

## Edible Oil Marketing in Tamil Nadu

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### Introduction

Edible oil is one of the important constituents of Indian food. A majority of the dishes are prepared by using oil in the process. Different oils are used in different states according to their availability and custom-oriented food habits. Major edible oils manufactured in Tamil Nadu are groundnut oil, gingelly oil, coconut oil and sunflower oil. Although edible substitutability features prevail among these oils, constraints imposed by social, cultural and value systems together with demographic implications resulting in supply and demand imbalances and scarcities threatening the supply position necessitated a study of the present kind.

It is also often reported that many oil mills are in deplorable conditions and new entrepreneurs are reluctant to start new units. In these circumstances, it becomes imperative to undertake a study on marketing aspects of the edible oils and its oil industry. The empirical study results would enable the Government and the entrepreneurs engaged in the industry to take up more productive policy decisions.

### Scope of the Study

Traditionally, the people of Tamil Nadu use groundnut oil, gingelly oil and coconut oil for cooking. In recent times, they have started using cottonseed oil, sunflower oil, rice bran oil and imported oils such as palmolein. In the area selected for the present study, edible oils such as groundnut oil, gingelly oil and coconut oil are produced largely in the districts of Virudhunagar, Tirunelveli, Thoothukudi and Kanyakumari by using seeds obtained from earlier harvest and those got from other states. There are 203 units engaged in manufacturing edible oils in those districts.

Edible oil industries suffer from inefficient process technology and uneconomical plant capacity. Adequate attention has not been paid to marketing function, which is especially required in the modern context of the free market economy. If the market is imperfect, mere improvement in the production technologies will not serve the purpose fully. Edible oil markets are dominated by middlemen and speculators. Moreover, processors have to withstand severe competition from cheap imported oils. This feature offers a fair scope for a study relation to marketing and this study is a humble attention in that direction.

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## Objectives

1. To establish a conceptual framework of the study relating to edible oil.
2. To study the production practices of edible oil units selected for the study.
3. To study the nature and to estimate the cost of crushing.
4. To assess the level of capacity utilization and its implications.
5. To survey and identify the causes for the shortage of edible oils.
6. To study the various channels for marketing edible oils.
7. To suggest measures to solve the problems of edible oil mills in the study area.

## Methodology

The study is an empirical research based on the survey method. Questionnaire was used to collect the first hand information. A few hypothesis were developed and put through the 't' test and the 'f' test.

## Hypothesis of the Study

1. There is no significant relationship between the supply of edible oils and the production of edible oilseeds in Tamil Nadu.
2. There is no significant relationship between the prices of groundnut oil and coconut oil.

3. There is no significant relationship between the prices of groundnut oil and sesame oil.
4. There is no significant relationship between the prices of coconut oil and sesame oil.
5. The demand for edible oil is not related to the increase in per capita income in Tamil Nadu.
6. The demand for edible oil is not related to the consumption expenditure on oils.

## Marketing of Edible Oils

Marketing is rightly called the barometer of prosperity. No amount of labour, capital and organization can improve the state of a firm, unless its marketing efforts are effective. In other words, business success lies in getting the right product to the right market at the right time.

In the words of Peter F. Drucker, "It is in marketing that we satisfy individuals, and social values, needs and works, be it through producing goods, supplying services, fostering innovation for creating satisfaction. The end of all production is consumption and nothing happens in any economy until somebody sells something. Hence, the selling aspect becomes nerve center of all economic activity. Marketing is the kingpin that sets the economy revolving. A few features of marketing in the light of the above observations are brought in here to appraise ultimately of these features to fit into edible oil marketing.

**Test Marketing** – It involves offering a product for sale on a limited basis to see if consumers will actually buy the product and try different ways of marketing it. According to the present studies, it is observed that only 13 per cent have gone for test

marketing before launching their products on a full scale. A majority of the units, about 87 per cent have chosen to skip it entirely. An interesting feature is that all the small units in the Tamil Nadu state have skipped it since they feel it beyond their means and needs.

**Agmark** – It was first introduced in respect of commodities used for internal consumption with ghee in 1938, followed by vegetable oils in 1939. The Agricultural Produce (Grading and Marketing) Act was passed in 1937. The Act is permissive and grading under it has come to be known as “AGMARK”. The grading standards are based on both physical characteristics and internal attributes such as weight, size, shape, colour, foreign material,

physical damage, moisture and other chemical constituents and such other characteristics as may singly or in combination with others determine quality. It is realized that one third of the oil mills in Tamil Nadu have adopted the “Agmark Schemes”, while two third of them produce and market their oils without the agmark. The greatest stumbling block in the progress of the Agmark scheme of grading for internal consumption is the poor purchasing power of the consumers who are apathetic towards Agmarked oil, because they are sold at a premium.

**Packaging** – It refers to any type of container in which the product is made available to the consumers and on which necessary information is imprinted.

**Table 1. Packaging Practice in Marketing of Edible Oils**

Sl. No.	Form of Sale	Large Mill	Small Mill	Total
1.	Loose Oil	1(1.67)	7(11.67)	8(13.34)
2.	In Packages	19(31.67)	22(36.66)	41(68.33)
3.	Combined	5(8.33)	6(10.00)	11(18.33)
<b>Total</b>		25(41.67)	35(58.33)	60(100.00)

**Note: Figures in brackets refer to percentage**

It is observed that, about 13.34 per cent mills in Tamil Nadu sell their edible oils in loose form while 18.33 per cent of the units market their oil in loose and packed form. A majority (68.33 per cent) of the oil mills market their oils only in packed container.

**Brand Name and Trade Mark** – With a greater and faster shift taking place in oil marketing from loose to branded edible oils, the oil producers go

with all efforts to win their market shares through various promotional measures. It is estimated that currently branded edible oil constitutes only five per cent of the total cooking medium consumption in the country. For example, it is estimated that there are more than 80 renowned brands of coconut oil available in the country in packs of various sizes. In general, there are about 75 per cent of the mills under reference market their product under a brand name or trademark. Only 25 per cent of the units do not have a brand name or trade mark.

**Marketing channels** – A marketing channel refers to the chain of marketing intermediaries. Four types of channels are identified as prevalent in the edible oil market. The reasons as attributed to by edible oil firms for the choice of their channel include: only channel available, minimum demand, real efforts to sell, not going in for competitor's product, easy to market and collect money, no problem less strain and less expensive.

**Fig. 1 Channels in Edible oil Marketing**

- i) Manufacturer  $\Rightarrow$  Consumer
- ii) Manufacturer  $\Rightarrow$  Retailer  $\Rightarrow$  Ultimate consumer

- iii) Manufacturer  $\Rightarrow$  Wholesaler  $\Rightarrow$  Retailer  $\Rightarrow$  Consumer
- iv) Manufacturer  $\Rightarrow$  Agent  $\Rightarrow$  Wholesaler  $\Rightarrow$  Retailer  $\Rightarrow$  Consumer
- v) Manufacturer  $\Rightarrow$  Wholesalers  $\Rightarrow$  Consumers/Users

**Pricing** – In the case of edible oils, price setting does not pose any serious technical problem. The management simply fixes the price at the marketing point, either a little below or above the ruling price if environment permits. Producers of edible oils have no discretionary power in deciding prices.

**Table 2. Pricing Methods in Practice**

Sl. No.	Methods of Pricing	Large Mills	Small Mills	Total
1.	Cost Plus Price Method	5(8.33)	3(5.00)	8(13.33)
2.	Prices based on a balance between Cost and Demand	7(11.67)	-	7(11.67)
3.	Prevailing Market Prices	13(21.67)	32(53.33)	45(75.00)
	<b>Total</b>	25(41.67)	35(58.33)	60(100.00)

**Note: Figures in brackets refer to percentage**

It is evident from the Table.2 that, about 75 per cent of units set their prices in relation to the prevailing market conditions. About 13.33 per cent of the units base their prices on cost-plus technique and 11.67 per cent at the balancing point of supply and demand.

**Advertising** – Out of the 60 units surveyed in Tamil Nadu, only 21 mills have resorted to advertising media to promote their sales. Most of the firms do not advertise. As far as media selection is concerned, oil produces prefer combination of several medias. A majority of the oil firms prefer to advertise in periodicals and dailies for their far-reaching characteristics.

**Table 3. Effectiveness of Advertising**

Sl. No.	Impact (in percentage)	Large Mills	Small Mills	Total
1.	About 10%	5(41.67)	2(16.67)	7(58.34)
2.	Between 10% and 20%	1(8.33)	1(8.33)	2(16.66)
3.	Between 20% and 30%	3(25.00)	-	3(25.00)
<b>Total</b>		9(75.00)	3(25.00)	12(100.00)

**Note: Figures in brackets refer to percentage**

The above table explains the impact of advertising on increasing sales of oils. Normally the favourable effect of the advertisement continues for three months to one year. It is found to have increased sales to the extent of about 10 per cent in the case of 58.34 per cent of firms. The extent of increase in sales is between 10 per cent and 20 per cent in the case of 16.66 per cent of units and the increase in sales is between 20 and 30 per cent in the case of 25 per cent of the firms.

Of the units advertising their products, 57 per cent have experienced that advertising has increased their sales. About 43 per cent are of the view that advertising has not improved their sales and that advertising is made out of environmental compulsions.

### Findings of the Study

**Shortage of Raw materials** – In Tamil Nadu 70 Per cent of the groundnut production is used as raw material for oil extraction. It was observed that 30 per cent of coconut production in Tamil Nadu is used for oil extraction and 48 per cent of oil produced from copra is used for edible purpose. The percentage share of sesame crop in the study area to the total sesame crop cultivation in the state

was 8 per cent only. The percentage share of the area under oilseed crop in the study area to total area under oilseed crop in the state was only 6 per cent. The percentage share of the irrigated area of oilseed crop to the net area irrigated in the area under study was 14 per cent.

It was found that the role played by the regulated market as a source supply of oilseeds to the oil industry is limited to the extent of eight per cent on the whole. It is observed that supplies obtained from neighbouring and further states constitute about 40 per cent of the Tamil Nadu requirements.

The real constraint for domestic companies engaged in processing and selling of edible oils lies, not in the lack of demand, but in the availability of the major input, viz., oilseed. Moreover, raw materials being available only seasonally, the mills have to buy and store the required quantity to run their mills for most part of the year, for which the much needed finance is not forthcoming from banks and financial institutions. The supply of edible oil in right quantity and at right prices to all levels of the society has become an indispensable public obligation. In reality short supply, soaring prices and market manipulations are rampant.

**Power** – The quantity of groundnut oil produced per unit of electricity is 3 kg; coconut oil works out to be 4kg and it is 7 kg for gingelly oil. It is 92 per cent of the large mills own oil engine facility while 20 per cent of small mills have oil engine facility.

**Ineffective Processing Methods** – The study shows that about 3 per cent of the total oilseeds are crushed by ghani sector and the remaining 97 per cent are crushed by rotary and expeller mills. There is complete absence of solvent extraction plant in the study area.

**Unutilized capacity** – There is restriction on the processing of certain major oilseeds such as groundnut, rapeseed and sesame under the antiquated reservation policy for a small scale industry. This policy permits inefficiency, continues diseconomies of scale and high cost of processing and marketing and prevents larger processing units from utilizing their full capacity. These inadequacies handicap the industry in becoming globally competitive.

**Absence of Co-operative Unit** – The crushing of oilseeds and the system of marketing are carried out largely by private sector consisting of sole proprietorship, partnership and joint stock companies. The study shows that there is complete absence of the cooperative unit in the region.

**Cost of Production** – The findings of the study show that the cost of oilseeds constitutes not less than 90 per cent of the cost of production, irrespective of the size of the mill or the nature of the mill.

**Marketing Problems** - It is observed that only 13 per cent of the edible oil units have gone in for test marketing. The study shows that only one third of the oil mills have adopted the Agmark Schemes while two third of them produce and market their oils without the Agmark. It is observed that a majority (68.33%) of the oil producers market their oil exclusively in packed containers, about 13.34 per cent of the mills sell their oil in loose form while 18 per cent of the units market their oil in loose and packed forms. It is observed that about 75 per cent of the mills in the study area under reference market their oil under a brand name while 25 per cent of the units do not have a brand name / trade mark. VVD, AVM, Salini in coconut oil; Idhayam, Anjali, VV Anandhan in gingelly oil; Chavi and Pasu mark in groundnut oil are notable brand leaders in the study area.

Different oil companies use different types of channel types to distribute their products. And nearly 75 per cent of the units fix the prices in relation to the prevailing market condition.

It is also observed that orders through prescribed forms are not in practice. The oil mills located in the area under reference are reported to have a share of from 0.5 per cent to 25 per cent in the "market served". The results of the study show that 70 per cent of the firms are satisfied with their present share in the edible oil market while 30 per cent adopt different strategies to enhance their market share in order to improve upon current returns.

**Government Subsidy** – The discriminating treatment of existing oil mills and new ones in respect of subsidy and sales tax exemption makes the old oil mills less competitive in marketing their production.

**Sales Tax** – It is observed that sample edible oil units suffer from raids by the Government Departmental Staff. It is also observed that they are put to harassment at check-posts. The high rate of sales tax, which an oil miller has to bear, hampers the growth of the industry which is already in doldrums. They are not able to compete with their counterparts in neighboring states where the rate of sales tax is comparatively low.

**Import of Edible Oils** – The unrestricted import of edible oils under the OGL at reduced duty has affected the indigenous oil producers. It is observed that about 61.67 per cent of the edible oil industry has experienced the painful pinch of excessive imports of oils. It is also observed that the negative impact of import liberalization on groundnut oil is heavier on small mills as the capacity utilization in that case has decreased considerably.

### Suggestions

- Special measures are taken to improve the production of oilseeds.
- Regulated marketing committee should be encouraged to play a vital role in procuring and supplying oilseeds to the mills.
- Establishment in the regions of oil mills through cooperative societies is suggested for establishing integrated processing.
- At least one solvent extraction plant may be established for each category of oil in a central place which would definitely improve the supply position of edible oils in the state.
- Oil mills should go for modernization of the industry, to adopt advanced technologies to get higher yields, improved quality of the finished products and reduced cost of production resulting in an overall economy of the industry.
- Finance should be made available at reasonable cost for converting the old and uneconomical mills into technologically viable ones.
- Oil mills should tap their existing potentialities to the maximum advantage for increasing oil production and enhancing their profit margins.
- Subsidies should be made available to all the existing oil mills and the quantum of subsidy should be sufficiently increased from the present ceiling.
- Disparities in the sales tax structure on oils, oilseeds and their derivatives among various states should be removed.
- Government should import oilseeds rather than oil till the country produces an adequate quantity of oilseeds.

## Conclusion

The demand for edible oil has been estimated to be 7.28 and 8.06 lakh tones respectively for the years 2010 and 2015. The supply of edible oil is expected to be 4.89 lakh tones and 5.17 lakh tones in 2010 and 2015 respectively. Thus, the study concludes that there will be a deficit of 2.39 lakh tones and 2.89 lakh tones for the period 2010 and 2015.

In addition to the production of oilseeds, the productivity of oilseed, the oil content in the seed, the oil recovery rate achieved by different oil extraction technologies and the extraction method adopted influence the supply of edible oils.

The excessive import of edible oils is crippling the domestic oil industry. Farmers oppose the import of oilseeds as they do not get remunerative prices for oilseeds. It is, therefore, suggested that the government should regulate the import of oils by rationalizing the duty structure. The tariff levels for import must be such that the landed cost of the imported oil is slightly more than the cost of the indigenous oil and the landed prices of imported oilseeds must not be below the minimum support prices of the domestically produced oilseeds.

In short, a re-orientation in the edible oil import policy becomes very essential to protect the interests of the farmers, producers and consumers and to rationalize the utilization of capacity. Many more studies of the present kind will open up hidden venues of bringing out more facts about edible oils.

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