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Second Interregional Fertilizer Symposium

Kiev, USSR, 21 September - 1 October 1971
New Delhi, India, 2 - 13 October 1971

Agenda item VII/2

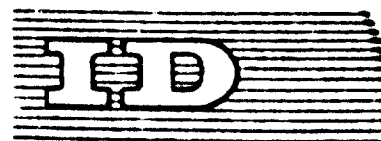
MARKETING AND DISTRIBUTION EXPERIENCE IN INDIA^{1/}

by

K. Pushparaj

The Fertilisers and Chemicals, Travancore Ltd. - F.A.C.T.
Udyogamandal India

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SUMMARY

MARKETING AND DISTRIBUTION EXPERIENCE IN INDIA^{1/}

by

K. Pushparaj

The Fertilizers and Chemicals Travancore Ltd.-F.A.C.T.
Udyogamandal India

1. Fertilizer marketing and distribution experience for fertilizer producers in India is of very recent origin. This is the result of the Central Fertilizer Pool arrangement of the Government of India, which was in operation until 1968-69. Under this system the distribution and marketing of fertilizers in the country was considered the responsibility of the Government and hence the fertilizer producers of the country until 1968-69 had only a limited role in this field. However, some of the fertilizer producers were already in the field of distribution and marketing of fertilizers along with the Fertilizer Pool since they were producing phosphatic fertilizers and NPK fertilizer mixtures. In this connection mention is made of the marketing activities of Fertilizers and Chemicals Travancore Ltd. (popularly known as F.A.C.T.).

2. F.A.C.T. was the first major fertilizer producing unit in India to undertake marketing and promotion of fertilizers in the country through an organised network of distribution outlets and a continuous programme of fertilizer promotion. During the last decade F.A.C.T. was built up as a well-knit fertilizer distribution and marketing organisation, which can be considered as a model for the marketing and distribution of

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Fertilizers. The marketing and distribution organization of F.A.C.T. rests on a vast network of distributors and dealers in all the primary and terminal markets and central stocking points and blending units at strategic points in the market. A multi-channel distribution system is adopted by F.A.C.T. for affording maximum availability and convenience to customers. Services of all the agencies dealing in agricultural inputs and utilised for the distribution of fertilizers. Timely and adequate supply of products is assured to the selling outlets in the primary and terminal markets through a chain of central stocking points and blending units located at strategic centers in the market.

3. Limited availability of credit has always been a constraint in the expansion of the fertilizer market. The experience of F.A.C.T. indicates that this can be overcome to a large extent if the fertilizer manufacturers can adopt a system of partial guarantee of credit supply as is practised by F.A.C.T.

4. Along with setting up a vast net-work of distribution and marketing organisation, F.A.C.T. has also evolved an enlightened programme of fertilizer promotion for continuous operation in the market. The highlights of this programme are before and after sales customer service, field fertilizer demonstrations and field days, customer education and fertilizer festivals, product promotion, attention to customer and dealer complaints, liaison with public and government agencies, and development of the dealer net-work and field sales force. To assess market requirements and reactions, regular market research and surveys are undertaken, so that policy formulation for marketing of products can be guided by the conclusions drawn from such studies and surveys.

5. The requirements of distribution, marketing and promotion of the fertilizer market in India calls for study and analysis of the marketing cost of fertilizers. At present the several functions of marketing of fertilizers are viewed with varying degrees of seriousness by individual fertilizer manufacturers. Hence there is no consensus on the concept of fertilizer marketing cost. The Committee on Fertilizers (1965) recommended an average 10-12 percent of the retail selling price as marketing cost for fertilizers. Taking into consideration the changes that have already taken place in the fertilizer market in the country and the changes that are possible in the future, the cost of fertilizer marketing in the country in the future years is bound to go up. The experience of F.A.C.T. in the distribution and marketing of fertilizers indicates that a minimum of 20 per cent of the retail selling price will be accounted for by cost of marketing in the future years. This is especially true when viewed in the light of the vast market development efforts that are required for

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extension of the fertilizer market in the country. The development of the fertilizer market in the country will depend very much on the efficiency of the fertilizer marketing system operated in the country.

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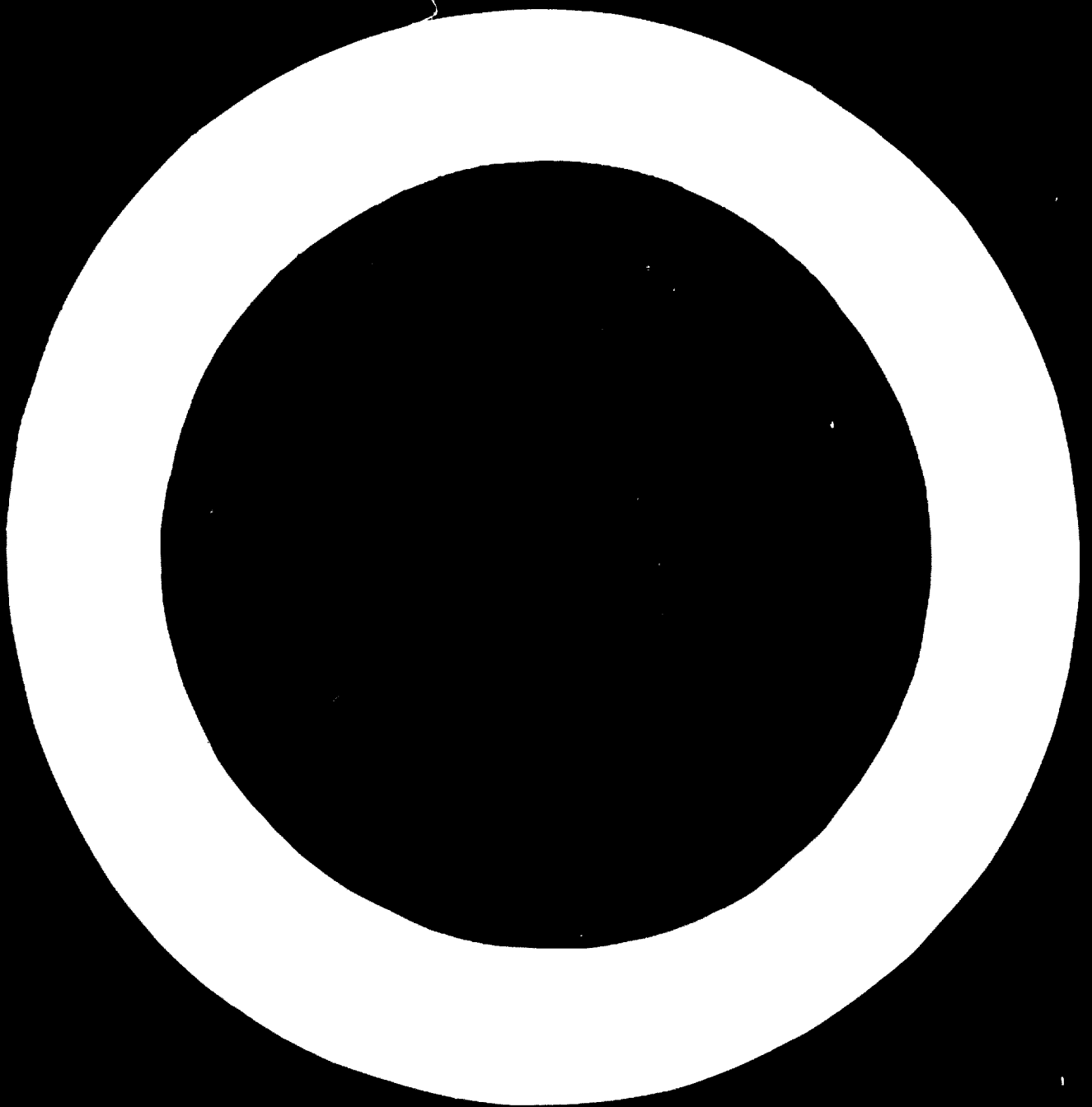
MARKETING AND DISTRIBUTION EXPERIENCE
IN INDIA

Paper for presentation at the Second Inter-regional Fertilizer Symposium organised by the United Nations Industrial Development Organisation at Kiev, U.S.S.R. and Delhi, India -
20th September to 10th October 1971

Presented by

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I N D I A

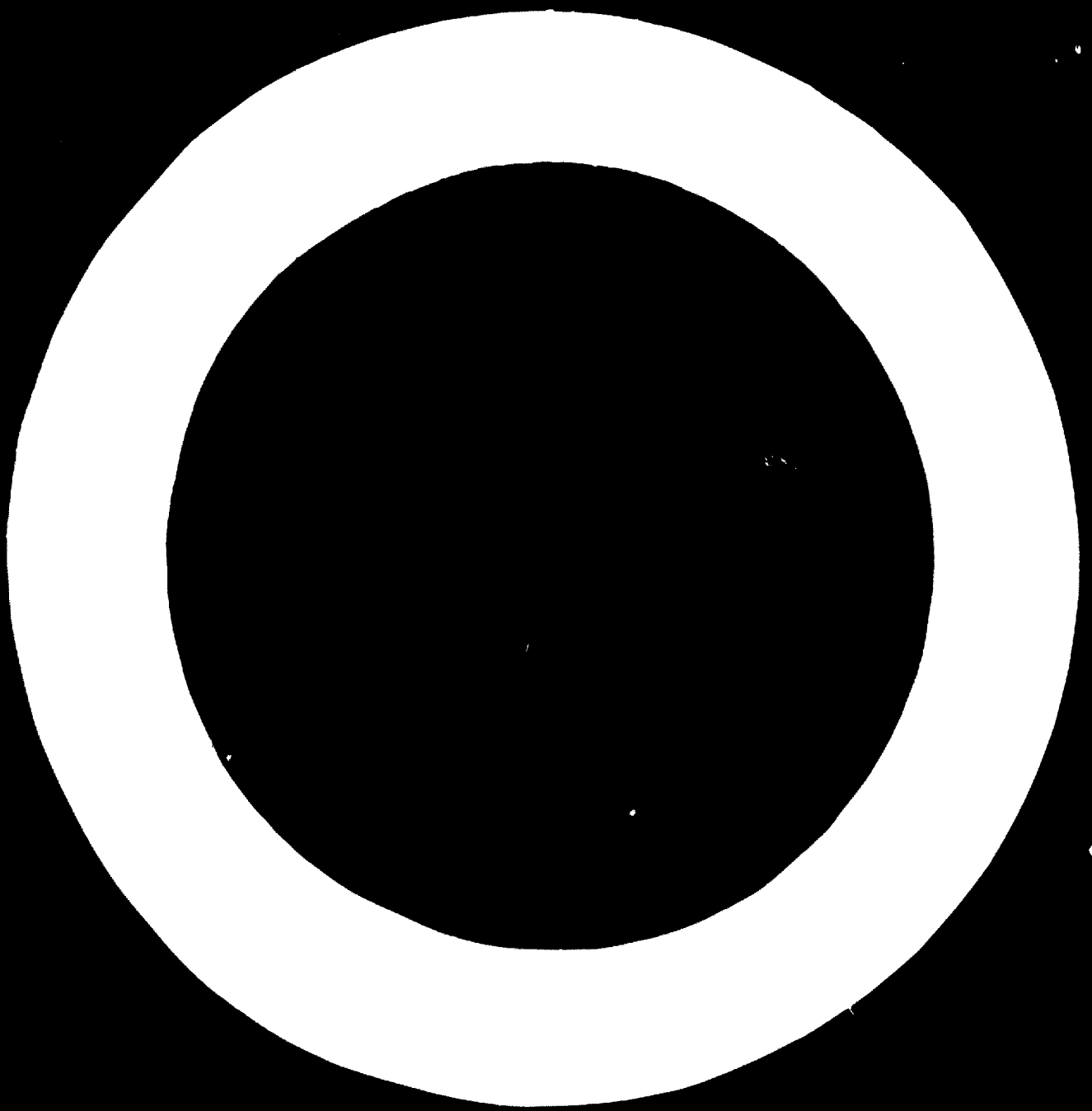
1. Fertiliser marketing and distribution in India until recently was organised as part of a Government Trading Scheme under the Central Fertiliser Pool arrangements. The Central Fertilizer Pool would take over most of the indigenous production of fertilisers and along with imported quantities of fertilisers would arrange distribution through Government and Co-operative Agencies. The role of the individual manufacturers in distribution and marketing under this system was very limited. It was only by 1968-69 that this system of fertiliser distribution and marketing underwent a change and individual manufacturers started marketing their products independent of the Government Fertilizer Pool arrangements. Perhaps, the delayed entry of the manufacturers into the field of distribution and marketing has resulted in deficiencies in the marketing system for fertilisers in the country. The environmental requirements of the rural market for fertilisers in the country are many and the system of marketing in existence in the country is yet to develop



itself to meet the challenges of these requirements. The solution to this problem can be found only through the introduction of an efficient marketing and distribution system for fertilisers taking into account the special characteristics of the Indian rural market and traditional agriculture. The experience of the Fertilisers And Chemicals Travancore Ltd. popularly known as FACT in marketing and distribution of its products is worth considering in this respect.

2. The Fertilisers and Chemicals Travancore Ltd. was the first major fertilizer producing unit in India to undertake marketing and promotion of fertilisers in the country through an organised network of distribution outlets and a continuous programme of fertiliser promotion. The marketing and distribution experience of more than a decade gained by FACT has resulted in a marketing philosophy for the Company which is summarised in the words of its Mg. Director as follows:

"In India, today, the task of a fertiliser manufacturer does not stop with production. The magical transformation that fertiliser use brings about in farm production is not yet fully realised by a majority of Indian farmers. The task of educating the farming community about the benefits to be reaped from increased fertiliser use, therefore, clearly devolves on the fertiliser producer. Fertiliser Companies will do well to remember that though fertiliser

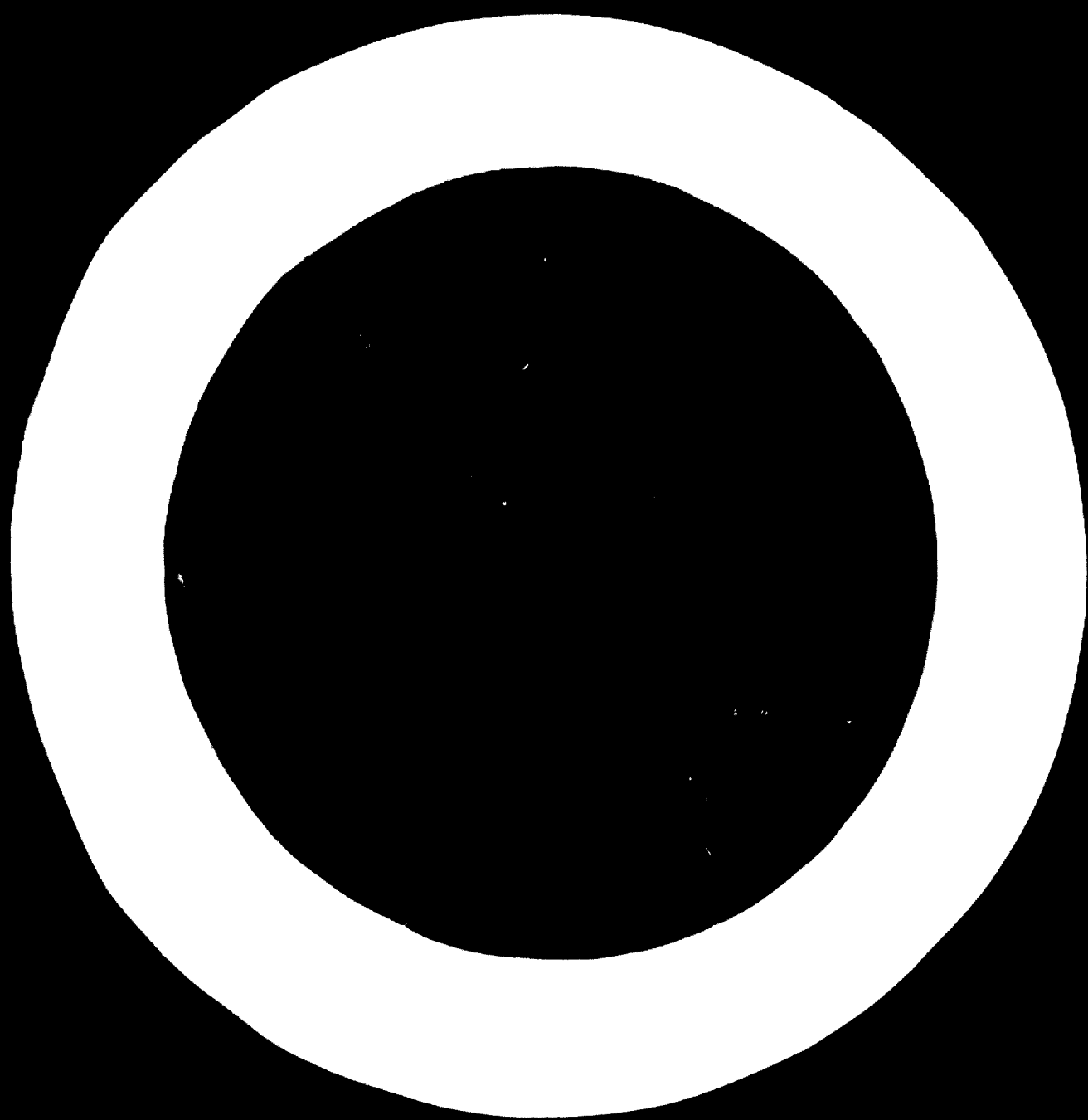


production in India is stated to be not adequate to cope with the demand, there is at present a sad if not strange, spectacle of lack of fertiliser consciousness among a considerable portion of the farming community in India. If this sorry state should and, fertiliser producers will have to do all in their power to enlist farmers on the side of increased fertiliser consumption hand in hand with the other extension services."

This in fact crystallises the problem of fertiliser production, distribution, marketing and promotion in India. It is on the basis of this philosophy that FACT has developed its marketing organisation aiming at supply of the right quality and right quantities of fertilisers, at the right time, at the right price and at the right places to the farmers.

2.1 Marketing Organisation:

A very close penetration of the primary and terminal markets is found necessary for reaching the maximum number of farmers and also for affording the maximum convenience and accessibility to the farmers. The marketing organisation of FACT, therefore, rests on a vast network of Sales Regions and territories, Central Stocking Points and blending Units and wholesale and retail selling points spread all over the Marketing Area. A decentralised administration of the market is found suitable for effective control and supervision of marketing activities. This is achieved through a division

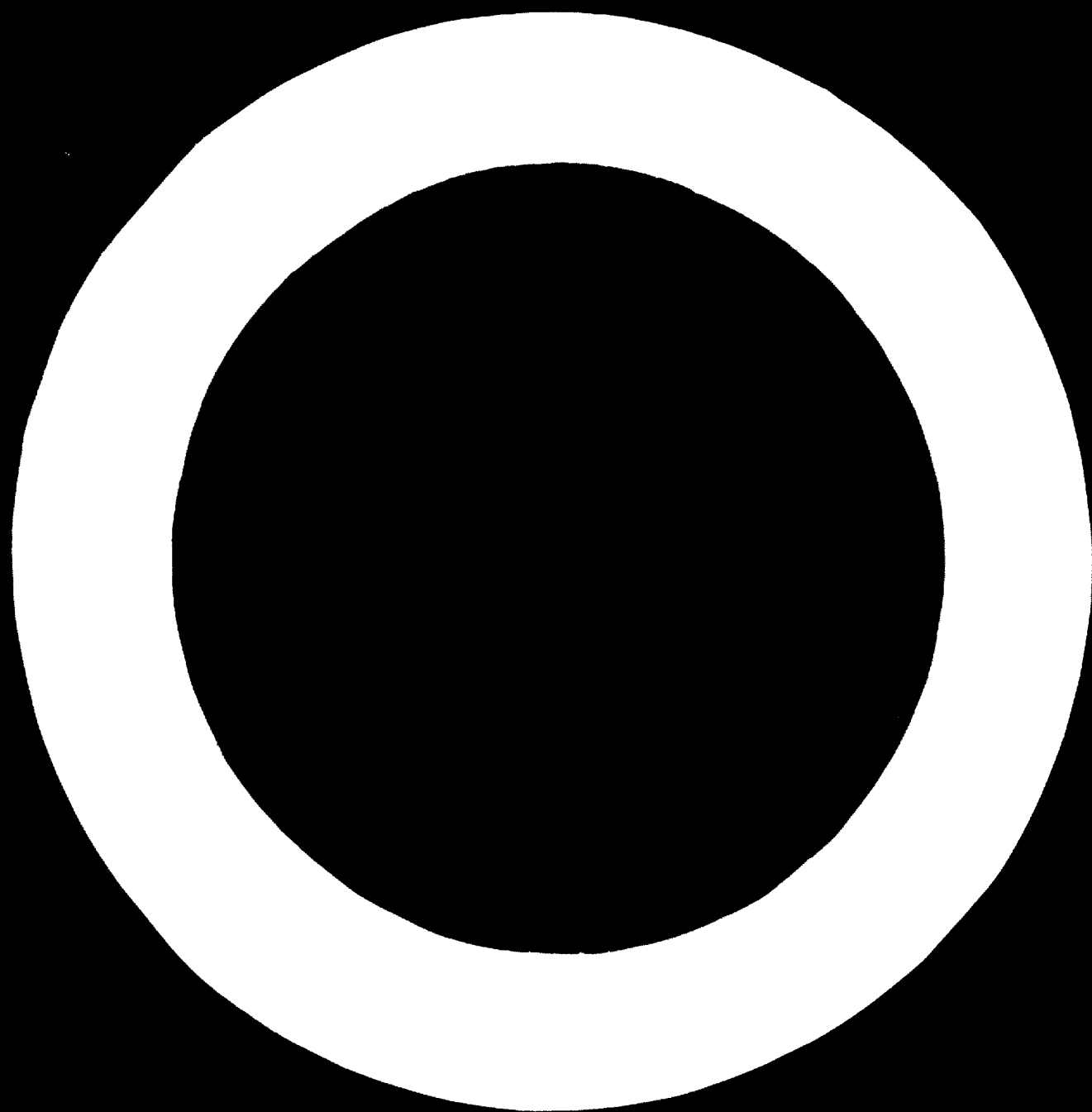


of the market into sales areas, regions and territories. The four Southern States of the country which constitute the Marketing Zone of the Company are declared as four sales areas each under an Area Sales Manager. The sales areas are divided into operationally viable sales regions each under a Regional Sales Manager. The sales regions are further divided into compact sales territories looked after by Sales Officers. The regional and Territorial set-up is continuously expanded depending on the intensity of marketing operation found necessary in each segment of the market from time to time.

The overall supervision and control of the field operation is exercised by the Marketing Chief with the assistance of the Product Distribution Department in charge of timely movement of products from the production point to the consuming centres, the Agronomy Department in charge of pre and after sales customer service, the Market Development Department in charge of continuous promotional and developmental activities the Market Research Department in charge of market studies and analysis and the Sales Accounting Department in charge of turnover and expenditure accounting and analysis.

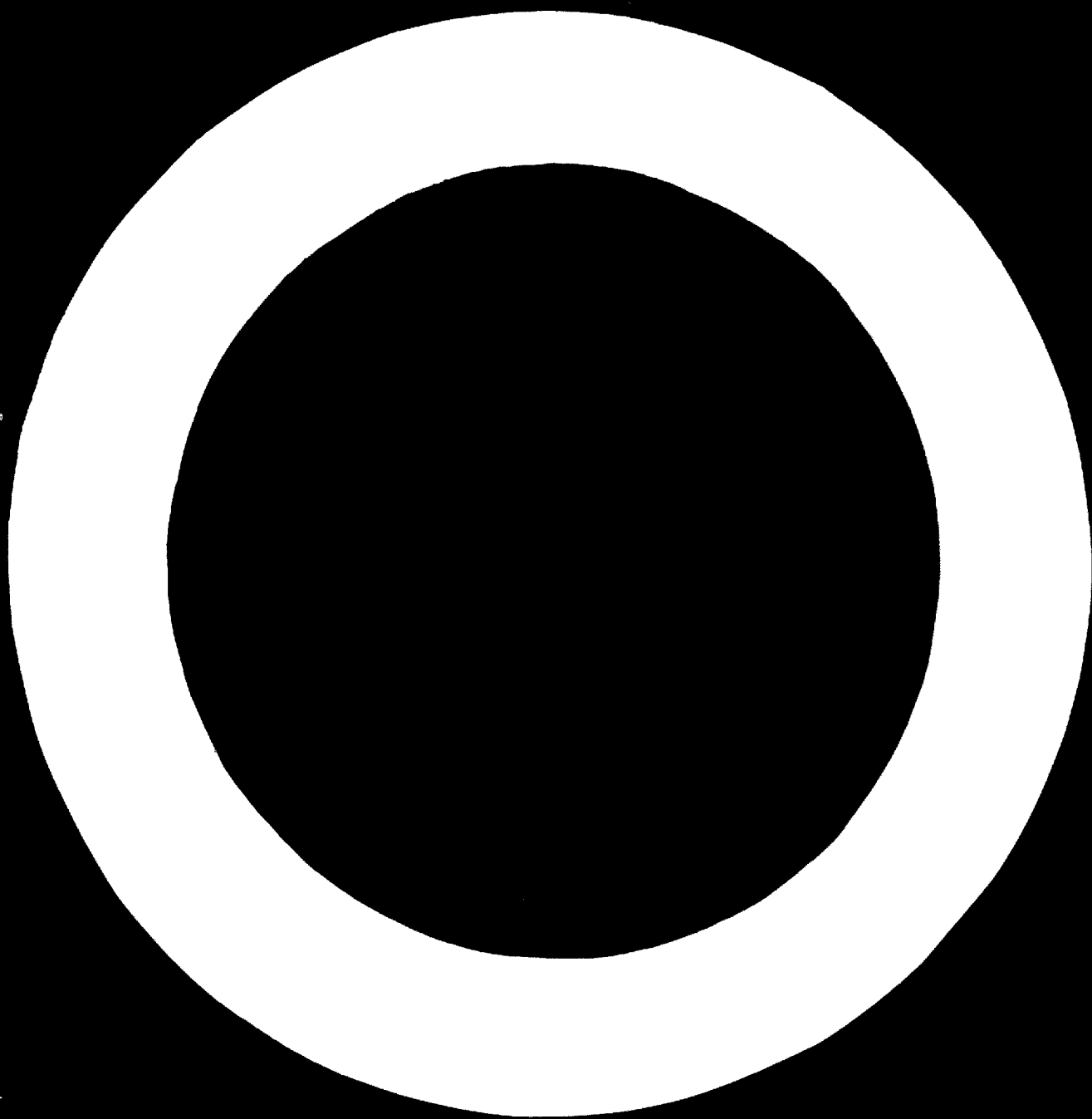
2.2 Distribution System:

2.2-1 For affording maximum convenience and availability to customers a multi-channel distribution system is operated all over the market. Services of various agencies like traders in agricultural inputs and outputs, rural Co-operative Societies, Agro-industries Corporations, farmers and bulk consumers like Plantation Companies, etc. are



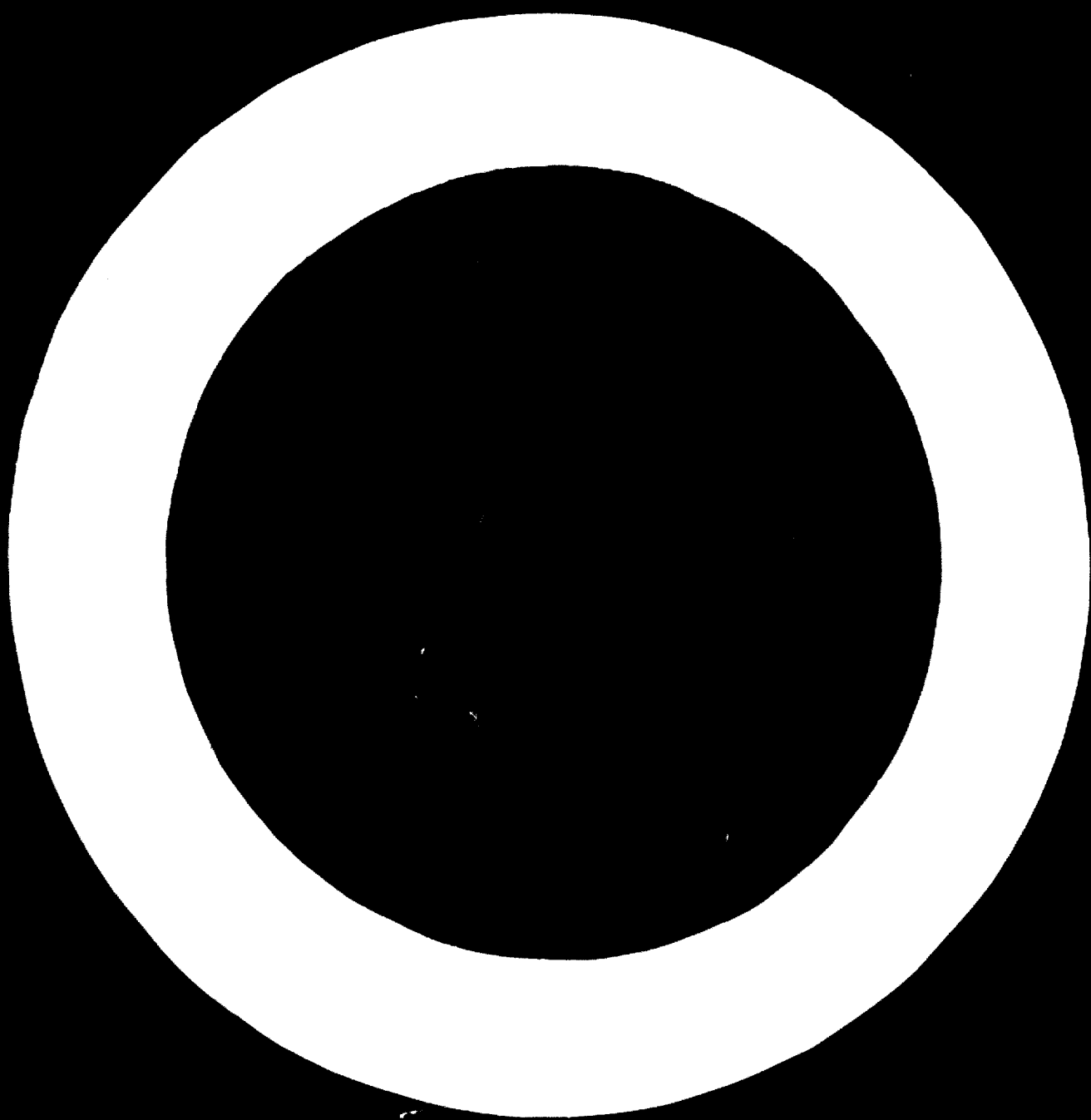
utilised in operating this system. These agencies are appointed as FACT dealers and are continuously motivated to expand their business in FACT fertilizers by the field sales force. Sufficient number of dealer points are maintained in the primary and terminal markets and the number of dealer points is constantly increased depending on the available market potential and the intensity of coverage that is called for from time to time in the different market segments. Regular evaluation of dealer performance based on declared norms, and constant motivation of dealers coupled with careful attention paid to selection and training of dealers are found to increase dealer efficiency and maintain dealer loyalty. By utilising the services of all the agencies dealing in agricultural inputs and outputs for product distribution, maximum availability of FACT products is assured in the market.

2.2-2 To assure timely and adequate supply of products, especially in the light of possible transport bottlenecks during seasons, FACT maintains a chain of buffer storage points and blending units manned and managed by FACT personnel at strategic locations in the market. These supply points function also as pre and after sales customer services centres. The number and capacity of such points are increased according to market potential and requirements. It is found that these supply points should have an average storage



capacity of two to three months requirements of stocks depending on the distance from the production point and the facilities of transport available. Such facilities of field storage are found to result in higher dealer efficiency and customer loyalty by assuring timely supplies within easy reach.

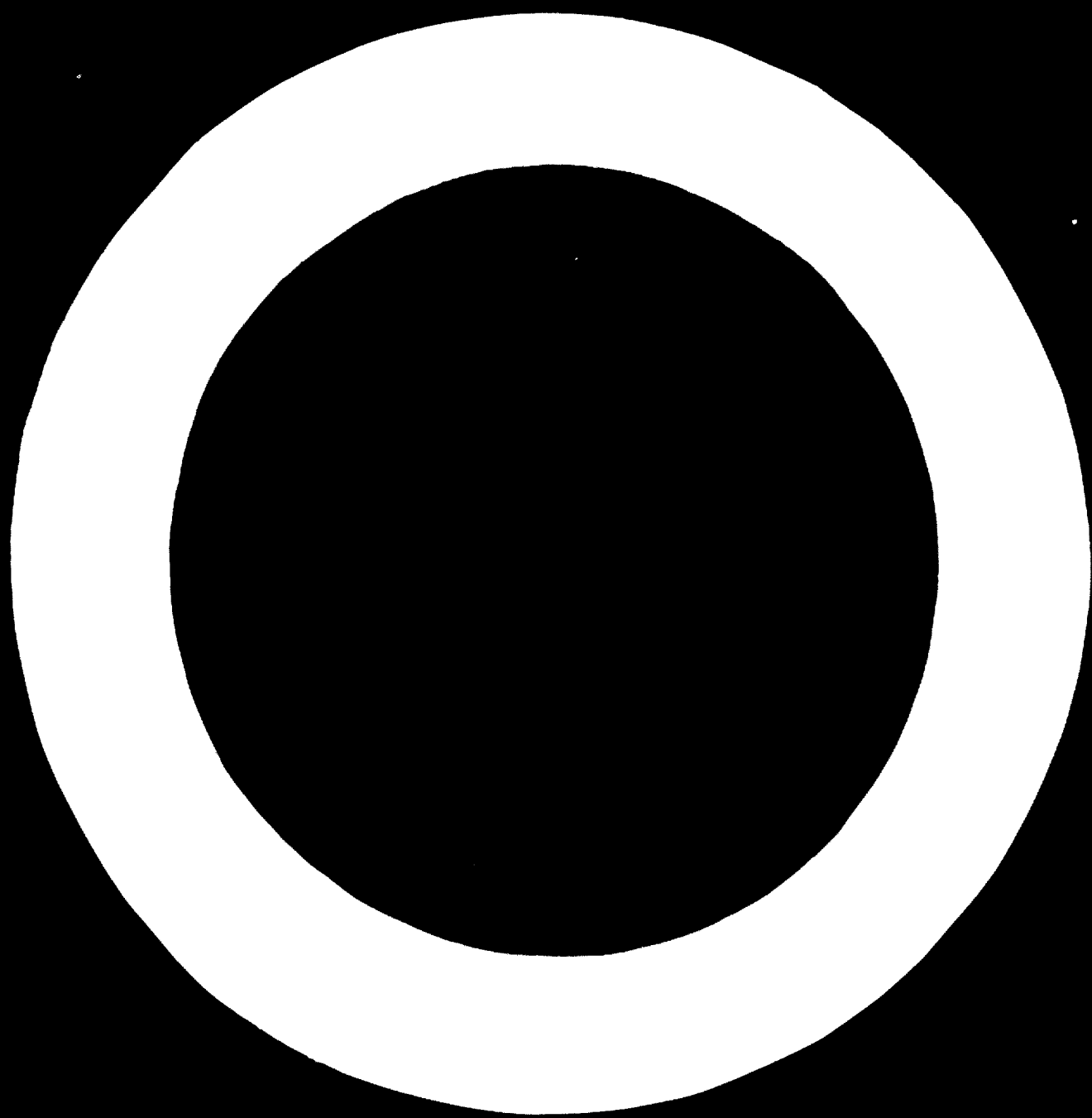
2.2.-3 Limitations in availability of credit is found to be a serious constraint to expansion of fertiliser business by dealers and increased consumption of fertilisers by farmers. Credit availability at the dealer level will necessarily reflect in credit availability at the farmer level. To solve this problem, FACT has adopted a partial guarantee credit supply system for its dealers wherein the dealers are persuaded to provide FACT with reasonable payment guarantees and FACT takes normal business risks by accommodating dealer requirements of supply over and above the guaranteed level. FACT field staff further extend help to the dealers in taking advantage of credit facilities offered by the institutional agencies in the country. When once dealer credit is assured it is found that farmer credit from the dealer is automatically made available. For easy working arrangements in this respect, FACT persuades its dealers to adopt a barter system in agricultural inputs and outputs. A system of farmer credit cards operated in association with banking agencies is presently being experimented by FACT as a pilot scheme to find out possibilities of adoption on a wider scale.



2.3 Fertiliser Promotion and Market Development:

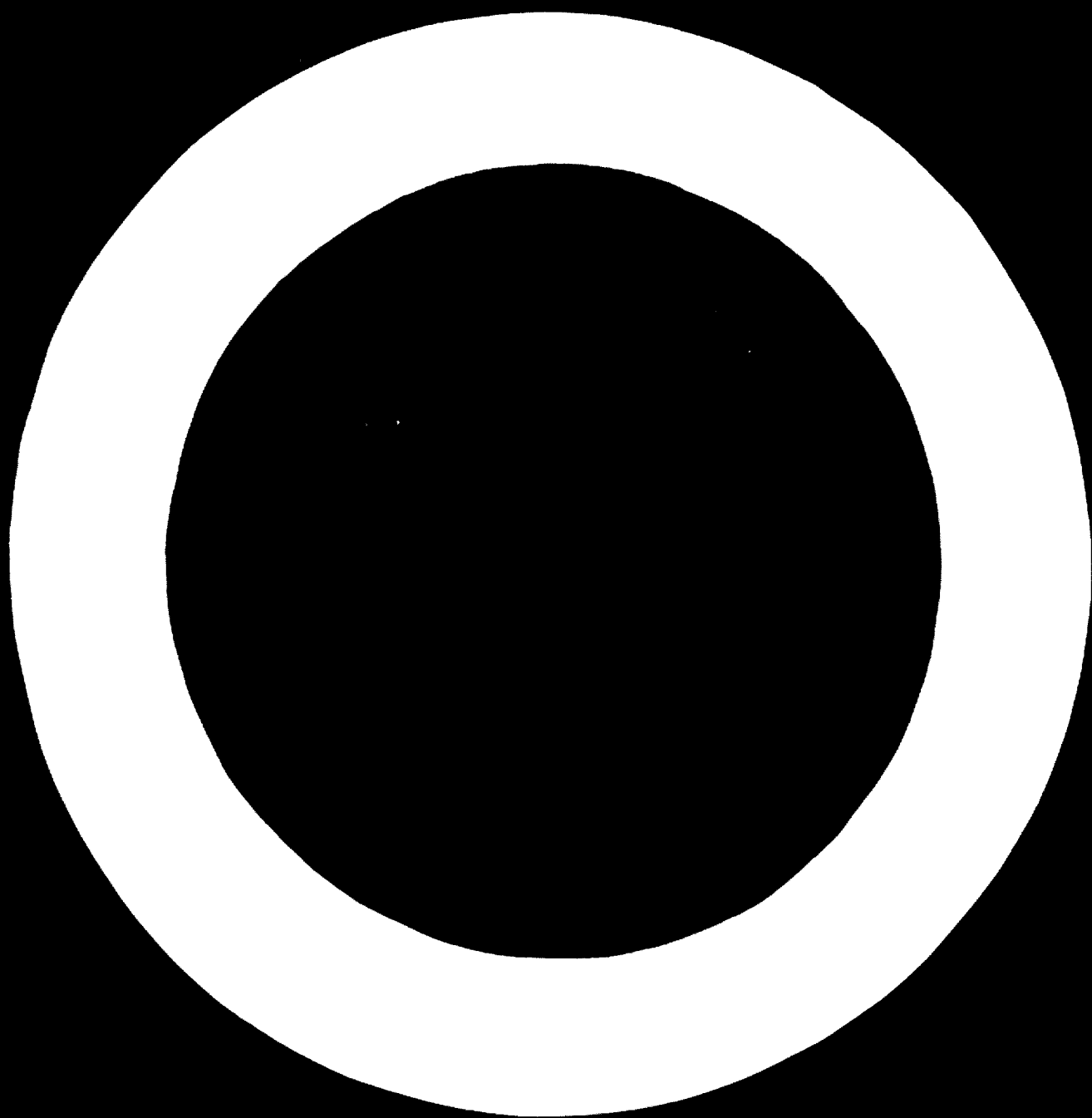
2.3-1 The necessity for fertiliser promotion is implied in the marketing philosophy of FACT and the need for market development arises out of the emerging competitive market for fertilisers in the country. Sales promotion and market development activities, therefore, are continuously undertaken with varying degrees of intensity according to the requirements of the different market segments. The highlights of the FACT programme are pre and after sales customer service, field demonstrations, customer education, product promotion, redressal of customer and dealer complaints, liaison with public and Government agencies and development of dealers and field sales staff. Such activities are undertaken by the field sales force in close association with the FACT dealers and are co-ordinated by the Agronomy and market development cells within the Marketing Division.

2.3-2 A farm advisory service to the customers is operated through the field sales force and dealers. Farmers are offered advice and assistance in the preparation of farm plans and adoption of advanced agricultural practices by the field Agronomists. Free soil testing facilities are also made available to the farmers on an extensive scale through mobile and stationery soil testing laboratories. Since the dealers are also educated on fundamental principles of agricultural practices,



such pre and after sales customer services could be extended on a wide scale. Fertiliser demonstrations on various crops are undertaken regularly through the marketing area. Apart from the large number of half to one acre demonstrations, large scale fertiliser demonstration programmes covering one hundred to one thousand acres in one place is also adopted as a measure of mass appeal. Such large scale demonstrations are found to be very effective in revolutionising farm practices over wide areas and hence have formed an important part of the FACT market development programme. Harvest festivals are conducted as the final stage of the demonstration programme and such festivals afford very good opportunities to convince the farmers on the benefits of fertiliser use through the method of "Seeing for believing".

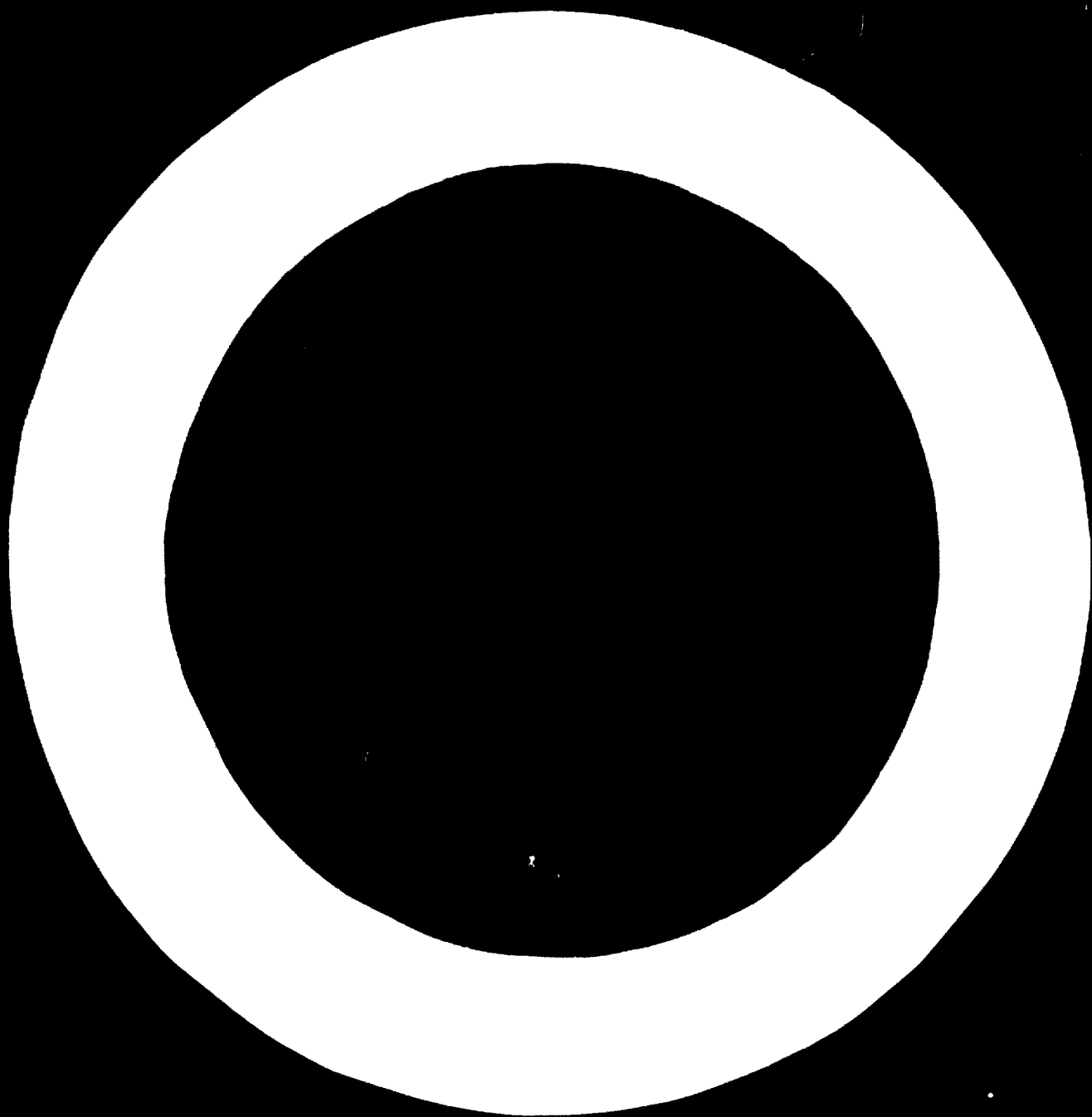
2.3-3 One of the very effective methods of farmer education evolved by FACT is the concept of "Fertiliser Festivals". Organising study classes and seminars on advanced agricultural practices and fertiliser application with all the festivities of a traditional social or religious festival worked into them is found to attract great attention and have proved very successful in breaking the barriers of traditional agriculture. The farmers' participation in such functions is made complete by making them share the expenses involved in organising such functions and making them active participants in the organisation of such functions. As a follow-up measure, the FACT Salesmen and dealers take advantage of such functions and organise FACT farmers' clubs in all the areas where such functions are



conducted. Such clubs, by meeting at regular intervals at the incentive of the FACT Salesmen and dealers afford good opportunities for easy customer contact and building up customer loyalty.

2.3-4 Mass distribution of crop and product pamphlets, product advertisement through newspapers, hoardings, posters and wall paintings are also undertaken as supporting sales promotional tools. Prominence is given for visual aids in product promotion. FACT documentary films in local languages have proved very popular among the customers. Jeeps fitted with film projectors move in the villages for screening these films. Film slides on FACT products are also exhibited in village cinema houses. Village exhibitions emphasising the advantages of FACT product use and improved agricultural practices are also regularly arranged by way of providing mobile exhibition kits to the field salesmen. Taking advantage of social and religious village festivals for arranging such exhibitions has proved very successful in attracting the farmers.

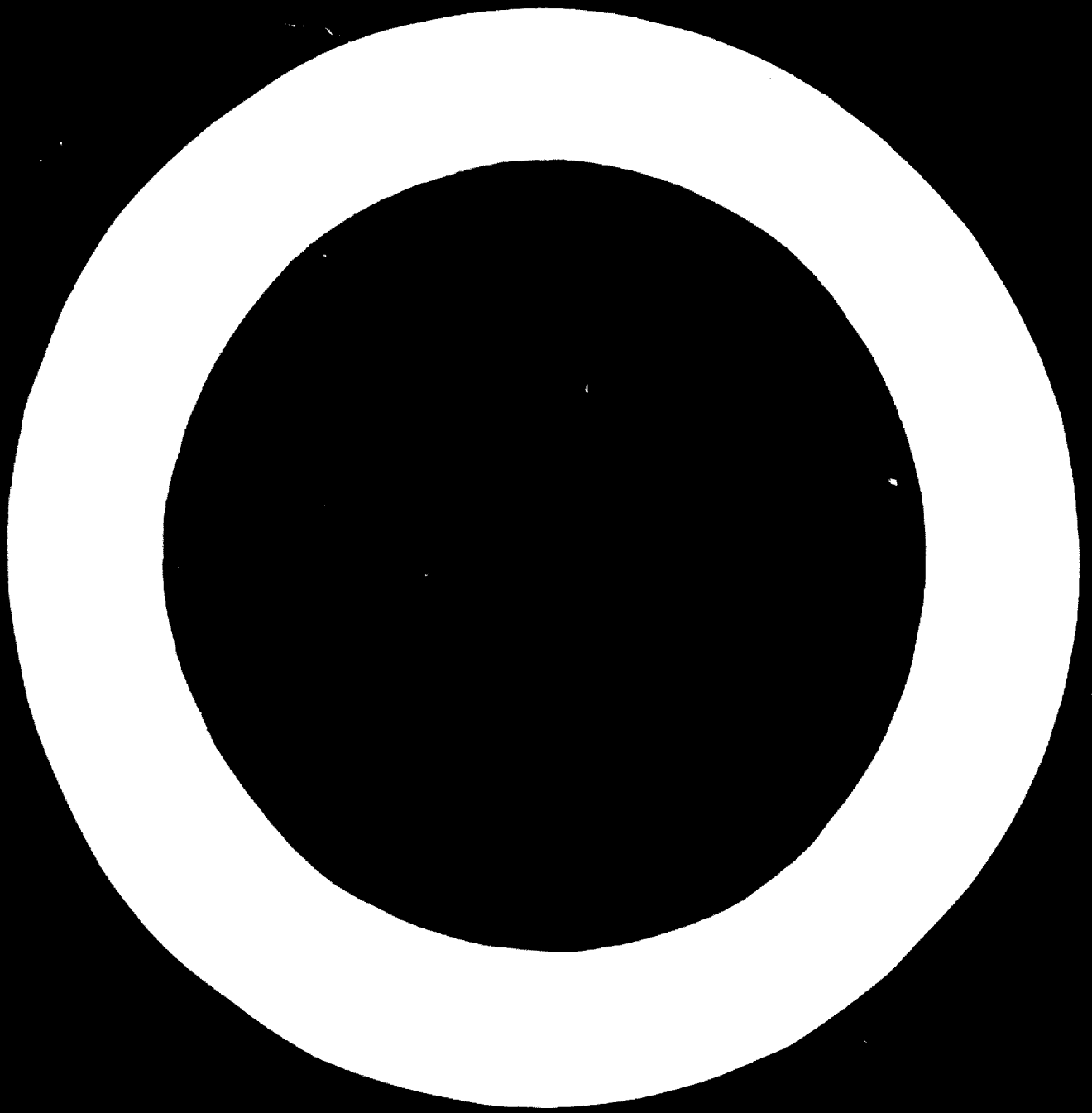
2.3-5 Another method of market development which is successfully undertaken by FACT is the area development scheme which covers an entire village aiming at the overall socio-economic development of the village based on agricultural prosperity. Along with development of agriculture, possibilities of agro-based cottage industries are also exploited and facilities offered for such developments with proper motivation have been found to result in a complete transformation of the



traditional socio-economic set up of the village. The spread effect of this scheme that could be noticed in the neighbouring areas proves this scheme to be one with very great mass appeal.

2.3-6 An integrated approach to marketing and promotion of agricultural inputs is also initiated by FACT in utilising its selling outlets for distribution of other agricultural inputs also. Working arrangements have been made with producers of insecticides and pesticides for supply of such products through FACT selling points. The FACT dealers are persuaded to deal in all agricultural inputs and effect a barter system with their farmer customers through purchase of farm outputs. Such an integrated approach is found to result not only in general increase in fertiliser consumption but also in specific increase in FACT fertiliser sales in the areas where this scheme is operated.

2.3-7 Since the efficiency of the dealer network and field sales force is a critical factor in the successful implementation of all promotional and developmental activities, continuous training and motivation of dealers and field sales force are given due importance in the market development programme of FACT. Dealer training programmes are arranged annually and dealer conferences are arranged at the commencement and conclusion of every season. Dealer incentive schemes are also introduced at appropriate intervals. In company training for the field sales force is a continuous programme and wherever found necessary institutional training is also given to the field sales force. A live communication line is also kept up with the widely

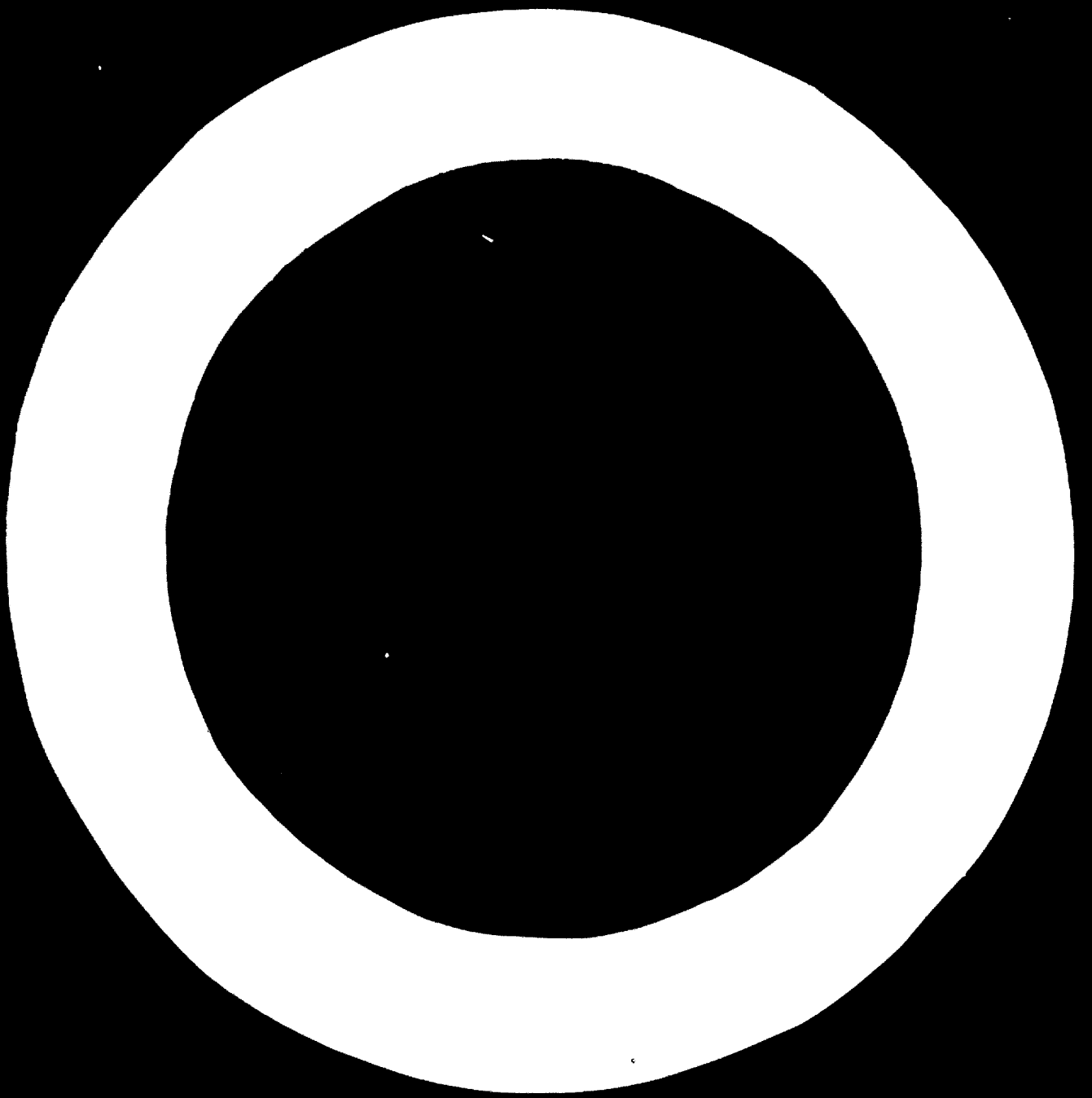


scattered field sales force through a monthly marketing bulletin issued by the Marketing Division.

2.3-8 For continuously assessing the market requirements and reactions, regular market research and surveys are undertaken by the market research cell. Conclusions drawn are utilised in the formulation of marketing policies with regard to specific situations as well as for long-term marketing requirements. The need for such market surveys and research is becoming more prominent in the emerging competitive market for fertilisers in the country.

3. Marketing cost:

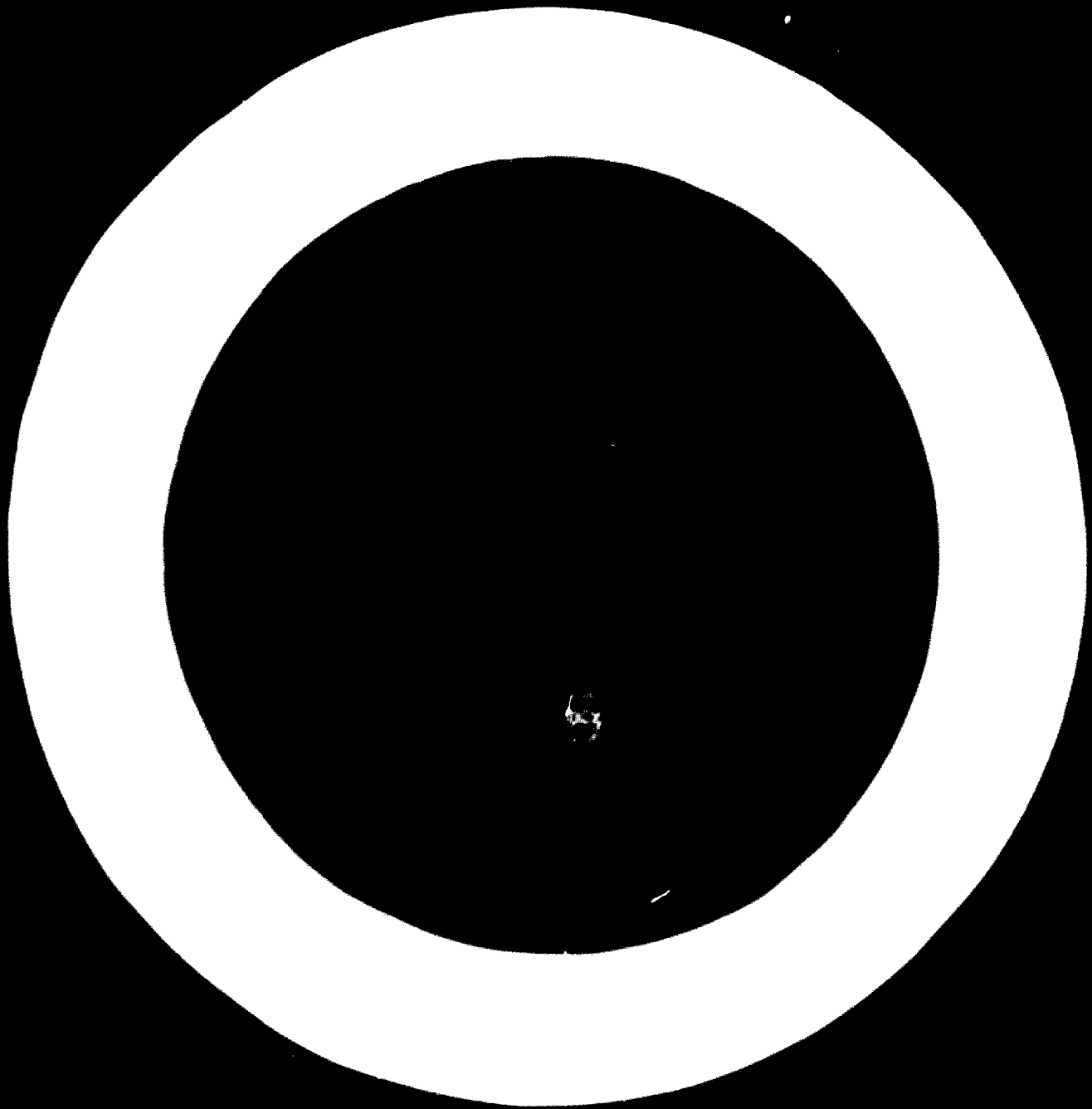
3.1 The several functions of distribution, promotion and services involved in fertiliser marketing call for an analysis of the cost of marketing fertilisers, especially in a developing fertiliser market like that of India. The Indian fertiliser market is still in its formative stage of development and as a result there is no general consensus of opinion on the concept of marketing cost for fertilisers. The importance of marketing function is viewed with varying degrees of seriousness by individual fertiliser manufacturers and hence the marketing cost/for fertilisers should be viewed from the fertiliser industry's long term requirements of distribution, promotion and market development. The committee on Fertilisers (1965) recommended a marketing cost of ten to twelve percent of the retail selling price even under the fertiliser pool arrangements of the Government. Under the present conditions where individual manufacturers have



taken up the responsibility of distribution and marketing of their products, the requirements of marketing efforts and its cost is bound to be more than what was recommended by the Committee on Fertilisers. Small variations are likely depending on the geographical locations of the production points and the developmental requirements of different marketing areas. The experience of FACT in this respect indicates that a minimum of nineteen to twenty percent of the retail selling price will have to be provided as cost of marketing under the market conditions in the country. The possibilities for the future can only be an increase in this percentage depending on the intensity of competition among various manufacturers and the requirements of total market development in the country to provide a ready market for the increased production of fertilisers in the country. The FACT estimate of a reasonable marketing cost under Indian conditions is given below:-

Note: For this estimate the ex-factory price of the product is assumed at Rs.700/- per Tonne.

Functions		Cost in Rupees per Tonne
I.	Handling charges at the production point	Rs 3.00
I.	Average Railway freight from the production point to the buffer storage points in the market	) ) ) 35.00



III.	Handling charges at the buffer storage points	)	Rs. 7.00
IV.	Storage charges for the manufacturer at the buffer storage points on an average for three months	)	4.20
V.	Interest charges for the manufacturer for three months @ 10 percent	)	17.40
VI.	Shortage in transit and during storage @ 1 percent	)	3.50
VII.	Sales promotion and technical services @ 1 percent	)	10.50
VIII.	Sales administration @ one percent	-	7.00
IX.	Transport and handling from the buffer storage points to the wholesale points	)	12.00
X.	Storage charges for the wholesaler on an average for one month	)	1.40
XI.	Interest charges for the wholesaler for one month	)	6.60
XII.	Wholesaler commission @ two percent	-	16.00
XIII.	Transport and handling from the wholesale point to the retail point.	)	10.00
XIV.	Storage charges for the retailer on an average for one month	)	1.00
XV.	Interest charges for the retailer for one month	)	7.00
XVI.	Retailer commission @ four percent	)	33.64
			<u>Rs. 175.24</u>

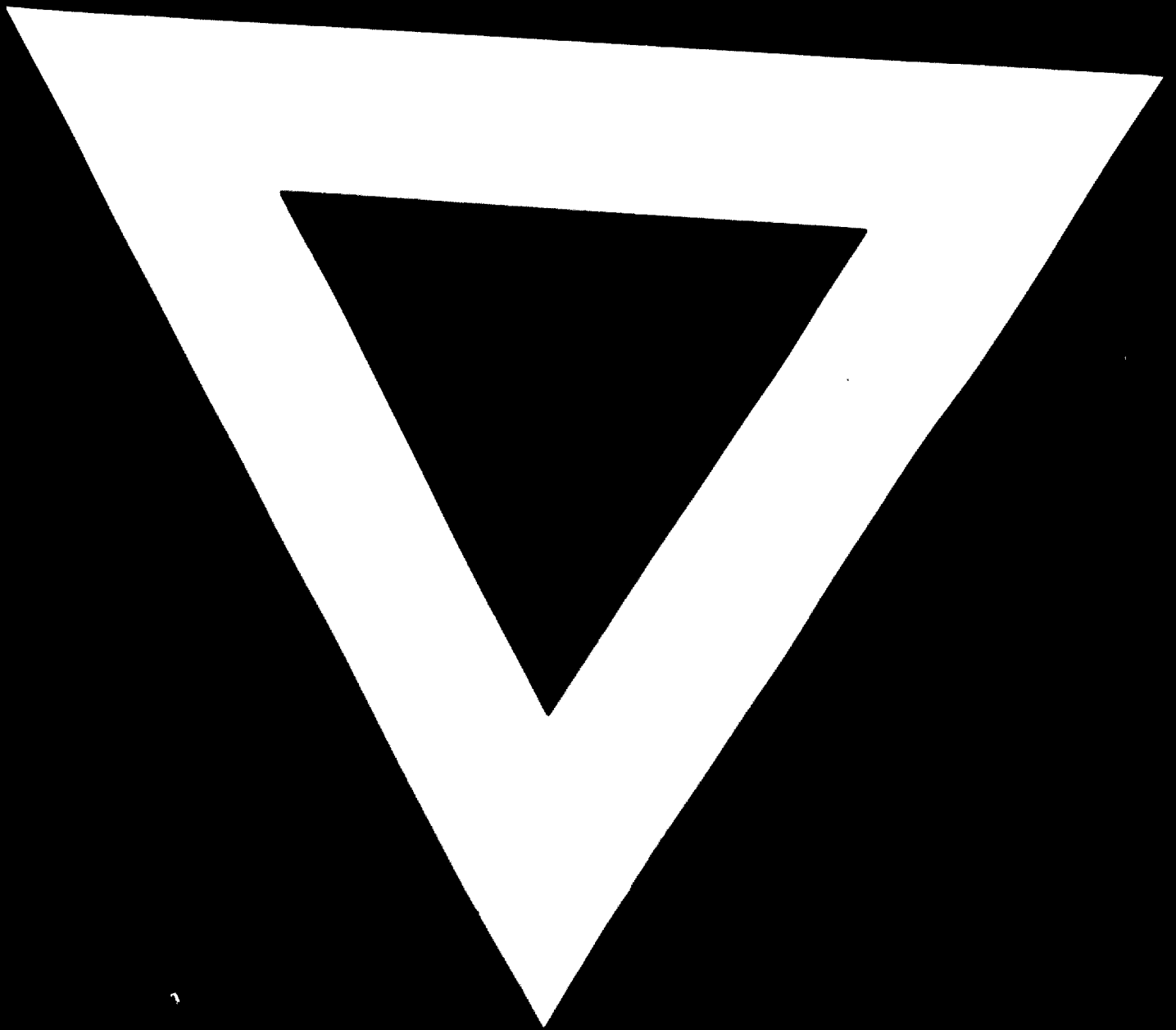
Retail selling price therefore is Rs. 876.00 per Tonne.

3.2 An efficient marketing system for fertilisers in the country will certainly call for a minimum marketing cost of the above magnitude. This is especially true in the light of the vast expansion of the fertiliser market that is called for to take care of the anticipated increase in fertiliser production.

The wide gap that is noticed between the fertiliser consumption targets and actual consumption year after year in the country can be largely attributed to the deficiencies in the system of fertiliser marketing. It will not be good economy to sacrifice the quality of marketing operations to get at a slight reduction in the fertiliser selling prices. The development of the Indian fertiliser market in the coming years very much depend on the efficiency of the fertiliser marketing system operated in the country.

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