

# Demand Calculation for Paper In India - Re-Examination

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## ABSTRACT

*The paper industry in India is more than hundred years old. Till about a decade ago it was kicking and alive. There after things took a turn for the worst. Now its very survival is being questioned. The industry which about ten years ago made plans for expansions, modernization and green field projects, now has to look at the future with great degree of uncertainty. Even the existing production does not find remunerative market. What went wrong? Was the wrong methodology to calculate the actual demand for paper in the country responsible for giving a faulty projection, thus promoting a false sense of well being in the industry? Before embarking on calculating the actual demand, therefore the methodology needs a relook and thus start from the very basics for the survival and welfare of the paper industry in the country.*

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## INTRODUCTION

Little over two decades ago a major paper producing organization came out with an ad campaign warning about the impending paper famine in the country, arising out of paper demand much in excess of capacity growth. Yet, what happened after twenty years; the paper industry in India finds itself in such doldrum, when it can hardly look at the future without casting doubt about its very survival. Things had never been so bad for the industry increased cost of production, inadequate return, despite increased selling prices, falling demand, increasing stock holding etc. are few in the long list of malice afflicting the industry; overshadowing its growth. Even during the early 90s the myth of demand surge at the turn of the century, persisted and the industry made plans for green field projects, expansions and modernisation, based on forecasts which had legacies in the 80s and which were hardly critically ever looked at. But within few years all those grandiose plans vanished

into thin air and a mood of despair has set in. The question that has gripped everybody's mind is; where has the demand for paper gone. Is the country no longer consuming paper to the extent as it used to.

Surprisingly until recently, various demand figures were being talked about in the industry, by the turn of the century. Such demand figures varied from 4.0 to 5.0 million tonnes per annum. But two years ago things in the industry started turning so bad that it began doubting its own projections. No one seems to know where the industry is heading to. Producers are uncertain if their produce will find way into the market with remunerative returns for them, thus laying bare the fragility and hollowness of the earlier demand projections which were at the root of all past plans and programmes for growth and continuity of the industry in the country.

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The reasons, for such uncertainties arising out of ill health of the industry, could be many. But, unless the industry is aware of real demand for paper in the country now and its trend ten years hence, the industry can hardly expect to produce profitably and survive and plan for its future growth. Therefore, a proper study to lay down the real demand pattern for paper in the country has become very essential.

Demand calculations that were done in late 70s and early 80s formed the starting point for all later calculations. The industry, the media, the government went on utilizing those figures without critical examination and more often than not results were not very encouraging to the well being of the industry. In a recent article Mr. K. G. Gopalakrishnan, the then Vice President of J. K. corp. Ltd., Paper Division, commenting on the same point wrote, "Is the demand true, likely or non-existent ? No clear cut answer. No one is sure." Therefore, the industry will do a world of good to itself if it were to have a relook at the demand figures and the projections thereon. But for doing so the industry needs to go deeper and reexamine the methodology used so far in arriving at those projections. methodology not in tune with the milieu and dependent on doubtful facts and figures could always lead to defective conclusions. One major study done on demand projections for the paper industry in the country perhaps realized this problem and lamented about the shortcomings of the methodology and the available data. The shortcoming was not only due to lack of reliable data, the methodology itself was not in keeping with the Indian economic milieu. Such methodologies were mostly borrowed from developed economies and super imposed on Indian paper industry scenario. Agencies from developed economies, entrusted to do studies on demand projections for the paper industry in India, helped to compound this problem, as these agencies hardly has much idea about the Indian paper industry set up. Their studies ended up making such projections, which could be simply termed, doubtful.

Large number of these studies, both Indian and foreign were based on trend analysis method, where past trends were extrapolated to do the demand projections. Projections based on this method works very well for developed economies where Socio-economic parameters do not undergo major changes within a short span of time nor does governmental policies change so much with such massive impact, as is the case with India. Such trend extrapolation

method has, therefore, neither worked in the short run nor in the long.

Besides the macro aspect, trend analysis method has not been able to do justice to the projections due to reasons which are typical to the Indian context. Historically speaking, until recently paper industry in India was to a very large extent under the control of family based organizations, where facts and figures were very zealously guarded, which made availability of correct data difficult to come by. Over and above, the Paper Control Order prevalent till the 80s also did not help matters much in this regard-though exceptions were always there. Therefore, when demand projections were done taking such figures of doubtful antecedents the end results could not have been but of questionable reliability, as it is now proving to be

For want of reliable data, it has been a long standing practice with the paper industry in the country, to use production figures synonymous as demand figures. It however, needs to be emphasised that it cannot be so. The two can never be equated. Lot of undesirable elements creep into production figures, which could create problem if they are equated with demand. In sluggish market these undesirable elements show up and the extent of distortions get exposed, revealing the true demand. Therefore, projections of future demand for paper in the country on the basis of past trends do not come true when macro economic factors like liquidity crunch, global competition, economy shrinkage etc expose the distortions in the system laying bare the real demand, increasing stock holding, making returns unremunerative and thus giving rise to sickness in the industry. Therefore, unless the industry is able to identify the true demand for paper in the country; separate from production statistics, it can never expect to establish itself on firm footing, on long term basis.

Other methods used to arrive at projections for demand of paper are by way of GNP, population growth and spread of literacy. For the sake of this article all these three methodologies are discussed together. The classical theory of development emphasised the aspect of GNP and supply of certain basic commodities in the economy as the yardstick to measure growth. But in the process it neglects the aspect of capability of the people to reach at a product or a group of products. Upto a point the behaviour pattern of the GNP can determine the

behaviour in the market for paper, but as an average figure GNP can hardly reveal the true state of the market. A Small example would suffice to emphasise this point. In 1974, Bangladesh had a mini famine, when large number of people died. But the fact remains that during 1971-1975, per capita supply of food was the highest. One could, therefore, conclude that the famine had taken place largely because the vulnerable section of the Bangladeshi Society lost its capability to buy food for itself even though availability of food was not a problem. Taking cue from this, the paper industry in the country should carefully measure GNP as a barometer for determining the growth pattern in demand and supply positions of the industry and should not over emphasise this aspect.

Unfortunately, the theorists supporting GNP as a factor influencing the growth rate in the demand level for paper in the country attach more importance to the growth of income level than to growth for change in actual buying capability of the consumers. Consequently, the demand projections for the future made earlier end up revealing a distorted picture. The industry suddenly finds itself in a sluggish demand situation and the existing capacity appears to be in excess of demand, ultimately leading to sickness.

The projections that were done on the basis of population growth and spread of literacy, had established a correlation between them and the growth in demand for paper in the country. But these projections also suffered from fallacies that had affected the earlier methodology. Incorrect and inadequate previous data also contributed towards the limitations of these projections.

Yet another parameter was not considered in this methodology. The socio-cultural milieu that determines the buying behaviour of a given population, cannot be the same throughout. The milieu that contributed towards certain buying behaviour in the population in the 80s cannot be true for the 21st century. Thus the projected growth that were done in the 80s can not give an effective picture for the 2000 A.D., unless the socio-cultural fabric of the country was projected in detail.

Similarly, the demand projections made on the basis of the growth in literacy also suffered, because while calculating the literacy growth, the effects of gender bias in the Indian society, the high percentage of dropouts in the education system, were not given due consideration. These factors contribute very largely in preventing the real growth in literacy amongst the Indian population.

Therefore projections done without determining this real growth could not have yielded a correct picture. Besides, such projections never clarified what was considered as literacy growth; was it only the ability of an individual to sign his or her own name and count from one to ten or a level which makes it possible for that part of the literate population to be an effective paper consumer.

Unfortunately the projections that were done earlier without considering these aspects contributed towards conveying a false sense of well being to the paper industry in the country and the moment the overall economic situation deteriorated, all hopes vanished into thin air.

The old approach in the industry of looking at the consumer as an entity to be manipulated for satisfying the interest of the industry alone, has to change. The too simplistic thinking, that since India has a ever growing population with a massive sized middle class imbued with ever growing education; the demand for paper will always grow, was not valid in the past and more so the present and the future. This trend of thinking is a legacy induced by the west which considers India as a prospective market only because of the size of its population and specially that of its middle class. Such thinking has never considered the distortions that arise out of the limitations in the capability of that population to buy the products or group of products of its choice, including paper, the socio-cultural characteristics of the population and the general price level. Perhaps the west has also now started realizing these limitations and are finding Indian market no longer as prospective.

The purpose of the foregone is not to prove that the factors the paper industry in the country has so far considered are indicative of the demand situation for paper in the country, as totally useless, but to suggest that to accept these factors on their face value without considering the distortions, were wrong.

Perhaps one greatest fault lay in lack of market segmentation. Without going in for market segmentation, one feels, that identifying the actual demand remains defective. This is because each segment in the market reacts in its own way to a given socio-economic and socio-cultural situation. This leads to different buying behaviour pattern on the part of each segment entirely different from the other. Earlier methods of demand calculation always suffered because the entire population was taken as a whole uniform entity and simple mathematical calculations

were used to arrive at a given demand figure. But, consumer behaviour is not simple mathematics alone.

The segmentation has to begin by dividing the population into urban, semi-urban, semi-rural and rural areas. Thereafter each such segment to be further broken down into various groups according to the profession; like say industrial workers, white collar job holders in urban areas or for that matter agricultural land holders, small farmers and landless labourers in rural or semi-rural areas. The classification needs to be further extended to income groups, levels of literacy/education etc. After the segmentations a survey needs to be carried out in areas representing each geographical region of the country; to determine the present level of paper consumption, expected growth rate arising out of change in income pattern price variance of paper, growth in literacy & other social factors typical to each geographical area etc. Such a down to earth study would provide the paper industry with valuable data and would once for all become on secondary data which can once again be misleading. This is no doubt a massive task, but for its own interest, survival and future growth, paper industry in the country should feel it necessary to carry out this study.

Nevertheless, segmentation is just the first step in calculating the demand and drawing up the projections for the future. But it is not an end in itself. Buying behaviour and overall demand pattern of each segment in the population need to be determined in terms of overall growth in the economy, population growth, spread in the literacy level, pricing, real income in the hands of the consuming population, their capability to buy so on. Once the buying pattern

of each segment of the population is thus determined, the aggregate can give the overall demand picture for paper in the country.

Indian society, like any other, has given certain rights and opportunities to its members their capability to utilize those rights and opportunities in buying the product or group of products of their choice, including paper; is the entitlement of the members of the Society. All economic developments need to be measured in relation to this entitlement. Therefore, the purpose of the study, the paper industry in the country needs to do, should be to determine the entitlement would lead to growth in the overall demand and vice versa. All earlier studies never considered this aspect of entitlement in determining the demand and that is the reason the industry is finding those projections based on those studies to be ineffective.

Even now a strong sentiment pervades the paper industry in the country; that moment the importation of paper stops the health of the industry will improve, Enhancement of import duty is, therefore, being taken as a open sesame. But sadly enough the industry is once again making a mistake. the malice is far deeper to be cured by an increase in the import duty. unless the industry takes a very hard look towards itself and establishes its objectives and goals very clearly with proper identification of the demand pattern, on which to base its overall growth for the future, no amount of import control and governmental assistance can help in the revival of the industry in the country. Steps need to be taken in this direction immediately, otherwise how long can this industry survive just by groping into the future without knowing where it will ultimately lead to.