

Marketing and Distribution Practices of Tea in Idukki District, Kerala: A Perspective

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ABSTRACT: Effective distribution is widely accepted strategy for new products, managing international distribution channel and specifically when the product marketing is relatively difficult both in the scale of logistics and networking. There is a need to consolidate distribution channels in these markets and look at developing more attractive retail options to appeal to the consumer. Marketing channels is essential, which evidently will require considerable time and resources. However, from a long term perspective it is absolutely foolhardy for Indian exporters to ignore these markets.

KEYWORDS: Marketing Channel – Retailers - mounting cost of inputs, labour, manures, fertilizers and other plant protection - the spiralling marketing cost, increasing marketing margin, widening the price spread and temporal variation in the price - profitability, fluctuation, unsteady domestic and foreign market, international trade of Tea, scale of logistics, stakeholders.

I. INTRODUCTION

Tea is a natural product and virtually calorie-free when drunk without milk and sugar. It is served and drunk in a number of different ways across India. Its production, consumption and sales have to be carried out under licences issued by the Tea Board, a statutory body constituted under the Tea Act, 1953 to promote all round development of the tea industry and come under the administrative control of the Ministry of Commerce and Industry. By these Acts, all the activities connected with tea, right from the production till consumption is regulated. Marketing consists of a number of heterogeneous functions besides selling, transformed by different intermediaries in different periods of time, as the products transferred from the producers to the ultimate consumers. Producers, small growers, plantation buyers, auction centers national buyers and retailers operate at the different distribution channels are identified in marketing of tea.

Tea plantations in India are mainly concentrated in the state of Kerala, Assam, Karnataka and Tamil Nadu. In Kerala a substantial part of Tea producing areas are located in Idukki District. Congenial climate and suitability of soil are the main reasons for such concentration. Besides generating lucrative revenue to both Government and owners of the tea plantations, the industry provides large scale employment opportunities to the people of the district. Though the produce flourishes both in domestic and foreign trade the problems associated with its cultivation and marketing do not permit the planters to reap optimum return and the traders to get reasonable profit. Large scale deforestation in the area followed by irregular monsoon, sporadic rainfall and frequent drought in recent years has severely affected the production of Tea.

The mounting cost of inputs such as labour, manures, fertilizers and other plant protection materials on the one hand and the spiralling marketing cost, increasing marketing margin, widening the price spread and temporal variation in the price on the other hand have eroded the profitability of the tea plantations. In recent past the price of a Tea was widely fluctuating due to unsteady domestic and foreign market. India's share in the total international trade of Tea is also slightly declining year by year due to the still competition from the other Tea producing countries of the world like

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China, Kenya, Sri Lanka, Turkey and Vietnam. Despite these price fluctuations and large scale exploitations, the Government appears to take no concrete measures.

No in-depth study has been made to explore the possibility of regaining India's supremacy in Tea production and trade. A scientific study in connection with various problems associated with the production and marketing of Tea will enlighten the people concerned about the inherent strength and weakness, opportunities and threats which are highly relevant and socially significant.

The objective of the article is to analyze the marketing channel and Distribution efficiency of tea in Idukki District.

The study relates to tea marketing in small holdings and estates in Idukki which produces Tea. It includes different channels of marketing of tea from producers to ultimate consumers. The study does not include the varieties of tea such as Green Tea, Oolong, and White tea. The study covers marketing of Tea for the period of 20 years from 1993-94 to 2012-13

Table-1

COST INCURRED BY THE PRODUCER IN MARKETING OF TEA

Particulars	Channel-I		Channel-II		Channel-III		Channel-IV		Average	
	Cost (Rs./ Qtl.)	Per cent								
Preparation to Market	85.00	24.15	85.00	24.57	85.00	34.14	85.00	37.12	85.00	28.91
Packaging	12.00	3.41	12.00	3.47	12.00	4.82	12.00	5.24	12.00	4.08
Transportation	26.00	7.39	65.00	18.79	32.00	12.85	60.00	26.20	45.75	15.56
Loading & Unloading	17.00	4.83	17.00	4.91	17.00	6.83	17.00	7.42	17.00	5.78
Commission	120.00	34.09	95.00	27.46	--	--	--	--	53.75	18.28
Rejection Loss	92.00	26.14	72.00	20.81	103.00	41.37	55.00	24.02	80.50	27.38
Total	352.00	100.00	346.00	100.00	249.00	100.00	229.00	100.00	294.00	100.00

Source: Primary data

Table-2

COST INCURRED BY THE BOUGHT LEAF FACTORIES, AUCTION CENTERS, NATIONAL BUYERS AND RETAILERS AND BRANDS

Particulars	Bought Leaf Factories		Auction Centers		National Buyers		Retailers		Brands	
	Cost (Rs./ Qtl.)	Per cent	Cost (Rs./ Qtl.)	Per cent	Cost (Rs./ Qtl.)	Per cent	Cost (Rs./ Qtl.)	Per cent	Cost (Rs./ Qtl.)	Per cent
Transportation	34.00	20.99	65.00	25.69	32.00	23.02	72.00	31.86	52.00	23.85
Loading & Unloading	6.00	3.70	6.00	2.37	8.00	5.76	10.00	4.42	48.00	22.02

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<i>Packaging</i>										
<i>Storage</i>	32.00	19.75	22.00	8.70	24.00	17.27	16.00	7.08	15.00	6.88
<i>Staffing & Communication</i>	52.00	32.10	48.00	18.97	44.00	31.65	44.00	19.47	32.00	14.68
<i>License Fee</i>	16.00	9.88	22.00	8.70	12.00	8.63	12.00	5.31	26.00	11.93
<i>Rejection and Weight Loss</i>	22.00	13.58	72.00	28.46	19.00	13.67	34.00	15.04	0.00	-
<i>Brokerage</i>	-	-	18.00	7.11	-	-	38.00	16.81	45.00	20.64
Total	162.00	100.00	253.00	100.00	139.00	100.00	226.00	100.00	218.00	100.00

Source: Primary data

The study has used both primary and secondary data. Primary data have been collected from Small holdings and estates in Idukki district in Kerala. There are 4 revenue taluks in Idukki District namely Devikulam, Udumbanchola, Thodupuzha and Peermade. These taluks are traditionally growing tea in Kerala. From each taluk 6 top ranking villages have been identified. From each of the villages 5 producers and 5 village traders have been selected to form a total population of 24 growers using multi-stage random sampling method. There are large numbers of market intermediaries in the study area and most of them are unorganized. The sources of secondary data were collected from publications and reports of Tea Board, Cochin, United- Planters Association of Southern India (UPASI), Association of Planters of Kerala (APK), Food and Agricultural Organization (FAO), State Planning Board, Kerala 'Tea Digest' published by Tea Board, are the main sources of secondary data.

II. RESULTS AND DISCUSSIONS:

The researcher has attempted to analyze the different channels of marketing and cost of marketing of tea. An analysis of price-spread and temporal variation is essential to evaluate the marketing of any enterprise. Tea, being a perennial crop, requires marketing cost and therefore an attempt is made in this article to estimate marketing of tea.

Channel 1: Producer- Small Grower- Plantation Estate Bought Leaf Factories – Auction-National Buyers- Retailer-Ultimate Consumer.

Channel II : Producer – Small Grower – Plantation Estate – Estate Factories – Auction – Brands – Ultimate Consumer.

Channel III : Producer – Small Grower – Plantation Estate – Bought Leaf Factories - National Buyers – Brands – Ultimate Consumer.

Channel IV : Producer – Small Grower – Plantation Estate – Estate Factories – National Buyers – Brands- Retailing - Ultimate Consumer.

III.COST OF MARKETING:

Marketing functions add value to the produce to be sold but they also involve costs, which have an ultimate impact on the profitability of the sellers. The cost involved in moving the tea from the point of production to the point of consumption, known otherwise as the cost of performing marketing functions, is discussed in this section.

IV. MARKETING COSTOF THE PRODUCER:

The producers in the study area sell their produce trough different channels. The cost incurred by the producer for one quintal which includes the cost of preparing to market, packaging, transportation, loading and unloading, commission and rejection loss. The data collected from the sample respondents for the four channels are presented in Table: 1.

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It is observed from Table -1 that the cost incurred by the producer in marketing of one quintal of tea amounts to Rs.352/- in Channel I, Rs. 346/- in Channel II, Rs.249/- in Channel III and Rs. 229/- in Channel IV. Obviously these costs incurred by the producers are essential to prepare tea for sales to the intermediaries. The variation in the above percentage is caused by the difference-in transporting, loading and unloading charges. This is understandable as the producer has to transport the goods to the bought leaf factory or estate factory marketing in the case of channel III and IV who is not always found near the place of production. Among the other two components of cost there is no commission in Channel III and IV. Naturally channel III and IV could be expected to be more profitable in the absence of a commission. But the rejection loss in case of channel III and IV is 41.37 and 24.02 per cent respectively. The rejection loss in Channel III is more than the commission and rejection loss put together (48.27 per cent) Among the Channel I and Channel II the producer had to pay the highest commission in channel I, and it may be expected that the among four channels in which there is no commission or the channel in which the commission is the lowest. But it was found from the answers furnished by the respondents that they prefer Channel I as they enjoy personal and financial link with them.

V.MARKETING COST OF INTERMEDIARIES

The details of marketing cost incurred by the intermediaries namely the producers, small growers, plantation buyers, auction centers national buyers and retailers operate at the different distribution channels for one quintal of tea were collected from the sample respondents and they are presented in Table 2. The cost incurred by the intermediaries range from Rs. 139/-to Rs. 253/- Out of the total marketing cost of Rs. 162/- per quintal incurred by the Bought Leaf Factories, transportation loading and unloading charges formed the largest share of 20.00 per cent followed by staffing and communication at 32.10 per cent.

Table-3

PRICE – SPREAD FOR TEA

S.No	Particulars	Channel-I		Channel-II		Channel-III		Channel-IV	
		(Rs./Tone)	Percent	(Rs./Tone)	Percent	(Rs./Tone)	Percent	(Rs./Tone)	Percent
1.0 Producer									
1.1	Net price received	18468.00	91.88	18576.00	92.42	18562.00	92.35	18658.00	92.83
1.2	Marketing cost	282.00	1.40	274.00	1.36	188.00	0.94	192.00	0.96
1.3	Gross price received	18750.00	93.28	18850.00	93.78	18750.00	93.28	18850.00	93.78
2.0 Bought Leaf Factories / Plantation Estate / National Buyers									
2.1	Price paid	18750.00	93.28	0.00	0.00	18750.00	93.28	0.00	0.00
2.2	Marketing cost	105.00	0.52	0.00	0.00	110.00	0.55	0.00	0.00
2.3	Marketing margin	45.00	0.22	0.00	0.00	52.00	0.25	0.00	0.00
2.4	Price received	18900.00	94.03	0.00	0.00	18912.00	94.09	0,000.00	-
3.0 Auction Centres / Retailers									
3.1	Price paid	18900.00	94.03	18850.00	-93.78	18912.00	94.09	18850.00	93.78
3.2	Marketing cost	184.00	0.92	184.00	0.92	187.00	0.93	187.00	0.93
3.3	Marketing margin	53.00	0.26	103.00	0.51	38.00	0.19	100.00	0.50
3.4	Price received	19137.00	95.21	19137.00	95.21	19137.00	95.21	19137.00	95.21
4.0 Brands									
4.1	Price paid	19137.00	95.21	19137.00	95.21	19137.00	95.21	19137.00	95.21
4.2	Marketing cost	925.00	4.60	925.00	4.60	925.00	4.60	925.00	4.60
4.3	Marketing margin	38.00	0.19	38.00	0.19	38.00	0.19	38.00	0.19
4.4	Price received / price paid by ultimate consumer	20100.00	100.00	20100.00	100.00	20100.00	100.00	20100.00	100.00

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Table-4

PRICE - SPREAD UNDER DIFFERENT CHANNELS (RS. PER QUINTAL)

S.No.	Particulars	Channel			
		I	II	III	IV
1.	Consumer Price	20,100	20,100	20,100	20,100
2.	Producer's Price	18,468	18,576	18,562	18,658
3.	Price-Spread	1,632	1,524	1,538	1,442
4.	Marketing Cost	1,496	1,383	1,410	1,304
5.	Marketing Margin	136	141	128	138

Table-5

CHANNEL EFFICIENCY ANALYSIS USING COMPOSITE INDEX METHOD

Marketing Channel	Producer's Share in Consumer Price (Per cent of Consumer Price)	Marketing Cost (Per cent of Consumer Price)	Scores as indicators Marketing Margin (Per cent of Consumer Price)	Mean Score	Rank
IV	1	1	3	1.67	I
II	2	2	2	2.00	II
III	3	3	4	3.33	III
I	4	4	1	3.00	IV

Source: Primary data

They constitute 53.09 per cent of the total marketing cost. The combined share of these two items works out to 44.66, 54.67 and 44.66 per cent for bought leaf factories, auction centers and national buyers. In case of brands staffing and communication and rejection and weight loss account for 14.68 per cent. Obviously these two items constitute the major share for all the intermediaries.

VI. PRICE-SPREAD IN TEA TRADE

The difference between the price paid by the consumer and the price received by the producer for an equivalent quantity is known as the price-spread. The study of price- spread in tea marketing is an important aspect, as it reflects the shares of the producer and different intermediaries. The price –spread varies depending on the number of intermediaries. Involved in the marketing channel. Hence, more the number of intermediaries, the higher is the price-spread and vice-versa. Generally, the channel having the lowest price-spread is preferred. The price-spread has a decisive impact on the profit margin of the producer. Hence, an attempt is made to study the price-spread. The costs incurred and margin earned by various market intermediaries in different channel in the process of marketing of one quintal of tea in the study area are presented in Table-3.

It could be observed from Table-3 that the producer's share in the price paid by consumer varies from 91 per cent to 93per cent in the four channels. It is also observed that the producer's share is the maximum 92.83 per cent, in Channel IV, followed by Channel II 92.42 per cent. This is due to the fact that the producer directly sells his produce to auction centers/ retailers. The net share 91.88 per cent of the producer is found to be the lowest in Channel I because of higher marketing costs incurred by the producer.

The marketing cost incurred by the producer is the lowest in channel III followed by Channels IV and II. This is due to the absence of commission charges in channel III. The marketing cost incurred by the brands is equal in all four channels which accounted for 4.60 per cent of the consumer price. The margin 0.19 per cent earned by the brands

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was found to be the highest among all the intermediaries. The auction centers earned a margin of 0.51 per cent in the consumer price when they purchased tea directly from the producer, whereas it was 0.26 per cent when they purchased from bought leaf factories.

Thus, Channel II was found to be more beneficial to the producer as well as to the producer as well as to the auction centers. The price spread analysis shows that of all, Channel IV I the most profitable from the producer’s point of view. However, the producer prefers non other sector marketing intermediaries for the reason pointed out earlier namely visit of bought leaf factories to the interior places, financing by them and the complex procedures followed by the national buyers. Among the channels I and II, Channel II is more profitable to the producers.

Table-4 reveals that price-spread in Channel IV is the lowest with Rs.1,442/- per quintal because of lower marketing costs and higher producer’s price. The producer’s price was the maximum in a Channel IV with Rs. 18,576/- per quintal in Channel II. The price-spread in Channel II. The price-spread in Channel I was the highest among all channels with Rs. 1,632/- because of the existence of more number of marketing intermediaries and higher marketing costs.

VII. CHANNEL EFFICIENCY

The channel efficiency refers to the effectiveness or competence with which intermediaries in the channel perform their designated functions. It is directly related to the cost involved in moving goods from the producer to the consumer and the level of service offered. A reduction in marketing cost without reduction in the level of consumer satisfaction indicates improvement in efficiency. A higher level of consumer satisfaction at higher marketing cost might have been the result of increased efficiency if the additional satisfaction derived by consumer outweighs the additional cost incurred in the marketing process. But a change that reduces costs as well as consumer satisfaction may not indicate an increase in the channel- efficiency. In the present study- the channel efficiency of the different channels has been studied using Shepherd’s method and Composite Index Method.

VIII. SHEPERD’S METHOD

The economic efficiency of the marketing system can be measured as the ratio of the consumer price per unit of tea to the marketing cost per unit. The higher the ratio, the higher is the efficiency of the marketing system. In order to assess the channel efficiency in the sale of tea, Shepherd’s formula of the following form is used.

$$CE = \frac{V}{I} - 1$$

where, V = Value of produce sold (or) Consumer price per unit of tea.

I = Total marketing cost (or) Marketing cost per unit.

CE =Channel efficiency

The channel efficiency of the different channels is worked out using Shepherd’s Method and the results obtained are shown in Table.

	Channel I	Channel II	Channel III	Channel IV
Consumers Price (Rs.per Kg(V)	20.10	20.10	20.10	20.10
Total Marketing Cost (Rs.Per Kg) (I)	1.50	1.38	1.41	1.30
Channel Efficiency	18.60	18.72	18.69	18.80

The results reveal that amongst the four channels, Channel IV is the most efficient. The efficiency index for Channel IV is the maximum with 18.80, followed by Channel II in 18.72. The channel efficiency in Channel IV is better than that of the other three because of lower marketing cost. This method does not take into account producers share and

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marketing margin which also the important components for calculating the channel efficiency. The composite index method covers those two factors. Therefore to test the channel efficiency composite index method was applied.

IX. COMPOSITE INDEX METHOD

Composite Index Method is a comprehensive method which takes into account producer's price, marketing cost and marketing margin to analyze the channel efficiency of the different marketing channels. The percentage of the producer's price, marketing cost and marketing margin to the consumer's final price per quintal of tea are calculated and assigned with ranks. The scores are given based on the highest producer's share in the consumer price, the lowest marketing cost incurred by the producer as well as by the intermediaries and the highest margin earned by the intermediaries. The efficiency of a market channel is evaluated by the mean scores. The channel which has the least mean score is considered to be the most efficient channel for the marketing of tea. The composite Index Method was used to get the final ranks which provide an indication of channel efficiency in various channels and the formula is.

R_i

$R = \frac{R_i}{N_i}$

Where, R= Composite Index

R_i = Sum of ranks in each channel

N_i = Number of performance indicators.

The results of the analysis of channel efficiency for different channels are furnished in Table-5

The producer's share, marketing cost and marketing margin are ranked according to their expenses per quintal. It is inferred from Table-5 that Channel IV is the most efficient, with a mean score of 1.67, followed by Channel II with a mean score of 2.00. Comparing Shepherd's method and Composite Index method the Channel IV again proves to be most efficient.

X. CONCLUSION

Effective distribution is widely accepted strategy for new products, managing international distribution channel and specifically when the product marketing is relatively difficult both in the scale of logistics and networking. Reputed manufacturers generally use self sustained distribution management system rather than independent or outsourced distribution network, when it is fully equipped, confident and capable both financially and with human resources. The major competition of markets will not be from other developing nations like Kenya, Sri Lanka or China but the major thread will be from the re exporters of tea the Indian tea industry is an essential context that export of Indian tea becomes an important source of revenue for the country.

There is a need to consolidate distribution channels in these markets and look at developing more attractive retail options to appeal to the consumer. Marketing channels is essential, which evidently will require considerable time and resources. However, from a long term perspective it is absolutely foolhardy for Indian exporters to ignore these markets. Channel Management, which is more focused to policies and strategies of distribution and physical distribution that aims to bring operational efficiency to maximize value of all the stakeholders involved in the distribution network, are to be the major consideration.

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