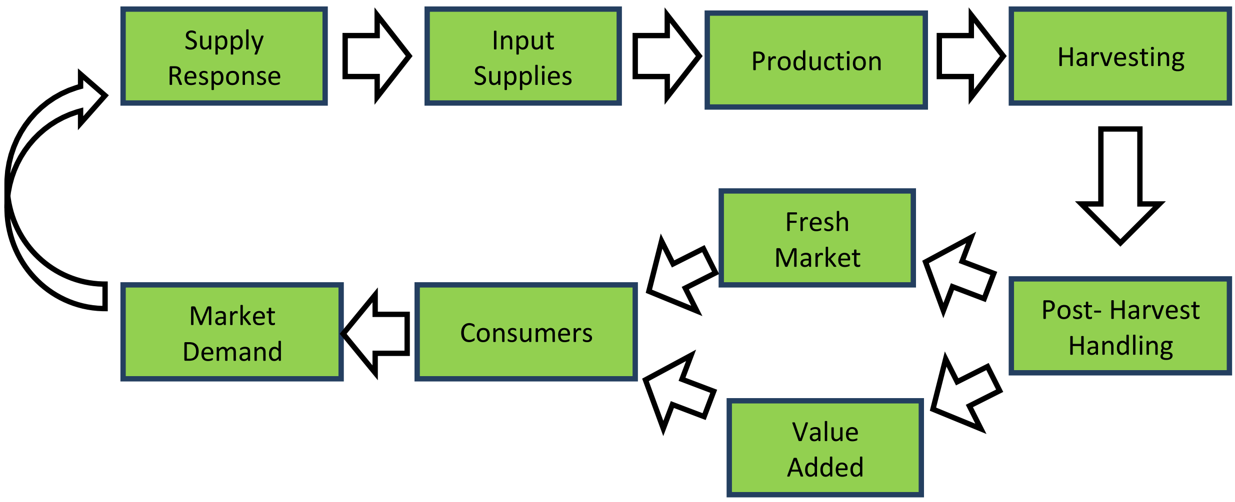

Figure 2.1 Agricultural Value Chain Model

Nature of Agri Business in India

The term Agri-Business was first time defined by Goldberg and Davis in 1957. They explained it as 'the sum total of all operations involved in the production, processing and distribution of farm supplies; production operations on the farm; andthe storage, processing and distribution of farm commodities and the items made from them.' This definition helped established agriculture beyond simply growing crops and raising animals, as an industry. Farm-based activities continue to be the mainstay of developing economies, like India,although there have been major strides in industrialization and tertiarization over past seven decades. Post globalization and opening up of international consumer marketshave offeredgreater opportunities for development of agribusiness and food industry across the world which would also benefit our country, provided they could suitably manage their resources to tap the emerging opportunities. Not with standing all this progress, the sector will face renewed challenges.In a country like India, the role of agriculture and agriculture-based businesseshave greater significance as they the source of livelihood of large sections of the population – directly or indirectly. Moreover, such economies have comparative advantage in agriculture-based industrialization. Thus, agribusiness-led growth has good potential to contribute in sustained economic development of these countries.

Rural Supply Chain to Value Chain

The focus on improving the efficiency of the Supply Chain in agri-business first started in the US and Europe way back in 1990s. The trigger was the growing trend towards consolidation of businesses at various stages of the business. Be it input stage, or farming, processing or redistribution, there was consolidation happening. This further got boosted when the government deregulated agri-business markets. The market was moving towards improved quality management systems and food safety was gaining importance. Globalization spurred global trade and competition in this sector. Urbanization and dietary changes induced changes in not just farming practices but changes in marketing and distribution also. Schemes floated by the Government to promote agribusiness had mixed results, generating more jobs in horticulture as compared to cereal production. New forms of contractual and sharecropping relationships started emerging between private dealers and farmers benefitting the overall business.

Growth in agrobusiness also generated newer demands on the farm sector. The farm output expected by the business was also changing. The demand was for such output which can be more suited to processing. Consolidation, newer forms of relationships, newer demands and support from government necessitated the development of Supply Chain Management (SCM). SCM implies managing the relationships between various 'actor' and 'activities' in the business who are responsible right from efficient production to processing, marketing and distribution, from farm level to consumers. It ensures that the consumers' requirements in terms of quantity, quality and price are reliably met. To meet customers' demands meant managing the relationships between the transactions and between firms as well as the processes within each firm. This provided the players an opportunity to openly negotiate the shares between chain members of the value produced within the chain. SCM also helped joint planning of collaborative strategies to grow the shared value. And shared value contrasts with the usual conflict between agribusiness suppliers and buyers about their relative shares of the value generated.

In spite of the developments, supply chains of most farm produce in India are fraught with challenges. These stem from the inherent problems of the agriculture sector. Players in an unpredictable supply chain could only effectively manage and mitigate challenges if they have access to a proper root cause identification mechanism. In spite of a high farm output, the status of agriculture in India looks pessimistic leading to more questions than answers. A lot of these questions can be answered with the help of an effective supply chain that enables farm produce to reach the end consumer.

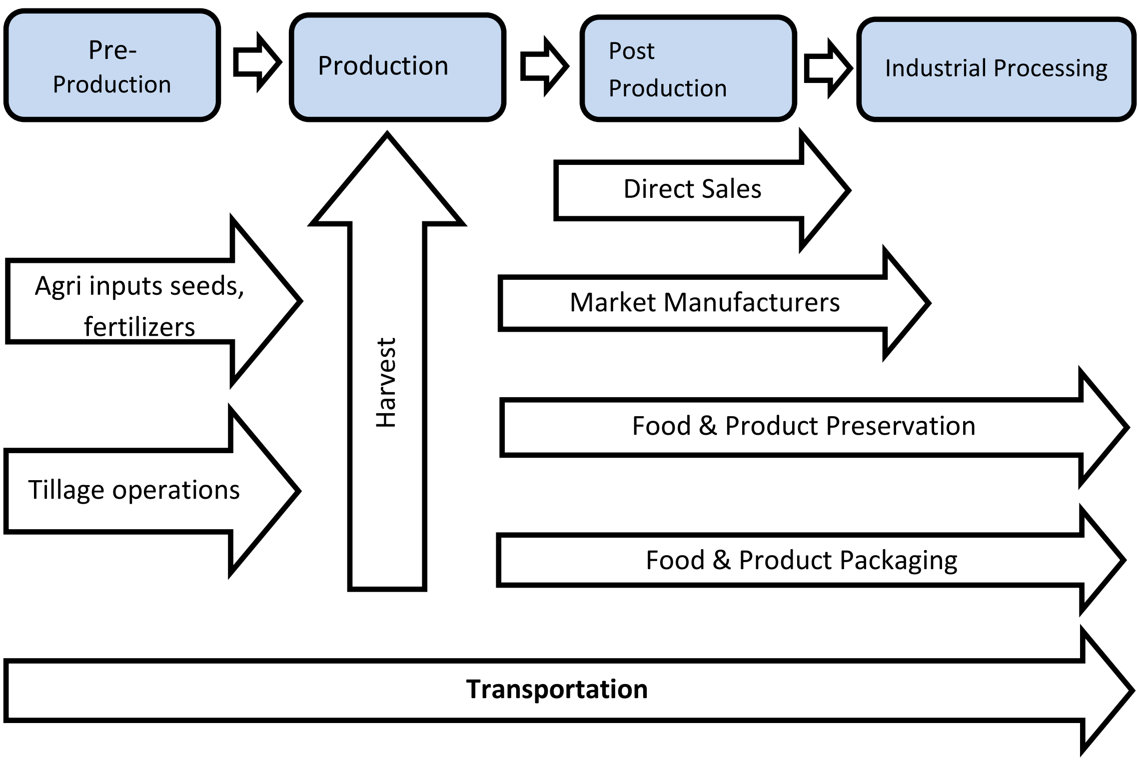

Figure 2.2 A Simple Rural Value Chain

Evolving Food Value Chain Management

We have been witnessing a rapid change in the macro environment factors surrounding us. There is a rise in the levels of disposal income of consumers, their eating habits are changing with more emphasis on fruits, vegetables and animal protein, and a consequential change in the consumer's food basket, etc. This change has spurred a change in the food value chains in our country which are gearing up to meet the requirements of these new market realities. These changed circumstances have also forced a change in the manner in which government schemes are implemented. There have been various legal reforms which now enable private investment in agricultural marketing infrastructure, doing away with various entry barriers to promote coordinated supply chain and traceability.

We see that the food supply chain in our country is highly fragmented. There are large number of intermediaries who provide the much needed, but missing infrastructure. Over the years a layer of intermediaries have evolved who on one side do not add real value to the product but on the other side add significantly to the final cost.

From efficient supply and production at the farm level to meeting the consumers' requirements of quantity, quality and price, this whole process involves many players or actors. And the efficient relationship management of the actors is the primary responsibility of Food or Agribusiness value chain management. In an elaborate value chain the actors include different firms which are aligned horizontally or vertically and value chain management takes care of these relationships as well. Traditionally wholesalers and retailers are considered as intermediaries and are a dominant link in the retail fruits and vegetables logistic chain. The most common challenges faced are

i. Poor transport facilities
ii. Non-availability of large-scale cold storage
iii. No clean policy guidelines from government
iv. Fragmented and small farmers.

Just as there are rapid changes in the consumer level, there are major changes also witnessed at a macro-level – consolidation of intermediary players. Large integrated farms evolved, backward and forward integration started happening when large retailers venturing out into their own farms etc. The thrust area was how to cut down cost by attaining economies of scale. Through reduced costing, the players were looking at developing competitive advantage and consequential larger market share. Globalization opened up new avenues and the government also deregulated agribusiness and withdrew from marketing in several countries. This also helped firms to rethink their business strategy and create new value chain relationships.

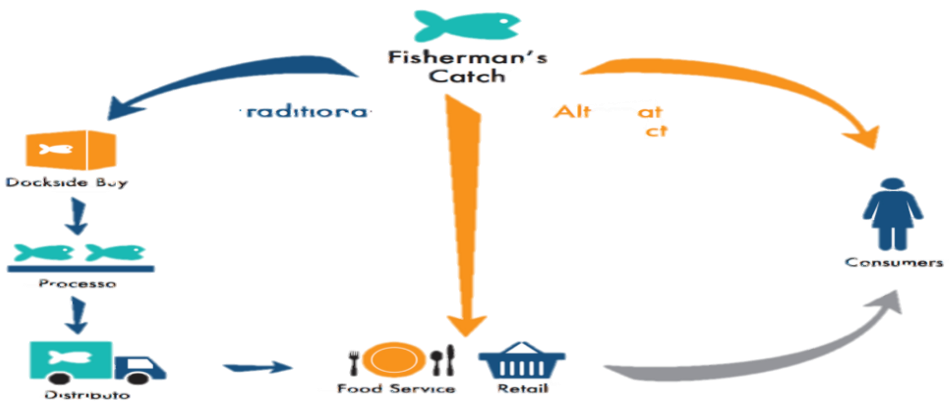

Figure 2.3 Seafood Supply Chain

Agriculture Marketing in India

India has very diverse climatic conditions and this enables the Indian farmer to produce diverse crops across India. Across the year, the farmers of India produce various crops. From the producer to the end consumer, the produce changes hands through various intermediaries. In the process of marketing there are many services which are involved. These are

I. Grading
II. Standardization
III. Packing
IV. Transport and
V. Storage

The Landholding of majority of Indian farmers is small; landholding size of less than 2 hectares is what almost 86% farmers in our country have. In spite of these small landholders making a sizable contribution to the overall food production of the country, their poor scale of production restricts them from accessing large parts of the consumer market. These small landholders have very limited marketable surplus which they are forced to sell at the local markets. Accessing large distant markets would mean transportation cost which the farmer cannot bear. These smallholders are constrained by-

i. Insufficient capital
ii. Scarcity of inputs
iii. Obsolete technology and services
iv. Lack of access to markets

Contract farming, direct marketing, setting up private markets and processing units etc. were initiated after the Agricultural Produce Market Regulation (APMR) Act, was promulgated. This act went a long way in enabling small farmers to achieve economies of scale, through linkages between the various actors or players in the entire value chain like – farmers, processors, exporters, wholesalers, retailers etc. This backward forward linkage helped the evolution of an integrated value chain mechanism for rural produce in the country.

We are all aware that our economy is majorly dependent on Agriculture. And, the production of most agricultural products is affected by a lot of external factors, such as the weather changes, seeds quality, and culture methods, which are not in full control by the supply chain members. The situation gets more complex due to the long lead time in production of the crop. This makes it difficult to adjust the production plan when the climate changes. As far as the farmers are concerned, they lack market information and are not certain of the final output when going into production. They are more or less blindfolded to choose what to produce and how much to produce, especially in the uncertain environment. The agricultural produce market is often fraught with challenges like oversupply of under supply of produce. Such situations reduce the profit margins, which reduces the profit of the actors and hurts their enthusiasms. From a Value Chain Management perspective, reducing these risks by sharing the risks are an important element of Value chain management. Coordinating supply chain has been a major issue in supply chain management research. The contracts between various actors in the supply chain are agreements which govern the pricing and exchange of goods or services between independent members in a supply chain. With improvement in the supply chain as a whole, it has been established that the suppliers as well as the retailers will benefit the most. The different types of contracts that are prevalent in the market are – contracts for buy-back, revenue-sharing, quantity flexibility, sales rebate, two-part tariff, and quantity discount etc.

To Do Activity

Visit the local departmental store and list out all such packaged food products which are being sold there. Find out the farm produce which forms the basic constituent of the packaged food. Find out whether the same food item is available in an unbranded unpackaged form? What is the price difference between the two? Why are consumers willing to pay more for the packaged food? Make a note and discuss with your faculty.

2.2 Identifying Wastes: The Crucial Step towards Value Addition

There are generally seven different types of wastes that occur during the supply chain of most businesses. In rural supply chain these are the ones which have to be tackled to convert the supply chain into a value chain. These seven wastes are

1. **Overproduction (Produce first, wait for orders)**

   Don't deliver the produce before they are needed and avoid "created demand" where a quantity greater than what is needed is requested. Often times this 'waste' is difficult to handle as in our country most farmers rely heavily on nature for a good harvest. And often times good harvest or bad harvest if dependent on factors beyond the control of the farmer. However, with contract farming gaining momentum forecasting the harvest is gradually becoming easier. Below is an example of waste due to over production –

'Waste' due to Over Production

Seikh Mofizul, a potato farmer in Purba Bardhaman district of Bengal, spent sleepless nights. He had lost about Rs.2.80 lakhs he had invested in potato farming with the price of the tuber plummeting owing to overproduction. In 2016-17, 1.15 crore tonnes of potato was produced in the State which was considerably higher than the 90 lakh tonne produced the previous season."I have mortgaged jewellery and some of my lands for growing potato this season and now with the fall in price, I have no way to retrieve the property," Mr. Mofizul told The Hindu. Having lost all hopes of retrieving his investment, he had decided not to take back the 4,500 kg of potato (90 sacks each containing 50 kgs of potato) which he had put in cold storage. The potato farmers were unwilling to take out their crop from the cold storage as they did not have the money to pay for the rent.(the Hindu; Kolkata, January 09, 2018)

2. **Delay / Waiting (between activities)**

   It is often seen that due to lack to proper planning and sequencing of activities there is wastage of time between the end of one activity and the start of the next activity. This wastage of time is categorized as 'delay'. For example, let us consider the time between the arrival of a truck for a pick-up of produce from the farm and the loading of the truck. If the arrival of the truck and the loading of the produce are not synchronized, there will be a 'waste' due to 'delay' or 'waiting'. Another example is the delay between receiving the customer's order information and beginning to work on fulfilling the order is wasteful. Many a times, farmers carry their harvest to the mandi and due to limited space inside the mandi they have to wait outside for days. This not only increases the cost (as the transport vehicle cannot be released) but also increases the chances of damages to the harvest.

'Waste' due to Shortage of Warehousing Facilities

If India cuts post-harvest losses, over 5 cr people could be fed for a year – at Rs 50 per day

India is one of the largest producers of over 80% of agricultural products, including cash crops like coffee and cotton. But largely due to storage, logistic and financing infrastructure inadequacies, harvest and post-harvest losses of major agricultural produce is estimated at Rs 92,651 crore ($13 billion), according food processing ministry data of August 2016. If these were prevented, over 5 crore people could be fed, for a year, at the rate of Rs 50 per day.

While post-harvest losses vary depending on crops, agricultural practices, climate, etc, storage is usually the primary reason in most cases. Most harvested grains, fruits and vegetables are stored in traditional structures, made of grass, wood or mud, without any scientific design, and cannot protect crops against pests and decay. As a result, a bulk of stored commodities is lost to insect infestation, rotting and mould growth. It is reported that only 10-11% of fruits and vegetables cultivated in India use cold storage due to the expense involved and lack of suitable facilities. (Financial Express Oct 13, 2017)

3. **Transportation / Conveyance (that is unnecessary)**

   Many a times when the firm's work place layout is designed properly, there could be lot of 'time' wasted in doing back and forth. The layout of the work place should be in a sequence which should be similar to the sequence of activities in a value chain. This will help avoid unnecessary back and forth movement leading to time 'waste'. In a typical farm the activities of harvesting, processing, storing, transportation etc should be sequentially laid out to avoid delay and back & forth movement.

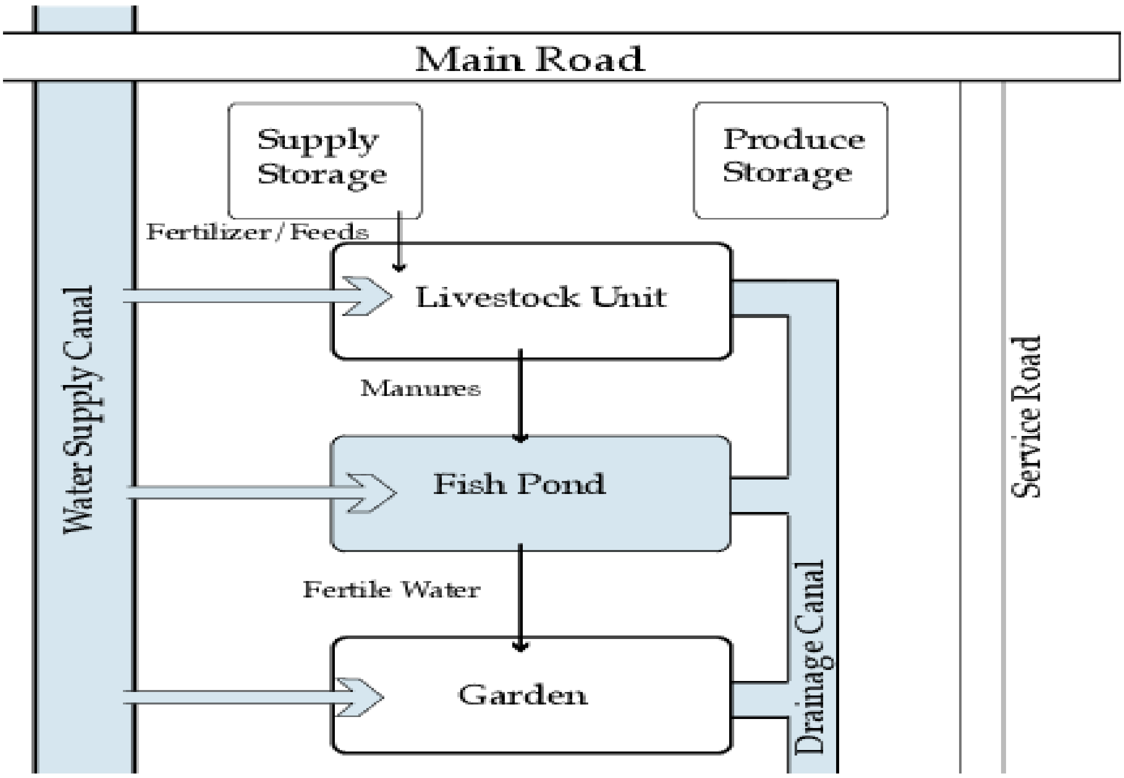

Figure 2.4 Efficient Farm Layout

4. **(Unnecessary) Motion**

   'Motion' waste is another of the most common wastages in any business organization. Unnecessary movement by workers, like simply walking or loitering on the shop floor, reaching and stretching out with no specific business purpose, is referred to as 'motion' waste. This also includes extra travel or transit due to lack of proper and sufficient storage arrangement. Inefficient ergonomic design of packaging work area also leads to unnecessary movement and motion waste. These wastes are predominantly due to –

   - Workers & equipment factors
   - Inefficient ergonomics, unnecessary walking, reaching or twisting
   - Improper positioning of equipment in the work place
   - Poor work place design

5. **Inventory (Mismanagement)**

   Poor inventory management is one of the most common sources of waste in any business organization. Whether less or excess inventory, both lead to 'waste'. Any logistics activity that leads to more inventory being positioned than needed or any activity which results in lack of inventory at the right place, occupying space or allowing space to remain unutilized is categorized as 'waste'. Classic examples are - early deliveries, receipt of order for a quantity greater than requirement, and inventory in the wrong distribution center (DC). The most inventory wastes, due to ill-planning are -

   - Waste in Products, services and information
   - Unnecessary stock of raw materials, parts or Work InProgress (WIP)
   - Excess or low inventory due to products/services not linked to customers requirement or interruption in the chain
   - Making 'extra' products, just in case

6. **Space (Mismanagement)**

   Space lying unutilized is a sure shot waste. This space can be in the packing box, in the carton, it could be in the trailer or in the warehouse. Space comes at a cost and if not utilized properly the cost becomes a waste. Organizations need to first find out the space is being misused/not used, and then explore find better ways to utilize it through improved packaging, storage, and stacking of products.

7. **Errors**

   Human or machine errors often lead to waste. Such errors lead to rework, unnecessary adjustments or returns, such as billing errors, inventory discrepancies and adjustments, and damaged/defective/wrong/mislabeled product. Organizations address this challenge by developing a comprehensive set of performance metrics that align overall execution with strategy and eliminate conflicting performance objectives by department.

‘Waste’ due to Inventory Mismanagement

Despite 22% Fall in Wheat Procurement, FCI Stocks Higher Than Buffer Norms

Despite a sharp fall of 22% in wheat procurement from farmers this year, the Food Corporation of India (FCI) continues to hold higher food grain stock than the prescribed buffer norms.

According to latest data, the food grains’ stock consisting of rice and wheat with FCI and state government-owned agencies at the start of this month was close to 50 million ton against the buffer norm of 41.1 MT. Although the grain stocks have dipped by more than 3 MT from June 1 stocks, the higher grain stock at present is attributed to a record rice purchase in excess of 34 MT in the ongoing kharif marketing season (2015-16).

Thanks to a sharp fall in wheat purchase in recently concluded rabi marketing season (2016-17) to 23 MT from 28 MT purchased from farmers a year back, FCI at present has a wheat stock of 30.2 MT against the norm of 27.5 MT for July 1.

In case of rice, the stock at the start of the month was close to 20 MT which does not include 5.2 MT of rice yet to be received from millers. This is against the prescribed buffer stocks norm (including strategic reserve norm) of 13.5 MT for July 1. A food ministry official acknowledged that FCI has excess rice stock while in case of wheat it is close to the norm.

However, the volume of grain stocks held with FCI at the start of the month has been lowest in comparison to last five years. From 80.5 MT of grain stocks with FCI on July 1, 2012, the volume of stocks has come down by more than 38% to close to 50 MT at the start of this month.

While in case of wheat, the FCI has been offering excess wheat stocks to bulk private purchasers through Open Market Sale Scheme (OMSS), the sale of rice under OMSS has not got encouraging response in last few years. In 2015-16, FCI could sell more than 7.7 MT of wheat under OMSS to bulk buyers while in the current fiscal more than 3 lakh ton has been sold so far. However in case of OMSS (rice), the corporation could sell only a small quantity of grain to bulk purchasers from its excess stocks in FY16.

A high-level committee (HLC) for FCI restructuring chaired by former food minister Shanta Kumar in its report submitted earlier this year had observed that “during the last five years, on an average, buffer stocks with FCI have been more than double the buffer stocking norms, costing the nation thousands of crores of rupees loss without any worthwhile purpose being served”. (Financial Express; By Sandip Das | Updated July 22, 2016 708 AM

Eliminating 'waste' through Containerization

History of Containerization

Modern container shipping celebrated its 50th anniversary in 2006. Almost from the first voyage, use of this method of transport for goods grew steadily and in just five decades, containerships would carry about 60% of the value of goods shipped via sea.

The idea of using some type of shipping container was not completely novel. Boxes similar to modern containers had been used for combined rail- and horse-drawn transport in England as early as 1792. The US government used small standard-sized containers during the Second World War, which proved a means of quickly and efficiently unloading and distributing supplies. However, in 1955, Malcom P. McLean, a trucking entrepreneur from North Carolina, USA, bought a steamship company with the idea of transporting entire truck trailers with their cargo still inside. He realized it would be much simpler and quicker to have one container that could be lifted from a vehicle directly on to a ship without first having to unload its contents.

His ideas were based on the theory that efficiency could be vastly improved through a system of "inter-modalism", in which the same container, with the same cargo, can be transported with minimum interruption via different transport modes during its journey. Containers could be moved seamlessly between ships, trucks and trains. This would simplify the whole logistical process and, eventually, implementing this idea led to a revolution in cargo transportation and international trade over the next 50 years.(http//www.worldshipping.org/about-the-industry/history-of-containerization)

To Do Activity

Find out the entire process followed by your nearest vegetable vendor to procure vegetables from the nearest mandi and finally selling it to end consumers. Map this process. Find out if there are any 'wastes' in the entire process. Suggest alternative process and also calculate the cost saving. Compare the notes amongst friends and check who has the best alternative.

2.3 Activities in Rural Value Chain

Lazzarini et al. 2001 gave an interesting concept of horizontal and vertical linkages between the various actors in a rural value chain. Figure 2.5 below, illustrates a generic 'netchain' comprised of horizontal links between actors within a specific value chain activity (or layers) and the vertical links between actors in different layers. He classified the activities in five different categories – provision inputs, farm production, post-harvest processing, trading and consumption. These formed the horizontal layers within which were multiple actions.

Social network research can help explore how relationships shape the behaviour of individual actors or the performance of a system as a whole. A better understanding of the relations characterizing value chains can help identify opportunities and constraints faced by agricultural producers, as well as bottlenecks of the system as a whole.

In a typical agricultural Value Chain, the various activities can be categorized as follows

i. Input Provision – this means providing seeds, water, manure/fertilizers, pesticides, insecticides etc.

ii. Cultivation of the crop – the producer/farmer grows, harvests, cuts, dries and splits the crop

iii. Collection – the farmer has to collect the harvest, he grades the produce, stores for future processing and transports to other destinations.

iv. Production – the produce can go through any or all of these processes – it is dried, woven, molded, treated and finally stored.

v. Export – the activities involved here are – collection, storage, transportation.

vi. Import – the activities involved in this step are Quality Control, storage and transportation.

vii. Retail Consumer – here the produce has to be stored and then sold to the consumer.

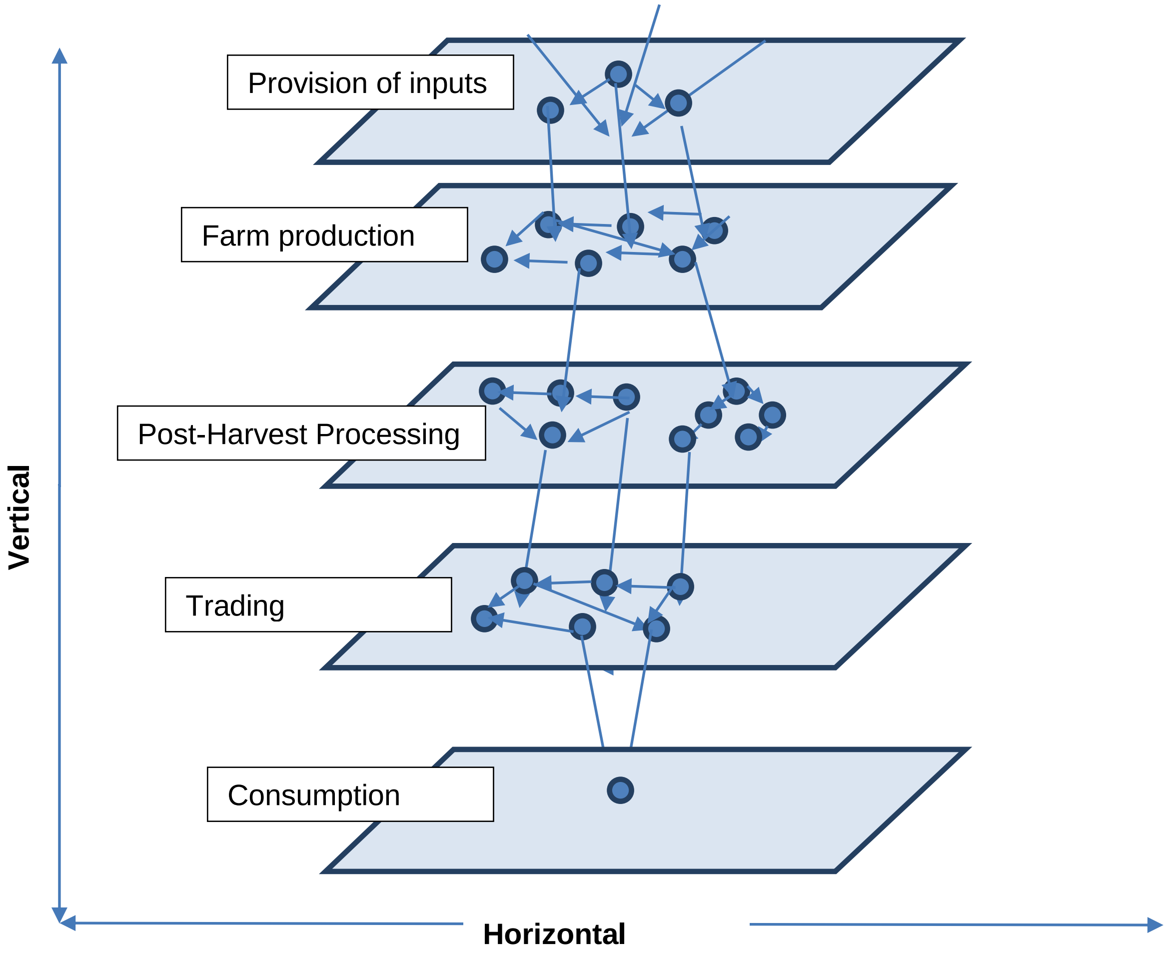

Figure 2.5 A generic 'net-chain' with horizontal and vertical linkages between actors

Source Illustration adapted from Lazzarini et al. 2001

To Do Activity

Study the various activities in the production of cereals like wheat, rice etc, and vegetables. Compare the supply chain of these two from input stage to final distribution stage. Do you think, there is any major difference in the two?

2.4 Farm Mechanization Helping Enhance Value Chain

The agricultural value chain typically starts from the preparation of the soil for cultivation, sowing of the seeds, manuring and fertilizers, watering, pest & insecticide control, harvesting, post-harvest processing, packaging, distribution/marketing and finally consumption by the end user. During this entire process factors like manpower training, knowledge dissemination, financing, insurance etc all get involved. One of the key factors responsible for enhanced farm production has been farm mechanization. This has been identified globally and in India too this has been identified as one major factor which can help increase farm production. At each step in the production cycle, the efficiency can be increased with the use of mechanized equipment. This will reduce labor time and post-harvest loss along with lower production cost in the long term.

The different types of farm equipment used for different farming activities are

- Seed bed preparation - Tractors, Leveler, Ploughs, Dozers
- Sowing and planting - Drill, Seeder, Planter, Dibbler
- Weeding, inter cultivation, plant protection - Harrow, Tiller, Sprayer, Duster
- Harvesting and threshing - Harvester, Thresher, Digger, Reaper
- Post-harvest and agro-processing - Seed extractor, De-husker, Huller/ Dehuller, Cleaner, Grader

Traditionally the Indian farmer was dependent of human and animal power for various activities in the farm – from tilling the SOIL to irrigation and harvesting. With the trend towards mechanization, more and more equipment and tools are accessible to farmers. Most of this farm equipment like tractors, harvesters, combine etc. are easy to operate, fossil fuel driven. Farmers are gradually shifting from the traditional agriculture process to a more mechanized process. The increasing number of tractors sold in India, year-on-year, is a reflection of the growing mechanization of agriculture in our country. One practice very much prevalent in India, especially with the small landholders, is the custom hiring of farm equipment. The farm equipment, like a tractor, which he cannot buy on his own, is hired by the small farmer from a rich large farmer who owns it. For a small farmer, first it is not economical to buy a tractor for his small landholding; secondly the small farmer might not have the financial strength to finance the tractor. On the other hand, the large farmer gets better utilization of his investment in the farm equipment.

Having understood the critical role mechanization plays in the enhancing the growth of our agriculture business, the Government of India is therefore encouraging farm mechanization and offering attractive subsidy of purchase of farm equipment. The government subsidy is also available for bulk purchase of farm equipment from front-end agencies. The government also promotes manufacturing of farm equipment at local level by providing credit and financial support. This definitely helps reduce the repayment burden on the farmer. Since labor is scare nowadays and government funds are available, adoption of farm mechanization is all setto increase in future. Locally made farm equipment like – mini-tractors, tillers, turners, sprayers, milking machines, etc. are all encouraged to be manufactured locally. In India most farmers prefer this small equipment manufactured locally. This is because of the small and irregular farm sizes, lack of machinery available for smaller land holdings, lack of awareness and skills amongfarmers and inability of farmers to afford more advanced technologies. Small tools have also been developed for all levels of the 'value chain". As per one statistic, in 2010 India had an agricultural labor force of 269.74 million and the estimated number of hand tools in use was 809.22 million.Or it can be said that for every labor there were 3 hand tools. The flip side of using hand tools is 'accident'. Many studies (ICAR study (2004-2007)) have shown that 34.2% accidents in our farms is due to small tools. Injuries through hand tools are grievous and often difficult to heal as these injuries are deep and it takes time for the victim to reach the hospital. The recovery time taken for over 70% persons was over seven days, as per a survey conducted.

Table 2.1 Extent of Mechanization at Various Level of Value Chain

Soil working and seedbed preparation	40%
Seeding and planting	29%
Plant protection	34%
Irrigation	37%
Harvesting and threshing	60-70%

(Source Grant Thornton-FICCI report)

Benefits of Farm Mechanization

Farmers of India have not just benefitted economically due to mechanization, but have gained social dividends as well. The most significant amongst the economic benefits is the increased yield of their crops as a result of better tilling, sowing and irrigation using modern equipment. Dependence on monsoons for their irrigation requirements has been now a thing of the past.

Input Savings

Research has proven that there is a direct correlation between level of mechanization of the farm (farm power availability) and yield of the farm. Mechanization has helped farmers in multiple input savings. Some of these are

- Seeds (approximately 15-20 percent)
- Fertilizers (approximately 15-20 percent)
- Increased cropping intensity (approximately 5-20 percent)

Increase in Efficiency

Mechanization of the farms has also helped improve the efficiency of the farm labor. Mechanization has reduced the drudgery and workload of the labor thereby allowing them to perform more productive work. The time taken for various activities in the farm has reduced by almost 15 to 20% because of the use of mechanized farm equipment. It also helps reduce losses incurred during harvesting and post-harvest. These benefits and the savings in inputs help in the reduction of production costs and allow farmers to earn more income.

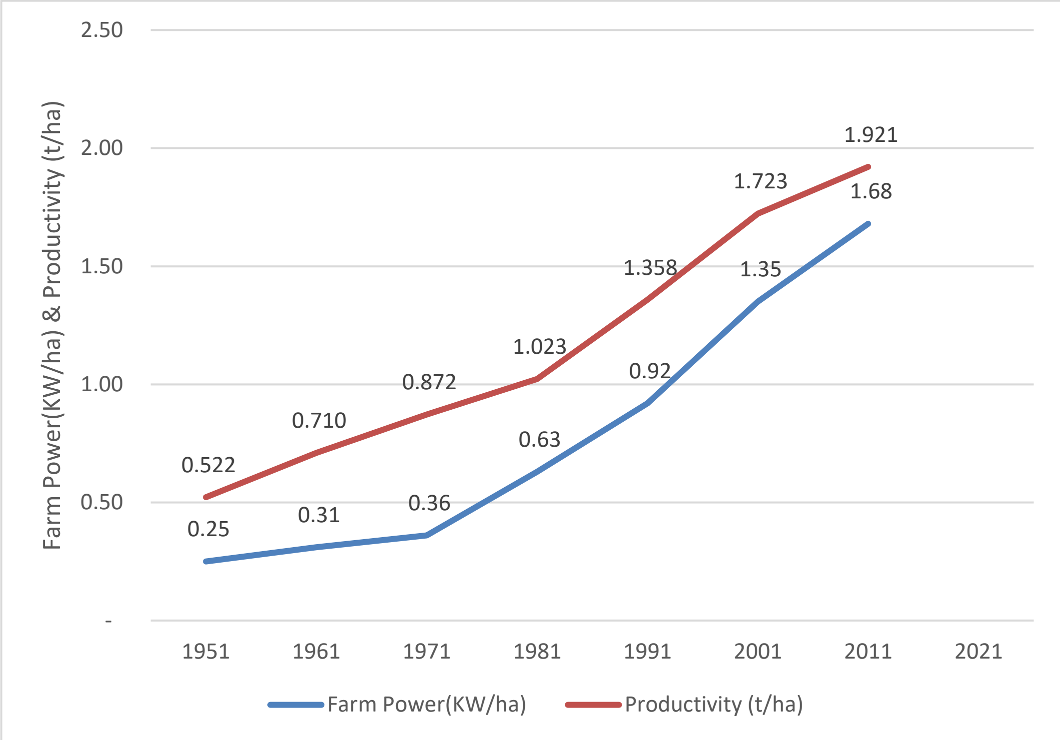

Figure 2.6 Relationship between Farm Power &Productivity

(Source http//www.icar.org.in)

Social Benefits

Apart from economic benefits, there are social benefits associated with farm mechanization as well. Some of these are

- Land, which was uncultivable, could be converted into cultivable land using advanced tilling techniques.
- Land which was used for feed and fodder cultivation for draught animals could be shifted to food production for humans.
- The drudgery and workload of labor in general and women in particular got reduced drastically thereby enhancing the efficiency of field labor.
- Accidents reduced and farm practices became safer.
- Farming became more attractive to the youth and many found it worth-while to return to their villages and practice farming commercially.

Distribution Channels for Farm Equipment

Dealer's Network generally works at a district/sub-district level. These are generally tractor dealers that also sell other implements/farm equipment. Sometime customers have a direct retail option also but that is only possible with very large manufacturers. These retail outlets sometimes work on a franchisee.

Figure 2.7 Distribution of Farm Equipment
(Source Grant Thornton-FICCI report)

To Do Activity
Search the net and list out all types of farm equipment available in the market. Write a note on each on how that equipment is helping improve the efficiency of the farming activity. Compare the notes with your fellow colleagues

2.5 Value Addition through Food Processing

Although the consumption of processed foods in developed countries is very high, the growth rate observed for processed food is not as significant. Also, due to the essential nature of food processing industries, the impact of recent global recession on it was minimal. The global giants in food processing industries, who dominated world consumption in value terms, are facing competition from firms in developing countries which are consciously following policies to encourage the home grown food processing sector. While developing countries like India and China are seeing expansion in retail markets due to urbanization, higher disposable income and life style changes are stimulating the demand for convenience foods. Developed countries on the other hand have seen more demand for health-oriented foods (organic foods, fat free foods, trend away from fizzy beverages, which have empty calories, to fresh juices) and hygiene driven packaging. This also has necessitated insistence on certification that ensure traceability and contamination free foods. In developing countries, emphasis is not so much on such stringent certifications and regulations but more on convenience and life style which has resulted in expanding markets for fast foods and beverages.

The agro-food processing industry in our country faces intense competition. The most reliable organizations focus more on efficiency of processing and prompt distribution. The best part is that in the last global recession, no significant effect was witnessed on the food processing industry. And one of the prime reasons was the rising demand in the market for pre-packaged food. Another important aspect is the ever-increasing automation in this industry. This is also helping reduce labor cost.

India is not just one of the largest producers of food grains, fruits and vegetables, dairy products, marine products, meat and poultry, etc, we are also one the largest consumers in the world. We have the second largest cultivable land in the globe and have over 127 agro-climatic zones. We can also boast of possessing 46 out of the 60 types of soil available on this planet. We are the largest producer of milk, tea, pulses, cashews and mangoes, the second largest producer of fruits and vegetables, wheat, sugarcane and rice. With presence of a large agriculture sector, abundant livestock and cost competitiveness, India has the potential to become a major sourcing hub of processed foods. One are of concern for us is, that despite being the largest producers in many categories, our processed foods account for only a small proportion of the total food production. Developed countries like the USA have historically been the largest producers of food products. The scenario changed in recent times with China, Russia and India increasing their production capacities. The significance of the agro-food processing industry in India is all the more important economically because of the linkages and synergies it promotes between the agriculture sector and industry/manufacturing sector. Growth in food processing sector and the development along the value chain is crucial for the agriculture sector to achieve favorable terms of trade, both in the domestic as well as international market. An efficient food processing industry can provide several benefits such as

- Reduction in wastages and post-harvest losses
- Enhancement of shelf life
- Increment in farm gate prices
- Increment in income level of farmers
- Value addition to food products
- Improvement in food security

Therefore, there is an urgent need to boost the food processing industry considering its vast potential to be the driver of economic growth of the country in the near future. The government of India has launched several infrastructure development schemes to spur investments in the industry. The domestic investment in infrastructure for food processing coupled with FDI is expected to further strengthen the industry. Over the past few years, the food processing industry has emerged as a sunrise sector due to its increasing contribution to the GDP, employment and investment.

Safal the Fruits &Vegetables Project of Mother Dairy

Safal, the Fruits &Vegetables arm of Mother Dairy was the first Company to organize the fruits and vegetables business in India. Today Safal is the market leader in organized fruit & vegetable retail business in Delhi NCR and operates the largest number of F&V Stores in Delhi NCR and has significant presence in Bangalore. Safal was also the first brand in India to launch frozen vegetable in mid 90s. Over the years, the brand has gained significant customer support and has become a household brand with market leadership and presence across the country.

Safal also has a state-of-the-art plant in Bangalore which produces and sells around 23000 MT of aseptic fruit pulp & concentrate annually and supplies to noteworthy companies in food processing space like Coca Cola, Pepsi, Unilever, Nestle etc. Safal also has a prominent presence across 40 countries viz., USA, Europe, Russia, Middle East, Asia and Africa and exports Fresh Fruits & Vegetables (Grapes, Banana, Gherkin, Onion, etc.), Fruit Pulp & Concentrate, Frozen Fruits & Vegetables, etc.

Safal is primarily engaged in retailing of fresh fruits & vegetables, but with unique product offerings like Frozen Peas, Frozen Mixed Vegetables, Frozen Sweet Corn, Frozen Jackfruit, Safal has become a pioneer brand in Frozen Vegetables segment across India. Of late, Safal forayed into various other categories namely Unpolished Pulses, Frozen Snacks, Tomato Puree & Honey with the promise of providing great quality products to the consumers.

Safal is the largest retail chain of fresh fruits and vegetables in Delhi. At present we are operating about 400 retail outlets in Delhi, Noida, Ghaziabad, Faridabad, Gurgaon and 23 retail outlets in

Bangalore which cater to more than 1.5 lakh customers per day. Safal provides around 120 SKUs of fresh fruits & vegetables along with a wide range of Safal Value Added products, Dhara products and Mother Dairy products. Also, it is a matter of immense pride that the Safal retail shops are operated by ex-army men or their dependents.

Source https//www.motherdairy.com/Brands/safal

To Do Activity

Scan the internet and explore all possible farm products that are being processed in India. Compare this with the different types of processing that is being done in developed economies like the USA. Suggest solutions so that India can also expand its food processing landscape. Discuss with your teacher.

Model Questions

1. What do you understand by the term 'Value addition' in agricultural products? Explain with examples.
2. When does a Rural Supply Chain get converted into Rural Value Chain? Can you explain taking fruits and vegetables as an example?
3. How is Value Chain linked to 'wastes'? What are different types of 'wastes'? Give examples.
4. How does 'containerization' save cost? What the different 'wastes' which are eliminated through this process?
5. What do you mean by the term 'net chain'? Take an example from the agriculture sector and explain.
6. How is value chain linked to net chain? Explain with the help of Lazzarini's model.
7. How has farm mechanization helped Value Chain Management? Take the example of a 'harvester' and justify your answer.
8. What are the social benefits of farm mechanization?
9. India is one of the largest meat producers in the world. Can you explain with the help of a diagram the steps in the Value Chain of meat products?
10. What is a 'Cold Chain'? How is it related to Value Chain?

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Chapter 3 Role of Cooperative Movement in Value Chain Development

Introduction

We all know that India is an agrarian economy since ages which today sector contributes barely 17% to our national GDP, as compared to more than 57%post-independence in 1950-51. Whereas lot of emphasis was and is being given to industrialization and urbanization, this sector even today faces the maximum neglect. Farmer suicides, low profitability, low yield, poor warehousing facilities, etc. are witnessed even today when we claim to be a global power of sorts. It was always felt that most of the challenges were because of lack of proper knowledge and awareness about best practices in this sector.Most of the 'knowledge' resource were cornered by the middlemen who exploited the ignorant farmers forcing them to lead a difficult life.

The farmers of India were not an organized lot, and due to low education levels and lack of leadership they could rarely unite. The middlemen took advantage of this weakness of the farmers and exploited them in multiple ways. The money lender would lend money at exorbitant interest rates, and in the eventuality of the farmer not being able to pay, his land was usurped. The trader could bargain a very low price owing to lack of warehousing facilities in the mandis. The produce was subsequently sold to the consumer at a very high price. The major portion of the profit went to the middlemen traders. For perishables like milk, the farmer was always at the receiving end due to absence of cold-chain facilities.

The cooperative movement in the country, in spite of its few shortcomings, helped consolidate the farmers, specially the marginal small ones, giving them the bargaining power to ensured not just better remunerative prices but also access to potential markets. We have seen remarkable changes in the dairy sector, sugar sector, fruits & vegetables, fisheries, poultry etc.

Objectives

This Chapter will help students to understand what were the circumstances which led to the cooperative movement and subsequently, through examples, how cooperatives helped farmers add value to their processes, by ensuring reorganization of the actors and activities of the value chain and effective elimination of various types of wastes. The students will study the genesis of the cooperative movement in India and how various sectors witnessed transformation after adopting the principles of the cooperative model. The Chapter also shares some interesting success stories from different sectors. In the end the Chapter also talks about the challenges of the cooperative model.

Structure

- The History of Cooperative Movement in India
- Role of Cooperatives in Rural Value Chain Creation in the Diary Sector
- Role of Cooepratives in Rural Value Chain Creation in other Sectors
- Value Addition through Agro-Processing Cooperatives
- Challenges of the Cooperative Model

3.1The History of the Cooperative Movement in India

One of the major events that changed the lives of average farmer in India is the Cooperative Movement. Being an organization for the poor, illiterate, small-landholder and unskilled labor, the Cooperatives have played a very significant role in our country. Their significance can be gauged from the following

1. Areas where state and private sector organizations have failed to extend credit/finances, Cooperatives have stepped forward and saved the farmers by providing them loans.
2. Cooperatives provide strategic inputs to the agricultural-sector, especially in terms of sourcing inputs, redistribution etc.
3. Consumer cooperatives have helped the members meet their routine consumption requirements at concessional rates.
4. It helps to overcome the constraints of agricultural development.

Co-operative movement in India was introduced as a state policy and was very much related to theAgricultural sector of India. Towards the end of the 19th Century the peasantry was under the pathetic grip of debtand poverty. The condition of the agriculturists was reallydeplorable. The breaking down of the joint family systems,increase in population and the absence of rapidindustrialization, people depended more on agricultureresulting in unbelievable fragmentation of the land. Divisionand fragmentation of land and consequent formation of morelandless laborer’s made the economic conditions of thefarmers pathetic. Feeling the gravity of the situation, Govtconstituted several commissions to find remedies for the rural indebtedness. Finally, the officials of the Govt of India cameto the conclusion that India must go immediately for cooperative experiments in the lines of the working of theAgriculture Banks of Egypt.

Way back in 1904, the Cooperative Credit Societies Act was introduced. This was the beginning of the cooperative movement. It was a turning point in the economic and social history of erstwhile India, as stated by Mr. Henry W.Wolff. The aim of the Act was, as stated in the preamble, to encourage thrift, self-help and Co-operation amongst farmers, artisans, small-land owners and persons of limited means.

Broadly speaking, the co-operative movement in India can be divided into two parts

(a) Co-operative movement in the pre-independence period
(b) Co-operative movement post-independence

(a) Co-Operative Movement in the Pre-Independence Period

The pre-independence era co-operative movement in India can be clearly classified into four phases

1. Initiation stage (1904-1911)
2. Modification stage (1912-1918)
3. Expansion stage (1919-1929)
4. Restructuring stage (1930-1946).

(i) Initiation Stage (1904-1911)

Money was always scare in India and the small farmers always faced a challenge of buying quality inputs in the absence of formal money lending institutions. This situation was exploited in the earlier part of the 20th century by non-formal institutions and agencies who came to the rescue of the hapless farmers but charged an exorbitantly high rate of interest. Often the situation came to a stage that the farmers had to sell all their belongings to repay the debts. Gradually these money lenders became a big menace for all farmers across the country. In many parts of the country, especially in Pune and Ahmednagar, the farmers organized themselves and spearheaded an agitation against thesemoneylenders. The repeated agitations by the farmers made the government realize the gravity of the situation and ultimately three Acts were brought in by the government viz, the Deccan Agriculture Relief Act (1879), the Land Improvement Loan Act (1883) and the Agriculturists Loan Act (1884). The attempt was to bring relief to the hapless farmers.

An important development was the report called "Find Raiffeissen"**.** This report was submitted by one Frederick Nicholson, who at the instance of the Madras Government in 1892 studied the village banks in Germany organized on cooperative line. The report suggested setting up of cooperative societies for rural credit supply.

Famine was a regular feature in India during the late 19th and early 20th century. The Famine Commission was set up in 1901 which strongly recommended financial support to farmers to prevent famine. Finally, the Co-operative Society Act was passed in 1904.

The highlights of the Co-operative Society Act, 1904 were

1. The Act recommended two categories of Cooperative Societies
    a. Rural Cooperative Societies which were to be organized based on the Raiffeissen Model. Under this model, liability of the lendee (farmer) was unlimited and the loans to be extended to members of the society only for productive purposes.
    b. Urban Cooperative Societies which were to be organized on the basis of the Shulze-

Delitizsch Model. Under this model the liability of the lendee was limited and the society has the right to carry out certain non-credit functions as well.

2. The Societies were organized and controlled by a government appointed Registrar.
3. Credit or loan was to be extended to only members of the society against personal security or real/immovable security.
4. The voting rights as specified in the Act, were based on 'One-man, one vote'.

Though the Cooperative Societies Act of 1904 was a bold step forward, still it had its own limitations. The key deficiencies were

1. The Act only specified setting up Credit Cooperative Societies and there was no provision for setting up non-credit cooperative societies in rural India.
2. The individual Societies were functioning as independent bodies with the Registrar as the regulator. Absence of a Central Agency to supervise and regulate the funds was a big loophole.
3. There was no scientific basis of classifying rural and urban cooperative societies.
4. It was felt that there should be a process of re-organization for payments of credits.

(ii) Modification Stage (1912-1918)

With increasing dissatisfaction with the Act of 1904, the Government re-enacted the Cooperative Societies Act in 1912. This re-enacted Act took care of all the shortcomings of the previous Act. The new Act took into consideration the legal protection to all types of co-operatives including central financing agencies and supervising unions. It also brought in objectivity in the distinction between rural and urban societies. The Act of 1912 had the provision of limited liability only in case of primary societies. For Central Societies the liability was unlimited. The Act provided for registration of all types of Societies – credit as well as non-credit. This spurred the emergence of rural cooperatives both in the credit as well as non-credit front. The Government in the right earnest appointed a committee in 1914, headed by Sir Edward MacLagan, to review the progress in the cooperative movement post the 1912 Act. The report finally got submitted in 1915.

Mac Lagan's report high-lighted some of the glaring defects of the co-operative movement as well as many short-comings in the system. Some of them were

1. Illiteracy and ignorance of the masses
2. Misappropriation of funds
3. Rampant nepotism
4. Inordinate delay in granting loans, and
5. Viewing co-operative movement as a Government movement

Mac Lagan went one step ahead and recommended the following suggestions for the smooth and effective functioning of the co-operative societies

1. The Cooperative principles should be educated to all members
2. Trust and honesty should be the basis of taking loan.
3. Loan should be extended to members only.
4. Proper scrutiny of applications for their genuineness and close follow-up of applications should be carefully done for effective and genuine utilization of loan.
5. The rule of 'One member-one vote' should be strictly implemented.
6. Attempt should be made to raise capital from amongst the members only.

7. Proper monitoring of timely repayment should be done.

Though the recommendations were put forth, but the Government could not implement them as the first world war started during the same period.

(iii) Expansion Stage (1919-29)

Cooperatives came under the provincial subject under the Montague-Chelmsford Act of 1919.This gave further impetus to the cooperative movement. Different provinces/states started enacting their own Acts to make the cooperative movement a success. These developments resulted in massive increase in the memberships of the co-operative societies during this period.

This period also witnessed the formation of cooperative land mortgage banks. It started in Punjab but subsequently spread to Madras and Bombay. And by the year 1929, the world faced one of its worst economic depressions. There was drastic downfall in the prices of agricultural commodities. Economic crises loomed large with unemployment rising. The cooperative societies faced a major challenge of farmers not being able to repay loans. As the dues increased, the cooperative societies started getting ruined gradually.

(iv) Restructuring Stage (1930-1946)

The aftermath of the economic recession and the failure of the cooperative societies led to setting up of a series of enquiry committees to examine the possibilities of reviving and restructuring the cooperative societies. Madras province set up the Vijayaraghava Charya Committee, Travancore & Mysore set up the Rehabilitation Enquiry Committee, Gwalior set up the Kale Committee, Mehta and Bhansali Committee was set up in Bombay and Wace Committee in Punjab. One such committee set by Government, the Indian Central Banking Enquiry Committee in 1931, came up with many glaring lacunae. The most important being undue delay in loan processing and inadequacy of credit available. On the other hand, two Acts - the Madras Co-operative Societies Act of 1932 and the Madras Co-operative Land Mortgage Banks Act of 1934, were promulgated with the former focusing on growth of co-operative movement, while the latter aimed at developing the long-term credit. Many states saw the Congress coming to power In 1937 and with this they started attempts at reviving the interest in developing the cooperative movement. Enquiries were conducted to ascertainthe real reasons for the failure of the cooperatives and also made provisions for clearing the overdues.

Around this time the Second World War started and this has far reaching impact on the cooperative movement. Prices of agricultural commodities started rising, the farmers started getting extra economic gains. There was a rapid increase in the non- credit societies like distribution &marketing, processing &production and consumer societies. With increased business, the cooperative societies required more working capital. The societies gained in strength and vigor. The cooperative movement got a push also by the formation of the All India Co-operative Planning Committee in 1945.

(b) Co-Operative Movement Post-Independence

After India gained Independence from the British, the first Prime Minister, Pt Jawaharlal Nehru, who was a strong proponent of the cooperative movement, made it an integral part of the Five-Year Plans.

1. The National Development Council (NDC) was formed post-independence, which in 1958 recommended a National Cooperatives Policy'. It also recommended training of people and educating them on the cooperative practices, and setting up of Cooperative Marketing Societies.
2. Later in 1984, the Multi-State Cooperative Societies Act was brought by the government which helped simplify the different laws governing the same types of societies in different states.
3. One of the most successful cooperative initiative was the success of the White Revolution. The country, which was deficient of liquid milk, post this white revolution could meet its liquid milk demand. Today India is fully self-sufficient for its milk requirements and it has started exporting as well. We are now the world's largest producer of milk and milk products. The second cooperative success was the Green Revolution which made India self-sufficient in food grains. Through the cooperative initiative villages were converted into model villages which helped implement the Green Revolution practices.
4. As recent as 2002, the Government of India announced the 'National Policy on Cooperatives' with the primary objective to achieve the following
    a. Extend support for creating awareness, promotion and development of cooperative societies.
    b. Minimization of regional imbalances due to multiple laws.
    c. Capability building amongst cooperative societies through education, training and manpower development.

Dr Verghese Kurien The Milkman of the India

Dr. Verghese Kurien was born on November 26, 1921 to an affluent Syrian Christian family in Calicut (now Kozhikode), Kerala. His father Puthenparakkal Kurien was a civil surgeon in British Cochin and his mother was a highly educated woman as well an exceptional piano player. He was named after his uncle Rao Sahib P.K Verghese. Dr Kurien joined Loyola College in Madras and attained his degree in B.Sc in Physics. He was also very active in sports and represented the college in cricket, badminton, boxing and tennis. He went to the United States of America on government scholarship where he pursued his degree in Master of Science in Mechanical Engineering (Distinction). He returned to India after completion of his studies and on May 13, 1949 he headed for Anand, a place in Kaira district of Gujarat where he was supposed to spend five years as an officer of the Dairy division in return for the scholarship paid by the government. On arriving at Anand, he found that the farmers were being exploited by the distributors of milk and the entire region was controlled by a shrewd but clever businessman called as "Pestonjee Edulji" who marketed Polson butter. Looking at the struggle of these people to survive and mesmerized by the personality of their leader Tribhuvan as Patel who was trying to unite the farmers and form a cooperative movement against the exploitation, Dr. Kurien left his government job and joined forces with Tribhuvandas Patel and the farmers to start the Milk Cooperative movement in the region registered under the name of Kaira District Cooperative Milk Producers Union Ltd (KDCMPUL), which was later renamed to now popular "Amul".

Source www.drkurien.com/biography

Impact of Cooperative Movement the White Revolution

The White Revolution

The White Revolution was launched in India from the city named Anand of old Kheda district (at present, Anand district) in Gujarat. The milk-producing farmers of Kheda formed a co-operative society in 1946 to oppose the exploitative policies of private firms.

Operation Flood (of)

The National Dairy Development Board in 1969 planned a dairy development programme for a viable, self-supportive national dairy industry. This programme links rural milk production to urban milk marketing through cooperatives societies. In July 1970 with technical assistance from the United Nations Development Programme (UNDP) and the Food and Agriculture Organisation (FAO), the programme was launched as Operation Flood (OF).contd.

(The White Revolution contd.)

Operation Flood (OF) -I

Operation Flood-I sought to establish 18 "Anands" linked to the four urban markets – Mumbai, Delhi, Kolkata and Chennai. These funds were generated from gifted commodities received from the United Nations World Food Programme – 126,000 tonnes of skimmed milk powder and 42,000 tonnes of butter oil over project period. The commodities were recombined as liquid milk and sold in these cities at prevailing market price that went in for building the cooperative dairies under the programme, while capturing the urban market for rurally produced milk.

To route the gifted commodities and funds under OF, the Government of India set up the Indian Dairy Corporation (IDC) in 1970 which was later merged with NDDB in 1987, by an Act of Parliament. (The NDDB Act 1987).

By focusing on producers with small resource bases – animal and land holdings in potential milk sheds, Operation Flood strived to generate a flood of milk in the rural areas and create a flow into the cities. This flow was sustained by linking milk production to its marketing through modern processing facilities. The major advantage of taking milk and not cattle from villages into cities was the convenient, economic and scientific management of the milk animals in milk sheds through improved breeding, feeding and health care practices.

Operation Flood (OF) -II

It establishes a modern and self-sustaining dairy industry, building on the foundation of OF-I to meet the nations' needs in milk and milk products. For OF-II, donated commodities were received directly from the European Economic Community (EEC) – 186,000 tonnes of skimmed milk powder and 76,000 tonnes of butter oil. Financially supported by money generated by the sale of these commodities as recombined milk, a soft loan of US$150 million from the World Bank and his internal resources of the Indian Dairy Corporation, OF-II covered 150 milk sheds. To link these milk sheds to the city market and ensure a year-round sustained milk supply, the National Milk Grid with storage and long-distance transport facilities was created.

Operation Flood-III

It focused on consolidating the milk procurement, processing and marketing infrastructure created under OF-I & OF-II. OF-III was funded from the internal resources of NDDB as well as through a World Bank loan/credit of US$365 million and proceeds from the sales of EEC gifted dairy commodities.

Source https//www.jagranjosh.com

To Do Activity

From the internet, find out the history of Gujarat Cooperative Milk Marketing Federation Limited. Study the mechanism they have developed to collect milk, process it, and distribute it in the entire world. How this organization is linked to the Operation Flood movement by Dr Kurien? Compare the notes amongst friends and check who has the most comprehensive information.

3.2 Role of Cooperatives in Rural Value Chain Creation in the Dairy Sector

The first attempts at improving the quality of milk was initiated by the British in Bombay city. The Government initiated the Bombay Municipal Corporation Milk Supply Schemein November 1945. Under the scheme the Municipal Corporation would procure milk from the Kaira district of Gujarat which was situated about 400kms from Bombay City. This milk was sold to the residents of Bombay at a subsidized rate. The process followed was – first Polson Limited, a private enterprise operating from Anand (kaira district), would procure the milk from the farmers. Second, Polson Limited would sell a fixed quantity to the Bombay Municipal Corporation. Polson, through their strong network managed to purchase milk at a very low rate and sold the same to the Bombay Municipality at a very high rate. They purely maximized their profits while the farmers suffered the most.

Initially under this scheme, the Bombay Municipal Corporation faced severe financial challenges. Then in 1946, the administration of the scheme was taken over by the Government of Bombay State andthey established statutory body - the Bombay Milk Scheme. The exclusive rights to procure milk from the Kaira district was given to Polson. This decision led to strong political opposition, as the benefits of getting a relatively higher price from the Bombay Municipality will not get passed on to the actual farmer. Except for the farmers, everybody else were happy with this decision. The government found it profitable and Polson managed a decent margin. There were milk contractors who took the maximum margin. Nobody really bothered to think of fixing the price of milk to be paid to the farmers. Thus, under the new order the farmers of Kaira district were no better off than before. The milk contractors still kept exploiting them. The price at which the farmer will sell to the contractor was fixed. As the discontent amongst the farmers grew, they reached out to Sardar Vallabhai Patel, who was a farmers' cooperative advocate since 1942. Patel initiated the process of organizing the dairy cooperative which finally took the shape of AMUL model dairy development in India.

The Anand Pattern

The 1946 saw the real coming of age of the cooperative movement. The first integrated dairy cooperative came up this year in the town of Anand, in district Kaira of Gujarat. This cooperative was popularly called AMUL (Anand Milk Union Limited). The primary objective of this cooperative was to fight against the private traders of milk and protect the farmers from being exploited by the private traders and money lenders. The brand AMUL became nationally popular and it can be said that this brand emerged as a result of powerful socio-economic movement. This movement subsequently shook the British bureaucracy in this part of the country.

In June 1946, the first two village level cooperatives were organized. Quickly five cooperatives became its members and AMUL also got registered in Dec 1946. Anand Pattern Cooperatives start from the formation of village level milk producer's union. The basic in Anand pattern cooperatives is the village level milk producers' cooperative society. This is a voluntary association of Milk producers. The Village Level Dairy Cooperatives are all affiliated to an apex organisation - the District Cooperative Milk Producers Union. Milk collected at the village cooperative level is sold to the District Milk Producers Union, who, process the same and arrange marketing of liquid milk and milk products. These milk cooperatives, besides paying the farmers for the milk that they buy, provide inputs for productivity enhancement of the animals.

The Anand Pattern dairy cooperatives had some differentiating features. These were

- The Milk Producers were given access to the milk market throughout the year.
- The cooperative, even at the village level, ensured strict and effective governance through elected representatives of the milk producers.
- The operations of the cooperative are managed through professionally qualified people.
- The profits of the cooperative are shared amongst the members on an equitable basis.
- The cooperatives provided inputs for enhancing the milk output of milch animals of the members.

Figure 3.1 Anand Pattern Direct link between Milk Producer and the End Consumer, Eliminating Middlemen

From Katra Dairy Cooperatives Society in Allahabad in 1907 to a strong and powerful brand AMUL, the journey of the dairy cooperatives has been full of self-less leaders offering untiring effort, dedicated milk producers, and committed professionals wanting to make a difference. The success of AMUL soon spread across all districts of Gujarat. The pilot AMUL having succeeded, the Gujarat Cooperative Milk Marketing Federation (GCMMF), an apex marketing body was set up in 1973.

The successful evolution of GCMMF led to the government thinking and establishing the National Dairy Development Board (NDDB) in 1965 with the primary mission of making dairying a vehicle to a better future for millions of grassroots milk producers. Today we are proud to say that we are the world's largest producers of milk. As an apex body, NDDB attempts at strengthening the functioning of dairy co-operatives by helping them with financial assistance and providing them technical expertise for enhancing milk production, arrest migration through employment generation, increased availability of liquid milk for children, generate foreign exchange through savings and increased farmer incomes.

Liquid milk procurement and processing is being done by over 170 Milk Producers Cooperative Unions and the marketing is being done by 16 State Cooperative Milk Marketing Federations. With this the country's major share of liquid milk is taken care of by the cooperative sector. Brand like AMUL have become global and have become the 9th largest and fastest growing dairy organization in the world, as per a news released by the GCMMF Ltd. Looking into the success of the Dairy Cooperative of Gujarat, many other states started their own State Cooperatives with District level Unions helping in milk procurement. Many brands have gained popularity and some of them have become synonymous with quality and value. Amul of GCMMF, Vijaya of AP, Verkaof Punjab, Saras of Rajasthan, Nandini of Karnataka, Milma of Kerala and Gokul of Kolhapur are among the popular ones. The various State Cooperatives are -

1. Andhra Pradesh Dairy Development Cooperative Federation Ltd (APDDCF)
2. Gujarat Cooperative Milk Marketing Federation Ltd (GCMMF)
3. The Himachal Pradesh State Cooperative Milk Producers Federation Ltd
4. The Kerala Cooperative Milk Marketing Federation Ltd
5. Maharashtra Rajya Sahakari Dugdh Mahasangh Maryadit (MRSDMM)
6. Pradeshik Cooperative Dairy Federation Limited (UP), (PCDF)
7. Rajasthan Cooperative Dairy Federation Ltd (RCDF)
8. West Bengal Cooperative Milk Producer's Federation (WBCMPF)
9. Bihar State Cooperative Milk Producers' Federation Ltd (COMFED)
10. Haryana Dairy Development Cooperative Federation (HDDCF)
11. Karnataka Cooperative Milk ProducersFederation Ltd (KMF).
12. Madhya Pradesh State Cooperative Dairy Federation Ltd (MPCDF)
13. The Orissa State Cooperative Milk Producer's Federation Limited
14. Punjab State Cooperative Milk Producer's Federation Ltd (MILKFED)
15. Tamil Nadu Cooperative Milk Producer's Federation Ltd (TCMPF)
16. Chhattisgarh State Co-operative Dairy Federation Limited

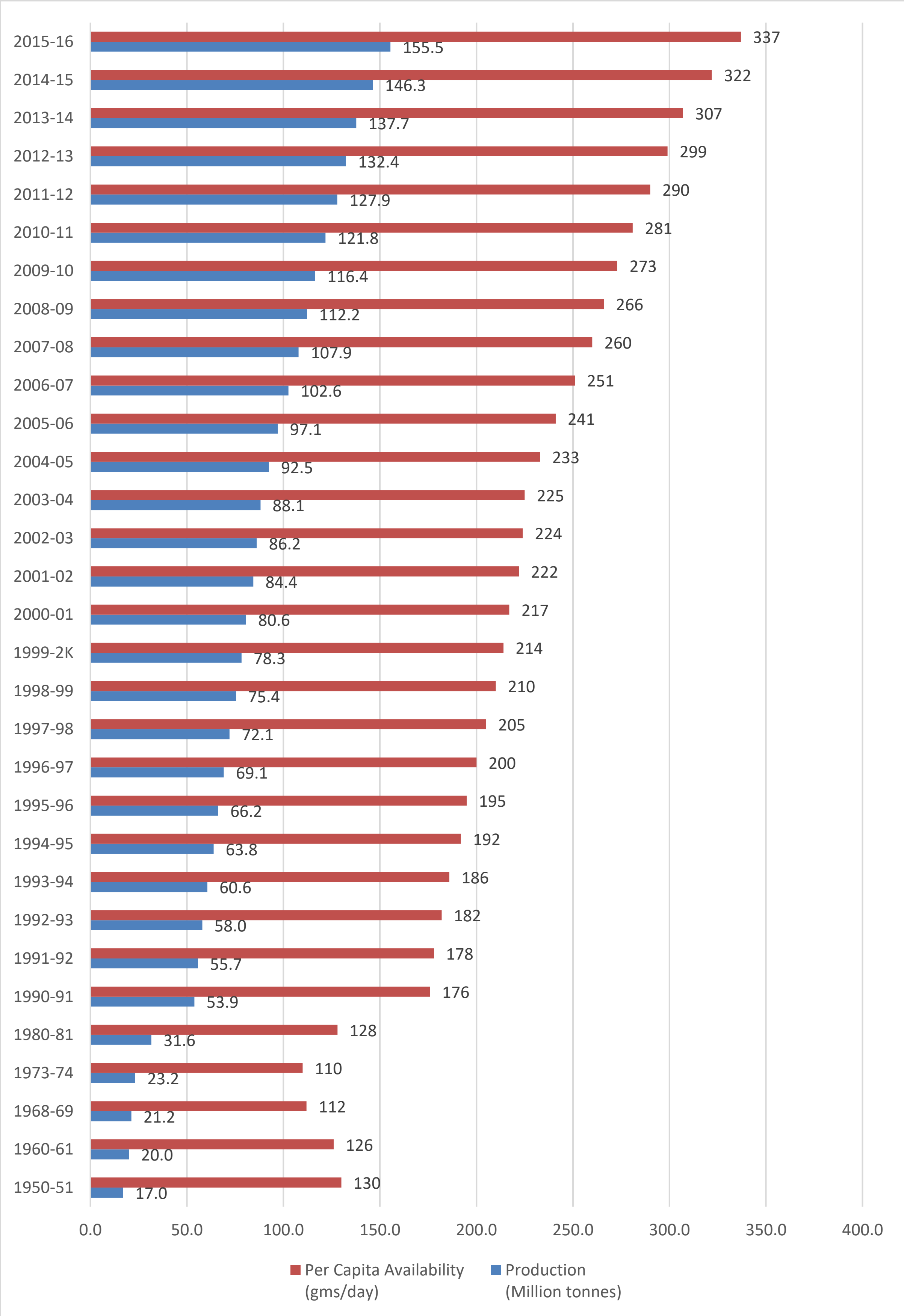

Figure 3.2 Milk Production and Per Capita Availability of Milk in India

To Do Activity
Study the Dairy Cooperative Sector in India and compare it with the Dairy Cooperatives of one other western country. Study the similarities and dissimilarities. Also study how has the Dairy Cooperative has improved the living standards of the milk producers in the country. Compare the notes amongst friends and check who has the best analysis.

Source https//www.nddb.coop/information/stats/milkprodindia

3.3 Role of Cooperatives in Rural Value Chain Creation in Other Sectors

Sugar Sector National Federation of Cooperative Sugar Factories Ltd (NFCSF)

On 2nd of December, 1960, under the Bombay Cooperatives Societies Act 1925, the National Federation of Cooperative Sugar Factories Ltd (NFCSF) was registered and established. It was a registered as a Multi-Cooperative Society and subsequently, first under the Delhi Cooperative Societies Act 1972 and later under the Multi State Cooperative Societies Act 1984. The NFCSF came under the purview of Multi State Cooperative Societies Act since, 2002. When NFCSF was established, there were only 30 sugar cooperative factories and their combined production was only 14.9% of the total national production. Once NFCSF was formed, not only did the capacity of the exiting cooperatives increased NFCSF, new cooperative societies were set up, yield of sugar cane increased, which resulted in higher sugar production. The share of sugar cooperatives in the total sugar production of the country jumped to 48%.

The NFCSF established their Technical Cell in 1977 with the prime objective to provide technical assistance to the sugar sector – farmers as well as processors. The stupendous growth in the sugar production in our country can be attributed to the Technical Cell of NFCSF. Over 130 new sugar mills with capacities ranging from 1250 TCD to 10,000TCD received professional and technical help from NFCSF. More than 70 existing mills benefitted through support received in technological upgradation, modernization, expansion etc. Support was also provided in rehabilitation projects and Cane Development activities etc.

The idea behind setting up NFCSF was to protect and support the overall economic development of the cane growers and the look after the collective interest of the cooperative sugar factories. The key responsibilities can be listed as –

1. Effective Project Management
2. Engineering support
3. Sugarcane Management
4. Up-gradation
5. Financial Management
6. Manpower Management
7. Liaising with Central Government and other agencies etc.

India is now the second largest producer of sugar in the world with 316 sugar factories in the cooperative sector alone. The share of the cooperative sector in the total sugar production is now 48%, as compared to 14.9% before NFCSF was formed. The cascading effect of this Value chain can be gauged by the employment it has generated – the industry has an annual turnover of Rs 55,000 crores and providing livelihood to over 50 million cane growers and farm laborers. As of now there are 7.5% of the rural population directly or indirectly dependent on the sugar industry.

Table 3.1 Sugarcane Acreage and Production

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
No. of factories in operation	529	526	509	538	526	493	525
Cane acreage (000 Hectares)	5100	5279	5341	5307	5284	4945	5042
Sugarcane Production (Lakh Tons)	3538	3544	3456	3668	3369	3036	4110
Molasses Production (000 Tons)	11824	11744	10882	12482	10837	9026	14063

(Source http//www.indiansugar.com/Statics.aspx)

National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED)

NAFED was established in 1958 with the primary objective of promoting cooperative marketing of agricultural products. It has been procuring a wide range of produce like food-grains, pulses, oilseeds, spices, cotton, tribal produce, jute products, eggs, fresh fruits and vegetables from farmers through its cooperative network in selected areas. Its role enhanced whenever farmers faced problems of marketing their produce. This initiative helped in increased bargaining power of farmers, direct dealing with consumers, credit availability, cheaper transport, storage, grading and processing facilities and market intelligence.

Table 3.2 Categories of Members in NAFED

S No.	Category of Members	Total No. of Members as on 01/04/2017	Total No. of Members as on 31/03/2018
1.	State Level Marketing Federations	25	25
2.	Apex Level Marketing Federations	03	03
3.	State Level Tribal and Commodity Federations	24	24
4.	Primary Marketing/ Processing Societies	800	804
5.	NCCF & Other National Level Coop. Organizations	02	02
	Total	854	858

Source http//www.nafed-india.com/

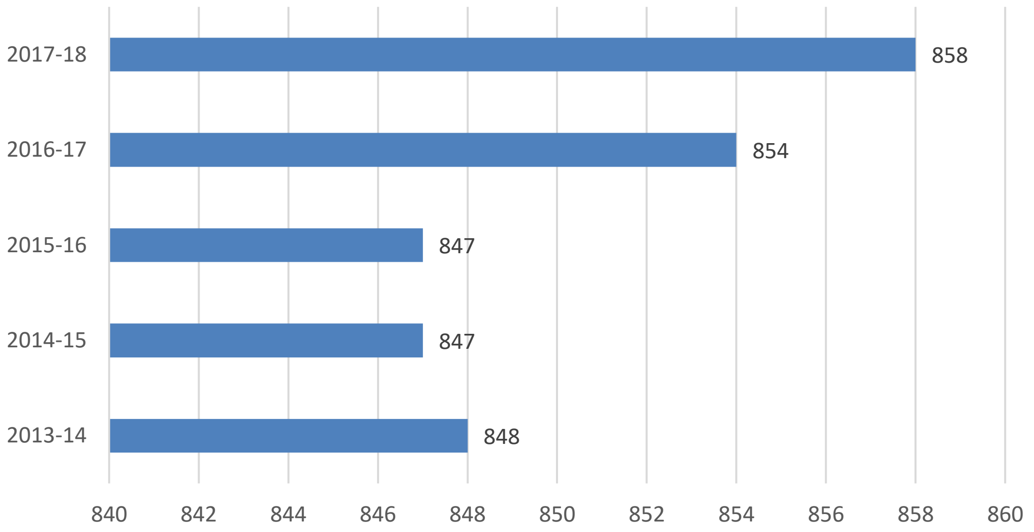

Figure 3.3 Growth in Membership during Last 5 years
Source http//www.nafed-india.com/

Indian Farmers' Fertilizer Cooperative Limited (IFFCO)

With the primary purpose of addressing the fertilizer needs of the Indian farmers, in the year 1967 IFFCO was established. With over 40,000 cooperative societies as members, the organization focused on production and redistribution of fertilizers amongst the farmers of different states. The first two manufacturing facilities came up, in 1975, at Kalol and Kandla. Kalol was commissioned for ammonia – urea and Kandla was for NPK/DAP, both in the state of Gujarat.Nextammonia – urea complex came up at Phulpur in the state of Uttar Pradesh in 1981. One ammonia – urea was established at Aonlain1988. Also to augment their production, IFFCO acquired the NPK/DAP and Phosphoric acid fertiliser at Paradeep in Orissa in September 2005. The entire marketing of IFFCO's products was channeled through the 40,000 cooperative societies and institutional agencies in over 28 states and union territories of India. It holds about 20% share in nitrogen and 30% in phosphorus production of the country.

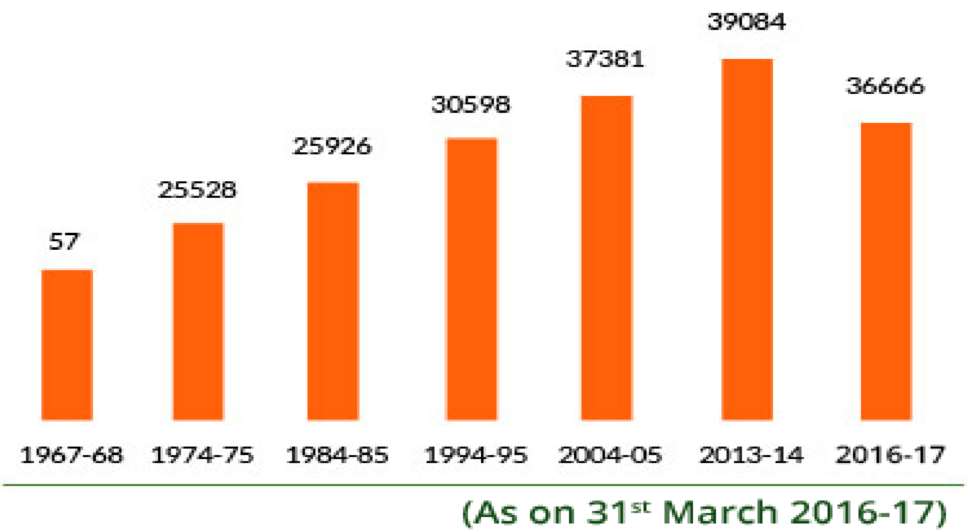

Figure 3.4 IFFCO with Over 36,000 Cooperative Societies Covers More than 5.5 CRORES (55 Million)Farmers in India.

Primary Agricultural Cooperative Credit Society

The primary mandate of Primary Agricultural Cooperative Credit Society was to ensure flow of credit to the agriculture sectoringIndia. Thespecific mandate was - short-term and long-term co-operative credit structures. The short-term co-operative credit structure had a three-tier system –

- At Village level - Primary Agricultural Credit Societies (PACS)
- At district level - Central Cooperative Banks (CCBs)
- At the state level - State Cooperative Banks (StCBs)

The PACS were intentionally kept outside the purview of the Banking Regulation Act, 1949. Therefor the Reserve Bank of India was not the regulating authority for them. State and District Cooperative Banks were registered under the provisions of State Cooperative Societies Act of the respective Statesand were regulated by the Reserve Bank. So, the base was formed by the Primary Agricultural Credit Societies (PACS) which occupied a predominant position in the co-operative credit structure. The PACS was at the village level or a group of small villages were clubbed together, and they served as the final link between the ultimate borrowers on the one hand and the higher financing agencies, namely the state and district cooperative banks, and the RBI/NABARD on the other hand.

It was felt that the success of the co-operative credit movement depended crucially upon the health and strength of these village, district and state level societies. But, unfortunately despite much official support, and massive expansion of the PACS in terms of membership, working capital, loans given and other activities, their health and working did not come up to the expectations and much is left to be desired. These societies play a very important role in disbursement of rural credit. They have been aiming at increasing agricultural production through credit supply to agricultural producers, agricultural laborer’s, artisans, supply of agricultural inputs, arranging storage, marketing and processing of agricultural produce, arranging raw materials for industries and providing technical guidance, while promoting social and economic welfare. There have been cooperative land development banks, which provide long term loans to cultivators for land development and capital investments.The Primary Agricultural Cooperative Credit Society at the village level is the base for many of these activities. They federate into Central Cooperative Bank at the district level and with apex bank at the State level.

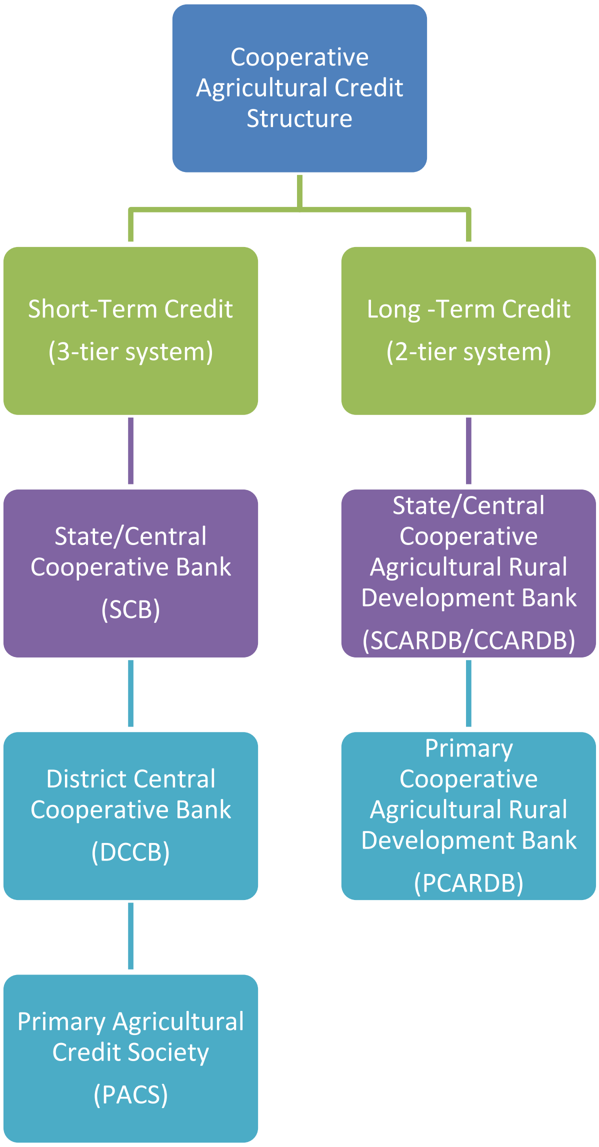

Figure 3.5 The Cooperative Agricultural Credit Structure in India

Source https//www.rbi.org.in/home.aspx

To Do Activity
Study the fisheries cooperatives in India and their impact on the fishermen of the country. Suggest in which other fields can cooperatives be formed to benefit the average Indian.

3.4 Value Addition through Agro-Processing Cooperatives

The term agro-processing means establishing processing activities to handle the local produce of the basic farmers with a view to generate additional or higher economic returns to them. It means to reduce post-harvest losses, check outflow of rural population to urban centers, offer remunerative prices to basic producers, held transfer improved/advanced technology to rural areas, industrialize the rural areas, generate employment opportunities, help improve productivity, help develop specific commodities through greater soil treatment and appropriate application of fertiliser, bring recognition to the progressive and innovative initiatives of the farmers etc.

Value-addition is achieved through an efficient marketing strategy. This means that the basic products need to be transformed into other products which are in high demand in the market. Simple value-addition can be achieved through a careful and systematic handling of the product, its grading, packaging and transportation. Value addition is also achieved through attractive, informative, branding and its contentsand pricing clearly described on labels. Value-addition is also achieved through abetter marketing coordination. Another aspect of value-addition is the creation ofgoodwill for the product to sustain its presence in the market.

Application of sophisticated technology for undertaking value-added activities has ensured the following for the integrated cooperatives and their members
For Cooperatives

- Broader membership base;
- Ability to generate higher surplus;
- Enhanced surplus to cover costs on extension staff, and to offer extension services and create facilities for technology transfer at the farm level;
- Surplus resources to undertake rural development, including social and cultural activities;
- Optimum utilisation of members' crops/products and consequently higher returns.

For Membership

- Higher income levels;
- Higher productivity and production;
- Crops/produce/animal protection through integrated crop/animal-care delivery systems;
- Opportunity for participation in the social and cultural development processes;
- Sound all-round development and maintenance of infrastructure – road, banks, transport services, schools etc.
- Exposure to modern technologies and opportunities to participate in, and manage the working of larger complex social organisations, thus leading to development of rural entrepreneurs/leadership.

Agro-Processing Cooperative 'SAGO SERVE' Helping Tapioca Farmers through Value Chain Management

Tapioca (Manihot Esculenta Crantz) was introduced in India during the latter part of the 18th Century. Today, in India tapioca is grown over an area of about 3 lakhs hectares, with a production of 58 to 60 lakhs tonnes of tubers. Though Kerala ranks first in cultivation and production in the country. Tamil Nadu stands first in respect of processing of tapioca into starch and sago and hence this crop has now acquired a status of one of the important commercial crops in the State.

Tapioca and its finished products are used as food, animal feed and as raw material for several industrial products. Tapioca is considered as the cheapest source of Carbohydrates among the cereals, tubers and root crops and is a staple diet in many parts of Africa, South America & Asia. About 500 million people eat tapioca in the World. Nutritionally, it contains 98% Carbohydrates and appreciable amount of Calcium and Vitamin-C. India is one of the leading countries in tapioca production.

Prior to the formation of the Sago serve, the manufacturers of starch and sago in this district faced a lot of problems pertaining to credit and marketing of tapioca products. Merchants used to offer low prices for their goods and middlemen exploited this situation in the absence of organized marketing and warehousing facilities. To get over these problems the sago/starch manufacturers formed "Salem Starch and Sago Manufacturers' Service Industrial Co-operative Society Ltd." Salem in 1981 under the Tamil Nadu Co-operative Society Act 1961. It was Registered on 21.07.1981 and commenced its business on 27.02.1982. This society, popularly known as "Sagoserve" throughout the world, is functioning under the administrative control of the Director of Industries and Commerce, Govt. of Tamil Nadu.

Sago Serve at its best provides an efficient Services to its Members which were as follows

- Provides readymade marketing floor for starch and sago.
- Advance credit and payment for sold goods within 24 hours
- Provides warehousing facilities
- Promotes business and trade within and outside the State.
- Arrange tie-up with bankers for working capital, loan etc.

It also provides services to its Merchants which were as follows

- Facilitates easy purchase of desired quality products at affordable rate at one place.
- Provides grace time of 5 days to lift the confirmed products without any extra charges.
- Offers maximum time limit up to 45 days for removal of sold goods on payment of nominal interest and warehouse rent
- Remittance of sales value in prescribed installments is admitted as per the terms & conditions.
- Concessional TN-vat rate of 1% for sale of sago and starch through the society (5% TNvat payable for purchase outside the society)
- The merchants who buy the Sago/Starch from "Sagoserve" are exempted from CST of 4% for inter-state sales. This is an incentive offered by the state Government to promote co-operative movement.

Sago serve has developed a Unique Selling mechanism - Daily tender, which has helped the farmers immensely and the prices are also kept under check. The process is

- The buyers of tapioca Starch & sago are registered as dealers in SAGOSERVE, by collecting a tender deposit of Rs.5.00 lakhs for regular merchant.
- Rs.3.00 lakhs for small merchant Category I and Rs.1.50 lakhs for small merchant Category II with bags limit of 1000 bags, 500 bags & 250 bags respectively.
- On receipt of the goods from the members along with tags, every consignment is assigned a ‘Lot No.’ and stacked in the godowns.
- Assigned Dealer No. and they are allowed to participate in daily tender.
- On request made by the member producers, the samples of starch and sago consignments are displayed for tender sale in daily tender system by 9.00 AM.
- Dealers can view variety of samples under one roof and quote rates in secret tender system. After tabulation results are announced around 1.00 PM.
- The Top Rate and Confirmation details Informed to the Members and Merchants concerned through SMS and Email.
- The member-producer has the option to confirm the highest rate offered against his/her goods.

- Financial assistance to its members by paying 60% advance for unsold Lots.
- Once member confirm the tender sale, society paid an another 40%advance with reference to the selling rate after keeping an amount deductable for Society service charges, Godown rent, Interest etc.
- Final Settlement is paid to the member concerned after taking delivery by the merchants concerned.

The Assam Cooperative Jute Mills Ltd A Boon for the Poor Jute Farmers
Jute is natural renewals baste fiber having sufficient strength for commercial use in manufacturing mainly sacks, twine, packing materials and different type of diversified products. It is bio-degradable and eco-friendly.

The Assam Co-operative Jute Mills Ltd. is situated on the south bank of the river Brahmaputra at Silghat in the Nagaon district of Assam, located at about a distance of 8 km from Jakhalabandha. This is the only Jute Mill in the Country in Co-operative Sector. It was registered in the year 1959 under the Assam Co-operative Societies Act and after much struggle it was commissioned in the year 19'70 with the initial investment of Rs. 150 lakh. But, the Mill after running for about 14 years in rough weather had to close during March 1984 for acute financial crisis and other infrastructural problems and remain closed for about 2 years.

Again, the Mill was reopened on 1st January 1986, under the terms of the Historic Assam Accord with the financial assistance from the Central Govt. as well as State Govt. But, in spite of sufficient Govt. assistance, financial depression developed again due to imbalance in the income and the expenditure. However, after continuous struggle and efforts, the Mill has started improving its economy from the year 1992-93 and since then making continuous progressive net profits. Now, the Mill is completely free from all loans and liabilities and now it is in a stable economic position. The Mill is implementing the scheme for renovation/modernization of its plant &machinery from its own resources to increase capacity utilization and quality improvement of its product.

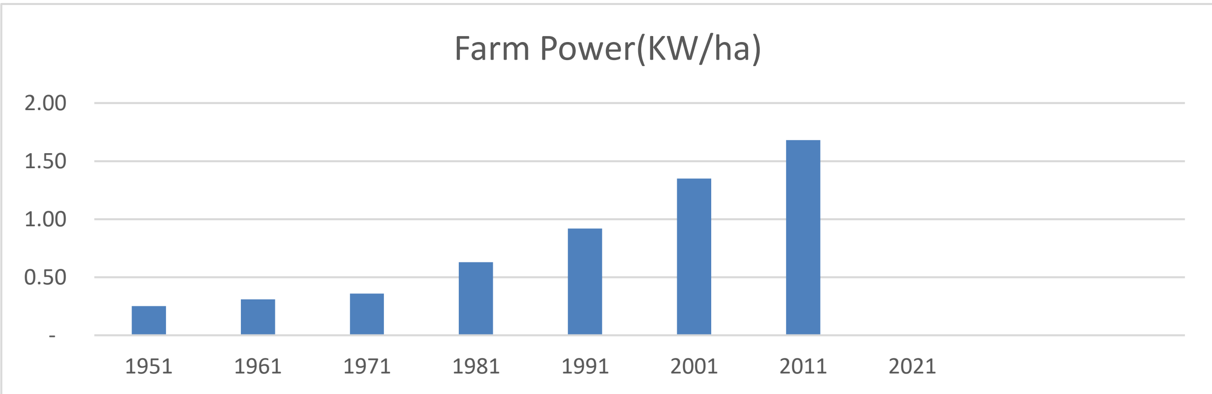

Figure 3.6 Sales of JUTE OVER the Years at Assam Cooperative Jute Mills Ltd
(Source http//www.assamcoopjutemill.com/default.asp)

To Do Activity

Visit your nearest grocery store or the departmental store. Find out whether there are any processed products produced by any cooperative. Once you locate them, try to trace back the source of the product and try to map the value chain. See of you can suggest an alternative process and also calculate the cost saving. Compare the notes amongst friends.

3.5 Challenges of the Cooperative Movement

Globalization has an adverse effect on many sectors in India, specially the agricultural sector. A robust cooperative system, it was felt has the capacity and potentiality to neutralize the adverse effects emerging from the process of globalization. Post economic liberalization, under the new economic environment, co-operatives at all levels are making efforts to structure their roles and responsibilities according to the market demands. The co-operatives have inherent advantages in tackling the problems of poverty alleviation, food security and employment generation. Co-operatives are also considered to have immense potential to deliver goods and services in areas where both the state and the private sector have failed.

The failure of the public sector in several cases is a worrisome trend. Privatization has also failed to make an impact in the rural areas. Therefore, there is great hope on the co-operative sector.

Cooperative Farming Why it failed?

Co-operative farming is a voluntary organization in which the farmers pool their resources. The object of this organization is to help each other in agriculture for their common interests. In other word it is a co-operative among the farmers of limited means. The cooperative farming has been tried successfully in various countries like United Kingdom, Germany, France and Sweden. Following are the main advantages of cooperative farming

1. **Consolidation of Small Units of Land**
   Majority of the farmers keep the small units of land. So they cannot employ the improved methods of cultivation. Cooperative farming enables them to consolidate their small units of land for better utilization.
2. **Use of Machinery**
   A poor farmer cannot purchase the machinery, but a cooperative society can easily purchase the various machines. The use of machines will not only reduce the cost of production but will increase the per acre yield.
3. **Supply of Inputs**
   A cooperative farming is in a better position to get the adequate and timely supply of essential agriculture inputs like fertilizer and seeds.
4. **Creates Love and Brotherhood**
   A cooperative farming society creates the brotherhood and love for the members because they work for their common interest.
5. **Fair Price of the Product**
   A co-operative farming society will bargain in the market and will sell the product at maximum price. The income of the individual farmer will increase.
6. **Guidance and Training**
   A co-operative society guides the farmer to increase their efficiency and production.

Causes of Failure of Cooperative Farming

1. **Attachment with Land**
   The farmers are not willing to surrender the rights of land in favor of the society because they have too much attachment with it.
2. **Lack of Cooperative Spirit**
   He spirits of cooperation and love is lacking among farmers. They are divided in various sections on cast basis. There is no unity among them, so they are not ready to become the member of the society.
3. **Illiteracy**
   In poor countries farmers are mostly illiterate and they are not ready accept any change in the cultivation process. Still some of them are using the old methods of cultivation.
4. **Lack of Capital**
   The co-operative farming societies are also facing the capital shortage problem, and these are unable to meet the growing needs of agriculture. Credit facilities to these societies are also not enough.
5. **Dishonesty**
   The management of cooperative often turns out to be dishonest. The selfishness of the members makes the cooperative farming society ineffective.
6. **Re-Payment of Debt**
   Sometimes debt is not re-payed in time which creates many problems for the financial institutions. Some members do not realize their responsibility and it becomes the cause of failure.

Despite its rapid growth, the overall progress of Co-operative Movement during the last 100 years is not very impressive. Several reasons are adduced to the in general failure of the cooperative movement in the Indian context. They are as follows

1. **Lack of Spontaneity**
   Co-operative movement in India lacks spontaneity in the sense that it has not been emanated from the people themselves. They usually do not come forward to organise co-operatives on their own accord. On the other hand, the ruralites perceive the cooperative societies and banks as government lending agencies. They are interested only in deriving benefits from them instead of contributing anything in return.
2. **Lack of Funds**
   The cooperatives have resource constraints as their owned funds hardly make a sizeable portfolio of the working capital. With weak owned fund base, the borrowings of the cooperatives from the central financing agency are considerably conditioned. This has stood in the way of adequately meeting the credit requirements of the existing as well as new members.
3. **Neglecting the Demand Aspect**
   Historically, the cooperatives have been viewing the problem of agricultural credit from the view point of "supply". The "demand" aspect is neglected.
4. **Loans for Productive Purposes Only**
   The Co-operative Credit Societies do not cater to all the credit requirements of the farmers. They grant loans only for agricultural operations. Farmers approach the money-lenders to meet their other requirements. This divided allegiance to the co-operative

society and the money-lender stands in the way of the growth of the co-operative movement.

5. **Negligence of Non-Credit Aspects**

   By and large the Primary Agricultural Cooperative Societies are disbursing credit only and have not yet emerged as true multipurpose institutions, undertaking diversified functions besides credit.

6. **Regional Disparities**

   There have been good deals of regional disparities pertaining to credit availability. The picture of credit availability in the Eastern states, tribal and hilly regions is simply dismal. Consequently, the farmers in these regions farm technology.

7. **Lack of Co-Operation on the Part of the People**

   In the Indian context, most of the people are in the grip of illiteracy, ignorance and conservatism. They do not understand the significance of cooperation in their lives. Absence of willing cooperation on their part hinders the growth of cooperative movement.

   Horizontal and vertical linkages, though, structurally established, have not yet operationally become effective.

8. **Exploitation**

   In the absence of proper marketing arrangements and functions at the level of Primary Agricultural Cooperative Societies, the rural poor falls prey to the mercy of middlemen who exploit the situation.

9. **Defective Management**

   The cooperative credit structure is criticized on the ground that it is mostly managed by landlords and large farmers. Hence small and medium farmers do not get their fair share. They are often deprived of the assistance from the co-operative society.

   Large farmers and landlords, with their superior economic and social power, manage to have a greater hold on these societies. A lion's share of benefits goes to them. In this way, the cooperatives suffer from nepotism, favoritism and partiality. The growth of the cooperative movement, thus, is severely affected.

10. **Political Interference**

    Sociologists like Sujata Patel and Daniel Thorner hold the view that political interference acts as a formidable obstacle for the growth of cooperative movement. The co-operative societies have become the hot bed of politics in rural India. The selection of beneficiaries is mostly done on political considerations.

11. **Non-viable Character**

    It is observed that many agricultural credit societies in India are of non-viable character. It is because dedicated, honest and efficient people do not come forward to join such societies. Factors like red-tapism; undue political interference and the strong hold of large farmers have arrested the growth of co-operative movement. Hence the co-operative movement has not come up to the level of expectation.

    In the absence of high standards of performance, cost of credit and other operations of the institutional cooperative system do not remain at a low level. Further, inadequate interest acts as a setback to finance the weaker sections.

12. **Lack of Co-Ordination**

    There has been a lack of co-ordination among the institutional agencies at the grass-root level. Defaulters of co-operatives can become borrowers of other agencies. Such double financing and over-lapping are found simply because of lack of co-ordination.

13. **Problem of Overdues**

    Last but not least, the major problem of co-operative credit is ever-rising overdues. The performance on the recovery side has been dismal. 27 to 50 per cent of the overdues have been reported in respect of the Cooperative Credit Societies. Overdues also exist with respect to Central Co-operative Banks and Land Development Banks. Obviously, the high level of overdues hinders the process of re-cycling of credit.

To Do Activity

Cooperatives have been successfully operational in many parts of the world. Study at least two cooperatives from the western world, which have closed down because of un-foreseen challenges. Study whether India cooperatives also face the similar challenges. Suggest ways to tackle these challenges. Compare the notes amongst friends and check who has the best alternative.

Model Questions

1. Describe the genesis of the cooperative movement in India? Take examples from various sectors and evaluate the success of the respective cooperatives.
2. What is the difference between a producer cooperative and a consumer cooperative? Describe with examples.
3. What was the primary objective of National Dairy Development Board? In what all ways it helped the milk producing farmers of the country. Give examples.
4. What was the 'Anand Pattern'? How did it impact the overall milk situation in the country?
5. Discuss the role of Sugar Cooperatives in the upliftment of the sugarcane farmers. Have they really benefitted? Explain.
6. Describe the rural agricultural credit structure.
7. How did Sago serve help the tapioca farmers? What was the value chain involved in the process?
8. How did the jute cooperatives make a difference in the lives of the jute farmers? Explain with examples.
9. Why did Cooperative Farming fail in India? Suggest ways in which the challenges can be faced,
10. What are the key challenges that the cooperative sector faces? Explain the ones related to finance.

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Chapter 4 Financing for Value Chain Management

Introduction

About half the Indian population lives by agriculture, cultivating small landholdings which measure, in two-thirds of the cases, less than or equal to one hectare. To top it, agriculture-based livelihoods face severe challenges due to increased intensity of many biotic and abiotic pressures and continuously declining size of landholding. Inaccessibility to product and financial markets by the farmers hamper any sustainable growth and development of agriculture.

The financial requirements of small land holders are small, yet commercial banks and other financial institutions shy away from financing them owing to higher transaction costs, higher production risks and absence of collaterals. This hampers the farmers capacity to adopt income-enhancing technologies, market-driven cropping pattern, and land improvements initiatives, irrigation practices, mechanization and warehousing facilities. Also, a consequence, smallholders can neither develop scale nor compete in the remunerative markets due to their higher transaction cost. Most small farmers, as a result, have to rely on local traders to buy their produce. The rising frequency of unpredictable climate - such as droughts, floods and heat waves, further increases their price risk. Since the activities of production, procurement, transportation, storage and distribution are interconnected; any shock to production will have its impact of the entire value chain.

The constraints farmers face in improving their agricultural practices can be addressed by implementing the value chain approach. Under this approach the different actors like farmers, aggregators, traders, processors and financial institutions are brought together and they gain control over the processes of production, marketing, processing and distribution to help improve economies of scale, bring reduction in the transaction costs, and reduce uncertainties in supplies and quality of inputs, outputs and services.

The apprehensions of commercial banks and financial institutions about the credit worthiness of the farmer or any other member of the supply chain canbe addressed by approaching the value chain. Actors in the value chain have information about the business activities of other actors and this information can be utilized to better evaluate risk and credit worthiness of the lendee.

Objectives

This Chapter will help students to understand how the rural businesses, specially agriculture, gets impacted by availability and non-availability of finance. It will give the students an idea about the reasons why financial institutions are apprehensive about financing rural farmers and artisans. It will also help students become aware about the various agencies which have come forward to finance the rural business, thereby helping them grow their businesses. Different financing models are also discussed in this booklet for the overall understanding of the student. The students can easily establish how value chain management can play an important role in facilitating financing of the rural businesses by reducing the risk perceptions.

Structure

- Value Chain Finance
- Status of Rural Markets with Respect to Financing
- Financial Instruments for the Rural Sector
- Design and Implementation of Agricultural Value Chain Finance
- Financing Agricutural Vlaue Chain in the Digital Age

4.1 Value Chain Finance

When financial products and services flow to actors in a value chain enabling them to increase their returns and growth, and help them improve competitiveness in the market, we refer to it as Value Chain Finance. Financing was always there in any chain of operations, but when financing any or all of the actors leads to enhanced competitiveness of the entire Value Chain and helps the actors grow their business individually as well as collectively, we call it Value Chain Finance. Financing can be at specific points in the chain and can involve multiple actors to leverage the relationships to lower the risk. A value chain approach means considering the risks and returns of the financer along with the risk and returns of the value chain actor requiring thefunds. Value chain actors, commercialbanks, microfinance institutions, or a combination of these actors can provide or facilitate financing to a value chain for different reasons which determine the ways in which they are willing to facilitate financing for a value chain upgrading investment.

One of the objectives of Value Chain finance is to reduce transaction cost and minimize risk by forming strategic alliances between the finance provider and one or more of the value chain actors. Private sector players may directly finance a specific investment or cash flow requirement, or they may help facilitate financing from a more formal financial institution. The viability of the financing arrangement will depend on – value chain governance, relations and linkages that are built to respond to market opportunities. This works the best in situations where there is transparency, strong market demand, trust amongst actors and repeated transactions between firms. Better the relationship amongst actors, more open will they be to rely on the value chain to facilitate access to finance. Popular ways in which value chain actors facilitate financing are

- **Screening Borrowers**Actors in the Value chain can provide valuable information about potential borrowers which can help the financial institution screen for better reliability and minimize risk of default.

- **Disbursement/Repayment of Loans**Some of the Value chain actors can play a very important role of disbursing the loan as well as collecting repayments on behalf of the financial institutions. This reduces the transaction cost and chances of default.
- **Default Risk/Collateral**One of the major hurdles in traditional financing is the availability of 'hard' collaterals with the loan seeker. In Value chain financing, some actors can provide a form of 'soft' collateral which is acceptable to the financial institution. Such collaterals could be like direct (formal or informal) guarantees or co-signing, assigning value to inventory in a warehouse, etc. The financial institution can evaluate the 'soft' collateral and accept them in such circumstances where legal collateral is not available. Even 'soft' collaterals like purchase orders, buyers' contracts etc can be a reasonable guarantee of repayment as long as the traditional requirements are waived off. Such 'soft' collaterals, though not legally admissible, are a positive indication of the credit-worthiness of the lendee. This helps reduce the risk of default.

Demand for Finance within Value Chains

Rural and agricultural businessesgenerallyface the greatest difficulty in sourcing finance from traditional financial institutions for the above-mentioned reasons and this leads to financing challenges for production-level demands and can impact value chain development and growth. Innovations in financial servicing, like 'value chain finance' have evolved primarily to bridge this gap and ensure that the genuine lendee get the much needed finance for their growth and development. In certain situations where the household is a production unit, there are often financial demands beyond the value chain enterprise. Such demands have an impact on the household liquidity. Cash resources in the households are normally allocated across a set of interconnected production and consumption needs. Under such circumstances, value chain competitiveness can be indirectly linked to the ability of the householdto access financing for other investments and purchases and manage their overall household cash flow needs.

The financial demands in a household as a production unit, can be related to both consumption and investment. Households can have commitments for both regular expenses and sporadic consumption/social expenses like food, school/college fees, medical care and social expenses, like marriage, funeral etc. This would necessitate additional arrangement to provide liquidity. Quite often cash is diverted by the household from their enterprise to meet these immediate cash requirements. And this is all the more true during lean periods when the household revenues are at their lowest levels. This is more or less a clear depiction of how rural households manage their own farm and non-farm productive activities. Trading, agro-processing, supplying goods & services to households, are certain non-farm enterprises that are important providers of rural household income. Often there would be a conflict between investment demands with agricultural production, and decision needs to be taken by the actors. Their choice between the two would, in all probability limit their potential returns as well as affect their value chain competitiveness.

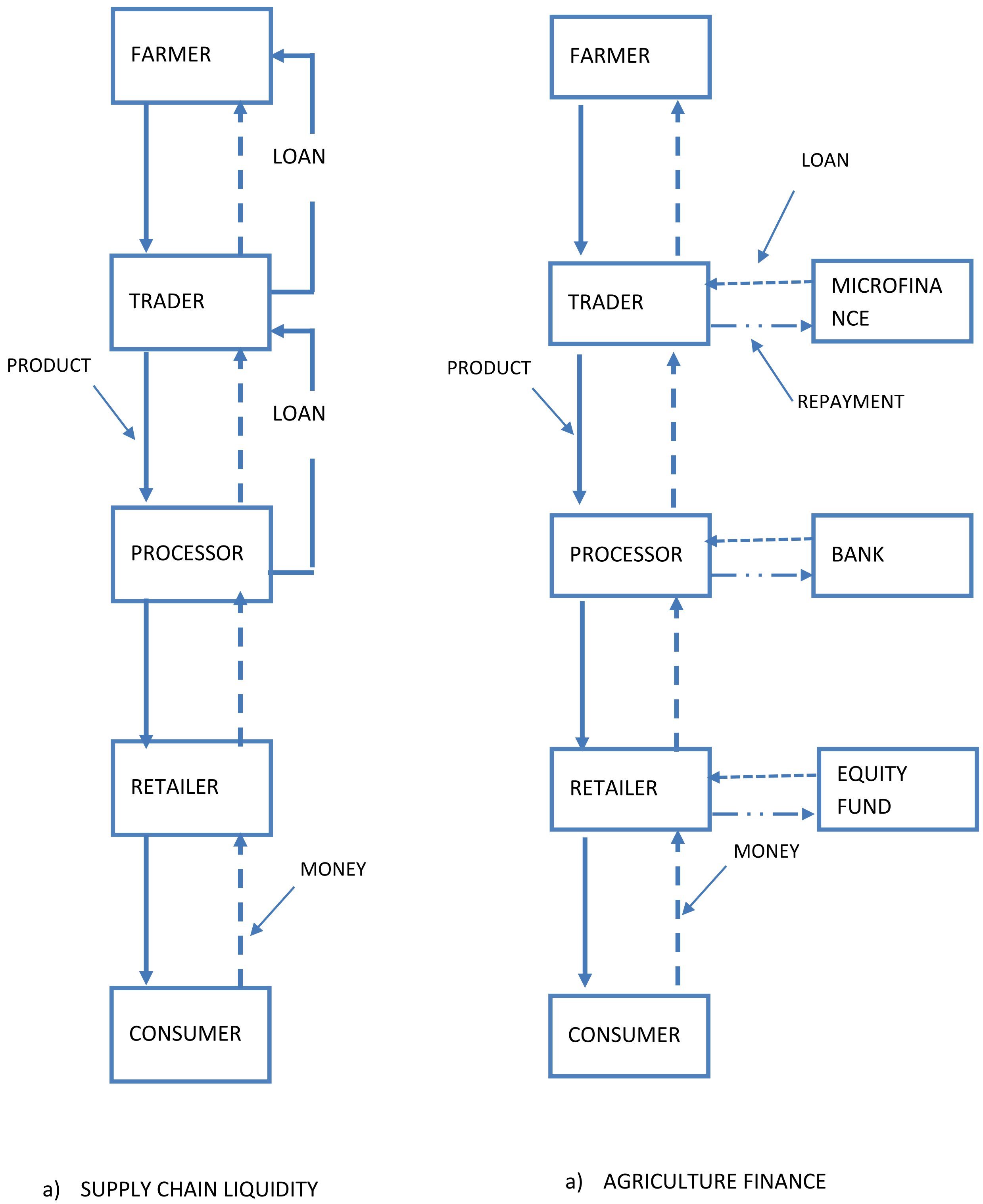

Figure 4.1 Traditional Financing Model

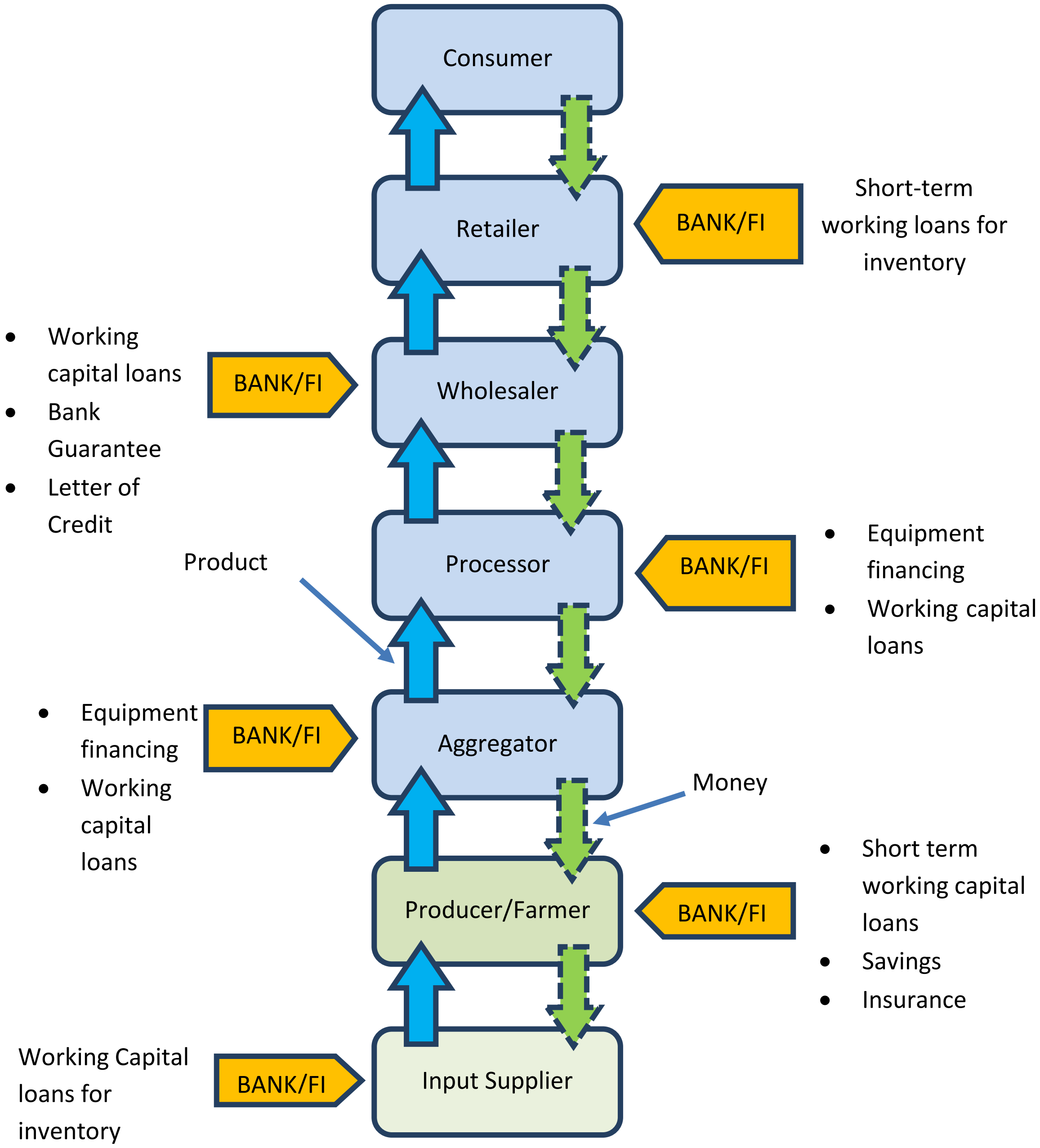

Figure 4.2 Value Chain Financing Model

To Do Activity

Visit the rural branch of a public sector bank. Find out from the manager the different types of agricultural loans they offer. Study their process of disbursement, risk analysis and recovery process. Next visit some of the lendees and understand from them the process they had to undergo. Check the process followed by private sector banks. Discuss your findings in small groups with your peers.

4.2 Status of Rural Markets with Respect to Financing

The agricultural marketing systems and practices have not kept pace with the changing opportunities in the sector. The agricultural markets have not grown in the manner production and marketable surplus have grown. And this situation varies from region to region in India. The rural markets are fragmented and can be characterized by –

- a long chain of intermediaries,
- high market costs and margins,
- low value addition and
- low share of the farmers in the final price that consumers pay.

From the producer to the final consumer, the product changes hands minimum four times, without any real value addition at each step. Value chains are mostly missing or yet to develop. Acute lack of awareness amongst farmers is a critical problem. Knowledge about 'grading' or 'standards' for farm produce is absent leading to barely 7% of the produce being graded at farm level and passed on to the next actor in the chain. Shortage of storage facility – both dry as well as cold storage makes it difficult to handle marketable surplus. Hardly 30% of marketable surplus of grains and 10% of marketable surplus of fruits and vegetables can be stored in the existing storage facilities.

Financing in rural India is through both formal and informal agencies. In the formal channel there are cooperatives, commercial banks, regional rural banks and non-banking financial institutions. In the informal channel there are agents like moneylenders, traders, landlords, relatives and friends.Almost 60% of the financing is done by the formal channels whereas 40% is handled by the informal agencies. Often times credit is extended to the farmers by traders and commission agents in lieu of their commitment of sale of produce to them.

Small farmers, having landholdings of less than or equal to 2 hectares are often ignored by the formal financial institutions. They comprise 85 percent of the total farmers in the country but their share in financing is barely 42 percent. This low share is mainly due to higher cost of lending, higher risk of default, and absence of collateral to secure the loan.

Financial institutions provide finances for various activities of the value chain, including processing, warehousing, cold storage, refrigerated logistics etc. To give an indication, institutional credit to the food processing industry has increased from INR 37 billion in 1996-97 to over INR 1500bilion in 2015-16, as per government records. Our apex agricultural bank - National Bank for Agriculture and Rural Development (NABARD) has been supporting 'farmer producer organizations' in processing and marketing of commodities so as to strengthen the agricultural value chain. We are all aware of the horrible trend of farmer suicides in our country. This indicates that the situation is precarious and can lead to suicides. One of the primary reasons behind this is the poor credit services and rural banks of India.

Who Needs Finance in Rural India?

From small- farmers with small landholdings to agro-processing units to infrastructure projects and research & development, all activities in the rural sector are in need of finances. Therefore, rural financing has been categorized into four broad types –

1. **The Needs of Producers/Farmers/Entrepreneurs**

   The primary reason for the need for finance is to expand production and/or diversify the range of products. They are mostly small farmers or village entrepreneurs who need finances for purchasing farm inputs like seeds, fertilizers, farm equipment, machinery for processing, packaging, transport etc.

2. **The Transactions between the Value Chain Actors**
   Here the focus is on the relationships and associations between different value chain actors. Farming essentially means a sequence of interlinked activities, starting from inputs like seeds, fertilizers to mechanization requirement, processing & storage to finally the dining table of the consumer. Financial institutions have crafted specific financial instruments to strengthen these linkages between the actors of the value chain.
3. **Rural Infrastructure/Projects**
   An efficient Value Chain would have a fair bit of infrastructure involved – like warehousing, cold storage, rural transport systems, irrigation systems, sanitation, water supply, electricity etc. All such infrastructure projects require investment. Often the value chain actors would require large amounts of financing to fund these costly infrastructure projects .
4. **Research and Development (R&D)**
   For competitive edge and development of the business, it is essential that continuous research & development work is undertaken. This helps in new knowledge creation and technology development which would help improve efficiency and productivity. But these research and knowledge creation activities can be long drawn and costly. Financial institutions come forward to support such initiatives by providing finances.

Problems of Agricultural Credit in India

Most Indian farmers work on an uneconomic land holding, using traditional farming methods of cultivation. He is constant exposed to the risks of varied types like - poor agricultural output, lack of rains, pests, poor quality seeds etc. Due to these reasons an average Indian farmer is almost always in debt. Invariably he becomes a perennial debtor.

There are many instances where the farmer, once entrapped in a debt trap, finds it difficult to come out of it. He either has to sell of his valuables, cattle or land, or worst commit suicide. The common reason for debt is either crop failure or low support prices of harvest or malpractices of moneylenders. Many a times a large part of the liabilities of farmers is 'ancestral debt'. Thus, along with his landed property, he passes on his debt to the next generation.

Top four reasons behindrural indebted-ness in India

(i) Low earning potential of the borrower,
(ii) Use of loan for unproductive social & cultural purposes,
(iii) Very high rate of interest charged by the private moneylenders
(iv) Manipulation of accounts by the private moneylenders.

Need for Finance

Finance plays a major role as a lubricant in the entire agri-value chain. Right from tilling of the land, to procuring seeds and fertilizers, to irrigation, harvesting, marketing, processing etc., everywhere finance is essential. Quite a few Indian farmers live practically hand to mouth. Incidents like a bad monsoon, a poor harvest, an accident or ill-ness in the family forces a farmer to approach the moneylender for a loan and get caught in their trap. In our country, such 'distress' or not-related-to-business loans are very common. Agricultural finance in India is not just one requirement of the agricultural business but a symptom of the distress prevailing among the majority farmers.

Rural credit is extended to not just farmers but to village artisans, small traders, transport owner etc. There are two sources of rural credit - private entitiesand institutional entities. The former includes private moneylenders, traders and commission agencies, relatives and landlords.

The sources of institutional credit are rural co-operatives, commercial banks, particularly the State Bank of India (SBI). And, with the setting up of a specialized institution called the National Bank for Agricultural and Rural Development (NABARD), the Agricultural Refinance and Development Corporation (ARDC) has ceased to exist. Up to 1982 it was responsible for extending agricultural finance under guidance of the Reserve Bank of India.

It may also be noted that the short- and medium-term credit requirements of the farmers is met by indigenous bankers or village moneylenders, co-operative credit societies and commercial banks. Long-term credit needs are met by land development banks and NABARD. The principal aim of institutional credit is to replace the widely prevalent money-lending at a very high rate of interest. Available data show that the rural credit institutions have succeeded to a considerable extent in achieving this aim.

Key Defects in the Private Credit System

1. It is highly exploitative in character be-cause of the inherent profit motive.
2. Since such credit is provided largely for unproductive purposes the rate of interest charged is very high.
3. Such credit is not necessarily directed to-ward needy persons or desired channels.
4. Such credit is provided for short periods of time and at high rates of interest and cannot, therefore, be utilised for land development or long- term improvement of agriculture.
5. Institutional credit is not linked with other non-farm services such as marketing and process-ing and warehousing.

Institutional Credit Structure

By contrast, institutional credit is basically un-exploitive in character. It is largely directed to-wards raising agricultural productivity so that the income of the farmer increases sufficiently and he becomes self-sufficient. The rate of interest is not only low but varies from case to case. Different rates of interest are charged for different types of loans and different categories of farmers.

Institutional agencies also draw a clear-cut distinction between short-term credit and long- term credit. Moreover, they recognise the organic link between credit and other needs of the farmers and seek to achieve an integration of credit with such needs.

Farmers not only need credit but also guidance in adopting improved methods of culti-vation. Thus, it is necessary to provide such guid-ance and extension services along with credit. They must be taught how to use quality seeds, fertilisers, pesticides, etc. and also how to grow crops.

They must also be provided marketing assistance so that they can obtain the best possible return from their produce. Only institutions like co-operative societies, commercial banks, etc. can pro-vide such guidance, not the usurious moneylend-ers and greedy commission agents. So it is now necessary to make a brief review of different insti-tutional agencies of rural credit.

Team Activity

The students are required to visit a nearby village and interview at least 10 farmers and rural artisans and do the following

1. **Understand their Business Model** – where do they get raw material from, what do they produce, where do they store, what is the processing requirement, who does the processing, and where do they sell the produce.
2. **Financing the Business** – Understandhow the farmer/artisan is financing the business. Is it through self-financing or is there an agency involved. If there is an agency, is it a formal financial institution or is it a non-formal financing institution.
3. **Conditions Entailing Financing** – the student should study the terms and conditions of the financing agency.
4. **Repayment** – the student should study the manner in which the farmer/artisan is planning to repay the loan taken.

Evaluate the Value Addition – with additional finance, how is the farmer/artisan going to benefit? Will his business grow? Will he develop competitive advantage after the financing?

To Do Activity

Visit one public sector bank, one private sector bank, one cooperative bank and one NBFC in your locality, compare and contrast the various rural credit instruments offered by them. Also check whether these loans are in accordance with the RBI. Can you identify which instruments are for which 'actor' in the value chain? Discuss your findings in small groups with your peers.

4.3 Financial Instruments for the Rural Sector

In the rural sector, financial instruments vary depending upon the need of the lendee. The financial instrument developed or offered by the financer, to a large extent, depends on the level of sophistication of the financial systems in that particular region, and the risk bearing ability of the financier, in addition to the regulatory norms and awareness level amongst farmers/artisans. The actors in need of finances approach, local financial institutions, commercial banks, development banks, governments and even other actors in value chain. Some of the commonly used instruments are mentioned below

Direct Finance

In the traditional approach, individual actors in a business are provided the finance. These actors could be the input suppliers, processors, farmers, traders etc. All of them may need finances to grow their business and the most common financial instruments are

1. **Savings**

   Individual or community savings is a very common source of financing in most parts of the world. In India too, this is a common practice. Extended or joint families also have a system of supporting members through savings. We generally consider this to be an informal financial sector.

2. **Inclusive Finance (or micro-finance).**
Most of us have heard of micro-finance which is again very similar to informal financial sector, with the difference being only in the sense of 'responsibility' that is lender and lendee. Micro-finance is popular in the rural areas of our country, and Self-Help Groups (SHGs) play a crucial role in identifying the actors, disbursing the finance and ensuring repayment.

3. **Traditional Finance.**
Traditional financial instrumentsfrom organizations like – commercial banks, agricultural development banks, NGOs, cooperatives etc can be in the form of loans, lease or equity finance. Often the finances can come from government agencies and international bodies like World Bank etc.

4. **Leasing and Factoring.**
Leasing and factoring are more complex and innovative financial instruments meant for farmers and other entrepreneurs. Leasing is generally used for purchasing farm equipment, automobile, machinery etc. And factoring is when the actor sells its invoices at a discount to improve cash flow. These instruments are used for borrowers who have limited availability of collateral but have a sound credit history.

5. **Weather-Based Insurance.**
In our country agriculture is majorly dependent on weather. Some financial institutions find it easier to provide finance based on insurance against bad weather. The assessment becomes quite easier as compared to insurance against production losses. This type of financial instrument might not be useful in regions where objective data on the climate/weather is not available.

6. **Credit Guarantee Schemes**
These instruments improve the chances of access to finance. Under this scheme, the financial institution takes partial guarantee of the losses due to default.

7. **Kisan Credit Card (KCC)**
The Kisan Credit Card (KCC) scheme aims to provide an adequate and timely institutional credit to farmers with simplified and flexible procedures. The scheme is implemented by SCBs, RRBs and co-operative banks. It comprises both short-term crop loan and term loan components. The progress on the scheme for the last two years is presented in Table 4.2.

Table 4.1 Targets and Achievements for Agricultural Credit(₹ billion)

Year	Commercial Banks		Co-operative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
2016-17	6,250	7,998	1,500	1,428	1,250	1,232	9,000	10,658
2017-18 *	7,040	8,772	1,560	1,504	1,400	1,410	10,000	11,685

* Provisional.
Note Figures might not add up to the total due to rounding off of numbers.
Source National Bank for Agriculture and Rural Development (NABARD).

Table 4.2 Kisan Credit Card (KCC) Scheme			
(Number in million, Amount in ₹ billion)			
Year	**Number of Operative KCCs**	**Outstanding Crop Loan**	**Outstanding Term Loan**
2016-17	23.37	3,851.89	498.13
2017-18*	23.53	3,911.34	419.80
* Provisional. Source Public Sector Banks and Private Sector Banks.			

Table 4.3 Financial Instruments used in Agricultural Value Chain Finance

Category	Category
A) Product Financing	• Trader credit • Input supplier finance • Marketing & wholesale company finance • Lead firm financing
B) Receivables financing	• Trade receivables finance • Factoring • Forfaiting
C) Physical asset collateralization	• Warehouse receipts finance • Repurchase agreements (Repos) • Financial leasing (lease-purchase)
D) Risk mitigation products	• Insurance • Forward contracts • Futures
E) Financial enhancements	• Securitization instruments • Loan guarantees • Joint venture finance

To Do Activity

Visit one transporter and one village artisan in a nearby rural area. Have an informal discussion with him about the financial credit system that he is aware of. Is he aware about the facilities offered by the banks? Assess the situation and suggest a proper strategy for banks to educate these people. Discuss your findings in small groups with your peers.

4.4 Design and implementation of Agricultural Value Chain Finance

There could be many challenges for the development institutions to design a proper Program for getting the desired outcomes for the beneficiaries. There are multiple development priorities, concerns of governments, financial institutions, beneficiaries etc. There are issues of sustainability, income, employment generation and profit. The ensure the programs deliver what they are meant to, there a few recommendations

The Development Goals should be Clear

Identify all the stakeholders or actors in the value chain, identify their developmental needs, and have clarity on which of the developmental needs has to be addressed. Once this is done the target group, region, sector etc. can be specified.

Use a Development Approach

Seek to maximize returns to society as a whole and to the priority target groups and regions in particular. Thus, important considerations in designing value chains and value chain finance interventions include governance, power relationships among actors in the chain, control and sustainability of the chain, and the main beneficiaries of the intervention. A targeted effort is needed to include smallholderproducers and poorer households in integrated value chains.

Identify Initiatives with a Strong Business Case

The underlying industry sector must be competitive if interventions are to be sustainable. Within a competitive sector or subsector, the most competitive value chains and niches must be identified. Avoid interventions where the prospect of long-term sustainability cannot be demonstrated.

Acquire Knowledge about the Value Chain

Designing effective interventions requires an appreciation of the structure and dynamics of the target value chain. Ensure that value chain analysis is conducted and that the study involves an analysis of the value-added potential in the chain. This will reveal whether primary producers can benefit from organizing the chain more efficiently and whether the cost of chain organization and financial services can be recovered from product margins. Conduct a segmentation analysis to assess how the labor market is segmented by sex throughout the value chain. Consider factors and characteristics that influence the access of men and women to productive resources and their ability to deploy these resources.

Before Considering Financial Interventions, Consider Non-Financial Alternatives

Financial Institutions should consider providing direct financial support to (commercial) chain actors only in the absence of other alternatives. Possible alternatives to direct financial support include

- Brokering contacts with microfinance institutions (MFIs) and other financial institutions.
- Holding workshops, bringing stakeholders together to investigate whether solutions can be found within ordinary business relationships (e.g. supplier finance).
- Providing technical assistance to producer organizations or lead actors in the chain to help them meet the requirements of viable, sustainable chain operations (including related financial services).
- Facilitation of linkages with exporters (or importers in target market countries) that would demonstrate the availability of well-established market outlets to financiers and provide sufficient value-added potential at the local level.

Each of these would create an environment in which commercial financial operators could enter the market to provide value chain actors with the financing they need to improve the operation of the chain.

Avoid Crowding out the Private Sector and Other Ongoing Initiatives with Grants

In a similar vein, donors should be very careful to avoid distorting financial markets through grant-funded interventions. Donors should finance only gaps and then only as a temporary, start-up measure. They should not use grants to fund activities that they are already financing through debt financing. Subsidies should be limited to parties and situations that are not currently supported by existing market actors (including local MFIs and other financial service providers [FSPs]) and where prospects for sustainable long-term value chain finance look promising.

Use a Step-Wise Approach

Grant finance may be used in the start-up phase to fund the development of value chain activities, but thereafter, VCF must move towards a sustainable form of local debt financing. Ongoing services to chain actors must be paid out of revenue from value added within the chain if they are to be sustainable. The project/program should plan for the transition from donor support to commercially supported services, with defined milestones and a clear timeline.

Create Conditions for Synergy between grant and Debt Finance

Consult local financial institutions early in the chain development process to ensure that the program invests in promising value chains and subsectors and with partners that FSPs recognize as creditworthy. Efforts should be made to involve them in the value chain and the VCF development strategy. Local financial delivery is the best path to continuity. Develop a process to evolve towards local financing; this offers an exit route for donors of grant programs and is the best guarantee of substantial social and economic returns.

Use Agricultural Value Chain Finance to Build or Strengthen Actors' Creditworthiness

With its linkages and relationships among value chain participants, AVCF can contribute to participants' creditworthiness and therefore support the development goals of increasing financial access and inclusiveness. It may start with embedded finance (e.g. processors financing farmers' operations), enabling actors to develop a track record of financial responsibility and competitiveness, which in turn opens up opportunities for external financing.

Farmers' financing by a processing firm (embedded finance) may be a very good solution in a situation where no external financing is available. However, financing may be better when separated and left to specialized financial institutions. Hence, it is important to recognize the benefits and limits of embedded finance, as well as the potential evolution of such arrangements over time.

Institutional Framework of Agricultural Value Chain Finance in India

The institutional framework for agricultural value chain financing comprises of various ministries, government agencies, banks, financial institutions and apex bodies like Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD). The framework indicates vast network of financing institutions across the country. Figure 1 below provides a diagrammatic representation of the institutional framework of financing agriculture in India. The framework has a tiered structure where the apex bodies like RBI and NABARD are at the top while the Primary Agriculture Credit Societies (PACS) are at the village levels.

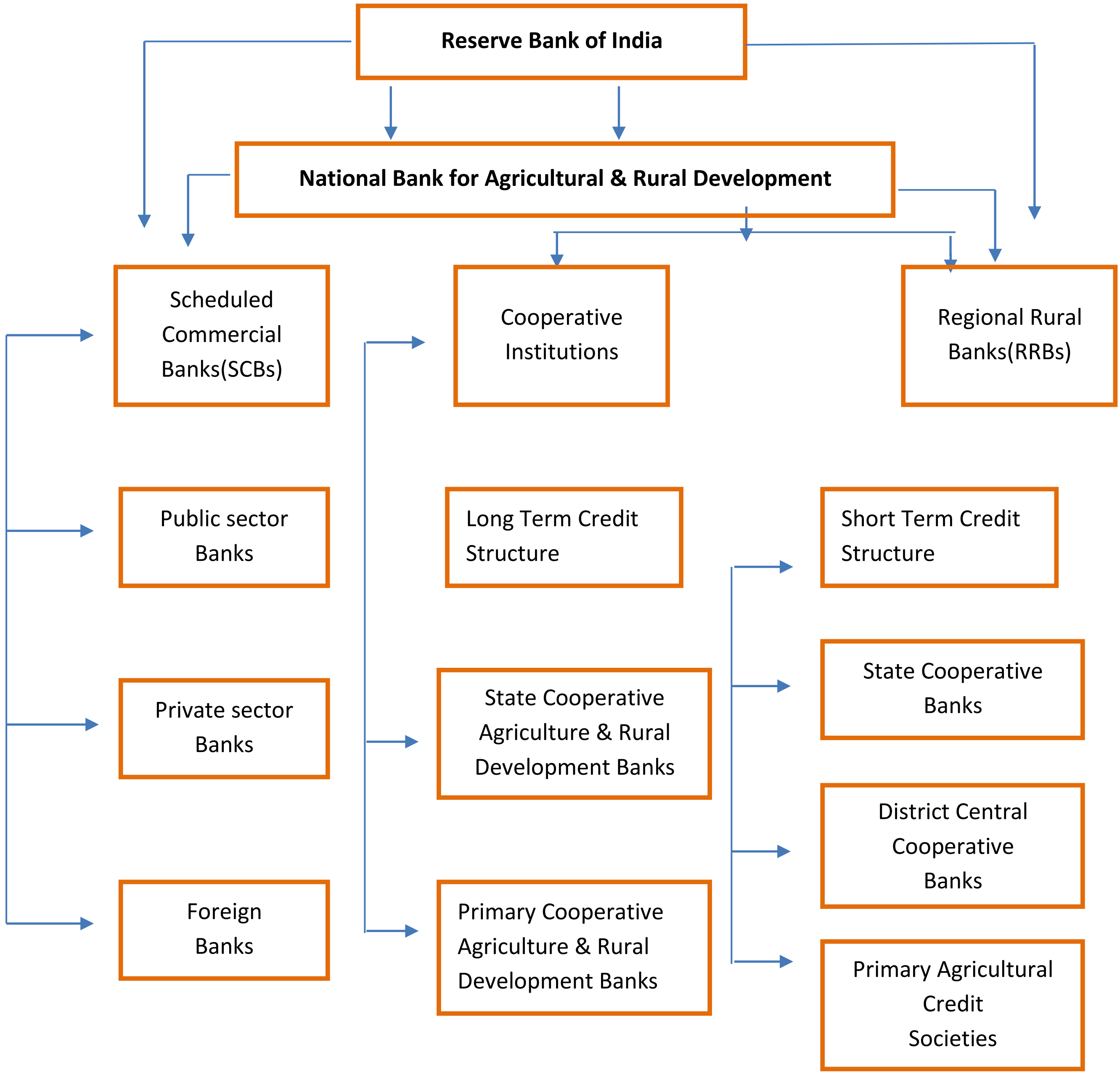

Figure 4.4 Institutional Framework of Agricultural Finance in India

Apart from the above-mentioned institutional framework, there are many informal and traditional mechanism of value chain financing existing locally. These may be in the forms of traders, input financers mainly at the farm gate. The financial sector policy towards agricultural financing always focused on bringing more and more farmers to the formal banking sector as the traditional financial arrangements were exploitative in nature. For commercial bankers, value chain finance in agriculture isan approach to financing that uses an understanding of the production, value added and marketing processes to best determine financial needs how best to provide financing to those involved. By understanding the agricultural chain, the lender can make more informed decisions of how to structure financing to reduce the costs and the short and longer-term risks such that financing becomes attractive. Funding may be done at many levels in the chain or could enter the chain at one point andthen flow up and/or down through the chain to others.

Key Challenges

Though there is a disproportionate increase in agricultural credit in India, unlike the growth of agriculture itself, there is a highly likely possibility that this growth might be coming from a very large institutional credit disbursement gap. The possibility that this gaphas still not been filled up and there is scope for further credit absorption or more worry some, maybe the ultimate amounts are possibly being utilized for non-agricultural activities. In India the credit seekers are a highly diverse set, ranging from semi-subsistent cohouse holds to micro and small enterprises engaged in agricultural and non-agricultural activities, and medium/large enterprises engaged in production, processing, trade and services. Their financial needs differ widely in terms of amounts, terms and conditions as well as the degree ofsop hesitation of financial services. There is a dire need to come up with innovative financial products/services which can address the diverse credit seekers. There is a strong need to sustainably modernize agriculture in India, combined with increased value addition in the processes following primary production. All this would, however, require a heavy demand for investment capital.

The key challenges identified in this regard are as follows

- Seasonality and varying gestation periods (of business activities) affects most rural economic activities in India. This often leads to a slow rotation of the invested capital and gets reflected in the cash flows of rural entrepreneurs. This is true for both farming as well as to other related activities such as agro-processing, input supply and service provision. Credit with longer majority periods and erratic repayment schedules pose a risk and present additional challenges to liquidity management.
- Unlike any other sector, the profitability of agricultural enterprises is significantly impacted by external factors like weather, major pest and disease outbreaks or prices of inputs/outputs, and these are largely beyond the control of the agriculturist. The agriculturist also faced the unannounced risks of sudden illness or death of a family member, theft of assets, social activities etc., which he has to address even at the cost of starving his enterprise.
- Since over 70% population is engaged in agricultural activities, this becomes a highly politically sensitive sector and prone to disproportionate government intervention. Over the years there has been a reduction in the government intervention due to rules like fixing lending quotas, mandating interest rate ceilings etc. But the governments continue to intervene on an ad-hoc basis. These may include sudden announcements of loan rescheduling due to natural calamities, loan waivers, preferential lending programs etc. Such incidents are seen very commonly before the elections. These ad hoc decisions enhance the sense of uncertainty for financial institutions and lead to weakening of the repayment culture.

The inherent risky nature of the agricultural sector, as compared to other sectors, makes financing the value chains in the system morechallenging.And this becomes all the more a bigger challenge for small-scale farmers who are often prone to non-agriculture related risks as well. This is compounded by the factthat transaction costs in rural areas are also very high. Underlying these changes, the goal of all actors in the agricultural value chainis to maximize benefits, minimize costs and risks. From the development point ofview, promoting equitable distribution of benefits can be added as another dimension of chainperformance. That is, to promote the competitiveness and market efficiency within the chain.

4.5Financing Agriculture Value Chains in the Digital Age

To Do Activity

Through the internet and other secondary sources, study the Institutional Framework of Agricultural Finance in two other developing countries – Brazil and South Africa. Compare them with the Indian Framework. In your opinion which framework is more effective and creating long lasting impact? Discuss this with your peer group and faculty.

Agriculture plays a critical role in economic growth, poverty reduction, and food security. The demand for agricultural commodities is increasing, as the world's population surges to an anticipated 9 billion by 2050. It is imperative, therefore, that we find ways to boost agriculture productivity nationally and globally. This cannot be achieved without improving the productivity of smallholder farmers, given that they produce over 70% of global food needs.

Agriculture value chains can provide opportunities for smallholders to access high value markets, advanced technology, and networks of various value chain actors such as processors, traders, and service providers, as well as reduce the cost of doing business. So, what is holding back the participation of smallholders in value chains? Poor access to finance is a critical pain point for smallholders. It makes it hard for them to survive and grow, and impedes their participation in a value chain.

Bridging the Financing Gap &Integrating the Small-Scale Farmer in the Agriculture Value Chains

In the Philippines, for instance, credit demand in 2014 for priority commodities such as rice, corn, coconut, and sugarcane reached $11.3 billion, while the bank credit disbursed for producing these commodities was only $3.4 billion, leaving a credit gap of $7.9 billion.

Smallholder farmers face specific challenges in accessing finance. Lack of formal contracts, credit histories, production records, and their unstable production and income make it difficult for financial institutions to identify risks associated with smallholders. Also, smallholders are spread over rural and remote areas, and their amount of financing they need for inputs and working capital is usually very small. Servicing these needs results in high transaction costs for financial institutions. The question is how to fill the supply-demand gap in financing for smallholders to integrate them into a value chain and vitalize the agriculture sector.

Financing Options

Agriculture value chain finance provides a set of financial instruments that can be applied for agribusinesses at different stages, which helps smallholders access the financing they need to expand. There are several financing options besides bank and nonbank credit.

A good example is asset-based finance, or using a firm's valued assets such as accounts receivable, inventory, machinery, and equipment as collateral, or through sale or lease, while not depending on real estate securities and third party guarantees.

Asset-based finance offers cash-in-advance with discount, typically faster than traditional bank credit. It provides various forms of financing, such as invoice discounting, purchase order finance, factoring, and warehouse receipt finance; but in reality, these instruments are not accessible to smallholders as they are not well involved in value chains.

Digital finance, mainly through internet banking and mobile banking, will bring more opportunities for smallholders and other value chain actors to access timely and low-cost financing. A 2017 report by business intelligence firm GSMA estimates that out of over 750 million farmers in 69 countries, 295 million have a mobile phone, and 13 million have a phone and mobile money account in 2016. The report sees as a potential business-to-person (B2P) market a large share of the estimated 350 million farmers who will have mobile phone in 2020.

To integrate smallholder farmers into value chains, a balanced development of 4 key products (payment, credit, savings, and insurance via online and mobile phones) will be needed, together with online trading platforms. Among these products, online payment is a critical instrument to extend digital financial services to smallholders. In general, cash is king in rural areas. Most smallholders do not know what digital payment is and how to use it, and are thus hesitant to go digital.

Cash payments are often troublesome. Payments can be delayed if there are no bank branches nearby, which may trigger side-selling, selling their commodities to someone outside of a contract, by smallholders

Smallholders Benefits

But once smallholders experience that digital payment allows them to conduct fast, easy, safe, low-cost transactions in small amounts on their mobile phones, they will start to trust other digital tools. This facilitates shifting from cash to digital. Asset-based finance can benefit from digital technology. For instance, digital production records can fill the information gap between suppliers and financial institutions, and can be used for invoice discounting.

Digitizing warehouse receipts is another promising way to help smallholders raise funds, backed by transparent and traceable data on quality and quantity of crops. This system can allow smallholders to access post-harvest loans. Likewise, digital savings can be an important tool for smallholders. Given smallholder farmers' unpredictable cash flow, a digital platform enables them to save ahead for input purchases and prepare for unexpected and urgent expenses, through branchless transactions via mobile networks.

Digital insurance platforms offer reasonably low-cost crop insurance for smallholders. Users can register online and pay their premiums with their mobile phones. Weather-index insurance enables smallholders to effectively manage crop loss risks through automated weather stations and satellites. Finally, online trade platforms can facilitate business connections between smallholder farmers and others on the value chain, and further promote trade and supply chain finance. The above are just some of the benefits for smallholders of using digital financial services so they can better participate in value chains. Meanwhile, still many issues remain to further promote digital value chain financing for agriculture.

Developing relevant digital infrastructure and agent networks needs relatively large upfront investment. Comprehensive policy and regulatory frameworks should also be in place to promote healthy digital financial services, and digital finance literacy among smallholders is a must. By addressing these challenges, we can unlock the potential of digital finance to support smallholders on agricultural value chains.

To Do Activity
Study the digitally enabled financing practices in developed countries like the US and EU. Discuss the impact of some of the digital initiatives that the government of India has taken in the last decade. Discuss your findings in small groups with your peers.

Model Questions

1. What is Rural Value Chain Financing? How is it different from urban financing? Give examples.
2. Describe the roles and responsibilities of different actors in the rural Value Chain Financing?
3. What is the existing structure of rural financing in India? What are the pitfalls of this structure? Explain with examples.
4. What are the key reasons for rural indebtedness in India? Suggest means in which these challenges can be tackled.
5. What are the direct finance options available to the farmer? Describe in detail one of them. Give examples.
6. What are the different financial credit instruments currently used by the farmers in India. What should be the way forward.
7. What do you mean by non-financial alternatives to support small-holders? How are they better from direct financial assistance through financial institutions? Explain with examples.
8. What are the key challenges faced in the present Institutional Framework of Agricultural finances? Can you suggest means in which these challenges can be tackled?
9. Why is there a financing gap in the Agricultural Value Chain in India? How do you think the Digital Age can bridge this gap? Explain with examples.
10. What are the specific benefits that a small-scale farmer can expect through a digital age financing option?

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Chapter 5 Value Chain Business Models

Introduction

The term 'business model' can be typically defined as – the way a business creates value and captures it within a market network of players like producers, suppliers and consumers. A definition given by Varley, 2008, says 'business model is what an organization does and how it leads to revenue generation'. This term is predominantly used in business strategy and operations. In value chain management, business model refers to the players or actor in the value chain, who could be the drivers of business, processes and resources, engaged in the enterprise/business. For financial viability the value chain has to be viewed as a 'single structure' and this provides the framework for further analysis. The analysis of the framework helps in reducing the risks and apprehensions of the financier while lending to the rural sector. Figure 5.1 depicts the different value chain structures and the relationship between the two key stakeholders – buyer and seller. The buyers could be processors, warehousing companies, exporters or re-distributors and super-markets. And sellers are the farmers/producers who sell their produce to these buyers.

The buyer and the seller, the two stakeholders, have linkages which can be categorized in the following five types

1. The Spot Market. Here the producers can sell their produce almost instantaneously. The prices here fluctuate and it is highly risky in terms of setting the market price.
2. Contract Farming – The buyers enters into an advance contract to buy the product of the seller
3. Informal long-term relationship based on mutual trust
4. Capital investment-based relationship characterized by producer/farmer credibility and dependence
5. Full vertical integration

Financiers are uncomfortable and apprehensive to finance when the production and marketing is dependent of 'spot market'. The price is fluctuating and unpredictable. Financial institutions look towards models where there is better control over risks like contract business models or partnerships between value chain actors. This is regarded as their 'comfort zone'.

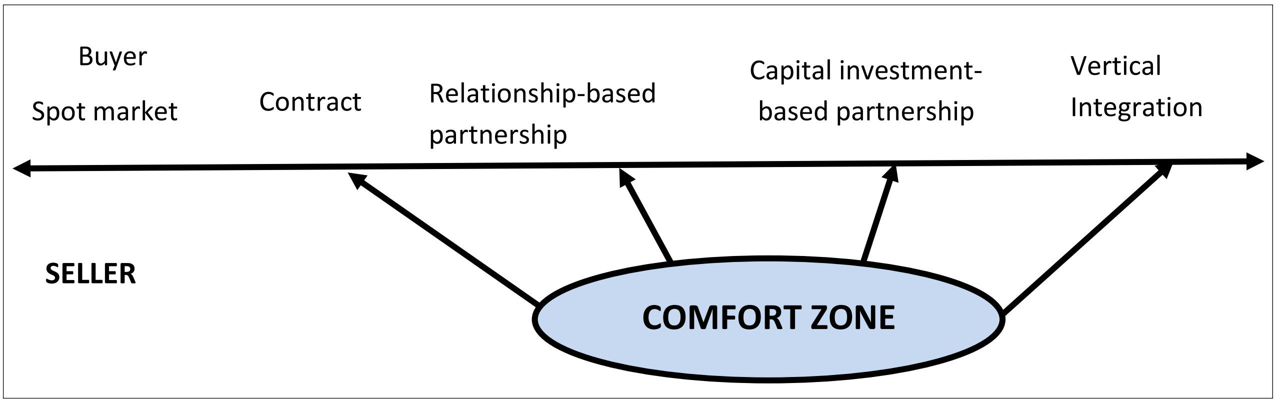

Figure 5.1 Different ways to Coordinate and Structure the Value Chain
Source Wenner (2006)

Rural Value chain finance, though engages and extends support to a wide range of agribusinesses and chain actors, it is most useful in helping linking small farmers and agribusinesses into effective market systems. Smaller farmers and agribusinesses, which need finance for developing economies of scale, are best benefitted from rural value chain finance by reducing the risks for the lenders and buyers. For their economic and social considerations, small farmers/agribusinesses are specially supported. And business models which allow greater participation in the value chain can be categorized into four types as mentioned in Table 5.1 below. This categorization has been recommended by Vorley, 2008. The table also mentions the drivers of the organization and the rationale/objective.

Objective

This booklet aims at educating the students about the various business models that are prevalent in the country. The section also goes into the basis of the business model formation and how it has benefitted the rural people – economically as well as socially. Each and every business model is described to certain details to help the students understand them better. Some examples have also been mentioned to illustrate the practicality of these models.

Table 5.1 Typical organizational models of smallholder production

Model	Driver of organization	Rationale
Producer-driven	• Small-scale producers, especially when formed into groups such as associations or cooperatives • Large-scale farmers	• Access new markets • Obtain higher market price • Stabilize and secure market position
Buyer-driven	• Processors • Exporters • Retailers • Traders, wholesalers and other traditional market actors	• Assure supply • Increase supply volumes • Supply more discerning customers – meeting market niches and interests
Facilitator-driven	• NGOs and other support agencies • National and local governments	• 'Make markets work for the poor' • Regional and local development
Vertically Integrated	• Lead firms	• New and higher value markets

Structure

- Producer-Driven Model
- Buyer-Driven Model
- Facilitator-Driven Model
- Integrated Value Chain Model
- Role of Technology in Value Chain Management

5.1 Producer-Driven Value Chains

Producer-driven associations are animportantpart of many value chains. In certain cases, the association becomes the driver for value chain development – providing technical support, distribution and sales support, inputs and linkages to finance. In other cases, the association may have a financial base. Producer-driven models are driven from the bottom end of the chain. They face two major challenges.

1. First, producers may not be aware of the market needs as well as needs of those in the chain who are closer to the end consumer.
2. Second, producers often struggle to get finances and associations with strong partners is required which can help get financing and fore-linking to reliable and competitive/remunerative markets and partners.

While the start-up years are particularly difficult for these and other reasons – e.g., lack of capacity and economies of scale – with time and support, producer models can become strong and begin to access financing based upon the strength of their transaction flows and market partners.

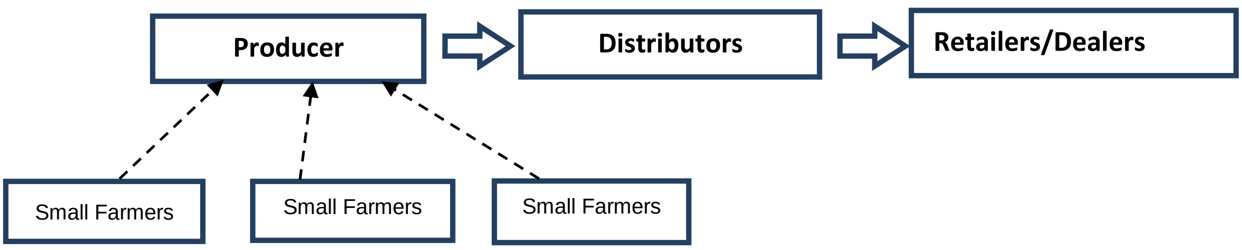

Figure 5.2 Producer-driven Value Chain Business Model

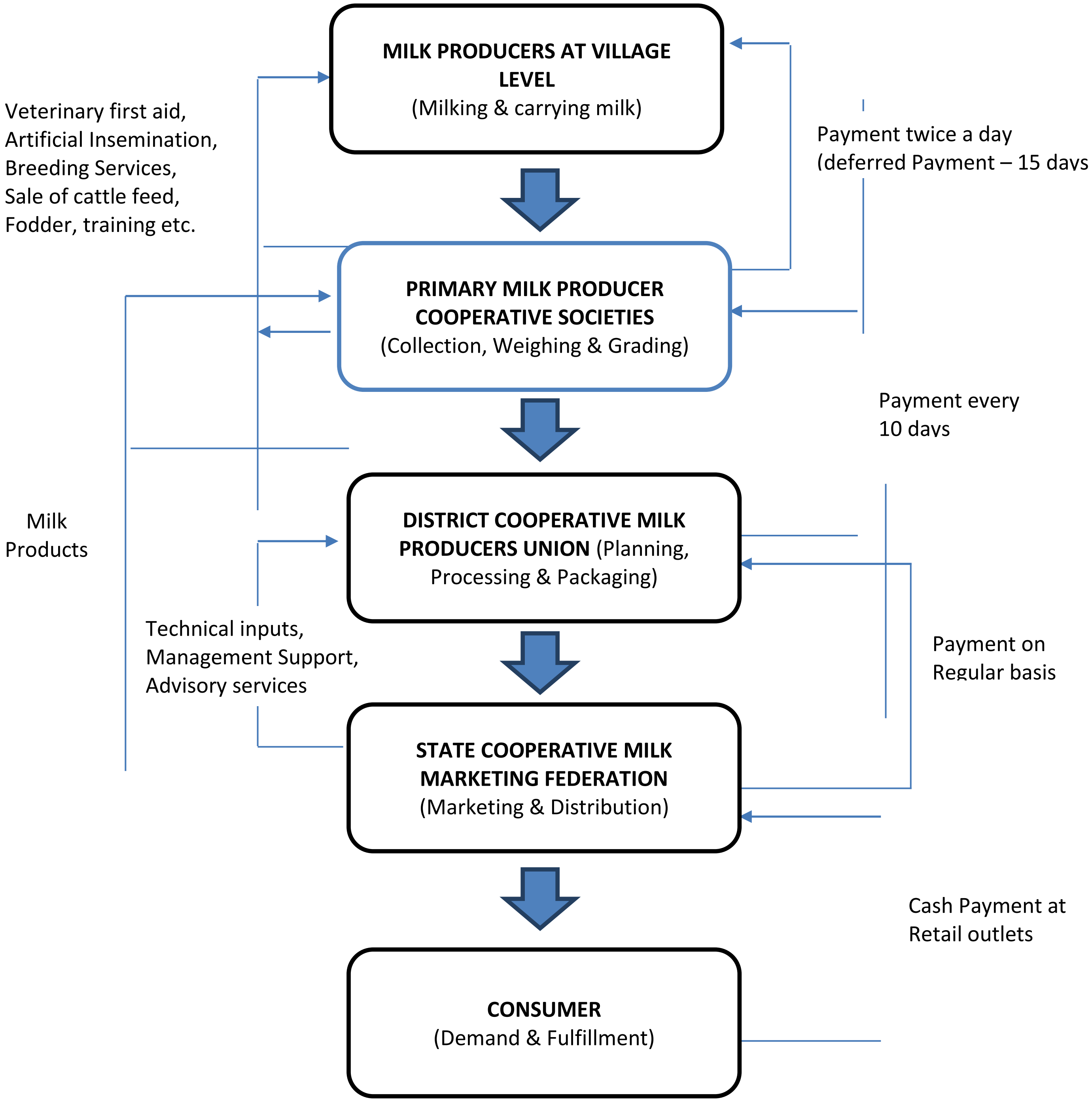

Figure 5.3 Producer-Driven Value Chain Business Model of AMUL (GCMMFL)

Activity

"My Egg, My Price, My Life" National Egg Coordination Committee

Around the year 1981, the Indian poultry industry was hit by an unprecedented crisis. Over 40 percent of all poultry farmers had stopped operations because the business had become economically unviable. Middlemen had forced down prices and farmers were being paid less than their production cost, a result of speculative trading, since the existing market and distribution network was working against the interest of the farmers. Feed costs had risen by 250 percent in the past 5 years, whereas egg prices were static at an average of 35 paise. Consumption of eggs was low and the future looked anything but healthy.

My Egg, My Price, My Life

With no help coming from any quarter, a group of farmers motivated by Dr. B.V. Rao traveled across the country, organizing over 300 meetings with groups, individuals, and traders. Their objective - unite poultry farmers from all over India, and take control of their own destiny. Dr. Rao's call "My Egg, My Price, My Life" consequently brought farmers onto a united platform and realized this objective.

May 1982

NECC was formally registered under the Societies Registration Act. In line with its democratic principles, it was registered as a trust and on May 14th 1982 NECC started declaring egg prices.

(Source http//www.e2necc.com/necc-beginning.html)

Assignment

Students are expected to collect information about NECC and draw the Value Chain of this organization. Also attempt at listing out the value creation and benefit that the various actors in the value chain derived from this model.

To Do Activity

Study the website of AMUL and understand the entire value chain that is being followed. Identify the actors, their roles and responsibilities. What are the risks involved at each stage of the value chain?

5.2 Buyer-Driven Value Chain Models

When the buyer/s for their interest to ensure proper flow of goods and services, partner with and take commitments from producers, processors and others, we call it a 'buyer-driven value chain business model'. In this case the buyer/s use finance as a way of facilitating this partnership. When financing is involved, most often there is a contract which ensures commitment from the partnering actors of the value chain. These contracts, irrespective of whether they are formally registered or not, can be invoked for loan recovery in case of default.

One of the most common buyer-driven model is 'Contract farming'. This involves farmer-association level contracts but are initiated at one or more levels in the value chain. These are binding agreements which can be legally approved or can be informal. Agro-food chain coordination can be exercised in multiple ways, starting from tight vertically integrated operations with full ownership and control by a single firm, to more fragmented coordination arrangements, where there are no formal but rather ad hoc transactions between producers and their buyers.

Contract farming is a mechanism of value chain management whereby transactions between producers and other chain actors are governed by pre-negotiated terms that can be more or less formal. There are some forms of contract farming where we see outsourced production, often called out-grower schemes, typically resorted to be by an estate, processor, exporter or other chain agent, to a group of producers. The terms of the contract may involve providing/facilitating inputs, funds and/or technical support, or it might just be limited to product sales conditions, such as prices, quantities and delivery dates. The popularity of contract farming as a value chain governance strategy, probably because of the changing trends affecting agro-food industry, which are leading into more tightly aligned supply chains. This changing scenario has led to emergence of increased opportunities and scope for contract farming arrangements to be encouraged as channels to leverage access to finances across agro-food supply chain. Contract farming has stricter terms which can specify the type of production, acceptable quality, minimum or maximum quantity and product/service delivery schedule. Finance and technical support provision, if needed, can be made a part of such an agreement. The financial institutions get the confidence to extend support once they see the formal or verbal commitments from the chain partners. This is a big risk mitigating mechanism for the financial institutions. In fact, as a result of the existence of contracts, funding can be provided to farmers directly by an agribusiness firm or by a third party, such as a bank. In the first situation, agribusiness firms, such as agro-processors, will have their operational risks reduced, because access to raw materials is safeguarded by the contracts established with producers. This improves a firm's credit rating and allows it increased access to finance. The funds obtained by the firm are then channeled to farmers, often in the form of farming inputs and technical assistance. In the second case, since banks tend to consider producers to be more creditworthy if they have a guaranteed market for their products, the participation in a contractual relationship can serve as a form of virtual collateral. Acceptance or not of such collateral depends upon the lending organization and also upon the lending requirements of each country. However, in either case, contract farming is often an important mechanism supporting value chain financing.

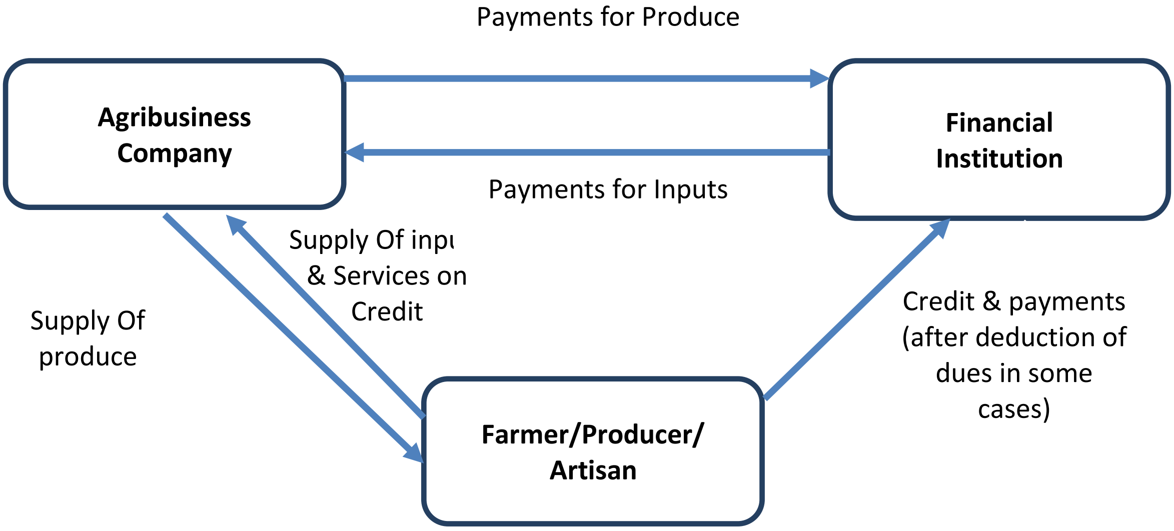

Figure 5.4 Tri-partite Model in Contract Farming

Contracts or agreements may or may not be strictly legal or formal. Verbal and informal contracts are also acceptable. In the many cases where contracts are more strictly formalized, they typically involve binding legal agreements that specify the roles and responsibilities of the farmer/producer and the buyer. For the seller/producer, there are commonly terms regarding timing, quantity, and quality of products. On the buyer side, commitments pertain to inputs, technical support, purchasing and financing. For financing, the benefit of contracts between producers/sellers and buyers is evident since contracts reduce uncertainty and risk of the unknown. However, before embracing buyer-driven models such as contract farming it is important to fully understand the models

- What is the value to each party involved?
- What is the negotiating power and equity of each, especially between smallholders and large companies?
- What is the commitment and what is the risk of not honoring contracts, through side-selling (selling to others rather than the contracted party) or buyer refusal to buy under specified conditions, especially when market conditions change?
- In what sectors are contract farming models most common and why?

How does a model work when there are a large number of producers? As of now it has been observed that the experiences of contract farming have mostly been with limited numbers of producers. One of the reasons behind low acceptance is that a majority of farmers are not ready to meet the requirements. What is recommended by experts is that the government and development organizations should support producer capacity development – not only technical capacity but also organizational capacity and commitment. In order to best understand the potential for increased acceptance of contract farming as a model for facilitating financing, it is important to study its benefits and weaknesses.

Benefits and Weaknesses of Contract Farming

Contract farming, whether formal or informal, is a viable model to incorporate smallholding farmers into value chains and through the contractual arrangements enable them to access credit and other services.

Benefits

- Access to secure markets and prices for producers.
- Access to appropriate input supplies in timely fashion.
- Increased access and reliability in procurement of product of desired quality for agribusiness buyers.
- Opportunity for lower input costs due to improved planning and economies of scale.
- Enhanced access to credit despite a lack of collateral.
- Support in the development and achievement of quality standards and certification.
- Provision of market-focused technical training and assistance that outlives contracts.
- Are often enforceable contracts which give buyer a level of comfort?
- Potential advancement of positive relationships and increase in trust.

Challenges and Risks

- Reliance on a single buyer that could fail or lose interest in the relationship (loss of their buyer, market changes, bankruptcy).
- Side-selling by farmers, particularly if prices go up.
- Cost of management for buyer.

- Enforcement of contracts by either party.
- Regulatory environment for contracts and their enforcement.
- Tendency to favor larger farmers, at the expense of small farmers, due to lower transaction costs and a stronger initial asset base.
- Lack of technical capacity to understand and intentionally develop viable value chains, especially those involving small farmers.

Inspite of the potential benefits to the participants of a contract farming agreement, not all contracting initiatives will be successful. The risks of failure are associated with a number of well-known reasons, chief of which is the opportunistic behaviour that might arise when pre-established conditions change. If market prices rise above the agreed level and if alternative buyers exist for the agricultural products grown under the contract, then farmers might be enticed to renege on their contractual obligations and sell to the highest bidder.

It is observed that contract farming is best in sectors and market niches where side-selling is less of an option. For instance, with sugar cane where the cost of a sugar mill and transportation are so high there are few alternatives for side-selling by producers. Similarly, it holds true for market niches, especially when the price premium is high compared to alternative markets. Development agencies can be instrumental in not only promoting capacity building and improved legislation, but in order to reduce risks in contract farming, they can support the building of transparent, equitable and well-functioning value chains.

Contract Farming Success Story

Appachi Cotton Company, Tamil Nadu

Every story has to start somewhere. Ours started on 12th June 1946 when Mr. Mariappa, with his wife Mrs. Uraiyur Nachiar set up a Cotton Ginning factory with just 6 Platt Brother double roller gins in Pollachi, Tamilnadu, India and named it Sri Santhalakshmi Mills. Today, with over 65 years of cotton experience and expertise under our belts we have the respect and trust of all those we have worked with along the way. This has been possible only because we've continued the tradition started by our founder - 'Quality above all else'. Experts in the ginning of high quality extra-long staple cotton, we have now expanded our operation into an ultra-modern facility with customized 22 double roller gins and 2 hydraulic presses while preserving the Cotton Legacy that is three generations old.

Innovative Approach to Sourcing Quality Cotton

Appachi's formula for Cotton contract farming is an innovative initiative in the annals of Indian agriculture in general and the country's cotton cultivation, in particular. This backward integration initiative helps us in ethical sourcing of high quality cotton that satisfies the requirements of our quality discerning clients. Collecting cotton at source brings in a high degree of transparency & traceability right up to the farmer who produced it. Further it has an ethical & holistic approach that can be replicated season-after-season.

Source http//www.appachicotton.com

To Do Activity

Just like Appachi Cotton Company, scan the internet and find out at least three more Buyer Driven Value Chain models. Compare the value chain in terms of the 'actors 'involved. Can you suggest some changes in these value chains? Discuss in your peer circle about the models.

5.3 Facilitated Value Chain Models

Often in many regions it is observed that there is a dual agricultural system present, wherein a developed agro-industry coexists alongside marginalized small producers who live at subsistence levels. Facilitation by development agencies, both NGOs and government, has shown that external support can open up opportunities for these small holders through value chain integration and financing. Generally larger buyers and wholesale chains stores will seek out large-scale suppliers/producers due to a number of factors that are challenging when dealing with small-scale farmers such as a smallholder

- May not be well organized.
- Have not demonstrated commitment.
- Require higher transaction costs to be served.
- Often pose increased risks such as side-selling.
- Lack both technical capacity and the technologies to reliably produce the high quality and quantity required in a consistent manner.
- Tend to lack organizational capacity and resources to deliver the required products in a timely fashion.

Consequently, the costs of organizing and training small producers can be deemed too high to be taken on by a large company. Development agencies and others with a social mission can provide support to facilitate the integration of small famers and agro-enterprises into commercial value chains. Successful facilitation models for value chain development have been developed around the world. With proper organization and training, incomes can be improved. Many contracts farming or other value chain linkage models which involve small producers are able to thrive in part due to the facilitation and/or services provided or initiated by not-for-profit or government agencies. In some cases, the agencies facilitate relationships including those between producers and financial institutions. In others, the agencies themselves enter into contractual arrangements (including guarantees) and provide direct technical services and finance. Techno Serve, a not-for-profit development agency that works in agricultural value chains around the world, demonstrates how an external agency, acting as a market developer, can facilitate the development of a chain through interventions at various levels. A guiding principle of Techno Serve facilitation in all of their development activities is to incorporate a private sector focused business model as a means of building sustainability. In financing, this involves such things as direct involvement of banks, commercial investors and private equity funds for asset finance needs. For working capital needs, financing from banks and buyers can be available if there is customized technical assistance. This is especially the case for start-ups and early stage expansion of agribusinesses.

Example NABARD's Micro Credit Innovation

NABARD, through its' Micro Credit Innovations Department has continued its role as the facilitator and mentor of microfinance initiatives in the country. The overall vision of the department is to facilitate sustained access to financial services for the unreached poor in rural areas through various microfinance innovations in a cost effective and sustainable manner.

NABARD has been continuously focusing on bringing in various stakeholders on a common platform and building their capacities to take the initiatives forward. This has resulted in tremendous growth of microfinance sector in India through different approaches like

Self Help Group – Bank Linkage Program (SHG-BLP)

Based on the observations of various research studies and an action research project carried out by NABARD, the model of 'SHG-BLP' has evolved as a cost-effective mechanism for providing financial services to the unreached and underserved poor households. What started as a pilot to link around 500 SHGs of poor to the formal financial institutions during the year 1992-93 has now become the largest microfinance Programme in the world, in terms of the client base and outreach. The SHGs which follow 'Punchcutters' viz. conduct of regular group meetings, regular savings within the group, internal lending based on the demand of members, timely repayment of loan and maintenance of proper books of accounts are considered to be of good quality and over years have proved themselves to be good customers of Banks.

The NGO sector has played a prominent role of working as a Self-Help Group Promoting Institution (SHPI) by organizing, nurturing and enabling credit linkage of SHGs with banks. NABARD later coopted many others as SHPIs including the rural financial institutions (RRBs, DCCBs, PACS), Farmers' Clubs (FCs), SHG Federations, Individual Rural Volunteers (IRVs) etc. These stakeholders were encouraged to take up promotion of SHGs by way of promotional grant assistance from NABARD. This savings led microfinance model has now become the largest coordinated financial inclusion programme in the world covering almost 100 million households in the country. With more than 84% of the groups being exclusively women groups, the programme has provided the much-needed push to empowerment of women in the country.

Other than championing the movement and providing promotional support, NABARD has enabled an entire ecosystem of support through policy advocacy at Bank and Government level, organising and sponsoring a large number of training & capacity building programmes, seminars & workshops for the benefit of all the stakeholders viz. the bankers, the Government agencies, the NGO partners and more importantly the SHG members themselves. Banks are also provided 100% refinance support by NABARD for financing of SHGs.

Product level changes like allowing voluntary savings in the group, sanction of cash credit/ overdraft system of lending to SHGs, allowing formation of JLGs within SHGs, improving risk mitigation systems, building second tier institutions of SHGs, etc. were brought subsequently to address operational issues emerging from time to time. Further, to enable SHG Members to take up livelihood activities, NABARD has been supporting Micro Enterprise Development Programmes (MEDPs) and Livelihood and Enterprise Development Programmes (LEDPs) for SHGs.

NABARD is implementing and supporting implementation of various Schemes announced by Govt. of India viz. Promotion of Women SHGs (WSHGs) in backward and Left-Wing Extremism affected districts of Ministry of Finance, National Rural Livelihoods Mission (NRLM) of Ministry of Rural Development.

Source http//www.nabard.org

In western Kenya, DrumNet provides an example of an innovative, multi-stakeholder facilitated value chain which links together farmers, input suppliers, buyers and banks through a fee-based facilitator hub that is coordinated through cell phone text messages. As facilitator, DrumNet provides the organization and capacity building of the farmers' associations as well as the relationship and Internet linkages between the various parties involved (Campaigne, 2007). In addition to capacity building, successful facilitator models include three key aspects as highlighted by Odo (2007) from his vast experience in the field of farmer organization and agricultural chain development. He states

- Start with the market and work backwards.
- Aggregate producers and their goods.
- Use the value chain for obtaining finance, such as buyer credit secured by sales contracts.

A word of caution on facilitation is given by Marangu (2007) who notes that since value chains are dynamic and complex, a facilitator must carefully prioritize interventions at key leverage points throughout the chain. Moreover, facilitators must stay out of the supply chain and avoid direct provision of financial services or subsidizing the cost of business. Such actions distort commercial signals. Facilitation models can be proactive in identifying and developing value chains. For example, USAID's technical assistance via the Peru Poverty Reduction Assistance (PRA) project identifies and facilitates value chain opportunities such as artichoke cultivation for small farmers in the highlands of Peru. PRA identified market opportunities, provided information, and brought together producers, processors and buyers to meet the needs of the market. Worldwide demand for processed artichokes has more than doubled over the past 20 years. Peru has been trying to capture part of the large European market and is well positioned to do so, given its labor cost advantages. As noted above, financing is both to and through the value chain for the export artichokes. In the less structured local wholesale market and supermarkets there were no financial flows within the chain. In the artichoke value chain, inputs, secured markets, financing, as well as technical assistance were all important ingredients – a complete service package – that enabled smallholder farmers to enter the market. Finance alone will rarely result in increased quality and sales. With small producers, technical assistance and knowledge is often missing on how to invest in a way that will increase production of high quality products and command higher prices. By addressing this issue and with the demonstrated success with artichokes, the sources of finance expanded from financing from within the chain by suppliers and buyers to access from financial institutions for those producers.

Challenges

A pending issue to resolve on value chain facilitation is that of sustainability and payment of services, especially when dealing with small producers and processors. It appears that the private sector is not willing and/or able to take full responsibility for building this capacity. Is the required facilitation support a public good, as are many of the universities in developing countries that will require support from the government and development organizations?

To Do Activity

ICCO is an organization (http//iccoindia.org/agriculture-value-chain-development/) which helps farmers in India. Study the website and enumerate the different types of facilitations it is providing to the farmers. Do you think this is beneficial for the farmers? How? Discuss your analysis with your teacher and your peer circle.

5.4 Integrated Value Chain Models

The fourth business model is the integrated value chain model. It not only connects producers to others in the chain – input suppliers, intermediaries, processors, retailers and service providers including finance – but it integrates many of these through ownership and/or formal contractual relationships. The integrated model has many of the features of the other models presented such as strong links with multi-party arrangements, technical guidance and strict compliance, and also incorporates an amalgamated structure of value chain flows and services.

The first and most common integrated model involves vertical integration within the value chain. Integration is normally sought by a large retailer or wholesaler/importer that is focused on consumer demand, and wishes to ensure that inputs, production and post-harvest handling will result in products that are responsive to that demand. The degree of overall vertical (and often horizontal) integration in the model depends upon the degree to which the individual levels are tightly linked – from control of production through to retail – often by means of contract farming or other contractual buyer models. Vertically integrated supermarket value chains are a prime example of this model. A supermarket works closely with importers or domestic wholesalers in order to convey information about acceptable product specifications such as variety, quality, volume, and standards relating to hygiene, traceability and residues. Information and services are passed down the chain to producers, frequently accompanied by quality control, technical training, appropriate inputs, record keeping and finance. Such vertical integration particularly applies to fresh fruits and vegetables. Horticultural value chains can be excellent for the integration of smallholder farmers since, for many of the products, intensive labour and manual cultivation and harvesting are necessary to deliver the required output. Coffee is a specific agricultural output that often involves vertical integration – not the lower quality Robusta varieties that are subjected to extensive processing to achieve its final form, but finer Arabica coffee that relies on inputs, climatic conditions and cultivation techniques. Starbucks Coffee Company offers a model of tight integration from production to retail.

A second integrated model applied to value chains is that of an integrated services model. One type of services model is led by a financial conglomerate and another type is led by a facilitating entity which combines ownership structures with their facilitation. The latter type could be led by a strong NGO, such as BRAC in Bangladesh(http//www.brac.net/),or an agribusiness services center such as are being developed in India. BRAC offers an important example as a financial institution that makes direct strategic investments in the chain when it sees the financing of its clients requires this. For example, BRAC set up and owned chicken hatcheries needed for poultry production of its clients. It also offers the required technical assistance and can facilitate marketing channels as needed. It has also done this for the artisan craft sector, including wholesale and retail of the crafts. Through financial services and strategic investments directly into the value chain, it generates employment in rural and peri-urban areas and raises the value-add of the produce of its clients. While not widespread, integrated agricultural value chain service models are growing in importance.

LAFISE (https//www.lafise.com/) in Latin America describes a commercial integrated banking and agricultural service model.

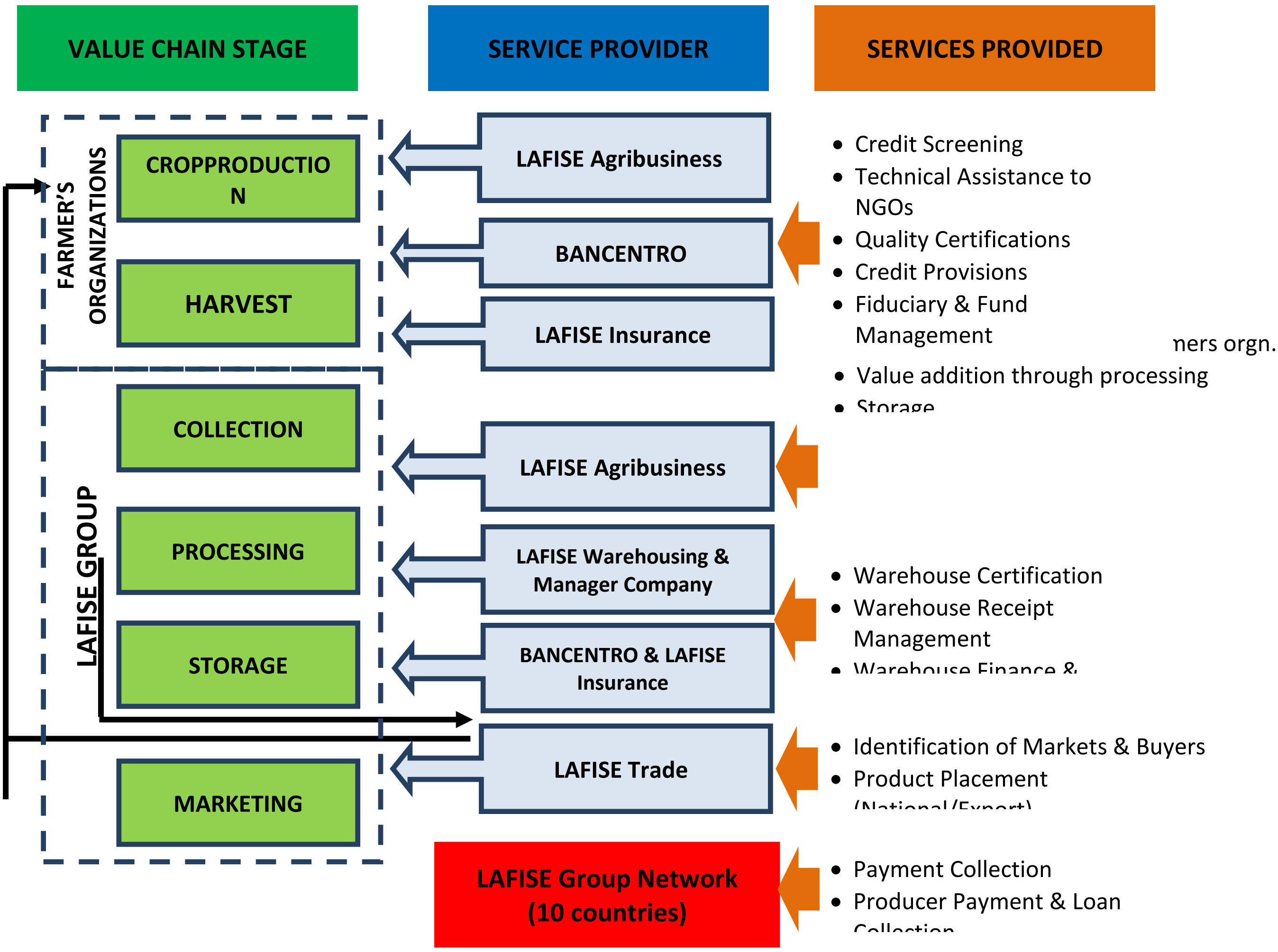

Figure 5.5 LAFISE Group Integrated Service Model

Source http//www.fao.org/3/i0846e/i0846e.pdf

A Rabobank example from India (https//www.rabobank.com/en/home/index.html#worldmap)is also being adapted and used to fit into countries in many parts of the world. Rabobank assumes a central role in the value chain providing financial and value chain support services throughout the chain. By having such a central role as part of its business model, it knows the business sector and those involved. In this way, it can ensure that the linkages are efficient and that any weaknesses among the partners are addressed so as not to cause problems to others in the chain. Since the money also passes through the bank, it can reduce costs by directly crediting and debiting the accounts of those in the value chain. Credit advances from marketing or processor businesses are often related specifically to a single value chain since most companies, especially private ones, work in only one or a few value chains. However, they can exist within a complex system of interrelated agribusiness services which offer financial and non-financial services of a comprehensive nature for multiple value chains.

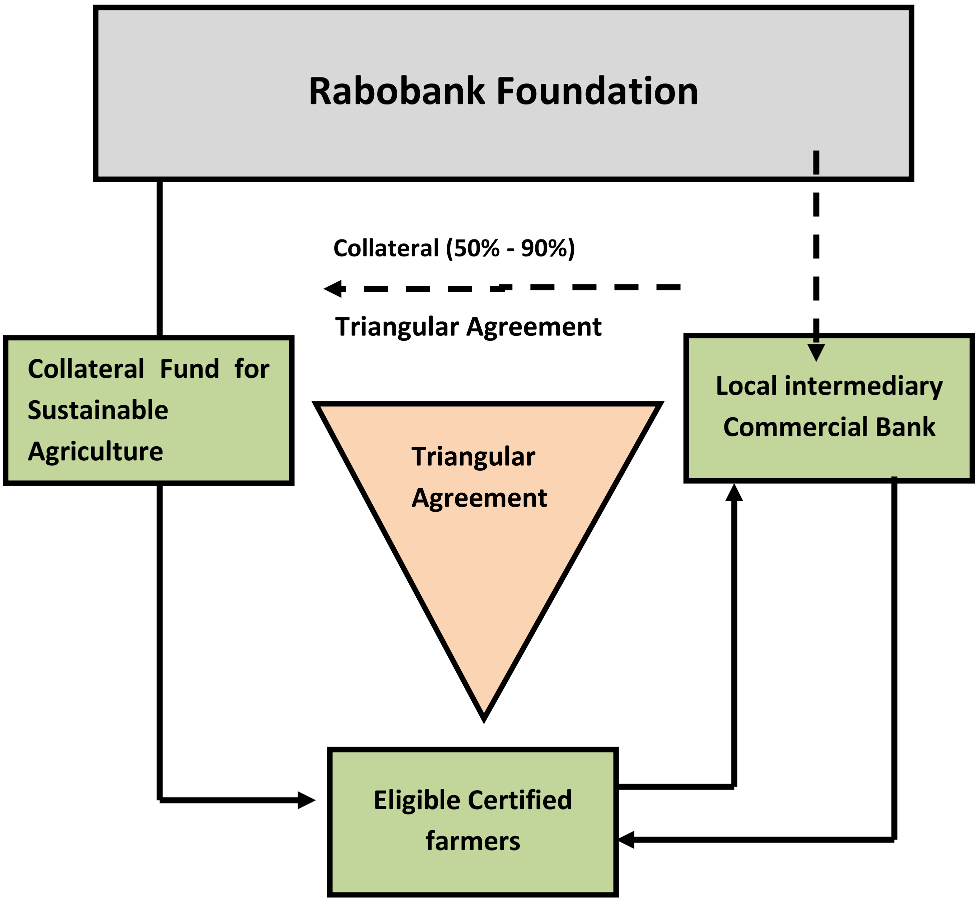

Figure 5.6 Rabobank's Contract-based Financing Model

Source https//www.currentscience.ac.in/Volumes/110/11/2082.pdf

In Korea, one agricultural entity, formed under a cooperative structure, has a huge presence in the whole agricultural sector which allows it to provide integrated value chain services in multiple value chains. The NACF model in Korea and the cooperative banking model of Rabobank are both successful models. Whereas Rabobank focuses on the integration of financial services along the chain and linkages with the chain partners, NACF also can participate directly in the chain. In other words, the multiple value chain services are different from those of Rabobank in that NACF itself acts as supplier, insurer, processor, and marketer for its member farmers and not only as a financial services provider. For example, farmers can purchase their farm machines from NACF with NACF loans guaranteed by the agricultural guarantee fund, and they can sell their products to NACF operating markets through their local cooperatives. In the same manner, the farmers' money is transferred to their NACF savings account, and later the money can be used towards repaying their loans. Private, non-cooperative models and in some cases integrated governmental models have been demonstrated to be successful. However, they are complex and much caution must be noted – their success often depends highly upon the superb management capacity and the social and economic environment within which they were formed. More often than not, these conditions are not present. For example, in Eastern Europe and Central Asia large integrated agricultural value chains, with embedded financing, were also formed and were not sustainable over time (Winn, 2009). In Kenya, as noted earlier, the large integrated model of the Agricultural Finance Corporation together with the Kenya Farmers Association and the National Cereals Produce Board also failed.

To Do Activity

Study the model followed by the Agricultural Finance Corporation in Kenya, in partnership with Kenya Farmers Association. Discuss the reasons behind its failure. What would be your suggestions for the organization going forward? Brain storm with your peers in the class and give the findings to the faculty.

5.5 Role of technology in the Value Chain

ICT (Information & Communications Technology) plays an important role in agricultural value chains, with their varying strengths and weaknesses when applied to particular interventions. Their impact is diverse, and they influence market competitiveness in multiple ways. However, it is felt that technology should not overshadow humans and the institutions involved. It should be kept in mind that while there are positive impacts of ICT, many rural farmers still do not have access to or the capacity to use ICT.

The impact of ICT in Agriculture Value Chains is diverse and influences the market competitiveness in multiple ways. We will discuss in this section a wide range of materials that look at key opportunities and challenges of ICT interventions in the agricultural value chain with a special focus on the most beneficial interventions in rural areas.

ICT and its Ramifications for Rural Economies

From making a simple call to a contact for information, to gaining access to new markets and buyers, or obtaining expert advice from distant experts, ICT – particularly the mobile phone – has made obtaining the right information on demand achievable for many people, despite their remoteness. The impact on productivity can be measured in terms of increased returns to farmers, through changes in cropping patterns, yield increases and better prices for inputs and output. Non-price factors, such as information on the availability of inputs, seed quality and the adoption of modern techniques, are also critical to raising productivity.

Prior to the 1990s, ICT in agriculture entailed mainly the use of radio and TV, especially radio in Africa and some parts of Asia, to pass on information to farmers in a static and standard format. Now, however, many countries, including India, Indonesia, Thailand and Viet Nam, have simple short message services (SMS) through cellular telephones for market prices of agricultural commodities. These cater to a range of clients from farmers to market intermediaries. Applications for sharing even more types of timely and relevant information in ways that are tailored to individual needs are only a few steps away, and many new solutions are already being tested. For example, the linkage of radio and TV stations to cellular telephony technology has not yet been fully exploited, and there are many more potential solutions.

Potential Impact

There are many instances to illustrate the different ways of applying ICT to increase the cost-effectiveness of public and private interventions that aim to develop inclusive agricultural value chains. A growing amount of literature estimates the impact of such interventions. One example is a research study conducted with fishers in Kerala, India during 2007. This study researched the impacts of fishers' use of mobile phones on how they conducted business and, ultimately, on their incomes. The study found that the introduction of mobile phones decreased price dispersion and spoilage of the catch (typically 5 to 8 percent prior to mobile phone use) by facilitating the dissemination of information about which ports had the greatest need for fish, and hence the highest prices. The mobile phones allowed the fishers to call in just before they docked their boats, to obtain timely price information and decide on the best place to land and sell their daily catch. Fishers' prices rose by some 8 percent, while prices to consumers actually fell by 4 percent (Economist , 2007). The most compelling aspect of this example is that an outside entity such as an NGO or government agency did not step in to encourage it, and no pricing service was created. The fishers simply began to adopt mobile phones once the mobile network coverage reached over the ocean, and made calls to potential buyers on their own accord. Other examples include the case in Bangladesh where agricultural extension agents' use of mobile phones reduced livestock mortality rates; the Internet kiosks established by the public sector in India to provide information on market prices and cropping techniques were shown to reduce regional market price fluctuations and increase average yields. In general, the evidence suggests that the main effects of ICT use in rural and agricultural markets relate to greater efficiency in the arbitrage of prices and less concentration of market power within segments of the value chain. This in turn can result in greater supply from producer groups to growing markets, reduced dependence on transportation for market transactions, and lower price variability.

Advantages of and Opportunities for ICT Information Services

Ease of use

The most compelling aspect of these services is that they can provide relevant and timely information in a way that can be absorbed and acted on immediately, for example, "I should plant in a week and not today". The services are also generally simple to understand and easy to subscribe to and use, making them a compelling entry point for additional information services, like education and long-term extension services. ICT information services can also serve as excellent entry points for farmers who have not previously had access to unbiased and timely information. There is also a dimension of creativity in the delivery of these services, to meet the needs of end beneficiaries, such as the use of voice messages and voice boxes. However, basic text SMS continues to be the most popular method owing to its simplicity and low cost.

Cost of Delivery

Data collection may be expensive for short-term productivity services, and typically requires public support. However, the delivery of such services has become much easier and less expensive with the arrival and proliferation of mobile phones, especially in the developing world. Simple software can be embedded in the phone or downloaded, although many providers choose the even easier and less costly route of providing text messages.

Provider Sustainability

Most short-term productivity services are leveraged on existing infrastructure, such as radio stations or mobile phone networks. As these service providers have already expensed the major cost in their businesses' fixed costs, any additional service entails essentially added value with relatively low incremental costs. The providers therefore have an incentive toadd services as long as there is a strong enough demand and willingness to pay. In addition, as most providers are pre-existing businesses, they are not entirely dependent on this one stream of revenue to continue operating, especially in the early periods.

Tailored Services

Apart from a few of the services mentioned, such as radio, different types of information can easily be added on to or removed from information services – especially for phone-based interventions – depending on the demand from users. This can maximize the benefits for farmers of different crops/animals and in different regions (with different weather patterns), for example.

Top 5 Best Android Apps for Indian Farmers/Agriculture – 2018

(Ref https//yourstory.com/mystory/e374fa4df7-top-5-best-android-app)

1. **AgriApp**

   Agri App is one of the most liked apps by farmers. It has a rating of 4.3 out of 5. It is an online farming marketplace bringing Kisan, farming input/output, government service on an online platform. It also provides chat option for farmers. Kisan can easily chat with an expert of agriculture using this app. This mobile application provides diversified videos of agriculture work. Approximately 0.1 million users downloaded this farming app.

2. **IffcoKisan App**

   IffcoKisan is the best app in out of almost agri apps for Kisan. It is a small Android app in terms of memory with an easy interface to use. This android application provides information about the latest agriculture advice, latest mandi prices, and various farming tips. It also provides weather forecast information. It also provides agriculture alerts to farmers in 10 Indian languages. The farmers can easily take help of agriculture experts using this app. Approximately 50 thousand users downloaded this app.

3. **Agri Media Video App**

   Agri Media Video App is one of the most popular in mobile apps for farmers in the video category. It has a rating of 4.8 out of 5. It is an online marketplace bringing farmers, agriculture input/output, farming retail and fulfillment service on an online platform. It also provides chat service for farmers to solve their query related to agriculture with the option of upload images of infected crops. Farmers can easily chat with agriculture expert and discuss their problems. This smartphone application also provides various videos related to agriculture practice, new technologies, successful farmers, rural development, agriculture news, new govt. schemes related to agriculture etc. Approximately 10 thousand users downloaded this app.

4. **FarmBee - RML Farmer**

   It is marvellous in the list of agriculture android apps which has a rating of 4.3 out of 5. It is a small app in terms of memory with an easy user interface. It is available in 10 different Indian languages. It provides fertile agriculture content and information at every stage of the crop life cycle. A farmer can choose from 450 crop varieties, 1300 markets, 3500 weather locations. It also provides mandi price and weather forecast based on a user location. Approximately 0.5 million users downloaded this app.

5. **Kisan Yojana**

Kisan Yojana is another popular Android agriculture apps available for free. It provides information about all Govt schemes to Kisan. It commutes the information gap between the rural people and Govt. It also provides the schemes of the different relative states Government. This mobile application also saves the time and travel expense of Kisan to reach the state Govt office is saved. Approximately 50 thousand users downloaded this app.

To Do Activity

Now you have understood how mobile applications have become a handy tool for farmers. Find out five more mobile apps/websites which help farmers in following services - warehousing, demand generation, pricing, financing and best farming practices. Study the apps/websites and discuss with your class mates.

Model Questions

1. What is a producer driven value chain? Can you explain with a suitable example?
2. What are the key reasons for rural indebtedness in India? Suggest means in which these challenges can be tackled
3. What is a buyer-driven value chain? Can you explain with a suitable example?
4. What do you understand by contract farming? What are the advantages and disadvantages
5. of contract farming? Can you give examples of contract farming that is being done in India?
6. What is a facilitator-driven value chain? Can you explain with a suitable example?
7. What do you mean by a Self-Help Group (SHG)? How do you think SHGs can help build facilitator driven value chains, especially in rural areas?
8. What is an integrated value chain model and how is it different from a facilitator- driven Value Chain Model? Explain with suitable examples?
9. How is the Rabobank model different from the NACF model? Explain the two in detail.
10. How do you think technology will impact the rural economy as a whole? Explain with suitable examples.
11. What are the advantages & opportunities of ICT Information Services?

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Block 2

Consumer Behavior

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Contents

Chapter 1 Consumer Behavior

Introduction

In this the terms of 'Consumer', 'Consumerism', and 'consumer Behavior' are to be introduced for creating the awareness of Consumer Behaviour, attitudes while purchasing, evaluating the products and services, consuming and disposing of the goods and services.

Consumers, throughout the world have been exploited by the marketers and business people. They are the poor victims of less qualitative goods, adulterations over pricing, black marketing, creating artificial scarcity, with less weighted products with mixing attractive colors and with attractive packing of the products. Therefore, in this creating awareness on the above exploitations to the consumers and their consumerism and consumer behavior, elaborately discussed.

Objectives

1. Creating awareness of the term's consumer, 'consumerism' and 'Consumer Behaviour' Marketing, Rural Marketing, nature of Rural Consumer Behaviour.
2. To explain about the exploitations of the consumer by the marketers and business people.
3. To explain about the various types of consumers.
4. To examine that how to achieve the Rural Economic development

Concept of Rural Marketing

The Rural Market in India is an attractive phenomenon and ever challenging to the Rural marketers, consumers and rural people particularly to the formers and rural manufacturers. Though they are the producers of the rural products, they can't decide their products pricing. It is the pathetic situation in case of rural agricultural products. They are not getting the minimum supporting prices for their products. The price fixation of the rural products are in the hands of mediators, rural marketers. Rural people, farmers and consumers are frequently have been exploited by the mediators and marketers.

Rural artisans, handicrafts manufacture their products attractively i.e weavers for saree design, Kondapally and Nirmal for toys and furniture products with much creativity. But no encouragement to them by way of subsidies and supporting and minimum prices for their products. Mediators intervene, purchased their products with cheaper rates.

Concepts of Consumerism, 'Consumer', 'Consumer Behaviour'

As stated by the Philip Kotler, Consumerism is "a social movement seeking to augment the rights and powers of the buyers with relation to sellers". According to Boyd and Allen, "Although often abused as a term, consumerism may be best defined as the dedication of those activities of both public and Private organization which are designed to protect individuals from practices that impinge upon their rights as consumerism."

Consumerism, interpreted as a collective Endeavour of the consumers to protect their interest in a manifestation on the failure of the business including that of the Public Sector and the government to guarantee and ensure the legitimate rights of consumers. Consumerism is a social movement of consumer protection from the exploitation of business people.

i) To make the business more honest, efficient, responsible.

ii) Pressurize the government to adopt the necessary measures to protect consumer interests by guarantees their legitimate rights.

As Philip Kotler, correctly observes that, Consumerism is a clarion call for a revised marketing concept. Further in his words, "Criticized as Consumerism is the shame of total marketing concept, implying that the concept is not widely implemented. Consumerism reflects not only the failure of the business to widely implement the marketing concept but also the need to give the business policies a social orientation so as to promote long-run social welfare.

Consumer client, purchaser, and buyers, shopper and generally used synonymously to indicate in purchasing and consuming the various products experiencing its taste, its working smell, usage consumer is an individual of the different ages.

The term Consumer is typically used to refer to one who regularly purchase from particular product, commodity, material, goods for his usage to satisfy needs.

Consumer after purchasing a material, and product uses its experiences its working evaluates, its performance.

Hence a consumer or purchaser or buyer is one who shops a product or services his/her choice, consumes or uses the products. Traditional point of view consumer strictly in terms of economic goods and services and one who consumes products to satisfy his wants, desires and needs. Consumers are those individuals who purchase for the purpose of individual or household consumption of products to satisfy the needs. Consumer more generally refers to any one engaging in any one of the activities used in our concept consumer behaviour.

1.1 Introduction of Rural Consumer Behavior

Consumer Behaviour

It is an attitude of the customer or consumer in the buying process of product of services. Consumer behaviour reflects the totality of the consumers decisions with respect of Purchasing consumption of products services. Consumer behaviour is seen to involve a complicated psychological process as well as physical To Do Activity (buying Decision). Consumer bahaviour is a decision-making process with some physical exercise acquiring of products of services, consumption and disposing off goods, services

The American Marketing Association defines Consumer Behaviour as "The dynamic interaction of cognition, behaviour and environmental events by which human beings conduct the exchange aspects of their lives.

Consumer behaviour is "the study of individuals, groups or organizations and the purchasing process they use to select, secure, use and dispose of products, services, experiences of ideas to satisfy needs and the impacts that these processes have on the consumer and society"

The Concept of Rural Consumer Behaviour

As the major portion of our country that is 70 % of the people depending on Primary sector i. e on agriculture, agricultural economy, we have to concentrate on the study of the Rural Consumer Behaviour. Mainly they are illiterate, not fully aware of market circumstances. Mediators frequently intervene the and exploits the consumers. Rural consumers are basically quite different from urban consumers. They are unaware of field knowledge and they have no proper purchasing power. Moreover they are unable to take purchasing decisions.

Types of Consumers

Consumer behavior covers a broad variety of consumers based on diversity in age, sex, culture, taste, preferences, educational backgrounds income backgrounds. Consumer bahaviour can be defined as “the decision process and Physical To Do Activity engaged in evaluating acquiring, using of disposing of goods and services” The following are various varieties of consumers.

Table 1.1 Classification of Consumers

Upper Uppers	Upper uppers are the social elite who live on inherited wealth, having heavy properties, houses, spend lavishly for luxuries, Jewellery, foreign trips and luxury cars.
Lower Uppers	Lower Uppers are those persons who earned higher income or wealth through their special abilities in their profession or in business, They buy social status products, cars, luxury villas, for their families.
Middle Classes	Average, middle paid, blue collar workers. The middle class people prefer for essential needs, or to minimum facilities form their savings, They spend carefully, with balance attitude.
Working Classes	These are the workers, low wage earnings class labour. Their main profession working class life style. They give value for sentiments, traditions and customs. They have more family attachments and emotions.
Upper Lowers	They are in above poverty line working classes, living standard above average middle classes. Educationally backward, socially backward in society.
Lower Lowers	They are in below poverty line. They are depends charity for income. They are not interested for better education, better jobs, and better life style. Their houses are dirty, dusty, gloomy without ventilation.
Rural Category	They are in villages, Illiterates, no purchasing power, no bargaining power, no knowledge of marketing environment and circumstances. They are not interested in costly purchasing with high quality and branded materials. But gradually they are also habituating usage of technology in their routine activities. With the advancement of present economic development of the country the village people also changing their life styles.

Generally, there is a strong opinion in the public that the rural consumers not interested in buying of A 1 branded high-quality products, as their cost is more

Consumer behaviour covers a broad variety of consumer based on diversity in age, sex, culture, taste, preference, educational levels, income and seasonal fluctuations, health conditions and psychological circumstances to satisfy the needs, desires of various kinds purchase.
Hence, the consumer behaviour is the process of decisions as well as physical To Do Activity engaged in evaluating acquiring, usage and disposing of goods and services.

This chapter covers the fundamental concepts of consumer, consumerism and consumer behaviour in the process of purchasing of a product, or services. Also elaborated different type of consumers based on diversity in age, sex, culture, social status and their needs, attitudes while purchasing, evaluating using of product and disposing of goods and services.

To Do Activity

1) As you are a consumer, what will be your behaviour, your attitude, towards buying decisions. What is consumerism? Differentiate between the terms consumer; consumerism and consumer behaviour.
2) Study the Rural Consumer behaviour in the changing circumstances by visiting your surrounding nearby village - prepare a field report

The above study revealed that rural consumers are quite different from the urban consumers they are not aware of the marketing environment. And tackle the situations with the mediators and marketers in their trading activities. But they are gradually habituating the dealings with marketing agencies with the past experiences and with the help of educated youth cooperation. They are also changing their life styles on par with urban people.

1.2 Current Trends and Approaches

This explains, that the latest trends of consumer behaviour, significance of consumerism and attitudes of consumers and their latest expectations on the products and services to satisfy their needs and desires. After satisfaction of the products and services, decision making of the purchase will be taken up. Various complexities of consumer behaviour, technique of consumerism, multi-dimensional talents, selection of products and services, expectations, in acquiring, usage, and dispose of the goods are the main focus in this lesson. It is a detailed study of consumer attitudes and his behaviour while taking decisions in purchasing of goods and services.

Also examined emerging rural economic development scenario according to the changing rural atmosphere, the changing attitude of rural consumer behaviour.
The study of consumer behaviour helps clearly in understanding, how the consumers make, purchase decisions the exhibit their techniques, talents, resources like their earnings in buying goods and services. It is a subject matter that clarifies the basic queries that ordinary consumers face, what to purchases, where to buy, when to acquire, from whom to purchase the goods services according to satisfy their needs. With the help of the following figure we can understand the concept of 'Consumer Behaviour'.

Table 1.2 Study of Consumer Behaviour

- Study of how people buy, what they buy, when they buy, why they buy…. Where, with, whom, with what…..
- It blends elements from Psychology, Anthropology and Economics.
- It attempts to understand the buyer decision processes/ Buyer decision making process.
- It studies characteristics of Consumers such as demographics, Psychology and Psychographic.

Rural Customer Expectations while Buying Decisions

Rural Consumers are Generally Expects Following Believes

- Consistency of Products
- Tangibility of Physical Market facilities, arrangements of weekly markets by the local governments example Raitu Bazar for perishable rural products.
- Reliability, transparency in price fixations.
- Trust worthiness of products and services
- Qualitative products
- Reasonable pricing , low price products
- Non Adulterative Products
- Availability of Products and services, market, vegetables, fruits, flowers markets in rural areas.
- Transparency in advertisement
- Accuracy, demo services.
- Brand image (Hall Marks, ISI Trade mark) grading process
- Public response, Mouth publicity
- Customer satisfaction in village market
- Manufacture name and fame (Good will)
- Customer Loyalty
- After sales and services warranty, guaranty of products.
- Agricultural products marketing
- Rural Artisans, handicrafts products and their marketing facilities
- Transportation and warehousing facilities
- Banking facilities for financial assistance.

Before decision making, consumers from a concreted idea on the products and services their decisions based on three expectations.

- Performance of the products and services
- Rural Consumer satisfaction with the market environment and market circumstances.
- To reach the customer satisfaction expectation uploading their products to the expectations of customers.

Customer gets more satisfaction when the products and services supplied up to their expectations. When the products and services reach to the doorsteps, when ordered, and customers felt very happy when their grievances are immediately addressed or solved. When customer friendly treatment and customers loyalty safeguarded, then the customers are more satisfied.

Rural area Consumer attitudes impact more on the agricultural products, horticulture and handicrafts sales of the products and services, particularly while making buying decision, consumers have certain specific beliefs, feelings, trust, goodwill, consistency on some branded trademark products and services.

Thus the consumer attitude is a feeling of positive and negative, towards an object. Every individual consumers, family groups, particular group of consumers, have certain positive a or negative feelings on certain products. Ex Medicines of best suited positive feelings - Adulterated medicines negative feelings. Accordingly Pharmaceuticals companies must take care of their products.

Consumer have strong belief on Pulla Reddy sweets; Bangalore Ayyangari Bakery products; Haldiram snack foods; Vijaya Milk Products etc.,

Manufacture of various rural products, agriculture marketing strategies should always be customer oriented. When the customer satisfaction gained, not only rural customer retention but also for customer attraction. This is possible, when the rural manufacturer or former supplies their products with a high quality with reasonable prices.

Rural Economic Development Programmes

Various governments organizations in the villages taken up number of developmental programmes and rural welfare schemes for the overall development of the village. With the help of NABARD and other concerned governments. For example; Rayalaseema Development Trust (RDT) adopted Anantapur District and taken up various welfare schemes, primary educational facilities, irrigation facilities, drinking water schemes and primary Community Health Services to the Rural People. It is the foreign agency and self funded voluntary organization. Through this organization Anantapur District Rural areas achieved remarkable economic development. Moreover the following programmes were also taken up by the government organization in the rural areas.

- Animal Husbandry Development Programmes, Poultry Industry Development, Dairy Development Industry, Weavers Saree designing works and Aqua cultural Development Programmes were taken up for the welfare and development of Rural areas.
- Irrigation Projects, Lift Irrigation projects, Sprinkling Agricultural Schemes, Pottery, Carpentry, Horticulture, Cattle Developmental programmes were also taken up by the respective governments for the usage of Rural area consumers as well as public.

To Do Activity

1. What do you understand about consumer decision making before purchase of products or services? What are the points do you keep in mind, prepare a purchase note to submit to your head of office on the feasibility of the purchase of a product?
2. Visit a well-developed village of your surroundings area, examine and observe the factors causing for their overall economic development. Also study their attitudes, rural public participation in the village economic development. With your findings submit a detail report.

This unit covered consumer expectations while selecting the products and services and in purchasing decision a making. Various complexities of consumer behaviour, techniques of consumer multi dimensional talents. It is an overall study of consumer behaviour expectations and customer satisfaction. The consumer expectation in purchasing of products and services were discussed in a list. The effect of Trademarks, Patents rights, brand name good will of the company, before purchase decision making has been discussed.

1.3 Internal Disciplinary Analysis

Consumers attitudes, behaviours changes frequently according to his changes in tastes, price mechanism of a product, availability of the products; seasonal fluctuations, availability of the substitutes in the market etc., They are the influencing factors to make a purchase of a product or services. It is an analytical study of behaviour and attitudes of the Rural consumers on the purchase of a particular product or services. There are various factors or disciplines which affects on consumer behavior. These are inter disciplinary dimensions will certainly change the consumer behaviour and buying decisions. In this, an attempt has been made to explain the significance of inter disciplinary dimensions of consumer behaviour with suitable illustrations.

There are Five popular inter disciplinary dimensions of consumer behaviour

1. **Economics** Demand, supply, Purchasing power and income earnings of the Rural areas.
2. **Psychology** Needs, motivation, personalization, perception, attitudes, and learning
3. **Sociology** Society, Social class or Community, consumers, Power, esteem, status of consumers. (example agricultural farmers using fertilizers and pesticides
4. **Socio Psychology** Group behaviour, Group influences, Conformity of group (example DWAKRA Self help Groups
5. **Cultural Anthropology** Beliefs, sentiments values, Attitudes towards wealth, Joint family maintenance system , caste systems.

Now we study deeply about each discipline of 'consumer behaviour'

1. **Economics** It is a traditional discipline mainly focus on economic activities of consumers to earn maximum through employment, business with an investment; profession of service to public. These economic activities will give return to public. Employment will earn salary or wages; business will give profit as return for his investment; profession will earn fees from public for the services rendered. (Examples Doctors and lawyers will get fees)

These are Two important concepts in Economics

a. **Demand** i.e., Consumption of products or services for the consumers
b. **Supply** Manufacturing of products and services for these customers

Many times, occasions pricing of commodity fluctuates depends on the availability of the material, supply and its demand. If demand is more , supply is less price may be high, demands less, supply abundant, prices come down. Marketers will identify groups of people with unsatisfied needs and wants and are ready to spend money for want of products to satisfy their needs. This is targeting consumers.

2. **Psychology** It is a nature of the human beings, and their attitudes of consumer, these needs, motivations, inspiring, personality, perceptions, expressions of opinion of the products, and learning attitude of the consumers, creating awareness on the products, and services.
3. **Sociology** Society, community, Social groups, caste, class or sections. Such sections commies, their needs, profession, family life style, social status of consumers acquiring, usage of material, for their satisfaction.
4. **Socio Psychology** Social status groups behaviour, attitude of such consumers, motivations or influencing by certain group of social status consumers. Through motivating , inspiring acquire the goods and services , to satisfy these status in the society by using certain products.

5. **Cultural Anthropology** Many of customers, consumers gives top priority of social beliefs, traditional values, gold, silver, purchase commodities, clothes and jewelry, for festivals, marriages. Also they give top priority for family sentiments. In the Joint Hindu family systems, Preferences, importance will be given to education to family members, social bondage of family members, welfare etc.,

The impact of the interdisciplinary approach more on the consumer behaviour, particularly on the Economics, purchasing power Demand and supply decided price mechanism. Price in the markets decided the sales of product of the sales promotes, organization will be survived. Consumer behaviour is a complex and multidimensional process that reflects the totality of consumer decisions with respect of buying or purchasing, usage and disposal of goods and services.

Multidimensional process of consumer behviour in view of Psychology is one of dimension which deals with the study of mind and behaviour of consumer. Psychology of human beings plays vital role, reacts in understanding the nature, working , quality, packing attractions, taste of the product. Consumers behave, experiencing above all while purchasing the product.

Table 1.3 Multi- Dimensional Consumer Behaviour

Cultural	Social	Personal	Motivation	Economical
Culture	Family	Age	Perception	Personal income
Sub culture	Reference	Income Occupation	Learning	Family income, Income and expectations
Social Status	Role and status	Life style Personality	Beliefs and attitudes	Income &expectations, Liquid Assets, Govt policy

The study of consumer behaviour helps in understanding how individuals take decisions to spend their sources, like time, money and effort while buying the products and services.

Sociology study of groups of various kinds when individuals form as cooperative societies and as self help groups their action will be as group wise decision making. Then no individual is possible to take decision. It is only a collective decision by groups.

Social Psychology is a combined dimension. Both disciplinary impacts will be on the individual. Group dynamics play an important role in purchasing decisions. Opinions of peer teams, family groups, community wise associations influences individual.

Cultural Anthropology studies the nature of human beings' actions, reaction on a particular decision making. Human beings mainly give top priority to beliefs, customs, traditions, ethical values inherited from their parents, grandparents.

Economic Studies, income level, purchasing power of individuals, earning capacities, product marketing structure, demand and supply analysis, inflationary rates etc., Between these topics , how an individual, decision making will be an a particular point of time. Thus, the role of interdisciplinary on the consumer behaviour in dominant and inevitable. Moreover, it is highly significant. In purchase decision making 'motivation' under psychology is play an important role; Group decision making dominates individuals. Family circumstances, demographic factors, play a dominant role.

Interdisciplinary, effects, influences strong on the consumer behaviour, which is multidimensional process that reflects the decision making of acquiring, consumption and disposal of commodity. Impact of group dynamics price, demand and supply theory, motivational theory; family decisions, social status, income levels of individuals are inevitable; covered in this lesson. Decision making, acquisition, consumption, disposal of goods and services are the significant factors on consumer behaviour topics are now covered in this lesson.

To Do Activity

Analyze critically the role of interdisciplinary on consumer Behaviour in a comprehensive note - Study the situations in nearby villages and prepare a field report.

1. 4 Applications in Designing-Marketing Strategies

Marketing strategies, normally based on certain aspects of consumer behaviour, purchaser buying decision making in on certain assumptions, knowledge of decision making to the 'consumers' consumers attitude towards decision making are the important competitive advantage while formulating marketing strategies. Consumer behaviour - various marketing strategies, marketing decisions - 4ps, product place, price and promotion are the main topics will be covered in this lesson. In the marketing concept, customers, requirement, tastes are the main factors in designing the product to gain the customer satisfaction. It is the customer centric orientation or philosophy. Supplying the accurate product and services, for the appropriate seasonal price gains the customer satisfaction, loyalty. Manufacture what you can market rather than 'Market what you produce.

Nature of Indian Rural Market

`India has a great rural background market which consists maximum of Indian population Rural employment. The rural India still lagging behind with low transportation facilities, low per capita Income, low minimum support price for the rural crop. The rural consumers and formers have been totally been exploited by the mediators in the market, with their unfair trade practices. Formers are not aware of market environmental language strategy and lack of literacy they have been exploiting. Indian villages are still in lack of so many essential facilities like safety drinking water, Communal health Primary Centers, Low literacy and also with the domination of local landlords. But in the Indian rural market still has strong traditional background formers with their crop products participating in the trading activities at the weekly markets, or the last three decades.

Indian agricultural field gradually habituating mechanization, modern techniques in their agricultural activities.

Functions and Process of Indian Rural Marketing

Rural Marketing process which consists of Assembling

1. Grading and standardization

2. Processing and storage
3. Warehousing Transportation
4. Wholesale and Retail Trading

Agricultural Rural Marketing starts with Rural Crop Products and ends with rural consumers. For the improving the Purchasing power, bargaining power and per capital income growth of rural people, their standard of living should be increased. Formers should be able to fix their product prices on par with industrialists and marketing authorities without any interfering of mediators and marketers. Then only the rural Indian Economy will be developed and farmers also will be able to get self-sustainable growth.

Functions of Agricultural Rural Marketing

Functions of rural Marketing broadly classified into three categories.

1. Exchange Functions through trading the agricultural products
2. Physical Function through the movement of goods by the transportation
3. Facilitating Functions that is classifications categorizations, standardization and grading of the products according to the size, colour, quality, quantity and branding, Packing, forwarding and transportation.

Nature and Characteristics of Rural Market

Our country is anagricultural based economy depending upon Monsoons. Major percentage of Indian population depended on agriculture for their lively hood in villages. Their main source of income their lifestyle is according to their agricultural profession. In addition to the agriculture the village people also doing the poultry business sericulture, horticulture, weaving, dairy development businesses with the help of their family members. Some more families doing their hereditary professions like pottery, carpentry, and goldsmith work activities. On the other hand Rural artisans handicrafts manufacturing beautiful Gadwal, Pochampally and Kalamkary saree designs. Kondapally and Nirmal rural area people manufacturing beautiful toys exporting them and getting foreign exchange. These are the family oriented hereditary based economic To Do Activity small scale industry in the rural areas getting the economic development for the rural India.

Before manufacturing, market survey, study of the pulse of consumer, help to formulate appropriate marketing strategies, field study, market environment study are the main base for the future planning. Marketing strategy should be designed to capture the major share in marketing of their product or services. For that, motivate consumers, influence them. Recognize the customer s, place of demand for the promotion of sales to the product of s services i.e., estimating the product or marketing sales target. It implies the setting of goods, targets for achieving through the appropriate marketing mix- that is to be designed.

Market Segmentation

Market segmentation are with two levels - the strategic level and the tactful level. Strategic level has a direct link with the decisions on positioning. At tactful level, relates with the decision of which consumer group are targeted.

Table 1.4 Market Segmentation

External (Behavioral Aspects)	Internal (Organizational Aspects)
1. Usage	1. Resources Company Segmentation Customer
2. Demographic	2. Competence Segmentation
3. Psychological	3. Product& Service Competitor Segmentation
4. Geographic	4. Process Context Segmentation

'Geographic Segmentation'

Place of customers, area, state, region, natural market place segment. If a marketing firm selling a product, geographic location will remain be a major factor. Retail Super market. Big Bazar shop, DMarket, Ratnadeep retail out lets are geographical locations of the store. Here urban location area preferred.

Segmentation of Customers

- Size of area segmentation
- Region - Segmentation, Country (state) District/ Zonal / City
- Population density - Such as Urban/ Semi urban/ Rural in a State.

Table 1.4 Segmentation of Customers

Demographic Segmentation	Certain Products like Wrist watches, Jeans pants, segmentation can be done based on Demographic factors such as age, group.
Psychographic Segmentation	This is a group of customers according to their life style and purchasing many products based on their attitude, fashions, beliefs, emotions, ideas and perceptions of target market.
Behavioristic Segmentation	Market can be segmented on the basis of consumer behaviour which differ based on geographic and psychographic factors.

Marketing Mix Decisions

Manufacturer, once field survey conducted, design and target of the production can be planned according to the needs and expectations of the consumers. Every care will be taken up with regard to size, shape, quality, features, dimensions, weight, colour, security aspects, measurement and packing.

Further after sales service, demo of the working of the product, warranties, replacement, exchange benefits also will be provided to gain customer satisfaction and customer trust retention and attraction of the new customers.

Once the need and desires are finalized as expected by the customers, the marketers have to determine the precise mix of 4 Ps i.e product, Price, Place, and promotion.

Product Manufacturer designs the product that will be suitable to the expectations of the customers. Size, Shape, quality, weight, colour, and working features must be up to the customer satisfaction. Packaging, warranties and terms and conditions of the supply according to the convenience of the customers. Example soaps, tooth paste, Milk product, Noodles, Flour and MTR Kitchen Products.

Price Keeping in view of competitors, affordability of the consumers, purchasing power of the customers; Marketers will fix the prices reasonably depending upon demand and supply market situations.

Place Distribution Channel that is selection of most convenience, direct channel of distribution to reach the customers usage timely and quickly should be selected by the marketers. Factory retail outlets should also be open for direct sales to avoid un necessary and waste expenditure and to fix reasonable prices for their products.

Promotion Sales Promotions, fixing targets move quickly the material through various means of transportation. With transparent advertisement, publicity, direct selling through area wise retail factory sales outlets. Customers doubts can be clarified and suggestion can be honored. Direct selling always gives good result rather than indirect selling.

With 4 Ps as stated above, the marketers can be reaching the customers' expectations and gain customer satisfaction supplying the product as demanded by consumers.

Marketing strategy has plans and fix the targets for production, sales promotions after market survey. It will reach the customers, through direct factory sales outlets. to know the opinions and suggestions of customers.

In this lesson market strategy, market segmentation, Marketing Mix i.e 4 Ps, were introduced to capture the market sales promotion for the products and services produced by the manufacturer. For the best marketing, marketing segmentation, demographic factors of consumers behaviour and 4 Ps will be used full. In this lesson it has been concentrated on various marketing aspects of products to gain customer satisfaction.

To Do Activity
Visit any rural and agriculture market of your area- examine and observe their problems and difficulties of farmers and submit a report with your suggestions.

1.5 Problems in Studying of Rural Consumer Behavior

Decision Making plays a vital role while acquiring the goods and services which is not easy task. Rural consumer attitudes behaviours varies individual to individual, business organization to organization. Marketing Mix components, segmentation, strategy are the main aspects to consider the decision making process of consumers. Before decision making one has to search different areas, segments, enquire prices and compare the various aspects of products and services. In this lesson decision making process, problems involved in it, the role of marketing mix strategies are to be studied. Quality, weight and measurements, technical aspects like working conditions, packing of the products terms and conditions of the supply mode of transportation, mode of payments and many other problems are also be discussed to discuss in. On the other hand, consumer attitude and behaviour, Channel of distribution also play an important role. all these are the key points are to be mentioned in this lesson.

Understanding of consumer behaviour and attitude of consumer is very difficult. It plays an important role in making purchase decisions of the various products and services. It various from time to time, consumer to consumer and business firm to firm. These are the factor and aspects to be considered. Taste, habits, attitudes frequently changing according to fashions and changing circumstances and demographic factor of the customers. It is a researchable concept. Buyer behaviour should properly and carefully be estimated accurately.

Purchasing power, recourses of the consumer, price levels, quality of products, availability of material, availability of substitutes and packing etc., are the factors to consider in estimating consumer behaviour. If the consumer recourses are limited, he would allocate his funds on priority basis according to his needs, and requirement of utility of materials.

Attitude and Nature of Rural Consumer

The rural area consumer is very soft, illiterate, with less technical knowledge. They can't judge the product which has been purchased, whether exactly suitable to him or purchased, whether exactly suitable to him or not, they can't assess the quality, grade of the product. They can't decide their requirement exactly according to their financial affordability. Moreover, they cannot estimate the market situations and unfair trade practices in the market areas. They are unable to take decisions spontaneously according to the situations. Due to their weaknesses, low literacy, lack of knowledge, low assessing capacity, they have been frequently been exploited in the hands of market authorities and mediators.

Consumer decision making is a big problem. The above factors, he has to consider along with the demographic factors. Customers' economic, financial conditions are also important factor in taking to decision making process. When a commodity which is to be purchased essentially by the consumer these are the following steps are to be identified.

- High priced products
- Medical products associate with high risk
- Automobile products with functions, technical, technology products
- Electronic products - computer cell phones
- Products associated with luxuries, emotions, clothing
- Jewelry and cosmetics

Table 1. 5 A consumer - Marketer Nexus Connection

Low Purchase Involvement	**High Purchase Involvement**	
Habitual, decision making	Limited decision making	extended decision making
Problem recognition selective	Problem recognition generic	Problem recognition information search internal/ external
Information search limited internal	Information search internal limited external	Alternative evaluation many attributes complex decision rules and many alternatives
purchase	Alternative evaluation few attributes simple decision rules few alternatives	Purchase
Post purchase No dissonance very limited evaluation	Purchase	Post purchase Dissonance, complex evaluation
	Post purchase little/ no dissonance limited evaluation	

Dissonance A consumer can feel pre and post-purchase dissonance (inconsistency) Pre purchase dissonance in when one gets confused with many substitutes and alternatives of product choices available and is liable to buy with the number of choices available and avoids the risk of not buying the best.

Post purchase dissonance (Inconsistency or confusion) occurs when the product is not up to one's expectation and does not match with his needs. This results mismatch and dissatisfaction with the product. This is known as Post purchase confusion or dissonance.

Problem Recognition of problem occurs whenever usage of material exit. In many circumstances pressures a customer to purchase. They are common and cannot be recalled. Some are special and can be recalled. This depends on the severity of involvement. Some purchaser is recognized and concluded on the spur of the market. These are impulse purchases.
Threshold level while a recognition of the problem this refers to the minimum amount of tension, energy, efforts of intensity which is necessary for the feeling of need to occur. Tension can be increased by enhancing peer comparison.

Explanation of Problem Recognition Problem of recognition is a perceived gap between existing and designed consumer position. Existing consumer position is how one feels presently about the product.

Desired position is his expectation and anticipation about the products. The gap results in natural fashion particularly. As the consumer grows financially, and psychologically, a perceived gap in created between the existing and desired position example growing child first wants a tricycle, then bicycle and then motor cycle, next at adult stage a car is essential. Marketing people influences the current or desired state of mind or both.

Types of consumer problems are two types. They may be active or inactive. Active is one in which the consumer is aware or will become aware of, in the nominal course of events. Example consumer is aware of the gas lighter but insist on safety measures. A consumer may be aware of advantages of flying, yet is scared to do so.

Inactive Problem

When the consumer is not yet aware of the gas lighter or he may not by aware of the advantages of the cell phone. The marketers must activate the problem recognition.

Marketers are concerned with the following issues on the problem of consumers

1) Managers must know what market mix to develop to solve the problem
2) They want actually the consumers to recognize the problem.
3) On some occasion marketing management suppress the problem from the consumers.
4) Problem from consumption must come to the light on the product analysis, market survey, market special focus group.

Consumers frequently identify, recognizes the problems after they arise but they cannot do much about it. Example, becoming aware of insurance after the accident.

- Want emergency medicines when they are seriously ill and cannot do much.
- Want the fragrance of the flower – but not habituate flowers gardening.

Marketers help to solve such problems after they come to light. Pharmacists can make home deliveries. They should try to settle the problem recognition in advance of the actual problem.

Suppressing Problems Recognition

In case of cigarettes, tobacco products marketing, they know the cause of bad effect of cigarettes smoking, how it is injurious to health. They warn public accordingly with a small letters warning caption as 'cigarettes smoking injurious to health'. They maximize problem recognition of it being injurious. Thus problem recognition plays an important part as the first step in decision making. The marketers learn the problem of the customers their needs and accordingly to formulate strategy.

To Do Activity

Study and report on the various problems of consumer behaviour - decision making - before and after purchase of commodity.

Problems of consumers while purchasing, usage are mainly studied in this lesson. Decision making process which is high level task, considers so many issues. Active problems, Inactive problems. Its nature concept mentioned. The health problems caused by using of tobacco products, market role to create awareness of consumers, mentioned in suppressing problems. Problems in decision making enlightened clearly, Consumer point of view. Dissonance, before and after purchase clearly members i.e. Inconsistency in the purchase before and after purchase leads to confusion to consumers, that must be cleared by the marketers.

Model Questions

1. Explain the Concept of Rural Market and the nature of Rural Consumers
2. Examine and analyze The Rural Consumer Expectations with Rural Consumer Satisfaction.

3. Rural Consumer attitudes and their reactions explain.
4. Analyze the Rural Consumer Awareness Status on the purchase of a product
5. Explain how the rural developmental Programmes and welfare schemes for the overall growth of a Rural economy.
6. Explain the process of Rural Marketing
7. Examine the nature and functions of Rural Marketing

Chapter 2 Internal Determinants of Consumer Behaviour

Introduction

Human desires unlimited, desires are causing much for the overall economic development of the country and individual economic growth. Human wants are moreover ever improving the purchasing power of individuals. For example; if a person wants to purchase and two-wheeler motor cycle, or four-wheeler car, he dreams first, gradually improves his income sources, savings sources, After some times, he buys a two wheeler motor cycle or a car to satisfy his desires. Therefore, desires are true root cause for the improvement of purchasing power and over economic development of an individual. Needs and wants are very important in the marketing concept. Needs, desires and their fulfillment are the base for motivation.

Human wants are the main basic factor in the today's marketing development concept. For the overall development of markets is an indication, fulfillment of consumer desires and needs.

Definition

The driving force of all human behaviour as follows

- **Drive** - An internal State of tension that produces actions purported to reduce that tension.
- **Goal –** object - something in the external world whose acquisition will reduce the tension

A very popular definition According to Fred Luthans that motivation is;

"Motivation is a process that start with a Physiological or Psychological deficiency or need that activates behaviour or a drive that is aimed at a goal or incentive" .

Objectives

1. To understand the meaning, basic concepts of motivation
2. To examine the various theories and market strategies of motivation.

2.1 Motivation

The Dynamic nature of Motivation

It can be said that motivation is a highly dynamic concept, because it is constantly changing in reaction to life experiences. To be a comprehensive manner it can be said that motivation has a dynamic nature as stated below.

A person level of motivation is influenced by strengths of his inner predisposition to act, i.e attitude towards the rewards achieving out of the action. In rural area the motivation behaviour needs to be studied much. Rural people continue to stick to their predisposition for long. This has a great effect on their perception towards the products offered.

- Needs and goals are constantly changing
  - Needs are never fully satisfied
  - New needs emerge as old needs are satisfied
  - Success and failures influence goals
- Alternative goals
- Frustration

The Process of Motivation

- Approach Motivation – Desire to attain a goal object
- Avoidance Motivation - Desire to protect oneself from an object
- Whatever the direction, motivation manifests in three facets needs, emotions and psychographics.

Basic Concept of Needs, Wants, Desires and Goals

Every human being has so many basic requirements (needs) which are to be satisfied. They are primary and secondary needs. Food; Shelter; clothing are the basic or primary needs for the survival of human beings; Convenience, facilities, are secondary; Luxuries are final comes under desires, target goods, which are to be fulfilled by the increase of income sources.

Objective oriented desires in the life of human beings are the goods, education, getting higher income job , position, professional career advancement, enjoying luxurious life comes under goods. These the dreams which are to be fulfilled with commitment, strong determination and hard work in one's life. Fulfillment of life time goals, desires are the basis for the motivation.

Human needs categorically divided as shown below under Maslow's Theory of need hierarchy. Based on perception of worldwide human needs, Dr. Abraham Maslow, a Clinical Psychologist categorically divided human needs, wants and framed worldwide approved theory of motivation. This is the base for the bifurcation of human needs, they are five basic levels according to the order importance from basic level to higher level.

According to this Abraham Maslow theory of Motivation, it has its significance and importance of satisfying the lower basic level needs before higher level needs arise. As per this theory, dissatisfaction of want motivates the consumer, develops strong desire to achieve under any cost, and any circumstances. As per Maslow's Need hierarchy Theory, the following are the various levels of human wants.

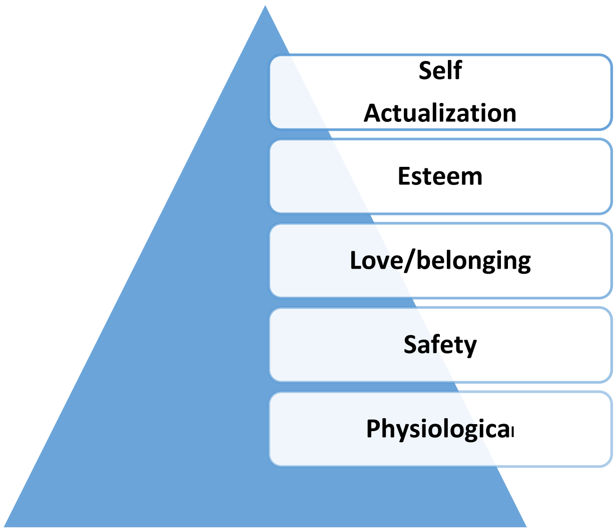

Fig 2.1 Abraham Maslow Hierarchy of Needs

Self Actualization Highest level of desire in the hierarchy people, human beings, try to reach their goods in their field and improve their level of achievement through their specialized efforts, skills. They are known as self – actualization.

Esteemed Needs Individuals at this level, grow and improve their levels above to the present basic level, then reaches to the esteem level. i.e. self- Esteem, higher, status, prestigious companion with others to gain psychological satisfaction. Improves self-satisfaction; self confidence levels.

Social Needs After satisfying basic needs, consumers, are needed social acquaintance and bondage. They need to maintain themselves, closeness with the society.

Safety and Security Once the first level needs satisfied, human beings proceed to next level of needs, physical level of so safety, security stability and protection. In the society these are essentially required to fulfill.

Physiological Needs These are the basic need; Food, water, air, shelter are the basic levels needs to be fulfilled to every human being. These are the necessities for the survival of a personal individual These are very much essential. They are to be acquired at any cost.

Marketing Strategy in Motivation

Marketing agencies are to understand the feelings of their valuable customer to promote sales. Consumers are several feelings, motives and each change with various elements. In general the marketing agencies will help their customers by engaging their marketing strategies so the complexity in the problem will be resolved. Following are major problems will arise.

Conflict in Approach While selecting a consumer in two different choices of similar products of services, he will be in dilemma, and little bit, feel difficult to select because both are equally worthy but he is not able to select the best one.

Avoidance of Conflict in Approach When a customer strongly decides decision a particular product but needs, a small modification of a feature of the product, the marketer will come forward with the modifications and make it convenient to the consumer.

To Do Activity

Human wants, desires, needs are so many. Classify and justify them according to Abraham Maslow theory of Motivation.

Motivation desired consumer to move forward to fulfill a particular desire. In this unit, classification of needs, basic needs goals and desires were explained to understand their difference to readers. The Abraham Maslow theory of human of universal needs, hierarchy explained. This theory clearly explained the significance of lower and higher levels of needs and dissatisfaction motivates the consumer. If any conflict arises, in the selection of choices, marketers help in resolving the problem.

2.2 Consumer Learning

Learning is the process through which a significant change is possible resulting from the circumstances of past events. Consumer learning is the process by which individual will acquire the purchase and acquisition knowledge and experience they apply to future related behaviour. Basic elements that contribute to an understanding of learning are motivation, cues response and reinforcement.

In view of the consumer behaviour, this theory is very significant and applies in so many situations. Learning attitude of consumers on trial and error base methods, results in a more favorable outcome. It is also applicable in human life. Learning is continuous process for human being till the success reached.

Aims of Consumer Learning

According to the opinion of Philip Kotler in his definition, learning attitude of person brings a lot of changes in an individual's behaviour by his experience. Most of the human behaviour is learned during his life span. It is a continuous process, so many things are learned, knowledge, experience are the important aspects.

1. On the approach of this topic one can habituate the learning process.
2. By learning process, one can gain knowledge, experience of searching by observation.
3. Applicability of knowledge gained will be implemented in the practice.

Features of Consumer Learning Behaviour

1. Consumer learning is a continuous process. This process acquires a lot of experience and knowledge in his learning journey process.
2. Learning by visiting new market fields, places, mingle with new intellectuals and interacting with them.
3. Knowledge can be obtained by readings, observation, interacting, experiences investing in a particular To Do Activity, sharing with discussions.
4. Acquiring knowledge, experience will be useful as feedback.
5. Gained knowledge can be applicable in our future assignments or Endeavors.

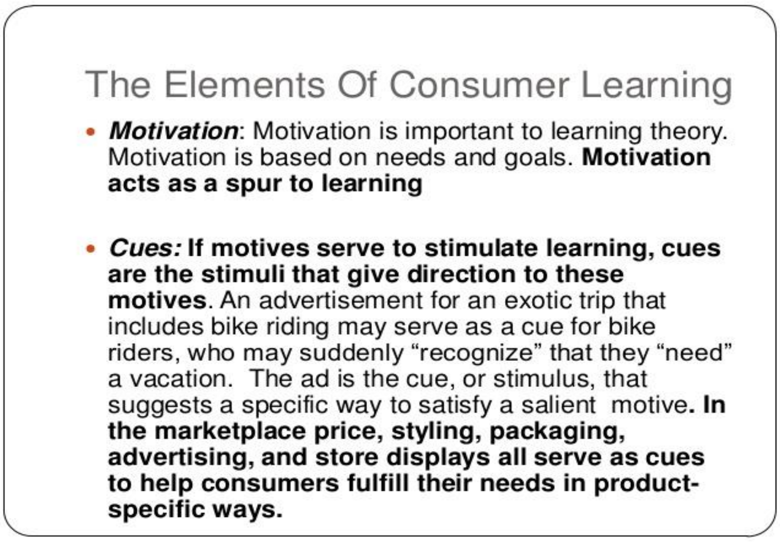

Fig 2.2 The Elements of Consumer Learning

Motivation is a process which drives to learn all important things to achieve the desired goals. Through this motive, individuals get ready to respond to learning. Also helps is in activating the energy to do so. In such a way the degree of involvement generally determines the motivation to search information about a commodity. Advertisements, showing for winter as well as summer products before its starting.

Motives boost up learning and stimulates the direction to these motives. Cues are hot strong as motives, but their influence in which the customer responds to these motives.

In a market segment, the size, quality, quantity, price level, attractive packing styles of a product, help the customer, buyers to decide the purchase. It is all because the consumer has interest to buy. Thus, marketers must be very careful while providing the information particularly to consumers who have expectations driven by motives.

Response indicates how a consumer reacts to the motives or even cues. Responses are may be visible or may not be visible. In both cases, learning process continues. Marketers, frequently may not succeed in stimulates a purchase but the learning takes place over a period of time and then consumers may form an idea, particular image of the brand or product in the consumers mind. Reinforcement also very important as it improves the probability of a particular response in the future driven by motives and cues.

Theories of Learning

There are three types of bahaviour learning theories are

(a) Classical Conditioning
(b) Instrumental Conditioning and
(c) Observational Learning

The principles of Classical conditioning that provide theoretical under pinnings for money marketing applications include repetition stimulus generalization and stimulus discrimination. Neo Pavlovion theories view traditional Classical conditioning as cognitive associative learning rather than as reflexive actions.

Instrumental conditioning theory, believes that learning occurs through a trial and error process in which positive outcomes result in repeat behaviour both positive and negative reinforcement can be used to encourage the designed behaviour. Reinforcementcan be total (consistent) or partial (fixed ratio of random).

Cognitive theorists are considered with how information is processed by human mind, how is it stored, retained and retrieved. The process of memory include rehearsal, encoding, storage and retrieval.

There are number of theories which are developed to explain the learning process. The below are the major theories related to consumer behaviour and attitudes of learning. Learning through repetition, is 'Classical Condition Theory'. This is referred to as a spontaneous response at a particular situation achieved by repetitive exposure. It is a such a kind of behavioral theory which says when a stimulate is connected to or paired with another stimulates, it serves to produce the same response even when used alone. Example if a person generally listen news at 9 PM with simultaneous dinner at 9 PM watching news in TV. The sound and music before news at 9PM may feel him as hungry even though he is not actually hungry or even the dinner is not ready.

One more theory developed by BF Skinner, an American psychologist called as 'Instrumental theory'; he was the first person to develop this model of learning. This theory suggests that human being learns by trial and error method and then find out a particular stimulus that can yield best results then it becomes as habit or traditional culture to many. It is very common and important, applies generally to many situations in the context of consumer learning behaviour. It suggests that customers learn by means of trial and error base method through which purchase behaviour results in a more powerful and favorable outcome.

Consumer learning is a continuous process. Knowledge and experience will get through learning process. By reading, negotiations, observing, thinking, knowledge and experiences can be gained. Motivations response and reinforcements are the main elements of consumer learning.

Classical Conditioning Theory; refer to learning through repetition whereas, instrumental theory, states that human beings learn by trial and error base method. The above topics takes place in this s to learn the topics by students.

To Do Activity

1. What do you understand the concept on the 'elements' of consumer learning - Prepare a note?
2. What are the significance of 'Consumer learning' theories -- study and prepare a note analytically?

2.3 Perception – Attitudes

In this the basic concept of perception, attitude of consumer behaviour is enlightened. It's importance in selection and buying decision making process are to explain for the understanding of students. It is an idea created to consumer. While in selection, searching of the commodity, before a decision making for a purchase of a products or services for taking the decision-making process.

Attitudes is a person enduring favorable or unfavorable evaluation, emotional feelings and action tendencies towards on some object or idea. Perception is defined as the process by which an individual select, organizes and interprets stimulating into a meaning and coherent manner. Stimuli are sensory inputs include services, Packages, brand names, advertisements are commercials. Sensory receptors are the human organs that receive sensory inputs. Sensation is the immediate and direct responses of the sensory organs to simple stimuli.

Attitudes are expressions of inner feeling that reflects whether a person is favorable or unfavorable pre disposed to some object, person or event. As an outcome of psychological process attitudes are not directly observable but must be inferred from what people express to do.

Attitude An attitude describes a person's enduring favourable or unfavourable cognitive evaluating, emotional feelings, and actions tendencies towards some object or an idea. Rural people, village consumers have some specific attitudes towards their needs, desires. Attitudes put them into a frame of mind of likes and dislikes towards fulfilling their object. Attitudes lead people to behave in a fairly consistent way toward similar object. Rural people not like to urban area people, don't want to interfere in others matters. They concentrate only to achieve theirs object, goals. These attitudes concentrate much on their objects only.

Example, Rural area, village farmers concentrate only on their agriculture crop yielding. They spend more time and think strategically to get more yielding, and for the support prices, better marketing their products, i.e for Paddy, Mirchi, crops, vegetable crops, poultry products, dairy products, etc., Attitudes affect the behaviour by serving the four functions of Rural Consumers.

(i) Ego defective function
(ii) Value orientation function
(iii) Knowledge gaining function

These functions and characteristics of rural markets, rural people will have influence on individual's interpretation of the information. The rural people are very particular about protecting their ego and suggestions to the contrary can work against the markets. It is important to notice that rural consumer tend to exhibit a collective ego where the role of the group becomes very important. Example; Rural Consumers are sentimentally having much social, ethical values. They won't compromise with quality of product prefer for standard products.
Perception is an approximation of reality. Perception is defined as a process by which an individual select. Organizes and interprets stimuli into meaningful and coherent picture of the world. Perception helps in developing attitudes of a consumer that may influence buying decision. Consumer attitude is defined as a feeling of positive or negative that an individual move towards products or services. As we all know that an individual with a positive attitude is more likely to buy a product and this results in the possibility of linking or disliking a product. Consumer attitude basically comprises of belief, feelings, towards behavioral objects.

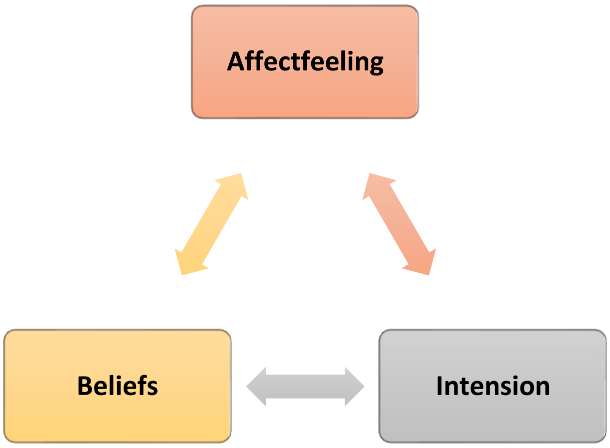

Fig 2.3 Concept of Consumer Feelings

Consumers have certain specific feelings towards some products or brands. Sometime these feelings are based on certain beliefs and may not be always. For example, an individual feel inconvenient, uneasiness when he thinks about Cheese burst Pizza because of the heavy quantity of cheese or fat it has.

Human brain attempts to make sense out of the stimuli to which we are exposed and our perception is our approximation of reality. The following are the perception influences, these factors theories which can influence our perception.

Exposure is the extent to which it encounters stimulus. Exposure is not enough to significantly impact the individual. Attention is a matter of degree; our attention may be quite high when we read the directions mentioned on a group map and quite low when a commercial comes on the TV.

Elements of Perception

Sensation

Sensation is the immediate and direct response of the sensory organs to stimuli. A stimulus may be any of input to any of these senses.

Example of stimuli include products, Packages brand names, advertisement and commercials.

The Absolute Threshold

The lowest level at which an individual can experience a sensation is called the absolute threshold. The differential threshold.The minimal difference that can be detected between two similar stimuli is called the differential threshold or just noticeable difference.

Subliminal Perception

People are motivated below their level of conscious awareness; that is, they can perceive stimuli without being consciously aware that they are doing so .

Stimuli that are too weak or too brief to be consciously seen or heard may nevertheless be strong enough to be perceived by one or more receptor cells. This process is generally called Sublimal perception because the stimulus is beneath the threshold, or 'limen' of conscious awareness, though obviously not beneath the absolute threshold of the receptors involved.

Attention always precedes perception. Attention is the central process and perception is not at all possible without attention. The process of attention serves the various functionary in the organization of our perception and other cognitive functions.

Concept of perception, consumer attitude are mainly concentrated in this lesson. They are the stimulus in selection and in making consumer buying decision making. Perception in pre buying idea in selection of products. It will be the process of consumer purchasing decision making process. Elements of perception are also enlightened. Attitudes are consumer their feelings that reflects that consumer is with positive or negative feelings about two product of services. Attitudes are the proceeding concept elevated in this topic before consumer purchasing and decision making.

To Do Activity

What do you understand by concept of perception - attributes with significance?

2.4 Personality of Consumers

Personality of the individual deals with consumer behaviour reactions his priorities, his choices towards selection of a product or service. Personality is the individual qualities, habits, priorities and selection attitude. It helps the marketers in deciding when, where and how to promote the product and service.

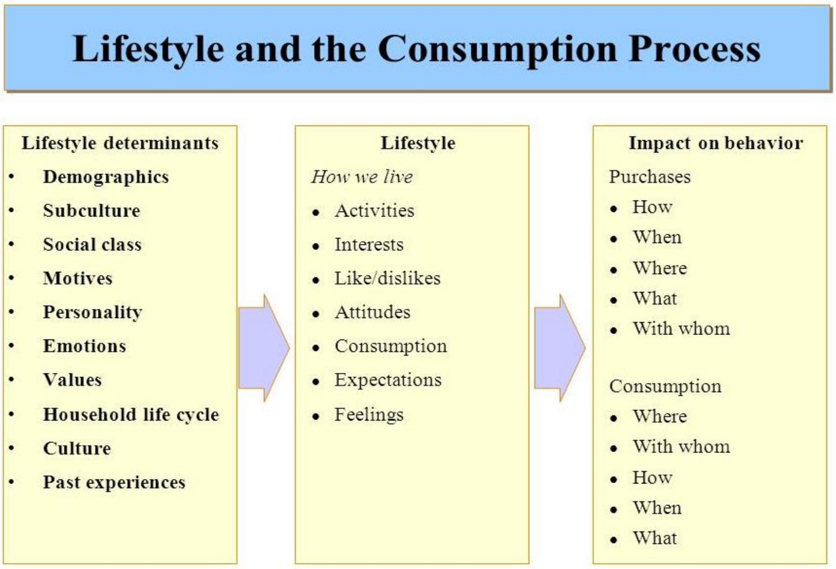

Fig 2.4 A Life Style of the Consumer Components

Personality can be categorized on the basis of individual likes, dislikes, positive and negative feelings towards a purchasing a Product of service.In this basic concept, significance, concerned theories are to be discussed. Features and emotions are to be elaborated. The role of individual personality as a consumer are to be discussed.

Personality Traits and Behaviours

The concept of personality is all those internal traits and different behaviours that make a person unique, keeping in mind the fact that uniqueness arise from a person's heredity and personal experience. Examples Workmanship, (work is worship) mandatory, Self Confidence, Friendliness, adaptability, ambitiousness, dogmatism, it means the degree of rigidity of an individual, authoritarianism, introversion, extroversion, aggressiveness and competitiveness. Traits affect the way, the people will behave. Marketers tried to match store image to the perceived image of their customers.

Fig2.4 B Personality Traits

In the above figure it has been explained the personality Traits and Behaviours of the Consumer attitudes examples Innovativeness, i.e., Creativity of the individual, Materialism, i.e., acquiring and owning of product, Self-consciousness, need for recognition and frugality i.e., choosing resourcefully.

Personality is an individual's psychological characteristics which reflect how a person reacts to the circumstances and in the environment. Personality shows the individual choices for various products and brands. Personality is an individual's attitude, behaviour, tendencies, expressions, choices, selections and decision making behaviour. It helps the marketers in deciding when and how to promote the product. Personality can be categorized on the basis of individual traits, likes and dislikes.

To have an idea a consumer needs to be converted in to customer is a main purpose of the 'consumer study'. To understand the buyer habits and his priorities, it is required to understand to know the personality of the purchaser.

Significance or Importance Personality can be changed due to major events in human life , such as birth, marriage, professional career and up to death. In every stage of human life, changes will happen, after completion of the studies, after getting of a job, after settlement of life due to marriage human life changes in attitudes, behaviour and decision-making power.

Personality Theories Personality is an individual characteristics response, tendencies through the continuous situations. Personality is a person's specialized psychological features that lead to relatively consistent and lasting responses to stimuli in the environment. There are so many personality theories, all have two common assumptions.,

- All individuals have internal characteristics are traits.
- There are consistent and measurable differences between consumers on those features.

Single traits theories emphasize one personality trait as being particularly relevant to understanding a particular set of behaviors. They do not suggest that other trait do not exist or not important rather they study a single trait for his relevance to a set of behaviors.

Multi trait personality theory specifies several traits that in combination capture a substantial portion of the personality of the individuals.

Psychographics Through a personality it is meant that a person's distinguishing psychological feature which let to relatively consistent and enduring responses to his environment but analysis of psychological traits in the context of service chaise is known as 'Psychographics' (or life style analysis) Psychographics study can be either generic or service oriented. Psychographic is a technique for measuring personality and life styles to develop lifestyle classifications.

Theories of Traits (features) Traits Theory is a representative of a multi personality theories. Trait theory is based on certain assumptions, such as traits which are certainly stable in nature and limited number of traits are common to most of the people.

According to trait theory scientists and an individual personality make up stems out of the traits that he possesses and the identification of trait is important. The trait theories can be of two broad categories i.e., simple trait theory and general trait theory.

Trait theory are the features of an individual or tendency of an individual in a particular manner and circumstances. Traits help in defining the behviour of consumers. According to the trait theorists, an individual's personality makeup stems out of the trait that he possesses and identification of traits is important. Following are the few of the most common traits.

- Out going
- Sad
- Stable
- Serious
- Happy to go lucky
- Relaxed
- Self assured
- Practical
- Imaginative

The trait theories are Two broad categories

Simple Trait Theory In this trait theory a limited number of traits are identified and people are categorized and classified on the basis of the traits.

General Trait Theory In general trait theories, a large variety of traits are identified.

Thus, personality is an individual's specialized features. His habits, attitudes, behaviour, choices, tendencies, and temperaments stimulates the decision making process of a product or service. It supports and promotes the marketers improving quality, price, size, quantity, weights and measurements.

Personality is an individual's specialized feature. Which encourages consumer decision making. Consumer feelings, expressions, tastes, attitudes, behaviour decides accurate purchase of product or service. Personality to understand buyer needs and convert them into customers decision making. Customers study is the main purpose of the customer behaviour's study. Personality signifies the inner psychological characteristics that reflects how a person reacts to his environments. In this it has been discussed so many trait theories. Traits theories simple trait theory and General trait theories and representation of multi personality theories.

To Do Activity

How a personality of an individual impacts in taking decision making- what are the factors influencing to take an individual's decisions – prepare a draft note.

2.5 Consumers' Life Style - Life Cycle

Social Status' of the consumers usually consist of an individual's attitude, class and prestige, selection of quality, brand, quality of product negotiations of the prices, dealing with seller, are completely according to his lifestyle and social s tutus. The social status of an individual influences his consumption pattern and purchase decision making. For example, A High level official, from high social status wants, to celebrates his son's birth day, or his birthday, marriage day in a grand manner with his colleagues, friends, family. He books a costly five-star hotel or suit with central AC. or Taj Group of Hotels or Novatel hotel and order high class menu to the guests, friends and family also not with ordinary/ average middle class. They are inviting high class social status associates, families. They order also Cocktail dinner for those people enjoy the party.

On every shopping of purchase, of Jewelry, cloth purchase they select in corporate level high class - show rooms. They will not face any problem with prices. They demand always high class branded material.

Consumers gets influenced by his family members as well as friends, neighborhood high class social status life style individuals. Since childhood the culture, traditions value, ethical principle, family economic conditions. Rituals, moral values and the religious functions, festival occasions play a dominant role influencing consumer purchasing attitude. Their brought-up habituates family heritage values. However, the individual learns fashions attitude or lifestyle from his friends, family backgrounds. All these attributes from the, traits (features) together influence the buying decision making.

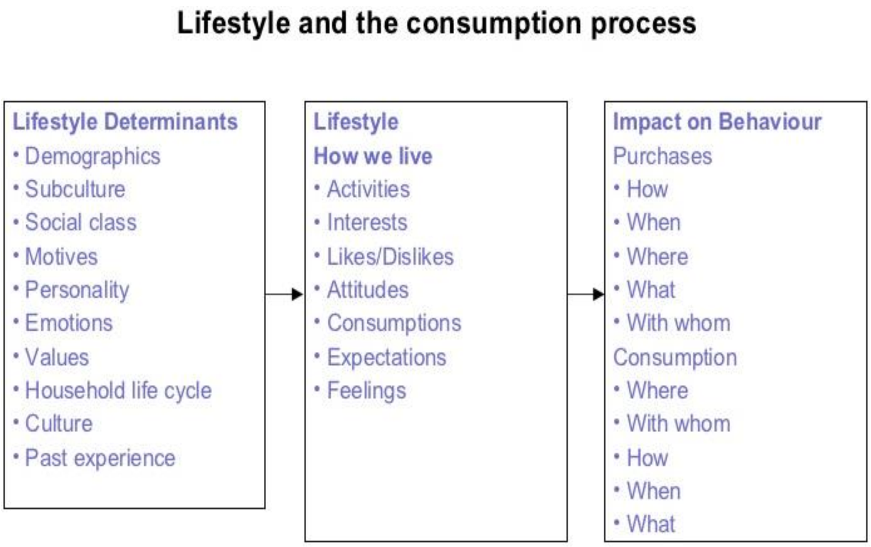

Fig 2.5 Consumer Life Cycle and Life Style

Life style is a pattern of living experienced through a person's activities, behaviour, interests, opinion and expressions. A person life style is the person's standard of living in the world. Lifestyle portrays the whole. Personal interacting with his involvement.

'Psychographic Segmentation' of Consumers

Psychographic Segmentation of consumers focuses on group, according to their life style, Purchasing power, Purchasing attitude and psychology. Many business people offer products based on those attitudes' beliefs, emotions, ideas and perceptions of the target market. Psychographic segmentation includes variable such as activities, interest, opinion, attitudes and culture of Such consumers life style. Markets separately segmented for those customers with their selected export quality branded products with high prices.

Psychographic is a technique for measuring personality and life style to develop life style classifications.

High class life style customers also search and gathers the information about the nature of the product features are as follows.

- Brands of the product
- Variations in products, quality - quantity, brands variations.
- Product quality - required to them
- Alternative - substitutes availability.

Variations, ranges in prices, they feel more price means, more grand look of material.For example, above average, middle class, upper middle class, high class life style consumers want to get their food items from a decent restaurant, Sweet items from Pulla Reddy Sweet Homes, for snacks Haldiram ready to eat food packets. Haldiram, Pulla Reddy's Ghee sweets specially manufacture their products with utmost care, hygienic, with traditional values transparent in publicity. They got trustworthiness, goodwill since long back. They prefer customer loyalty, customer self-satisfaction. They manufacture customer centric products. Their motive not only profit oriented but also to give customer satisfaction and gain good will for future generations. They believe strategy customer is the Real king of the markets 'Tata Products' Godrej Products, BHEL products, 'Maruthi Suzuki Automobiles' gained customer good will and customer satisfaction since a long time.

New strategies in Modern days Consumers under dynamic conditions are influenced by their attitude, behaviour, perceptions and attitudes. Consumers are changing their behaviour in several ways. According to their economic, financial affordableness, consumers are taking decisions. Different attitude of consumers have different reactions to the economic challenges.

Online Marketing Strategy is new trend in now a days, Online catalogues, through Website, search the images of products ranges in quality, brand, size, price variations etc. If they satisfy every aspect they need not step out to outside shopping. They can order through online, payment through Debit and Credit cards. or cash on delivery. They will get order within one or two days. Example Amazon; Flipkart, Snapdeal. They will sell their products with heavy discount when comparing outside shop, markets, directly from factory outlets. This is the trend in today under E-commerce or E-Marketing process.

Demographic Factors Demographic factors like, age, sex, income, size, gender, class, community, distribution and structure influence consumers buying behaviour both directly and indirectly by affecting other attributes of consumers. Age group, education level, income occupation etc., servesas various dimensions of demographics. Social dominations, income domination also play a dominant role in consumer behaviour. Purchasing power, price affordableness, life style, wealth, own house ownership, multi income group of family dominative economic conditions promote the costly product purchasing. The above factors strongly influence the purchasing decision and stimulates consumers attitude.

Changing Life Style of Rural Consumers

Consumers, belonging to the rural area are a specific category or class or group of people having separate life style and working style. Basically their economic activity is agro based, rural field. They are traditional in their posture, simple living style, soft spoken, realistic nature. They are not highly educated, having only with basic level of education. But youth population in village gradually migrating to the urban areas for higher education purpose and for career development activities. Their life styles are changing according to the urban civilization. They are habituating modern electronic gadget for the communicating and in their educational activities.

Older generation, middle aged generation in the village are also not too traditional. They are doing agriculture, horticulture, small businesses, running handicraft manufacture s, bricks/ tiles industry, toys, and plastic works industries, poultry, dairy development activities with cattle sheds. They are not developing only on agriculture, doing many other income oriented economic activities. Government are also encouraging all sections of the village level people. Dwakra Self-help groups, cooperative societies business, unemployed youth, Small scale s etc., with this development we can conclude that villagers are not so back word as on previous days. Government are completely encouraging village people with so many schemes.

Their standard of living increased, they are also habituating civilized modern life style. Every house in village is having a colour TV, Fridge, washing machine, gas stove, modern kitchen, using motor cycles and own cars for their transportation. With this it can be understood that rural civilization life style also completely changed according to their tastes and circumstances. Politically they are motivated and encouraged in all aspect. Moreover, their food habits also completely changed. In olden days they preferred homely prepared foods now their tastes changed, habituating urban restaurant foods, North Indian dishes, Chinese non vegetarian foods.

Their educational standards, living standards, purchasing/ bargaining power, income levels increased and improved remarkably. So, it can be said that, their life style completely changed with the migration to the urban civilization. Their marketing activities also changed. Exporting their quality products earning foreign exchange.

Marketing strategy is changing quickly every day. Social class, community, high life style of young generationwill lead to taking quick decisions. They are hyper active. Therefore, life style play an important role in consumer decision making. Consumer demographic factors also play a dominant role in the consumer attitude. Online marketing practice made easy of getting things done without putting the step out for open marketing. It is new dimensions of marketing strategy. E-commerce online Portables encouraging youth, for the innovative, new products of electronic gadgets, products, young people, youth generation with different lifestyle, habituated E-commerce - online marketing. Through computers with net facility, it is made easy today.

To Do Activity

1. What you have observed the changes in the life styles of rural consumers - visit any of your village and examine the changing attitudes of Rural consumers – and prepare a report on that
2. "How the life style of social class community influence the buying decision making with the demographic factors of consumers". Prepare a note and submit it to your Sales manager.
3. How the Rural life style changed in present days, study the modern rural consumers in village - prepare a report.

Model Questions

1. Examine the attitude of Rural Consumers.
2. Demographic factors influence the consumer 'Decision Making' - Explain.
3. Social class - 'Community life styles' stimulates consumer decision making. Explain
4. 'Online Marketing strategy' - attracting the consumer - in promoting sales to the marketers - Explain.
5. Explain 'Modern Marketing Strategies' in view of life styles, demographic profile of consumers.
6. How the Demographic factors of Customers will influence the purchase decision making of consumers.
7. Role of 'Psychographic segmentation' of consumers - in decision making.
8. Compare traditional life style of rural consumers with present life styles - examine the rural consumer behaviour.

Chapter 3 External Determinants of Consumer Behaviour

Introduction

Demographic factors Consumer family members, i.e., age, Gender, Income, Sex, influences buying behaviour directly and indirectly needs and requirements as per age, sex, Income, aged people requirement decisions, income also play a vital role in deciding attitude of customers, occupation, education levels, decides the decision making of certain purchases. Particularly in our country certain family sentiments, traditions, cultures, ethics and rituals have more impact on the purchase of consumer product and services.

Family, its background, religion, communal backgrounds, social class, social status, regional factors , perceptions, are also impact strongly and play a crucial role in determining the social status of an individual. In this all the topics are to be discussed in depth in this.

It is a well known fact that, in our country family bondage, group living family sentiments are very strong. Family groups, consisting of parents, Grandparents, children strongly play an important role in making the purchase of consumer goods i.e., Tooth Phase, cosmetics., soaps, medicines, milk, products. Cloth materials etc.,

The family is responsible for shaping up the personality of an individual consumer. In the family our attitudes, tastes, habits, working conditions, utility, experiences and quality of goods are also strongly influence the consumer attitudes.

An individual having similar, buying habits and similar preferences, consumption habits of certain goods within the family. Perceptions and family values have strong impact on the purchasing attitude of consumers. Family of a consumer strongly plays a role in purchase decision making process. The parents, relatives Children, elders all have their own views about the purchase of certain common goods, selected material, general commodities.

Objectives

1. To know how the family members, sentiments, traditional demographic factors play a strong role in determining consumer behaviour.
2. To know the social Class of Consumers will influence them in decision making.

3.1 Family Social Class

The below are the Roles of the Family in Decision Making:

Influences One of two persons in the family strongly advises and have an idea about a purchase of a particular product or service.

Example

1. Elders are in real estate and property
2. Younger generation purchase of electronic gadgets and Laptops

Decision Makers Family members, elders, Kartha is the head of Joint Hindu Family type of business organization parents who exercise their elders powers to take purchase decision on behalf of all family members. They are the decision makers. Consumers are generally highly influenced by his family members, as well as friends, neighborhood relatives. Family, cultures, traditions, ethics, rituals also influences strongly in decision making process.

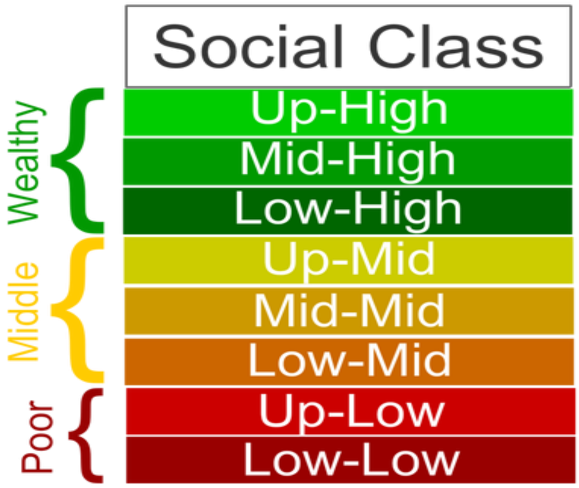

Fig 3.1 Social Class Segmentation

Consumers and their Social Class Influences Social class has been defined as the division of members of society into hierarchy of distinct status classes so that members of such class have relatively the same status and members of other classless having less or more status. Social class is measured in terms of social status of its members and companion of members of each social class with other social classes. Some of the variables of the social class are occupation, income, education levels and property ownership etc.

Culture, customs, traditions, habits, attitudes, behaviours, food habits, behaviours, food habits and other family group, beliefs, values that services to direct the consumer behaviour of a particular society. Sub class, culture, can be thought as a distinct cultural group that exists as an identifiable segment within a larger and more complex society.

Economic factors, income, property levels, consumption levels, earning wealth of family, group members, house hold income, expenditure levels, inflation, economic conditions, purchasing power and investment, attitudes also have strong influence, impact on Consumer purchase decision making. Consumer, family members, social class group interests, attitudes belief, buying behaviour, consumer personality are the factors influencing consumer behaviour.

According to the Sociological model, the individual buyer has been greatly influenced by closely intimated group society and social class and community. Consumers buying decisions are not completely governed by the commodity utility, satisfaction. Consumer must have strong desire to have it and fit that material for his need of immediately utility.

In such a way social class and family group play a vital role in consumer decision making. Family traditions, culture, elders' decisions, attitudes, habits, food cultures, interests, ethics, incomes, education, occupation, demographic factors of the family background, tastes, age, sex, income levels, social status, are the main factors influencing in consumer decision making.

In this unit, the dominant role of family, social class, social status brought to light. How a decision making influenced by the various demographic factors of family members of family and the social status of individual consumers. According to their needs, urgencies, immediate requirements, the demand instigates a consumer to purchase the material. Those factors, circumstances have been elaborated in this topic.

To Do Activity

1. How a family members of family group deeply influences the consumer decision to purchase a product or service in the market. Taking an example purchase of jewelry products for a marriage occasion from Lalitha Jewelry or Kalyan Jewelry, prepare a note.
2. How a social status, social class or community influences an individual consumer to take a luxurious car purchase decision - prepare a note.

3.2 Reference Group

In previous unit, it has been studied that the role of the family social classes their demographic factors play a vital role in consumer decision making. In this unit, the role and influence of various groups, consumers reference groups are relevant in consumer decision making. The role of research groups in the manufacturing of new innovative products. It is an elaborated explanation of various reference groups and their aspirations.

Socio- Cultural Factors

Consumer Reference Groups

Group or a reference group may be defined as two or more similar aged, natured people having same aspirations, similar goals. Consumer reference, related groups are family, friends, formal social groups, shopping groups, consumers groups, working groups. Four basic functions provided by the family are relevant to consumer behaviour, these include economic well-being, emotional support, family life styles and socialization of family members.

Sociologists and researches have strongly favored the concept of family life cycle. "According to the sociological models the individual buyer has been strongly influenced by society, intimate groups as well as social groups"

Reference Groups - Consumer Behaviour

In the routine life, consumers, individual customers, or buyers are greatly influenced by a variety of people, while making out desired products purchase decisions. Our purchases must be attracted to others impressed to our friends, in society. It is human psychology to get attracted by others through our purchases. Particularly ladies shopping jewelry, Sarees, household utility material. They always try to be higher than their neighbors, wants to get best impression on their purchases. They want the best appreciations, compliments of their purchaser from their family groups, neighbors, friends' groups. It is a human tendency and psychology. We will act according to get good impressions, compliments and try that orders should not think less of us.

A reference group is as the best ideal group we consider. Now our reference could be very large or very small including few of our family members or friends. Reference groups influence people a lot in their buying decisions. They set the levels of lifestyle, purchasing patterns, mainly reference groups classified in following two types.

- Primary Groups
- Secondary groups

Primary Groups are generally meet in our daily life every day. They are family close relatives, friends and neighborhood close associates, may also our roommates, colleagues in the same office. This group have direct and strong impact in our life styles, and in our buying decisions as they are very close to us in our daily life. They conveniently comfortably more towards in our purchase To Do Activity explaining prospects and consequences of the purchase of Example, Property, Jewelry etc., They will help us also advise us honestly, moving friendly. Secondary reference group are generally formed and they mingle rarely and occasionally. They are the professionals, seniors, experienced in the field, Associations colleagues in the society.

In the secondary groups, the influence of those long distant people are very less when compared to the primary groups because their advices are not satisfactory, not able to implement because the cost of the project escalated. Their advised are not comfortable.

Others Groups Divided as Follows

- Aspirational Group and
- Dissociative Group

Aspirational Group is the one to which a person may want to be a part of your decision. They are closely associated with each other which to be a part of the close to group. They always want to involve deeply in the negotiations, purchase decisions. For example, Property purchasing. Important products, electronic goods purchasing they follow us in quality checking, price negotiations. Example Real Estate brokers, Stock brokers.

Dissociate Groups

The people in the group are completely with opposite mind set to the people in the aspirational groups. Here people deny of becoming or getting communicated to a particular group. They just hate orders like being related to that group.

For example, if a particular set or group of people don't like a particular community, they would never like being connected to them. So, they will try all the possible ways to avoid the way in which they dress, think or to act.

Thus the market agencies need to understand feelings of consumer, their likes and dislikes of the consumers and also the groups to which they belong, Marketers should recognize the extent to which a reference group influences the consumer and he should also understand out of all the groups which group influence him the most of them.

Man is a social animal. He doesn't want to be alone always. He wants group, friends, neighbor's, colleagues to share his feelings, ideas, sadness and happy movement. In such a way, as a consumer of a product, before requirement of a particular commodity, he takes the opinion of a family members, friends, who plays an important role in the decision-making process. The parents, relatives, neighbors their experiences in the usage of material will also be useful in taking decisions.

Thus a consumers get influenced by his family members as well as friends. The individual consumer learns, habituates fashions, attitudes or life styles from his friends.

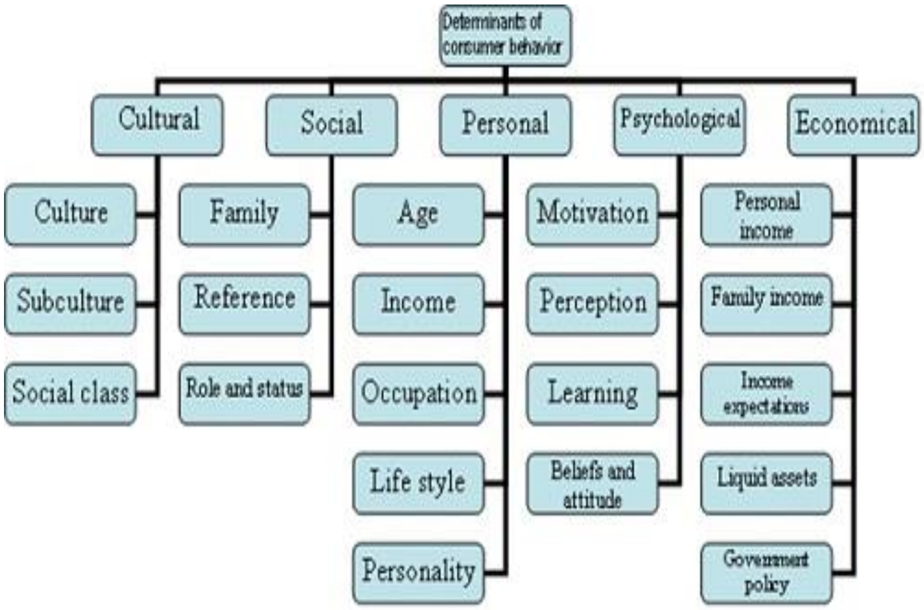

Fig 3.2 Determinants of Consumer Behaviour

To Do Activity

What is the impact of references group - what are the various kinds of reference groups - their role, and impact on individual consumer in taking purchase decision of a particular product of services - prepare a detailed report.

3.3 Opinion Leaders

Opinion leaders are generally the people who have the capability to influence others. Secondary group people can be considered as opinion leaders. Mechanics, Service organizations, of Automobile Industry considered as opinion leaders in the concerned marketing field.

Opinion leaders are often trusted and unbiased and have the social network of friends, and co-workers necessary to share information. Example primary school teachers, local high school teachers may also the opinion leaders, because they guide students and their parents in selecting the best school, courses and to select the best colleges for their studies.

Concept and Role of the Opinion Leaders

Opinion leaders are particularly useful in marketing. If a marketer can identify key opinion leaders for certain groups. They play a crucial role in attracting customers. Opinion leaders can have a profound influence on the success of a product and on one's own consumer purchases.

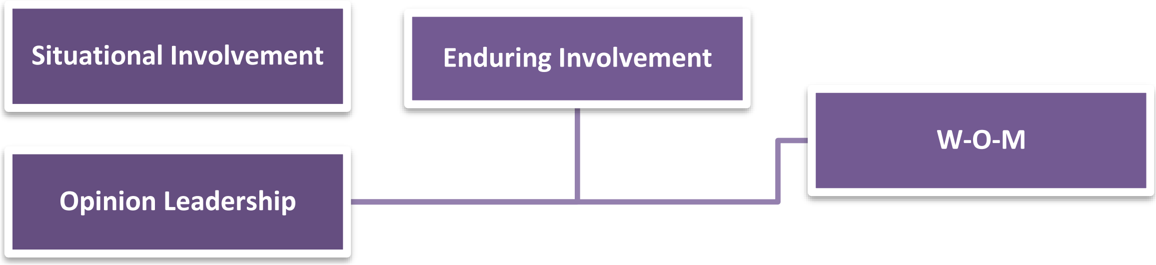

Fig 3.3 Model of Opinion Leadership

Celebrities are opinion leaders for the product of service they promote. Purchase decisions are generally influenced by family members groups social class group, various reference groups, friends, relatives, community groups, marketing agency who promotes, helps the consumers in judging the selection of goods and services. Advertisement agencies, brand ambassador's marketeering expert are the opinion leaders are generally the people who have expertise in their fields, offer their valuable suggestions to take purchase decisions. Consumers are constantly seeking help, assistance in taking purchase decision of certain products, with their friends or closely associated colleagues. Opinion leaders who are quite easy to identify, for example auto field experts, beauticians, Stock brokers, physicians, builders and architects, engineers, marketing experts, brand ambassadors, celebrities can influence the decision of consumers make within their area of expertise. Sometimes these opinion leaders can actually be the reference groups i.e., primary and secondary groups, parents, family groups celebrities are also offer used as opinion leaders in promoting a particular product.

Opinion leaders are generally seen as being sincere and honest and impartial. They are expertise to guide and influence the various consumers. The opinion leaders and their role is vital to the success of a market influencing the consumers, directly and indirectly promote sales through public campaign.

TV, Electronic, Print and social media, sectors are also can be identified as opinion leaders as they timely give information about the real estate, products, service, government side information, latest updating news coverage, Stock position, price bulletins of bullion market, public alerting, on market conditions and information.

Salesperson, sales representatives, in a marketing department of a manufacturing organization, medical representatives of Pharmaceuticals Companies are also promote the sales of their products to convincing, demonstrating their products of doctors, medical shops with their efforts the sales of products will increase, hence they are also treated as opinion leaders because they convince, motivate and promote the sales of medicines through the doctors and medical shops. Advertising agencies, publicity designers, brand Ambassadors of the product also come under the opinion leaders.

A village Sarpanch or Chairperson is an opinion leader, whose advise is essential on certain important issues of rural public. Supportive price for their crops, problems of villages, loans from banks etc., local group leaders plays a crucial role in the promotion of a product because these leaders act as an opinion builder or act as a role model for them.

Thus, the concept of opinion leaders, are the people of motivating others to improve, promote for the best results. Marketing departments, sales, medical representatives, Advertising agencies, Public designers, Print and Electronic Media, Social media agencies, teachers, professionalist, Doctors elders, parents, friends, neighbors are all come under opinion leader as explained in this lesson because they inspire other towards getting better results with their efforts, sales will be promoted production will be increased with targets as per innovative design.

To Do Activity
"Prepare detailed report on the vital role of opinion leaders to promote Sales of Parma products"

3.4 Diffusion of Innovation

The diffusion of innovations, defined, arrival of new products, practices, with an idea of introducing freshly in the market. Occasionally when, in the market introduces new products and services, they are only targeted by small number of people or particular segment, initially to a particular area. If it is a success it will be introduced to remaining area of the market.

According to the tastes, demand of the customers, marketers are always trying to change the design, size, adding more components colour combinations etc., and introduce in a particular area first if the public are interested the area of the market will be spread.

For example, from of the age of using type machines, transistors, promoted to computers, Televisions, Led TVs. After manufacturing, first they will be released in a particular area on trial basis. If the customers are satisfied, then it will be expanded to entire market.

In this, the concept of diffusion of innovating was introduced. With a view to introduce new products and services to study the trends in recent marketing consumer attitudes, market survey results on the new products are services.

'Diffusion' it is a word which is the processing and acceptance of a new product or service, new idea, and introduce to the social market. Thus, diffusion is a process by which a new product is accepted and spreads throughout the market area.

Innovation is a work came from invention, newly designed, newly invented product of service as per the desires of a consumer to fulfill their needs. It has been newly introduced in the market to satisfy the needs of the customers.

Role of Technology for Rural Consumers

It is well known fact that technology played a dynamic role in serving rural consumer particularly youth. Best example; Cell Phones; I Phones, Android phone, it is everywhere, in every hands more and more village youth, middle aged. Next to cell phone, internet technology and with the advancement of ICT, IT, the book colour information from any side of the world now reaching within seconds - time to the I-phones, cell phone through SMS, video messages through cell phone, advertisement of various schemes, products, services, consumers are getting. For example,dairy products, kids feeding, cosmetics, are advertised. Sufficient on hand information is available to the consumers.

With the help of technology, it is help full for the economic development to the nation and enrich, enlighten rural consumers to take decision making which encourages purchasing power of various products. India's second largest private sector corporate sector bank is ICICI Bank selling various products to the villagers by setting up 'Kiosks' service provider. Through this service provider covered 6000 digital rural market to the bank in the rural areas. Village youth through the cell phones they are doing online marketing. When we consider about youth, we refer age group between 15 to 25 youth in rural areas, making product services are purchasing through phones. Example Phone recharge, funds through bill payments, banking services, Cinema ticket bookings, Railway/ bus/ Air tickets booking international global market activities to the rural area youth generation age people.

Example

1. Black and while TV replaced with color and LED TV.
2. Type Machine replaced with a computer with many new features.

Research and Development wing in the manufacturing company continuously on the innovative programmes according to the market survey results, as per the need of the customers. when a product is accepted and spreads in a market. It is group phenomenon, in which first an idea is perceived, then it spreads throughout the market, and then individuals and groups adopt the product.

Technology advancement in manufacturing process, completely changed the life style of rural consumer example; Fridge, AC, washing machines wet grinders, Mixies, LED TVs, invertors etc., are purchasing more by rural consumers on par with urban people.

Process of Diffusion

The process of diffusion is the manner in which innovations spread throughout the market, spreading in the market meaning to the continuity in purchase behaviour where a product or service purchased with same continuously spread of innovation can be three types as shown below in 3.4 A figure Classification of innovative group.

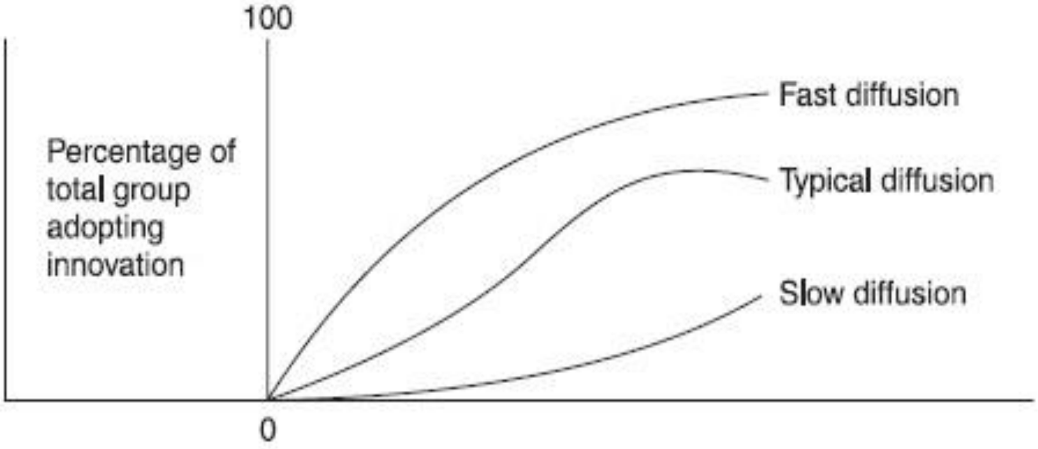

Fig Three types of innovation spread

The diffusion process follows similar pattern, overtime, irrespective of the social group or innovation. Typical diffusion process shows a slow growth or adoption cater it rises rapidly and then a period of slow growth is noticed.

In fast diffusion process, the product clicks immediately or on fast mode and it will be spread to various areas of people to trust the product immediately in the first batch release and later there is again slow down diffusion. In slow diffusion process, the product takes a lot of time to diffuse or spread, and the consumer follows a pattern of adoption slowly by getting acquainted with the product. These studies show that the products take a certain period of time, from when it gets introduces to its saturation. The rate of spread of innovation depends on a number of factors as shown below.

a) **Type of Group** - of people - Demographically
b) Perceived risk on innovation expected
c) Type of decision taken either by collective vs individual
d) Marketing efforts affect the diffusion process
e) **Trial** The Trial can be taken at low cost and low risk
f) **Fulfillment of need**The faster a need is satisfied or fulfilled by a product, the greater rate of diffusion.
g) **Compatibility** The more the product is compatible with belief, attitudes and values of individual or group the faster the diffusion.
h) Relevant advantage in price, quality easy of handling product will be there
i) **Complexity** If the product is with higher complex, controversial, the diffusion is slower

j) **Observability** The more easily the positive effects of the product can be observed.

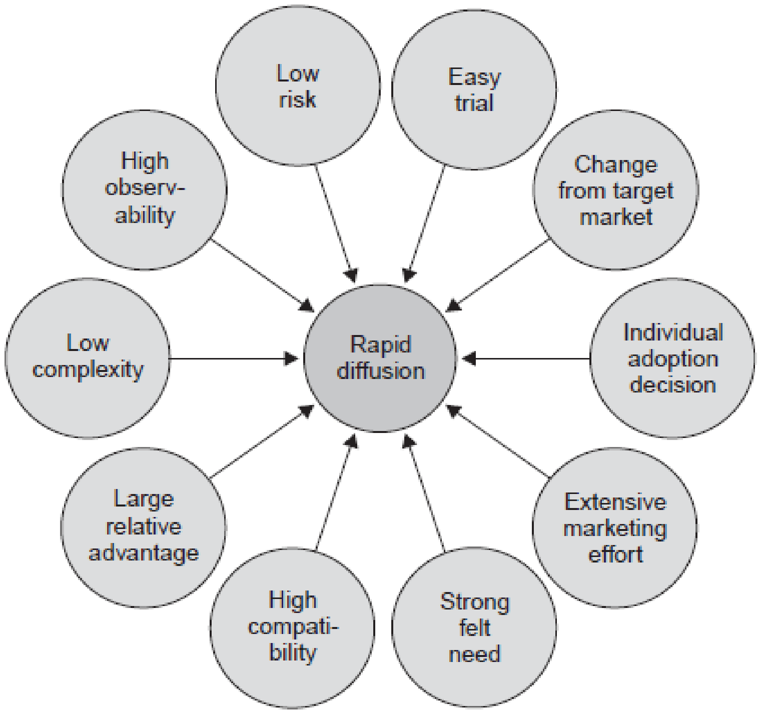

Fig Rapid rate of diffusion

Figures 3.4 Shows Regarding the Rapid Rate of Diffusion

Table 3.4 Market Strategies and Rate of Diffusion

Rate of diffusion	Slow	Fast
1) Marketing Strategy 2) Price 3) Market segmentation 4) Promotion 5) Distribution 6) Product 7) Characteristics	Skimming High Target market is specific and small llifestyles and demographics are considered Information and advertising backed by personal selling and sales promotion Selection through Promotional stores Discontinuous Innovations	Penetration Low Target market is large difficult to specify by lifestyles and demographics. Repetitive advertising use of imagery and symbols Large number of outlets Continuous Innovations

> **To Do Activity**
> 1. What is the role of cell phone/ internet services to the rural youth - take up a village for case study and prepare a detailed note.
> 2. What do you understand the concept 'Diffusion of Innovation - what are the factors causing for their spreading - Prepare a detailed report.

3.5 Culture and Sub-Culture

There are various factors influencing Consumer, buyer or customer behaviour while purchasing a particular product or service, customer will think it so many ways, like Price, its need, quality, its nature, working purpose, size, packing, brand, age, demographic factors, income, urgency, substitutes, group, family, social class and group influences. We don't know which facts cause more or dominates, the consumer to take the buyer, decision making there are so many influences on the buyer or consumer to purchase a product or to avail the different types of services.

a) **Internal Influences** Buyer as an individual in a part of demographic and personal factors i.e., age, education economic position, purchasing power, status, religion social class, attitudes, motivation and perception.

b) **External Influences** Buyer is an Individual, socially mingled with society and with various groups. Social group, family intimated group influence the consumers.

c) **Environmental Influences** Information from various sources will get a rational ornament, survey markets consumer. He will study and decision will be taken with analytical strategy. Price brand of stock, availability time, place and other environmental market condition also influence the consumer

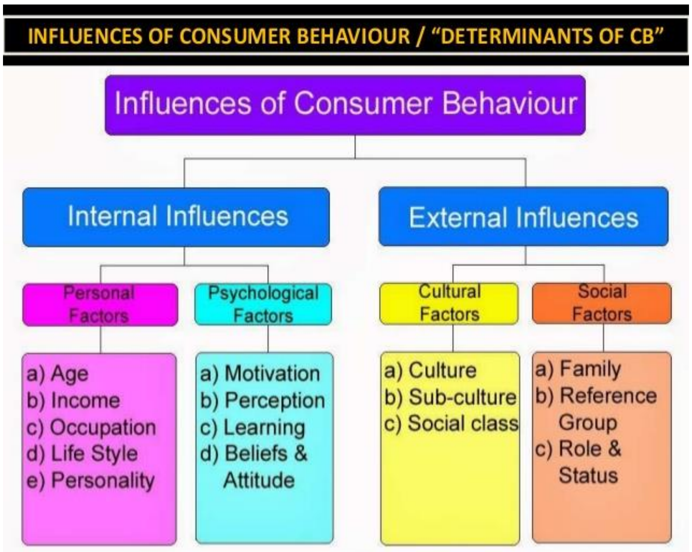

Fig 3.5 Influences of Consumer Behaviour

Demographic Factors

Demographic descriptions of population in terms of its size, distribution personal characteristics, structure and vital characteristics are more influencing factors. Particular age, Income, price, economic condition of particular market segmentations highly influenced determinants in consumer decision making. Demographic factors influence consumer behaviour directly.

Social Class (relative Status in the Community) is an important determinant of buyer behaviour. It is traditionally measured by a weighted index of several demographic variables such as education, occupation, and Income.

Culture Culture is the distinctive way of life of a group of people, their complete design for living. Culture is the highly complex whole that includes knowledge, belief, art, law, moral, ethical customs, traditions, family heritage. Any other family circumstances are also motivating factors culture is the most fundamental determinants of a person's wants and behaviour. Culture is the comprehensive concept which includes everything that influences an Individual's thought process and behaviours. Culture having certain rules, norms and principles those influences the consumers. Violation of culture norms results adversely and attracts penalties. The marketers need to understand the significance of culture, sub culture, social class, and basic fundaments values of the society.

Culture has so many Important Characteristics

1. Culture is comprehensive
2. Culture learned rather than being something we are born with
3. Culture is manifested within boundaries of acceptable behaviour
4. Conscious awareness of culture standards is limited
5. Culture fall somewhere on a continues between static and dynamic depending on how quickly people adapt change.

Culture significantly influence one's self concept and space. In rural markets sincerity standards and group performances are more cherished values than a fast track career growth.

Thus, the culture exerts the deepest influence on consumer behaviour. Culture is a part of the external influence that impact the consumer. It represents influences that are imposed on the consumer by other individuals. Finally, culture is the most fundamental determinants of human wants as well as consumer behaviour.

Nature of the Indian Culture

In India, languages, religions, dance, music, architecture, food and Traditional customs are differ from place to place within the country. Geographically, Indian culture often labeled as an amalgamation of several cultures, spans across the Indian subcontinent and has been influenced by a history. So, the composition of culture refers collectively to the thousands of distinct and unique cultures of all religions and commies comprising it.

The diversity in India is unique. India represents endless varieties of physical features and different cultural patterns. It is the land of many languages it is only in India people professes all the major religions of the world. Being a large country with large population. In the coming years, macro-economic trends are expected to make India the fifth largest consumer market in the world by 2030, providing big opportunity for retail and consumer goods sectors.

Following are the Different Types of Cultures

1. **Cross Culture** When a culture interacts with another culture, they share values, perceptions and preferences of buyer and accordingly leaves characteristics of different cultures.
2. **Sub Cultures** Each culture contains smaller sub cultures of groups of people with shared values system based on common life experiences and situations. Sub cultures are, nationalities, religion, social groups and geographical regions. A sub culture is a segment of a larger culture whose members share distinguish values and patterns of behaviour. Example, Telangana culture is well known as a sub-culture within the geographical structure of Andhra Pradesh.
3. **Religious Sub Cultures** Religion is an important determinant of behaviour and directly influences the buying decisions. This includes consuming religiously Concept services.
4. **Ethnic Sub Culture** It is broadly defined as those whose member's unique shared behaviour are based on a common racial, language or nationality background.
5. **Regional Sub Culture** Distinct regional sub culture arises as a result of climatic conditions. The natural environment and resources. The features of various immigrant group also influence consumer decisions of following of their regional sub groups.

The attitudes are never static and are influenced by external environment. They also keep the culture dynamic. Being expressive of the group beliefs and attitudes, culture shapes the consumption pattern and decision-making process of individuals throughout their life cycle. Some of the influences of the culture on the buyer behaviour are as follows.

1. Sense of self concept, respect and confidence
2. Communication and language of rural consumer village people. For Example; advertising communication campaign rural market for dairy products - Milk, ghee, poultry eggs, products.
3. Dress and appearance also have a major influence of a person's culture. Dressing habits of individuals are also representing of their self-respect image, behaviour and attitude.
4. Foods Feeding habits also unique to every one's culture. Those selling products need to know what people of a culture what and offer their products accordingly.
5. Time consciousness In rural markets people are not very quick in decisions they are slow in taking decisions due to lack of knowledge, insufficient information. They should be allowed their own time to arrive at the decisions.
6. Relationships In rural marketers' relations are having highly be honoured once the rural people believe on someone, they harbour the faith for a long time. If anybody lost their trust they reject and punish them.

Thus culture, sub culture religion, ethnic sub culture greatly plays a dominant role in the consumer decisions making. Consumer cannot escape from his culture, tradition family customs in taking decisions. He will consider the opinion of traditional personalities, elders, giving utmost important culture and ethical values.

Culture values are widely held beliefs that affirm what is desirable. It is necessary to understand the under lying value shifts in order to understand current and future consumer behaviour. India has traditionally been a very participative socially involved and norm driven society. Indian culture is of assimilation of religious, traditional practices norms and values.

To Do Activity

Explain while preparing a detailed note on the significance of culture and subculture on the village consumer behaviour, and how you will consider as specific determinant of consumer attitude. Visit any of your village, study the village consumer behaviour and prepare a detailed note.

Model Questions

1. How family members, influence, consumer decision making of product ?
2. How the demographic factors of family impacts the consumer decision making.
3. How the social class, social status influences the buying decision of Jewelry; or a costly car.
4. Role of Family group in consumer decision making
5. Explain the concept and meaning of opinion role. Explain his role in promoting a product in a market.
6. What are the various types of influences, impact on consumer behaviour
7. Explain the various influences of culture on buying behavior.
8. Attitudes vs culture of rural consumers

Chapter 4 Consumer Decision Making Process

Introduction

Consumers decision making play a key role in getting the product marketing and promoting the sales. So many factors motivate the consumers to purchase a product to satisfy their needs in this. The concept of 'consumer dissonance' is brought to light. Actually, this is not the new concept. Every consumer, Customer experiencing while in marketing on his approach a marketer for the purchase of a product or service, keeping in view of his limitations, economic constraints, availability substitutes, he gets confused, with his oscillating nature, to have that product. State of Inconsistency mind of consumer not co-operates him to proceed further in taking the decision for the purchase.

Therefore, consumer decision making is a complicated process, so many circumstances may cause and many factors may influence a consumer to purchase a property, product or a service. This evaluates decision making process in selecting the choices. And it helps the students to understand the concept of 'Consumer Dissonance' in realizing core issue of the process of consumer decision making.

'Consumer Dissonance' is a state of inconsistency, oscillating state of mind of an individual consumer, customer or an individual in decision making process of purchase a property, product or service. Consumer is highly complicated and with so many complexities. Many factors, circumstances, he has to consider, demographic factors along with his purchasing power, financial position, opinion of his friends, family, his needs, availability of substitutes with lower prices, brand, quality, sizes, durability and suitability of the product,' climatic and health, physiological requirements etc.

Objectives

1. To understand the concept of consumer dissonance.
2. To estimate the problems in decision making - solutions to overcome.
3. To know the various stages in Dissonance.

4.1 Consumer Dissonance

Dissonance – Purchase Decision

With the above factors, the decision making is not so easy. There may be a confusion, inconsistency, lack of judgment, capability, rational thinking, firmness, in decision making may cause 'Consumer Dissonance'.

In the marketing, the marketers dump so many brands, quality, substitutes or alternatives, various company products of same materials with price variations. He exhibits the material to the consumers, aspirants. In a large crowd of purchasers buyers and aspirants, it is very difficult to select a material of his own choice.

Selection process is very difficult. No time for the selection, of appropriate product. Many a times with compromise consumers bought the products without satisfaction, after getting vexed in the crowd marketing situations and in the seasons. This is the impact of 'Consumer Dissonance'. To overcome this concept, consumer must have good understanding, knowledge on the selection of product, judging of quality, price negotiation, convincing nature etc., selection of manufacturer, brand, goodwill of Product Company must also keep in mind.

Impact of Consumer

Consumer Dissonance is a risk factor. It's about defining the acceptable level of risk a consumer takes in order to receive the benefit of the product, which lower higher quality, costly, cheaper or simply fear of missing out.

Dissonance in marketing caused a complexity of tension within a consumer considering a purchase of a product. This is an inconvenient, uncomfortable feeling for the consumer and generally leads to the buyer taking her money elsewhere of experience difficulties in purchasing. Product manufacturers, marketers will remake and eliminate consumer dissonances and encourage positive emotions when purchasing their products. This leads to longer-lasting business relations and raises the chances of repeat purchases in future.

Types of Consumer Dissonance

Pre- Purchase Dissonance

This is when one gets confused with many selection choices available and in unable to buy with the number of choices available land avoids the risk of not buying the best.

'Post Purchase Dissonance'

This occurs when the product is not up to one's expectations and does not match with the needs. This causes anxiety and dissatisfaction with the product. Unsatisfactory status of working of product, not worthy for the usage leads to unhappiness with the product. This is known as ' Post Purchase Dissonance', because it is experienced after the purchase.

Cognitive Dissonance

This occurs when tension arises between consumer, individual attitudes, behavior or beliefs and a decision that contradicts those pre- existing modes of thinking. Example for cognitive dissonance in Buyer's remorse (felt guilty of the selection of choice in purchase decision making) and later feel repentance.

Marketing Dissonance

Normally it happens when multiple product lines as well as a competitor's products. Marketers work to combat dissonance by providing consumers with ways of narrowing down product and separating products from the competition. Advertisement and promotional companies can help in raising the customer's confidence.

Consumer Behavior on Purchaser

Consumer buying behavior is a very complicated, critical subject study of an individual or a house-hold that purchases the material products or services for personal consumption. The process of consumer buying behavior is shown in the following figures.

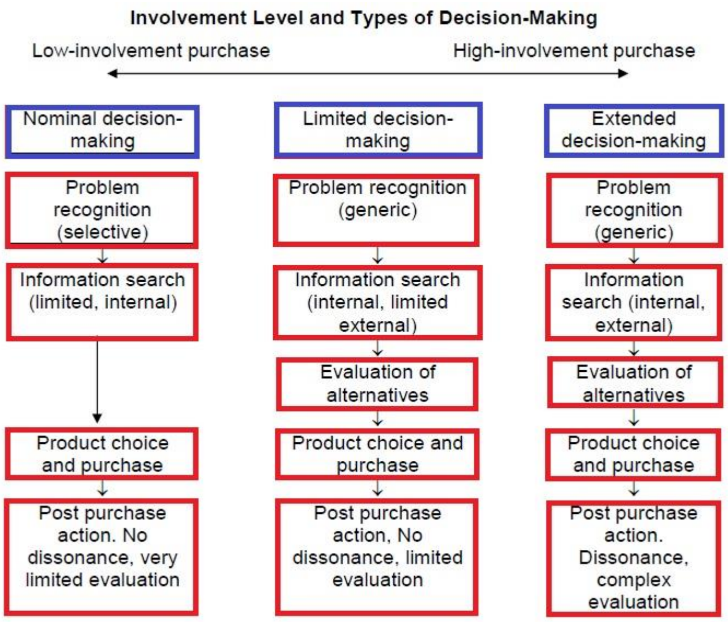

Fig 4.1 Level of Involvement of Purchase Decision Making

Dissonance Fight Tools

Advertisements, Publicity campaigns, Assurances, after sales service Warranties, Guaranties, continuous trusted relationships between consumer and marketers can reduce fear complex of the consumers, Frequent monitoring the effects of Post Purchase, get back of substandard products sold, replacements, Exchange of unused products from consumers also avoid consumer market dissonance. When a consumer felt convenient experience about post purchase product, there is a less or lower chance of marketing Dissonance.

Consumer Dissonance is a state of inconsistency mind, confusion stating of attitude while is selection of products, materials, consumer with his wavering mind, oscillating attitude, confused, in taking purchase decision are mentioned in this z. Various types of Dissonances are mentioned for the understanding of the concept. Dissonance concept, now to overcome, various fighting tools, remedies, solutions were given to help a consumer in taking decision.

To Do Activity

'What is the 'Consumer Dissonance. 'Explain the concept, types of dissonances, and suggest the remedies in it. Overcoming prepare a comprehensive report stating its impact.

4.2 Decision Making Models

Consumer, Customer, or Buyer or individual are the same words which give same meaning. Person in need, must purchase and consumes to satisfy the needs. Consumer buying behaviour is a complicated subject study of an individual or a house hold that purchase a product for consumption. The process of buying behaviour in decision making is the subject discussed in this unit. How the decision making will be, stages in decision making, motivational factors for decision making process are discussed in this unit.

The consumer decision making is a complex process which involves all the stages from problem recognition of post purchase behaviour. The consumers have their own needs in their routine day to day life, they are to be fulfilled, through a decision-making process. While making decision, consumers must consider so many factors of the nature product, price, place, quality, brand, size, has purchasing need and financial affordability etc., After satisfying all the factors, check the suitability of product for his needs, he decides. His attitudes behaviour, influences of family, friends, relatives and social class are also to be considered for the purchase.

Stages in

Many researches, academicians, scientists and economists felt that a consumer purchasing theory involves number of stages. It involves the stages of search and purchase of product of service and process of evaluation the product or service in the post purchase product. There are five stages model initially proposed by the researches and economists, considered to be one of the most common models of and it involves five various stages. These stages are.

- Recognition of need or problem
- Information search
- Comparing alternatives
- Decision and finalizing
- Purchase evaluation and post Purchase

This simple model clearly explains how the consumers make a purchase decision.

Fig 4.2 Consumer Decision Making Process

1. Problem Need Recognition Identification of the need or a problem is the first stage of the model. Further stage that the recognition of a problem or need depend on different situation and circumstances such as personal or professional and this recognition results in creation of purchasing idea. For example consumer may recognize a need to buy a computer when there is such need or think alternative for ‘ laptop’ for the convenience sale to carry it use it in different places which is convenient compared to desktop computer. Human needs into two categories depending on their nature. The following categories are mentioned. Psychological and functional or physical needs, according to Solomon at all (2006). The author sate that the Psychosocial need are the outcome of economical feeling of consumers whereas functional or physical needs are usually are the results of necessity.

2. Information Search The next stage of the model is searching of information. After the recognition of need, the consumer is likely to search more product related information before directly. Information, feedback, of the usage of product can be called from Colleagues, Peer friends, neighbors and family members as another important source.

3. Evaluation of Alternatives After gathering needy information at the first stage the consumer gets into comparing and evaluating that information in order to make right selection choice. In this stage consumer analyses of the information obtained through the search and considers various alternative products and services compares them according to the needs and wants.Moreover, another various aspect of the product such as size, quality, brand, and price are considered to the most important state during the whole. During the evaluation process, factors such as age, culture, taste and budget have all impact on the evaluation by the consumer.

4. Pre-Purchase Decision After the searching of the information, and evaluation of alternatives is over, the consumer making the purchasing decision and in this stage, it is considered to be the most important stage throughout the entire process. In this stage, the consumer makes the purchase decision which has been classified in three different types; Planned purchase, Partially, purchase and Impulse Purchase.

5. Post Purchase Evaluation

The final stage is Post Purchase evaluation stage. This stage, may not be considered as important to the companies. Once sold, the product companies To Do Activity was over. Depending on the working experience to the consumer, he evaluates the performance of the product. This evaluation impacts on further sales of the product. Therefore, the companies must monitor after sales market survey of the product and consider the experiences of the customers, product is not satisfactory, can call back from the consumers to keep trust, and can promote future sale with the improved trust and goodwill.

If the purchase made by the consumer experienced with satisfactory results, he will further show interest in purchasing the same product more and more times. If the negatively experienced, by the consumer, may not go for future purchases.

Motivational Factors for the Purchase of Product

The consumers take purchase decision keeping on so many factors as shown below.The study of consumer behaviour helps in understand how individuals s make decisions to spend their available resources like time, money and efforts while purchasing goods and services. The normal consumer explaining, faces what to buy, why to buy, where to buy, when to buy, how to buy, how to use, at what price to buy and what quality, brand size to buy. Answers to the above questions leads to purchase decision making.

Factors to Determine Purchase Decision

Psychological needs, Physiological needs, convenience sake, family social status, demographic factors of the consumers, Social Class, Culture, sub culture , reference group, age, income, sex, environmental, size, quality, brand, price, substitutes, availability and speculative reasons, motivation, family needs, reference, opinion of the leaders, beliefs, traditions, customs etc., are the many factors are to be considered to take purchase decision. Consumer satisfaction also works, impacts on future purchase decision making. These are the motivational factors to make purchase decisions.

Case Study

Hair cleaning/ washing products, cosmetics, Hair Dying products were introduced in so many varieties, brands to the rural / urban consumers marketers, manufacturer, wants to capitalized their investment on a culture where rural women take hair grooming extremely seriously on consumer goods companies. A Consumer manufacturing company introduced 2+1 Shampoo with conditioner. Company representatives thought that women would be benefitted with the product because of its use and quality working condition. Further the product was developed by various other manufactured companies for example Hindustan Liver limited developed the product keeping the women population in the rural villages., with a low price i.e 2+1 soap as bonus that a product that cleans the hair and body.

Philips company manufactured radios, colour TV, batteries since 1993. Their market share steadily growth 25 % recorded from 1995 to 2001 for more than their 18 brands. The result is that, rural sales have become the new trends of growth for Philips India Company Ltd.,

To Do Activity

1. Shampoo + Conditioner consumer durable goods manufacturer keeping interests of rural women consumers – prepare a case study and prepare a report.
2. How the purchase decision influenced by the various motivational factors? What are factors impacts the consumer decision making - Prepare a case study report of two wheeler bike

4.3 Consumer Behaviour Models

Study of Consumer Behaviour Models, reveals the consumer attitudes, opinions, perceptions, various Models, have been studied by different authors and explained consumer attitudes in decision making process. Different social sciences like economic, Psychology, Sociology, and Anthropology have influenced the buyer behaviour studies, selected consumer behaviour models are given in this to have an idea, concept mentioned in this model. Economic Model, the learning models, the Psycho analytical Model, Socio- Anthropological Model, Social Psychological Model, Nicosia Model, Howard Model, Sheitu Model and EKB Model etc., are the important consumer behavioural - attitude Models are to analyses in this for understanding different consumer behavioral attitudes. Through this approach of thestudents are able to analyze themselves to estimate the consumer behaviours in decision making process under various circumstances .

This study also involves various consumer behaviour decision making Model is a specialized subject topic and a selected reasonable concept. Consumer Behaviour, perceptions and their attitudes are ever changing concept and it is very difficult and complex subject. It is not possible to estimate and assess the pulse of consumer behaviour easily. So many of market searching knowledge, motivational factors, their Psychological aspects and Physiological needs and other influencing components are to be studied, to understand the behavioural consumer under various circumstances. In this lesson some of the selected consumer behviour decision making models are to be studied and analyzed.

Consumer Behaviour is a Dynamic Process

The American Marketing Association defines consumer behaviour as "the dynamic interaction of cognition behaviour and environmental events by which human being conduct the exchange aspect of their lives. Consumer behaviour involves the understanding that acquisition, use and disposition can occur over time in dynamic sequence. In other words, the study of consumer behaviour is the study of how individuals make decision to spend their available resources (money, time, and efforts) on consumption related items.

The consumer behaviour is " the study of individuals groups or organizations and the processes they use to select, secure use and dispose of products, services, experiences or ideas to satisfy needs and the impacts that these processes have on the consumer and society" Behaviour occurs either on the individuals, or in the context of a group, example friends influence what kinds of cloths a person generally wears or an organization as to what services the firm should use.

Buyer Behaviour Models or Consumer Behaviour Models

In this section, let us discuss the consumer behaviour with the buyer behavioural models. The main study of various models enables the marketers to form a strategy to motivate the consumer. Following are the some of the important models of consumer behaviour.

A. Economic Model of Man

Alfred Marshall and other classical Economic Scientists were the first professional group to construct the theory of buyer behaviour. This theory holds that purchasing decisions are the result of largely rational and conscious economic calculations. The individual buyer seeks to spend his income on those goods that will deliver satisfaction according to his taste and relative prices. Economic Man Model of consumer is uni-dimensional. According to their model we have the following predictions about the buyer behaviour.

a) Expecting to buy higher quality product for lower price effect
b) Higher the purchasing power, more product is purchase – income effect
c) The lower Price of a substitute product satisfaction, suitability for his needs the less quantity purchase of original product.
d) The higher the promotional expenditure, higher the sales will be achieved.

Economic Man Model of buyer behaviour give in adequate explanation of how a consumer behaviour on different occasions. Economic Man Model deals only with one aspect of the individual behavioral viz., income.

B. Learning Model (Pavlovian Model)

This Model has its origin to the experiment of the Russian Psychologist Pavlov, who rang bells each time feeding a dog, soon he was able to induce the dog to salivate by ringing the bell whether or not food was supplied. Pavlovian concluded that learning was largely an associate process this experiment was conducted on sets, other animals and on people also.

C. The Sociological Model (Anthropological Model)

According to the Sociological Model the individual buyer is influenced by society, intimate group as well as social group classes. Buyer buying decision are not totally governed by utility; consumer has a desire to follow and fit it with his immediate environment.

D. The Psycho Analytical Model

The Psycho-analytical Model drawn mainly from Freudian Psychology. Sigmund Freud added a new dimension to consumer behaviour theories by introducing psychological elements of the consumer into their decision making.This model described most superior and innovative implications to the marketer for designing a service massage that suits the psychological needs of the consumer. The Psycho Analytical theory helps the marketers to understand individuals' real motive for purchasing a particular service or brand.

E. Socio- Psychological Model

This theory is proposed by Veblen in the context of behavioural aspects to the economic and personality variables. Consumer behaviour of any person can be understood by socially and place of living. These social influences exert pressure and mould individual behaviour. Veblen saw a man primarily as a social human being confirming of the general forms land norms of the culture surrendering him. The sub culture, norms, reference groups, membership social class, family and surroundings also mould his behaviour.

F. Howard and Sheth Model of Buyer Behaviour

This model is an integrated model. It assumes trouble shooting, problem solving method in buying and add more inputs, outputs of Systems approach in buying. This model shows the process and varieties influencing the buyer behaviour before and during the purchasing process. It emphasizes the key variables

a) **Perception**
b) **Learning**
c) **Attitude formation**

It explains how consumer compares different products and selects the best one which fits for his needs.

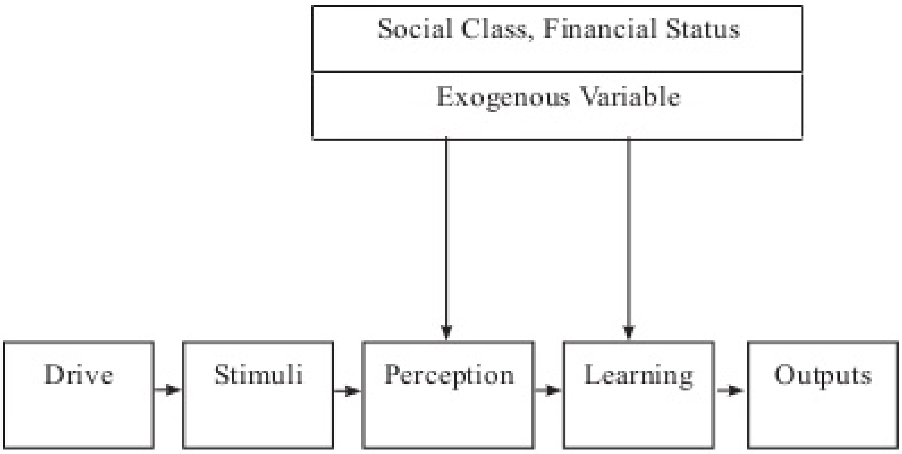

Fig 4.3Howard and Sheth Model of Consumer Behaviour

Motives are based on needs insisting on satisfaction motives that lead to good directed behaviour satisfaction motives ignite a drive for a classification of alternatives which can offer satisfaction a drive to search for and secure information stimulus input variables are marketing programmes and social environment. Inputs are stimuli, e.g. a) products, b) Commercials c) product information**.** Buyer bahaviour is influenced by motives, attitudes, perceptions , social factors and personal factors.

G. E.K.B Model Engle – Blackwell Miniard Model

This model was originally developed in 1968 by Engle, Kollat and Black well followed by numbers of researches on this model. Recently Miniarrd has contributed in conjunction with Engle and Black Well. It stands as one of the most popular representation of buyer behaviour. The model is summarized in four section.

a) Decision making stages
b) Information out-put
c) Information processing and
d) Variables influencing the decision process

These stages are motivation and need recognition, search for information alternative evaluation, purchase and outcomes.

H. Bettman's Model

This model of buyer of choice portrays that buyer has limited capacity for processing information. The Bettman's model suggest that the buyer employs simple decision making. This model consists of a s series of interrelated flow charts that depicts various dimensions of the buyer choice process.

'Economic Model of Man' holds that purchasing decisions they are largely rational and conscious economic calculations. The individual, spends their income on those goods that will delivery satisfaction. The Learning Model - Pavlovian Model, has its origin to the experiment of Russian Psychologists. They concluded that learning was largely an associate process. In Anthropological Model the individual buyer influenced by society intimate groups as well as social groups classes. Howard and Sheithu Model inan integrated Model is a trouble shooting and problem solution model in buying by adding more in puts; and out puts. Other models are added new dimensions to consumer behaviour, introducing Psychological elements of the consumer into their decision making.

To Do Activity

What do you understand by various consumer Behaviour Model ? How you have been influenced by those Models, what impact you have, on those consumer Models? Explain and prepare a detail report.

4.4 Organizational Buyer Behaviour Model

Consumer behaviour plays an important role in decision a making of acquiring consumption, decision making process -- disposal of the product or service - classification types of consumer given as follows.

1. Organizational (Industrial) Consumer Behaviour
2. Industrial Consumer Behaviour

Features and nature of the above varieties are to be elaborated in this unit. Understanding buyer behaviour play an important part in marketing. Consumer buying behaviour is the study of an individual, organization or a household that purchases products, for personal consumption. Consumer behaviour are classified two types.

1. Industrial or Organizational Consumer Behaviour
2. Individual consumer Behaviour

In this main study concentrating on organizational buying behaviour has many distinctive features.

- First, it occurs in a formed organization which is caused by budget and cost
- Second in certain conditions, Decision making process may occur and this is not possible in individual buying behaviour
- Finally, conflict occurs and they are hard to avoid in the joint decision-making process.

In order to understand the organizational buying behaviour, the parties who involved in the buying process, and what are the expectations. At least, purchasing agents engineers and final consumers will participate in the buying process.

The potential of different decision maker is different in different situations. The organization background information sources, vigorous search, information and expectations, satisfaction of previous purchase.

The next part of the model is regarding the 'industrial buying process', independent decision which means that the decision is delegated to one department. Joint decision process. The product specifications, and company brand, quality, size, weight, etc. specific factors will determine the purchases. While in purchasing decision making process consumer behaviour study helps in understanding how individual, organizational make decision to spend their sources like income time, money and effort.

Identification of Organizational Buyers

Unlike the consumer buying process, multiple individuals are usually involved in making B2B buying decisions. A purchasing agent or procurement team (also called a buying center) may also be involved to help move the decision through the organization's decision process and to negotiate advantageous terms of sale.

Trading organizations define and enforce rules for making buying decisions with purchasing policies, processes, and systems designed to ensure the right people have oversight and final approval of these decisions. Typically, more levels of consideration, review, and approval are required for more expensive purchases. The following questions would arise:

1. Who are Involved in B2B Marketing or Selling?
2. Who will take part in the buying process?
3. What criteria does each person use to evaluate prospective suppliers?
4. What level of influence does each member of the process have?
5. What interpersonal, psychological, or other factors about the decision team might influence this buying process?
6. How well do the individuals work together as a group?
7. Who makes the final decision to buy?

Because every trading, business organization is unique, the answers to these questions will be different for every organization and every sale. Marketers should understand their target segments well enough to identify commonalities where they exist and then create effective marketing to address the common roles and decision makers identified.

For example, a technology company selling a travel- and expense-management system should expect decision makers from several departments to be involved in the purchasing decision the HR department (to ensure the system is user-friendly for employees and compatible with company travel policies), the accounting department (to ensure the system is a good complement to the company's accounting and finance systems), and the IT department (to ensure the system is compatible with the other systems and technologies the company uses). Marketers should focus first on managers in the group most responsible for travel and expense policy—typically the HR department. As the company generates serious interest and leads, marketing and sales staff should take the time to learn about decision dynamics within each organization considering the system. Marketing and sales support activities can focus on getting each of the essential decision makers acquainted with the product and then convincing them

Features of Organizational Buyers

B2B purchasing decisions include levels of complexity that are unique to organizations and the environments in which they operate.

Timing Complexity

The organizational buying decision process frequently spans a long period of time, which creates a significant lag between the marketer's initial contact with the customer and the purchasing decision. In some situations, organizational purchases can move very quickly, but it is more likely to be slow. When personnel change, go on leave, or get reassigned to other projects, the decision process can take even longer as new players and new priorities or requirements are introduced. Since a variety of factors can enter the picture during the longer decision cycles of B2B transactions, the marketer's ability to monitor and adjust to these changes is critical.

Technical Complexity

Organizational buying decisions frequently involve a range of complex technical dimensions. These could be complex technical specifications of the physical products, or complex technical specifications associated with services, timing, and terms of delivery and payment. Purchases need to fit into the broader supply chain an organization uses to operate and produce its own products and the payment schedule needs to align with the organization's budget and fiscal plans. For example, a purchasing agent for Volvo automobiles must consider a number of technical factors before ordering a radio to be installed in a new vehicle model. The electronic system, the acoustics of the interior, and the shape of the dashboard are a few of these considerations.

Organizational Complexity

Because every organization is unique, it is nearly impossible to group them into precise categories with regard to dynamics of buying decisions. Each organization has a characteristic way of functioning, as well as a personality and unique culture. Each organization has its own business philosophy that guides its actions in resolving conflicts, handling uncertainty and risk, searching for solutions, and adapting to change. Marketing and sales staff need to learn about each customer or prospect and how to work with them to effectively navigate the product selection process.

Organizational Purchasing Factors

Purchasing decisions, especially big-ticket expenditures, may be influenced by the organization's strategies, priorities, and performance. Generally the decision makers and the providers competing for the business must present a compelling explanation for how the new purchase will help the organization become more effective at achieving its mission and goals. If a company goes through a quarter with poor sales performance, for example, the management team might slow down or halt purchasing decisions until performance improves.

As suggested above, organizational structure plays a central role determining who participates in the buying process and what that process entails. Internal organizational politics and culture may also impact who the decision makers are, what power they exert in the decision, the pace of the buying process, and so forth. An organization's existing systems, products, or technology might also influence the buying process when new purchases need to be compatible with whatever is already in place.

Consumer behaviour is very difficult to assess in processing that reflects the totality of consumer decision with respect to acquisition, consumption and disposal of goods and services. Consumer behaviour is "The study of individuals, groups, or organizational and the process they use to select, secure use and dispose of products, services, experiences of ideas, to satisfy needs and the impacts that these processes have on the consumer and society"

Behaviour occurs either for the individual, or in the context of a group, or an organization. The field of consumer behaviour is the brand study of individual, group of organizations and the process of decision making. Consumer Behaviour has become an integral part of strategic market planning. It is also the basis of the approach to the concept of ' Holistic Marketing. The belief that ethics and corporate social responsibility should also be integral components of every marketing decision.

Company organization as consumer its attitude in decision making , in the marketing To Do Activity, trading or few materials, spare part, customer relations, trading negotiations are the important aspects will deal through various links.

Summary

Consumer Behaviour, Organization behaviour and their attitudes in Decision making of marketing, trading To Do Activity are the main topic covered in this. Features, nature of attitudes depending on the individual consumer, organizational consumer attitudes or behaviour. The determinants, factors to be kept in mind in decision making. Decision making. Decision making process its complexity has been discussed in this unit. The behaviour of consumer in taking decisions mainly has been considered in this unit.

To Do Activity

Consumer Behaviour, Organizational behaviour concepts, in decision making process in purchasing, trading activities – are the complex phenomenon -- Explain and prepare a case study in this topic.

4.5 Influences of Organizational Buyer Behaviour

This reveals the impact of Internal influences, External influences aspects on . How the customers, consumes feel stress of certain influences. Needs desires, necessities, convenience, facilities, need of luxuries, age , sex, gender, family , social class, customers, traditions etc., also influence to Consumer decision making . Abraham Maslow theory of needs prioritized, in taking various decisions. Basic needs, safety needs love and affection, Psychological, Safety and stability. Comfortable, conveniences, luxuries items. Esteem level, status prestigious needs given last priority in its decision making. The love facts are to be discussed in this as motivating factors/ process. While a large Public Limited Company with Decentralization will tend to have joint decision process.

Influencing Factors onis very complicated phenomenon and it is very difficult to understand as there are many different types of buyers, some being those basic impulse buyers and some are those who use a totally intense system and make thorough investigation before making a purchase decision. While these different types of buyers take their purchase decision in different ways, there are 7 important factors that influence all the buying decisions.

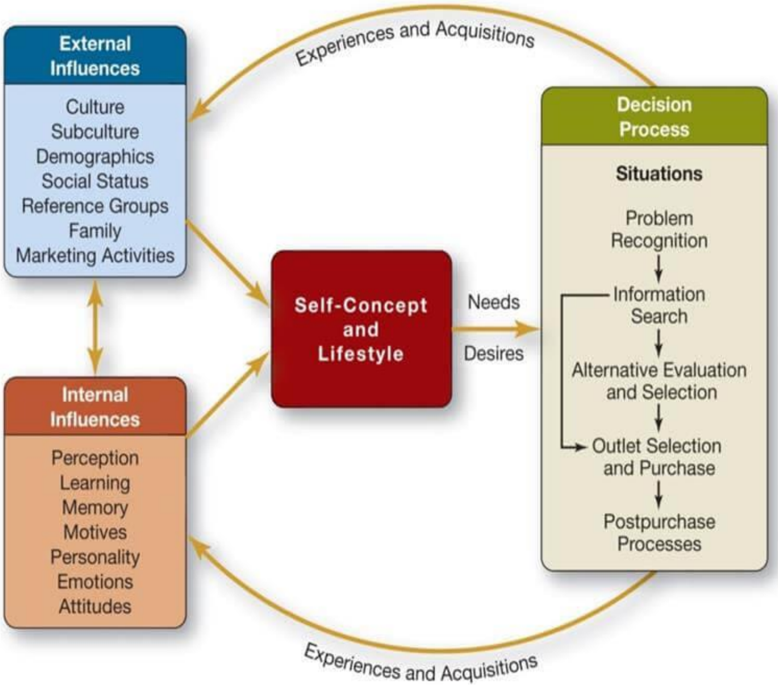

Fig 4.5 A Individual and Industrial Model

For making strategic decisions the marketers have to identify the buyers who make the final buying decision it is truly a big t ask before the marketers to identify the target buyers of the particular service.

1. **Influences** Several people may be involved in a particular Purchase decision but all of them are not consumers. A person who has influence, whose views of advise is given wheightage while taking the final decision.
2. **Initiator** the person who is the first to suggest or think of the idea of purchasing a particular product or service.
3. **Buyer** The person who actually buy the product or service after making payments.

4. **Decider** The person who finally takes the decsions of whether to buy, what to buy, how to buy and from where to buy
5. **User** The person who actually uses or consumes to product or a Service.
6. **Gatekeepers** Finally members who control the flow of information about a product or service into the family.

Sub Classification of Internal Influences and External Influences

Internal Influences Factors that are part of the buyer an individual, demographic and personal factors, age, education, economic position, status, self concept religion, language, Psychological, behavioral factors, belief, attitudes, motivation, perception and learning.

External Influences A particular Buyer Social environmentalists since there are two broad groups of which an individual is a part influence of intimate group and influence of the broad social class.

Environmental Influence Information from a variety of sources; The rational buyer is exposed to v various sources of Information/situations these sources of information about new products and services., improved versions of existing services, new uses for existing service and so on. These could be inhibitors in a buying process such as price, brand, availability, time place or other determinants.

Internal Influences

Table 4.6 Internal Influences

Demographical	Personal features of individual buyers i.e age, education, influence
Population size	Population of country, engaged in Agriculture, Occupation in village
Age and life Cycle	Specific age group, interested to purchase different goods and services
Sex gender	Male, Female group of consumers
Material Status	Married status of family, Social class their needs
Income	Income of family group people, wages, salaries, dividends
Occupation	People’s family accusation influences the buyer consumption patterns
Economic Condition	Influences the Consumer Consumptions decision making
Psychological, Physiological decisions, needs	Also influencing the Consumers to make the decisions

External Influencing Factors

We define situational influence as all those factors particular to a time and place that don’t follow from knowledge of personal stimulus.

Table 4.7 Personal Purchase Stimulus

Purchase Situation	Selection of a purchase of goods, services, situation, understanding how purchase situations influence the customers
Communication situation	The Situations in which Consumers receive information has an impact on their behaviour
Consumption, usage situation	Usage, lifestyle situations of goods, services to consumers

Situations Characteristics

- Physical Futures, surroundings, environmental features, weather conditions
- Social Surroundings Individuals of outside present during the consumption process. People actions are frequently influenced by those around them.
- Temporal perspective Time as situational factors can manifest itself in a number of ways
- Task definition Task definition is the reason the consumption To Do Activity is accruing the major task dichotomy used by marketers between purchases for self use vs gift purchaser.
- Antecedents status features of the individual person that are not tasting characteristic such as momentary moods or conditions are called antecedent states.

Internal influences, External influences impacts the decision making of purchaser of goods and service, Consumer and customers Decision making is therefore highly difficult task to consumers, because it depends on so many factors.

In this how the of Consumers influenced by internal and External factors, has been elaborately been discussed. Classification, sub classification of influences of consumer behaviour has been explained to create awareness therefore, marketers, business, traders' merchants. Keep in mind so many factors while marketing their products. Demographic factors, groups, family, social, class, age, income age advertisement, publicity. Abraham Maslow theoretical needs, desires play a dominant role in.

To Do Activity

How the influences have been classifieds sub classified, and what are their impact on decision making of consumers, Consumer Behaviour - Impact of various influences, factors, and motivating in marketing the product and service – Prepare a detailed note /report.

Model Questions

1. What are various Models of Consumer Behavior Decision Making – Models? Explain the nature and feature of each model.
2. Explain the nature of 'Consumer Organizational Buyer Behaviour' in marketing decision making process.
3. What are the types of influences you have to keep in mind in purchase decision making?
4. Identify target buyers - Explain their nature and behavior from rural perspective.

Chapter 5 CRM Concept & Components

Introduction

Business, marketing, sales, promotions mainly linked up with customer, consumer and satisfaction. The present day marketing development completely with the customer's expectation. Consequent on the market survey after previous batch production, the business people and marketers study the customers experiences, suggestions, modifications, change if any, consider them in the next batch of production. Customer oriented, customer centric market, whatever demanded, expected, business firms must supply. Moreover, the business people must always maintain good relationship and keep in constant touch with customer groups through market survey authorities and advertisement agencies. Customer relationship management (CMR), now a days a major subject to the business and market authorities. A separate department maintained in the business organizations to keep in touch with customer groups.

Customer Relationship Management is the combination of business practices, strategies and technologies that the companies will use to manage and analyze customer views, opinions through continuous interaction with customer groups, customer care center'. The main goal of customer relationship management (CRM) is to improve customers service, maintain good and constant relationship with them. Through that CRM, not only retention of existing customers, and attract more customers and promotion of sales. CRM department compile customer data through different channels or sources of contract between customer and the company which could include company's website, telephone, mobile access, live chat, direct mail, Social media (WhatsApp, face book and twitter etc.,)

Objectives

1. To understand the fundamental concept of CRM marketing and definition, features and advantages.
2. To the components of CRM
3. To understand its evolution, origin and growth in the business firms.

5.1 CRM-Evolution-Development

CRM – Evolution and Its Growth

As, observed since long back, customers needed are very much to day organizations, but then competition struck and customers got empowered with the power of selection of choice. Today, business depend upon people to people and business to business (B2C) (B2B) interaction and the game has changed for many from B2C to C2C. There is no room for obsolete communication channels and out dated customer management technologies. In today's customer oriented market where strong relationship with the customer is the corner stone for building loyalty. The evolution and growth of CRM, provides a line of sight into the journey of the relationship between customer to organization.

In customer oriented market, the study of customer's pulse, expectations of customers, strategy of customers are not so easy task. For maintaining good rapport with the customers, customers data must be maintained i.e. Data mining technology, Data where house to build strong customer relationship model. Al customers are equal mind which spurred in evolution of customer relationships management - why and what for the evolution.

CRM is a broadly recognized, widely implemented strategy for managing a company's interactions with customers, client, and Sales prospects. It involves using technology to organize automate and synchronies business processes.

Principally, sales activities but also those for marketing customer service and technical support. The overall goals are to find attract and attain or with new customers, nurture and retain those the company already has existing customer feedback into the folder and reduce the cost of marketing and client service.

CRM denotes a companywide business strategy embracing all client facing departments and even beyond. When an implementation is effective, people processes and technology all work together to increase profitability and reduce operational costs.

CRM Components

CRM and the Data warehousing the key challenge for business today is implementing an information infrastructure that enables rapid response to competitive pressures and the capability to service into the future. Corporate strategies that impact customer relationships.

Fig 5.1 CRM Components

Most business organizations with a large number of customers to manage them, frequently in the thousands or millions require a combination of sophisticated technologies to implement CRM. One of the major contributing technology areas to 'CRM is Data warehouse' which is facilitating handling of a rouge of CRM oriented functions like Data storage, Database queries value analysis mathematical methods for predictive analysis, analytics Thus for a CRM to evolve data warehouse have become core component of doing business as well as building block for a corporate CRM strategy. This technology is a pre requisite for the level of one-on-one customer relationships that can turn information into a company's most important source.

CRM Management As shown in the above figure CRM management includes and deals with

(a) Customer Care
(b) Documentation
(c) Customer Analysis
(d) Customer Acquisition
(e) Customer Public Relations
(f) Communication with Customer
(g) Customer Database
(h) Maintenance Customer loyalty

Challenges in CRM and the data warehouse the key challenge for the business and market agencies today, is implementing an information infrastructure that enables rapid responses to competitive pressures and the capability to survive into the future corporate strategies that impact customer relationships and managements and application of customer data to business operation CRM for short are dependent on information superstructure comprised of various technologies that enable organizations to store, access, analyze and manipulate vast amount of customers data. Estimating the customers' expectations, in the present competitive business world is also big challenge, in view of the availability, accessibility of customers data even to the competitors.

CRM and marketing information once CRM took shape of post evolution, the next challenge as to have a frame work, which will use CRM to provide the automation and analytical insight to move more prospect relationships into customer relationship and retain existing customer relationship.

CRM Road Map Mile Stones

A Typical CRM Road Map will have the Following Mile Stones

1) Analysis of the current state of customers interactions
2) Predicting the future course of customer interactions
3) Developing the plan of actions to meet the predicted future course.
4) Building and presenting the business case to secure CRM project funding to attain the above road map need for a marketing automation system.

Marketing Automation

It is a software powerful tool that can help an organization to become more efficient conduct. Successful marketing companies reach the most powerful customers, build long lasting relationship, better understanding product and market dynamics and measure the productivities of marketing operations. Marketing Automation is a software. It is at its basic model level was developed to help marketers better target and execute one to one communication with key prospects. CRM consolidates a great of information about prospects and customers.

Marketing automation software unique design helps in managing relationship with the Past, Present and future, clients, consultants, contractors and even competitors to ensure that no opporty for acquiring a new project is overlooked.

Core Areas of Functionalities Marketing Automation system

1. Contact Data Integration
2. Response Management
3. Lead Management
4. Campaign Automation
5. Marketing business Intelligence

The present CRM, fundamental conceptual ideas has been projected in the student mind every business organization today using it is a powerful tool in campaigning their products and services to the customers. Latest technologies, marketing Automation software was prepared and using maintaining customers data base, data warehouse. However some of the challenges also facing the business organizations with the advent of technology and ease of using it today there are various channels to reach customers based on their preference and liking channels today like include email, SMS, call centre, direct mailers, Teli collars, Print media TV, radio, billing system, post and ATM etc., All channels are not applicable to all verticals, but most of them are example email, SMS or call centers.

The evolution of marketing channels enabled personalized communication in various ways example promotions personalized offers, marriage anniversary, functions birthdays functions, wishes etc., to keep in touch with customers for ever. It is Information and Communication Technology revolution in communication and marketing strategy of business analysts. The revolution in the information and communication sector is making the world ed. In today's world information and communication technology (ICT) is a key parameter for business as well as economic development. Though there are many strategic models of campaigns, the right selection of media, system is a challenge and its usage is also a big problem in the present complex and competitive business world.

To Do Activity

What is CRM fundamentals concept, its significance strategy of CRM is its essential to promote business, market and to reach customers to improve business -- write a report as case study.

5.2 Challenges in Implementing CRM

In the first chapter it has been elaborated that the evolution and growth in implementing the customer relationship management in the business organizations. The evolution and growth of CRM, multi channel integration, and customer response management, provides a line into the journey of relationship between customer and organization. Destination of CRM is not so easy to attain due to various challenges which started from quality of information to the way in which information was stored. In view of the facts, this gives a clear picture on the functioning of CRM problems and challenges. Also suggested the solutions to the problems and challenges moreover explained.

Various Functionalities of CRM

The main challenge for organizations was identifying the best way Communicating with the customers to motivate and in promote the marketing of their products and services. If properly communicated with the customers, they will get the appropriate offers at the right time with the advent of technologies and ease of using it. Today there are various challenges electronic, social media to reach the customers based on their preference of media selecting SMS alerts, cell contacts TV adds, mobile adds etc., one of the best example of customers approach of marketers.

Many companies are now facing so many challenges while implementing CRM system in their market division. Customers oriented service companies frequently manage their customer relationship haphazardly and unprofitably. They are effectively or appropriately use their connections and contacts with their customers. Due to misunderstands of misinterpretations of CRM system analysis, many CRM analysis shown adversely with their old CRM data, outdated CRM data.

Many studies show that customers are frequently frustrated by company's inability to meet their relationship up to their expectations. For example TV dish connection - not able to giving quality telecast the programmes, net connection agencies Hath way , Tata sky. Airtel, Idea cell operating operators - they are not maintaining quality and proper service. Though complaints given, they are not properly responding and taking care of customers problems. Frequently the customers have been exploited by the marketers, and manufacturers, with poor quality adulteration, Over pricing with less quality, black marketing, creating artificial scarcity, etc., Though the marketers depends on customers purchasing power felt, the customers are king.

Customers oriented marketing, customer centric customers, consumers are not taking care and continuously cheating and deceiving in all aspects.

The following are the General Problems and Challenges of CRM and Solutions

1. When the new software system of CRM introduced, staff are reluctant to us the new system of CRM as they are in practice of old system of CRM software.
   Solution Proper counseling, guidance and appropriate intensive trainings should be provide with user friendly – also monitor closely, with offerings of staff incentives for positive results.
2. The system which was already in practice may not attract the customers and feel nuisance for customers. Customers wants personal contract.
   Solution As required and demanded by the customers, modify the new CRM system, balancing between efficiency and personal contract.
3. Designed CRM system which is not suitable for their needs, not sufficient to their large sized business firms.
   Solutions Large size business must look towards could – based CRM packages which will enable them to access their data and cover many locations whenever they are in need. Explore some of the best CRM
4. CRM Software system Missing the crucial Data
   Solutions The best CRM system will integrate with social media channels Tracking interactions and engagement is a crucial tool.
5. **Security issues**The very nature of CRM software posses the potential for mistreatment and mishandling by the marketers.
   Solution Employees, staff should be trained carefully with customers personal data which is highly sensible. It should not be leaked out and transferred to others.
6. **Out dated information** with an old data, customers can't be tackled.
   Solution Customers latest data should be gathered to the customer's requirements and desires.

Criticism

Large sized business organizations are face many challenges while trying to implement CRM systems. Consumers oriented companies frequently manage their customer relationships haphazardly and profitably. They are not effectively and adequately use their connections with their customer, due to misunderstanding or misinterpretations of CRM systems.

In market, many studies revealed that consumers or customers are frequently frustrated and exploited by the marketers due to their unfair trade practices policies of business firms. Collection of customer data such as personally identifiable information must strictly obey customer privacy laws.

Important Quotations

1. Many research studies finally said that 50% increase in customer retention boosts life time profits by 50%
2. The implementation of CRM approach is supposed to have an effect on customer satisfaction and customer knowledge.
3. Retention of customers are more difficult than gaining new customers
4. Customers satisfaction in supply of qualitative products and services sustain steady growth and promote the business with improved profits, gaining good will, trustworthiness of a business form maintains the steady growth and development.

This mainly concentrates on the evolution and growth, it functioning working strategies in the large sized business organization. While implementing CRM strategies and system many problems issues and challenges are to face by the management. For the success of any business organization/firm, customers satisfaction, maintaining of steady and cordial relationship with customers are the main points. In this process the management must follow certain strategies techniques to retain the existing customers as well as the attract ting new customers.

By maintaining healthy trade practices, supply of standard quality products and services with reasonable prices. Gaining profits will automatically improved when keeping the trustworthiness, in the business activities.

Examples Tata group organizations, Godrej Company, BHEL companies, Maruti Suzki Automobiles manufacture standard product Colgate, Nestle products, Himalaya herbal products, maintaining trustworthiness in their business activities. With their goodwill their business will be flourished with steady growth.

5.3 Organization of CRM - Strategy Cycle

In order to maintain good relations and rapport with its customers, companies must follow a level of engagement and approach with its regular customers seeking their advises and suggestions to improve the product and services. They must follow a regular Management Information system on their customers.

CRM depends on the past and historical based data related to buying cycles and working experiences of product and service to the customers or consumers. Previously the conventional CRM data is with the third party. Whereas social CRM approach incorporates real time data for the real time information and data has been generated by the customers"

CRM Organization Structure

CRM customer relationship management is a manufacturing Marketing companywide business strategy designed in a stipulated manner to reduce 'costs of publicity' and advertisement' duly increasing the profitability in addition to gain customer satisfaction, loyalty and advocacy. Actually CRM brings together information from all data sources of the company organization . This will allows customer facing employees in certain areas like sales customer support and marketing to make quick decision.

Essential Key – Elements of CRM

There are Eight Major Essential Elements in CRM

- Rapid time to value
- Point and click customization
- A360 degree customer point of view
- Real time visibility
- No more dirty-waste data
- High adoption
- Extending success – spreading its results.
- Broad and wide community.

Other Important Key Elements of C.R.M

- Interactive with customers
- Make it fast approach of customers.
- Quick and fast decisions on CRM strategies
- Make the work in worthy
- Make it strong and stubborn
- Make it personal approach of customers.
- Make it confidential approach.
- May be easily accessible to the customer

Theoretical Concepts of CRM

A dynamic, and challenging definition of CRM is that any definition is contingent on the level at which CRM is Practiced in an company organization or, for that matter, what the researcher or manager believes about the correct level of CRM.

There are three different possible levels of CRM

1. Functional
2. Customer facing
3. Company wide

Identity of the areas of business where customer required

↓

Selection of appropriate CRM – Sales force Automations

↓

Documentation of the various business process

↓

Train the user on the Utilization of CRM System

↓

Frequent approach to maintain relationship with customers

Fig 5.3 CRM Process – Flow Chart

CRM Road Map

Road Map of CRM – Process of customer acquisition. Retention – Approach. It is series of activities related to the customers of the company. In the CRM Road Map – customer acquisition strategies plans will be formulated and designed for the implementation Customers needs, requirements – Survey results on previous released products customer expectations – also will be planned.

Customer-centered processes are at the heart of modern business strategy. The titans of technology and industry leverage CRM technology and build business processes that align customer relationships with positive business outcomes. It is more important than ever to develop CRM strategies that help, not hinder, the planning and implementation of CRM technology

Basically CRM Road Map is a strategic plan through which identifies how an organization can meet and exceed its customers' needs and requirement. It also includes but is not limited to, assessing how the sales, marketing and service entities work together. Also gain the additional inputs work experience –Purchase history – of the customers.

Key Points for the Success of CRM Road Map

- Information from different sources will be gathered about the customers.
- Invite customers, gathering their personal contact numbers, Email IDs, Introducing the new products and services offering working demo - opinion gathering of customers for the new features in the product for their usage.
- Electronic gadgets, Cell phones with new features – Risk free, charging free, without radiation.
- Non Polluted electronic bikes, cars with fuel free (petrol – Diesel) on charging mode.
- Providing new opportunities to unemployed youth with the conveyance cabs, bikes for passenger service – Designing the vehicles accordingly- Introducing through area wise demo Programs.
- Location wise Marketing facility to customers.
- Asses present state, defining future state of gaps.
- Identify various opportunities available up to the expectation and satisfaction of customer's requirements, various projects available, presently running for the requirement of customs will be discussed and explained to them.

New Customer Gaining Strategy New customers acquisition, can be made through the approach on various social-print – electronic media, online and offline.
Usually there are three basic forms of Customers acquisition.
Expanding and searching of new market opportunities.
Re-Designing of existing products Innovations of new products with additional features.
Creation of new Brand image to new products.

Demo programmes should be arranged area wise to the customers to attract them.
Example Manufacturer.

1. Release of new Bikes, Cars n the markets to the tastes of young customers. Trail runs may be allowed to them on Demo bikes-vehicles.
2. Area wise arrangement of location wise market for the convenient of customers.

Example

1. Electronic gadgets Cell phones with new features – Risk free, charging free, without radiation.
2. Non-Polluted electronic bikes, cars with fuel free (petrol – Diesel) on charging mode.
3. Providing new opportunities to unemployed youth with the conveyance cabs, bikes for passenger service – Designing the vehicles accordingly- Introducing through area wise demo Programs.
4. Location wise Marketing facility to customers.
5. Asses present state, defining future state of gaps.
6. Identify various opportunities available up to the expectation and satisfaction of customer's requirements, various projects available, presently running for the requirement of customs will be discussed and explained to them.

Customer's Retention Strategy

To retain the customers, the organization must maintain continuous relation throughout their life is essential. Successful customer retention starts with the first contact an organization has with a customer and continuous life time approach is necessary. Act according to the expectations of the customers. Manufacture the qualitative products for the sale to customer Maintain trustworthy relations. Automation process in the regular routine portfolio of the organization. Physical, if not possible online relations with the customers can be maintained. Frequent feed back of the customers shall be taken as and when new products given, these shall added to the products.

Customer-centered processes are at the heart of modern business strategy. The titans of technology and industry leverage CRM technology and build business processes that align customer relationships with positive business outcomes. It is more important than ever to develop CRM strategies that help, not hinder, the planning and implementation of CRM technology

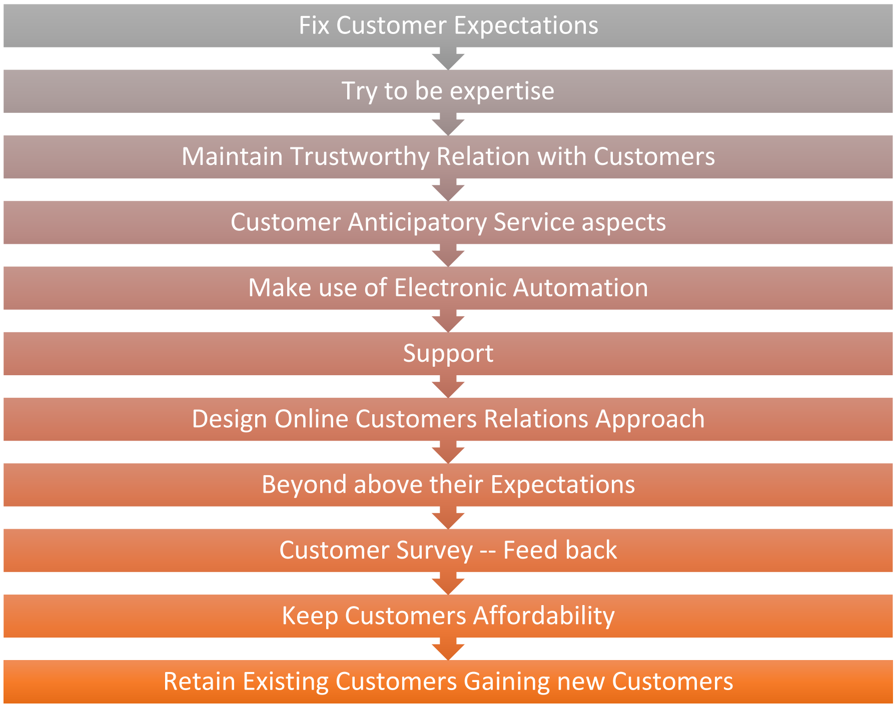

Fig 5.4 CRM Consumer Expectations Flow Chart

Now-a-days customer's acquisition and retention is a big challenge for the business organization. Unless and otherwise, the organizations plans their marketing programs systematically, it is very difficult to gain the new market. This given a systematic approach, how the customers can be acquired with market acquisition strategies – Market retention strategies to make clear understanding to the readers.

5.4 Programme Measurement and Tools of CRM

CRM (Customer Relationship Management) Customer oriented business plan is based on Information and Communication technology (I.C.T) It redesigns the work process in order to give business promotion. With better customer relations to maximize the profits to business organization. CRM particularly includes the whole processes that determine to acquire, maintain and to meet their expectations. The main objective of CRM is to increase the efficiency, expand market and retain customers.

CRM – Functional Design Structure

The functional Design structure of CRM system has been designed in accordance with a principle which gradually targets the system process, which divides the whole system into several subsystems and enables them to complete the functions of the particular objectives of the organization.

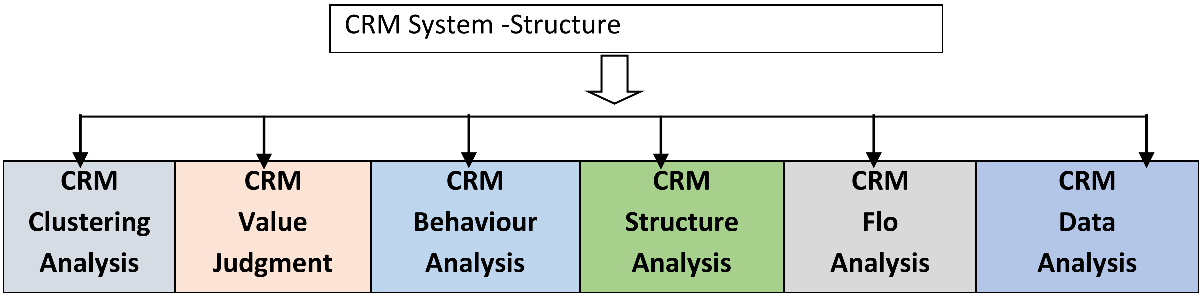

Fig 5.5 CRM System Structure

Data Mining CRM System

Concept of Data Mining

Data mining is the process of unearthing useful patterns and relationships in large volumes of data. A sophisticated data search capability that uses statistical algorithms to uncover patterns and correlations, data mining extracts knowledge buried in corporate data warehouses.

Significance of Data Mining in CRM System

Although it is still a relatively new technology, businesses from all industry verticals i.e. healthcare, manufacturing, financial, transportation etc. have invested in it to take advantage of historical data. Data mining techniques in CRM assist in the business organization in finding and selecting the relevant information that can then be used to get a holistic view of the customer life-cycle; which comprises of four stages customer identification, customer attraction, customer retention and customer development. The more data in the database, better models will be created and subsequently used for business promotion.

Data mining typically involves the use of predictive modeling, forecasting and descriptive modeling techniques as its key elements. Exploiting CRM in this age of data analytics enables an organization to manage customer retention, select the right prospects & customer segments, set optimal pricing policies, and objectively measure and rank which suppliers are best suited for their needs.

CRM System Design

The present CRM system analysis structure has been designed based on the datamining, as shown below.

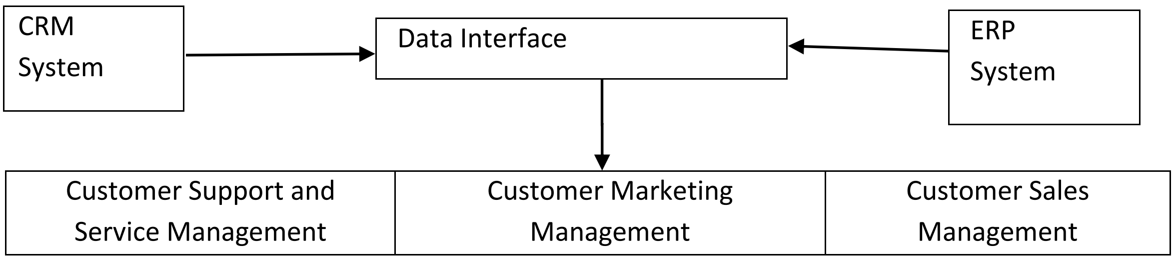

Fig 5.6 Data Mining CRM Structure

The Basic Data Mining Process is Consisting of the Following Steps

Automation Process of Various Work Flow Information

a. Call Centre – contact automation – communication system – portfolios.
b. Marketing Division automation of functions/portfolios.
c. Sales Department work force automation of functionary – portfolios.
d. Work flow Automation of their activity's portfolio.
e. HRM Track Employee information
f. Analytics in CRM help create better customer satisfaction rates.

Through the automation the portfolios of Marketing, Sales Communication department, their activities are made easy of approach the customer with sufficient data base through E-mails, SMS, Social media or other local TV channels can approach the customers.

Customer Feature – Structure Analysis

Various types of customers with different nature, customers with different natures, customer structure analysis helps to the marketing department in the organization to take the marketing decisions. Customer structure analysis provides an important information to the management for work of the customer relationship evaluation and adjustment.

The Activities of CRM as mentioned below

a) Access to new customers
b) Retain old customers
c) Customer behaviour
d) Upgrading and overall development of the customer.

According to these the customer structure analysis regards the rate of new customers, customer retention, customer's promotion rates and customers welfare and development.

Customers Features and their Multi- Dimensional Analysis

Example Customers sub divisional classification is an effective tool of typical customer identification and analysis and the compendia data provides the basis for customer categorization and subdivision into 'high profit customer group', the profitable customer group', ' the profitable customer group', ' profit margin customer group', No profit customer group', and Deficit customer groups, which separately corresponding to Gold Customers emphasis customer, Hy-pho emphasis customer, common customer and deficit customer.

Measuring the Effectiveness of CRM

CRM effectiveness can be measured in the following ways in the organization.

1. Increase in customers retention
2. increase in order per customers per year.
3. Increase in average spending per order or visit
4. Increase in cross sales
5. Increase in up sales
6. Increase in reactivation of previous customers.
7. Increase in references of new customers by existing customers through mouth publicity.
8. Achieving each of the above while keeping increase costs from offsetting the increased sales.

Above All Parameters Really Measure the Effectiveness of CRM in an Organization

1. Customer expectations
2. Customer perceptions
3. Customers Emotions
4. Customer Beliefs
5. Communications with customers behavior
6. Customers history – habit of purchase decision making process.
7. Customers Interests
8. Customers demographic cultural factors.

Therefore, it is a fact that CRM assists, marketers as best source to approach customers. Moreover, it is also notable point that the CRM is a strategic tool or a technique.

The Number of Experts are Opined about the CRM

- CRM is a technological tool and also it is software programme
- CRM is very helpful to promote business, sales and develop the organization.
- CRM is the automation process with cost minimization to different organization

This elaborately covers – CRM aspects – Acquisition, retention – CRM approach structure – CRM functional Design Structure -= Data Mining Process – Automation process - Automation process CRM Sales, Marketing, Communication, HRM, Portfolios. Finally CRM features – Structure analysis has been explained. Performance of CRM appraisal measurement also made an attempt in this to create an idea to the students.

To Do Activity

1. How you will measure the effectiveness of CRM prepare a note.
2. What is the significance of CRM in the Promotion of marketing sales portfolio- Prepare a report with examples.

5.5 Emerging Trends in Retail, Banking & Insurance

CRM was popularized in 1997 with the work of Siebel, Gartner and IBM- from 1997 to 2000, it was enriched with shipping and market capabilities First CRM app introduced by Siebel Sales Handheld in 1997. The CRM enhances the customer relations with the organization and promote the marketing, sales activities. Through CRM the retail business will be enriched organization will be in profitably developed.

Development of Organization depends on customers acquisition, customers retentions. Customer satisfaction, customer care customer centric, gaining customer trust worthiness, leads to customer acquisition, customers retentions. In any retail business, banking sector - finance sector organization and Insurance sector organization, customers, client service is the main portfolio. Therefore this develops the concept of focusing CRM practices in retail, banking and Insurance organizations.

CRM –Strategy in the Retail Marketing

The concept of customer relationship Management started originally form 1970s. In 1982, Kate and Robert D. Kesthbaum introduced the concept of Data base Marking analyze and gather customer data by 1986, Pat Sullivan and Mike Mugney released a customer evaluation system called as ACT –

CRM was popularized in 1997 with the work of Siebel, Gartner and IBM. The first open source of CRM was developed by Sugar CRM in 2004. During this period, CRM was rapidly migrating to cloud, as a result of which it become accessible to retail sole trade entrepreneurs and small business organizations.

The primary goal of CRM system is to integrate and automate retail sales, retail marketing and customer support. In any retail marketing sales business, banking Financial business organization and insurance business organization etc., Business are Depending on customer centric, customer service aspects. For the development of any business acquisition and retention of business customers are the main source. Without the customer satisfaction, no business will be survived.

Operational Customer Relationship Management is having 3 Major Main Components.

- Retail Sales Force Automation - for the retail business organization
- Retail Marketing Automation and
- Service Automation

Retail Sales Force Automation Works with all stages in the Sales of retail business organizations example Supermarkets. It implements Sales promotion analysis, Automates the tracking of a customer's acquaint history for recurring sales, and future sales and coordination sales To Do Activity in the retail business organizations, Retail marketing, call centers and retail outlets. Ex Supermarkets, Shoppers stop, shopping Malls, collect Customer phone numbers, Email ids., on billing process.

Retail Marketing Automations focuses on easing the overall marketing process to make it more effective and efficient. CRM tool with marketing automation capabilities can automate portfolio activities - repeated functionaries the goal of marketing Automation is to turn a sales lead into a full customer satisfaction.

Service Automation is the part of the CRM system that focuses on direct customer service to technology. Through service automation, customers are supported through multiple channels such as phone, email, Fax, ticketing, portals, Kioskys. This is mainly in use of banking, transport and Insurance organizations.

Customer Data Plat form is a computer operated system used by marketing departments that assembles data about individual people from various sources in to one data base.

CRM effects on Customer Satisfaction

Some of the business firms like banking, financial organizations and client-based service in Insurance company organizations, customers service satisfaction is essential. It impress customers acquisition and customers retention. They are customers-oriented service organizations - customer service satisfaction is a measurement tool in those business organizations.

Customer satisfaction has been the top most priority for the above economic performance of various firms because it has the ability to increase customer loyalty, reduce complaint's complaints and grievances.

Customer Service Through CRM

With the customer relationship Management systems customers are benefitted on its day to day to process with reliable latest information about products and services. Their demand of self-service form companies will decrease. Customer satisfaction level increases because less need to interact with the company on various customer problems.

The following Services are Available

1. Enhanced ability to target profitable customers
2. Integrated assistance across channels
3. Enhanced sales force efficiency and effectiveness
4. Improved pricing strategies keeping customers affordability.
5. Customized products and service
6. Improved customer service efficiency and effectiveness
7. Individualized marketing messages
8. Connect customers and all channels on singe platform
9. Response to customer needs, grievances
10. Increased personalized s service giving utmost care for customer preferences, requirement and demands.
11. Customer queries, doubts clarifications, additional information will be provided through call centers
12. CRM improves the customatisation market i.e customatisation market is that, the firms adopts and change its services or products based on customer's needs, requirements, taste, perceptions they will consider customers ideas, meet their requirements.
13. Time saving to organization CRM will let companies to interact with customers more frequently with different communication skills to know their opinions; duly Tracking the customers behaviour, needs tastes, problems, improvising the product to gain competitive advantage.

CRM in Banking Sector– Enhancement of Performance through CRM

Banking organizations, other financial sector (NBFC) business firms offering various financial services to their customers. They mobilize various deposit from them, offering specific rate of interest and also offer various loans to the needy customers and business firms for their working capital, business operations.

The concept of CRM in banking sector is to, how to approach, how to attract, how to acquire, how to manage, how to maintain and how to retain the customers. The management adopts, customer relationship techniques, through CRM soft wares. CRM technology software gives answers to the above all questions, with all suggestions, approach guidance. How the customers are approach to render their needy service, now they are to be disposed of satisfactory with quality service, how their problems, grievances shall be addressed using CRM Software technology. All banks collect and preserve their customer profit data also capture with the customers of other areas. Banks strategically think how to gain and attract, mobilize new customers into their banks. In CRM strategies following customers information shall be gathered.

1) Response to public complains
2) Shipping and fulfillment dates
3) Sales and purchase trade analysis data

4) Accounting data
5) Web registration data
6) Service and support data information
7) Demographic data of customers
8) Online Trade data

Therefore, CRM in the banking service sector; is the banking organization culture and communication, management measures the customer's needs and cross functional integration particularly between marketing and Information and Communication Technology ICT. As a part of CRM all banks computerized the customers profits, data - Automated routine banking service portfolios to their customers. Through the online funds transfer, online payments receipts through NEFT, ATM, RTGS, speed up the payment and transfer of fund. Net banking , mobile banking facilitated 365 days banking transactions anywhere, any time to their customers, balance enquiry, funds transfer, utility bill payments, ordering cheque books, funds transfer tracking status can be done even on holidays. ATMs facilitates various banking services to their customers 24 hours X 7 days i.e. 365 days.

This is because of customer data integration data processing, information technology, computerization, service automations of banking portfolios and with core banking solutions CBS technology platform. All major Public sector banks; new/old private sector banks, scheduled, non scheduled foreign banks, comported banks have followed and implementing computerized technology, based, core banking services to their customers with competitive spirit.

Call centers of the banks - customer care centre of Vodafone; Airtel are the best examples of CRM - MIS though these technologies, bankers offer their services, clarifying customer doubts. ATM, CDMS, Banking Kioskys, Pass book printers e banking terminals - cheque processing machines, fake note detectors are the customer e- facilitator are results of banking portfolio process automation.

Fig 5.7 CRM Strategy-Technology in ICICI Bank

The above figure 5.5 is the Software Programme (Finacle) which is used in ICICI Private Sector Corporate Bank for the Maintenance of CRM, it is mainly used as Core Baking Solutions. Through this CRM Software Programme in ICICI Bank, Certain customer related information from all major products i.e Banking – Liability Products, Deposits, Credit Cards, Loans and Advances. These type of Software Programmes are being implemented in all Banks such as Andhra Bank, Indian Bank, Syndicate Bank etc., It is a tool to enable CRM in Banking Sector.

The CRM functioning has been linked up with the usage of IT and ICT. When a customer interacts with the banks using multi channels the following format of data are generated

- Negotiations with bank officials at retail business outlets
- ATM transaction in Banking Service.
- Net Banking transactions
- Mobile Banking Transactions.

In the above cases ATM, net Banking transactions may be easily captured the customers data since the follow structured process.

CRM for Insurance Organizations – their Client Based Services

Customer Relationship management is an enterprise application that provides complete services which are needed to their Insurance clients - or prospect and aligns that information for achieving best results with sales. Marketing and service and support operations. CRM application can be utilized by all levels of an organization, across various activities in the insurance companies to the client or insurances.

Thefollowing Activities can be Coordinated through CRM Application in the Insurance Organizations.

a) **Executive Management** All the managerial functions, activities can be accessed
b) **Sales Effectiveness** Sales activities various Insurance products, agents activating various Insurance products, agents activities, their incentives, Automation process, reminders fixing targets are accessed and fixed.
c) **Marketing Campaign Management** Marketing plans, execution, activities, target achieving strategies are concentrated.
d) **Analysis and trending** Analytical tools, results, performance appraisal - suggestions for improvement sales, performance are included.
e) **Call Centre** Series to customers - grievances redressal suggestions - helping to clients - doubts clarifications etc.,
f) **Mid-level management** with real time access to monitor department performance sales forecasting and regional, zonal management activities monitoring.

CRM may revolutionarise the way of sales team approach of the sales activities and improve the sales of the products. Solutions and suggestions will be made through CRM technology. The implementation of CRM in Insurance Organizations is a big challenge and risk because so many client services are involved. Accordingly, the software programme prepared by IBM are being implemented for smooth and quick services of the clients. The following figure 5.5 B 5.5 C reveals various services to rendered to the clients of various Insurance Organizations.

It also explainthe traditional services and e CRM services in the Insurance Organizations to the clients of various products sold in the Insurance organizations. CRM for insurance provides the connectivity and access to customer information required for great customer experience and fast claim resolution. A CRM system can be channel for information dissemination and collaboration between policyholders and advisors. The right CRM system, which will enable brokers to develop and access a full picture of all their clients, including their history and preferences in order to meet and even anticipate their needs.

TRADITIONAL CRM v/s E-CRM

TRADITIONAL APPROACH TO CRM	WEB ENABLED APPROACH TO CRM
Personal Selling	Electronic Point Of Sales (Epos)
After Sales Service	Automation Of Customer Service
Customer Care	Life Time Value Of Customer
Complaint Handling	Call Centre
Account Management	System Integration

Fug 5.8 Difference between Traditional CRM and E-CRM

Fug 5.9 IBM - CRM Initiatives

The advanced CRM solutions are also assistingwith complain execution. The following list provides select samples for the types of campaigns CRM is typically use to execute.

Telecast/ Telemarketing CRM can help to create targeted list of individuals and assign such lists to telecasts and/ or telemarketing teams for calling.

Print A number of CRMs can be integrated with internal as a demand print provides.

Emails CRM are also typically highly integrated with email capabilities to contact clients or customer of insurance clients and bank customers.

Social Media with the active rise of social media CRMs are becoming increasingly integrated with popular networking sites such as Face Book, Twitter, Linked in and a growing list of others.

CRM Select Process

Selection the right CRM solution software for any organization is on important step in rolling out CRM. Though there are so many CRM. Providers, Best suited provided should be determined to maintain client, customer communication links.

Implementing a CRM provides one of the greatest opportunities for business and brokers to boost top line revenue, increase client satisfaction and empower the work force to operate at a high level of efficiency.

To Do Activity

1. How the CRM solutions practices in Banking and Insurance organizations - analyze and prepare a report and its significance
2. Explain the role of CRM in Baking – Insurance and retail business organizations.

Bankers campaign their product and services to their customers through various CRM provides -- through their call centers, Mobile SMS, Face book, email of the customers the best CRM solutions should be selected to the needs of the banking portfolios and the needs of their customers. The list of customers eligible for many important banking product/services are available.

Model Questions

1. Explain the fundamental concepts of CRM, its significance - its evolution and growth.
2. What are the general problems and challenges in implementing CRM in company?
3. How the CRM removes the problems, challenges?
4. What is CRM and its role in retail marketing Management business organization.
5. The role and importance of CRM in Banking, Financial Business organizations.
6. The CRM solutions, its impact, its functioning to the clients of Insurance Organization.
7. How the CRM functions in the business organization of baking and Insurance sector.

Block 3

Integrated Marketing Communication

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Contents

Chapter 1
Introduction to Integrated Marketing Communication (IMC)

Let's conceive that the Concept of Marketing has originated from the era of barter system, gradually evolved into production and sales orientations, with greater emphasis on the process, quality, and selling of products. Thereafter, customer satisfaction is an essential component of strategic decision process and it occupies a crucial position among marketing communication.

Till recently, the focus of marketers in India was the urban consumer and by large number specific efforts were made to reach the rural markets. But now it is felt that with the tempo of development accelerating in rural India, coupled with increase in purchasing power, because of scientific agriculture, the changing life style and consumption pattern of villagers with increase in education, social mobility, improved means of transportations and communication and other penetrations of mass media such as television and its various satellite channels have exposed rural India to the outside world and hence their outlook to life has also changed. Due to all these factors rural India in now attracting more and more marketers. Increase in competition, saturated urban markets, more and move new products demanding urban customers, made the companies to think about new potential markets. Therefore, the Indian rural markets have caught the attention of many companies, advertisers and multinational companies.

According to a survey conducted by the National Council for Applied Economic Research (NCAER), the purchasing power of the rural people has increased due to increase in productivity and better price commanded by the agricultural products. By and large this rise in purchasing power remains unexploited and with the growing reach of the television, it is now quite easy for the marketers to capture these markets. Rural marketing has become the latest mantra of most corporate. Companies like Hindustan Lever, Colgate Palmolive, Britannia and even Multinational Companies (MNCs) like Pepsi, Coca Cola, L.G., Philips, Cavin Kare are all eyeing rural markets to capture the large Indian market. Coming to the frame work of Rural Marketing, the Rural Marketing broadly involves reaching the rural customer, understanding their needs and wants, supply of goods and services to meet their requirements, carrying out after sales service that leads to customer satisfaction and repeat purchase/sales. Earlier, the general impression was that the rural markets have potential only for agricultural inputs like seed, fertilizers, pesticides, cattle feed and agricultural machinery. However, there is a growing market for consumer goods as well, for whichthe Integrated Marketing Communication (IMC)stands prerequisite.

In this chapter, we would discourse the following concepts with pragmatic illustrations in order to conceive the nitty-gritty of Integrated Marketing Communication (IMC).

1. Marketing Communication
2. Communication in Barter Economy
3. Marketing Communication Mix
4. Integrated Marketing Communication

5. Role of Advertising in IMC
6. Case Study
7. Model Questions
8. Let’s Sum-Up
9. Further Reading

A Pakistani tea seller in a bid to boost his business put up a banner with the Indian Air Force pilot Wing Commander AbhinandanVarthaman’s photo on it. The photo has a special message which reads “Aisi chai kidushman ko bhi dost banaye” written in Urdu. The text translates to 'A Tea so fine, it makes even an enemy a friend.' The photo has gone viral on social media and garnered a lot of attention to the tea seller’s marketing skills.

So do you agree that Pakistani is an innovator? If so start ideating for your business!

1.1 Marketing Communication

Marketing Communication can be perceived as the techniques and tactics adopted by companies to convey the messages in an innovative manner to their existing and prospective customers about their offerings of products and services. The messaging communication is either direct or indirect in nature with an intention to persuade the customers to indulge in the purchase of the products and services. The various channels and platforms of marketing communication include Google promotions, print advertisements, television commercials, social media marketing, blogging, content marketing and participation in trade fairs and exhibitions amongst others. It is prudent to note that every promotional tool has a different role to play. When used individually by companies to communicate a message, they all portray different images.

Conflicting messages confuse brand positions and company images. Companies often fail to integrate their various communications channels and the result is a confused consumer. An appropriate promotional mix must be created in order to meet the promotional objectives of any given promotion strategy. The promotional mix is the combination of different promotional channels that is used to communicate a promotional message. This will involve an appropriate selection from the range of tools that are available for use as part of the promotional mix. This is known as Integrated Marketing Communications. Today, more and more companies are adopting the concept of Integrated Marketing Communications (IMC). Under this concept, the company uses various communication channels to communicate the same clear, concise and crisp message to the target audience.

IMC

Possible driving or favoring forces of a move towards greater integration in marketing communication are:

- Pressure on communication budgets.
- Fragmentation of the media.
- Growing internal communications.
- Advantages of promotional combinations.
- Shift from mass communication to selected media.

Marketing thought originating from the era of the barter system, gradually evolved into production and sales orientations, with greater emphasis on the process, quality, and selling of products. Thereafter, cu

1.2 Communication in Barter Economy

'Direct exchange of goods against goods without use of money is called barter exchange.'Alternatively, economic exchanges without the medium of money are referred to as barter exchanges. An economy based on barter exchange (i.e., exchange of goods for goods) is called C.C. Economy, i.e., commodity for commodity exchange economy. In such an economy, a person gives his surplus good and gets in return the good he needs.

To cite an example, when a weaver gives cloth to the farmer in return for getting wheat from the farmer, this is called barter exchange. Similarly the farmer can get other goods of his requirement like shoes, cow, plough, spade, etc. by giving his surplus wheat (or rice or maize). Thus, the system of barter exchange fulfills to some extent the requirements of both the parties involved in exchange. However, as the transactions increased, inconveniences and difficulties of barter exchange also increased involving rising trading costs. Trading costs are costs of engaging in trade. Its two components are search cost and disutility of waiting.

Remember that search cost is the high cost of searching suitable persons to exchange goods and disutility of waiting refers to time period spent on searching the required person. This ultimately led to evolution of money as medium of exchange and on other hand it led to explore mix of communication strategies.

Activity – Thought Provoking

Scan the QR Code to Watch the Video

The evolution of marketing communication is one of the most significant factors in the journey of trade. Markets have evolved throughout the centuries and that would not have been possible if they were restricted to geographical boundaries. The above video will give a brief understanding on evolution of market from barter system to contemporary cryptocurrency system.

1.3 Marketing Communication Mix

There are four fundamental marketing communication decisions. These are positioning, targeting, setting objectives and budgeting. The intersection of the marketing communication fundamental decisions represents the guiding structure for the implementation decisions about the appropriate mix of: marketing communication tools; message development and media placement. Various tools such as Advertising, Personal Selling, Sales Promotion, Public Relations and Direct Marketing used to pursue advertising and marketing objectives.

Advertising

- Reaches large, geographically dispersed audiences, often with high frequency
- Low cost per exposure, though overall costs are high
- Consumers perceive advertised goods as more legitimate
- Builds brand image; may stimulate short term sales
- Impersonal; one-way communication

Personal Selling

- Most effective tool for building buyers' preferences, confidence, and actions
- Personal interaction allows for feedback and adjustments
- Relationship-oriented
- Buyers are more attentive

Sales Promotions

- May be targeted at the trade or final consumer
- Makes use of a variety of formats: offer, coupons, contests, etc.
- Attracts attention, offers strong purchase incentives, dramatizes offers, it boosts the sagging sales
- Stimulates quick response
- Short-lived
- Not effective at building long-term brand preferences

Public Relations

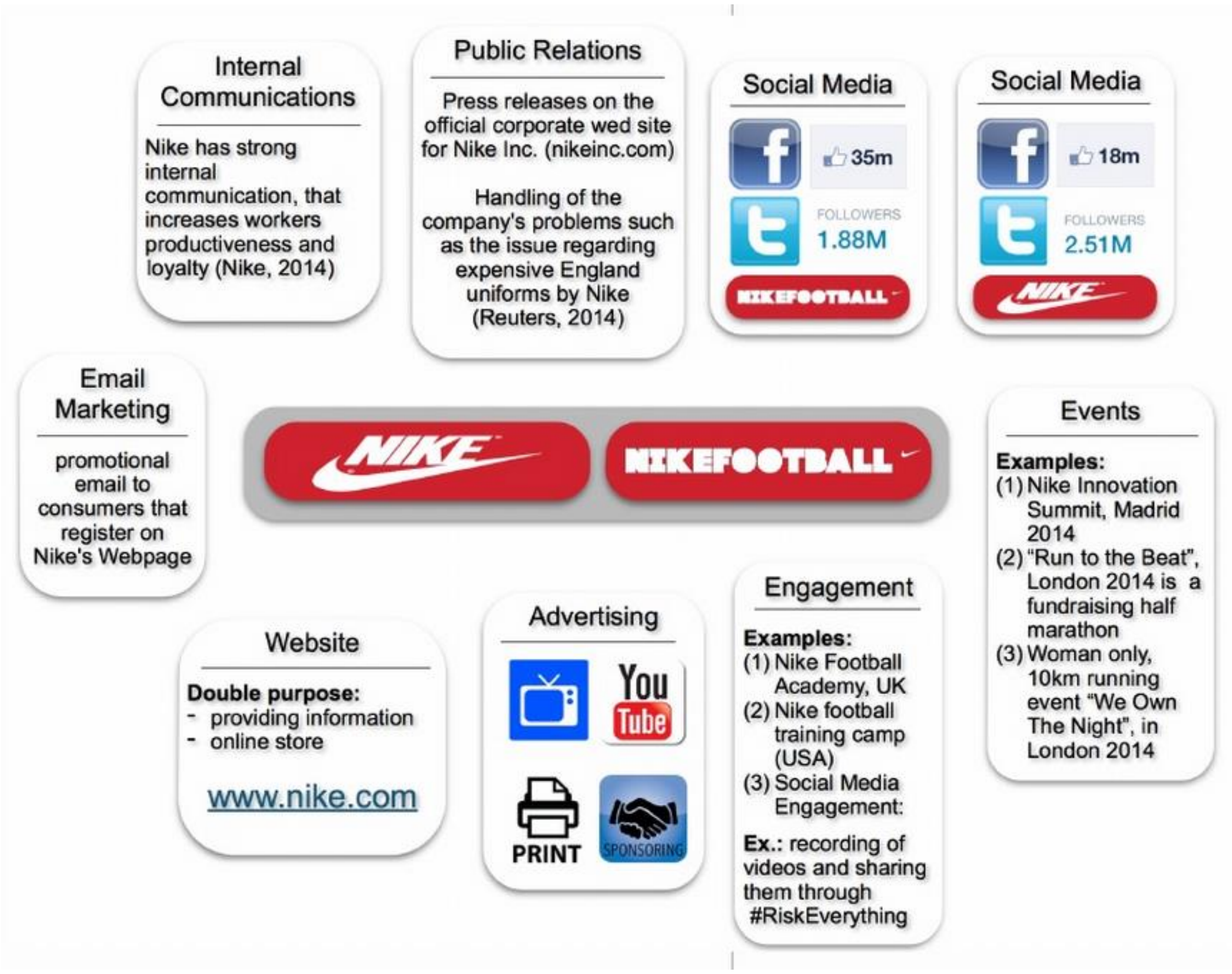
- Highly credible
- Many forms: news stories, news features, events and sponsorships, etc.
- Reaches many prospects missed via other forms of promotion
- Dramatizes company or benefits
- Often the most underused element in the promotional mix

Direct Marketing

- Many forms: Telephone marketing, direct mail, online marketing, etc.
- Four distinctive characteristics: – Nonpublic – Immediate – Customized – Interactive
- Well-suited to highly targeted marketing efforts

Activity – Brainstorming

Discuss with your partner about the IMC strategy of NIKE and ideate what you can learn from it



1.4 Integrated Marketing Communication (IMC)

Communication is the process that conveys thoughts and shared meanings between individuals or organizations and individuals. Marketing communications represents all the elements of the marketing mix that facilitate exchanges by targeting the brand to a group of customers; positioning it as distinct from competitive brands; share the brand's meaning with its target audience.

Integrated Marketing Communications (IMC) is a simple conception. It ensures that all forms of communications and messages are carefully linked together. At its most basic level, the IMC means integrating all the promotional tools, so that they work together in harmony.

As a matter of fact, the IMC is a communication process involving planning, creation, integration and implementation of diverse forms of marketing communications that are delivered over time to a brand's targeted customers and prospects. IMC unifies the company's image shaped by thousands of activities carried within organization. It leads to holistic marketing communication strategy aimed at communicating the company's products and image to the consumer.

As we might be aware that Promotion is one of the Ps in the marketing mix; Promotions has its own mix of communications tools. All of these communications tools work better if they work together in harmony rather separately. Their sum is greater than their parts – providing they speak consistently with one voice all the time, every time.

This is enhanced when integration goes beyond just the basic communications tools. There are other levels of integration such as Horizontal, Vertical, Internal, External and Data Integration that helps to strengthen Integrated Communications.

Prominent features of IMC

- Profile the identified target market.
- Use the related media channels.
- Achieve communication synergy.
- Influence the target market behavior.
- Build customer relationships.

Significant features of IMC

- ❖ The process should start with customer or prospect and then work back to the brand (identity) communicator in determining most appropriate messages and media for informing, persuading and inducing customers and prospects to act as planned towards the brand.
- ❖ Use any form of relevant contact, IMC uses all forms of communication as potential message delivery channels. Advertisers sometimes refer to this as “360-degree branding.”
- ❖ Achieve Synergy, IMC success falls on the fact that all communication elements must strive to present the same brand message and convey that message across all diverse channels, or points of contact. In other words the brand must “speak with a single voice.”
- ❖ The fourth belief is that successful marketing communication requires a business to build relationshipsbetween brand and the customers.
- ❖ Affect behavior is the final goal of IMC. This means that marketing must do more than just influence brand awareness or enhance consumer’s attitudes towards the brand. Instead, successful IMC requires that communication efforts be directed at encouraging some form of behavioral response.

Elements of the Integrated Marketing Communications (IMC) Plan

Our plan should include consideration of marketing methods such as:

Website: What does our web site say about our company? Is it informative, easy to use, ecommerce ready? Our web site is available at all times, is it ready to speak for us when we are not available.

Advertising: Print, online, radio, or television. Choose the advertising medium(s) that gets our message to our target audience where they are likely to be ready to receive it. Use a consistent, repetitive approach to build awareness and recall.

Marketing Collateral: Brochures, case studies, white papers, our materials build and define our brand and provide the customer with an important look at our positioning and messages.

Online Marketing: Advertising, opt-in email marketing and links from other sites. Our customers are online and we should use the appropriate methods to reach and retain them.

Trade shows: How many individual meetings would we need to setup to equal the number we can have at a trade show. No other opportunity affords us the ability to meet directly with so many customers in a condensed time frame. Direct mail, personal selling, networking and many more methods allow us to get our message to the customer.

Benefits of IMC

Although IMC requires a lot of effort it delivers many benefits. It can create competitive advantage, boost sales and profits, while saving money, time and stress.

- IMC wraps communications around customers and helps them move through the various stages of the buying process. The organization simultaneously consolidates its image, develops a dialogue and nurtures its relationship with customers.

- This ‘Relationship Marketing’ cements a bond of loyalty with customers which can protect them from the inevitable onslaught of competition. Ability to keep a customer for life is a powerful competitive advantage.
- IMC also increases profits through increased effectiveness. At its root level, a unified message has more impact than a disjointed myriad of messages. In a busy world, a consistent, consolidated and crystal clear message has a better chance of cutting through the ‘noise’ of over five hundred commercial messages which bombard customers each and every day.
- At another level, initial research suggests that images shared in advertising and direct mail boost both advertising awareness and mail shot responses. So IMC can boost sales by stretching messages across several communications tools to create more avenues for customers to become aware, aroused, and ultimately, to make a purchase.
- Carefully linked messages also help buyers by giving timely reminders, updated information and special offers which, when presented in a planned sequence, help them move comfortably through the stages of their buying process and this reduces their ‘misery of choice’ in a complex and busy world.
- IMC also makes messages more consistent and therefore more credible. This reduces risk in the mind of the buyer which, in turn, shortens the search process and helps to dictate the outcome of brand comparisons.
- Un-integrated communications send disjointed messages which dilute the impact of message. This may also confuse, frustrate and arouse anxiety in customers. On the other hand, integrated communications present a reassuring sense of order.
- Consistent images and relevant, useful, messages help nurture long term relationships with customers. Customer databases can identify precisely which customers need what information when and throughout their whole buying life.
- Finally, IMC saves money as it eliminates duplication in areas such as graphics and photography since they can be shared and used in say, advertising, exhibitions and sales literature. Agency fees are reduced by using a single agency for all communications and even if there are several agencies, time is saved when meetings bring all the agencies together – for briefings, creative sessions, tactical or strategic planning. This reduces workload and subsequent stress levels – one of the many benefits of IMC.

Activity – Conceptualization

Along with your partner watch this video to learn more about IMC

Scan the QR Code to Watch the Video

1.5 Role of Advertising in IMC

Most firms, either it may be large or small, use advertising in some form or the other. Advertisement not often produces direct sales. It is backed by other promotion mix elements like personal selling and sales promotion. Advertising produces a psychological effect and it can change the mental disposition of the audience, so that they purchase the advertised product. Advertising is basically a form of communication and the basic responsibility of advertising is to deliver the information to the target audience. Therefore, the role of advertisements can be understood as follows:

- It stimulates demand. This stimulation is because of the availability of the product, discounts offered if any and the expectation of the fulfillment of latent and aroused needs.
- It supports other promotion mix elements. It does pre-selling and helps the sales promotion and personal selling activities.
- It counters competitive moves. By combining with other promotion elements it acts as a competitive weapon. It differentiates the company's offer from other products and builds a brand personality and image of its own.
- It develops brand preference. When the products deliver the desired quality, service and value it creates a satisfied customer. With consistent advertising, the brand preference gets reinforced. The satisfied customers spread a favorable word of mouth and are an asset to the company.
- It cuts cost—by increasing sales, more units are produced and the cost of production comes down (economies of scale). Even the selling costs are decreased because there are a less number of wasted calls by the salesman. With lower prices offered by the company there is more penetration markets and more demand for the product.
- It builds brand images—Images are built in the minds of the consumer. There are positive images and are for different segments. A brand is a promise of a certain level of consistency, quality, service and other benefits like warranty etc. Manufacturers are proud of their brands and want to have greater brand equity for them.
- Innovation—It encourages innovation and new product development and reduces the risk of the product becoming obsolete. With more innovation there is more sales which offsets the cost of innovation. Innovation leads to more sales and the business expands. More

employment is generated and the people become more prosperous and their standards of living improve.

- It communicates and imparts information to the consumers so that they are well informed and can make a good choice. Advertisement is a very fast and effective method of information and communication. It can reach a great number of audiences in short time.
- It is an instrument of persuasion.
- It has an informative role.
- It provides knowledge about product specification, about product features and product quality and the functions that a product can perform.
- It is an important marketing tool which informs about the price of a product.
- It gives information about the alternatives available to the purchaser.
- It gives information about the new offers and the discounts available to the purchaser.
- It helps in achieving the sales objectives and the communication objectives

Significance of Advertising

- ✓ **Awareness:** One of the important roles of advertising is to create awareness of the product or services such as brand name and price. The awareness of the product or services can be created through highlighting the unique features of the brand. Nowadays, due to intense competition it is not just enough to create awareness, but top of mind awareness is needed.
- ✓ **Information:** Advertising helps to inform the target audience about the product. Providing information is closely related to creating awareness of the product. Potential customers must know about a product, such as product features and uses. Product information is very much required, especially when the product is introduced in the market, or when product modification is undertaken. Proper product information can help the consumers in their purchase decision.
- ✓ **Persuasion:** When business firms offer similar products, the firm must not only inform the customers about the product's availability, but also persuade them to buy it. Through persuasive messages, the marketers try to provide reasons regarding the superiority of their products as compared to others available in the market. Persuasion can be undertaken through creative advertising messages, product demonstration at trade fairs, offering free gifts, premium offers and organizing contests.
- ✓ **Attitudes:** Promotion is required to build or reinforce attitudes in the minds of target audience. The marketers expect the target audience to develop a favorable attitude towards their brands. Positive attitude towards the brand helps to increase its sales. Through promotional techniques like advertising, the mar-keter can correct negative attitude towards the product, if any. Negative attitude can also be corrected through public relations and advertising.

- ✓ **Reminder:** If target customers already have a positive attitude towards a firm's product or service, then a reminder objective may be necessary. The reminder objective is necessary because the satisfied customers can be targets for competitors' appeals. Well-established brands need to remind the customers about their presence in market.
- ✓ **Brand Loyalty:** Advertising helps to develop brand loyalty. Brand loyalty results in repeat purchases and favorable recommendations to others by existing customers. Sales promotion, effective personal selling, timely and efficient direct marketing, and other techniques help to develop brand loyalty.
- ✓ **Brand Image:** An advertiser helps to develop a good image of the brand in the minds of target audience. There are several factors that can be of help to audience. There are several factors, such as the character of the personality that endorses the brand, the content of the advertising message, the nature and type of pack-aging and the type of events sponsored, that can help to develop brand image in minds of target audience.
- ✓ **Counter Competitors' Claims:** The marketer may counter the claims made by the major competitors. For instance, competitive advertising is undertaken to counter the claims made by competitors either directly or indirectly. With the help of creative advertising, the marketers can claim the superiority of their brand.
- ✓ **Expansion of Markets:** Successful ads results in expansion of the markets. A marketer may intend to expand markets from the local level to the regional level, from the regional level to the national level, and from the national level to the international level.
- ✓ **Educating the Customers:** Promotion may be undertaken to educate the customers. For instance, some of the advertising is undertaken to educate the audience regarding the use of the product, handling operations, and so on. Public awareness campaigns also educate the public regarding the negative effects of noise, air and dirt pollution, social evils, and so on.

Case Study: Integrated Marketing Strategy of Amul

The integrated marketing strategy of Amul covers various aspects of the business right from the segmentation and targeting to the overall mission and vision of the company and the various parameters which the company executes to become top brand that it has in the market. So what is the marketing strategy ofAmul? Let us discuss in this section.

Segmentation, targeting, positioning in the Marketing strategy of Amul

The segmentation of Amul is the mass population and in general, we will find people of all different age groups and demography enjoying Amul products. This is because Amul is not only present in Ice cream, but also in Milk, Butter, Cheese and other such products.

Since it has a very deep product portfolio, it does not differentiate in its customers but uses a mass marketing principle. And till date, this principle has worked very well for the marketing strategy of Amul. Similarly, the target audiences are the regular middle class people.

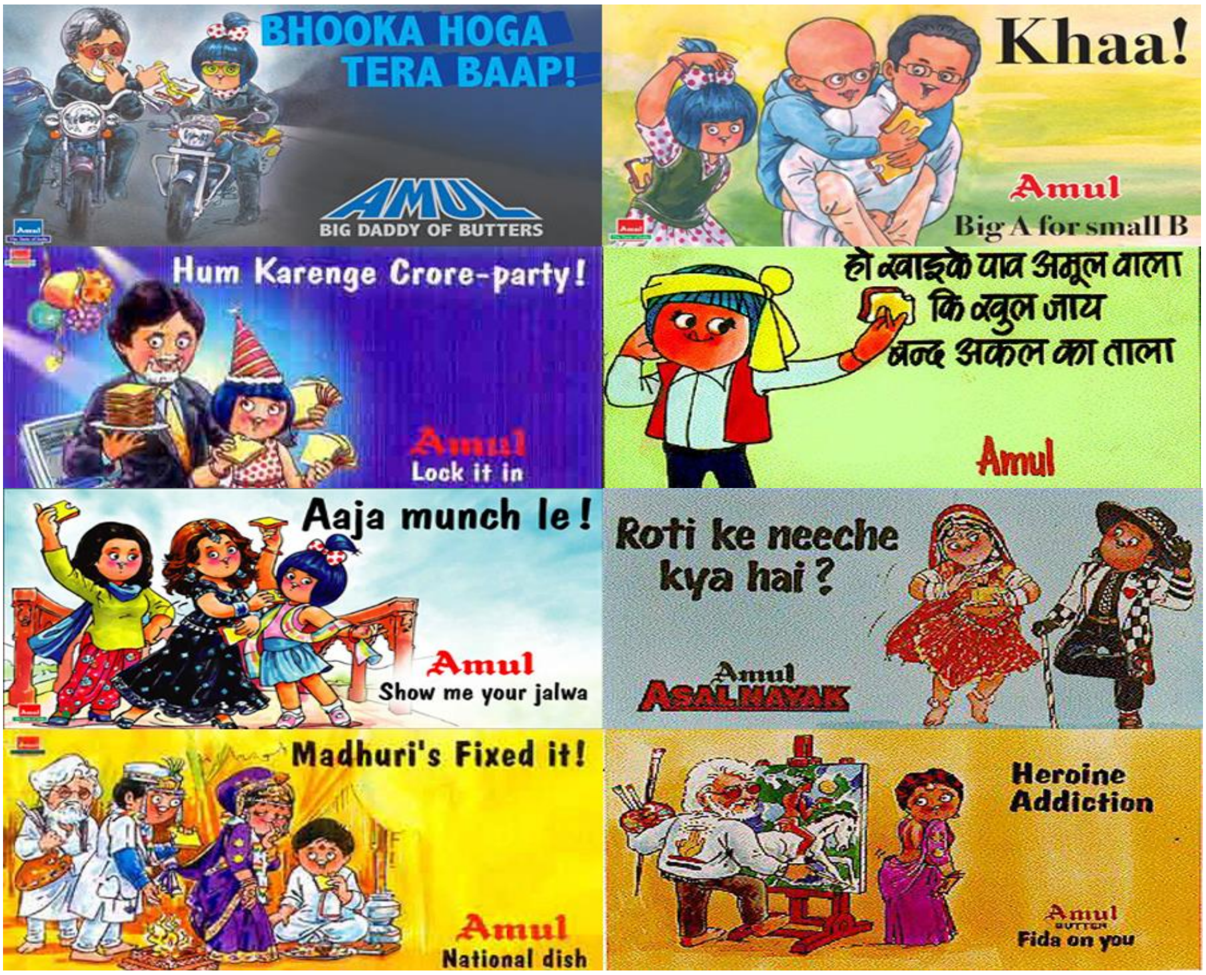
This is because higher end customers do have a lot of high end products as an alternative in ice cream. However, for other products like Butter and cheese, both high end and low end customers are the target. In terms of positioning, Amul has top of the mind positioning because it is the first brand which comes in mind when talking of Ice cream, milk, cheese, butter or any other milk based products.

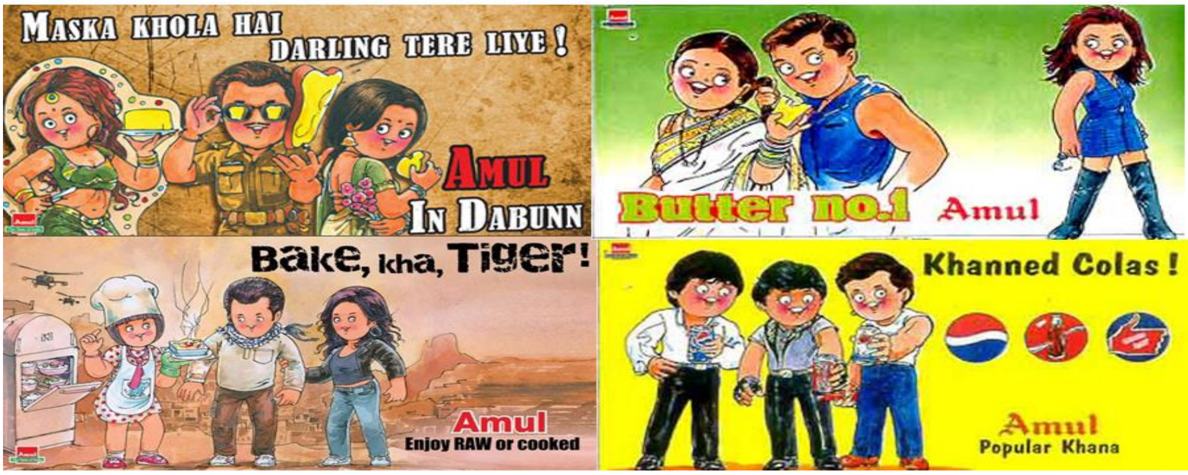
Competitive advantage in the Marketing strategy of Amul

There are two major competitive advantages of Amul over other brands. First and foremost is the supply chain. Because of the large numbers of dairy suppliers, Amul has a tremendous strength and reliability in its supply chain. Hence it is able to produce such high volumes. The second competitive advantage is the wide product portfolio due to which it can run Amulshoppe's and also have its products present in retail. The product portfolio is such that products like Butter and Ice cream are cash cows for the company.

Activity – Visualization

Visualize the below posters, do you see there is a mix of social events in its advertisements? If so then catch hold of your partner and start designing posters for your dream business.





BCG Matrix in the Marketing strategy of Amul

When we plot the BCG matrix, Amul has certain products which are stars whereas others are cash cows. And in fact, Amul chocolates are question marks because they have very low market share in a growing market. Amul ice cream and Amul butter can clearly be said to be a cash cow because they have very high market share and the market in itself is growing with the increase in population.

On the other hand, Dairy products like Milk, buttermilk, cheese, lassi, amulkooletc have a lot of direct and indirect competition in their niche. However, when compared with the same type of product, then Amul has a high market share. Thus, these products are stars for Amul.

Distribution strategy in the Marketing strategy of Amul

Like any fast movingconsumer goods (FMCG) company, Amul concentrates on breaking the bulk. It supplies in huge amounts to its C&F, who is required to have the right arrangements to store Amul products in bulk. This C&F then transfers the products to distributors who in turn give it to retailers. Furthermore, Amul has a direct sale team too which sells to modern retail. Besides this, the company has exclusive Amul stores which sell all products of Amul brand. Thus, in the marketing strategy of Amul, distribution is another strength of the brand.

Brand equity in the Marketing strategy of Amul

Because of the excellent products, the top of the mind positioning, the fantastic distribution & supply chain channels and finally the point of purchase branding and advertising of the Amul girl, Amul finds itself in a very strong position where its brand equity is concerned. Amul brand is worth $3.2 billion as per the 2013 brand equity report.

Furthermore, most analysts say that Amul would have touched the $4 billion mark, but the dropping value of the rupee is what caused the difference.

Competitive analysis in the Marketing strategy of Amul

Amul has some good competitors who have entered the market in the last decade and growing strong steadily. Most of these ice creams entered regionally but then held on to the regional market share. Thus, even though individually these brands might not be a worthy adversary, combined and with their total net aggregate, all of them together are giving a very tough competition to Amul.Some of these competitors are Kwality walls, Vadilal, Havmore, Dinshaws, Arun Ice cream, Baskin Robbins, London dairy and others. Many of these ice cream products have their own niche or geographic targets. Arun ice cream is strong in the south whereas havmor and Vadilal are strong in the west.

Besides these organized players, there are many unorganised local players who also give competition to Amul by having their own outlets and their own variants of ice cream. However, the competition in Butter and Cheese and other dairy products is far lesser.

Market analysis in the Marketing strategy of Amul

The Fast Moving Consumer Goods (FMCG) market is highly competitive in nature and is known to have a combination of organized players as well as unorganized players. Similarly, in FMCG, direct competition is equally important as indirect competition. For example – During winters, ice cream and cold milk products will not sell, whereas butter and cheese will sell equally well.

But on the other hand, during summers the demand of ice cream shoots up so much so that companies are not able to meet demands. Thus, when we analyse the market of Amul, in some cases Amul is the clear market leader, whereas in other products it is a competitor in the market.

Customer analysis in the Marketing strategy of Amul

The typical customers of Amul belong to the Sec B and Sec C segment wherein they are either middle class or lower class. Amul in general uses mass marketing and therefore it targets these 2 classes majorly. The high end customers are more likely to prefer a Naturals, a Baskin Robbins, or any other such brand which meets their taste and status.

This completes the analysis of the marketing strategy of Amul. What do you think of the Amul brand and why do you think it is the market leader?

Model Questions

1) IPL Cricket – 2019 provided big opportunities to various companies for promoting their brands. Enlist various sponsors of the IPL event and elaborate different promotional techniques used by them during the event.
2) Compare and contrast the terms promotion and marketing communications, and list the primary tools of marketing communications.
3) Describe the basic philosophy underlying integrated marketing communications (IMC), and discuss reasons why firms have not practiced IMC all along and why there is a reluctance to change.
4) Explain the prominent features that undergird the philosophy and practice of integrated marketing communications.
5) Discuss the necessity and significance of advertisements in IMC.
6) Discuss how a company introducing an innovative new product might use the innovation adoption model in planning its integrated marketing communications program.
7) Assume that you are the marketing communications manager for a brand of paper cups. Discuss how the low involvement hierarchy could be of value in developing and advertising and promotion strategy for this brand.
8) How companies marketing their products in rural regionscould avoid some of the communications problems that might arise because of differences due to language, culture?

Let's Sum-Up

Integrated Marketing Communication

Communication is the process that conveys thoughts and shared meanings between individuals or organizations and individuals. The Marketing communications represents all the elements of the marketing mix that facilitate exchanges by targeting the brand to a group of customers; positioning it as distinct from competitive brands; share the brand's meaning with its target audience.

Marketing Communication Mix

Various tools used to pursue advertising and marketing objectives.

Elements of Marketing Communication Mix

Advertising, Personal Selling, Sales Promotion, Public Relations and Direct Marketing

Integrated Marketing Communication (IMC)

Integrated Marketing Communication is a communication process involving planning, creation, integration and implementation of diverse forms of marketing communications that are delivered over time to a brand's targeted customers and prospects.

It's indeed the strategy under which a company carefully integrates and coordinates its many communications channels to deliver a clear, consistent, and compelling message about the organization and its products.

But when using the IMC concept, a company has to keep the following factors in mind:

- Role of the promotion channels
- Timing of campaigns
- Track of the product life cycle

Five key features of IMC

1) Profile the identified target market.
2) Use the related media channels.
3) Achieve communication synergy.
4) Influence the target market behavior.
5) Build customer relationships.

Significances of IMC

- Builds a strong brand identity
- Reinforces the images and messages continuously to the consumer
- Better communication consistency and greater sales impact

Role of Advertising in IMC

Some of the prominent roles of advertising in IMC are:

- ✓ Awareness
- ✓ Information
- ✓ Persuasion
- ✓ Attitudes
- ✓ Reminder
- ✓ Brand Loyalty
- ✓ Brand Image
- ✓ Counter Competitors' Claims
- ✓ Expansion of Markets
- ✓ Educating the Customers

KEY WORDS

Barter Economy, IMC, Marketing Communication Mix, Advertisement

Further Reading

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Chapter – 2
Understanding Communication Process

The Marketing Communications process consists of integrated activities in which the targeted audience is identified and a well coordinated promotional program is prepared to generate the desired response from the audience. Most problems of preferences, image and immediate awareness in target customers is focused by the marketing communication. But there are certain limitations that are associated with the concept of communication. These limitations include high cost and short term duration that cannot generate the desired results from the targeted customers.

In recent years Marketing Communication is used by most of marketers as building customer relationship at the stages of pre-selling, selling, utilization, and post utilization. Due to various differences in customers, different programs of communications are developed for specific segments and niches, which we would be discoursing in this chapter.

1. Understanding Source, Message and Channel Factors
2. AIDA Model
3. Elaboration Likelihood Model (ELM)
4. Foote, Cone and Belding Model – FCB Grid Model
5. Hierarchy of Effects Model
6. Innovation Adoption Model
7. Operational Model
8. Let's Sum-Up
9. Model Questions
10. Further Reading

2.1 Understanding Source, Message and Channel Factors

The three major components of the communication process which can be controlled by the communicator (the marketer) in order to achieve a desired persuasion of the receiver (the target customer) are

- ☞ Source
- ☞ Message
- ☞ Channel

Who delivers the message, what kind of appeal to use, and the channel of communication- all play a very significant role in the process of communication for a marketer. The steps involved in the process of message conveyance are:

- ✓ Message presentation
- ✓ Attention
- ✓ Comprehension
- ✓ Yielding
- ✓ Retention, and
- ✓ Behavior

Source Factors

The characteristics of the source affect the advertising message and in turn the consumer behavior and consumer purchase decision. There are three basic categories of source attribute which a marketer must bear in mind. These are:

- Credibility
- Attractiveness
- Power

Message Factors

Order of presentation

Research on learning and memory generally indicates that items presented first and last are remembered better than those presented in the middle. Presenting the strongest arguments at the beginning assumes a primacy effect while, doing that at the end assumes a recency effect.

Conclusion Drawing

Research indicates that, in general, messages with explicit conclusions are more easily understood and effective in influencing attitudes. However, this depends upon the target audience, type of topic/ issue at hand and the nature of the situation.

For instance, stating the conclusion is necessary for a less educated audience. But, open- ended ads work better for highly involved audiences.

Message sidedness

Message can be either one sided (stating only the positive attributes) or two sided (presenting both good and bad points). Depending upon the market share and image associated, a particular message type can be chosen.

Comparative advertising

This is the practice of directly or indirectly naming the competitors for the purpose of comparison. Ethical issues may be associated with the same.

Fear

The relationship between persuasion and fear can be explained by the fact that, fear appeals has both facilitating and inhibiting effects.

Humor

Humorous advertisements are often the best known and best remembered of all advertising messages. However, their effectiveness reduces with every watch.

Channel Factors

Personal Vs Non-Personal Channels

Personal channels of communication turn out to be more persuasive that the non-personal channel(s) of mass media. The difference lies in the personal influence and customization in the case of personal channels.

Effects of alternative mass media

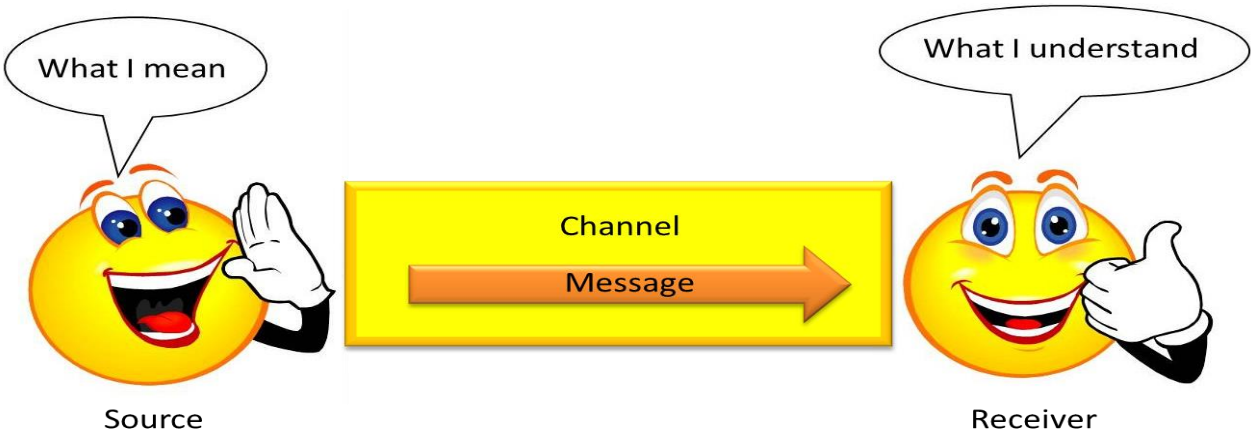
There I a basic difference in the manner and rate at which information from various forms of media is transmitted and can be processed. Information from ads in print media is self-paced, thus can be used to give extensive information. While the information given on broadcast media is externally paced thus, the message needs to be short and effective at the same time.

Effects of context and environment

The medium communicates an image that is independent of any message it contains. The Qualitative media effect is the influence of the medium on the message.

Clutter (Background Effects like Sound)

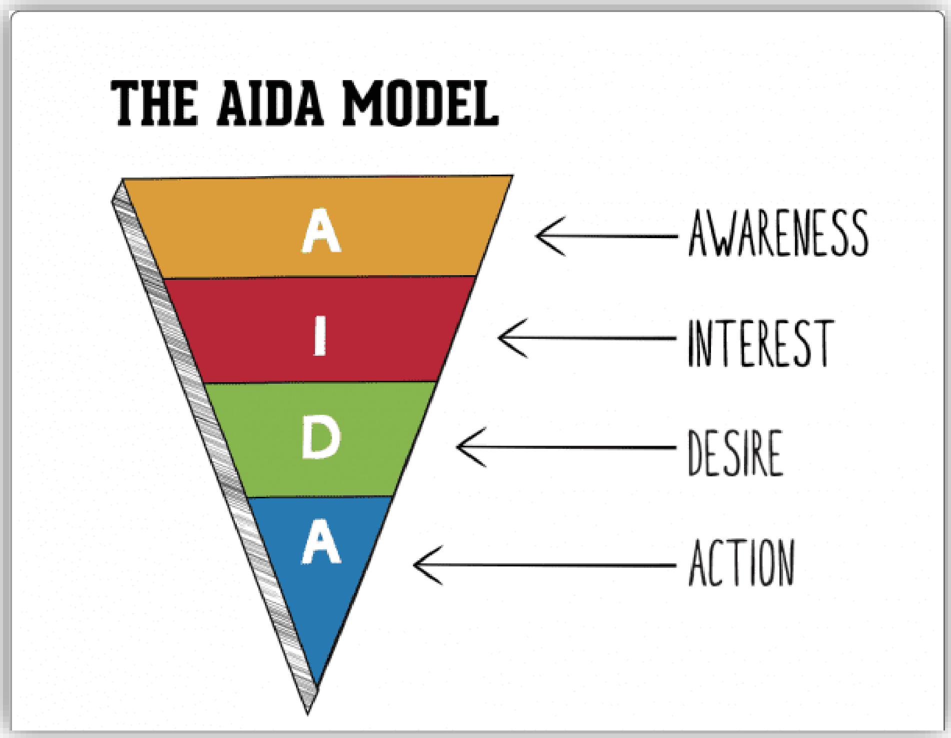
The problem of clutter is very intriguing for the advertisers in today’s world of information overload. Thus, the importance of being as direct and effective in the minimum time possible besides being able to grab attention has increased dramatically.



2.2 AIDA Model

Even though the world of advertising has become more and more competitive, the principle behind the ad copy remains the same. The four steps that the copywriters use in their ad to persuade the consumers to buy the products are attention factor, interest element, desire element and action element which are called as AIDA. Advertising and marketing objectives are met by the effective use of this model.

The phrase AIDA, in marketing communication was coined by American advertising and sales pioneer Elias. St. Elmo Lewis in the late 1800s. The model talks about the different phases through which a consumer goes before going to buy a product or service. According to him, most of the marketers follow this model to fetch more consumers for their product. Marketers use this model to attract customers to purchase a product. This model can be seen widely used in today’s advertisements.

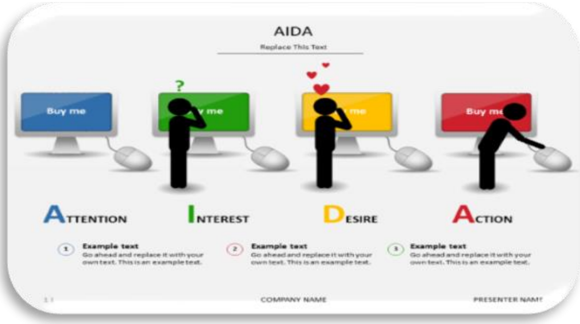


The acronym AIDA stands for Attention, Interest, Desire and Action. These are the four stages that a consumer goes through when watching or viewing an advertisement. According to Lewis, first and foremost, the role of an advertisement is to attract the customers. Once an ad grabs attention, it has to invoke interest towards the product in the minds of the consumers. After creating an interest, the ad has to bring desire in consumers mind to use the product and finally the consumer has to take a favorable action towards the product by ultimately purchasing the product.

- **Attention**: Attention is usually grabbed by the use of image, color, layout, typography, size, celebrity, model etc
- **Interest**: Once attention is grabbed, it's necessary to create interest in the viewers mind so that they will read more about the brand being advertised. By the use of an attractive sub head, interest can be invoked
- **Desire**: The element of desire is usually created by the use of body copy where you write in detail about the necessity of buying the brand, thereby explaining the features of the brand, facts and figures
- **Action**: Towards the end, the contact information of the brand will be given where they expects the viewers to take action immediately. It can be in the form of shop address, toll free numbers or website address

Activity – Conceptualization

Along with your partner watch this video to learn more about AIDA Model



Scan the QR Code to Watch the Video

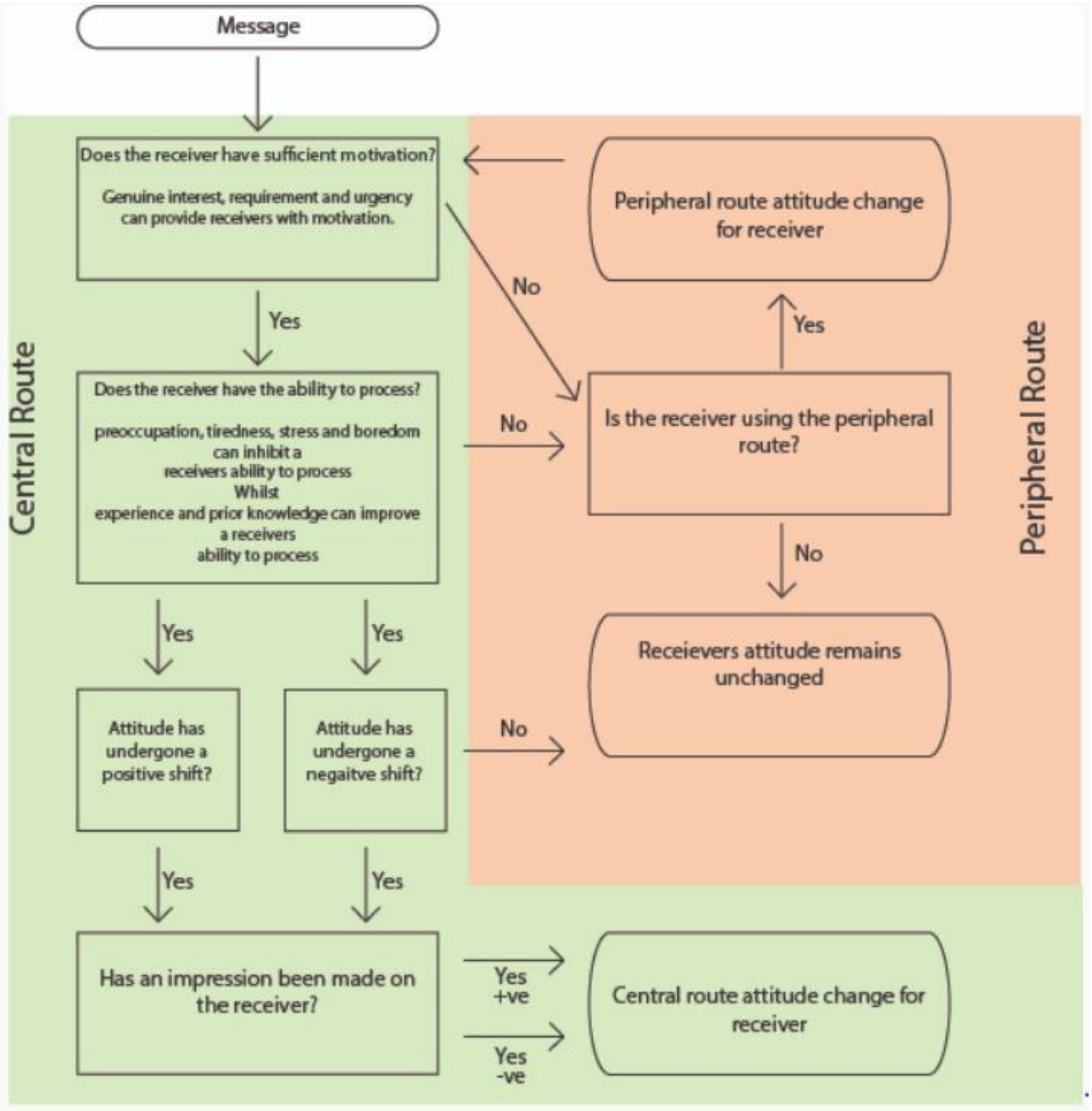
An advertisements success depends up on the viewer’s ability to notice and understand its message. The AIDA model helps the copy writer to present the elements of a print ad, Headline, Subhead, Body copy, slogan and contact information in a format that makes the viewers read in a flow and understand about the product easily.

2.3 Elaboration Likelihood Model (ELM)

Elaboration Likelihood Model is developed by Richard E. Petty and John T. Cacioppo in 1980s. Persuasion is very much associated with our daily life. Persuasion occurs when readers, listeners or viewers learns a message from what they read, listen or watch. We remember the message as ideas and we will be persuaded by it. That is how we remember them. If we did not learn something, it is not possible to remember it and we will not be persuaded by it. However learning may not be always combined with persuasion. For example there might be some advertisements that we hate, we don’t want to learn or remember the message from the advertisement and we are not being persuaded by it.

The Elaboration Likelihood Model (ELM) explains how persuasion message works in changing the attitude of reader or viewer. It is very much important for corporations and advertisement agencies, in designing their market strategies and understanding the attitudes of peoples.

Persuasion is referred as the action by which, convincing or causing someone to do something through reasoning or argument. The Elaboration Likelihood model proposes that each and every message is undergoing the process of persuasion in two different ways. They are called Central route and peripheral route. Both of them are effective persuasion techniques, but each of them has its own guiding techniques to make them more operative.



Source: John Geddes 2016

Routes to Persuasion

It became clear that the ELM posits that when a person is confronted with persuasive information, this person will process this on a certain level of elaboration. That means how much trouble this person takes to process, evaluate, remember, and accept or reject the message. The ELM determined that, as a result, there are two routes the message can take, depending on the personal motivation, opportunity, or ability that influence the message.

Central Route Processing

Central route processing entails that the target audience cares for the message and will therefore have a high level of elaboration. In this case, the audience investigate the message's content, rather than just reading through it. This is because they are highly motivated and know what's important to them.

The central route is powerful. It demands a careful consideration of arguments that are contained in the message. Therefore, the reader or viewer must be highly involved and consider all arguments from every possible angle. The recipient uses thought, critical judgment and evaluation to carefully investigate ideas. In short, central persuasion requires two elements: sufficient arguments and information in the message to analyze this and the recipient's willingness to engage in elaboration.

Illustration

A woman who is very much interested in platinum jewels will be closely watching the advertisements of platinum jewels. She is fascinated with the new trends and tends to collect them. Here she has the motivation for the subject matter and she care about it. She carefully processes the message and thinks about it. And her husband may not be interested in jewels so he will be totally ignoring the message from advertisements about the jewels. Here the woman processes the message in her central route and not her husband.

Peripheral Route Processing

In peripheral route processing, the target audience doesn't care about the message as much and therefore has a low level of elaboration. The audience will put less effort into investigating the message and is influenced by secondary factors, such as the source's credibility, visualizations, presentation, humor, or food.

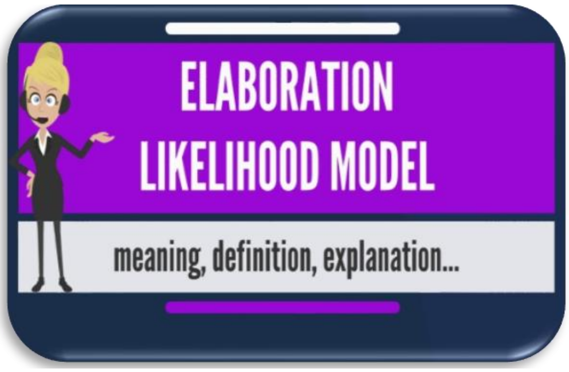
The peripheral route processing is weak, and the recipient's engagement is low. The message is not cognitively analyzed and not critically considered. Therefore, the recipient isn't sure whether to agree or disagree with the message. He can be distracted from the core by secondary issues such as the packaging material and marketing campaigns.

Illustration

Arun, a high school student in a book store wish to buy a note book for doing his homework. He sees many designs in front cover of the notebook from various companies. He became confused, and then he saw a notebook with his favorite football player's picture in front cover. Without thinking much about it, he bought that notebook.

Activity – Conceptualization

Along with your partner watch this video to learn more about ELM Model



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Factors Route Determination

The two most influential factors that affect the processing route a person uses to process the message are motivation and the ability to elaborate. A third factor has been added to this.

Motivation

Motivation can be influenced by attitude. An example of this is the cognitive dissonance theory. Cognitive dissonance occurs when a person experience unpleasant tension caused by contradictory persuasions, ideas, or convictions or when he acts in violation of his own convictions.

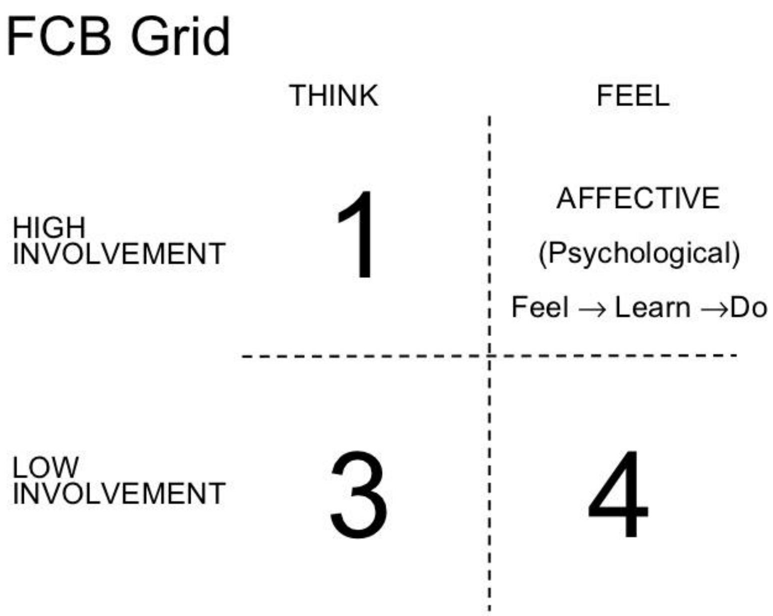
Ability

Ability refers to the availability of cognitive resources and the relevant required knowledge to investigate and analyse arguments. The ability to process a message can be affected by, for instance, noise such as background sounds in a quiet library. The familiarity with a subject also determines whether or not engagement to encourage deep thought is achieved.

Opportunity

Some psychologist list opportunity under ability, as it particularly relates to time and place and how much time a person has to make a decision.

2.4 Foote, Cone and Belding Model – FCB Grid Model



Foote, Cone and Belding Model which is also termed as FCB Grid, was formulated in the year 1980 by Richard Vaughn. The Foote, Cone and Belding Model was designed in a grid format based on 'Think and Feel' as the base factors. On the basis of these two factors, the involvement levels of consumers are classified as either High Involvement or Low Involvement. The four quadrants in the FCB Grid divide products and the motivation to buy those products into four categories on the basis of involvement and decision making pattern of consumers regarding those products. It also suggests different marketing and advertising strategies to target each quadrant effectively.

Quadrant 1

Decisions are based on highly involved thinking. Purchase requires information first, which leads to awareness and a considered buy. A Smartphone purchase needs a lot of analysis since there is high investment. There's also emotion, which pushes the purchase nearer to the rightmost feeling side of the chart, but it's a thoughtful purchase. Life Insurance stays on top of high involvement. Ironically, it just slightly more to the rightmost feeling side of the chart because it's more important (or costs more) than the Smartphone.

Quadrant 2

Decisions are based on highly involved feeling. Purchase requires reflection first, as personal ego and self-esteem cajole us to buy. Skin softening cream is just at the beginning of the feeling side of the grid. Perfume blows it away, ending up on the far right of feeling. Fragrance evokes higher feeling than a Hallmark card, and also requires higher involvement.

Quadrant 3

Decisions are based on lowly involved thinking. Purchase of practical goods based on habit and routine behavior. We learn about the product only after taking it home and not before. It's the detergent we assess after the first wash.

Quadrant 4

Decisions are on lowly involvement. It's the purchase of pleasure products led by quick personal or peer-led satisfaction. Their motto is: "Just do it." Cookies are a low intellectual item, the less we think about them, the more we want them.

Characteristics of FCB Grid

- ✓ Foote, Cone and Belding Model is used to assess the thinking and feeling patterns of consumers which act as the basis of strategizing advertisements
- ✓ The two basic elements used for the assessment in Foote, Cone and Belding Model are Thinking and feeling
- ✓ The FCB Grid is based on the Split Brain Theory which substantiates and emphasizes on the working of Left Brain and Right Brain in human beings
- ✓ The Horizontal Row in the Foote, Cone and Belding Model shows that the behaviour of the consumers tend to move towards thinking emotionally from being rational over a period of time
- ✓ The Vertical rows of the FCB grid shows how consumer interests or behaviour shifts from high involvement to low involvement and from low involvement to high involvement over a period of time
- ✓ The FCB Grid helps Advertisers to formulate effective advertising strategy for each quadrant. The first quadrant in the FCB Grid helps the advertising agencies to formulate Informative Strategies. Second quadrant in the FCB Grid helps the them to formulate Affective Strategies The third quadrant in helps the advertising agencies to formulate Habit formation strategies The fourth quadrant in the Foote, Cone and Belding Model helps the them formulate satisfaction Strategies.

Key advantages of using Foote, Cone and Belding Model

- Foote, Cone and Belding Model is very rational and logical
- It is highly realistic since it is based on human psychology
- The model is consistent since it does not involve discussions about changing consumer attitude but just exhibits their purchase related behavior

- Though the model discusses only about the consumer behaviour, it is capable of exerting influence over consumer mentality on purchase related decisions. This is achieved through the insight provided by the grid on the purchase pattern of each consumer. This change in mentality makes consumer think of alternatives during their next purchase.
- A consumer who studies his purchase pattern through the Foote Cone and Belding Model tends to understand the non-rationale manner in which some of his purchase decisions were made. This brings about a change in his behaviour making him think rationally before making a purchase rather than harping on lateral thoughts.
- From a sales point of view, all four quadrants clearly point out the customer behaviour in terms of decision making pertaining to purchases. This helps sales department to focus on the target audience represented by each quadrant for its own product lines.

Activity – Conceptualization

Along with your partner watch this video to learn more about ELM Model

Scan the QR Code to Watch the Video

2.5 Hierarchy of Effects Model

The Hierarchy of Effects Model was created in 1961 by Robert J Lavidge and Gary A Steiner. This marketing communication model, suggests there are six steps from viewing a product advertisement (advert) to product purchase which can be split into three stages of consumer behaviour: cognitive, affective and conative.

- Cognitive so that the consumer becomes product aware and gathers product knowledge
- Affective (feeling) so that the consumer likes the product brand and has conviction in it
- Conative (behaviour) so that the consumer buys the product brand

The job of the advertiser is to promote the three behaviours so that the consumer proceeds to Conative behaviour and purchases the product.

Awareness

The customer becomes aware of the product through advertising. This is a challenging step, there is no guarantee that the customer will be aware of the product brand after they view the advertisement. Customers see many adverts each day but will only remember the brand of a tiny fraction of products.

Knowledge

The customer begins to gain knowledge about the product for example through the internet, retail advisors and product packaging. In today's digital world this step has become more important as consumers expect to gather product knowledge at the click of a button. Consumers will quickly move to competitor brands if they do not get the information they want. The advertiser's job is to ensure product information is easily available.

☞ **Liking**

As the title states, these steps are about ensuring that the customer likes your product. As an advertiser what features can you promote to encourage the customer to like our product?

☞ **Preference**

Consumers may like more than one product brand and could end up buying any one of them. At this stage advertisers will want the consumer to disconnect from rival products and focus on their particular product. Advertisers will want to highlight their brand's benefits and unique selling points so that the consumer can differentiate it from competitor brands.

☞ **Conviction**

This stage is about creating the customer's desire to purchase the product. Advertisers may encourage conviction by allowing consumers to test or sample the product. Examples of this are inviting consumers to take a car for a test drive or offering consumers a free sample of a food product. This reassures consumers that the purchase will be a safe one.

☞ **Purchase**

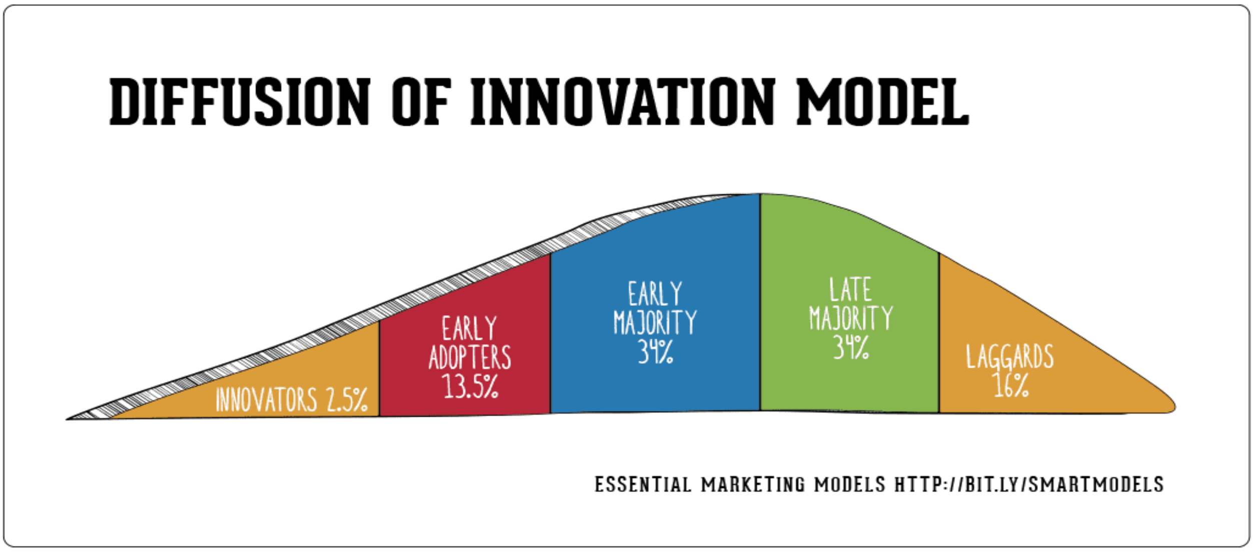
Having proceeded through the above stages, the advertiser wants the customer to purchase their product. This stage needs to be simple and easy, otherwise the customer will get fed up and walk away without a purchase. For example a variety of payment options encourages purchase whilst a complicated and slow website discourages purchases.

2.6 Innovation Adoption Model

Model is evolved from work on the diffusion of innovations. This model represent the stages a consumer passes through in adopting an innovation—innovation such as a new product. Innovation Adoption Model is also referred as Everett M. Rogers' theory Diffusion of Innovation. It explores what type of person, adopts products at each stage of product life cycle.

Like the other models, this model says potential adopters must be moved through a series of steps before taking some action (in this case deciding to adopt a new product). The steps preceding adoption include awareness, interest evaluation, and trial.

The challenge facing companies introducing new products is to create awareness and interest among consumers and then get them to evaluate the product favorably. The best way to evaluate a new product is through actual use so that performance can be judged.



Marketers often encourage trial by using demonstration or sampling programmes or allowing consumers to use a product with minimal commitment. After trial, consumer either adopt the product or reject it. The decision in favour of making an evaluation is likely to be influenced by information available from various sources including advertising. Evaluation is a major step towards the adoption of the product/service.

2.7 Operational Model

Developed by O' Brien, the model integrates various stages of decision making by buyers. According to an study to know the purchasing behaviour of 634 housewives for a brand of convenience food for a five months period, it was indicated that building up the confidence in the brand was an important cognitive stage operating between awareness and attitude alteration or formation.

Any modification in the attitude towards the usage of the brand is likely to affect purchases in future. Favorableness of word of mouth communication contributes to building of confidence.

Model Questions

1. Give a detailed account on AIDA model.
2. What's your opinion on Elaboration Likelihood Model, how it could help in rural marketing promotion.
3. What are the characteristics of FCB Grid
4. Distinguish between Innovation Adoption and Operational Model
5. Write short notes on Hierarchy Effects Model

Let's Sum-Up

✓ The three major components of the communication process are Source, Message, and Channel factor. These are the factor that can be controlled by the communicator (the marketer) in order to achieve a desired persuasion of the receiver (the target customer).

Who delivers the message, what kind of appeal to use, the channel of communication- all play a very crucial role in process of communication for a marketer.

- ✓ AIDA is an acronym that stands for Attention or Awareness, Interest, Desire and Action. The AIDA Model identifies cognitive stages an individual goes through during the buying process for a product or service. It's a purchasing funnel where buyers go to and fro at each stage, to support them in making the final purchase. It was developed to represent the stages a sales person must take a customer through in the personal selling process. The effect is the action into which a prospect may be induced as a result of advertising.
- ✓ Elaboration Likelihood Model (ELM) of persuasion is a dual process theory that describes the change of attitudes and behavior. The theory explains how attitudes are formed and reinforced by persuasive arguments.
- ✓ FCB Grid helps us understand where a product stands in the mind of a consumer, by estimating whether or not purchase requires a highly involved emotional decision or a highly involved intellectual decision. With that information, we can devise four advertising concepts about a single product that will influence different buyers.
- ✓ The Hierarchy of Effects Model was created in 1961 by Robert J Lavidge and Gary A Steiner. This model is known as a "hierarchy" because the number of consumers moving from one stage to next reduces, as we move through the model.
- ✓ Innovation Adoption Model is also referred as Everett M. Rogers' theory Diffusion of Innovation. It explores what type of person, adopts products at each stage of the product life cycle.
- ✓ Operational Model was developed by O' Brien. The model integrates various stages of decision making by buyers.

KEY WORDS

AIDA, ELM, FCB Grid, Hierarchy of Effects, Innovation Adoption, Operational Model

Further Reading

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Chapter – 3
Planning for Marketing Communication (Marcom)

One day or the other, we might have given a small speech, like at a party or a wedding. With all eyes on us, we need to make sure our speech delivers the message we are trying to convey. Whether we are congratulating someone on a milestone or informing them about a cause, our speech needs to be engaging and exciting. Typically, we only have one opportunity to captivate our audience. Marketing communication plans work in similar ways, but on a much larger (and sometimes more complicated) scale. Marketing communications (Marcom) plan is a strategy for informing our target customer audience about our product or service. It is one component of the overall marketing plan. Marcom plans provide that focus that allows us to know where we are going with our strategy, what we need to say and do to promote our product, and how we will bring that product from factory to consumer. This is known as a marketing channel. The plan needs to be solid, eye-catching, and exposed, meaning that it covers all primary communication channels. In this chapter, we would discourse the following concepts with pragmatic illustrations in order to conceive the Market Communication Strategy.

1. Market Communication Strategy
2. Promotional Budget
3. DAGMAR Approach
4. Marginal Analysis
5. Sales Response Curve
6. Methods to determine Marcom Budget
7. Blackboard on Rural Market Communication Strategy
8. Model Questions
9. Further Reading

3.1 Market Communication Strategy

Gaining awareness should be the first step in our sales process and the main focus of our marketing communications (marcom) strategy. Getting to know our audience, crafting our message, tracking results are only few methods.

Indeed an effective marketing communications plan results in a better, more consistent brand experience. The end result: MORE SALES.

- **The Better We Know Our Audience, the Better We (& Our Team) Can Appeal to their Interests**
  All successful marketing efforts begin with a thorough understanding of our audience. Start by analyzing our current clients and why they chose our products or services. Don't have enough data to get the full picture? Put a research plan in place to help fill in any gaps

relating to demographics, purchase patterns and other insights into when, where, why and how people purchase our products.

- **Uncover Our Unique Selling Proposition (USP)**
  Our Unique Selling Proposition is the main benefit that, when communicated effectively, drives sales of our product or service. It focuses on a unique problem that we solve better than anyone else. Our USP must be compelling and strong enough to move people to act. Our USP will be central to all of our marketing communications, so don't take this step lightly.

- **Sharpen Our Brand Look and Feel**
  From logos to business cards and marketing collateral, our brand must speak to the customer in a contemporary, relevant manner. It needs to support our operational USP and accurately represent our market position – don't mislead our audience by creating a marquee brand if we're aiming to be a low-cost option. Be honest, sincere and true to the heart of our business.

- **Ensure that All Messaging is Consistent**
  While most people think of logo and stationary when it comes to branding, our brand voice is equally important. A good place to start is to generate a few key positioning statements to feature in our communications. Start with a tagline, single sentence version and then a standard short paragraph. Try spooling out a handful of key messages (say like up to 5) that our company should be communicating (note that they cannot all be in all places). Outline key descriptive words to use and not use, and make sure that our new messaging standards are adhered to in all future communications.

- **Choose Our Marketing Mix**
  With all of the recent advancements in online marketing, there are more ways to communicate than ever before. Every industry and brand is unique, so there is no standard marketing mix that will work for everyone. The key is to understand our options, and choose a media mix that fits our audience (where do they spend their time and/or attention), budget and marketing communications goals.

- **Establish Marcom Success Measurements (Metrics)**
  Whatever the medium and message, ensure that our communications are measurable; whether its email open rates, social media exposure or direct mail response rates, establish key communications goals and put systems in place to chart our success. Tie this data in with sales metrics to get a true sense of what's working and what's not.

- **Manage Leads and Client Data**
  We know our audience, we've built our brand and we've told our story. People are interested – now what? A CRM (Customer Relationship Management) system is a database of your contacts (customers, prospects, others) that allows you to organize information (contact info, records, files, calls, emails, etc) to streamline and scale sales and marketing

processes. This will help us better understand how clients move through the sales funnel and help us close more leads.

3.2 Promotional Budget

A promotional budget is a specified amount of money set aside to promote the products or beliefs of a business or organization. Promotional budgets are created to anticipate the essential costs associated with growing a business or maintaining a brand name.

The budget is often set according to a percentage of sales or profits in order to maintain an expected growth rate. The advertising and marketing of a business represent costs that most businesses have a tough time predicting, which is why a percentage method might be used. A promotional budget could be increased in anticipation of new product lines are set to release in the near future. High promotional budgets can reduce profits during the period such assets are expended. Companies might allow for such higher costs based on an assumption that sales or awareness will increase among customers.

How Promotional Budgets Are Spent?

Promotional budgets usually include money put towards advertising across mediums such as radio, television, Internet and print. A company's promotional budget can include expenses for email campaigns, social media outreach and outdoor signage.

The promotional budget might also go towards hiring outside experts and consultants who develop the campaigns and place ads in appropriate media and locations. This can include contracting marketing intelligence firms to interpret data that shows how dollars spent on marketing translate into new or recurring business for the company.

The decision-making process at organizations continues to evolve when it comes to allocating funds for promotional budgets. Budgeting strategies change as public attention continues to shift away from older, traditional mediums such as print to focus more on digital, online and mobile media.

While the overall size of a company's promotional budget might not have changed, the way the money is divided up may have. For instance, money previously dedicated to advertising through television might now include campaigns that reach people on the Smartphones.

The shifts that occur with promotional budget trends can have a direct effect on media industries that rely on those proceeds. A reduction in advertising dollars for newspapers and other print media, as companies directed those assets instead to digital media and other outlets, contributed to a decline in the newspaper and magazine industries.

Companies regularly measure the return on investment from their promotional budgets. The results often have a significant impact on where companies continue to put their funds.

For example, a company will likely change its strategy if a billboard campaign fails to attract attention at the same time social media marketing messages increase sales. In many cases, the promotional budget at the company will be adjusted to favor more investment in social media.

Activity – Discursive Session

Reliance Jio played a key role in increasing 4G penetration in India, helping the rural population get 83 million 4G subscriptions out of the total 238 million 4G subscribers as on Dec 2017. What could be the marketing strategy of Jio? Discuss with your partner.

3.3 DAGMAR Approach

DAGMAR is an advertising model proposed by Russell Colley in 1961. Russell Colley advocated that effective advertising seeks to communicate rather than to sell. Advertisers discover whether their message conveyed enough information and understanding of a product to their consumers and also its respective benefits from clear objectives. It is a marketing expression that stands for "Defining Advertising Goals for Measured Advertising Results". It is a marketing tool to compute the results of an advertising campaign. DAGMAR attempts to guide customers through ACCA model. According to this approach, every purchase encounters four steps; Awareness, Comprehension, Conviction, and Action. DAGMAR method is an established technique of creating effective advertising.

Awareness

- ✓ Awareness of the existence of a product or a service is needful before the purchase behavior is expected. The fundamental task of advertising activity is to improve the consumer awareness of the product.
- ✓ Once the consumer awareness has been provided to the target audience, it should not be forsaken. The target audience tends to get distracted by other competing messages if they are ignored.
- ✓ Awareness has to be created, developed, refined and maintained according to the characteristics of the market and the scenario of organization at any given point of time.
- ✓ The objective is to create awareness about the product amongst the target audience.

Comprehension

- ✓ Awareness on its own is not sufficient to stimulate a purchase. Information and understanding about the product and the organization are essential. This can be achieved by providing information about the brand features.

- ✓ Example: In an attempt to persuade people to budge for a new toothpaste brand, it may be necessary to compare the product with other toothpaste brands, and provide an additional usage benefit, such as more effective than other toothpaste because it contains salt or that this particular toothpaste is a vegetarian toothpaste, which will, in turn, attract more customers.
- ✓ The objective is to provide all the information about the product.

Conviction

- ✓ Conviction is the next step where the customer evaluates different products and plans to buy the product. At this stage, a sense of conviction is established, and by creating interests and preferences, customers are convinced that a certain product should be tried at the next purchase.
- ✓ At this step, the job of the advertising activity is to mould the audience's beliefs and persuade them to buy it. This is often achieved through messages that convey the superiority of the products over the others by flaunting the rewards or incentives for using the product.
- ✓ Example: Thumbs up featured the incentive of social acceptance as "grown up". It implied that those who preferred other soft drinks were kids.
- ✓ The objective is to create a positive mental disposition to buy a product.

Action

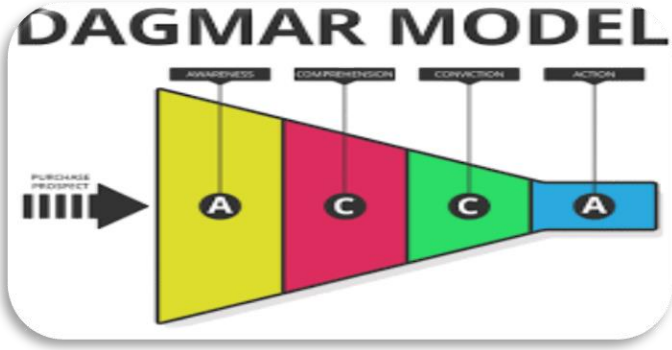
- ✓ This is the final step which involves the final purchase of the product. The objective is to motivate the customer to buy the product.

Significances of Dagmar Approach

- Persuade a prospect to visit the showroom.
- Growth in market share.
- Improve sales turnover.
- Perform complete selling function.
- Advertise a special reason to buy.
- Stimulate impulse sales.
- Remind people to buy.
- Create awareness about the product and brand existence.
- Create favourable emotional disposition towards the product.
- Impart information regarding benefits and distinctive features of the product.
- Combat and offset competitive claims.
- Correct false impressions, wrong information and other hindrances to sales.
- Aid sales force with sales promotion and selling activities and boost their morale.
- Establish brand recognition and acceptance.

Activity – Conceptualization

Along with your partner watch this video to learn more about DAGMAR Model



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3.4 Marginal Analysis

Marginal analysis involves a cost-versus-benefits comparison of various business activities. In marginal analysis, the cost of an activity is measured against incremental changes in volume to determine how the overall change in cost will affect the bottom line of a business. It can show the cost of additional production by a business all the way up to the break-even point. This is generally the maximum cost that a business can sustain without losing money.

When making a business decision using marginal analysis, take into account cost and production variables that will become the basis of our business decision. The quantity of the product purchased is one of those variables. In marginal analysis, the overall cost to the business owner will increase with each additional unit purchased. Other variables include the quantity goods we produce or the quantity of another cost added to the equation, such as shipping costs. To understand how our profitability changes, we make one of these our control variable, or the variable that you change. Changes are made in increments of one unit until our profitability decreases to zero. This will then provide us with a range of changes we can make with varying levels of profitability.

Activity – Conceptualization

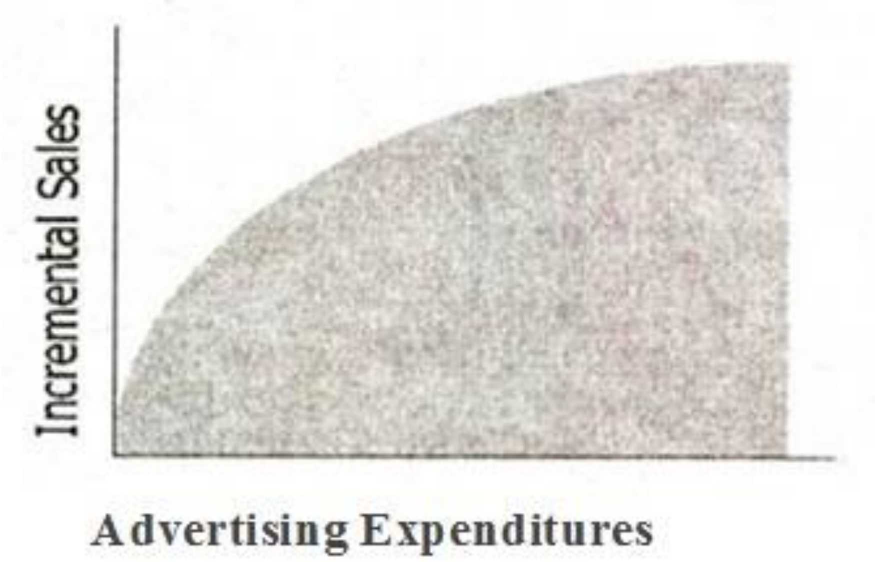
Scan the QR Code to Watch the Video

In marginal analysis, continually increase the control variable to the point at which the marginal cost is either equal to or greater than the marginal benefit. The reason for this is simple. We can continue to experience some level of benefit, despite the increase in cost. In marginal analysis we are weighing the benefits versus the cost. When the additional benefits received do so at a greater cost per benefit, then we have reached the point where it is no longer reasonable to change the control variable.

3.5 Sales Response Curve

The sale response function describes the relationship between the increase in expenses due to advertising and its corresponding effect on the sales of the product. Two different types of models have been formulated to describe this relation viz.

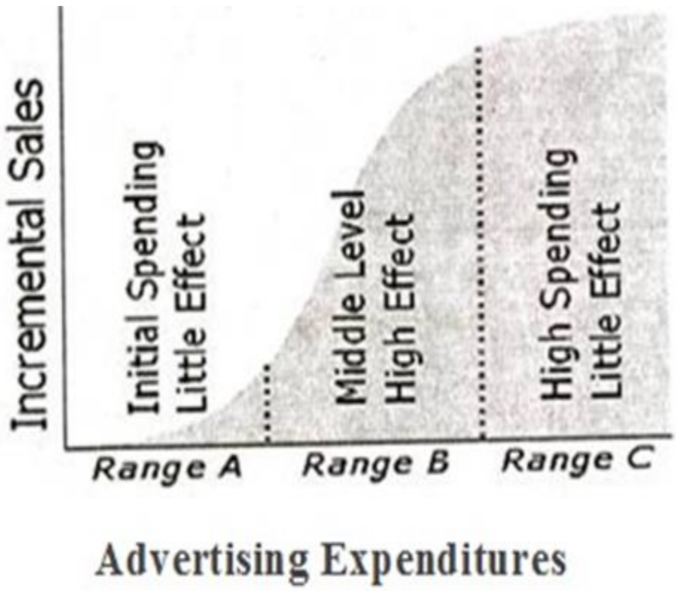
The downward concave curve



As seen from the above curve, the advertising expenditures increase with sales. That is, the value of advertising expenses is decreased. When a customer is first exposed to an ad, the customer who is willing to purchase the product does it at the earliest. While, it is useless to keep repeating the ad, if the customer is least interested in the product. He is anyway not going to buy it. So, repeating the ad is not really useful in this condition.Thus, the curve is downward sloping. And in the long run, thus, low advertising expenses are needed to influence the sales.

The S-shaped curve

As shown in the below curve, in the initial stages, the advertising expenses do not really have that influence on the sales. Therefore, region A is almost flat shaped. Then, when the product is a bit popular, the advertising expenditure has a positive and visible influence on the sales. Then, finally in the region C, the increase in advertising expenditure has almost nil effect on the sales. Thus, the curve is almost flat in the region C.



While developing these curves, the following assumptions were made:

i) There will be no sales without advertisement.

ii) Factors like culture and competition were not considered while designing these curves.

Rarely do the business firms refer to these types of theoretical models for decoding on their advertising budgets or other such sales-related activities. They use their experience to adopt the best practices suitable for their company. So, these curves are generally used by newly found organizations.

3.6 Method to determine Marcom budget

The following points highlight the top five methods of determining Marcom budget as listed by Joel Dean. The methods are:

1. The Percentage of Sales Approach
2. The All-You-Can Afford Approach
3. The Return on Investment Approach
4. The Objective and Task Approach
5. The Competitive Parity Approach

1. The Percentage of Sales Approach:

In this method, the sales value of the preceding year is first taken and then the expected sales during the year in question are arrived at. Thereafter, some percentage of the expected sales is considered and this is known as the percentage of sales approach. This method was dominant in the past and even now it is widely used. It may be a fixed percentage or a percentage that varies with conditions of sales. The method is simple in calculation. In this method, a clear relationship exists between sales and advertising expenses. By adopting this method advertisement war can be avoided.

In spite of these advantages, this method has little to justify it. This method does not provide a logical basis for choosing the specific percentage except what has been done in the past or what competitors are doing. It discourages experimenting with countercyclical promotion or aggressive spending.The aim of advertising is to increase the demand for the product and therefore it should be viewed as the cause, not the result of sales. But this approach views advertising on the results of sales. It leads to a budget set by the availability of funds rather than by market opportunities.

2. The All-You-Can Afford Approach:

Under this approach, a company spends as much on advertising as it can afford. It can spend for advertising as much as the funds permit. From the name itself, it is clear that the affordable amount set aside for advertising is known as affordable method. This approach appears to be more realistic, for all companies generally spend that much amount on advertisements which they can afford, even though they may not say so.

As advertising outlays are growing out of all proportions in the modern business, this method seems to provide a basis for many firms with regard to advertising outlet. Generally, a firm has to take into account the financial constraints while resorting to advertisement schemes. This approach to spending on advertising sometimes proves uneconomical. The point up to which a firm can afford to spend is a limiting point. If the increase in sales does not match the expenditure on advertising, it is evident that this is not a wise or economical way of determining the budget.

This approach is helpful in the following ways in determining the advertising budget:

(i) "It produces a fairly defensible cyclical timing of that part of advertising outlay that has cumulative long-run efforts." This method is more suitable to the marginal firms.

(ii) This method sets a reasonable limit to the expenditure to be incurred on advertising.

However, the method has got some inherent weaknesses and they are the following:

(i) It is difficult to plan long-term marketing development.

(ii) The opportunities of advertising may be overlooked.

3. The Return on Investment Approach:

This approach treats advertisement as a capital investment rather than as a more current expenditure. Advertising has a two-fold effect:

(i) It increases current sales.

(ii) It builds up future goodwill.

An increase in current sales involves such decisions as the selection of the optimum rate of output in order to maximize short run profits. The building up of goodwill for the future calls for a selection of the pattern of investment which is expected to produce the best scale of production, leading to the maximum long run profits.

This method emphasizes the relation between advertisement and sales. Sales are measured with advertising and without advertising. The rate of return provides a basis for advertising budgeting, as the available funds will have to be distributed among various kinds of internal investment on the basis of prospective rate of return.

The limitation to the return on investment approach is that one cannot accurately judge the rate of return as advertising investment. It involves the following problems and they are:

(i) Problem of measuring the effect of advertisement accumulation as long run sales volume.

(ii) Problem of estimating the evaporation of the cumulative effects of advertising, and

(iii) Problem of distinguishing of investment advertising from outlays for immediate effect.

4. The Objective and Task Approach:

This method is also known as the research objective method. This method became prominent during the war time. This method calls upon marketers to develop their promotion budgets by defining their specific objectives, determining the tasks that must be performed to achieve these objectives and estimating the cost of performing these tasks. The sum of these costs includes in the proposed budget.

This approach is an improvement over the percentage of sales approach. But the fundamental relationship between the objectives and the advertising media again depends upon the past experience of the firm. In reality, tasks to be determined should be related to the objectives of the firm and to the past records of the firm.

This method has the following advantages:

i. It requires management to spell out its assumption about the relationship between amount spent, exposure level, trial rates and regular usage.

ii. This method can be extended to highly promising experimental and marginal approaches.
iii. With the help of this method a clear advertisement program can be drawn.

There are inherent defects in this approach. The important problem of the method is to measure the value of such objectives and to determine whether they are worth the cost of attaining them. This method is also highly irrational.

5. The Competitive Parity Approach

This approach is nothing but a variant of the percentage of sales approach. A firm sets its budget solely depending upon the basis of competitors expenditure. The advertising cost is decided on the basis of spending for advertising by the competitors in the same industry. Two arguments are advanced for this method. One is that competitors' expenditures represent the collective wisdom of the industry. The other is that it maintains a competitive parity which helps to prevent promotion wars.

The defensive logic of large proportion of advertising outlay aims at checking the inroads that might be made by competitors. The money which an individual firm spends does not reveal how much it can afford to spend to equate its marginal benefits with marginal costs. He finds that no correlation appears to exist between the outlay and the size of the firm.

Further, Dean defends this approach on the ground that the advertising percentages of competitors represent the combined wisdom of the industry. Another advantage of this method is that it safeguards against advertising wars.

The main advantages of the method are simplicity and security of its use. For this a firm has to collect relevant data about competitors. If it is quite easy for the firm then it is quite easy for it to follow its competitors. The major problem in this method is that the firm has to identify itself with others in the industry. Another problem is that it breeds complacency.

Blackboard on Rural Market Communication Strategy

Challenges in Rural Market Communication Strategy

There are many challenges to communication in rural. Low literacy level; poor media reach and exposure and vast, heterogeneous and diversely spread rural audiences characterized by variations in language, culture and lifestyle-all these factors pose multiple challenges to marketers looking to take their messages to the largely media-dark or media-grey areas, of rural markets.

Heterogeneity and spread

The communication pattern in any society is a part of its culture. No communication medium can exist in a cultural vacuum. Communicating the message to rural consumers ha posed enormous challenges to the rural marketer, because of the large numbers of consumers scatters across the country. The problem is further compounded by the heterogeneous nature of consumers there are 16 scheduled languages and 114 local vernaculars. For example, the dialect used in the Vidharbha region, in Konkan region, in costal Maharastra.

Limited Media Reach

The limited reach of the mass media imposes limitations on universal communication to rural consumers. These factors lead to poor message comprehension and negligible impact, which fail to translate into consumer awareness and hence fail in generating consumer pull.

Understanding the Rural Audience

It is not sufficient to understand rural communication challenges as stated above: rather, what is equally crucial is the need to understand the behavioral and psychographic characteristics of the rural audience, in order to develop an effective rural communication strategy.

Creating Advertisements for Rural Audiences

Communication experts need to keep the following factors in mind when creating advertisements for rural audiences.

- Understanding the mindset of potential customers, including their hopes, fears, aspirations and apprehension conducting a qualitative study among the target audience would help in better understanding of the consumer mindset.
- Pick up 'gems' in the form of idioms, expressions, words, etc. in relation to the product category for later use in the creative.
- Tricky, clever, gimmicky, or even suggestive advertising does not work with rural audiences. 'Flicks' using very expensive computer graphics without any human presence go over the heads of rural audiences.
- Combining education with 'entertainment is a good route to take when targeting rural audiences. Using locally popular film stars or even featuring religious events (melas) popular in the region, helps strike a chord with rural audiences. According to a study, it is Govinda and Sharukh Khan who is most popular among rural folk in north India.
- 'Quickies' (short television commercials) do not register well with rural audiences. Advertising agencies need to provide for ample time and space to communicate a message properly and effectively to the intended audience. This is seen for instance, in the popularity of the two-minute theatre commercials screened in rural cinemas.
- Rural media can be classified broadly into conventional mass, non-conventional media and personalized media. The various media vehicles are as follows:

Media		
Conventional Mass	**Non-Conventional**	**Personalized**
Television	Haat and Mela	Direct mailer
Radio	Folk media (puppet show, magic show)	Point of sale (demonstration, leaflet)
Press	Video van	Word of mouth
Cinema	Mandi	Interpersonal communication
Outdoor: wall painting, hoarding		Animator

Innovative Media

Outdoor Media: Wall Painting

- This medium is the most widespread form of advertising and is the favorite of the Indian rural masses, as they can view it at their leisure. Wall paintings are important because they constantly remind rural people about name and logos in addition to highlighting the key brand promise. They also reflect the vibrant economic and social life of the area.

Characteristics of wall paintings

- ✓ They are economical as compared to other traditional media forms, as the manpower and infrastructure requirements are low.
- ✓ They can easily be customized in accordance with regional language variations without this impacting their artistic content.
- ✓ Audience recall rates are high.

Limitations

- ✓ The lack of availability of wall space at prominent locations is an issue.
- ✓ The quality of the wall space available is not always satisfactory. The base of rural wall structures is generally not smooth and this impacts the final output.
- ✓ No exclusive wall rights are given to the company. It may happen that a company gets a wall painted and after sometimes when the company executive passes through, he finds that the painting has been replaced by the advertisement of some other company.
- ✓ The quality of the painters available is also low. Companies prefer hiring painters locally as they are familiar with the area and the cost of hiring them is lower when compared to the cost of hiring painters from outside.

Folk Media

- ✓ Folk media consist of folk songs, folk dances and other theatrical forms, including puppetry, street theatre and magic shows, which are an intrinsic part of the culture and heritage of the land.
- ✓ They are capable of communicating message about contemporary issues, topics and concerns as per the needs and demands of a changing society.
- ✓ They are a face-to-face and personal form of communication.
- ✓ The essential characteristics of folk media are that are interactive, repetitive and narrative

Kinds of Folk Media

- ✓ Folk theatre, songs, dances
- ✓ Magic show
- ✓ Puppet shows
- ✓ Interactive games

Folk Theatre

Folk theatre, interspersed with folk song and dance, is a simple and entertaining form of communication. It can also be informative and educational. In the past, folk theatre has been used to rise public opinion against the British Raj, to draw attention to atrocities against the girl child and raise public consciousness about other socially relevant issues.

Folk Songs

Folk songs are basically simple and direct compositions that are usually transmitted orally from one generation to the next and not through the written word. The structure of the folk song is characterized by simplicity and uniformity in rhythm. The songs consist of many stanzas sung in more or less the same tune. Each region and state has its own particular traditions of folk songs and ballads.

Folk Dances

Folk dances are basically simple and rhythmic and mostly religious in nature. Communication takes place through dramatic gestures and the accompanying music. Folk dances are visually very arresting, attracting audiences with their elaborate costumes and stage settings.

Magic shows

Magic shows are another very entertaining form of folk entertainment and draw large crowds, particularly because of the curiosity factor and the use of hypnotic effects.

Puppet Shows

The kathputli puppet performance is the most common form of this folk tradition. The origin of puppet theatre is closely linked to the performance of religious ceremonies. The connection between rituals and the use of puppets is found in almost all the states in India.

Model Questions

1. Elucidate a Marcom strategy for a businesswoman who aims to start a small scale detergent product at a rural region.
2. Give a detailed note on DAGMAR Approach.
3. Write short notes on
    a. Sales Response Curve
    b. Significances of DAGMAR Approach
4. Various methods to determine Marcom Budget
5. What are the challenges associated with Rural Marcom Strategy?
6. Sketch few innovative rural marketing strategies

KEY WORDS

Marcom, DAGMAR, Sales Response Curve, Rural Market Communication Strategy

Further Reading

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Chapter – 4

Developing the Integrated Marketing Communication Programs

Integrated marketing communication (IMC) is the practice of unifying all marketing communication tools and corporate and brand messages to communicate in a consistent way to and with stakeholder audiences (i.e, those who have a stake or interest in the corporation). An IMC campaign plan, usually referred as media plan is even more complex than a traditional advertising plan because it considers more message sources, more communication tools, and more audiences. IMC programs are designed to coordinate all the various communication messages and sources.

There many options which include mass media such as television, newspaper, radio, and magazines as well as out of home media such as outdoor advertising, transit advertising, and electronic billboards. A variety of support media such as direct marketing, interactive media, promotional products advertising, and in-store point-of-purchase options must also be considered. The importance of media planning as a function has grown immensely with the coming of cable and satellite channels and the emergence of new media such as the Internet and mobile phones. In this chapter, we would discuss the notions to develop the integrated marketing communication programs, media planning and sales promotions.

4.1 Marketing Communication Strategies

Marcom is mainly concerned with advertisement planning and decision making. The advertising manager is involved in the development, implementation, and overall management of an advertising plan. The development of an advertising plan essentially requires the generation and specification of alternatives. Decision making involves choosing from among the alternatives. The alternatives can be various levels of expenditure, different kinds of objectives or strategy possibilities, and kinds of options with copy creation and media choices.

Thus, the essence of planning is to find out the feasible alternatives and reduce them to decisions. An advertising plan reflects the planning and decision – making process and the decisions that have been arrived at in a particular product and market situation.

Planning Framework

Marcom planning and decision making depends on internal and external factors. Internal factors are situation analysis, the marketing program, and the advertising plan. The three legs of advertising planning concern are the

- ✓ Objective setting and target market identification,
- ✓ Message strategy and tactics
- ✓ Media strategy and tactics

The marcom plan should be developed in response to a situation analysis, based on research. Once developed, the marcom plan has to be implemented as an advertising campaign, in the context of social and legal constraints and with the involvement of various facilitating agencies. Let us discuss these factors one after another.

Situation Analysis

It involves an analysis of all important factors operating in a particular situation. This means that new research studies will be undertaken on company history and experience.

Consumer and Market Analysis

Situation analysis begins by looking at the aggregate market for the product, service, or cause being advertised, the size of the market, its growth rate, seasonality, geographical distribution. Whereas Consumer and Market analysis is concerned with the following factors:

Nature of Demand

- How do buyers (consumer and industrial) currently go about buying existing products or services?
- Can the market be meaningfully segmented or broken into several homogeneous groups in respect to "what they want" and "how they buy"?

Extent of Demand

- What is the size of the market (units and dollars) now, and what will the future hold?
- What are the current market shares, and what are the selective demand trends?
- Is it best to analyze the market on an aggregate or on a segmented basis?

Name of Competition

- What is the present and future structure of competition?
- What are the current marketing programs of established competitors?
- Why are they successful or unsuccessful?
- Is there any opportunity for another competitor? Why?
- What are the anticipated retaliatory moves of competitors?
- Can they neutralize different marketing programs we might develop?

Environmental Climate

- What are the relevant social, political, economic, and technological trends?
- How do you evaluate these trends? Do they represent opportunities or problem?

Stage of Product Life Cycle

- In what stage of the life cycle is the product category?
- What market characteristics support your stage-of –life-cycle evaluation?

Cost Structure of the Industry

- What is the amount and composition of the marginal or additional cost of supplying increased output?

Skills of the Firm

- Do we have the skills and experience to perform the functions necessary to be in the business?
- How do our skills compare with those of competitors?

Financial Resources of the Firm

- Do we have the funds to support an effective marketing program?
- Where are the funds coming from, and when will they be available?

Competitive Analysis

Marcom planning and decision making are affected by competition and the competitive situation facing the advertiser. Competition is such a pervasive factor that it will occur as a consideration in all phases of the advertising planning and decision making process. It should include an analysis of what current share the brand now has, what shares its competitors have, what share of a market is possible, from which competitors the increased share of a market is possible? The planner also has to be aware of the relative strengths and weaknesses of the different competing companies and their objectives in the product category. It is important to look at competition as a precursor to the planning process.

Marcom Objectives and Target Selection

Objectives in marcom can be understood in many ways. An important part of the objective is the development of a precise, disciplined description of the target audience. It is often tempting to direct advertising at a broad audience; but everyone is a potential customer. It is best to consider directing the advertising to more selected groups to develop stimulating copy. It is quite possible to develop several campaigns, each directed at different segments of the market, or to develop one campaign based on multiple objectives.

Message Strategy and Tactics

Messages strategy must decide what the advertising is meant to communicate – by way of benefits, feelings, brand personality, or action content. Once the content of the campaign has been decided, decisions must be made on the best-most effective-ways of communicating that content. The decisions, such as the choice of a spokesperson, the use of humor or fear or other tones, and the selection of particular copy, visuals, and layout, are what we call "message tactics"

Media Strategy and Tactics

Message strategy is concerned with decisions about how much is to be allocated to create and test advertising copy, media strategy concerns decisions on how many media rupees to spend on an advertising campaign. Media tactics comprise the decisions on which specific media (television, radio, etc.) or media vehicles (Reader's Digest, etc.) to spend these rupees.

External Factors

External factors in the planning framework are environmental, social and legal considerations; to a considerable extent, these exist as constraints on the development of an advertising plan and decision making. In developing specific advertisement, there are certain legal constraints that must be considered. Deceptive advertising is forbidden by law. What is deceptive is often difficult, because different people can have different perceptions of the same advertisements.

4.2 Creative Advertising Strategies

The development of creative advertising strategy is appropriate to proceed after a determination eligibility level of media strategy features and an appropriate mix of advertising media. Creative advertising strategy should be created in the form of a document that is the basis for future creative advertising development, impacting on the final version of the ad campaign. Creative strategies are supporting framework for internal communication in advertising agencies. Creative strategy defines the framework in which creativity will take place, and sets out the rules of creative decisions. Creative strategies vary according to the different advertising agencies and other creative companies. The best known strategy is the copy strategy. But there are also the newer alternatives such as:

- ✓ The creative strategy Young &Rubicama
- ✓ The David Oligvi's creative strategy
- ✓ The creative strategy RSCG
- ✓ The star strategy
- ✓ The creative strategy Publicis
- ✓ The Wiktor Leo Burnett's creative strategy
- ✓ The creative strategy HDM

Activity – Visualization

Discuss with your partner and ascertain the message that FedEx desires to disseminate.

Copy Strategy

Copy strategy was designed by Procter & Gamble and it is generally used to inform the creative staff on what the advertiser and advertising agency expect of them. On the basis of this document with complex data, manager of an advertising agency specifies the creative brief. Creative brief includes identifying communication goals, target audience, key messages, key brand benefits and communication tools. All team members must concur on the creative brief, regardless of whether the campaign is developed internally or it is outsourced. Creative brief becomes the basis and outline the planned communication campaign. Copy strategy is the first step in the process of advertising, guarantees long term continuity and a logical sequence of broadcast messages. This strategy is formulated and created by the advertising agency and subsequently approved by the advertiser. The final effect of copy strategy is a compromise solution from several alternatives. Approval of copy strategy is followed by more precise creative brief or by formulation of ideas in the form of model concepts and storyboards (storyboard is illustrated sequence of advertising spot, which is the basis for the decision about the final form of advertising). If the client does not agree with the concept, then copy agency reform strategy. If the client agrees with the concept, it is further specified. It is necessary to specify also length and number of advertising messages to ensure complexity of the reports.

Creative strategy Young &Rubicama refers to all elements of the marketing mix, which are outlined in the advertisement indirectly. In developing the creative strategy, the creative makers follow the situation marketing analysis. Based on the interpretation of the results of situation analysis is communication strategy analyzed. The third point in the creative content of the creative plan is expected to define the effects of advertising. It is followed by defining the product promise, advertising budget and elements that are unacceptable in advertising.

David Ogilvi's creative strategy is especially informative and it is reflected also in the structure of the creative plan. Advertising tries inform the best about the brand and quality of the product. Content of creative plan includes: information about the product details, the advertising promise concerning mainly qualitative characteristics of the product, presentation of arguments helping to create the image of the selected product brand and build loyal customers. Creative strategy must provide enough information to prevent the extinction of the products of one manufacturer. Creative strategy contains a clause providing constant testing the product and identifies the need to demonstrate the effectiveness of the product.

Creative strategy RSCG - star strategy was created by agencies Roux, Séguéla, Cyazac, Goudard. The star strategy is based on the copy strategy and therefore part of the star strategy is also a product promise, the promise to the customer, presentation of quality, that competitive product does not have. This creative strategy emphasizes the character and style of the product. Ad created by star strategy is more comprehensive, easier, abstract and aesthetic, innovative and humorous. The aim of the advertising is to apply such style of advertising that consumer chooses the product by himself, and he is not forced to buy it. In such advertising there are often incorporated psychological attributes and global consumer values. It is used primarily to create ads for fashion products, holidays and luxury products.

Creative strategy Publicis – the aim of the strategy is to surprise the client and inspire him with admiration. It has an emphasis on locating a brand in a competitive environment, defining the problem that has to be solved, defining the target segment, selection of convincing advertising arguments, choosing preferred media and setting the limits of creative work.

Wiktor Leo Burnett's creative strategy - requires information regarding the target segment and analysis of customer behavior. It includes advertising commitment to the customer and identifies elements that support and reinforce the promise.

Creative strategy HDM (Honest Direct Message) is divided into two parts.
First part contains an analysis of the market situation. **The second part** is creative and determines creative rendition of advertising. The appropriate combination of different aspects of creative

strategies from different advertising agencies can leads to creation of an effective creative strategy. Therefore, it is not easy to decide which creative advertising strategy is most appropriate. Content of creative advertising strategy is also influenced by the volume of planned future investments in advertising, including a preliminary analysis used in the creative strategy.

4.3 The Media Planning

Media planning is the series of decisions involved in delivering the promotional message to the prospective purchaser and/or users of the product or brand. Media planning is a process, which means a number of decisions are made, each of which may be altered or abandoned as the plan develops.

The media plan is the guide for media selection. It requires development of specific media objectives and specific media strategies designed to attain these objectives. Once the decision have been made and the objectives and strategies formulated, this information is organized into the media plan. There are many media to choose from. However,

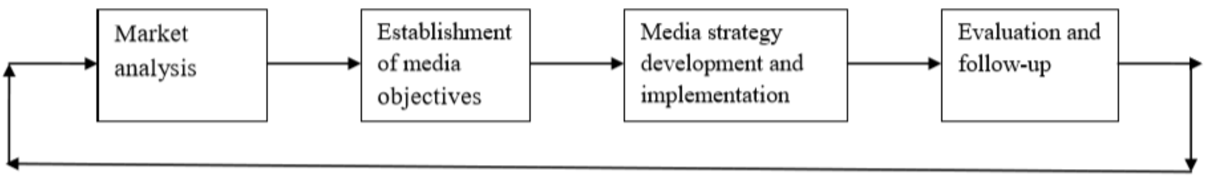
As per (Scissors and Bumba 1995) a good media plan needs to address the following issues:

- How many audiences is the media plan proposing to reach?
- What are the best media to place the advertisements in?
- How many times should the advertisement appear?
- What would the idea media mix be?
- Which geographical regions should the advertisement appears in?
- Which media should be selected to avoid places which don't have product advertised?
- How should be budget appropriation for various media thus chosen is made?

Developing the Media Plan

Developing media planning involves a series of stages as follows:

1. Market analysis and target market identification
2. Establishment of media objectives
3. Media strategy development and implementation
4. Evaluation and follow up



Market Analysis and Target Market Identification

The situation analysis stage of the overall promotional planning process involves a complete review of internal and external factors, competitive strategies, etc.

In the development of a media strategy, a market analysis is again performed, although it is already performed during strategic marketing planning, but this time the focus is on the media and delivering the message. The key questions at this stage are those: to who are the target market? What factors may influence the media plan? Where and when should we focus our efforts?

Who are the Target Market?

A number of target markets might be derived during situation analysis, to decide which specific groups to go after; the media planner may work with the client, account representative, marketing department, and creative directors. A variety of factors can assist media planners in this decision. Some will require primary research, whereas others will be available from secondary sources.

What Factors may Influence the Media Plan?

Media strategies are influenced by both internal and external factors operating at any given time. Internal factors may involve the size of the media budget, managerial and administrative capabilities, or the organization of the agency.

External factors may include the changes in economy, changes in technology, competitive factors etc.

4.4 Sales promotion

Sales promotion describes promotional methods using special short-term techniques to persuade members of a target market to respond or undertake certain activity. As a reward, marketers offer something of value to those responding generally in the form of lower cost of ownership for a purchased product (e.g., lower purchased price, money back) or the inclusion of additional value-added material (e.g., something more for the same price).

Sales promotions are often confused with advertising. For instance, a television advertising mentioning a contest awarding winners with a free trip to Goa may give the contest the appearance of advertising. While the delivery of the marketer's message through television media is certainly labeled as advertising, what is contained in the message, namely the contest, is considered a sales promotion. The factors that distinguish between the two promotional approaches are:

1. Whether the promotion involves a short-term value proposition (e.g., the contest only offered for a limited period of time), and
2. The customer must perform some activity in order to be eligible to receive value proposition (e.g., customer must enter contest). The inclusion of a timing constraint and an activity requirement are hallmark of sales promotion.

Sales promotions are used by a wide range of organizations in both consumer business markets, though the frequency and spending levels are much greater for consumer products marketers. One estimate by the promotion Marketing Association suggests that in the US alone spending on sales promotion exceeds that of advertising.

Objectives of Sales Promotion

Sales promotion is a tool used to achieve most of the five major promotional objectives

- **Building Product Awareness-** Several sales promotion techniques are highly effective in exposing customers to products for the first time and can serve as key promotional components in the early stages of new product introduction. Additionally, as part of the effort to build product awareness, several sales promotion techniques possess the added advantage of capturing customer information gathering tool (i.e., sales lead generation), which can then be used as part of follow-up marketing efforts.

- Creating Interest- Marketers find that sales promotions are very effective in creating interest in a product. In fact, creating interest is often considered the most important use of sales promotion. In the retail industry an appearing sales promotion can significantly increase customer traffic to retail outlets. Internet marketers can use similar approaches to bolster the number of website visitors. Another important way to create interest is to move customers to experience a product. Several sales promotion techniques offer the opportunity for customer try products for free or at low cost.

- Providing Information- Generally sales promotion technique are designed to make customers to some action and are rarely simply informational in nature. However, some sales promotions do offer customers access to product information. For instance, a promotion may allow customers to try a fee-based online service for free for several days. This free access may include receiving product information via e-mail.

- Stimulating Demand- Next to building initial product awareness, the most important use of sales promotion is to build demand by convincing customers to make a purchase. Special promotions, especially those that lower the cost of ownership to the customer (e.g., price reduction), can be employed to stimulate sales.

- Reinforcing the Brand- Once customer have made a purchase sales promotion can be used to both encourage additional purchasing and also as a reward for purchase loyalty. Many companies, including airlines and retail stores, reward good or “preferred” customers with special promotions such as e-mail “special deals” and surprise price reductions at the cash register.

Consumer Sales Promotions

Consumer promotions are initiated by the brand, not the retailer, and the brand controls the content. There are six fundamental consumer promotions can be considered: coupons, refund and rebates, sampling, loyalty sweepstakes and premiums. Six basic consumer promotions:

Coupons	Are low cost, and the most common form of promotion
Refund and rebates	Offers large price discounts, usually with more expensive products
Sampling	Provides an opportunity to try or use brand at little or no cost
Loyalty	Encourages repeat purchase
Sweepstakes	Helps create excitement and reinforce brand image at a relatively low cost
Premiums	Helps facilitate purchase by offering reward or bonus

Advantages and Drawback of Sales Promotion

Advantages

Sales promotion has a significant effect on the behavior of consumers and resellers. Such promotion can bring in more profits for the manufacturer because they permit price discrimination.

- **Price discrimination:** Producers can introduce price discrimination through sales promotion. They can charge different prices to different consumer and trade segments varying in their price sensitivity. Coupons, special sales events, clearance sales and discount are examples of it.

- **Effect on consumer behavior:** As sales promotions are mostly announced for a short period, customers may feel a sense of urgency and stop comparing the alternatives. They are persuaded to act now rather than later. For many customers, who feel time-pressured, buying on deal is a simple decision rule and many consumers may also consider buying on deal as smart move. In our over communicated society and because of selective attention, it is not uncommon to ignore many advertisements. Sales promotional deals, such as discounts, rebates, coupons, or premiums etc. also increase the attention –getting power of advertisement using promotions, marketers can reach the deal prone customers and encourage brand switching. Consumers, who buy on promotional deals, consider themselves as intelligent and smart shoppers.

- **Effect on Trade Behavior:** Short-term promotions present an opportunity and encourage dealers to forward-buy. This forward buying ensures that retailers won't go out of stocks. As dealers have more than normal stocks, they think it advisable to advertise in local media, arrange display and offer attractive promotional deals to consumers. These actions help in increasing the store traffic.

Drawbacks

There are certain limitations of sales promotion and they may also produce negative effects. While sales promotion is a powerful and effective method to produce immediate, short-term positive results, it is not cure for a bad product, or bad advertising.

- **Decrease in brand loyalty:** The major objective of many sales promotions is to encourage brand switching. This is especially true in case of low-involvement category products, or where there is little or no significance differentiation among brands and the unit value is low. Sales promotion announced by marketers thus counter the brand-image building efforts of competitor's brands, for which they develop expensive advertising campaigns. There is agreement among most managers that sales promotion expenditure has decreasing effect on brand-image; this lead to decreasing brand loyalty.

- **Increased price sensitivity:** Frequently promoted brands in a product category, especially on the basis of price, make consumers and traders more price sensitive, not only for the promoted brand but for the brands as well in the same product category. Consumers wait for the promotional deals to be announced and then purchase the product. This is true even for the brands where brand loyalty exists.

- **Quality image may become tarnished:** If the promotions in a product category have been rare, or the product happens to be of high-involvement category, the promotions could have a negative effect about its quality image. Consumers may start suspecting that perhaps the product has not being selling well, quality of product is low compared to price, or product is likely to be discontinued because it has become out dated.

- **Merchandising support from dealers is doubtful:** One of the trade promotion tools is to offer promotional allowances to trade people to motivate them to provide merchandising support and to pass on some benefit to consumers. This is generally the condition attached with such promotional allowances.

- **Short-term orientation:** Sales promotions are generally for a short duration. This gives a boost to sales for a short period. This short-term orientation may sometimes have negative effect on long-term future of the organization. Heavy use of sales promotion, in few product categories, may be responsible for causing brand quality-image dilution.

Activity – Visualization

Discuss with your partner and ascertain the message that FedEx desires to disseminate.

Let's Sum-Up

✓ The creative part of advertising involves the process of selecting and presenting the messages. The business of conceiving, writing, designing and producing these messages is called "advertising creativity" and the key wordsmith is called a copywriter or copy chief or copy supervisor. The success of advertising depends to a great extent on the quality of the message or copy of advertisement rather than the money spent on advertising. The conventional theory of advertising includes the concept of AIDA (Attention, Interest, Desire and Action). Most of the advertisers believe that the message in advertisement copy must attract the attention and interest of the consumer if buying is to result.

- ✓ With the technological advancement, the internet has positioned itself as one of the very important media that can be used for almost all advertising purpose across all possible market segments. The growing popularity of the internet triggered an avalanche of interest using this new tool of marketing. Advertising through internet is the need of the days. Companies and organizations working to promote their products and services must consider this medium as they would advertise through television, magazines, outdoor, and so on.

- ✓ Sales promotion describes promotional methods using special short-term techniques to persuade members of a target market to respond or undertake certain activity. It includes several communications activities that attempt to provide added value or incentives to consumers, wholesalers, retailers, or other organizational customers to stimulate immediate sales. Sales promotions are often confused with advertising. The difference between sales promotion and advertising is that, advertising is a message which promotes ideas, good or services communicated through one or more media by an identified sponsor while sales promotion consists of short –terms incentives provided by the identified sponsors to consumers and traders to persuade them to purchase and stock his products. Sales promotion has a significant effect on the behavior of consumers and resellers. Such promotion can bring in more profits for the manufacturer because they permit price discrimination. There are certain limitations of the sales promotion and they may also produce negative effects.

- ✓ The major differences between Advertising and Sales Promotion are:

Advertising	**Sales Promotion**
(i) A reason is offered to buy.	An incentive is offered to buy
(ii) Theme is to build up brand loyalty	Theme is to break down the loyalty to a competing brand.
(iii) Aim is to attract the ultimate Consumers.	Aim is to attract not only consumers but retailers, wholesalers and Sales force also
(iv) Effective in the long run. (v) Heavy advertising makes the brand image of the product and accords it the perception of higher quality	Effective in the short run. Heavy Sales promotion leads to the product being perceived as having a brand image of cheaper and lower quality product.
(vii) Advertising includes messages delivered through various types of Media.	Various types of incentives are offered for ➢ Consumer promotion ➢ Trade Promotion ➢ Sales force Promotion

- ✓ The importance of media planning as a function has grown immensely with the coming of cable and satellite channels and the emergence of new media such as the Internet and mobile phones. Media planning is the series of decisions involved in delivering the promotional message to the prospective purchaser and/or users of the product or brand. Media planning is a process, which means a number of decisions are made, each of which may be altered or abandoned as the plan develops. The media plan is the guide for media selection. It requires development of specific media objecties and specific media strategies designed to attain these objectives. Once the decision has been made and the objectives and strategies formulated, this information is organized into the media plan.

Model Questions

1. What do you understand by creative advertising? Illustrate it.
2. Give a detailed account on Media Planning.
3. Distinguish between Promotions and Advertisements.
4. What are the advantages and disadvantages of promotions?
5. Do you think advertisements are important for a business success? Elucidate.

KEY WORDS

Media Planning, Sales Promotions, Creative Advertising, Marcom Strategies

Further Reading

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🕮 Georg E Belch, Michael A Belch &KeyoorPurani, ADVERTISING AND PROMOTION- An Integrated Marketing Communications Perspective, Seventh Edition, Tata McGraw Hill Education Pvt. Ltd, New Delhi, 2010

🕮 William F Arens, CONTEMPORARY ADVERTISING, 10th Edition, Tata McGraw Hill Education Pvt. Ltd, New Delhi, 2008

🕮 S H H Kazmi & Satish K Batra, ADVERTISING & SALES PROMOTION, Third Edition, Excel Books, New Delhi, 2008

Chapter 5

Measuring Effectiveness and Control of Promotional Programs

All advertising efforts are directed mainly towards the achievement of business, marketing and advertising objectives i.e., to increase the sales turnover and thus to market the maximum profit. The advertiser spends lakhs of rupees in to advertising activity. In the background of all these efforts, is an attempt to attract the customer towards the product through advertising. As soon as the advertising campaign is over, a need generally arises to measure the effectiveness of the campaign. Whether, it has achieved the desired results i.e. desired sales profitability or results in terms the change in customer' behavior in favor of the company's product which will naturally, affect the future sale of the product.

In order to measure the effectiveness of advertising copy, two types of tests- pretests and post tests- can be undertaken. Pretests are generally conducted in the beginning of the creation process or at the end of creation process or production stage. There are several pre and post tests techniques to measure the effectiveness of the advertising copy. In this chapter, we would learn the ways to achieve ways to measure the effective communication skills and some socio-ethical and legal aspects of advertising and promotions.

5.1 Effective Marketing Communication

Effectiveness Marketing Communication is an issue that has been debated over the years. Despite, this extent of fundamental research in this area continues to be extremely low. Most effectiveness studies deal with specific advertisements and campaigns. Considerably money is spent on pre-testing an advertisement copy.

The effectiveness of advertising in a particular media may also be measured in any of the following ways

(a) By giving different addresses to different media,
(b) Different newspapers may be selected for advertisements of different departments,
(c) Coupon blank etc. May be provided with the advertisement
(d) Enquiry from consumers should mention the name of the source of information. The technique is known as keying the advertising.

But to measure the advertising effectiveness we must be able to evaluate all the aspects of communication elements. There are the sources, Message, Media and Budget.

- **Source:** It has to be seen whether the source is effective and how the target market will respond to it. Like Kapil Dev, Sachin Tendulkar, Shahrukh Khan, Amitabh Bachhan, Kareena Kapoor, Aishwarya Rai are very effective. They are attractive, genuine sports persons or actors and have the credibility. Sometimes, the source looses its credibility or becomes old and has to be changed.

- **Message:** How the message is communicated and what type of message it is also effects the advertisement. The message should be memorable and should be able to deliver the advertising objectives. The delivery of the message and its setting or its situation also matters a lot. The message must have proper headlines, illustrations, text and layout. The advertisement must be ethical, the message should be credible.

- **Media Strategy:** It is very important to decide the proper Media Mix i.e., (Print Media, Broadcast Media), Newspaper or Magazines, Radio, Television that could generate the most effective results. Media Vehicle has also to be decided, that is which newspaper or magazines, which channel of Television or which programme on radio is to be used. This is decided by keeping the target audience in mind. The location of the advertisement in a particular media is also important. In a media we can choose the front page or the back page or the inside page or may ordinary page placed strategically. In Television some programme are more effective and popular. Some audience prefers old programmes and some, like to ones.

Importance of Measuring the Effectiveness of Advertising

- **It acts as a Safety Measure:** Testing effectiveness of advertising helps in finding out ineffective advertisement and advertising campaigns. It facilitates timely adjustments in advertising to make advertising consumer oriented and result oriented. Thus waste of money in faulty advertising can be avoided.

- **Provides Feedback for Remedial Measure:** Testing effectiveness of advertising provides useful information to the advertisers to take remedial steps against ineffective advertisements.

- **Avoids Possible Failure:** Advertisers are not sure of results of advertising from a particular advertising campaign. Evaluating advertising effectives helps in estimating the results in order to avoid complete loss.

- **To justify the Investment in Advertising:** Expenditure on advertisement is considered to be an investment. The investment in advertising is a marketing investment and its objectives should be spelt out clearly indicating the results expected from the campaign. The rate and size of return should be determined in advance. If the expected rate of return is achieved in terms of additional profits, the advertisement can be considered as effective one.

- **To know the Communication Effect:** The effectiveness of the advertisement can be measured in terms of their communication effects on the target consumers or audience. The main purpose of advertising is to communicate to the general public, existing and prospective consumers, various information about the product and the company.

It is therefore desirable to seek post measurements of advertising in order to determine whether advertisement have been seen or heard or in other words, whether they have communicated the theme, message or appeal of the advertising.

- **Compare Two Markets:** Under this procedure, advertising is published in test markets and results are contrasted with other. Markets – so called control markets – which have had the regular advertising programme. The measurements made to determine results may be measurements of change in sales, change in consumer attitudes, changes in dealer display and so on depending upon the objectives sought by the advertiser.

Activity – Visualization

Discourse with your partner about the below effective marketing communication used by IDEA

5.2 Advertisement Evaluation Techniques

In today's advertising world, every firm invests heavily on advertisement for making their products or services known to the target audience and to arouse the interest of target audience in firm's products or services. Advertising is done with some predefined objectives- to generate awareness about product, to elicit interest in product, to change the attitude of audience towards product, to stimulate desire for product, or to make them buy the product. Advertising is of no use if the defined objectives of communication are not achieved. So, it is necessary to evaluate the effectiveness of advertisement at different level, starting from creation of ad-copy to running of ad on media, and also after execution of ad to know to what extent the objectives are achieved.

Types of Evaluation Tests

Following are the types of test applied in advertisement evaluation:

- Pre-Testing
- Concurrent Testing
- Post Testing

Pre-Testing

Pre-Testing follows the universal law "Prevention is better than cure". Advertising can be pretested at several points in the creative development process. Pre-Testing helps the advertiser to make a final go or no go decision about finished or nearly finished advertisement. Pre-Testing method refer to testing the potentiality of a communication message or ad-copy before printing, broadcasting, or telecasting. Following are the types of pre-testing methods:

A. **Qualitative Methods of Pre-Testing**

- **Focus Group**: Focus group involves exposing the ad to a group of 8 to 12 respondents. Focus group are used with surprising frequency for making final go or no go decision. A moderator facilitates the discussion and walks the group through a series of issues that are outlined in discussion guide.

- **In-depth Interview**: In-depth interview involve one on one discussion with respondents. Interviews are very effective when a researcher has a good idea of critical issues but does not have a sense of the kind of responses one will get. This method can be effectively used to generate new ad concepts and ideas.

- **Projective Techniques**: In this technique the respondent is instructed to project himself into the situation and verbalize the thoughts. Projective technique can be very effective for evaluating ad concepts and for generating new ad concepts. But, it cannot be used for making final decisions.

B. Quantitative Methods of Pre-Testing

- **Checklist Method**: Checklist method is used to test the effectiveness of ad-copy. The purpose of this method is to ensure that all elements of the ad-copy are included with due importance in the advertisement. As it is a pre-test method any omitted element of ad can be included in the copy before release of the advertisement.

- **Consumer Jury Method**: This method involves exposure of alternative advertisements to a sample of jury or prospects. This test is designed to learn from a typical group of prospective customers. Advertisements which are unpublished are presented before the consumer jury either in personal interviews or group interviews and their reactions are observed and responses are recorded.

- **Sales Area Test**: Under this method advertising campaign is run in the markets selected for testing purposes. The impact of the campaign is evaluated by actual sales in the selected markets. The market with high sales is considered the best market for effective sales campaign. In other markets suitable changes are made in the advertising campaign.

- **Questionnaire Method**: It is a list of questions related to an experiment. The draft of an advertisement along with some relevant questions is to be sent to a group of target consumers or advertising experts. Their opinions are collected and analyzed to find out whether the proposed advertisement is satisfactory or not.

- **Recall Test**: Under this method, advertising copies are shown to a group of prospects. After few minutes they are asked to recall and reproduce them. This method is used to find out how far the advertisements are impressive.

- **Reaction Test**: The potential effect of an advertisement is judged with the help of certain instruments, which measure heartbeats, blood pressure, pupil dilution etc. Their reactions reveal the psychological or nervous effects of advertising.

- **Readability Test**: All the listeners of advertisements cannot read it equally. So respondents are drawn from different socio economic and geographical backgrounds. This method is used to find out the level of effectiveness when and ads are read.

- **Eye Movement Test**: The movements of eyes of the respondents are recorded by using eye observation camera when advertisements are shown to them in a screen. This helps to find out the attention value of advertisement.

Concurrent Testing

Concurrent testing is evaluated throughout the whole advertisement execution process. Tests are conducted while audience is exposed to different type of media. Following are the types of concurrent testing methods:

- **Consumer Diaries**: Diaries are provided to selected customers. They are also informed to record the details of advertisements they watch, listen or read. Diaries are collected periodically. Result obtained from such a survey reveals effectiveness of advertisement.

- **Co-incidental Surveys**: This method is also called as co-incidental telephone method. Under this method, samples of customers are selected and calls are made at the time of broadcast of the advertisement program. The data obtained and analyzed will give a picture about the effectiveness of an advertisement.

- **Electronic Devices**: Now day's electronic devices are widely used to measure the effectiveness of an advertisement. They are mainly used in broadcast media. These are auto meters, track electronic units etc.

Post Testing

Post testing is done to know- to what extent the advertising objectives are achieved. Following are the types of post testing methods:

- **Recognition Test**: Recognition test involves the ability of viewers to correctly identify ad, brand, or message they previously exposed to. The types of recognition test are:

  - **Starch Test** - The Starch test is applied only to print ads that have already run. The interviewer shows each respondent a magazine or newspaper containing the ads being tested. For each ad the interviewer asks the respondents to reply to ad related questions.

  - **Bruzzone Test** - Bruzzone test is conducted through mail surveys. Questionnaires containing frames and audio scripts from television commercials are sent to respondents and respondents are asked whether they recognize the ad and brand.

- **Recall or Impact Test**: The recall test is designed to measure the impression of readers or viewers of the advertisement. If a reader has a favorable impression of the advertisement, he will certainly retain something of the advertisement.

The measures of interest would be obtained by interviewing the readers or viewers or listeners, days after the advertisement or commercial is appeared in the newspaper, or on T.V. Interviewer asks the readers or viewers to answer some ad related questions, and in response to the question asked, the reader reveals the accuracy and depth of his impression.

5.3 Ethical, Social and Legal aspects of Advertising and Promotion

In today's world of cut throat competition every organization is investing heavily in advertising. Advertising is necessary to make a new product popular in the market and to increase the sales of existing brands. Advertising plays an important role in brand building and informing public about available products so that they can make informed choice among different products or brands. Advertising is a powerful medium of mass communication. As advertising is a form of mass communication and thus just like other popular forms it too have some social responsibilities associated with it. However, the question is whether advertising fulfill its social responsibilities or not. Advertisements are meant for the masses and people relate themselves with this medium. Thus, for understanding its responsibilities towards the public, its positive and the negative aspects needs to understood.

Positive and Negative Aspect of Advertising

As like any other medium of mass communication, advertising also have positive as well as negative aspects. Advertising increases sales, advertising makes the product popular, advertising helps in brand formation, and advertising makes the public aware with the available brands or products. Advertising is the largest financial source for mass media. Advertising is sometimes subjected to wide criticism. Many of the advertisements are criticized as deceptive or manipulative. Another criticism focus on the social or environmental impact of advertising is the effect of advertising on our moral value system, commercial clutter, stereotypes, and offensiveness.

Activity – Brainstorming

Debate with your partner about the plausible impact of Special Expresses in Rural Sector!

Ethics in Advertising

Ethics means a set of moral principles which govern a person's behaviour or activities. Ethics in advertising means a set of well defined principles which govern the ways of communication taking place between the seller and buyer. Advertising benefits advertisers in many ways, similarly it makes the public aware with the available brands so that they can make informed choice among the available products or brands. But, some of the advertisement doesn't match the ethical norms of advertising, such ads causes' political, cultural, or moral harm to society. Ethical ad is one which is in the limit of decency, makes no false claims, and doesn't lie. Nowadays advertisements are highly exaggerated and a lot of puffing is used. It seams like the main area of interest for advertisers is to increase their sales, gain maximum market share, and prove their product best in the market by presenting a well decorated, colourful, and puffed advertisement.

Ethical and Moral principles of Advertising

Advertisers must have sufficient knowledge of ethical norms and principles, so that they can understand and decide what is correct and what is wrong. We can identify several ethical and moral principles that are particularly relevant to advertising.

We are speaking briefly of three as follows:-

1. Truthfulness in advertising;
2. The dignity of the human person; and
3. Social responsibility.

1. Truthfulness in Advertising

Truth in advertising promotes a highly efficient, functioning economy by:

a) Discouraging deceptive business practices;

b) Encouraging the provision of accurate and truthful information;

c) Enhancing competition by ensuring a level playing field; and d) Enabling informed consumer choice.

2. The Dignity of the Human Person

a) The dignity of human beings should be respected; advertisements should not insult the dignity of human beings;

b) Different cultures and ethnic groups should be presented in advertising as equal with the majority of the population;

c) Special care should be given to weak and vulnerable groups like - children, poor people, or elderly people.

3. Advertising and Social Responsibility

Advertising has a strong social responsibility, independent of its known commercial responsibility. Advertisers should have a deeper sense of social responsibility, should develop their own set of socio-ethical norms taking into consideration the values of their society

Significance of Ethics and Social Responsibilities in Advertising

If we are searching for advertising agency then following factors should be considered while selecting it:-

a) Services offered by Ad-agency - There are different agencies provides different services, some provides all the services, some provide selected services, some provides only media services. It depends on the requirement of advertiser whether he need a full service agency, creative boutique, media buying service agency, or a sweet shop.

b) Experience of Agency - An experienced agency performs better then a new agency because it is familiar with different components of marketing environment like competitors' policies, taste of consumer, income of consumer, consumer responses, fashions and trends, reputation of different media etc.

c) Location - A major factor to be considered while selecting ad-agency is location of office of agency. A considerable amount of communication is required at different level of ad planning, creation and execution. So, a local or nearby ad-agency should be preferred which is easily accessible.

d) Size of Agency - There are both large size agencies and small size agencies, both have their own advantages and disadvantages. Large agencies serves big clients, provides wide variety of services, and charges higher but, cannot give personal attention because of having large number of clients, also cannot give much attention to small clients because of having large number of big clients.

e) Competitors' Agency - Agency which is working for competitors must be avoided otherwise agency will not prepare ads which help advertiser to take an edge over competition.

f) Image of Agency - While selecting ad-agency the advertiser should inquire the image, integrity, ethical standards, and relations of agency with its clients.

g) Creativity and other skills - Ad-agency must be creative enough to generate new ideas to gain the attention of target audience.

h) Rates Charged by Agency - The rates of agency must suit the pocket of client. Advertiser should select agency whose rates are reasonable and within the ad-budget.

i) Financial Strength of Agency - A financially strong ad-agency have better turnover and better contacts with media owner, and afford better infrastructure, well-equipped-ad labs, and quality staff.

j) Past Records of Agency - It is necessary to know who the past clients of agency were, how long were they with agency, why they left the agency, brand image of products of clients.

5.4 Norms and Codes controlling Advertising and Promotions in India

Advertising is an important and legitimate means for the seller to awaken interest in his products. The success of advertising depends on public confidence. Hence, no practice should be permitted which tends to impair this confidence. The standards laid down here should be taken as minimum standards of acceptability which would be liable to be reviewed from time to time in relation to the prevailing norm of consumers' susceptibilities.

The Advertising Standards Council of India (ASCI) established in 1985 has adopted a Code for Self-Regulation in Advertising. It is a commitment to honest Advertising and to fair competition in the market-place. It stands for the protection of the legitimate interests of consumers and all concerned with Advertising - Advertisers, Media, Advertising Agencies and others who help in the creation or placement of advertisements.

ASCI have one overarching goal: to maintain and enhance the public confidence in advertising. ASCI seek to ensure that advertisements conform to its Code for Self-Regulation which requires advertisements to be:

- **Honest Representations -** Truthful and Honest to consumers and competitors.
- **Non-Offensive to Public** - Within the bounds of generally accepted standards of public decency and propriety.
- **Against Harmful Products/Situations** - Not used indiscriminately for promotion of products, hazardous or harmful to society or to individuals particularly minors, to a degree unacceptable to society at large.
- **Fair in Competition** - Not derogatory to competition. No plagiarism.

General Rules of Conduct in Advertising

- Advertising shall be so designed as to conform to the laws of the country and shall not offend against morality, decency and religious susceptibilities of the people.
- No advertisement shall be permitted which:
  - ✓ Derides any race, caste, color, creed and nationality
  - ✓ Is against any of the directive principles, or any other provision of the constitution of India
  - ✓ Tends to incite people to crime, cause disorder or violence, or breach of law or glorifies violence or obscenity in any way
  - ✓ Presents criminality as desirable
  - ✓ Adversely affects friendly relations with foreign states
  - ✓ Exploits the national emblem, or any part of the constitution or the person or personality of a national leader or state dignitary
  - ✓ Relates to or promotes cigarettes and tobacco products, liquor, wines and other intoxicants
- No advertisement message shall in any way be presented as News.
- No advertisement shall be permitted the objects whereof are wholly or mainly of a religious, or political nature; advertisements must not be directed towards any religious or political end or have any relation to any industrial dispute.

5.5 Digital Marketing

Digital marketing has increased in last a few years in India. People have different views about it. But the fact is this digital marketing has tremendous potential to increase in sales provided entrepreneurs should have knowledge to implement it in right way.

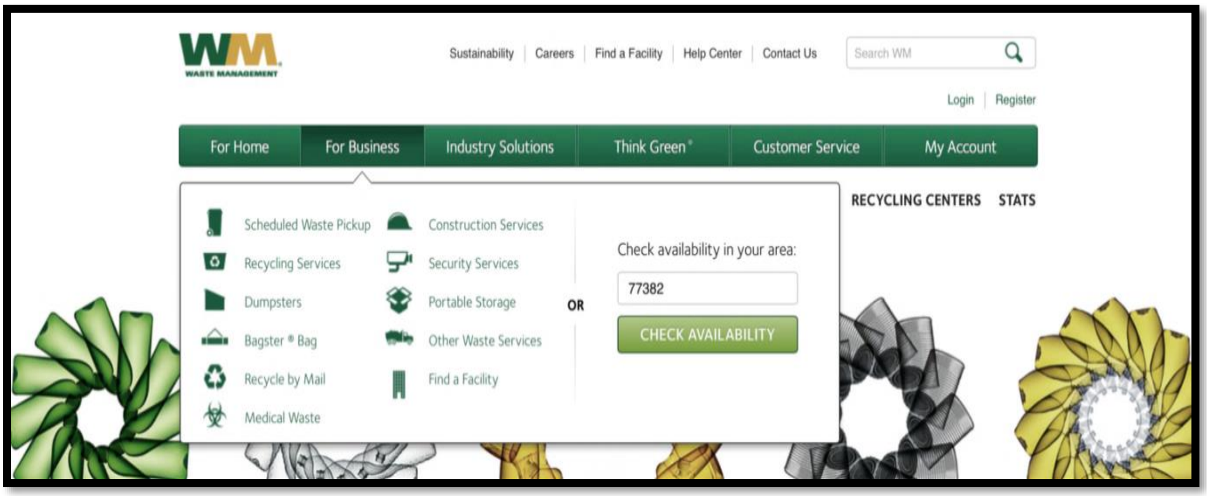
Benefits like increased brand recognition and better brand loyalty can be gained by effective digital media plan. Digital marketing campaign help in reduction in costs, boost in inbound clients and better ranking in search engines. While formulating plan for digital marketing the following points are worth remembering.

- **Digital strategy as a part of Brand Strategy:**Generally, for brands, digital strategies are created in a complete vacuum from the overall brand strategy, or worse, no digital strategy is crafted at all. Since digital is the glue that ties the entirety of a marketing plan and tactics together, anything that happens online needs to ladder up to the higher objectives of the brand. An effective digital strategy is typically composed of a group of sub strategies to effectively plan and account for owned, earned, shared, and paid assets.

- **Innovation of Brands:** Majority of brands have some form of goal around innovation. And that's important because innovations drive the business forward But innovation mean better not new. Our strategy should help us select our tactics, not the other way around. If we are seeking to use a tool or platform because we think it is innovative, and can't identify how or why it works for our audience, we're worshipping shiny object, are destined to fail.

Activity – Innovation

Discuss with your partner to develop an e-commerce website for Waste Management Sector.



Waste Management Sector had always relied on account managers, telephone customer service to explain, brief and market diverse number of services & products. So what about a e-commerce website? Scan the QR Code to visit such a sample website.

- **Perceive Consumer Interest:** Too often marketers approach digital from the mindset of their own (or their brand) objectives. Users crave value, utility, and having their needs met. This is especially true online where fractions of a second can make or break a potential engagement. Instead of focusing on our needs, try and determine what our users want and how we can insert our brand or our content into their lives in a way that makes sense.

- **Don't imitate your competitors:** Just because your competitor is doing something doesn't mean you should too.

- **Acknowledge the Importance of Smart Phone and Tablet:** Usage of mobile phone and tablet has increased extensively. About 85% of HCP's are using a tablet in their practice and 1 in 3 people in the US now own a tablet as well. Increasing use of smart phones means your brand had better be ready to provide mobile optimized content, tools, and resources for our users.

- **Understand the Difference between Metrics and Analysis:** There is difference between metrics and analysis. Metrics are just data (i.e. numbers) whereas Analysis tells us what to do next. A common misunderstanding is that they are one and the same. Google analytics may be free, but can’t give us any insight into what the numbers mean or where to go from here. Too often marketers collect (or simply ignore) data and give no thought (or budget) into understanding it. The digital medium allows us to be nimble and react to our users with far greater speed and efficiency.

- **Maintain healthy relationship with stakeholders:** Employees, suppliers, distributors etc. have to be treated in such a manner they feel as a partner. Healthy company – client relationships are a true partnership where everyone feels comfortable bringing ideas and co-authoring success. Treat your organization people fairly and with respect and they’ll bring results for you.

- **Share your content with those who need it:** Use wants to use contents as per their convenience when and where they want. You should take it positively if they decide to copy, share, link, or tweet it elsewhere. Your contents should be sharable and videos should be post able, because your customers are true amplifier for your brand than anyone else.

Activity – Food for Thought

Why WhatsApp Marketing is the Next Big Thing in 2019 & Beyond?? Have you ever seen or been part of any WhatsApp group that sells dresses (viz., salwar sales) or fancy items? Find it…

Difference between Traditional Marketing and Digital Marketing??

Traditional Marketing

- Communication is unidirectional, which means, an organization communicates about its services with its audiences.
- Medium of communication is generally phone calls, emails, and letters.
- Campaign takes more time as designing, preparing, and launching are involved.
- Limited only to reach local audience.
- It’s almost impossible to measure the effectiveness of traditional marketing campaign.

Digital Marketing

- Communication is bidirectional, as businesses can communicate with the customers and customers can ask queries or make suggestions to businesses as well.
- Medium of communication is more powerful and involves social media websites, chats, apps and Email.
- It can be developed quite rapidly and with the digital tools, channelizing Digital Marketing campaigns is easier.
- It is very effective for reaching global audiences as well as local audience.
- We can measure the effectiveness of marketing campaign through analytics.
- Marketing targets can be achieved through various Digital Marketing Channels.

Activity – Discursive

Discuss with your partner why certain links appear on top of the search list whereas others don't?

Search Engine Optimization (SEO)

SEO refers to the act of optimizing the structure, design, and content of our website so the search engines (like Google) can index them accurately and position sites in the top results when someone searches those relevant sectors. For instance, if someone searches for disposing kilo tons of e-waste, they will find our company website in top of the search result provided that we have optimized our website accordingly. Optimize refers to the use of 'keywords', which play the most important role in SEO, as its right use is the key to successful SEO. Further, SEO also incorporates different promotional activities that boost search engine ranking of our site.

Conceptually, there are two ways of optimization:

- On-Page SEO – It includes providing good content, good keywords selection, putting keywords on correct places, giving appropriate title to every page, etc.
- Off-Page SEO - It includes link building, increasing link popularity by submitting open directories, search engines, link exchange, etc.

SEO copywriting is the technique of writing viewable text on a web page in such a way that it reads well for the surfer, and also targets specific search terms. Its purpose is to rank highly in the search engines for the targeted search terms. Along with viewable text, SEO copywriting usually optimizes other on-page elements for the targeted search terms. These include the Title, Description, Keywords tags, headings, and alternative text. The idea behind SEO copywriting is that search engines want genuine content pages and not additional pages often called 'dummy pages' that are created for the sole purpose of achieving high rankings.

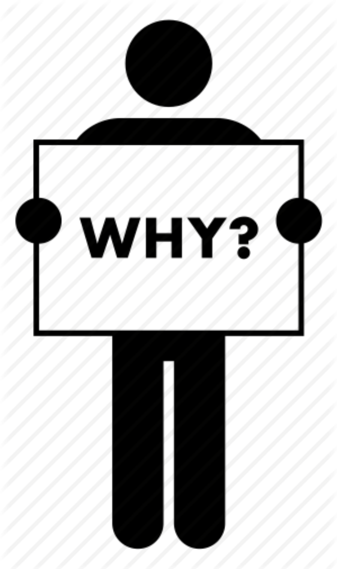
5.6 Social Media Marketing

Social Media Marketing makes use of social media sites to raise visibility on the Internet and to promote products and services. Social media sites are useful for building social (and business) networks, and for exchanging ideas and knowledge. Social media networking is part of a trend known as Web 2.0, which refers to changes in the way users and software developers use the Web. It is a more collaborative use of the Web that enhances creativity and knowledge exchange. It is a more interactive and user-driven way to help users participate and collaborate over the Web through open applications and services. It is critical, therefore, that content is accessible to the user; the user should be able to create, share, remix, and repurpose content.

"Web 2.0 (or Web 2) is the popular term for advanced Internet technology and applications including blogs, wikis, RSS and social bookmarking. The expression was originally coined by O'Reilly Media and MediaLive International in 2004, following a conference dealing with next-generation Web concepts and issues".

Social Media Marketing uses podcasts, wikis, blogs, folksonomies, online videos, photo sharing, news sharing, message boards, and posts on social networking sites viz., facebook, twitter etc. to reach a large or targeted audience. Some examples of social media marketing techniques are:

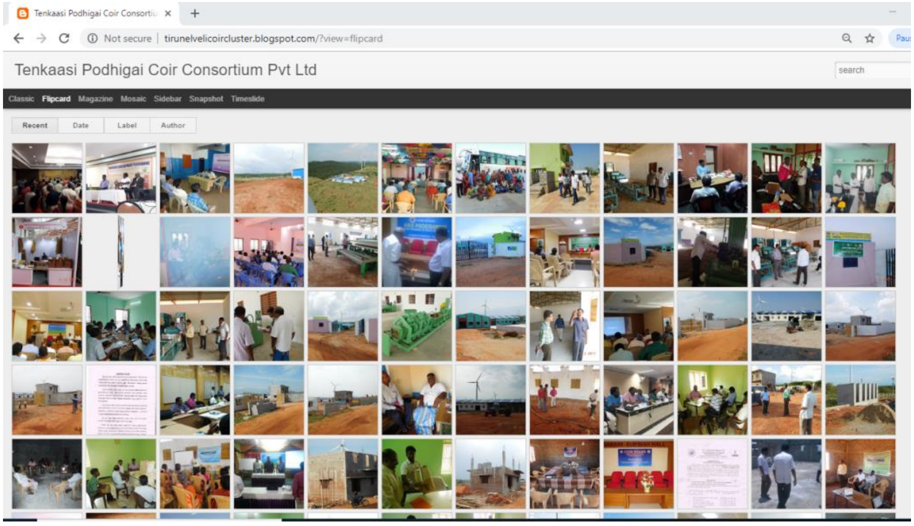
- Joining relevant online communities or groups to help promote our business.
- Adding RSS feeds to our website (RSS stands for Really Simple Syndication that can be used to easily update content).
- Blogging (where we add content to blogs).
- Creating our own business blog.



Small Businesses should use Social Media to Market their businesses

- We can reach a large number of people in a more spontaneous way without paying advertising fees.
- The use of blogs and social and business networking sites can increase traffic to our website from other social media websites. This in turn may increase our Page Rank, resulting in increased traffic from leading search engines.
- Social media complements other marketing strategies such as a paid advertising campaign.
- We can build credibility by participating in relevant forums and responding to questions.
- Social Media sites have information such as user profile data, which can be used to target a specific set of users for advertising.

Activity – Discursive



Exemplary Model

Blog of TirunelveliCoir Cluster established by MSME, GoI

Scan the QR Code to visit the blog

Along with your partner create a blog and try its features. Ideate a strategy of creating blog for your proposed business model in Rural Management Sector.

To Promote our Business Using Social Media Sites

- Contribute, collaborate, inform, educate but do not sell. Social Media marketing is different from paid advertising. Rather than taking a sales approach (i.e. directly promoting our product), instead consider how we can help and inform our target audience. For example, try to deliver useful and credible information that will help build our reputation and customer relationships.

- Create high quality content. Whether we are part of a social networking site, have established our own blog, or are contributing to a blog, we need to develop interesting and high quality content. What information will our target audience find helpful?

- Start with Small Steps and Build on Our Success. We can get a feel for how social media sites work by commenting on other blogs, or setting up our own blog. If we have a service based small business we can try "Yahoo! Answers". This website provides a way for us to share our knowledge with people who are looking for that specific information.

- Leave our name and URL when you comment on other blogs. This will help drive traffic to our website, particularly if we have provided useful or interesting information.

- Consider video and/or photo sharing. If we are handy with a video camera we may want to consider "how to" videos or tours of our business. These videos can be shared on appropriate social media websites (e.g. YouTube). We can also take photos of our products and share these photos with people who are interested (using for example, Flickr). A word of caution though – avoid aggressive or invasive sales tactics on these websites.

- Join online groups or mailing lists that are related to the products and services we offer. Connect with these groups and offer information and assistance.

- Understand how social media websites work. These sites are all about connecting and collaboration. Adopt a collaborative, helpful approach and be an active contributor. These sites generally have rules against aggressive sales tactics.

Online Paid Advertising: Pay per click advertising or PPC is another important digital marketing channel that we need to understand in which each time a user clicks on our Ad, we need to pay according to our bid amount. One of the most popular pay per click programs is Google AdWords.

Email Marketing is one of the most pervasive and effective strategies to reach optimum users with least expenses. It is a type of direct marketing that utilizes email as a method for correspondence. Email marketing is a proficient approach to remain associated with the customers and in the meantime advancing our business and services. With email marketing, marketers can likewise track how much percentage of individuals has demonstrated enthusiasm for our item or administration.

Mobile App Marketing

Growing prevalence of smart-phones makes mobile app one of the most important parts of 'digital marketing PDF'. While building your mobile App, below given are the important things we need to pay heed upon-

- We need to optimize social media presence of our App by improving a steady social media following on different social networks like Facebook, Google+, Twitter, Instagram, Tumblr, etc.
- We should drive engagement across our mobile app by focusing our efforts on boosting ongoing engagement and keep updating content to influence users have interest in our app.
- Another important factor is to increasing app store ratings that we ought to try, as this will drive a lot of traffic to our app.
- Ensuring a steady rise in app downloads is one of the important things we need to consider in mobile marketing. But, if our product is valuable, its download rate will automatically increase.

Web Analytics is the review, examinations, and reporting of a web information and data for motivations behind comprehension and enhancing web utilization. This strategy is helpful to quantify what numbers of individuals have gone by a site, and how frequent they have used the site or what course they have selected to reach our site. It is exceptionally helpful for marketers as they can make sense of it, which digital marketing strategy is effective and which is most certainly not. Different Web analytics tools can be used to measure whether our site page is working effectively or not. Some of the most common Web Analytics tools are Google Analytics, IBM Core metrics web analytics, Adobe site catalyst, IBM's UnicaNetsight, Piwik, Yahoo marketing dashboard, Moz, etc.

Activity – Brainstorming

Scan the QR Code to
Watch the Video

Along with your partner watch this video to know how to start Social Media Marketing

Model Questions

1. Give a detailed account on Effective Marketing Communication.
2. Explain about advertisement evaluation techniques.
3. What are the socio-ethical aspects associated with advertising.
4. Write short notes on ethics and moral principles in advertising.
5. Explain the general rules of conduct in advertising.
6. What do you understand by the term digital marketing? Give a detailed note.
7. Give Short notes on
    a. Social Media Marketing
    b. Search Engine Optimization
    c. Mobile App Marketing
    d. Web Analytics
    e. Email Marketing

Let's Sum-Up

✓ Effective communication, as such, might be the accurate transmission and receipt thereof and its correct understanding.

✓ Steps to achieve effective marketing communication

Goals: Effective marketing communications must reflect well-formed goals. These may include greater brand awareness, generating sales, customer retention, repeat business, etc. The first step in brand lift is to identify marketing objectives that advance our overall business.

Audience: Once clearly defined communication goals are established, use this framework to identify a receptive target audience. This audience may be segmented into one or more groups that have a common need for the offering and the means to acquire it.

Messaging: Every brand has that unique "personality" that lends a common voice to all communications. Carefully craft the message that captures this essence while furthering the marketing objective and fitting the unique needs of the audience.

Creative: Creative is the conduit that drives the message through the clutter in a way that resonates with the audience. At its best, creative not only informs, but delivers a brand experience that excites and encourages action. Carefully vet creative work against these criteria to assure maximum effectiveness.

Channel Selection: It's challenging to reach the consumer given today's myriad of communication media. Communications channels should be carefully selected to deliver a consistent message, engage the audience, encourage a dialog (when possible) and ultimately achieve the marketing goal.

Don't lock into specific solutions, instead review all options and design communications that utilize the most effective media.

Measurement: Brand lift is about results, so select and measure metrics that reflect marketing goals. Periodic review would then show how well communications are performing against goals and allow for adjustments when necessary.

✓ **Ethical and Moral principles of Advertising**

Advertisers must have sufficient knowledge of ethical norms and principles, so that they can understand and decide what is correct and what is wrong. We can identify several ethical and moral principles that are particularly relevant to advertising such as

- Truthfulness in advertising;
- The dignity of the human person; and
- Social responsibility.

KEY WORDS

Effective Marcom, Ad evaluation techniques, Socio-ethical aspects, Digital Marketing

Further Reading

- Wells, Burnett &Moriarty: ADVERTISING PRINCIPLES AND PRACTICES, Prentice-Hall
- Advertising and Sales Promotion Management – S.L.Gupta, V.V.Ratra
- Principles and Practice of Marketing – C.B. Memoria and R.L.Joshi

Block 4

Rural Exports, Procedures and Documentation

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सत्यमेव जयते

Where there is Rural Wellbeing there is Universal Prosperity

Contents

Chapter 1 Meaning and Definition of Exports

Introduction

This Chapter is about understanding the term exports and relevant aspects of it.

Objectives

After completing this Chapter, you will be able to

- Understand the definition of export
- Know about registration paperwork before starting export activities
- Know the importance of product selection and market selection w. r. t. export
- Understand the methods of export for practical purposes
- Understand some of the export terms used for practical purposes

1.1 Introduction to Export

There are different definitions to the term export.

In very simple terms, export may be defined as the selling of goods to a foreign country. India's Foreign Trade i.e. Exports and Imports are regulated by Foreign Trade Policy notified by Central government in exercise of powers conferred by section 5 of foreign trade (Development and Regulation) Act 1992. Presently Foreign Trade Policy 20152020 is effective from 1st April, 2015. As per FTD & R act, export is defined as an act of taking out of India any goods by land, sea or air and with proper transaction of money.

According to Joshi (2005), the term export in international trade means the sending of goods or services produced in one country to another country. The seller of such goods and services is referred to as an exporter; the foreign buyer is referred to as an importer. Thus it is obvious that export of goods over and over again requires involvement of customs authorities. An export's reverse counterpart is an import.

Advantages of Exporting to Organizations

Organizations are exporting diverse products and services for numerous reasons. Exporting may result in growth of sales and profits if organizations have tapped newer markets. This in turn gives them an opportunity to have more business from new regions and help organizations to perform financially better. Some of the advantages of export are listed in Table 1.1.

Table 1.1 Advantages of Export (Indicative)

Advantage	Implication for Organization
Increased sales and profitability	Good financial performance
Getting business from newer markets	Market understanding, learning curve experiences
Access to other markets without having capital outlay	Savings in capital cost
More sales in other markets	Lower dependency on local markets and risk is minimized may be to some extent
Presence in other markets	Facilitates visibility for organization and their products

According to Hill (2015), exporting has some distinct benefits. First to mention is reduction in capital expenditure towards setting up of a manufacturing activity at some other place in some other country. This cost is could be substantial depending upon the country, product type, size of the project and so on. However savings in this cost is advantage. Another benefit is export activity may facilitate organizations to have learning curve or achieve experience curve effects and (take advantage of) location economies.

Organizations that export do come across several business risks. More about these risks in export is covered in Chapter5 titled 'Risk Management'. They distribute these business risks by using different ways. One such normal way is diversification into multiple markets. Exporting into foreign markets can often reduce per unit costs by expanding operations to meet increased demand. Last but not least, organizations that export into foreign markets will have learning curve as they gain new knowledge and experience. This in turn may facilitate them to discover new products, utilize new technologies, and deploy new and innovative marketing practices and gain more insights about foreign competitors.

Export is Putting Challenges to Organizations

In general not any business activity is simple and easy and export is no exception to this fact. Export is somewhat complex in nature and presents some challenges to the organizations. Organizations that export have to face some peculiar or unique set of challenges. It is required that arrangement of some additional funds or capital may be needed as organizations need to allocate significant resources (both internal and external) to undertake foreign market research and understand foreign markets. Based on this it may be decided to enhance or modify products so that they comply with local regulations as well as they are catering to the local demands. Such exporting organizations are always prone to changes in exchange rates of foreign currencies and thus bear a significant burden of financial risk to a higher extent. Payment collection mechanisms put in place, such as open account, letter of credit, prepayment and consignment, are inherently more complex and take longer to process than payments from domestic customers.

Export is traditional way of doing business between countries on a larger scale. This is mainly due to some bilateral agreements between these countries, having lesser trade limitations (such as tariffs or subsidies) and so on. Most of the big businesses having (their) presence in advanced economies obtain a sizeable chunk of their sales from exports to other countries. This capability to export goods may help in progress of the economy. It may noted fact that one of the core tasks of diplomacy and foreign policy between governments is to encourage economic trade for the benefit of all trading parties.

Now day's exports have become an essential aspect in the context of economy of any country. Exports not only facilitate international trade but also provide impetus to domestic economic activity. This impetus is felt in diverse forms such as opening up of different industry sectors, emergence of new trends within these industry sectors, requirement of new skills for these emerging sectors, availability of newer work profiles, creation of employment, growth in domestic production, generation of more sales and so on.

Understanding Imports and Exports Together

Imports and exports may have some bearing on everyday life. It also exerts a sound influence on the consumer and the economy. In today's integrated world economy, consumers are used to seeing and using products and services from every corner of the world in their local malls and stores. These overseas products – or imports – provide more choices to consumers. But too many imports in relation to exports – which are products shipped from a country to foreign destinations – can distort a country's balance of payments and decrease the value of its currency. The value of a currency, in turn, is one of the biggest determinants of any country's financial competitiveness or the economic performance. These day-to-day phrases of international trade have a more far reaching influence than most people imagine.

Positive net exports contribute to economic growth, something that is naturally easy to understand. More exports mean more output from factories and industrial facilities, as well as a greater number of people employed to keep these factories running. The receipt of export proceeds also represents an inflow of funds into the country, which stimulates consumer spending and contributes to economic growth.

Conversely, imports are considered to be a drag on the economy. Imports represent an outflow of funds from a country, since they are payments made by local companies (the importers) to overseas companies (the exporters).However, imports per se are not necessarily detrimental to economic performance, and in fact, are a vital component of the economy. A high level of imports indicates robust domestic demand and a growing economy. It's even better if these imports are mainly of productive assets like machinery and equipment, since they will improve productivity over the long run.

A healthy economy, then, is one where both exports and imports are growing, since this typically indicates economic strength and a sustainable trade surplus or deficit. If exports are growing nicely but imports have declined significantly, it may indicate that the rest of the world is in better shape than the domestic economy. Conversely, if exports deceased sharply but imports increased, this may show that the domestic economy is faring better than overseas markets.

Warm up Activity 1.1

1. Define export. Give example.

____

____

2. Enlist some advantages of export.

____

____

Warm up Activity 1.2

In the context of India, find out export performance (in value terms) for the last three years (201617, 201516 and 201415). Enlist the main items that primarily contribute to exports. Write the inference form the table in your own words.

1.2 Registration Formalities

A registration formality is nothing but the necessary paperwork that is required to have proof as legal entity for any organization. This is essential part of any export organization. Before going into that there are some other aspects that need to be mentioned. In the context of export, how to start export is a normal question that every first time exporter put forward. Instead of that the first question may be is the organization ready for export business? Export in itself is a very wide concept and lot of preparations is required by an exporter before starting an export business. Yes, registration formality is an essential step in this context. This is at three levels firstly organizational level, procedural level and operational level (See Figure 1.1).

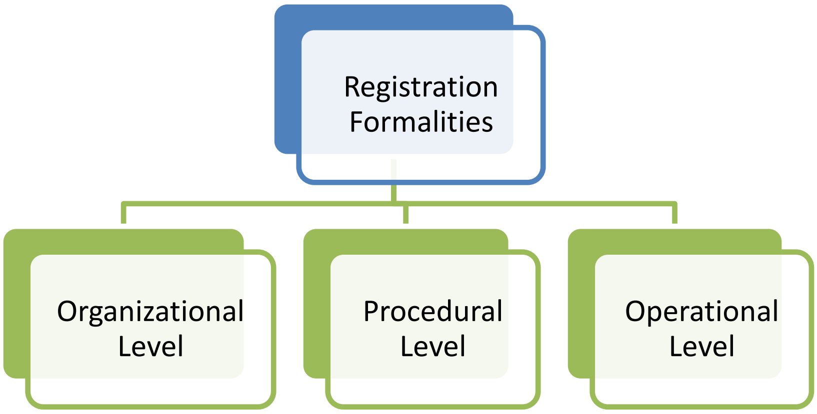

Figure 1.1 Registration Formalities at Different Levels

Organizational level formalities involve activities which are internal to the organization. These are required to make an organization ready for export. Some of the organization level formalities are

- Formation or establishment of organization
- Opening bank account
- Obtaining Permanent Account Number (PAN) and
- Getting IEC (Importer Exporter code) number in the name of the organization
- Getting RCMC (Registration cum Membership Certificate)

This is as shown below (See Figure 1.2).

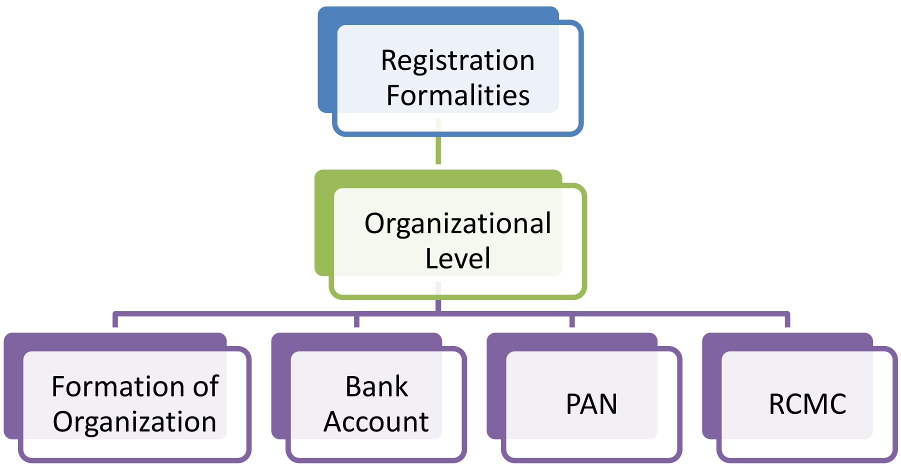

Figure 1.2 Registration Formalities – Organizational Level

More about these is covered in Chapter2 titled 'Export Procedure'. Procedural level formalities involve activities which are external to the organization. These are required for an organization so as to make it compliant to various rules and regulation of export, have authenticity by having registrations with appropriate government and association level authorities that may help organizations to establish their credibility.

Some of the procedural level formalities are associated with registration with various types of government organizations. To list a few important ones are

- Reserve Bank of India (RBI)
- Director General of Foreign Trade (DGFT)
- Export Promotion Council
- Commodity Boards
- Income Tax Authorities

This is as shown below (See Figure 1.3).

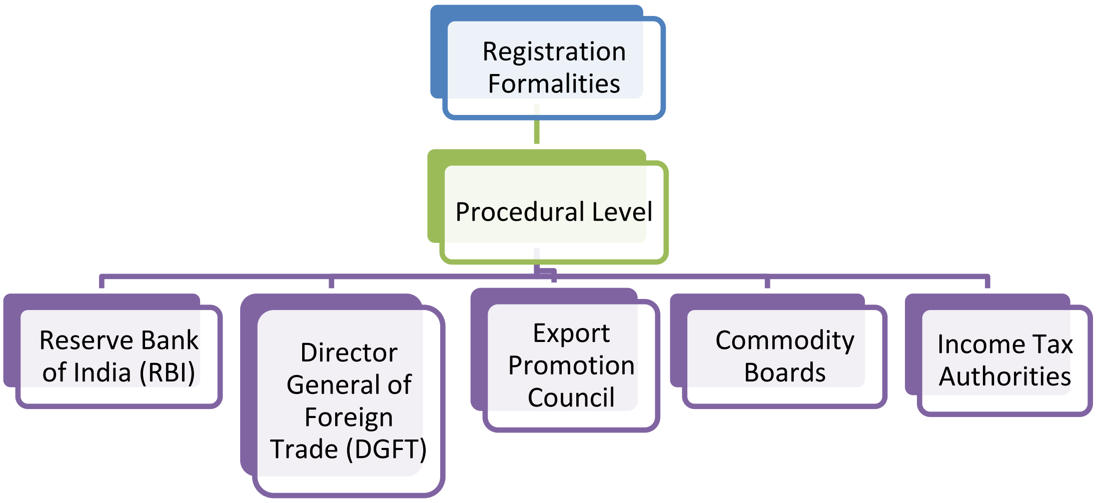

Figure 1.3 Registration Formalities – Procedural Level

More about these is covered in Chapter2 titled 'Export Procedure'.
In fact these are not the registration formalities but are the activities that may related to organization policy and approach. Operational level formalities involve activities which are internal to the organization and are related to operations. These are required for an organization as a part of their management strategy to become a competitive organization that has export credentials.

Some of the operational level formalities are associated with the product or service that the organization intend to export. To list a few important ones are

- Product selection
- Market selection

This is as shown below (See Figure 1.4).

Other activities involved in the process are

- Buyer identification
- Sampling

- Costing / Pricing
- Discussions with buyers
- Taking help form ECGC to cover risks

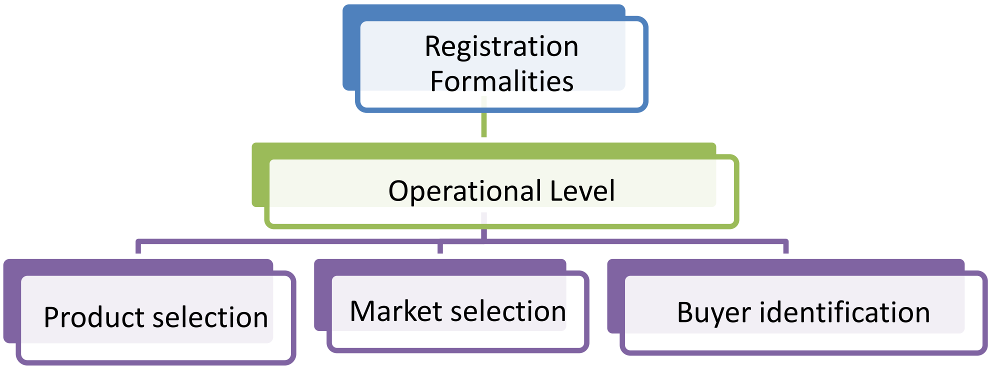

Figure 1.4 Registration Formalities – Operational Level

More about some of these aspects is covered subsequently.

> **Warm up Activity 1.3**
> In the context of export, enlist different types of registration paperwork that is required by any organization that intend to export.
> ____
>
> ____

1.3 Selection of Export Product

Choice of Product / Product Selection

A key success factor in starting any export organization is the choice of product. It is essential to have clear understanding and in-depth knowledge of products to be exported. In order to be a successful in export it is required to go step by step for specific foreign market and not trying to capture all markets at once. The exporter should approach a market on need and priority basis. Overseas design and product must be studies properly and considered carefully. With existence of specific rules and regulations in the context of International trade and foreign business, it is imperative that one has to familiarize with the local, state, federal, (as applicable) and international laws before starting export activity.

Choice of Market / Market Selection

An overseas market should be selected after research covering market size, competition, quality requirements, payment terms etc. Exporters can also evaluate the markets based on the export benefits available for few countries under the FTP. Export promotion agencies, Indian Missions abroad, colleagues, friends, and relatives might be helpful in gathering information. Figure 1.5 shows basic steps in foreign market research.

Step 1: Gather information on broad range of markets. Demand, size of market, regulatory issues, competition scenario, market accessability, language, culture, politics and so on.

↓

Step 2: In-depth study of seletced market. Geography, Demogrphic features, assessment of economic, political and legal envirnment and so on.

Figure 1.5 Steps in Foreign Market Research

Both product choice and market choice may be essential ingredients that are required for necessary export planning so as to design, formulate appropriate export strategy for suitable markets. This strategy may be useful in understanding the export markets of interest to the organization. It may be ensured that some of the questions need to pondered and answered by this strategy. An indicative check list of questions to be answered for export planning is presented as Annexure 1.

Product choice is particularly important in Indian context and particularly in rural context. In rural areas, typical products available and geographical characteristics make them eligible for their consideration to export. One typical parameter is product success in the domestic market base on which decision may be taken. Also it is required to ensure availability of the product to ensure sustainability in the context of export.

Both the choice of product and location does have significance as it is connected with geographical features. This is particularly valid in the context of agricultural products or horticultural products from rural India. For example, suitable climate has made areas in Nashik (Sinner) famous for grapes and onions (Lasalgaon). Dry weather conditions in southern part of Maharashtra such as Sangli, Karad, Satara has benefited to establish raisin clusters there.

Table 1.2 Stage 1 Clusters as Identified by APEADA

State	Product cluster	Areas identified
1. Andhra Pradesh	1. Banana 2. Pomegranate	Kurnool, Kadapa, and Anantapur. Kurnool, Kadapa, and Anantapur.
2. Karnataka	3. Rose Onion & Vegetables 4. Mangoes	Bangalore Rural, Kolar, Belgaum, Dharward, Bagalkote, Chikkalapura, Kolar, Chhikabalpur and Ramnagar
3. Kerala	5 Nendran Banana 6 Pineapple	Thrissur , Palghat Idukki, Vazhakulum
4. Meghalaya	7 Pineapple	RiBhoi
5. Telangana	8 Mango	Rangareddy, Kareemnagar, Mehboobnagar, Khammam, Warangal
6. Gujarat	9 Banana 10 Mango	Bharuch, Narmada Junagadh, Amreli, Bhavnagar; Valsad, Navsari Surat
7. West Bengal	11 Vegetables (Okra, Brinjal, Green chili, bitter gourd, Betel leaves)	Nadia, North & South 24 Parganas, Midnapur and Murshidabad

Source APEDA

This indicates that in the context of rural environment, agriculture and horticulture products carry immense significance and importance and have good market potential for exports. This fact is highlighted by APEDA (2017) which mentions it has already identified eleven clusters in seven states in India in stage 1 and is making attempt to ensure significant increase in export from these identified clusters in near future. This list is as shown in Table 1.2.

The above table also highlights the presence of rural areas and the point that their selection is on the basis of product availability and geographical conditions within the region.

In addition to above, price is also an important factor. So, before starting an export activity the exporter must take into account the price offered to the buyers. As the price to customer depends on sourcing price, it may be suggested that staying away from intermediaries (to the possible extent) so as to have cost saving benefits. It results into reduction in cost of the transaction and enhancement in product features and quality of the final products.

All items are freely exportable except few items appearing in prohibited/restricted list.After studying the trends of export of different products from India proper selection of the product(s) to be exported may be made.

Warm up Activity 1.4

In the context of export, describe in your own word importance of product selection and market selection.

____

____

Other Operational Level Activities are Elaborated Below.

Buyer Identification

One way is to take part in trade fairs, buyer seller meets, exhibitions, as well as periodic accessing of B2B portals, and relevant websites. Now with availability of information online it has become a cost effectiveway to identify potential customers. Export promotion Councils, Indian Missions abroad, overseas chambers of commerce may be considered as other sources. Online presence with a multilingual website displaying product information and relevant details may also help.

Sampling

This will depend on the product and making samples available in customized format (as per the requirement of foreign buyers) is skillful task and not an easy one. As per Foreign Trade Policy 20152020, exports of bonafide trade and technical samples of freely exportable items shall be allowed without any limit.

Costing / Pricing

Again this will also depend on the product, features it complexity and so on. Product costing may be helpful in stimulating interest of the potential buyer towards the product and may result in sales promotion in other markets. The cost may be decided by taking into consideration all expenditure from sampling to realization of export proceeds on the basis of terms of sale i.e. Free on Board (FOB), Cost, Insurance & Freight (CIF), Cost & Freight(C&F), etc. The purpose ofdeciding costing (in the context of export) is to achieve revenues by selling more quantity (of goods) at competitive price with maximum profit margin. It is suggested to organize and make export costing details for each export product.

Discussion with Buyers

It is required to interact with potential customer, after assessment or evaluation of their requirements and needs. This is in the context of buyer's awareness about the product, future prospects and ensuring sustainable business, demand for giving reasonable allowance/discount in price may be considered.

Taking Help from ECGC to Cover Risks

International trade is a complex and vast in nature. It is prone to have different risk and prominent amongst them is the payment risks. This may arise because of nonpayment ability of the buyer. Taking assistance from Export Credit Guarantee Corporation Ltd (ECGC) in the form of suitable policy may take care of this risk. It may be suggested having credit limit on the foreign buyer from ECGC to protect against this risk of non-payment, this is helpful in situation wherein the buyer is placing the order (and not paying in advance or not opening letter of credit).

1.4 Methods of Exporting

There are mainly two types of methods of export viz. direct and indirect. Both these methods also indicate the type of distribution that is required to be used while distributing the goods. In case of direct method, the manufacturer itself deals with the customer (or the foreign buyer) whereas in case of indirect method, the manufacturer takes help from other parties called as intermediaries. The presence of these intermediaries decides the way of selling or distribution of the goods.

Each of these methods has its own advantages and disadvantages. It entirely depends on the organization and level of its ability that it would like use for this export activity in selecting the method of their choice. In indirect method, the export intermediary assumes the task of locating the potential customers (overseas buyers), shipping the products, and ensuring payment appropriately. In direct method, all these tasks are the producer deals directly with a foreign buyer.

Direct Export

As stated above, direct export is handled entirely by the organization and has certain advantages and certain risks too. In the context of organization opting for direct exports to overseas territories, it is necessary to make certain internal organizational amendments so that it is able to handle, support and execute complex functions. In this case, organization selects the markets it wishes to penetrate, chooses suitable ways of distribution for each market, and then makes specific foreign business connections in order to sell its product. Some of the ways of distribution are representatives, distributors, retailers, and end users. This is as shown in Figure 1.6. These are elaborated subsequently.

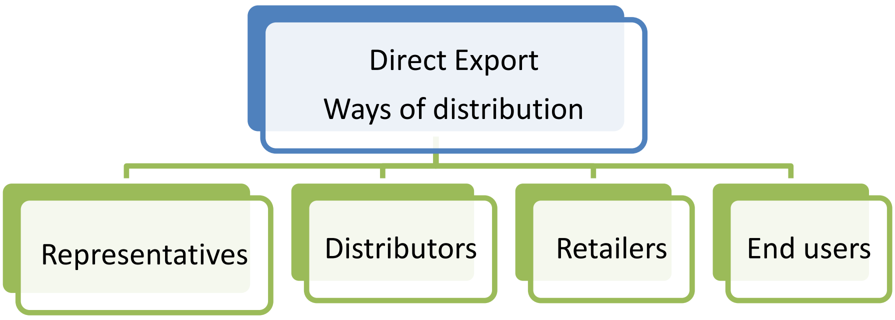

Figure 1.6 Direct Export – Ways of Distribution

Representatives

These are also called as sales representative and they may work on either an selective basis or all inclusive basis. The sales representative generally employed on a commission basis, assumes no risk or responsibility, and is under contract for a specific predefined period of time (which may be modified as per mutual consent). The said contract defines territory, terms of sale, method of compensation, reasons and procedures for terminating the agreement, and relevant details. They make use of the organization's product information, and samples for demonstration to potential buyers. They usually handle many balancing product portfolios that support each other.

Distributors

The foreign distributor is an entity that procures merchandise from an exporter (often at substantial discount) and resells it at a profit. Generally, it is a merchant that offers support and service for the product, as required. The distributor takes care of stock keeping, inventory and ensures adequate supply of spare parts as necessary. It also maintains adequate facilities and personnel so as to ensure for general servicing duties.

Retailers

These are foreign retailers. End users do not usually buy from a distributor; they buy from retailers or dealers. The organization may also sell directly to a foreign retailer, with limited product portfolio. Growth of major retail chains in markets such as Europe and Japan has created new opportunities for this type of direct sale. Organizations may establish association with major domestic retailers and use them to sell in overseas markets. Many large retailers maintain overseas buying offices and use these offices to sell abroad as required.

End Users

The organization may sell their products or services directly to the end users in overseas region. This may be institutional market in most of the cases as the potential end users may be overseas governments; institutions such as financial institutions, businesses, banks or hospitals, and educational institutions to name a few. These potential end users may be recognized at industry specific trade shows, through international publications, or through government contact.

It may be noted that the organization when engaged in direct sell to end users have to borne all the expenses right from shipping, payment collection, to product servicing and so on. It is required to make necessary provisions for all of these services. .all these costs must be incorporated into the export cost so as to ensure that the organization may not end up making losses.

The benefits of direct exporting for any organization include more involvement and influence on the export process, potentially higher profits, and a closer interaction with potential overseas buyer. Of course, these benefits are not available at ease, as the organization has to invest in terms of capital, manpower, and so on.

Some of the disadvantages of direct exporting are

- Initial capital expenses needed
- High amount of risks involved
- Higher costs of distribution
- Stock keeping and maintenance may be challenging
- Demanding skill sets and experience needed
- Overdependence on distributors

The organization must take care in this case that if a product is sold in such a direct way, the exporter is solely responsible for shipping, payment collection, and product servicing unless other arrangements are made. Unless the cost of providing these services is built into the export price, the organization may end up making far less revenues than originally anticipated.

Indirect Export

As stated above, indirect export has inclusion of other parties called intermediaries. All of these intermediaries may offer certain advantage to the organization.

Indirect export may have several intermediaries as ways of distribution. These are export management organizations, export trading organizations, and merchants, remarketers.This is as shown in Figure 1.7. These are elaborated subsequently.

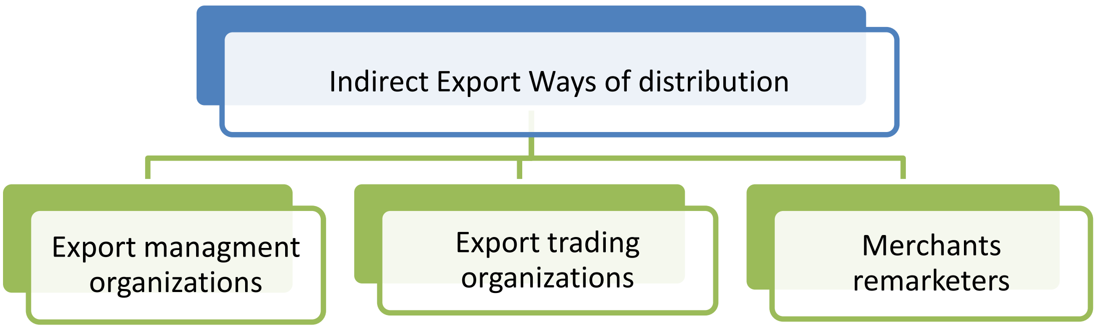

Figure 1.7Indirect Export – Ways of Distribution

Export Management Organization

Export management organization serves the function of the export department for any particular product or service. It may be single product or multiproduct. It solicits and does the business on the behalf of manufacturers that it represents. It may be possible that such business can be done in its own name on professional basis.

Such organizations generally have business expertise and specialty by product or by overseas market or both. Due to this peculiar feature, it is obvious that the reputed ones have indepth product expertise, knowledge and suitable market connections with existing overseas distributors. This instant accessibility to overseas marketplace is the main reason of deployment of such organizations. In view of the manufacturer, it may not have direct control over overseas sales in this case. It is essential to keep reputation intact in the overseas markets ad d hence it is better to have due diligence before making the choice of any export management organization. Periodic interaction with export management organization is of critical importance to ensure success.

Export Trading Organizations

An export trading organization assists in the export of domestic goods and services. As the case above, it may serve the function of the export department. This is similar to export management organization. These are based on industry type and may be structured according to multiple or single industry sector. Thus representing similar products from diverse suppliers may be possible.

Merchants, Remarketers

These are entities that are invoked in direct procurement from the supplier (manufacturer). Then they do themselves necessary packing, labelling and so on as required and according to their own requirements. They then sell overseas through their contacts in their own names and borne all risks there in. In this case it may happen that the organization (using such entity) handovers the function of product marketing and promotion to them.

1.5 Export Terminologies

In the era of globalization international trade and business Trade has become the helping hand for any economy. Its sole aim is not only to earn of foreign exchange, but also to stimulate greater economic activity. As stated earlier export is a diverse subject with vast scope and covers different types of organizations. It may us special terms and definitions for doing day to day business activities. Such terms and their usage and context may vary from market to market, from product to product and from one organization to another organization.

According to the Hong Kong Trade Development Centre (HKTDC), there are many documents involved in international trade, such as commercial documents, financial documents, transport documents, insurance documents and other international trade related documents. In processing the export consignment, documentation may be executed in up to four contracts the export sales contract, the contract of carriage, the contract of finance and the contract of cargo insurance. It is therefore important to understand the role of each document and its requirements in international trade. There are several sources available that provides export terminology. Some of the most commonly used terms are mentioned here.

Commercial Related Terminology

Quotation

An offer to sell goods and should state clearly the price, details of quality, quantity, trade terms, delivery terms and payment terms.

Prepared by exporter

Sales Contract

An agreement between the buyer and the seller stipulating every detail of the transaction. Since this is a legally binding document, it is therefore advisable to seek legal advice before signing the contract.

Prepared by Exporter and Importer

Pro Forma Invoice

An invoice provided by a supplier prior to the shipment of merchandise, informing the buyer of the kinds and quantities of goods to be sent, their value, and importation specifications (weight, size and similar characteristics). This is not issued for demanding payment but may be used when applying for an import licence / permit or arranging foreign currency or other funding purposes.

Prepared by Exporter

Commercial Invoice

A formal demand note for payment issued by the exporter to the importer for goods sold under a sales contract. It should give details of the goods sold, payment terms and trade terms. It is also used for the customs clearance of goods and sometimes for foreign exchange purpose by the importer.

Prepared by Exporter

Packing List

A list with detailed packing information of the goods shipped.

Prepared by exporter

Inspection Certificate

A report issued by an independent surveyor (Inspection Company) or the exporter on the specifications of the shipment, including quality, quantity, and / or price, required by certain buyers and countries.

Prepared by Inspection Company or Exporter

Insurance Policy

An insurance document, with full details of the insurance coverage, evidencing insurance has been taken out on the goods shipped.

Prepared by Insurer or Insurance Agent or Insurance Broker

Insurance Certificate

This certifies that the shipment has been insured under a given open policy and is to cover loss of or damage to the cargo while in transit.

Prepared by Insurer or Insurance Agent or Insurance Broker

Consular Invoice

A document required by some foreign countries, showing shipment information such as consignor, consignee, and value description, etc. Certified by a consular official of the importing country stationed in the foreign country, it is used by the country's customs officials to verify the value, quantity and nature of the shipment.

Prepared by Exporter

Transport Related Terminology

Shipping Order S/O

A document with details of the cargo and the shipper's requirements, and is the basic document for preparing other transport documents such as bill of lading, air waybill, etc.

Prepared by Shipper / Transport Companies

Dock Receipt D/R or Mate's Receipt

A receipt to confirm the receipt of cargo on quay / warehouse pending shipment. The dock receipt is used as documentation to prepare a bill of lading. It has no legal role regarding processing financial settlement.

Prepared by Shipping Company

Bill of Lading (B/L)

An evidence of contract between the shipper of the goods and the carrier. The customer usually needs the original as proof of ownership to take possession of the goods. There are two types a STRAIGHT bill of lading is nonnegotiable and a negotiable or shipper's ORDER bill of lading (also a title document) which can be bought, sold or traded while goods are in transit and is used for many types of financing transactions.

Prepared by Shipping Company

Sea Waybill

A receipt for cargo which incorporates the contract of carriage between the shipper and the carrier but is nonnegotiable and is therefore not a title document.

Prepared by Shipping Company

Air Waybill (AWB)

A kind of waybill used for the carriage of goods by air. This serves as a receipt of goods for delivery and states the condition of carriage but is not a title document or transferable / negotiable instrument.

Prepared by Airline

Shipping Guarantee

Usually a preprinted form provided by a shipping company or the bank, given by an importer's bank to the shipping company to replace the original transport document. The consignee may then in advance take delivery of goods against a shipping guarantee without producing the original bill of lading. The consignee and the importer bank will be responsible for any loss or charges occurred to the shipping company if fault is found in the collection. It is usually used with full margin or trust receipt to protect the bank's control to the goods.

Prepared by Importer's Bank / Shipping Company / Consignee

Packing List (Sometimes as Packing Note)

A list providing information needed for transportation purpose, such as details of invoice, buyer, consignee, country of origin, vessel / flight date, port / airport of loading, port / airport of discharge, place of delivery, shipping marks / container number, weight / volume of merchandise and the fullest details of the goods, including packing information.

Prepared by Shipper

Financial Related Terminology

Documentary Credit D/C

A bank instrument (issuing or opening bank), at the request of the buyer, evidencing the bank's undertaking to the seller to pay a certain sum of money provided that specific requirements set out in the D/C are satisfied.

Prepared by the Issuing Bank upon an Application Made by the Importer

Standby Credit

An arrangement between a customer and his bank by which the customer may enjoy the convenience of cashing cheques, up to a value. Or a credit set up between the exporter and the importer guaranteeing the exporter will pay the importer a certain amount of money if the contract is not fulfilled. It is also known as performance bond. This is usually found in large transactions, such as crude oil, fertilizers, fishmeal, sugar, urea, etc.

Prepared by Exporter / Issuing Bank

Collection Instruction

An instruction given by an exporter to its banker, which empowers the bank to collect the payment subject to the contract terms on behalf of the exporter.

Prepared by Exporter

Bill of Exchange (B/E) or Draft

An unconditional written order, in which the importer addressed to and required by the exporter to pay on demand or at a future date a certain amount of money to the order of a person or bearer.

Prepared by Exporter

Trust Receipt (T/R)

A document to release a merchandise by a bank to a buyer (the bank still retains title to the merchandise), the buyer, who obtains the goods for processing is obligated to maintain the goods distinct from the remainder of his / her assets and to hold them ready for repossession by the bank.

Prepared by Importer

Promissory Note

A financial instrument that is negotiable evidencing the obligations of the foreign buyer to pay to the bearer.

Prepared by Importer

Government Related Terminology

Certificate of Origin (CO)

This certifies the place of manufacture of the exported goods to meet the requirements of the importing authorities.

Prepared by Trade and Industry Department and Five Chambers of Commerce

Certificate of Origin Generalized Systems of Preferences (GSP)

A CO to support the claim for preferential tariff entry (a reduced or zero rate) of the exporting country's products into the GSP donors under the GSP they operate. In general, a Form A is issued only when the goods concerned have met both the origin rules of the preference receiving country as well as the origin criteria of the respective donor country's GSP.

Prepared by Trade and Industry Department and five Chambers of Commerce

Import / Export Declaration

A statement made to the Director of Customs at port of entry / exit, declaring full particulars of the shipment, for example the nature and the destination / exporting country of the ship's cargo. Its primary use is for compiling trade statistics.

Prepared by Exporter / Importer

Import / Export Licence

A document issued by a relevant government department authorizing the imports and exports of certain controlled goods.

Prepared by Trade and Industry Department, Customs & Excise Department, etc

Customs Invoice

A document specified by the customs authorities of the importing countries stating the selling price, costs for freight, insurance, packing and payment terms, etc, for the purpose of determining the customs value.

Prepared by Exporter

More about some of these important documents are covered in Chapter3 titled 'Export Documents'.

In very simple terms, export may be defined as the selling of goods to a foreign country. Export is defined as an act of taking out of India any goods by land, sea or air and with proper transaction of money.

Export in itself is a very wide concept and lot of preparations is required by an exporter before starting an export business. Registration paperwork is necessary for export at different levels firstly organizational level, procedural level and operational level.

Both product choice and market choice may be essential ingredients that are required for necessary export planning so as to design, formulate appropriate export strategy for suitable markets.

There are mainly two types of methods of export viz. direct and indirect. Both these methods also indicate the type of distribution that is required to be used while distributing the goods.

As stated earlier, export is a diverse subject with vast scope and covers different types of organizations. It may us special terms and definitions for doing day to day business activities. Such terms and their usage and context may vary from market to market, from product to product and from one organization to another organization.

Model Questions

1. Define export. Elaborate with examples.
2. Describe various types of paperwork required for starting export business.
3. Elaborate the significance of product selection and market selection in the context of formulation of export plan.
4. Describe methods of export with their characteristics.
5. Elaborate the significance of export terms used in common practice.

Suggested Reading

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Annexures

Annexure 1 Indicative list of questions to be answered for export planning

1. Which products are of interest to the organization for export?
2. Which are products to be selected for export development?
3. What kinds of changes, if any, are anticipated in view of acceptability in overseas markets?
4. Which countries are of interest to the organization for export?
5. In each country, what are the features of potential customers?
6. What marketing and distribution channels will be deployed to reach potential customers?
7. What are the unique situations or peculiar problems with reference to each market (competition, cultural differences, import controls, etc.), and what strategy will be used to address them?
8. How will the product's export sale price be worked out?

9. What specific operational steps must be taken and when?
10. What will be the time frame for implementing each element of the plan?
11. What personnel and company resources will be dedicated to exporting?
12. What will be the cost in time and money for each element?
13. How will results be evaluated and used to modify the plan?

Chapter2 Export Procedure

Introduction

This chapter is about understanding different export related procedures and relevant aspects of it.

Objectives

After completing this Chapter, you will be able to

- Know activities needed at organization level to start export business
- Know about registration paperwork required for export business
- Understand the importance and role of quality control in export
- Know about export promotion councils and their roles
- Know about product export development authorities

2.1 Starting an Export Firm

For many organizations seeking growth in their business, having an export activity is on top priority. Starting an export activity may be looked upon as rewarding opportunity to enhance business by having revenues from overseas markets. It not only serve the purpose of earning valuable foreign exchange but also helpful in spreading the information about the organization in other markets. This increased awareness may be useful to create a positive and strong image of the organization and their products in the markets.

As stated in Chapter1, in the context of starting the export activity, both product choice and market choice must be identified clearly. These are essential ingredients that are required for necessary export planning so as to design, formulate appropriate export strategy for suitable markets. This strategy may be useful in understanding the export markets of interest to the organization. It may be ensured that some of the questions need to pondered and answered by this strategy.

Export in itself is a very wide concept and lot of preparations is required by an exporter before starting an export business. Yes, registration paperwork is an essential step in this context. This is at the levels of firstly organizational level and procedural level.

At the organization level there are some activities required before starting any export business. Organizational level formalities involve activities, internal to the organization. These are required to make an organization ready for export.

In the context of starting the export firm, it is required that any organization will comply with or complete following formalities

- Formation or establishment of organization
- Opening bank account
- Obtaining Permanent Account Number (PAN) and
- Getting IEC (Importer Exporter code) number in the name of the organization
- Getting RCMC (Registration cum Membership Certificate)
- Export Licensing

Formation or Establishment of Organization

In order to start the export business, the initial and basic things is formation of the organization itself. First a sole Proprietary concern/ Partnership firm/Company may be set up as per procedure with a suitable name and logo. Since it is intended to start export activities, it is desirable that the name may convey the meaning that this organization is associated with export / import business. The name may be simple, short and precise. Different words like global, world ways, overseas, international and so on may be used as a part of the name to convey this meaning. Then it is very useful to have a trade name and a logo for the proposed organization. Its design must be professional and able to create good impression about the organization's products amongst potential customers in overseas markets. Establishment of necessary and basic infrastructure is the next activity. This of course depends on upon the type of export activity that organization intends to start merchant exporter or manufacturer exporter or service provider.

Opening Bank Account

A current account with a Bank authorized to deal in Foreign Exchange should be opened. It is suggested that opening an account with the bank branch that is familiar with foreign exchange transactions and also accepts the export import documents for negotiation and other related dealings.

Obtaining Permanent Account Number (PAN)

Today for every exporter and importer, it is necessary to have a valid PAN from the Income Tax Department. Getting PAN is essential as it is a requirement to open the current account in the name of the proposed organization and to apply for the allotment of the Importer Exporter Code (IEC) Number.

Getting IEC (Importer Exporter Code) Number in the Name of the Organization

An IEC is a 10 digit number which is mandatory for undertaking export/ import. Application for obtaining IEC Number can be submitted to Regional authority of DGFT in form ANF 2A along with the documents listed therein.

Applicants can also apply for eIEC on the DGFT website (http//dgft.gov.in/). Only one IEC can be obtained against a single PAN.

Getting RCMC (Registration cum Membership Certificate)

Another requirement for export activity is to take RCMC provided by select authorities. These authorities are concerned Export Promotion Councils or Federation of Indian Export Organizations (FIEO) or Commodity Boards or relevant Authorities. This RCMC may be beneficial to organizations in availing a kind for legal status or authorization to import or export or any other benefit or concession under Foreign Trade Policy 20152020, as required.

Export Licensing

It is the process to acquire or obtain an export license form relevant authorities. An export license is a document issued by the appropriate licensing authority after which an exporter organization is permitted to carry export activity in overseas market. It must be noted that issue of this license is subject to due diligence. There may be a critical review of the facts and figures related to the given export activity or transaction. The issue of export license also subject to various factors such as type of commodities to be exported, the export place or the location of port and so on. Hence for an exporter organization it is very essential to have clear idea about product portfolio of their interest. This criteria evaluates the aspect that whether the commodity to transported or the product needs an export license or not. In this context, the organization must take into consideration following intentions or purposes

- What (type of commodity) do you want to export?
- Which countries are your (destination) markets of interest?
- Who are your potential end users (that will receive your commodity)?
- What will your commodity will be used?

Canalization

Canalization is a peculiar characteristic Export License. It means that exports to be undertaken only by the canalizing agency such as MMTC, NAFED, and so on.

Another example is that government has designated about thirteen state trading enterprises (STEs) as canalizing agencies for exports of onions. This is in accordance with certain specified items under the EXIM policy.

Some examples of canalizing agencies are listed in Table 2.1.

Table 2.1 Canalizing Agencies (Indicative)

Name of the Commodity	Name of the Canalizing Agency
Minerals	Metals and Minerals Trading Corporation (MMTC)
Onions	National Agricultural Cooperative Marketing Federation of India (NAFED) Spices Trading Corporation Andhra Pradesh State Trading Corporation Maharashtra State Agricultural Marketing Board

Source: Department of Commerce, Government of India

Application for an Export License

To find out whether a license is needed to export a particular commercial product or service, the exporter organization must first categorize the item as per the ITC (HS) Code list.

According to Director General of Foreign Trade (DGFT), ITC (HS) Codes or better known as Indian Trade Classification based on Harmonized System of Coding was adopted in India for importexport operations. Indian custom uses and eight digit ITC (HS) codes that suit the national trade requirements. It may be noted that Export license are only issued for the goods mentioned in the Schedule 2 of ITC (HS) Classifications of Export and Import items.

A proper application can be submitted to the DGFT. The Export Licensing Committee under the Chairmanship of Export Commissioner considers such applications on merits for issue of export licenses.

Warm up Activity 2.1
1. Give the full forms of the following.
IEC
RCMC
STE
ITC (HS)
DGFT

Warm up Activity 2.2
In the context of canalisation, identify any two commodities (other than those listed here) and designated agencies for them.

2.2 Registration Procedures with Relevant Authorities

At the procedure level there are some activities required before starting any export business. Procedural level formalities involve activities which are external to the organization. These are required for an organization so as to make it compliant to various rules and regulation of export, have authenticity by having registrations with appropriate government and association level authorities that may help organizations to establish their credibility. In the context of starting the export firm, it is required that any organization will comply with or complete following registration procedural formalities with relevant authorities.

As stated in Chapter1, some of the procedural level formalities are in the form of registration with various types of government organizations. To list a few important ones are

- Reserve Bank of India (RBI)
- Director General of Foreign Trade (DGFT)
- Export Promotion Council
- Commodity Boards
- Income Tax Authorities

Registration with Reserve Bank of India (RBI)

Before 1997, it was mandatory for every first time exporter to get Importer exporter Code (IEC) number from Reserve Bank of India (RBI). This step was required before any organization wants to begin any export activity. Now this task is handled and administered by Director General of Foreign Trade (DGFT).

Registration with Director General of Foreign Trade (DGFT)

For every first time exporter, it is necessary to get registered with the DGFT (Director General of Foreign Trade), Ministry of Commerce, Government of India. DGFT assigns exporter organization a unique IEC Number. IEC Number is a ten digits code required for the purpose of export as well as import. It is not permissible (to any exporter organization) to transport goods abroad without this IEC number. However, if the goods are to be transported certain neighboring regions (such as Nepal, or Myanmar through Indo Myanmar boarder or to China through Gunji, Namgaya, Shipkila or Nathula ports) then it is not required to have IEC number subject to condition that the CIF value of a single consignment is not more than Indian amount of Rs. 25,000 /.

Application for IEC number can be submitted to the nearest regional authority of DGFT. Application form which is known as "Aayaat Niryaat Form ANF2A" can also be submitted online at the DGFT web site http//dgft.gov.in/aayatniryatform. While submitting an application form for IEC number, an applicant is required to submit his PAN account number. Only one IEC is issued against a single PAN number. Apart from PAN number, an applicant is also required to submit his Current Bank Account number and Bankers Certificate. A amount of Rs 1,000/ is required to submit with the application fee. This amount can be submitted in the form of a Demand Draft or payment through EFT (Electronic Fund Transfer by Nominated Bank by DGFT.

Registration with Export Promotion Council

Registered under the Indian Company Act, Export Promotion Councils or EPC is a nonprofit organisation for the promotion of various goods exported from India in international market. EPC works in close association with the Ministry of Commerce and Industry, Government of India and act as a platform for interaction between the exporting community and the government. So, it becomes important for an exporter to obtain a registration cum membership certificate (RCMC) from the EPC. An application for registration should be accompanied by a self certified copy of the IEC number. Membership fee should be paid in the form of cheque or draft after ascertaining the amount from the concerned EPC. The RCMC certificate is valid from 1st April of the licensing year in which it was issued and shall be valid for five years ending 31st March of the licensing year, unless otherwise specified.

Registration with Commodity Boards

Commodity Board is registered agency designated by the Ministry of Commerce, Government of India for purposes of export promotion and has offices in India and abroad. At present, there are five statutory Commodity Boards under the Department of Commerce. These Boards are responsible for production, development and export of tea, coffee, rubber, spices and tobacco.

Registration with Income Tax Authorities

Goods exported out of the country are eligible for exemption from both Value Added Tax and Central Sales Tax. So, to get the benefit of tax exemption it is important for an exporter to get registered with the Tax Authorities.

To summarize, the registration procedure (essential) is presented in Table 2.2.

Table 2.2 Registration Procedures (Purpose) and Authority (Indicative)

Name of the Authority	Registration Procedure purpose
Reserve Bank of India (RBI)	To get Importer exporter Code (IEC) number
Director General of Foreign Trade (DGFT)	To get Importer exporter Code (IEC) number
Export Promotion Council (EPC)	To obtain a registration cum membership certificate (RCMC), membership benefits specific to industry
Commodity Boards	To obtain a registration cum membership certificate (RCMC), membership benefits specific to industry
Income Tax Authorities	To avail tax exemption (if eligible) from Goods and Service Tax (GST). Before GST it was for claiming exemption for both Value Added Tax and Central Sales (earlier).

Source: Department of Commerce, Government of India

In addition to above there are other registrations involving paperwork activities which may be done as required and as applicable.

Interaction with Sales Tax Authorities

The organization may avail exemption from sales tax if the goods meant for exports are eligible for exemption from both state and central sales taxes. In this context, the export organization should be registered with sales tax authorities and comply with the necessary procedure laid down by them. In the State of Maharashtra the exporters are required to use Form No. 14.

Registration with ECGC

Export Credit and Guarantee Corporation (ECGC) is functioning under Ministry of Commerce. ECGC provides credit insurance to export organization so as to minimize commercial and political risks (if any); those may come up in payment collection from overseas markets. By filling up a proposal form, the exporter must apply to the nearest office of ECGC. This form should be supported with a confidential bank report, along with the prescribed application fees and a detailed report about the business. The ECGC policy helps to overcome the nonpayment risks from the foreign buyers. More about ECGC is covered in Chapter4 titled 'Sources of Finance'.

Member Registration with Chamber of Commerce and Productivity Councils

It may be useful to have member registration with the local industry body such as local chamber of commerce, Productivity council and any other trade promotion organisation that is acknowledged by the Ministry of Commerce. These groups normally provide the much needed suggestions on behalf of exporters to the Govt. The Chamber of Commerce is the most representative body of industry community. It is authorised to issue an important document known as "Certificate of Origin" to the members. Groups like National Productivity Council (NPC) and others (local divisions) facilitate export organizations to enhance product quality and control the cost of production. They also organize short term training courses for them.

Warm up Activity 2.3

In the context of registration paperwork, enlist different types of organizations that an exporter organization has to interact, at procedural level before starting an export activity.

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2.3 Quality Control in Exports

Quality Control

As elaborated by Department of Commerce, Government of India, quality control in export means verification or inspection of goods. This was also referred to as pre-shipment inspection. As stated therein, "quality control", means any activity having for its object the determination of the quality of a commodity whether during the process of manufacture or production or subsequently) in order to ascertain whether it satisfies the standard specifications applicable to it or any other specifications stipulated in the export contract and whether it may be accepted for purposes of export.

As stated therein, "Inspection", in relation to a commodity, means the process of determining whether a batch of goods in that commodity complies with the standard specifications applicable to it or any other specifications stipulated in the export contract generally by inspecting either the whole batch or a selected sample or samples which purport to represent the whole batch.

The literature by Pondicherry University w. r. t. their course on EXIM Financing and Documentation explains about quality control and pre-shipment inspection.

Definition of Pre-shipment Inspection

Certification of the value, quality, and/or identity of traded goods done in the exporting country by specialized agencies on behalf of the importing country. Traditionally used as a means to prevent over or under invoicing, it is now being used as a security measure. It is also done to ensure that the quantity and quality of goods to be traded conform to the specifications of the contract.

Pre-shipment inspections are necessary when mandated by the government of the importing country. Governments assert that pre-shipment inspections ensure that the price charged by the exporter reflects the true value of the goods, prevent substandard goods from entering their country, and mitigate attempts to avoid the payment of customs duties.

Carrying Out Pre-shipment Inspection

Pre-shipment inspections are generally carried out by designated parties (such as
Private organizations working on contract basis). It was observed that mostly it is the importer organization that makes the choice from the available agency listing, as they schedule any inspections. It may happen that any designated agency may be chosen to organize such inspections in a given territory selectively.

Pre-shipment Inspection Costs

Pre-shipment inspection costs are generally borne by either the importer or the government of the importing country. However in some cases, the inspection agency may invoice the seller in the event of supplementary inspection visits. The costs associated with presenting the goods for inspection (such as unpacking, handling, testing, sampling, repackaging and so on) and are the liability to the seller.

Arranging Pre-shipment Inspection

Even though the importer organization is responsible for making the necessary arrangements for the said pre-shipment inspection, it is also equally imperative and necessary that the exporter organization ensure that the goods are readily available for the said pre-shipment inspection in the country of origin. Any postponement in the process may result in troubles with the shipment and /or liability of paying additional expenses to the exporter organization. Hence, it is in the best interest of exporter organization to work with their freight forwarder so as to ensure that all information is accurate and is provided to the inspection agency on time after the notification of the said inspection. Requirements for pre-shipment inspections are sometimes spelled out in letters of credit or other documents.

There are certain stages or activities in the pre-shipment inspection process. These are as shown in Fig. 2.1.

The importer organization opens an import document or license.

The importer organization informs the inspection agency in the country of import of a pending shipment, and either pays for the inspection up front or pays a percentage based on the value of the commercial invoice, depending on the terms and conditions of the importing country's inspection contract.

An inspection order is forwarded to the inspection agency office in the country of export.

The inspection agency gets in touch with the exporter to schedule date, time, and location for inspection. It also requests all required shipping documents and price information (invoices). The exporter organization must provide these documents on time to avoid any damages or other penalties.

The inspection is carried out.

If no disagreements are found during the inspection, and once all final documents are received from the importer organization and exporter organization, a "Clean Report of Findings" is issued confirming the shipment's value, customs classification, and clearance. The final documents required for issuance of the "Clean Report of Findings" depends on nature of the contract but most often include a final invoice and bill of lading or airway bill.

The goods are shipped to the importing country.

The importer organization uses the inspection report to get the imported goods released from customs. If goods reach the border of the importing country without inspection, they usually have to be reexported to a nearby country for inspection prior to reentry or may subject to heavy penalties.

Fig. 2.1 Steps in Pre-shipment Inspection

Source Course literature on EXIM Financing and Documentation by Pondicherry University.

Normally, the inspection agency begins the inspection process as it gets a copy of the inspection order from the importing country. An inspection order states the value of goods, the name and address of the importer and the exporter, the country of supply, and the importer's declaration of customs code. The inspection agency then gets in touch with the exporter organization to arrange an inspection site and time.

In case of disagreement (if any) resulting from pre-shipment inspection, a resolution to this disagreement should be negotiated with the inspection agency. However, if exporting to a World Trade Organization (WTO) member country, the WTO Agreement on pre-shipment inspection states the responsibilities of the exporter organization and the inspection agency. The Agreement requires the inspection agency to appoint an appeals official and comply with the Agreement guidelines when carrying out their pre-shipment inspection services for signatory countries.

WTO Mechanism for Pre-shipment Inspection

The WTO mechanism for settling disputes between exporters and pre-shipment inspection agencies is – the Independent Entity (IE) – became operational. The IE is constituted jointly by the WTO, the International Chamber of Commerce (ICC) and the International Federation of Inspection Agencies (IFIA), and is administered by the WTO. The IE was established in December 1995 by the General Council pursuant to Article 4 of the WTO Agreement on Pre-shipment Inspection, which calls for an independent review procedure to resolve disputes between an exporter and a pre-shipment inspection agency.

In specific cases, details may be obtained from WTO Secretariat. Decisions by the panel are taken by majority vote, and are rendered within eight working days of the request for the independent review. These decisions would be binding on the parties on the parties to the dispute. The cost of the independent review would be apportioned based on the merits of the case by the panel or the independent trade expert.

In this context, establishment of Export Inspection Council (EIC) has helped exporter organization significantly. The Export Inspection Council (EIC) is the official export certification body of India which ensures quality and safety of products exported from India. EIC was set up by the Government of India under Section 3 of the Export (Quality Control and Inspection) Act, 1963 (No. 40 of 1963). This is an Act to provide for the sound development of the export trade of India through quality control and inspection and for matters connected therewith.

It is India's official pre-shipment and certification body in the form of a statutory body set up by the Government of India that ensures quality of Indian exports through Certification schemes, which combine the best of product certification integrated with a systems approach.

The Export Inspection Council is located at Delhi and is headed by a Chairman. The Executive Head of the Council is the Director of Inspection & Quality Control who is responsible for day to day functioning of the Council. The assurance to quality and safety is provided through either a consignment wise inspection or a quality assurance / food safety management based certification through its field organization. The Export Inspection Agencies (EIAs) located at Mumbai, Kolkata, Kochi, Delhi and Chennai with a network of 30 sub offices backed by the state of art, NABL accredited laboratories at various places.

EIC provides mandatory certification for various Food items namely fish & fishery products, dairy product, honey, egg products, meat and meat products, poultry meat products, animal casing, Gelatine, Ossein and crushed bones and feed additive and pre-mixtures while other food and nonfood products are certified on case to case or voluntary basis. With more than four decade experience in the field of inspection, testing and certification of food items as per importing country's requirements, EIC is the only organization in India having global acceptance.

Warm up Activity 2.4

1. India needs pre-shipment inspection for certain types of goods (True/False)
2. Who is responsible for arranging pre-shipment inspection?
3. Which is the WTO organization which settles dispute in pre-shipment inspection?
4. Export Inspection Council was established in ………… .(Year)
5. EIC provides mandatory certification for various Food items namely fish & fishery products, dairy product and so on.(True/False)

2.4 Export Promotion Councils

All Export Promotion Councils (EPCs) are regulated under the administrative control of the Department of Commerce. These Councils are registered as nonprofit organizations under the Companies Act/ Societies Registration Act. The Councils perform both advisory and executive functions. The role and functions of these Councils are guided by the Foreign Trade Policy, 200914. These Councils are also the registering authorities for exporters under the Foreign Trade Policy 200914. The EPCs helps Indian exporters through these functions in direct or indirect ways. They provide various services to Indian exporting communities. Each EPC has its working committee which elected by the members.

Table 2.3 Export Promotion Councils (indicative)

Name of the Export Promotion Council	Commodity or Product
Engineering Export Promotion Council (EEPC)	Engineering Products
Project Exports Promotion Council of India (PEPC)	Civil engineering projects involving engineering, procurement and construction
Basic Chemicals, Cosmetics and Dyes Export Promotion Council (Chemexcil)	Chemical Products
Chemicals and Allied Products Export Promotion Council (CAPEXIL)	Chemical based and allied products
Council for Leather Exports	Leather Products
Sports Goods Export Promotion Council	Sports Goods
Gem and Jewellery Export Promotion Council	Gem and Jewellery
Shellac Export Promotion Council	Non Timber Forest Produces
Cashew Export Promotion Council of India	Cashew based products
The Plastics Export Promotion Council	Plastics Products
Pharmaceutical Export Promotion Council	Pharmaceutical Products
Indian Oil Seeds and Produce Export Promotion Council (IOPEPC)	Oil Seeds and Produce
Services Export Promotion Council	Services Export

Source: Department of Commerce, Government of India

Some of the indicative listing is presented in the above Table 2.3. EPCs do not provide financial or other type of direct assistance. They are purely advisory in character. All exporters of products, coming under the purview of council, are entitled to become member of the council. The members have to pay an annual subscription fee for the services rendered to them by the council. All members are given Registrations Cum Membership Certificate (RCMC) for the respective EPC. This certificate is useful for securing the benefits of various concessions and incentives offered by the government for export promotions.

Names and websites of above listed export promotion councils are given in Annexure 2. Indicative functions and roles of Export Promotion Councils

- Providing information to assist exporters to understand, interpret and implement the export policies and export assistance schemes of Government.
- Providing assistance to provide assistance in export promotional activities such as external publicity, participation in fairs and exhibitions, promotion of exclusive exhibitions and trade fairs of specific products.
- Collecting data to collect complete data on export growth, the problems faced by exporters, the specific help needed by the manufacturers and present the same to the Government in order to enable it to evolve appropriate export policies.
- Acting as liaison to carry on an effective liaison with industry and trade in order to identify the problems in export activities.
- Sending trade delegations to make arrangements for sending trade delegations and study teams to one or more countries for promoting the export of specific products and to circulate the reports of specific products and diversifying to new products.
- Opening office abroad to open offices abroad to help exporters in consolidating the existing exports and diversifying to new products.
- Registering authority to act as registering authority under the import policy for registered exporters and to help them in expanding overseas market for their products.
- Motivating exporters to create consciousness among exporters through seminars, discussion and to motivate them for export promotion.
- Cooperation with EIC to provide cooperation to the export inspection council on quality control and pre-shipment inspection of export goods.
- Disposing applications to provide assistance to members for speedy disposal of export assistance applications.
- Offering guidance to offer guidance to member on various matters like utilization of GSP, export finance, insurance of goods and joint ventures aboard.
- Indicating export opportunities to collect and supply market information to exporter and thereby to help them to take benefits to take benefits of export opportunities available abroad.
- Settling disputes to help the member in settling their trade disputes through peaceful negotiations.
- Solving transport problems to help members to resolve their transport problems.
- Concessions to assist members in getting freight and other concessions for shipping conferences.
- Issuing certificate of origin to issue certificate of origin to Indian exporters certifying the

origin of goods.

2.5 Product Export Development Authorities

Product Export Development Authorities are established according to specific products similar to on the lines of export promotion councils. These are Autonomous Bodies in the form of different organizations promoting specific commodities. These autonomous bodies are responsible for production, development and export the specific commodities assigned to them. Some of the indicative listing is presented in Table 2.4

Table 2.4 Product Export Development Authorities (Indicative)

Name of the Products Export Development Authority	Commodity or Product
Marine Products Export Development Authority	Marine Products
Agricultural and Processed Food Products Export Development Authority	Agricultural and Processed Food Products
Coffee Board	Coffee
Rubber Board	Rubber
Tea Board	Tea
Tobacco Board	Tobacco
Spices Board	Spices
Export Inspection Council	Inspection Services
Indian Institute of Foreign Trade	Professional management education in the field of foreign trade
Indian Institute of Packaging	Professional management education in the field of packaging sector
Indian Institute of Plantations Management	Professional management education in the field of plantation sector

Source: Department of Commerce, Government of India

Names and websites of above listed product export development authorities are given in Annexure 3. These are elaborated subsequently.

Marine Products Export Development Authority

The Marine Products Export Development Authority (MPEDA) was set up under Section (4) of MPEDA Act, 1972 and became functional from 20th April, 1972. It is a statutory body functioning under the Department of Commerce. The MPEDA, a statutory body, is responsible for development of the marine products industry with special reference to exports. It is headed by a Chairman. It has its headquarters at Kochi and has a number of Regional and Sub Regional Offices.

MPEDA is given the mandate to promote the marine products industry with special reference to exports from the country. It is envisaged that this organisation would take all actions to develop and augment the resources required for promoting the exports of “all varieties of fishery products known commercially as shrimp, prawn, lobster, crab, fish, shellfish, other aquatic animals or plants or part thereof and any other products which the authority may, by notification in the Gazette of

India, declare to be marine products for the purposes of (the) Act". The Act empowers MPEDA to regulate exports of marine products and take all measures required for ensuring sustained, quality seafood exports from the country. MPEDA is given the authority to prescribe for itself any matters which the future might require for protecting and augmenting the seafood exports from the country. It is also empowered to carry out inspection of marine products, its raw material, fixing standards, specifications, and training as well as take all necessary steps for marketing the seafood overseas.

Agricultural and Processed Food Products Export Development Authority

The Agricultural and Processed Food Products Export Development Authority (APEDA) was established by the Government of India under the Agricultural and Processed Food Products Export Development Authority Act passed by the Parliament in December, 1985. APEDA has set up 5 Regional offices at Mumbai, Bangalore, Hyderabad, Kolkata & Guwhati and 13 Virtual Offices at Thiruvananthapuram (Kerala), Bhubaneshwar (Orissa), Srinagar (J&K), Chandigarh, Impal (Manipur), Agartala (Tripura), Kohima (Nagaland), Chennai (Tamil Nadu), Raipur (Chattisgarh), Ahmedabad (Gujarat), Bhopal (Madhya Pradesh), Lucknow (Uttar Pradesh) and Panaji (Goa). APEDA has been entrusted with the responsibility of export promotion and development of 14 agricultural and processed food product groups listed in the Schedule to the APEDA Act. In addition to this, APEDA has been entrusted with the responsibility to monitor the import of sugar as well.

APEDA has been actively engaged in the development of markets besides upgradation of infrastructure and quality to promote the export of agro products. In its endeavour to promote agro exports, APEDA, under its Plan Scheme titled 'Agriculture Export Promotion Scheme of APEDA' provides financial assistance to the registered exporters under subcomponents of the Scheme Market Development, Infrastructure Development, Quality Development and Transport Assistance.

Commodity Boards

There are five statutory Commodity Boards under the Department of Commerce. These Boards are responsible for production, development and export of tea, coffee, rubber, tea, tobacco and spices.

Coffee Board

The Coffee Board is a statutory organization constituted under Section (4) of the Coffee Act, 1942 and functions under the administrative control of the Ministry of Commerce and Industry, Government of India. The Board is mainly focusing its activities in the areas of research, extension, development, market intelligence, external & internal promotion and welfare measures. The Board has a Central Coffee Research Institute at Balehonnur (Karnataka) with a SubStation at Chettalli (Karnataka) and Regional Coffee Research Stations at Chundale (Kerala), Thandigudi (Tamil Nadu), Narasipatnam (Andhra Pradesh) and Diphu (Assam), apart from the extension units located in coffee growing regions of Karnataka, Kerala, Tamil Nadu, Andhra Pradesh, Orissa and North Eastern Region.

Rubber Board

The Rubber Board is a statutory organization constituted under Section (4) of the Rubber Act, 1947 and functions under the administrative control of Ministry of Commerce and Industry. The Board's headquarters is located at Kottayam in Kerala. The Board is responsible for the development of the rubber industry in the country by way of assisting and encouraging research, development, extension and training activities related to rubber. It also maintains statistical data of rubber, takes steps to promote marketing of rubber and undertake labour welfare activities. The activities of the

Board are exercised through nine departments viz. Rubber Production, Research, Processing & Product Development, Training, License & Excise Duty, Statistics and Planning, Market Promotion, Finance & Accounts and Administration. The Board has five Zonal Offices and 43 Regional Offices. It has a Central Rubber Research Institute in Kottayam and 10 regional research stations located in various rubber growing states of the country. It also has a Rubber Training Institute located at Kottayam.

Tea Board

Tea Board was set up as a statutory body on 1st April, 1954 as per Section (4) of the Tea Act, 1953. As an apex body, it looks after the overall development of the tea industry. The Board is headed by a Chairman and consists of 30 Members appointed by the Government of India representing different sections of the Tea industry. The Board's Head Office is situated in Kolkata and there are two Zonal officesone each in North Eastern Region at Jorhat in Assam and in Southern Region at Coonoor in Tamil Nadu. Besides, there are 18 regional offices spread over in all the major tea growing states and four metros.

For the purpose of tea promotion, three overseas offices are located at London, Dubai and Moscow. In order to meet the developmental needs of the small sector which accounts for more than 1/3rd of national tea production, separate directorate has been set up during the year under report. Under this directorate 71 sub regional offices have been opened in all the areas where small growers are concentrated to maintain a closer interface with the growers and provide developmental and extension services to the growers towards improving productivity and quality of tea produced from the small sector. The functions and responsibilities of Tea Board include increasing production and productivity, improving the quality of tea, market promotion, and welfare measures for plantation workers and supporting Research and Development.

Tobacco Board

The Tobacco Board was constituted as a statutory body on 1st January, 1976 under Section (4) of the Tobacco Board Act, 1975. The Board is headed by a Chairman with its headquarters at Guntur, Andhra Pradesh and is responsible for the development of the tobacco industry. While the primary function of the Board is export promotion of all varieties of tobacco and its allied products, its functions extend to production, distribution (for domestic consumption and exports) and regulation of Flue Cured Virginia (FCV) tobacco.

Spices Board

The Tobacco Board was constituted as a statutory body on 1st January, 1976 under Section (4) of the Tobacco Board Act, 1975. The Board is headed by a Chairman with its headquarters at Guntur, Andhra Pradesh and is responsible for the development of the tobacco industry. While the primary function of the Board is export promotion of all varieties of tobacco and its allied products, its functions extend to production, distribution (for domestic consumption and exports) and regulation of Flue Cured Virginia (FCV) tobacco.

Export Inspection Council

This is already covered above in unit 2.3 titled 'Quality Control in Export'.

Indian Institute of Foreign Trade

Indian Institute of Foreign Trade (IIFT) was set up by Government of India on 2nd May, 1963 with a focus on foreign trade related research and training. After 50 years of its existence, the Institute has broadened the scope and dimensions of its academic activities covering the entire gamut of international business. Today, the Institute is widely recognized for its knowledge and resource base, rich heritage and for strong alumni network both in India and abroad.

In recognition of its all round achievements, the Institute was given the status of “Deemed University” in May 2002 by University Grants Commission (UGC) enabling it to award degrees and start its own doctoral programme. On the basis of review by the Expert Committee constituted by UGC, IIFT has been granted “Deemed University” status on a permanent basis in February, 2012.

The Institute enjoys close and enduring linkages with the Ministry of Commerce, Government of India and has established ties with leading Industrial and Trading Houses and Academic Institutions, both in India and abroad. These linkages have helped the Institute to expand its activities relating to training & research and addressing critical issues of international business in a holistic manner.

Through its five academic divisions, namely, Graduate Studies Division (GSD), Research Division (RD), Management Development Programmes (MDPs) Division, International Collaboration and Capacity Development (ICCD) Division and International Projects Division (IPD). Each Division caters to competency development in a specific area and contributes to the overall growth of the Institute.

Indian Institute of Packaging

The Indian Institute of Packaging is an autonomous body in the field of packaging technology which was set up on 14th May, 1966 as a society under society registration act, 1860 by the leading packaging and allied industries and the Ministry of Commerce, Govt. of India. The main objective of this Institute is to promote the export market by way of innovative package design and development and also to upgrade the packaging standards at National Level. The head office of the Institute is situated at Mumbai and its branches are located at Delhi, Kolkata, Chennai and Hyderabad. Recently, the Govt. of Karnataka has offered a land of 4 acres to the Institute on free of cost for the setting up a new center at Bangalore.

The Governing body of the Institute has got 33 members comprising of 21 members from the industries representing to all sectors of packaging materials, packaging machineries and user industries and the balance 12 members are nominated by the different Ministries and Commodity boards of Govt. of India. The Director is the Principal Executive Officer of the Institute who is the overall in-charge of the organization.

The main functions of the Institute are Education in packaging and Research & Development in the field of packaging. The Institute and its branches have been conducting a full time two years Post Graduate Diploma Programme in packaging technology. The Institute has got Research Laboratory at the head office Mumbai and other branches for undertaking the applied research on packaging of specific food products to enhance the shelf life and also to evaluate the characteristics of various packaging materials for their performance properties. Besides, the laboratories are also engaged for more than 360 types of quality testing of packaging materials and packages.

In the recent days, the governing body of the Institute has taken a strategic initiative for the upgradation of existing infrastructural facilities at head office Mumbai and other branches in order to enhance the image of the organization. The Institute has also taken great initiative for organizing series of National workshops on food packaging in association with Ministry of Food Processing Industry, Govt. of India across the country in order to increase the awareness of packaging for fresh and processed food products.

Indian Institute of Plantations Management

The Indian Institute of Plantation Management (IIPM) Bangalore is an autonomous institution set up by the Ministry of Commerce, Government of India in 1990 to provide professional management education in the field of plantation sector. Department of Commerce, Govt. of India, the four Commodity Boards of India, namely Coffee Board, Tea Board, Rubber Board & Spices Board, leading units from plantation & agribusiness industry, and the Plantation Associations viz. Indian Tea Association (ITA) & UPASI are its founding partners. IIPM is registered as a society at Bangalore under Karnataka Societies Registration Act, 1960.

The objective of the Institute is to provide education, research, training, development and consultancy services to the industry and other agencies engaged in economic and social development of the plantation & associated agro-business sector. The Institute conducts professional courses for young aspirants to enable them to find entry level managerial positions in plantation & associated agribusiness industry and trains the managers and owner managers of the industry who need update on the latest techniques and ideas in management. The Institute also acts as a resource centre for the government and the industry and conducts research on policy, strategic and operational issues relating to the sector.

The Institute offers professional management courses viz. two year full time (AICTEMHRDGOI approved) Post Graduate Diploma in Management Agri Business & Plantation Management (PGDMABPM) and a one year Post Graduate Certificate Programme International Business (PGCPIB). In 201314, the Institute launched a fulltime residential, doctoral programme viz. Fellow (Ph.D.) Programme in Agri Business & Plantation Management (FPMABPM) for prospective scholars interested in becoming skilled and innovative researchers and teachers in various aspects of plantations management.

The Institute has several Knowledge Resource Centres set up in partnership with the Government, Commodity Boards and the industry to cater to specific areas of knowledge viz. productivity, workforce governance, tea tasting and marketing, coffee entrepreneurship, cluster approach to business, multilingual digital language & communication etc. The Institute has educational membership of two international accreditation agencies viz. the Association to Advance Collegiate Schools of Business (AACSB, USA) and the European Foundation for Management Development (EFMD, Brussels).

At the organization level there are some activities required before starting any export business. Organizational level formalities involve activities, internal to the organization. These are required to make an organization ready for export.

Procedural level formalities involve activities which are external to the organization. These are required for an organization so as to make it compliant to various rules and regulation of export, have authenticity by having registrations with appropriate government and association level authorities that may help organizations to establish their credibility.

As elaborated by Department of Commerce, Government of India, quality control in export means verification or inspection of goods. This was also referred to as preshipment inspection.

All Export Promotion Councils (EPCs) are regulated under the administrative control of the Department of Commerce. These Councils are registered as nonprofit organizations under the Companies Act/ Societies Registration Act. The Councils perform both advisory and executive functions.

Product Export Development Authorities are established according to specific products similar to on the lines of export promotion councils.

Model Questions

1. Enlist different organizational level activities for starting export.
2. Explain export licensing.
3. Describe canalisation with examples.
4. Name at least three organizations involved in carrying out procedural level activities that are needed for exporter organization. Describe them.
5. Define Quality Control and pre-shipment inspection.
6. Describe various stages in carrying out pre-shipment inspection.
7. Describe WTO mechanism on pre-shipment inspection.
8. Elaborate about Export Inspection Council of India.
9. Describe functions of Export Promotion Council. Name any five Export Promotion Councils in India.
10. Describe functions of product export development authority. Name any four product export development authority in India.

Warm up Activity 2.4
1. True
2. Importing Organization
3. IE
4. 1963
5. True

Suggested Reading

1. PK Khurana “Export Management”, Galgotia publishing company.
2. Rathor B.S, Export Marketing, Himalaya Publishing House.
3. Foreign Trade Policy Handbook of Export Procedure and Annual of theMinistry of Commerce, Government of India.
4. Paras Ram “Export What, Where and How” Delhi, Anupam Publication.
5. Export and Import Manual, Nabhi Publications, New Delhi.
6. World Development Indicator, World Bank Publication.

7. Desai, H.B., Indian Shipping Perspective, Delhi, Anupam Publications, 1988.

References

1. Autonomous Bodies, Department of Commerce, Government of India. Available from http//commerce.gov.in/PageContent.aspx?Id=4[Last accessed on 2019 Feb. 5].
2. Course literature on EXIM Financing and Documentation by Pondicherry University.
3. Export Promotion Councils, Department of Commerce, Government of India. Available from http//commerce.gov.in/PageContent.aspx?Id=6[Last accessed on 2019 Feb. 5].
4. India EXIM Policy, DGFT.
5. India Foreign Trade Policy 20152020.
6. Quality Control in Exports, Department of Commerce, Government of India. Available from http//commerce.gov.in/PageContent.aspx?Id=69[Last accessed on 2019 Feb. 5].

Annexures

Annexure 2 Names and web sites of select export promotion councils (indicative)

- EEPC India
  https//www.eepcindia.org/
- Project Exports Promotion Council of India (PEPC)
  http//www.projectexports.com/
- Basic Chemicals, Cosmetics and Dyes Export Promotion Council (Chemexcil)
  http//www.chemexcil.gov.in/
- Chemicals and Allied Products Export Promotion Council (CAPEXIL)
  http//www.capexil.com/
- Council for Leather Exports
  http//leatherindia.org/
- Sports Goods Export Promotion Council
  http//www.sportsgoodsindia.org/
- Gem and Jewellery Export Promotion Council
  https//gjepc.org/
- Shellac Export Promotion Council
  http//www.shellacepc.com/
- Cashew Export Promotion Council of India
  http//www.cashewindia.org/
- The Plastics Export Promotion Council
- Pharmaceutical Export Promotion Council
  http//www.plexconcil.org/
- Indian Oil Seeds and Produce Export Promotion Council (IOPEPC)
  http//www.iopepc.org/
- Services Export Promotion Council
  http//www.servicesepc.org/

Annexure 3 Names and web sites of select product export development authorities (indicative)

- Marine Products Export Development Authority
  http//mpeda.gov.in/MPEDA/#

- Agricultural and Processed Food Products Export Development Authority
  http//apeda.gov.in/apedawebsite/

Commodity Boards

- Coffee Board
  https//www.indiacoffee.org/
- Rubber Board
  http//rubberboard.org.in/public
- Tea Board
  http//www.teaboard.gov.in/
- Tobacco Board
  https//tobaccoboard.com/indexeng.php
- Spices Board
  http//indianspices.com/
- Export Inspection Council
  https//eicindia.gov.in/
- Indian Institute of Foreign Trade
  http//tedu.iift.ac.in/iift/index.php
- Indian Institute of Packaging
  http//www.iipin.com/
- Indian Institute of Plantations Management
  http//www.iipmb.edu.in/

Chapter 3 Export Documents

Introduction

This chapter is about understanding different export documentations and modes of transportations and relevant aspects of it.

Objectives

After completing this Chapter, you will be able to

- Understand nature of export contract
- Know about INCOTERMS and their meaning
- Understand letter of credit
- Know about the mandatory documentation for export
- Learn about sea transportation
- Learn about air transportation

3.1Understanding Export Contracts

Elements of Export Contract

As suggested by international trade experts and numerous and diverse online resources available, an export contract or deals contract has no particular format. An export contract is a whole of terms and condition with purchaser and vendor or shipper and exporter. In international trade there is no standard configuration in regards to export contract. Export contract might be differing from purchaser to purchaser and merchant to dealer, individual to person. Components of export contract rely on the different nature of goods. Export contract is utilized for the worldwide sale / distribution of specific goods (industrial supplies, raw materials, made merchandise), which are unsurprising available to be purchased, where the purchaser is a dealer, shipper, merchant or distributor that will pitch the goods to another organization or trader.

The components of an export contract likewise rely on the idea of item being sent out. In any case, a portion of the components of the fare contract are normal. These components are

- Name and addresses of the parties, for example shipper and exporter must be expressed plainly and completely.
- Product principles and particulars, for example, name of the goods / item, its specialized name, assuming any, pertinent national or universal guidelines, and so forth.
- Nature, way and focal point of the imagined investigation, just as the name of the review office.
- Terms of conveyance according to the most recent relevant rendition of INCOTERMS, presently INCOTERMS 2010.
- Quantity as far as number of units both in figures just as words and determinations identifying with bundling, naming and stamping.
- Total contract an incentive in words and figures and the cash, duty regarding the installment of charges, obligations and tolls.
- Terms and spot of dispatch and conveyance and the date from which the time of conveyance starts.

- Part shipment, transshipment and union of payload. On the off chance that products are to be delivered under a "solidification of fare loads", it ought to be indicated.
- Terms of installment, sum, mode and money, limits and commissions and their premise.
- Details of protection merchandise against misfortune, harm, or devastation amid transportation, kind of hazard secured and the degree of inclusion.
- Product assurance and warrantee and degree of such warrantees and certification, after deals administration, and so forth.
- Inclusion of an assertion statement to encourage friendly and mutually acceptable settlement of question or contrasts that may emerge between the parties.

In this context, it is also necessary to understand the term 'INCOTERMS'.

INCOTERMS

The INCOTERMS are nothing but the rules set by International Chamber of Commerce (ICC). They are internationally recognized and accepted standard. They are used worldwide in international and domestic contracts for the sale of goods. These rules have been developed and maintained by experts and practitioners brought together by International Chamber of Commerce. They have become the standard in international business rules setting. Launched in mi September 2010, INCOTERMS 2010 came into effect on 1 January 2011.

The INCOTERMS rules have become an essential part of the daily language of international trade. They have been incorporated in contracts for the sale of goods worldwide and provide rules and guidance to importers, exporters, lawyers, transporters, insurers and students of international trade. These terms or rules are as listed in Table 3.1.

Table 3.1 Rules / INCOTERMS by ICC (indicative)

Rules for	Relevant Terms
Any mode or modes of transport	EXW Ex Works, FCA Free Carrier, CPT Carriage Paid To, CIP Carriage and Insurance Paid To, DAT Delivered At Terminal, DAP Delivered At Place, DDP Delivered Duty Paid
Sea and inland waterway transport	FAS Free Alongside Ship, FOB Free On Board, CFR Cost and Freight, CIF Cost, Insurance and Freight

Source International Chamber of Commerce (ICC)

A short description for most commonly used rules also referred to as INCOTERMS 2010 edition, as stated by International Chamber of Commerce, is provided as Annexure 4.

Terms of Payment and Letter of Credit

There exist diverse resources about terms of payment and letter of credit. As stated by Aswathappa K. (2010) International Business, New Delhi Tata McGraw Hill Education Private Limited, every shipment abroad requires some kind of financing. Some of the most commonly used methods of payment (payment terms) in international trade (as per increasing risk to the exporter are) Cash in Advance, Letter of Credit, Draft, Consignment and Open Account.

Letter of Credit (LC)

Definition (as provided by Pondicherry University w. r. t. their course on EXIM Financing and Documentation) is as below

A commercial letter of credit is issued by a bank at the request of a buyer of merchandise whereby the bank itself undertakes to honour drafts drawn upon it by the seller of the merchandise concerned. Thus, the letter of credit, (LC) substitutes the bank's promise to pay for that of the importer. All the requirements specified in the LC must be met including the furnishing of documents, delivery dates, product specification, etc. before the seller can receive payment.

The three essential parties to commercial letter of credit are

- The opener or importer or the buyer who opens the credit
- The issuer the bank that issues the letter of credit, and
- The beneficiary the seller in whose favour the credit is opened.

There are different types of LCs needed depending on the specific requirements in the international trade. Some of them are described below.

Revocable and Irrevocable LC

Nowadays revocable letter of credit is rather rare because it means that the terms of the credit can be cancelled or amended by an overseas buyer through the issuing banker without prior notice to the exporter.

Even when the buyer becomes a bankrupt it cannot be revoked; only when the seller agrees it can be revoked. The issuing banker is at liability to revoke even without giving notice. An irrevocable LC is never confirmed. If it provides for the documents and if the draft is accepted for payment within the prescribed time, the issuing banker loses his right to revoke.

Majority of letters of credit are irrevocable which means that once the buyer's conditions in the letter have been agreed to by an exporter, they constitute a definite undertaking by the buyer's bank and cannot be revoked without the exporter's agreement. If it is not confirmed the LC is unconfirmed.

Confirmed and Unconfirmed LC

A Confirmed LC carries the confirmation of another bank, generally, in the country of the exporter. This type of confirmation binds the confirming banker to negotiate the drafts drawn under the credit provided the terms and conditions thereof are fulfilled.

Without Recourse and with Recourse

A 'without recourse to drawer' LC is one under which the negotiating bank cannot have a recourse against the exporter if the draft is subsequently not taken up or reimbursed by the issuing bank provided, of course, the negotiation is without recourse.

LC Sight and Usance

Documentary credit may provide for payment at sight or for acceptance of a usance bill of exchange by either issuing bank in a buyer's country or the correspondent bank in exporter's country. If the LC is not an at sight LC, it will be a usance LC.

Transferable LC

A transferable LC is one which can be transferred by the beneficiary named therein favour of another party. A credit can be transferred only when it is expressly designated as transferable by the issuing bank.

Warm up Activity 3.1 1. Give the full forms of the following. EXW CIF FOB CIP

3.2 Export Documentation

Export process needs variety of documents depending on the nature of goods, mode of transportation and so on. Typically these are documents required for realization of the payment (negotiation / commercial related), when the goods are in transit (transport related), for ensuring safety of the goods (insurance related).

According to Indian Foreign Trade Policy 20152020, following are the mandatory documents for import and export.

- Bill of Lading/ Airway bill
- Commercial invoice cum packing list
- Shipping bill/ bill of export/ bill of entry (for imports)

(Other documents like certificate of origin, inspection certificate etc may be required as per the case.) This above list of documents is also supported by Aswathappa K. (2010) International Business, New Delhi Tata McGraw Hill Education Private Limited. In the said book it was stated that Bill of Lading, commercial invoice, insurance certificate and consular invoice are the documents most commonly used in international trade. Description provided by the author is presented herewith.

Bill of Lading (B/L)

It is the most important document used in international trade. It is an evidence of contract between the shipper of the goods and the carrier. A B/L is a shipping document issued to the exporter or its bank by a common carrier that ships the goods. The customer usually needs the original as proof of ownership to take possession of the goods. There are two types a STRAIGHT bill of lading is nonnegotiable and used where no financing is involved. As it is not negotiable, this is not most commonly used in export financing.

Another type is a negotiable or shipper's ORDER bill of lading (also a title document) which can be bought, sold or traded while goods are in transit and is used for many types of financing transactions. Under an ORDER bill of lading, the goods are consigned to the order of a named party, usually the importer. The exporter retains the title to the goods until it endorses the bill of lading on the reverse side. The exporter’s representative may endorse to a specific party or approve it in blank by simply signing his or her name. The carrier delivers goods in the port of destination to the bearer of the endorsed order B/L, who must surrender it. As an order B/L represents goods in transit that are readily marketable and fully insured, this document is generally considered to be good collateral by banks. It is required under letter of credit financing and for discounting of drafts.

Commercial Invoice

A commercial invoice contains an authoritative description of the goods shipped and is prepared by the exporter. It is a formal demand note for payment issued by the exporter to the importer for goods sold under a sales contract. It should give full details on quality, grades, price per unit, and total value of the goods sold, payment terms and trade terms. It also contains names and addresses of the exporter and importer, the number of packages, any distinguishing external marks, and other expenses details. It is also used for the customs clearance of goods and sometimes for foreign exchange purpose by the importer.

Insurance Certificate

All goods transported abroad are insured. Insurance Certificate is prepared by insurer or insurance agent or insurance broker. Most of the insurance contracts used today are under open or floating policy. This certifies that the shipment has been insured under a given open policy and is to cover loss of or damage to the cargo while in transit. This policy automatically covers all shipments made by the exporter, thereby doing away with the necessity of making arrangements for individual insurance for each shipment. To evidence insurance for shipment under open policy, the exporter makes out an insurance certificate on the forms provided by the insurance company. This certificate contains the information about the goods shipped. All entries must confirm exactly with the information on the B/L, on the commercial invoice and where required consular invoice.

Consular Invoice

Exporting to many countries may require a special consular invoice. This invoice, which changes in its details and information required according to the country. This is presented to the local consulate or in exchange for a visa. It is a document required by some foreign countries, showing shipment information such as consignor, consignee, and value description, etc. Certified by a consular official of the importing country stationed in the foreign country, it is used by the country's customs officials to verify the value, quantity and nature of the shipment. This needs to be filled carefully, as even trivial inaccuracies may lead to considerable fines and delays in getting customs clearance. The consular invoice does not convey any title to the goods being shipped and is not negotiable.

Processing of an Export Order

There are certain stages or activities in the processing of export order. These are as shown in Fig. 3.1.

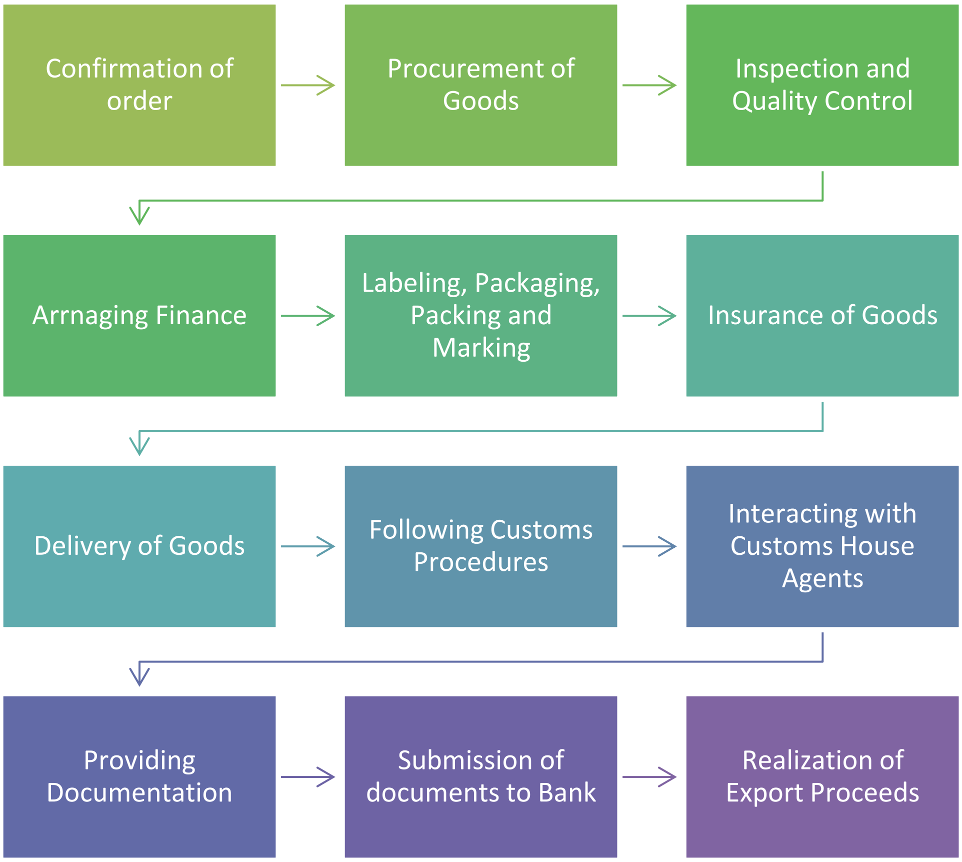

Fig. 3.1 Steps in Processing of Export Order

Source EXIM Policy, Indian Trade Portal.

A short description for the above process, as stated by Indian Trade Portal, is provided as Annexure 5

Warm up Activity 3.2

1. Commercial Invoice is also used for the customs clearance of goods and sometimes for foreign exchange purpose by the importer. (True/False)
2. Which document is required under letter of credit financing and for discounting of drafts?
3. Which document certifies that the shipment has been insured under a given open policy and is to cover loss of or damage to the cargo while in transit?
4. An straight B/L is negotiable generally it is considered to be good collateral by banks. (True/False)

3.3World Shipping Structure

The international shipping industry is mainly responsible for the carriage of around 90% of world trade. Shipping is the lifeline of the global trade and economy according to International Chamber of Shipping (ICS). According to shipping industry sources the shipping industry provides services by using either liners or tramps. According to online resource such as blogs and World shipping Council the liners and tramps are described herewith.

Liners and Tramps

Cargo ships fall into two further categories that reflect the service they offer to the industry. These are Liner & Tramp services.

The bulk cargo requires shipping services in which large quantity of one type of cargo can be carried at low per unit cost. These services are provided by carriers known as Tramps. Quite naturally, there are different types of tramp ships to carry different kinds of bulk cargo.

On the other hand, carriers which provide regular and scheduled shipping services to carry heterogeneous cargo suiting the marketing requirements of General Cargo are known as Liners. A liner ship is built and run to satisfy the transport demand of a variety of cargos.

Liner Ship Characteristics

- Cargo liner runs on fixed schedules & fixed tariff published by the shipping companies.
- Each trip a liner takes is called voyage.
- Liners mostly carry a general cargo.
- Some liner cargo also carries passengers.
- A cargo liner that carries 12 or more passengers is called a combination or passenger cum cargo liner.
- Liner ship is designed to carry a variety of cargo, with spaces for bales, bundles, boxes, barrels, drums, etc, as well as for reefer (refrigerated) cargo. The designs of the holds and number of decks in cargo will be different from those of a tramp. With the increased share of containerized cargo, specially designed container ships for carrying different categories of containers operate.
- The cargo handling equipment on a liner will be varied and sophisticated for quick loading and unloading of cargo to ensure a quick turnaround. A quick turnaround means that the ship spends the least possible time in the port and most of its time in transit.
- Liner ships frequently operate between fixed ports and normally loads in several ports. It serves a number of discharging ports along a predetermined route.
- In order to ensure speedier carriage, liner ship is fitted with sophisticated and expensive propelling machinery.
- Liner shipping service provides preannounced scheduled services on given terms and conditions of carriage. These conditions in the receipt mostly relate to the responsibilities and liabilities of the ship owners, carriage, and delivery of cargo.
- Liner shipping generally offers carriage on fixed and stable freight rates.

Tramp

Tramp carrier is primarily designed to carry the more simple and homogeneous cargo in huge quantity. It is, therefore, designed to completely utilize its carrying capacity for carriage of one type of cargo.

Tramp Characteristics

- Tramp ships do not have fixed schedules.
- Sailing based on cargo available with no expected repetition.
- Freight rates vary according to the demand & supply
- Generally it is operated by small shipping companies & private individuals.
- Since one kind of homogeneous cargo is to be handled, a tramp will have the comparatively simple equipment. Bulk cargos are normally loaded and discharged by mechanical equipment, elevators, pumps, etc.

- Because of the comparatively low unit value of commodities carried, a tramp will be operated at the lowest possible cost. This objective can be achieved by operating ships having relatively less speed by fitting less expensive propelling machinery.
- A tramp generally carries cargos of one or two ship users. Hence, loading and discharging are confined to a few ports.
- Tramp carriers do not have a fixed route and predetermined schedule of departure as it is to be engaged by one/two users as and when their need arises.
- Tramp carrier offers services at terms and conditions, including freight/hire charges, which are not fixed and given but are negotiable.

Tramp Shipping

- Voyage charter Here, ships are chartered for a specific voyage. Normally, traders prefer voyage chartering.
- Time charter Here, ships are chartered for a specific period. The charterer may employ the ship in his voyage according to his requirement.
- Demise charter It is an arrangement for the chartering or hiring of a ship or boat, whereby no crew or provisions are included as part of the agreement; instead, the people who rent the vessel from the owner are responsible for taking care of such things.

Liners Conference System

As stated by industry sources and numerous online resources a Liner Conference System (also called a "shipping conference") is an agreement within the shipping industry in relation to ocean liners. Typically, the agreement is between two or more shipping companies to provide scheduled cargo and/or passenger service on a particular trade route under uniform rates and common terms.

It is an agreement whereby a number of ship owners offer their services on a given sea route on the conditions agreed by the members. This kind of association is formed to restrict the competition amongst members & also protecting them from outside competition.

Conference agreements also regulate sailing & ports of calls. Their chief policy is to achieve a common tariff of freight rates for the traders. The shipping companies belonging to the conference held a regular meeting to decide freight rates & discuss other related issues. The origin of the conference is basically as a result of cut throat competition among the shipping companies.

Advantages of Liners Conference

- Avoidance of wasteful competition.
- Stability of rates which enables merchants to make forward contracts for goods & so diminishes undesirable risk & uncertainty in International Trade.
- Regular & Frequent sailings, this helps merchants to plan their shipments in advance.
- Equality of treatment. Freight is same for big & small.
- Coverage of wide range of ports.
- The elimination of price competition leads to service competition among the members, updated equipment of cargo handling & office organization.

Containerisation and Other Developments

According to World Shipping Council, containerization has resulted in Inter modalism. Inter modalism is a system that is based on the theory that efficiency will be vastly improved when the same container, with the same cargo, can be transported with minimum interruption via different transport modes from an initial place of receipt to a final delivery point many kilometers or miles away. That means the containers would move seamlessly between ships, trucks and trains. More about this is elaborated subsequently.

Warm up Activity 3.3

1. A tramp ship carries specific type of goods with no fixed schedules. (True/False)
2. There exists conformity within the shipping industry in relation to ocean linersand is called as……………
3. Another name for Liner Conference System is ………… .
4. Liner ships runs on fixed schedules & fixed tariff as decided by the shipping companies and carry a heterogeneous cargo. (True/False)

3.4 Sea Transportation

According to International Chamber of Shipping (ICS), the international shipping industry is responsible for the carriage of around 90% of world trade. It further states that Sea Transportation or Seaborne trade continues to expand, bringing benefits for consumers across the world through competitive freight costs. This is mainly due to the increased efficiency of shipping as a mode of transport. Also due to more liberal economic scenarios; the prospects for the industry's further growth continue to be strong.

Review of Maritime Transport 2017 by UNCTAD indicates that with most of the global trade by volume and more than 70% of its value being carried on board ships and handled by seaports worldwide, the importance of sea transportation (or maritime transport) for trade and development cannot be overemphasized.

There are over 50,000 merchant ships trading internationally, transporting every kind of cargo. The world fleet is registered in over 150 nations, and manned by over a million seafarers of virtually every nationality.

International Agreements and Conferences on Sea Transport

One such mechanism is Liner Conference that is elaborated in earlier section. Another one may be mechanism by World Trade Organization (WTO).

World Trade Organization (WTO) has stated that Maritime transport and Maritime services have benefited in recent years by considerable expansion fostered by globalization. Many restrictive maritime policies have disappeared or ceased to be applied.

According to WTO, a Maritime service is an area where negotiations were scheduled to improve on the commitments included in the initial Uruguay Round schedules of commitments. Negotiations were originally due to end in June 1996 but participants failed to agree on a package of commitments. Talks resumed when the new services round of negotiations started in 2000.

Commitments already exist in some countries' schedules, covering the three main areas in this sector access to and use of port facilities; auxiliary services; and ocean transport. The principles of the trade in maritime transport services are contained, as for all services, in the General Agreement on Trade in Services (GATS).

The specific regime for maritime transport services in the negotiations is defined by decision S/L/24. Currently, maritime transport services, like all services, are included in the new services negotiations, which began in January 2000.

Concept of Dry Port

What is Dry Port?

According to government sources (Ministry of Shipping), a dry port is an inland terminal (also called as CFS (container freight station)) that provides services for handling, temporary storage, inspection and customs clearance for international freight. It is usually located where networks of different transportation modes converge and is directly connected by rail or road to a sea port.

As we know, sea port is situated near sea. If the importer or exporter is far away from sea port, it will be an inconvenience to coordinate and handle the goods properly. So government has allowed CFS (container freight station) to handle export and import formalities under customs supervision. The cargo will be moved by rail or road from the sea port to CFS.

The exporter can complete customs formalities in CFS and ship the goods without moving cargo to sea port. Likewise, importer can take delivery of cargo near his place after completing procedures at dry port. If the buyer insist for 'on board bill of lading', as a proof of export, the buyer waits to get the shipment reached at sea port and once cargo loaded in to vessel, the on board bill of lading is obtained from shipping line. If the buyer needs only a proof of shipment, the exporter can obtain 'Received for shipment Bill of Lading' from the carrier who is a multi model transporter. A multi modal transporter is a carrier who carries goods in two or more modes of transport like road, rail, air, or sea.

Containerization

Containerization is an important cargo moving technique developed in 20th century. Containerization is a system of intermodal freight transport using intermodal containers (also called as shipping containers or ISO containers) as stated by World Shipping Council. These containers have standardized dimensions. They can be loaded and unloaded, stacked, transported efficiently over long distances, and transferred from one mode of transport to another—container ships, rail transport flatcars, and semitrailer trucks—without being opened. The handling system is completely mechanized so that all handling is done with cranes and special forklift trucks. All containers are numbered and tracked using computerized systems.

Features of Containerization

- It is equipment utilize to carry goods or store goods.
- The ISO has defined container as an article of transport
- Of a permanent charter & accordingly strong enough for repeated use.
- Especially, designed to facilitate the carriage of goods by one or more mode of transportation without immediate reloading
- Fitted with devices, permitting its ready handling

- So designed as to be as easily filled, refilled & empty.
- Containers are mainly made from steel & aluminum GRP (Glass Reinforced Plywood)
- More than 70% of containers are made up of steel.

Advantages of Containerization

- They are cheap in price.
- They can be more easily repaired, compared to aluminum GRP containers
- They can resist damage.
- Cost due to loss or damage of goods is reduced.
- Lower labor cost due to automated material handling equipment
- Lower warehousing & transportation cost, since containers are easily stored & transported.
- Containers can also be used for temporary storage at ports with limited warehousing facility.
- They are secured & considerably reduce the risk of theft
- Reduction in packing cost
- Reduction in marine insurance premium
- Retention of the original quality of goods.
- Faster and reliable delivery
- Physical separation from dirty cargo.

Disadvantage of Containerization

- They have a small economic life as compared to aluminum & GRP about 10 years.
- They have more tare weight thus carry less pay load.
- They suffer from corrosion
- They required sophisticated handling techniques.
- Lack of facility at donors & other suppliers premises

Classification of Containers in Terms of their Measurement

- ISO has classified standardization of containers in multiple of 10 ft. i.e. 10 ft., 20 ft., 30 ft., 40 ft. etc.
- Predominantly 20 ft. & 40 ft. containers are mostly used around the world.
- 65% of world fleet consists of 20 ft. containers.
- 20 ft. containers are referred to as Twenty Feet Equivalent Unit or TEU.
- This is commonly used term all over the world
- It becomes easier for container terminal operator (CTO) & ship owner to estimate the space required in a container.
- Most of the containers have a width of 8 ft., but in height, containers vary from 8 ft. to 81/2 ft.
- Presently, 75% of the containers have the height of 81/2 ft.
- The inside volume of the containers of size 20 ft. (8 ft.*81/2 ft.) is about 35 cubic meter.

Warm up Activity 3.4

1. The international shipping industry is key factor for the carriage of most of the world trade. (True/False)
2. Another name for dry port is
3. A dry port is another name for sea port that is directly connected by rail or road.(True/False)
4. Name any two features of containerization.

3.5 Air Transportation

International Setup

Air Transportation (or Air cargo) is a trade facilitator that contributes to global economic development and creates millions of jobs. The global economy depends on the ability to deliver high quality products at competitive prices to consumers worldwide. Today, air cargo transports over US $6 trillion worth of goods, accounting for approximately 35% of world trade by value, according to IATA (International Air Transport Association).

The above fact is endorsed by Global, arranging local transportation as well as apprising developments on transportation and claiming Trade Magazine. It stated that air transportation by volume is though small has many benefits to offer. As stated by them, air cargo accounts for a relatively small percentage of world trade when calculated by overall volume (approximately 10%) and about 35% by value. However, when the type or value of products being transported is taken into account (technology, business services, pharmaceuticals), its importance significantly increases. If something that needs to be transported quickly, especially when the destination is international, air cargo plays essential roles in that supply chain. High speed delivery has become essential to our economy, as more companies opt to receive goods and bring them directly to market, thus avoiding costs associated with inventory, warehousing and logistics.

Air cargo reduces the 30day shipping time of ocean transport to less than 48 hours. When fruits, vegetables and flowers need to be sent from remote agricultural reasons to major cities around the world, companies rely on air cargo to deliver these products on time. That capability has also been a boon to economic development in the places where these perishable goods are produced.

Freight Rate Structure

A study by The World Bank (2009) estimated huge demand for air transportation and talks about freight structure also. The said study has talked about benefits of air transportation to different countries and growth potential of the same. Some excerpts are provided herewith.

The capability of many poor countries to grow through trade integration and export development is constrained by physical constraints such as distance to market, but also by trade facilitation bottlenecks which can be even more daunting than distance. This is especially true for developing landlocked countries often dependent on a fragile transit system and long corridors just to connect to international shipping routes. For those countries, air transport has always attracted much interest as a mode of transportation that avoids the access challenge and meets the needs for nontraditional export opportunities notably for high value goods.

Several examples confirm the potential of air cargo for economic development of poor countries (including some of the least developed countries) fresh flower and fresh fish and sea food exports from Africa and Latin America are well known today. But these developments have been comparatively modest. The industries developed globally over the last decade along NorthSouth routes linking rich countries and major emerging economies. In poor countries, the initiative came from the private sector, often starting from niche opportunities. There are also lessons to be learned on the enabling role of governments when it comes to trade facilitation initiatives at airports, liberalization or partnerships to facilitate the delivery of key services, and infrastructure.

According to the said study, the demand for airfreight is limited by cost which is typically 4 to 5 times that of road transport and 12 to 16 times that of sea transport. Air freight rates generally range from $1.50–$4.50 per kilogram, while the value of air cargo typically exceeds $4.00 per kilogram. The commodities shipped by air are those that have high value per unit density and/or are very timesensitive. The latter include documents, production samples, perishable agricultural and seafood products, electronic consumer goods, pharmaceuticals and fashion garments. They also include emergency shipments of spare parts and some inputs to meet just-in-time production.

The study also mentioned that most fish are shipped frozen and therefore transported by sea, but shellfish and fresh fish move by air. The study mentioned that the cost is typically for Airfreight or air transport $3.50 per kg for 15,000 kilometers, for Road transport $0.80 per kilometer for 15 tons, and for Sea transport $3,500 for 15 tons for 15,000 kilometers.

Landlocked developing countries have had limited demand for airfreight exports because the majority of the enterprises are SMEs which produce relatively small volume shipments of low value goods. Since airfreight rates range from $1.50$4.50 per kilogram, the value of air cargo typically exceeds $4.00 per kilogram. The principal exports shipped by air from developing countries are cut flowers, fresh fruits and vegetables, and electronic parts. Imports shipped by air include a range of high value consumer goods. However, without a significant outbound flow, the inbound airfreight rates are higher, thus reducing the types of goods transported by air.

Role of Clearing and Forward Agents

Clearing and forwarding agents (CFAs) are also known as Customs House Agents or Freight Forwarders or Shipping Agents. Their basic function is to provide different range of services to exporters to ensure smooth and timely shipment of goods.

Clearing and Forwarding Agents play a pivotal role in the selection of mode and route of transport. They are the specialized people to guide in selection of the shipping line/airline. Every exporter is concerned with distribution logistics to ensure, that the goods reach the final buyer, in specified time and at minimal cost in the condition they are sent. The essence of distribution logistics is the decision in respect of mode of transport to he used. Clearing agent advises exporter about the availability alternative modes of transport and guides exporter in decision making about the final choice of transport to achieve optimal cost in transporting the goods, well within the delivery schedule.

In addition to these activities, CFA undertakes most of the functions connected with exports such as marking, labelling, packing of goods, advising on trade duty drawback claims on behalf of the exporter. An efficient CFA goes a long way to the exporter in the journey of exports to make the matters easier, comfortable and may be cheaper too. Above all, the agents act troubleshooters for the exports, in case of movement problems. It is well said a real clearing agent can perform all the functions except selling the goods!.

Warm up Activity 3.5

1.As stated by Global Trade Magazine, the share of air transportation is approx. …………. of world trade when calculated by overall volume.

2. Another name for Clearing and Forwarding Agents is …………. .

3. In terms of costs, air transport is cheaper than sea transport but expensive than road transport. (True/False)

4. Name any two benefits of air transportation.

Summary

An export contract or deals contract has no particular format. An export contract is a whole of terms and condition with purchaser and vendor or shipper and exporter. The Incoterms are nothing but the rules set by International Chamber of Commerce (ICC). They are internationally recognized and accepted standard. They are used worldwide in international and domestic contracts for the sale of goods.

Letter of credit (LC) is the most commonly used method of payment (payment terms) in international trade. Bill of Lading, commercial invoice, insurance certificate and consular invoice are the documents most commonly used in international trade. The international shipping industry is mainly responsible for the carriage of around 90% of world trade. Shipping is the lifeline of the global trade and economy according to International Chamber of Shipping (ICS).

Cargo ships fall into two further categories that reflect the service they offer to the industry. These are Liner & Tramp services. A Liner Conference System (also called a "shipping conference") is an agreement within the shipping industry in relation to ocean liners.

Review of Maritime Transport 2017 by UNCTAD indicates that with most of the global trade by volume and more than 70% of its value being carried on board ships and handled by seaports worldwide, the importance of sea transportation (or maritime transport) for trade and development cannot be overemphasized. A dry port is an inland terminal (also called as CFS (container freight station)) that provides services for handling, temporary storage, inspection and customs clearance for international freight.

Containerisation is an important cargo moving technique developed in 20th century. Containerisation is a system of intermodal freight transport using intermodal containers (also called as shipping containers or ISO containers) as stated by World Shipping Council. According to IATA (International Air Transport Association) air transportation is growing worldwide and has many benefits to offer.

Clearing and forwarding agents (CFAs) are also known as Customs House Agents or Freight Forwarders or Shipping Agents. Their basic function is to provide different range of services to exporters to ensure smooth and timely shipment of goods.

Model Questions

1. Enlist different components of export contract.
2. Explain Incoterms.
3. Describe Letter of Credits and its types.
4. Name the mandatory documents for import and export. Describe them.
5. Name the different stages in processing of export order.
6. Elaborate Liner ships with their features.
7. Elaborate Tramp ships with their features.
8. Describe Liner Conference.
9. State the significance of sea transportation in global trade.
10. Explain the concept of Dry Port.
11. Elaborate Containerization with their features.

12. State the significance of air transportation in global trade.
13. Write short note on freight structures.
14. Describe Role of Clearing and Forward Agents.

Answers

Warm up Activity 3.2
1. True 2. An Order B/L 3. Insurance Certificate 4. False

Warm up Activity 3.3
1.True 2. Liner Conference System 3. Shipping Conference 4. True

Warm up Activity 3.4
1. True 2. Container Freight Station 3. False

Warm up Activity 3.5
1. 10% 2. Customs House Agents / Freight Forwarders / Shipping Agents
3. False

Suggested Reading

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20. Value of Air Cargo by IATA (International Air Transport Association). Available from https//www.iata.org/ [Last accessed on 2019 Feb. 14].

Annexures

Annexure 4 A Short description of Incoterms by International Chamber of Commerce (ICC)

Part 1 Rules for any mode or modes of transport

EXW Ex Works

"Ex Works" means that the seller delivers when it places the goods at the disposal of the buyer at the seller's premises or at another named place (i.e., works, factory, warehouse, etc.). The seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export, where such clearance is applicable.

FCA Free Carrier

"Free Carrier" means that the seller delivers the goods to the carrier or another person nominated by the buyer at the seller's premises or another named place. The parties are well advised to specify as clearly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.

CPT Carriage Paid To

"Carriage Paid To" means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.

CIP Carriage and Insurance Paid To

"Carriage and Insurance Paid to" means that the seller delivers the goods to the carrier or another person nominated by seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination. The seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage. The buyer should note that under CIP seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.

DAT Delivered At Terminal

"Delivered at Terminal" means that the seller delivers when the goods, once unloaded from the arriving means of transport, are placed at the disposal of the buyer at a named terminal at the named port or place of destination. "Terminal" includes a place, whether covered or not, such as a quay, warehouse, container yard or road, rail or air cargo terminal. The seller bears all risks involved in bringing the goods to and unloading them at the terminal at the named port or place of destination.

DAP Delivered At Place

"Delivered at Place" means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.

DDP Delivered Duty Paid

"Delivered Duty Paid" means that the seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination. The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.

Part 2 Rules for sea and inland waterway transport

FAS Free Alongside Ship

"Free Alongside Ship" means that the seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) nominated by the buyer at the named port of shipment. The risk of loss of or damage to the goods passes when the goods are alongside the ship, and the buyer bears all costs from that moment onwards.

FOB Free On Board

"Free On Board" means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards.

CFR Cost and Freight

"Cost and Freight" means that the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel. the seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

CIF Cost, Insurance and Freight

"Cost, Insurance and Freight" means that the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

'The seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage. The buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements."

Source International Chamber of Commerce (ICC). Link
https//iccwbo.org/resourcesforbusiness/incotermsrules/incotermsrules2010/

Annexure 5 Steps in Processing Export Order

1. **Confirmation of Order**

   On receiving an export order, it should be examined carefully in respect of items, specification, payment conditions, packaging, delivery schedule, etc. and then the order should be confirmed. Accordingly, the exporter may enter into a formal contract with the overseas buyer.

2. **Procurement of Goods**

After confirmation of the export order, immediate steps may be taken for procurement/manufacture of the goods meant for export. It should be remembered that the order has been obtained with much efforts and competition so the procurement should also be strictly as per buyer's requirement.

3. **Quality Control**

   In today's competitive era, it is important to be strict quality conscious about the export goods. Some products like food and agriculture, fishery, certain chemicals, etc. are subject to compulsory pre-shipment inspection. Foreign buyers may also lay down their own standards/specifications and insist upon inspection by their own nominated agencies. Maintaining high quality is necessary to sustain in export business.

4. **Finance**

   Exporters are eligible to obtain pre-shipment and post shipment finance from Commercial Banks at concessional interest rates to complete the export transaction. Packing Credit advance in pre-shipment stage is granted to new exporters against lodgment of L/C or confirmed order for 180 days to meet working capital requirements for purchase of raw material/finished goods, labour expenses, packing, transporting, etc. Normally Banks give 75% to 90% advances of the value of the order keeping the balance as margin. Banks adjust the packing credit advance from the proceeds of export bills negotiated, purchased or discounted.

   Post Shipment finance is given to exporters normally up to 90% of the Invoice value for normal transit period and in cases of usance export bills up to notional due date. The maximum period for post shipment advances is 180 days from the date of shipment. Advances granted by Banks are adjusted by realization of the sale proceeds of the export bills. In case export bill becomes overdue Banks will charge commercial lending rate of interest.

5. **Labeling, Packaging, Packing and Marking**

   The export goods should be labeled, packaged and packed strictly as per the buyer's specific instructions. Good packaging delivers and presents the goods in top condition and in attractive way. Similarly, good packing helps easy handling, maximum loading, reducing shipping costs and to ensuring safety and standard of the cargo. Marking such as address, package number, port and place of destination, weight, handling instructions, etc. provides identification and information of cargo packed.

6. **Insurance**

   Marine insurance policies covers risks of loss or damage to the goods during the while the goods are in transit. Generally in CIF contract the exporters arrange the insurance whereas for C&F and FOB contract the buyers obtain insurance policy.

7. **Delivery**

   It is important feature of export and the exporter must adhere to the delivery schedule. Planning should be there to let nothing stand in the way of fast and efficient delivery.

8. **Customs Procedures**

   It is necessary to obtain PAN based Business Identification Number (BIN) from the Customs prior to filing of shipping bill for clearance of export good and open a current account in the designated bank for crediting of any drawback amount and the same has to be registered on the system.

In case of NonEDI, the shipping bills or bills of export are required to be filled in the format as prescribed in the Shipping Bill and Bill of Export (Form) regulations, 1991. An exporter need to apply different forms of shipping bill/ bill of export for export of duty free goods, export of dutiable goods and export under drawback etc.

Under EDI System, declarations in prescribed format are to be filed through the Service Centers of Customs. A checklist is generated for verification of data by the exporter/CHA. After verification, the data is submitted to the System by the Service Center operator and the System generates a Shipping Bill Number, which is endorsed on the printed checklist and returned to the exporter/CHA. In most of the cases, a Shipping Bill is processed by the system on the basis of declarations made by the exporters without any human intervention. Where the Appraiser Dock (export) orders for samples to be drawn and tested, the Customs Officer may proceed to draw two samples from the consignment and enter the particulars thereof along with details of the testing agency in the ICES/E system.

Any correction/amendments in the check list generated after filing of declaration can be made at the service center, if the documents have not yet been submitted in the system and the shipping bill number has not been generated. In situations, where corrections are required to be made after the generation of the shipping bill number or after the goods have been brought into the Export Dock, amendments is carried out in the following manners.

1. The goods have not yet been allowed "let export" amendments may be permitted by the Assistant Commissioner (Exports).
2. Where the "Let Export" order has already been given, amendments may be permitted only by the Additional/Joint Commissioner, Custom House, in charge of export section.

In both the cases, after the permission for amendments has been granted, the Assistant Commissioner / Deputy Commissioner (Export) may approve the amendments on the system on behalf of the Additional /Joint Commissioner. Where the print out of the Shipping Bill has already been generated, the exporter may first surrender all copies of the shipping bill to the Dock Appraiser for cancellation before amendment is approved on the system.

9. **Customs House Agents**

   Exporters may avail services of Customs House Agents licensed by the Commissioner of Customs. They are professionals and facilitate work connected with clearance of cargo from Customs.

10. **Documentation**

    FTP 20152020 describes the following mandatory documents for import and export.

    - Bill of Lading/ Airway bill
    - Commercial invoice cum packing list
    - Shipping bill/ bill of export/ bill of entry (for imports)
    - (Other documents like certificate of origin, inspection certificate etc may be required as per the case.)

11. **Submission of documents to Bank**

    After shipment, it is obligatory to present the documents to the Bank within 21 days for onward dispatch to the foreign Bank for arranging payment. Documents should be drawn under Collection/Purchase/Negotiation under L/C as the case may be, along with the following documents

- Bill of Exchange
- Letter of Credit (if shipment is under L/C)
- Invoice
- Packing List
- Airway Bill/Bill of Lading
- Declaration under Foreign Exchange
- Certificate of Origin/GSP
- Inspection Certificate (as applicable and required)
- Any other document as required in the L/C or by the buyer or statutorily.

12. Realization of Export Proceeds

As per FTP 20152020, all export contracts and invoices shall be denominated either in freely convertible currency of Indian rupees, but export proceeds should be realized in freely convertible currency except for export to Iran.

Export proceeds should be realized in nine (9) months.

Source Indian Trade Portal.

Link http//www.indiantradeportal.in/vs.jsp?lang=0&id=0,25,44

Chapter 4 Sources of Finance

Introduction

This chapter is about providing information in the context of different sources of finance and some financial institutions associated with export, insurance for export and relevant aspects of it.

Objectives

After completing this Chapter, you will be able to

- Understand nature of assistance from commercial banks to exporters
- Know about EXIM Bank
- Understand ECGC and their services
- Know about the insurance for export
- Learn about trends in trade finance

4.1 Role of Commercial Bank

As suggested by international trade experts and numerous and diverse online resources available, commercial banks play an important role in financing the credit requirements of exporters at different stages of export the nature of assistance vary from one bank to another. These needs vary from one organization to another; and from one country to another. Granting of short term finance for working capital requirements has always remained an area exclusively reserved for the commercial banks. Commercial banks also offer post shipment finance against deferred payment at a concession and rate of interest together with the EXIM Bank. In recent times, commercial banks have assumed a greater role by promoting projects of small entrepreneurs.

The assistance of commercial banks to the exporters can be grouped under two categories. This is as listed in Table 4.1.

Table 4.1 Assistance of Commercial Banks

Category	Types of Assistance
Fund Based Assistance	1. Pre-shipment Finance 2. Post-shipment Finance 3. Finance against deferred Payment Export
Non fund Based Assistance	1. Bank Guarantees 2. Creditworthiness of importers 3. Information about Foreign Exchange 4. Dollar Accounts 5. Documents, Rules and Regulations 6. Invoicing in a Foreign Currency 7. Advising and Confirming Letters of Credit (L/C) 8. Forward Exchange Contracts 9. Currency for Invoicing Services 10. Other miscellaneous services

Source Online Blog Howtoexportimport.com

Some of the important types of assistance are elaborated herewith.
Fund based assistance is in the form of credit and loans directly extended by the commercial banks to the exporters at different stages of export procedure. The fund based assistance of commercial banks includes following

(a) Pre-shipment Finance Pre-shipment finance refers to the credit extended to exporters prior to the shipment of goods for the execution of export orders. It is also known as 'Packing Credit'.
Such finance is available in the following types

- Extended Packing Credit Loan
- Packing Credit Loan (Hypothecation)
- Packing Credit Loan (Pledge)
- Secured Shipping Loan

(b) Post Shipment Finance Post shipment finance (short term) refers to the credit extended to exporters after the shipment of goods for meeting working capital requirement. Such finance is available in the following types

- Discounting of export bills
- Advance against bills sent on collection
- Advance against goods sent on consignment basis
- Advance against undrawn balances
- Advance against retention money

(C) **Finance against deferred Payment Export** Export of goods or services against payment to be received partly or fully beyond the period statutorily prescribed for realization of export proceeds are treated as deferred payment' exports. Finance against such payments is referred to as Deferred Credit. Commercial rate of interest may be decided together with the EXIM Bank.

Commercial Banks also Provide a Wide Range of Non Fund Based Services, as Listed Below
(a) Bank Guarantees RBI has authorized commercial banks to issue guarantees and bid bonds in favor of importers. Various guarantees issued by banks are

- Bid Bonds
- Performance Guarantee
- Guarantee for Payment of Retention Money
- Guarantee for Loans in Foreign Currency

(b) Creditworthiness of importers
(c) Information about Foreign Exchange
(d) Dollar Accounts
(e) Documents, Rules and Regulations
(f) Invoicing in a Foreign Currency
(g) Advising and Confirming Letters of Credit (L/C)
(h) Forward Exchange Contracts
(i) Currency for Invoicing Services

A short description for the activities listed above is provided as Annexure 6.

Warm up Activity 4.1
1. Bid bonds are a type of Bank Guarantee. (True/False)
2. State another name for pre-shipment finance.
3. Discounting of export bills is a type of Pre-shipment Finance assistance.(True/False)
4. Extended Packing Credit Loan is a type of Post-shipment Finance assistance.(True/False)

4.2About EXIM Bank

Export – Import Bank (EXIM Bank)

The government of India has set up the Export Import Bank (EXIM Bank), with wide functions to finance, promote and develop foreign trade. It is a fully government owned entity that has powers to borrow from not only from Reserve Bank of India (RB) but also from abroad. Established in 1982 under the Export-Import Bank of India Act, 1981, it is a source of export credit, mirroring global Export Credit Agencies. More details are available on the web site https//www.eximbankindia.in/. More description is provided as Annexure 7.

In the context of rural development, EXIM Bank has supported several activities through its 'Grassroots Initiative and Development' programme. With this the Bank endeavours to create export capabilities in rural enterprises, thereby enhancing purchasing power at the 'bottom of the pyramid'.

Grassroots Initiatives &Development

The Bank, through its grassroots initiatives, envisages supporting the globalization of enterprises based out of rural India. The programme seeks to address the needs of underprivileged sections of society while creating expanded opportunities for traditional crafts persons and artisans, and rural entrepreneurs of the country. Some of the beneficiaries under this programme are as listed in Table 4.2.

Table 4.2 Beneficiaries Grassroots Initiatives &Development

Sr. No.	Lending Support Activity Beneficiary
1	Consortium of Women Entrepreneurs of India, a nonprofit organization for Design Development Training for iron and brass metal crafts for the artisans of Kondagaon, Chhattisgarh.
2	Gujarat based Cooperative Society that works with more than 1500 tribal women.
3	A social enterprise in Rajasthan, which works with nearly 3,500 artisans with the objective of ensuring sustainable livelihood for artisans and farmers.
4	An artisans' and farmers' cooperative Society in Kumaon, Uttarakhand, engaged in production of naturally dyed ahimsa silk and wool textiles.
5	A social enterprise in NilgirisTamil Nadu, which works with nearly 2000 artisans, mostly from the tribal communities, promoting agroecological products.
6	A social enterprise sourcing offtheloom products from handlooms in Bhagalpur, Bihar
7	Odisha based organisation working with more than 2000 tribal artisans belonging to socially deprived communities, on arts and crafts development.

Source Export Import Bank (EXIM Bank)

EXIM Bank Finance as Stated by APEDA

Types of assistance as listed in Table 4.1 are also supported by APEDA when it speaks about export financing from EXIM bank. APEDA is the Agricultural and Processed Food Products Export Development Authority. As mentioned by APEDA, some of the ways of export financing by EXIM Bank are as shown in Fig. 4.1. Some of the excerpts from the literature at APEDA in this context are provided herewith.

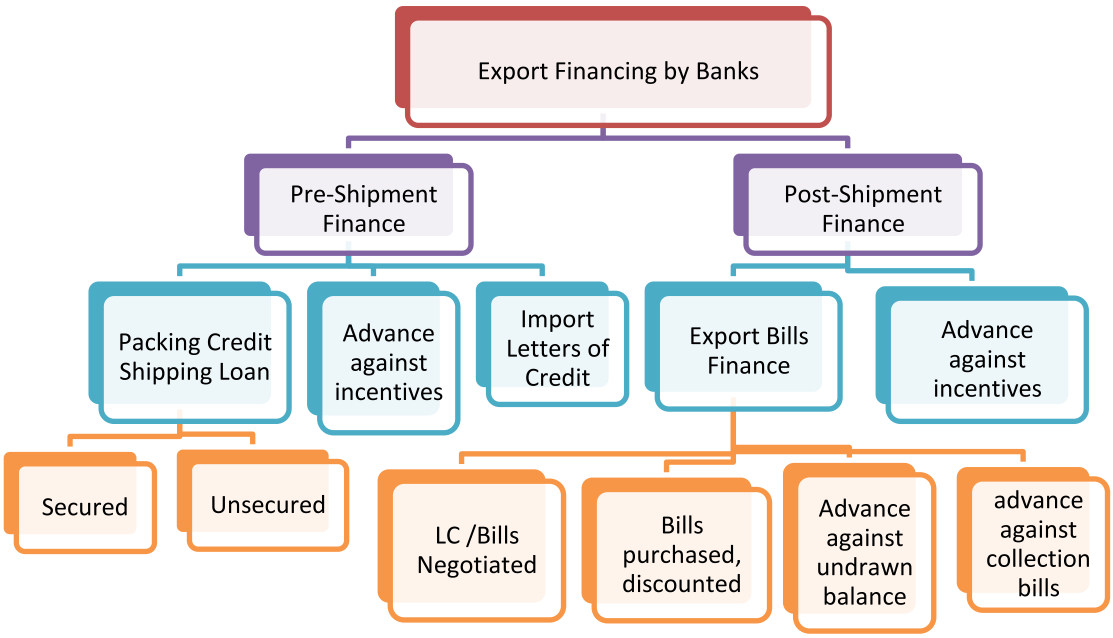

Fig. 4.1 EXIM Bank Finance as Stated by APEDA

Source APEDA

EXIM Bank extends Lines of Credit (LOCs) to overseas governments, financial institutions, regional banks and other overseas entities, to finance India's exports to those countries. EXIM Bank's LOC is a riskfree, nonrecourse export financing option available to Indian exporters for promoting their exports. Under this arrangement, overseas importers are required to pay advance payment to Indian exporters, which is usually 10% of the contract value. EXIM Bank pays the balance amount, which is normally 90% of the contract value, to Indian exporters through negotiating banks in India, upon shipment of goods. EXIM Bank also operates LOCs, announced by the Government of India, to the country's trading partners.

Forms of Financial Assistance Provided by EXIM Bank to Indian Exporters

- Delayed Payment Exports Term loans are provided to those exporters who deal with exporting of goods and services and this enables them to offer delayed credit to the foreign buyers. This system of deferred credit covers Indian consultancies, technology and other services. Commercial banks take part in this program either directly or under risk syndication arrangements.
- Pre-shipment credit Indian companies which are highly involved in the execution of export activities beyond the cycle time of six months are funded by EXIM Bank. The construction or turnkey project exporters enjoy the provision of rupee mobilization.
- Term loans for export production EXIM Bank offers term loans to the 100% export-oriented

units, units involved in free trade zones, and exporters of various softwares in India. EXIM bank also works in association with International Finance Corporation, Washington, to provide financial assistance to the small scale and medium industrial units in terms of ameliorating the export production capacity of these units in India. EXIM Bank also provides funded and non funded facilities to deemed exports from India.

- Foreign Investment Finance EXIM bank provides financial assistance for equity contribution to the Indian companies who form Joint Venture with the foreign companies.
- Financing export marketing It helps the exporters carry out their export market development plan in Indian market.

Warm up Activity 4.2

1. EXIM Bank is consortium of government and private sector. (True/False)
2. Name the EXIM Bank initiative supporting rural development.
3. EXIM Bank was established in …………. .(Year)
4. Packing Credit Shipping Loan is a type of Pre-Shipment Finance assistance.(True/False)

4.3 Understanding ECGC

ECGC Ltd. (Formerly Export Credit Guarantee Corporation of India Ltd.), wholly owned by Government of India, was set up in 1957 with the objective of promoting exports from the country by providing Credit Risk Insurance and related services for exports. It functions under the administrative control of Ministry of Commerce & Industry, and is managed by a Board of Directors comprising representatives of the Government, Reserve Bank of India, banking, and insurance and exporting community. Over the years it has designed different export credit risk insurance products to suit the requirements of Indian exporters and commercial banks extending export credit.

Functions of ECGC

- Provides a range of credit risk insurance covers to exporters against loss in export of goods and services
- Offers Export Credit Insurance covers to banks and financial institutions to enable exporters to obtain better facilities from them
- Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan

ECGC Assistance to Exporters

- Offers insurance protection to exporters against payment risks.
- Provides guidance in export related activities.
- Makes available information on different countries with its own credit ratings.
- Makes it easy to obtain export finance from banks/financial institutions.
- Assists exporters in recovering bad debts.
- Provides information on creditworthiness of overseas buyers.

An important feature of export credit is the risk of transacting with overseas customers or buyers. These risks may arise due to various reasons such as insolvency of overseas customers, variations in currency exchange rates, or any other government action that may chapter or delay payment to the exporters. In this context ECGC comes to help exporters. Such risks may be insured with the Export

Credit Guarantee Corporation of India (ECGC).

ECGC Provides Two Kinds of Services

- Export credit insurance comprising of policies issued to exporters to protect themselves against possible losses as a result of their granting credit terms to foreign customers.
- Direct guarantee to banks that provides protection in terms of exports.

Service spectrum of ECGC is as listed in Table 4.3. Relevant offerings may have other sub-offerings, details of which can be seen at the website of ECGC. For more details, please visit, https//www.ecgc.in.

Table 4.3 Service Spectrum of ECGC

Services	Relevant Offerings
Export Credit Insurance for Exporter (ECIE)	ECIE Short Term – Turnover Based ECIE Short Term – Exposure Based ECIE – Medium & Long Term
Export Credit Insurance for Bank – ECIB	ECIB – Short Term – Pre-Shipment (PC) ECIB – Short Term – Post Shipment ECIB – Short Term – Cover against Bank Guarantee ECIB – Medium & Long Term
Special Schemes	Factoring Buyer’s Credit Cover Lines of Credit Cover Overseas Investment Insurance Customer Specific Covers NEIA National Export Insurance Account

Source ECGC (https//www.ecgc.in)

ECGC Ltd. (Formerly Export Credit Guarantee Corporation of India Ltd.), is essentially an export promotion organization, seeking to improve the competitiveness of the Indian exporters by providing them with credit insurance covers.

Small Exporter's Policy by ECGC – An Example provided by APEDA is available at http//agriexchange.apeda.gov.in/logistic/insurance/SMALL%20EXPORTER'S%20POLICY%20%20ECGC.aspx.

Export Promotion Schemes

Indian Foreign Trade Policy 201520 and other schemes provide promotional measures to boost India’s exports with the objective to offset infrastructural inefficiencies and associated costs involved to provide exporters a level playing field. Some of these are listed in Table 4.4.

Relevant information and details of these schemes can be seen at the website of Indian Trade Portal (http//www.indiantradeportal.in/).

Table 4.4 Export Promotion Schemes

Scheme Category	Available Schemes
Exports from India Scheme	Merchandise Exports from India Scheme (MEIS) Service Exports from India Scheme (SEIS)
Duty Exemption and Remission Schemes	ECIB – Short Term – PreShipment (PC) Advance Authorization Scheme Advance Authorization for annual requirement Duty Free Import Authorization (DFIA) Scheme Duty Drawback of Customs/Central Excise Duties/Service Tax Rebate of Service tax through all industry rates
EPCG Schemes	Zero duty EPCG scheme Post Export EPCG Duty Credit Scrip Scheme
EOU/EHTP/STP & BTP SCHEMES	Sector specific schemes designed for select industry
Other Schemes	Towns of Export Excellence (TEE) Rebate of duty on "export goods" and "material" Export of goods under Bond i.e. without payment of excise duty Market Access Initiative (MAI) Scheme Marketing Development Assistance (MDA) Scheme Status holder Scheme

Source ECGC (https//www.ecgc.in)

4.4 Insurance for Exports

Need for Export Credit Insurance

Payments for exports are open to risks even at the best of times. The risks have assumed large proportions today due to the far reaching political and economic changes that are sweeping the world. An outbreak of war or civil war may chapter or delay payment for goods exported. A coup or an insurrection may also bring about the same result. Economic difficulties or balance of payment problems may lead a country to impose restrictions on either import of certain goods or on transfer of payments for goods imported. In addition, the exporters have to face commercial risks of insolvency or protracted default of buyers.

The commercial risks of a foreign buyer going bankrupt or losing his capacity to pay are aggravated due to the political and economic uncertainties. Export credit insurance is designed to protect exporters from the consequences of the payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss.

In the above context, the role and assistance from ECGC is already discussed in earlier section. In this context, this section enlists information about marine or cargo insurance as provided by APEDA.

Relevant details are provided by APEDA on their website at (http// http//agriexchange.apeda.gov.in/Ready%20Reckoner/Cargo_Insurance.aspx) and are reproduced below.

The term cargo insurance, popularly known as marine insurance, applies to all modes of transportation. The need for export (or import) cargo insurance vary from exporter to exporter (or importer to importer) and from product to product. Unless the insurance is mandatory in a trade term, the exporter or the importer may opt not to insure the goods at his/her own risks.

Depending on the international commercial terms, either the seller (the exporter) or the buyer (the importer) is responsible for insuring the cargo. The seller is obligated to insure the cargo in the CIF (Cost, Insurance and Freight) and CIP (Carriage and Insurance Paid To) terms. The seller may opt not to insure the cargo at his/her own risks in the DDU (Delivered Duty Unpaid) and DDP ((Delivered Duty Paid) terms. The trade terms DDU and DDP are often used in the turnkey projects where the amount at stake is large. In practice, the seller usually insures the cargo in the DDU and DDP terms.

Insurance Policy and Cover Note

Proof of insurance coverage is contained in a document known as policy or insurance policy. The format of insurance policy forms will differ from insurer to insurer, but all essentially have the Institute Clauses and the same information as contained in the Insurance Application Instructions (IAI). The policy must be issued and signed by an insurance company or its agent. If more than one original is issued and is so indicated in the policy, all the originals must be presented to the bank, unless otherwise authorized in the letter of credit (L/C). The sample letter of credit requires "insurance policy in duplicate ...", as such the presentation of one original and one copy (both signed) will satisfy the requirement. Unless authorized in the letter of credit (L/C), the cover note issued by broker, which is a temporary insurance coverage pending the later issuance of an insurance policy, is not acceptable.

Insurance Policy versus Insurance Certificate

The insurance policy, either a specific policy or an open policy, is issued once by the insurer. In the case of the exporter holding an open policy, he/she cannot send that sole policy to all the buyers and for all the shipments made over a period of time. Therefore, in lieu thereof an insurance certificate certificate of insurance is issued by the exporter to each shipment. The blank insurance certificates are supplied by the insurer pre-signed and bearing the open policy number of the exporter.

Unless otherwise stipulated in the letter of credit (L/C), the insurance certificate issued under the open policy is acceptable. If the L/C specifically calls for an insurance certificate, the insurance policy is accepted in lieu thereof. In practice, the insurance policy is often used. In the sample letter of credit the insurance policy is required; hence the bank will not accept the insurance certificate.

Open Policy Versus Specific Policy

Open Policy

The open policy blanket policy or floating policy is issued once by the insurer under contract to cover all shipments made by the exporter over a period of time (one year usually) subject to renewal, rather than to one shipment only. It is more often used by the large exporter.

In an open policy the exporter is required to periodically (monthly usually) declare every shipment made to any location, covering any type of goods, and using any means of conveyance, including multimodal transport and transshipment, in order that the insurer may calculate the insurance premiums and invoice them accordingly.

The exporter completes the insurance declaration form supplied by the insurer and/or supplies the copy of the insurance certificates (see Insurance Policy versus Insurance Certificate above) to the insurer. An insurance declaration form typically contains the information in an Insurance Application Instructions (IAI).

Specific Policy

The specific policy age policy is issued by the insurer to cover a particular shipment or one shipment only. The specific policy is often used in many countries. The exporter may use the Insurance Application Instructions (IAI) or similar form to apply for a specific policy.

Advantages of an Open Policy Over a Specific Policy

Time Saving and Convenience In certain countries the insurance agent (broker) may hand deliver the insurance policy to the exporter within 45 hours after the receipt of the Insurance Application Instructions (IAI) or similar form. However, in some countries it is not uncommon that the policy is mailed to the exporter 23 days after the receipt of the Insurance Application Instructions (IAI) or similar form. Considering that the national mail in some countries may take four (4) or more days to reach the addressee, the deadline to meet the L/C latest negotiation date may not be met. In an open policy the exporter may have the documentary proof of insurance coverage in a matter of minutes by simply completing and signing the blank insurance certificates supplied by the insurer.

Shipments Insured Automatically Under the open policy the insurer most often does not know the shipments made by the exporter before the receipt of the insurance declaration form and/or copy of the insurance certificates, but such shipments are insured.

Principles of Cargo (Marine) Insurance The cargo (marine) insurance works on the principles of insurable interest, utmost good faith, and indemnity.

Warm up Activity 4.3

1. ECGC was established in …………. .(Year)

2.Open Policy covers all the shipments of exporters' up to an estimated amount during a given period. (True/False)

3. Market Access Initiative (MAI) Scheme is an example of Export Promotion Scheme.(True/False)

4. …………. is designed to protect exporters from the consequences of the payment risks, both political and commercial.

4.5Trends in Trade Finance

According to the report titled 'Export Finance in India Issues and Challenges' prepared and released by Assocham India (published in 2018), export financing will be a critical tool that may be utilized to stimulate exports. The said report further states that Small and medium enterprises engaged in exporting frequently view absence of financing mechanism — particularly to meet working capital demands and requirements — as a key barrier to export growth. Credit access barriers still represent an important hurdle to export even in developed countries because imperfections in the credit markets increase the transaction costs faced by firms that intend to export.

The report states that financing / payment mechanism in international trade fall under three broad categories. Under open account (OA) terms, goods are shipped and delivered before a payment is made by the importer. Under cash in advance (CIA) terms, the payment is received before the ownership of the goods is transferred. If a transaction is on letter of credit (LC) terms, the importer's bank commits to make the payment to the exporter upon the verification of the fulfillment of the terms and conditions stated in the LC. Each payment method places the financing burden on a different player the entire burden is on the exporter in a transaction on OA terms, and on the importer in a transaction on CIA terms. LC is the safest financing instrument for both trade partners the exporter obtains a bank guarantee to secure payment, and the importer is protected against potential losses arising from exporter misconduct. Nevertheless, LC is a costly instrument as banks levy fees and charges for issuing LCs.

Institutional quality and financial sector efficiency are important factors in determining the choice of trade financing mechanisms. The choice of trade financing mechanism in international trade also depends on the availability of working capital. Ideally, the party that can access financing more cheaply should finance the transaction. Trade partners may rely on their internally generated capital or seek external financing to finance their international trade transactions. Roughly 80% to 90% of international trade relies on some form of trade finance. Thus, the availability of trade finance becomes a vital determinant of international trade flows.

According to International Chamber of Commerce (ICC) survey on trade finance trends, use of technology will be another tool to stimulate exports however it is difficult to assimilate. This is mainly because the international trade is characterized by multitude of documents and players (banks, customs authorities, shippers, and insurers, among others) involved in trade finance transactions, though, make it difficult for the industry to digitalize quickly.

With different countries having different financial institution, regulation and compliance will be another aspect that needs to be addressed in the context of international trade. With diversified needs and expanding demands, trade finance is definitely growing with requirements arising from new players from new places and especially nonbank organizations, according to the ICC survey.

Summary

Granting of short term finance for working capital requirements has always remained an area exclusively reserved for the commercial banks. Commercial banks also offer post shipment finance against deferred payment at a concession and rate of interest together with the EXIM Bank. In recent times, commercial banks have assumed a greater role by promoting projects of small entrepreneurs.

The government of India has set up the Export Import Bank (EXIM Bank), with wide functions to finance, promote and develop foreign trade. EXIM Bank extends Lines of Credit (LOCs) to overseas governments, financial institutions, regional banks and other overseas entities, to finance India's exports to those countries.

An important feature of export credit is the risk of transacting with overseas customers or buyers. These risks may arise due to various reasons such as insolvency of overseas customers, variations in currency exchange rates, or any other government action that may Chapter or delay payment to the exporters. In this context ECGC comes to help exporters. Such risks may be insured with the Export Credit Guarantee Corporation of India (ECGC).

There is ongoing need for export credit insurance as payments for exports are open to risks even at the best of times.

With different countries having different financial institution, regulation and compliance will be another aspect that needs to be addressed in the context of international trade. With diversified needs and expanding demands, trade finance is definitely growing with requirements arising from new players from new places and especially nonbank organizations, according to the ICC survey.

Model Questions

1. Enlist different ways of export financing used by commercial banks.
2. State and describe about the rural development initiative undertaken by EXIM bank.
3. Elaborate on financing mechanism by EXIM Bank.
4. Enlist functions and services offered by ECGC.
5. State different export promotion schemes.
6. Describe need for insurance for export.
7. Elaborate on trends in trade finance.

Answers

Warm up Activity 4.1

1. True 2. Packing Credit 3. False 4. False

Warm up Activity 4.2

1. False 2. Grassroots Initiative and Development

3. 1982 4. True

Warm up Activity 4.3

1. 1957 2. True 3. True 4. Export Credit Insurance

Suggested Reading

1. PK Khurana "Export Management", Galgotia publishing company.
2. Rathor B.S, Export Marketing, Himalaya Publishing House.
3. Foreign Trade Policy Handbook of Export Procedure and Annual of the Ministry of Commerce, Government of India.
4. Paras Ram "Export What, Where and How" Delhi, Anupam Publication.
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Annexures

Annexure 6 A Short description about Financial Assistance from Commercial Banks. Fund based Assistance of Commercial Banks Fund based assistance is in the form of credit and loans directly extended by the commercial banks to the exporters at different stages of export procedure. The fund based assistance of commercial banks includes

(a) Pre-shipment Finance Pre-shipment finance refers to the credit extended to exporters prior to the shipment of goods for the execution of export orders. It is also known as 'Packing Credit'. Such finance is available in the following forms

- Extended Packing Credit Loan.
- Packing Credit Loan (Hypothecation).
- Packing Credit Loan (Pledge).
- Secured Shipping Loan.

(b) Post-Shipment Finance Post-shipment finance (short term) refers to the credit extended to exporters after the shipment of goods for meeting working capital requirement. Such finance is available in the following forms

- Discounting of export bills;
- Advance against bills sent on collection
- Advance against goods sent on consignment basis;
- Advance against undrawn balances;
- Advance against retention money, etc.

(C) Finance against deferred Payment Export Export of goods or services against payment to be received partly or fully beyond the period statutorily prescribed for realization of export proceeds are treated as deferred payment' exports. Finance against such payments is referred to as Deferred Credit.

Non Fund based Assistance of Commercial Banks Commercial banks also provide a number of non fund based services as listed below

(a) Bank Guarantees RBI has authorized commercial banks to issue guarantees and bid bonds in favor of importers. No prior permission of the RBI is required for the issue of such guarantees except in case of export of capital goods under deferred payments and turnkey projects. Various guarantees issued by banks are

- Bid Bonds bid bonds issued by commercial banks enable the Indian exporters to participate in various global tenders.
- Performance Guarantee Commercial banks provide performance guarantee for the export of capital goods under deferred payment terms. · Advance Payment Guarantee They also provide advance payment guarantee for the transactions involving advance payment.
- Guarantee for Payment of Retention Money they guarantee the payment of retention money by foreign importers
- Guarantee for Loans in Foreign Currency They guarantee the foreign currency loans taken by Indian exporters from foreign financial institutions.

(b) Creditworthiness of importers banks undertake credit rating of foreign importers on request from the exporters. They collect detailed information about their creditworthiness and supply it to the exporters.

(c) Information about Foreign Exchange Commercial banks provide valuable information on foreign exchange rates, forward premiums, hedging instruments and foreign exchange management.

(d) Dollar Accounts Under 25% Dollar Account facility an exporter is allowed to retain 25% of the receipts in foreign currency accounts with a bank in India. This account helps exporters to meet payments in foreign currencies.

(e) Documents, Rules and Regulations Commercial banks also provide advisory services to the exporters regarding rules and regulations about foreign trade procedures, documentation, etc.

(f) Invoicing in a Foreign Currency Sometimes, foreign buyers insist on invoicing in a foreign currency. In such cases, commercial banks provide necessary information about the marketability of the said currency.

(g) Advising and Confirming Letters of Credit (L/C) Commercial banks also undertake the job of advising and confirming letter of credit (L/C) opened by the foreign importers.

(h) Forward Exchange Contracts Commercial banks cover the risks of fluctuations in foreign exchange rates by fixing exchange rate in advance for the future transactions. Such rates are known as forward exchange rates.

(i) Currency for Invoicing Services Commercial banks provide foreign currencies for invoicing services, as all currencies are not readily available and may require prior permission for their release.

(j) Other miscellaneous Services these may include issue of bank drafts, payment collection, sending duplicate copies of GR form to RBI, and issue of bank certificate in respect of export sales value, which is used for claiming export incentives.

Source as available from online blog https//howtoexportimpot.com/

Annexure 7 Some Description EXIM Bank

Established by the Government of India, the bank started operations in 1982 under the Export Import Bank of India Act, 1981 as a purveyor of export credit, mirroring global Export Credit

Agencies. Today, EXIM Bank serves as a growth engine for industries and SMEs through a wide range of products and services. This includes import of technology and export product development, export production, export marketing, pre shipment and post shipment and overseas investment. In a rapidly shifting financial landscape, the EXIM Bank functions as a catalyst and key player in the promotion of cross border trade and investment.

EXIM Bank objectives as stated by (Export Import Bank of India Act, 1981)
providing financial assistance to exporters and importers, and ... functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade...
... act on business principles with due regard to public interest.

EXIM Bank has following flagship programs

- Buyer's Credit under NEIA National Export Insurance Account
- Corporate Banking
- Line of Credit
- Overseas Investment Finance
- Project Finance

In terms of the range of financial support for exporters, the financing programs of the EXIM bank are rated as the most comprehensive amongst the top credit agencies all over the world. Please visit the web site for more details on EXIM Bank. In the context of rural development, EXIM Bank has supported several activities through its ‘Grassroots Initiative and Development’ programme. With this the Bank endeavours to create export capabilities in rural enterprises, thereby enhancing purchasing power at the ‘bottom of the pyramid’.

Working with the Bottom of the Pyramid
While the EXIM bank activities have been catering to the needs of established Indian exporters, it is equally conscious of its responsibilities in building the capabilities in the grassroots sector of India. The Bank continued its support to artisans, especially in the tribal areas and to farmers’ cooperatives. To impart necessary skills to position themselves in the international market place, the Bank conducted workshops and training programmes for rural artisans. Besides, the Bank addressed key issues related to international trade, such as product development, design and quality adherence, among others, through skill development workshops. The Bank plays a promotional role and assists Indian entities, mainly from small and medium segments, in identifying buyers / distributors and partners abroad. The Bank in its own unique way has been associated with such enterprises to create both capacity and capability within them, thereby bringing about a sustainable impact in the quality of life. The Bank’s efforts in this direction have yielded positive results, and products such as hand-woven stoles by women, recycled plastic woven products, organic honey, handicrafts, amongst others, have found their way to various international markets. Further, the Bank took the lead in showcasing Indian art and supported exhibitions at four metro cities across India.

Chapter 5 Risk Management

Introduction

This chapter is providing information about of different types of risks involved in export, documentation for availing export incentives, FERA Act, Importance of State Trading Organizations and concept of Export promotion regions.

Objectives

After completing this chapter, you will be able to

- Understand types of risks faced by exporters
- Know about export incentives and relevant documentation
- Understand FERA Act
- Understand the importance of State Trading Organizations
- Learn about Export Promotion Regions

5.1Risks Involved in Exports

Types of Risks

Table 5.1 Various Kinds of Export Risks Involved in an International Trade

Risk Type	Credit Risks	Poor Quality Risks	Transportation Risks	Unforeseen Risks	Exchange Rate Risks	Logistic Risks
Examples	False buyer may lead to nonpayment, late payment and even direct fraud	Exported goods can be rejected by an importer on the basis of poor quality	Risk of theft, damage and possibly the goods not even arriving at all	Terrorist attack or a natural disaster like an earthquake may cause damage to exported products	Volatile currency Uncertainty in the future value of a currency	Logistic problems
What is necessary for the exporter?	Determine the credit worthiness of buyer	Properly check the goods to be exported	Have all goods insured	Ensuring a force majeure clause in the export contract		Understand all aspects of internationa l logistics
What can be done to minimize the risks?	Services from commercial organizations that can provide assistance in credit checking of foreign companies	Allow an inspection procedure by an independent inspection company before shipment	Private insurance	Private insurance and Private Law Firms	Adopt Hedging scheme	Refer to Incoterms 2010, ICC publication

Source Online Blogs, EXIMGURU Portal.

Like any business transaction, risk is also associated with good to be exported in an overseas market. Export is risk in international trade is quite different from risks involved in domestic trade. So, it becomes important to all the risks related to export in international trade with an extra measure and with a proper risk management plan in place. Table 5.1 shows various types of export risks involved in an international trade.

Methods of Lessening the Risks

According to the report titled 'Export Finance in India Issues and Challenges' prepared and released by Assoc ham India (published in 2018), the role of export credit agencies (ECA) is significant in the context of protection of the exporters from all kind of losses and risks. Organizations involved and dealing with international trade have to manage various risks. These risks may be classified into four groups economic or commercial risks, exchange rate risks, transportation risks and political risks. Table 5.2 shows some examples of the various types of risks and the methods that may be used to mitigate or reduce them.

Table 5.2 Risks in International Trade and Mitigation Methods

Risk Catego	Economic (Commercial) Risks related to Trading Partner	Exchange Rate Risk	Transportation Risk	Political Risks		
				Foreign Policy	Domestic Policy	Economic Policy
Examples	Importer is not willing or unable to pay Importer does not accept merchandise Export does not deliver on time or products agreed	Floating exchange rates variations in exchange rates Fixed exchange rates risk of devaluation	Damaged goods or loss of goods	War Embargo Restrictions	Revolt Civil War	Prohibition to transfer foreign exchange Currency declared nonconvertible
Methods to mitigate risks	Private insurance or public export credit agencies Letter of Credit Bank guarantees	Bank provide hedging facilities; public exchange risk insurance	Private insurance	Export credit agencies or private insurance		

Source: Export Finance in India Issues and Challenges by Assocham India.

Warm up Activity 5.1

1. An inspection by independent inspection company is advised to reduce ....
2. Hedging facilities by banks is provided to mitigate ....
3. Export credit agencies and private insurance may be used as option for ....
4. Letter of Credit addresses ....

5.2 Documentation for Availing Export Incentives

The documentation required for availing export incentive depends on type of scheme and the guidelines of the scheme. Some of these schemes are already listed in Chapter4 earlier (Section 4.3).

Export Incentives

With the government taking steps to promote exports, now exporter gets various assistances and incentives for export promotion. These are Duty Drawback, Octroi exemption, Excise duty exemption, Income tax exemption, liberal finance etc. These incentives make export marketing attractive and profitable.

Some of the incentives are as listed in Table 5.3.

Table 5.3 Export Incentives (Indicative)

S. No.	Export Incentive
1	Export Promotion Capital Goods Scheme (EPCG)
2	Duty Drawback
3	Exemption from Excise Duty
4	Exemption from VAT
5	Marketing Development Assistance (MDA)
6	Octroi and Rail Freight Refund
7	Exemption from Income Tax
8	Duty Free Credit
9	Special Incentives to SEZ Units
10	Market Access Initiative

Source Indian Foreign Trade Policy and Indian Trade Portal.

As stated in Indian Foreign Trade Policy, the scheme of duty drawback of import and excise duties has been formulated by the Government with the object of relieving the Indian exporter of the burden of import and excise duties on the products exported, so as to put him on par, in the matter of competitive position, with foreign competitors.

Duty Drawback

As stated in foreign trade policy, under Duty Drawback scheme, the exporters are entitled to claim the refund of the customs duty paid on the imported materials and components. It also involves refund of central excise duty paid on indigenous materials used in the manufacture of the finished goods. Such refunds are described as “drawback”. This is elaborated subsequently.

Duty Drawback is subject to certain terms and conditions. For a product exported from India, the manufacturer would have paid duties as listed below

(i) Import duties on raw material and components imported; and

(ii) Excise duty on the items manufactured in India;

The Customs and Central Excise Duty Drawback Rules, 1971 provide for refund of such duties to the exporter on the export being completed. Duty drawback is allowed only in respect of all items wherein such raw materials and components have been used on which duty either of customs or excise has been paid.

There are two types of rates of drawback (i) all industry rate, and (ii) brand rate. All industry rate is applied to all exporters alike. The brand rate is applicable only to selective or particular manufacturers. The brand rate is fixed on application and furnishing of information to the authorities by the exporter. The brand rate can be so fixed where the all industry rate does not exist, or where the existing rate of drawback is less than 80% for the duty paid.

The procedures for filing the claim for the grant of duty drawback vary according to processing of the shipping documents whether it has been processed under the computerized system or not. In case of custom stations where there is computerized processing of the shipping documents, the exporter is not required to file a separate claim for the grant of duty drawback. The exporter files the prescribed format of declaration for the claim of duty drawback at the time of submitting documents for the customs clearance of the export shipment. The exporter is also required to open the current account with the designated branch of the bank as specified by the customs authorities. This account is necessary as the amount of duty drawback is directly credited to the account of the exporter after the sanction of the drawback. The processing of the drawback claim is done by the customs authorities after the Export General Manifest is filed.

In the case of custom stations where there is no computerized processing of the shipping documents, the exporter is required to file a separate claim for the sanction of duty drawback.
Listed here are the required documents that should be submitted to the Directorate of Duty Drawback for claim of duty drawback

- Application form as prescribed under Rule 13
- Pre receipt for drawback claim in the prescribed form
- Triplicate copy of Shipping Bill
- Copy of Bank Certified Invoice
- Copy of Packing List
- Copy of Packing List
- Copy of Bill of Lading/Airway Bill
- Copy of AR4 Form, whenever applicable
- Insurance certificate (wherever necessary)
- Copy of Test Report where the goods have been subjected to a test.
- Copy of the Communication regarding rate of drawback where the drawback claim is for a rate determined by the Central Government under rule 6 or rule 7 of these rules. (i.e. brand name rate fixation letter or special brand rate letter)
- Declaration for Duty drawback to be filed by the exporter under these rules.
- Any other document as may be specified in the deficiency memo.

Warm up Activity 5.2
1. Under Duty Drawback scheme, the exporters are entitled to claim the refund of the customs duty paid on the imported materials and components. (True/False)
2. Who is responsible for the processing of the drawback claim after the Export General Manifest is filed?
3. Name any three export incentives offered to exporters.
4. Packing Credit Shipping Loan is a type of PreShipment Finance assistance.(True/False)

5.3 Foreign Exchange Regulations and Formalities

Directorate of Enforcement is a specialized financial investigation agency under the Department of Revenue, Ministry of Finance, Government of India, which enforces the following laws

- Foreign Exchange Management Act, 1999 (FEMA) earlier known as Foreign Exchange Regulation Act, 1973 (FERA)

- Prevention of Money Laundering Act, 2002 (PMLA)

The FERA act description as provided by the Directorate of Enforcement is reproduced herewith. The Foreign Exchange Regulations Act was evolved based on British system first in 1947 and then modified in 1973. It underwent many changes to match with the increasing demand for simplification. When economic liberalization was introduced an amendment act was legislated in 1993.

Foreign Exchange

The mechanism of converting currency of one country into another country's currency is known as Foreign exchange. In India Sec. 2 (h) of the Foreign Exchange Regulation Act (as amended by the Foreign Exchange Regulation Amendment Act, 1993) defines "Foreign exchange" as Foreign currency. Foreign exchange includes foreign currency, balances abroad, the instruments claimable in foreign currency payable abroad.

Objective or Purpose of the Act

The act was legislated to consolidate and amend the laws regulating certain payment dealings in foreign exchange and securities, transactions indirectly affecting foreign exchange and the import and export of currency and bullion, for the conservation of the foreign exchange reserves and proper utilization thereof in the interests of the economic development of the country.

Sections

1. Short title, extent, application and commencement.
2. Definitions All connected definitions starting from 'Appellate Board' to 'transfer' are given.
3. Classes of officers of Enforcement Starting from the Directors of Enforcement to Assistant Directors of Enforcement along with other officers who may be appointed has the powers.
4. Appointment and powers of officers of Enforcement are explained.
5. Entrustment of functions of Directors or other officer of Enforcement is given.
6. Authorised Dealers in Foreign Exchange; how they are appointed and their role and functions are explained.
7. Money changers Apart from Ads, RBI authorizes money changers with restricted functions.
8. Restrictions on dealing in Foreign Exchange Transactions which can be done and which should not be done are stated.
9. Restrictions on payment This section elaborately gives details on what are the payments and who could make such payments.
10. Blocked Accounts The Blocked account is defined and how it should be operated is also stated.
11. Restrictions regarding assets held by nonresidents.
12. Special Accounts 11 & 12 both omitted by Amendment Act 1993 w.e.f 8193.
13. Restrictions on import and export of certain currency and bullion Currency and bullion cannot be imported / exported freely.
14. Acquisition by Central Government of foreign exchange. The central Government has authority to transact on foreign exchange in order to control the exchange rate, movement etc.
15. Power of Central Government to direct payment in foreign currency in certain cases is

explained, omitted by Amendment.

16. Duty of persons entitled to receive foreign exchange etc. Without the general/specific permission of RBI no transaction could be made.
17. Power to regulate uses etc of imported gold and silver is explained, omitted by Amendment.
18. Payment for exported goods. The detailed procedure for getting payment for exported goods is explained. In the context of Foreign Trade, this section must be thoroughly understood by exporters for adopting the correct procedures.
19. Payment for lease, hire, or other arrangement Inserted by amendment Act 1993.
20. Restrictions on payment in respect of certain securities.
21. Custody of securities 20 & 21, both omitted by Amendment Act 1993.
22. Restrictions on issue of bearer securities is explained.
23. Acquisition by Central Government of foreign securities omitted by the Amendment Act 1993.
24. Restrictions on Settlement etc This is relating to settlement of properties which should not be done without the permission of RBI when the person is resident outside India.
25. Restrictions on holding of immovable property outside India.
26. Certain provisions as to guarantee in respect of debit or other obligation The pervious relating to companies has been substituted by this, by Amendment Act 1993
27. Restrictions on persons resident in India, associating themselves with or participating in concerns outside India (omitted)
28. Restrictions on the appointment of certain persons and companies as agents or technical or management advisers in India The definition of agent, company, processing are also explained along with details on restrictions.
29. Restrictions on establishment of place of business in India. A person resident outside India cannot start business without the permission of the RBI.
30. Prior permission of RBI required for taking up employment etc in India by nationals of foreign state Even employment of foreign nationals involves foreign exchange movement and hence restricted.

In order to get a complete picture about the FERA, one has to go through any one of latest bare Act, published by several agencies like Commercial Law Publishers (India) Pvt. Ltd. The amendment details will be incorporated in such updated bare Act books and comments and case studies will also be available under relevant sections.

It may be noted that the FERA has since been named as FEMA (Foreign Exchange Management Act). The literature by Pondicherry University w. r. t. their course on EXIM Financing and Documentation listed activities regulated by Exchange Control. some of the listed activities are as reproduced below.

Activities Regulated by Exchange Control

In a nutshell, the following types of transactions having international financial implications are regulated by FERA 1973 as amended in 1993.

- Purchase, sale and other dealings in foreign exchange and maintenance of balances at foreign centers.
- Procedure for conducting export business.
- Export import of securities.

- Export import formalities.
- Procedure for realization of proceeds of exports.
- Payments to Nonresidents or to their accounts in India.
- Transfer of securities between residents and nonresidents.
- Acquisition, holding of foreign securities.
- Foreign travel with exchange.
- Export and import of currency, cheques, drafts, travelers' cheques and other financial instruments, securities etc.
- Activities in India of branches of foreign companies and foreign nationals.
- Foreign direct investment and portfolio investment in India including investment by nonresident Indian nationals, persons of Indian origin and corporate bodies predominantly owned by such persons.
- Appointment of nonresident and foreign nationals and foreign companies as agents in India.
- Setting up of Joint ventures/Subsidiaries outside India by Indian companies.

Warm up Activity 5.3
1. The first foreign exchange Regulation was framed in…………. .(Year)
2.After independence FERA was encoded in…………. .(Year)
3. State any three activities regulated under FERA.

5.4 Role of State Trading Organizations in Foreign Trade

State Trading Organizations / Enterprises

The state trading organizations are autonomous bodies that primarily play an important and significant role in the implementation of Government's foreign trade policy. These are the organizations incorporated with an authorized capital of rupees one crore (which was raised to rupees five crores in June 1959) by the government.

The main functions of the state trading organizations are

- To evaluate and assess new markets for existing as well as new products.
- To promote exports 'difficult to sell' items and promotion of longterm export operations.
- To seek diversification so as to increase India's exports trade.
- To undertake exports and imports where bulk handing is advantageous.
- To undertake import and /or internal distribution of commodities in short supply with a view to establishing prices and rationalizing distribution.
- To hold or assist in holding exhibitions in India and elsewhere of the products and articles in which the organization is interested.

The state trading organizations are also performing role as an agent of the Government of India in controlling production, distribution and export and import of a number of commodities such as cement, fertilizers, and so on. The state trading organizations have worldwide presence so as to enable it to make effective marketing and obtain better terms of trade.

Example of State trading Organization State Trading Corporation STC

STC was established on 18th May 1956 primarily with a view to undertake trade with East European countries and to supplement the efforts of private trade and industry in developing exports from the country. Since then, STC has played an important role in country's economy. It has arranged imports of essential items of mass consumption (such as wheat, pulses, sugar, edible oils, etc.) and industrial raw materials into India and also contributed significantly in developing exports of a large number of items from India.

The core strength of STC lies in handling exports / imports of bulk agro commodities. Over the years, STC has also diversified into exports of steel, iron ore, molasses and imports of bullion, hydrocarbons, minerals, metals, fertilizers, petrochemicals, etc. This has helped STC to achieve high level of performance in the recent years. STC is today able to structure and execute trade deals of any magnitude, as per the specific requirement of its customers. Ever since liberalisation of trade policies in 1991, the STC carries out most of its business operations purely on commercial terms in the competitive global trading environment. In STC, the share of Govt. of India in STC's equity was 90%. The balance 10% of the equity is held by mutual funds, financial institutions and public.

STC has thirteen branch offices in India, the major ones being at Mumbai, Kolkata, Chennai, Ahmedabad, Bangalore and Hyderabad. Recently, STC has also decided to open branch offices at Puducherry and Silvassa to take advantage of the potential of trade existing in/around these areas. STC has its own tank farms, warehouses, godowns at various locations of the country for storage of liquid/dry cargo. For more details please visit the website http//www.stc.gov.in.

5.5Export Promotion Regions

Export Promotion regions are specifically set up to promote exports. These regions will be given special benefits such as infrastructure facilities, tax incentives and so on.

Free Trade Zones

Free Trade Zones (FTZ)/ Export Processing Zones (EPZs) have emerged as an effective instrument to boost export of manufactured products. The Kandla Free Trade Zone India's first Export Processing Zone was set up in 1965. Subsequently, six more EPZs were set up at Santacruz (Mumbai), Falta (West Bengal), Chennai (Tamil Nadu), Noida (UP), Cochin (Kerala), and Visakhapatnam (Andhra Pradesh).

The Free Trade & Warehousing Zones (FTWZ) shall be a special category of Special Economic Zones with a focus on trading and warehousing. The objective is to create trade related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in free currency. The scheme envisages creation of world class infrastructure for warehousing of various products, state of the art equipment, transportation and handling facilities, commercial office space, water, power, communications and connectivity, with one stop clearance of import and export formality, to support the integrated Zones as 'international trading hubs'. These Zones would be established in areas proximate to seaports, airports or dry ports so as to offer easy access by rail and road.

Free Trade Zones (FTZ)/ Export Processing Zones (EPZs) have emerged as an effective instrument to boost export of manufactured products. The Zones, set up as enclaves separated from the Domestic Tariff Area (DTA) by physical barriers, are intended to provide an internationally competitive duty free environment for export production at low costs. The basic objectives of EPZs are to enhance foreign exchange earnings, develop export oriented industries and to generate employment opportunities.

Each Zone provides basic infrastructural facilities, like developed land, standard design factory buildings, built up sheds, roads, power supply and drainage, in addition to a whole range of fiscal incentives by way of Customs, Excise and Income Tax exemptions. Customs clearance facilities are offered within the Zone at no extra charge, while facilities like banking, post office and clearing agencies are also available in the service centers attached to each Zone. Free Trade Zones / Warehousing Zones scheme details are available on DGFT website.

Export Processing Zones

Export Processing Zone is a type of free trade zone (FTZ), set up generally in developing countries by their governments to promote industrial and commercial exports. In addition to providing the benefits of a FTZ, these zones offer other incentives such as exemptions from certain taxes and business regulations. It may be also called development economic zone or special economic zone.

The Export & Import Policy provisions for Export Processing Zones are the same as applicable to EOUs. Thus, the provisions of EXIM Policy regarding importability of goods, DTA sale, clearance of samples, subcontracting, inter unit transfer, repairs, reconditioning and reengineering, sale of unutilized material, debonding, and so on for EOUs are applicable to EPZ units.

Export Oriented Units

The Policy relating to Export Oriented Units (EOUs), units in Export Processing Zones (EPZs), Electronic Hardware Technology Parks (EHTP) and Software Technology Parks (STP) is given in Chapter 6 of the Policy.

Software Technology Park (STP)/Electronics Hardware Technology Park (EHTP) complexes can be set up by the Central Government, State Government, Public or Private Sector Undertakings or any combination thereof, duly approved by the Inter Ministerial Standing Committee (IMSC) in the Ministry of Communication and Information Technology (Department of Information Technology).

Software units may undertake exports using data communication links or in the form of physical exports (which may be through courier service also), including export of professional services.

As mentioned in the foreign trade policy, another important export promotion measure introduced recently is the scheme for 100% Export Oriented Units. This scheme is applicable to units manufacturing engineering goods, specified items of chemical, plastics, leather and sports goods, specified items of food, agricultural and forest products, certain varieties of textiles, handicrafts, silver and gold, jewellery as well as fabricated mica.

Under this scheme, a 100% Export oriented Unit means an industrial unit which offers its entire production for export. An agreed time limit for achieving the 100% export will be permitted on the merits of each case. The product manufactured or proposed to be manufactured by the unit should not be subjected to export control quota ceilings and should have very good export potential. Export targets should be fixed by the concerned Export Promotion Council or the Commodity Board. Minimum value added content should be 20%. Indigenous raw materials will also be treated as imports for computing this value addition.

Units intending to avail the benefits of this scheme should apply to the Secretariat for Industrial Approval, Ministry of Industry, and New Delhi. The applications will be considered by a committee headed by the Commerce Secretary.

As stated above, these are nothing but special infrastructural facilities created by the government for promotion of export. In case the export unit is to be located in Export Processing Zone (EPZ) or as Export Orient Unit (EOU); the exporters are advised to go through the provisions in the Foreign Trade Policy.

Export and Trading House Schemes
As stated by Indian Foreign Trade Policy, the information about Export and Trading House Scheme is provided herewith. Eligibility for Export and Trading Houses Status Merchant as well as Manufacturer Exporters, Service Providers, Export Oriented Units (EOUs) and Units located in Special Economic Zones (SEZs), Agri. Export Zones (AEZs), Electronic Hardware Technology Parks (EHTPs), Software Technology Parks (STPs) and Bio-Technology Parks (BTPs) shall be eligible for recognition as a status holder. Status Category Status recognition depends upon export performance. An applicant shall be categorized as status holder upon achieving export performance indicated in table below. The export performance will be counted on the basis of FOB value of export proceeds realized during current plus previous three years (taken together).For Export House (EH) Status, export performance is necessary in at least two out of four years.

Status category will depend on export performance as shown below

Status Category	Export Performance FOB / FOR Value (Rupees in Crores)
Export House (EH)	20
Star Export House (SEH)	100
Trading House (TH)	500
Star Trading House (TH)	2500
Premier Trading House (TH)	7500

Source Indian Foreign Trade Policy.

Other conditions for Grant of Status

- Transfer of export performance from one to another is not permitted. Therefore disclaimer system shall not be allowed for counting of export turnover.
- Exports made on re-export basis shall not be counted for recognition.
- Exports made by subsidiary of a limited company shall be counted towards export performance of limited company for recognition only if limited company has a majority share holding in subsidiary company.

Privileges of Export and Trading Houses Status Holders
A Status Holder shall be eligible for privileges as under

- Authorization and Customs Clearances for both imports and exports on self declaration basis.
- Fixation of Input Output norms on priority within 60 days.
- Exemption from compulsory negotiation of documents through banks. Remittance /

Receipts, however, would be received through banking channels.

Summary

Like any business transaction, risk is also associated with good to be exported in an overseas market. Export is risk in international trade is quite different from risks involved in domestic trade. So, it becomes important to all the risks related to export in international trade with an extra measure and with a proper risk management plan in place.

The documentation required for availing export incentive depends on type of scheme and the guidelines of the scheme. To list a few are Duty Drawback, Octroi exemption, Excise duty exemption, Income tax exemption, liberal finance etc. These incentives make export marketing attractive and profitable.

The Foreign Exchange Regulations Act was evolved based on British system first in 1947 and then modified in 1973. It underwent many changes to match with the increasing demand for simplification. When economic liberalization was introduced an amendment act was legislated in 1993. Some of the activities controlled through the Acts are payments to Nonresidents or to their accounts in India, foreign travel with exchange. The state trading organizations are autonomous bodies that primarily play an important and significant role in the implementation of Government's foreign trade policy. Export Promotion regions are specifically set up to promote exports. These regions will be given special benefits such as infrastructure facilities, tax incentives and so on.

Model Questions

1. Describe different types of risks in export.
2. Enlist different ways to mitigate these risks.
3. Enlist various export incentives offered to exporters.
4. Elaborate on Duty drawback scheme.
5. Write a note on FERA Act 1973.
6. Elaborate about state trading organizations.
7. Enlist different types of export promotion regions.
8. Write a note on Free Trade Zone.
9. Elaborate on Export Processing Zone.
10. Describe Export Processing Units.
11. Elaborate on export and trading house scheme.

Answers

Warm up Activity 5.1

1. Poor Quality Risks 2. Exchange Rate Risks

3. Political Risks 4. Economic Risks

Warm up Activity 5.2

1. True 2. The Custom Authorities

Warm up Activity 5.3

1. 1947 2. 1973

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Editors' Profile

Dr W G Prasanna Kumar

Dr.W. G. Prasanna Kumar, PhD in Education with basic degree in Social Work and Master's Degrees in Sociology, Public Administration and Political Science has professional education in Environmental Economics, Public Relations, Communication and Training and Development. Presently Chairman, Mahatma Gandhi National Council of Rural Education (MGNCRE) under the Ministry of Human Resource Development, in Government of India strives to promote resilient rural India through Higher Education interventions. The national initiative of reviving Mahatma Gandhi's ideas of NaiTalim, spearheaded by Dr. W G Prasanna Kumar, has met unprecedented success at both national and state levels. The primary objective of this initiative is to promote Gandhiji's ideas on Experiential Learning, NaiTalim, Work Education and Community Engagement, and mainstreaming them in School Education and Teacher Education Curriculum & Pedagogy. As Professor and Head Centre for Climate Education and Disaster Management in Dr MCR HRD Institute, conducted several capacity building and action research programmes in climate education, disaster management and crowd management. He has handled many regional, national and international environmental education programmes and events including UN CoP11 to Convention on Biological Diversity and Media Information Management on Environmental Issues.

He was Director in National Green Corps in the State Government for over 11 years and Senior Social Scientist in State Pollution Control Board for 6 years. Conducted various curriculum and non-curriculum related training programmes in environmental education. He was a Resource Person for AP Judicial Academy, AP Police Academy, AP Forest Academy, EPTRI, Commissonerate of Higher Education and Intermediate Education, State Council for Educational Research and Training and National Council for Educational Research and Training New Delhi, CCRT, BharathiyaVidyapeet University Pune, CPR Environmental Education Centre Chennai and Centre for Environment Education Ahmedabad. Dr W G Prasanna Kumar was trained in Community Consultation for Developmental Projects in EPA Victoria Australia in 1997 trained as State Chief Information Officer by IIM Ahmedabad and MCRHRDI Government of Andhra Pradesh in 2004 and trained in Environmental Education and Waste Management Technique by JICA, Japan in 2011.

He was awarded Best State Nodal Officer of National Green Corps Award from Centre for Science and Environment, New Delhi, 2008, Jal Mithra Award from Earthwatch Institute of India and Water Aid New Delhi, 2014 and Certificate of Commendation for the services in UN Conference of Parties to Convention for Biodiversity conducted at Hyderabad from 1-20 October 2012 by the Government of Andhra Pradesh 2012.

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