



CLUSTER DEVELOPMENT PROGRAMME, INDIA

**DIAGNOSTIC STUDY
ARTISAN
AGARBATHI (INCENSE STICK) CLUSTER
MYSORE (KARNATAKA)**

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**DEVELOPED UNDER
THE TRAINING PROGRAMME FOR THE CLUSTER DEVELOPMENT
AGENTS, ORGANISED BY UNIDO CDP NEW DELHI**

**&
THE ENTREPRENEURSHIP DEVELOPMENT INSTITUTE OF INDIA
(EDII), AHMEDABAD**

YEAR 2001



Your guide to small business in India

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MYSORE AGARBATHI CLUSTER

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1. INTRODUCTION

1.1 THE HISTORICAL PERSPECTIVE

Since ancient times, people have used Dasangam, Dhoopam, Argajja, Sandal bille and paste to perform various religious ceremonies at homes, temples, religious places and for royal families. These products were made by the priests of temples using raw material such as sandal powder, natural herbs, oils etc. These products were mostly supplied to the southern states of India, where these fragrant items were burnt while offering prayers.

The incense stick or the 'Agarbathi' as it is called in Hindi, was invented in Bangalore during the 1900's and at that time it was known as the Oodabathies. The Oodabathi was very simple to manufacture, as it was only a Dasangam paste mixed with charcoal and Gijit, and rolled on to bamboo sticks. But the proportion of mixing had to be kept in mind. What made the product so popular was the fact that it was convenient to use and that the Maharaja of Mysore was patronising its production activity.

During 1920s and early 1930s, chemical materials like Musk Xylol, Musk amberette and Crystarose were started being used for Agarbathi manufacturing. This brought change in nomenclature as Agarbathi. Earlier it was mostly the Muslim families that were involved in this activity but later other communities also joined in. Some people who had knowledge about the ancient ayurveda books could find new formulations and by 1940 Agarbathi became a popular household article. Since then the production of Agarbathi has multiplied giving birth to a cottage/artisan industry.

Industry started growing in and around Mysore providing employment to thousands of people. As the production of Agarbathis is a very simple technique and can be learnt by simple practice and training, the manufacturers in those days went to the doorstep of the rural folks and the urban weaker section to give training and work to women. As a result, thousands of women got in this work, which could be done during leisure hours and also fetched some money. This led a creation of a very large production base.

An important turn came during the year 1942 when the Import trade control came into force. The new policy helped the Agarbathi industry to start importing chemicals, perfumes etc directly instead of going to the importers. The state Government introduced sales tax in the year 1948 at a levy of 3 pies or 1.6%. This created a necessity of an industry association, which came into being in the year 1949 as All India Agarbathi Manufacturers Association (AIAMA). The association was formed with the main aim of solving industry related issues at various levels.

There was significant contribution to industry by the way of perfume blending from 1965 to 1988. Many famous brands entered the market that time, some of which still find place in the market. There has not been any detailed survey of this industry so far and therefore no credible statistics are available. However, an estimation of the manpower involved in the industry runs in terms of lacs and the turnover is approximated to Rs 1250 crores. Thanks to the growth in population, the market base for the industry has grown in geometrical proportion as compared to the early 1900s.



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1.2 THE PRESENT SCENARIO

The State of Karnataka and especially the Mysore region is recognised as a pioneer in the activity of Agarbathi manufacturing. The region has a natural reserve of forest products especially sandalwood, which provide for the base material used in production. Due to the simple manufacturing process and a huge market potential, there are a large number of producers existing in the market. This has led to a scattering of this activity throughout India.

At present, there are a number of small manufacturers, who produce cheap and low quality Agarbathis and this has created marketing problems for quality producers. Apart from the local competitors, some MNCs too have entered the market. Besides, in view of WTO's free-trade regime, doors shall soon open for international competitors like China, Pakistan, Sri Lanka and Thailand etc to flood the shelves.

1.3 THE MYSORE CLUSTER

The Agarbathi is one of the main cluster activities that exist in Mysore. Other being silk, wood carving and inlay and leather. The Agarbathi cluster in Mysore is having a vertical network, but there is a lack of co-ordination and mutual trust amongst the cluster actors. Perfume blending and marketing strategy are the major areas wherein everybody resists discussions.

The industry in Karnataka is now facing a severe problem with respect to the supply of raw material. This industry is loosing its hold on the market share. It is estimated that now only 30-40% of the production is now attributed to Karnataka, as against 95% during 1960's. The rest is shared with Gujarat, Madhya Pradesh, Maharashtra, Assam and Tamil Nadu. If the trend continues, there is a threat of closure to many industries here, which will create massive unemployment in the rural sector, especially amongst women. However, this situation can be avoided if corrective measures are taken urgently by the industry, Government and by the other supporting institutions.

There are many areas, which can be explored for the benefit of the cluster viz. consumer awareness, export market, alternative raw material, import of raw materials, quality standards, new uses and users and even biotechnology. Industry is mainly depending on forest based raw materials and the Government policies. If this dependency is not addressed properly and continues as it is then it'll be hamper the growth of the cluster.

2. INDUSTRIAL ANALYSIS AT THE NATIONAL LEVEL

2.1 PERFORMANCE & POTENTIAL

It is estimated that there are approximately 5000 units in the country, which include large, medium, tiny and micro enterprises.



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Approximately 25000 tones of Agarbathis are being produced in India and this figure is growing at a rate of 5-6% every year. Calculation shows that a total of 2 million men/women days are required for production at this scale. Thus it can be seen that the employment potential is huge and more importantly growing. 80% of women workers in the industry belong to weaker sections of the society. Thus the Governments at national and state levels can make use of this industry to support its poverty programmes.

The Agarbathi market is mainly consumer driven. India's population growth has provided an estimated market size of Rs 1250-1500 crores. People took Agarbathi burning as better and convenient way of offering prayers. The buying capacities of people caught the attention of producers and low-quality Agarbathis have invaded the markets to suit the different sections of society. People came to know that in order to start this cottage industry, there were no formalities to be observed and the investment can range is mere Rs.1000 to 1lacs. Besides the absence of technology complications and easy availability of perfumes in the market have led to an uncontrolled growth of industry.

The art of perfuming is a trade secret for manufacturing firms and hence it is very difficult for industry to coordinate as a whole in this area. Certainly big houses can be encouraged to perform by utilising the production at the lower end of the industry. Out of the 5000 estimated units across the country, a majority of them are house-hold or small family businesses, which contribute approximately 80-90% of the production. Agarbathis manufactured in India, especially Mysore has world-wide recognition and edge over the competing nations around the globe.

2.2 RAW MATERIAL

Till 1940's, the production of Agarbathi had not faced any problems as far as the raw materials are concerned. However, with the expansion in market and increase in production, the requirement for raw materials went up considerably. The producers started feeling the heat of non-availability, shortages, price increase etc.

The shortage of raw material is a major hindrance for the development of the industry yet there has been no detailed survey carried out to find out the total national requirement. It is certain that a proper planning by industry associations could solve the problem.

The basic raw materials required for manufacture of Agarbathis are forest based. The AIAMA has projected the national level requirement of the three main ones as follows:

ITEM	REQUIRED QTY IN KARNATAKA IN 1998 (in MT)	PROJECTED REQUIREMENT IN 2010 (in MT)	
		KARNATAKA	REST OF INDIA
Jigat	12000	30000	40000
Bamboo	13000	35000	46000
Charcoal	7000	20000	27000



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Locally, the basic raw materials have become short in supply and thereby the Karnataka cluster has to resort to procuring materials from outside the state. This adds to the total cost of production, which makes the prices of finished goods uncompetitive in relation to other states. Other materials such as indigenous and imported perfumes are available amply in the market. Due to a difference in state wise taxation and forest laws, it has been noticed that many raw material suppliers in other states have now become the manufactures of Agarbathi. The policy followed by these States has made them take a lead in industry growth rate as compared to Karnataka.

Are these raw materials really short in supply?

In India, every State Government implements a forest policy of its own. If the raw material has really become so scarce and the Governments are feeling that the requirements cannot be met, then it is interesting to find out as to how the Agarbathi industry is still carrying on its activity. Most of the entrepreneurs feel that if the sourcing of these materials can be streamlined then it can ensure future stability to the industry. The ratio of the usage of raw materials to the availability is very low.

2.3 TECHNOLOGY

There has been very little work done for the technology upgradation in the Agarbathi industry. National level institutes can help the industry in terms of increasing productivity or finding out alternative raw materials etc. Even though work is in progress in some laboratories no break through has been achieved yet. The entry of multinational companies in the sector has brought in some mechanisation of production process. The Hand-crafted Agarbathis have to gear up to compete with machine-quality and with proper interventions of support institutions, Government policies etc, the employment in the Agarbathi industry can be retained.

2.4 UNETHICAL PRACTICES

Since there is no complex technology involved, the marketing edge for the firms remains solely on the quality of perfumes. With easy availability of raw 'bathis' (sticks), most of the manufacturers get the former perfumed from outside and then market it. Even though this process needs greater care to maintain the quality, the producers have a tendency to ignore. Some of them are even engaged in duplicating the popular brands and thus give rise to unhealthy and unethical practices. A cut-throat competition is resulting in mistrust in all sections of the industry.

2.5 THE FUTURE POTENTIAL

It is true that a lot of work has to be done to save the industry. This industry has the potential to retain its low and high-end markets and huge employment base with the help of proper planning. With the eliminating of trade barriers, Global markets open up an ocean of opportunities for the industry, especially considering the fact that apart from a few Asian countries, the rest of the world is ignorant about the product. Even now about 20% of the total production is exported.



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There is a lack of manpower around the world to produce such a labour-oriented product. 'Eco-friendly', 'User-friendly', 'Handmade', 'Therapeutic', these words can serve as the banners to attract the western markets. The name of Mysore itself works as a brand to catch the world's attention as a pioneer in Agarbathi manufacturing and also as a tourist center. Inputs in bio-technology, tissue culture and other R&D can ensure a positive growth for the industry and create high-value added products that are required for export markets, thus helping thousands of labourers to attain a better socio-economic status.

3. SKETCH OF SMES, OTHER ENTERPRISES & INSTITUTIONS

3.1 STRUCTURE OF INDUSTRY IN THE MYSORE CLUSTER

Although Mysore has a fairly large industrial area yet hardly any Agarbathi industries exist in that area. The concept of Agarbathi manufacturing has totally changed. Earlier the in-house manufacturing units used to undertake the complete processing of the product, right from the time of making bathis to the finished product. But now only raw bathis are procured from the dealers and then processed for finished products.

The size of units in the cluster varies from small household level to larger ones. The industry structure is that of a vertical integration consisting of bamboo stick supplier, raw materials supplier, Agarbathi roller, dealers, perfuming house and marketing people, in that sequence. As on date there are only around 490 units registered with the District Industries Center as most of the units go unregistered. Registered units could be of any nature i.e. they could be only Agarbathi rolling or rolling to finishing units. Only a proper survey could lead to accurate figures.

A sample survey was carried out by the Technical Consultancy Services Organization of Karnataka (TECSOK), during the year 1990. The survey provides the following turnover pattern of the Agarbathi industry:

Average Turnover	Number of Units	Distribution Percentage
189.4	30	0.91
80.0	15	0.46
35.0	112	3.39
08.0	52	1.57
03.0	94	2.85
00.8	3000	90.82
Total: 316.2	3303	100.00



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Apart from the survey reports, there are some estimations made by other institutions and the entrepreneurs in the cluster. The following is purely based on local-level experience. There are nearly 150 raw bathi suppliers. One supplier on an average controls approximately 100 rollers, which indicates that more than 15000 people are engaged in Agarbathi rolling in and around Mysore. There are around 8-10 dealers having different capacities in dealing and a turnover around Rs 20-30 lacs. The requirement of raw bathi is estimated around 230-250 tons/month. The total turnover of the cluster could be anywhere between Rs 100-110 crores, a major share of which is controlled by 8-10 large sized and medium industries.

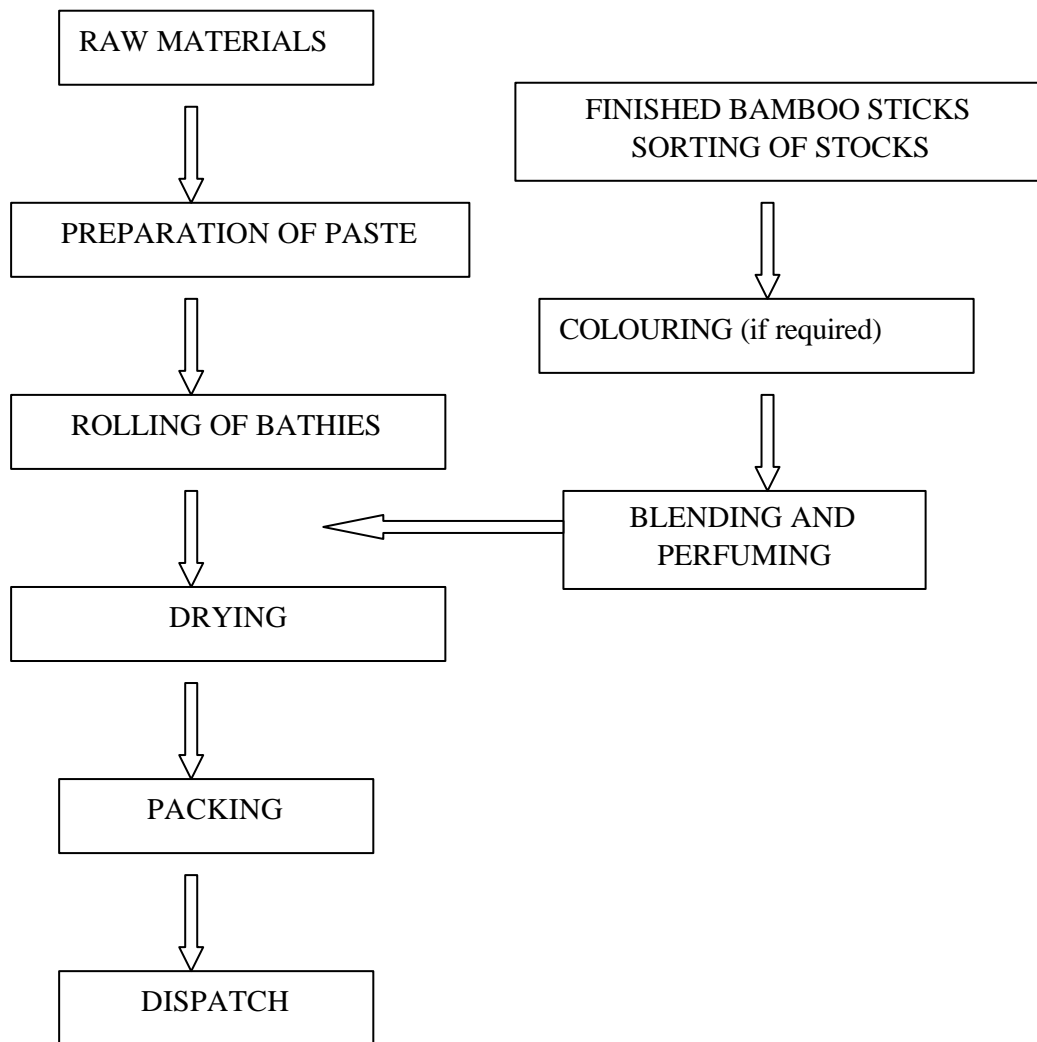
3.2 SUPPORT ENTERPRISES

- **Packing Industry:** Earlier Agarbathis used to be sold only in bundles. But as the consumer became more aware and demanding, the manufactures started thinking of giving a better presentation to their products. Also the concept of shelf life called for better packaging technology. A lot of work has been done on packaging of Agarbathis and a lot more needs to be done to penetrate the global markets. There are very few packaging units operating in Mysore and those too are catering only to the needs of specific orders of a few Agarbathi units. The market is flooded with common and low cost packaging, which is mostly supplied from outside the cluster. It has also given way to the production of duplicate packaging. Packaging can affect the cost of a Agarbathi by almost 30%.
- **Perfumery/chemical industry:** Perfumery industries have come up in a big way around the world. However, there are very few of such units in and around Mysore and most of the Agarbathi manufacturers get their requirement of perfumes and chemicals from Mumbai. The perfuming component makes up for 30-60% of contribution in the cost of a finished product.



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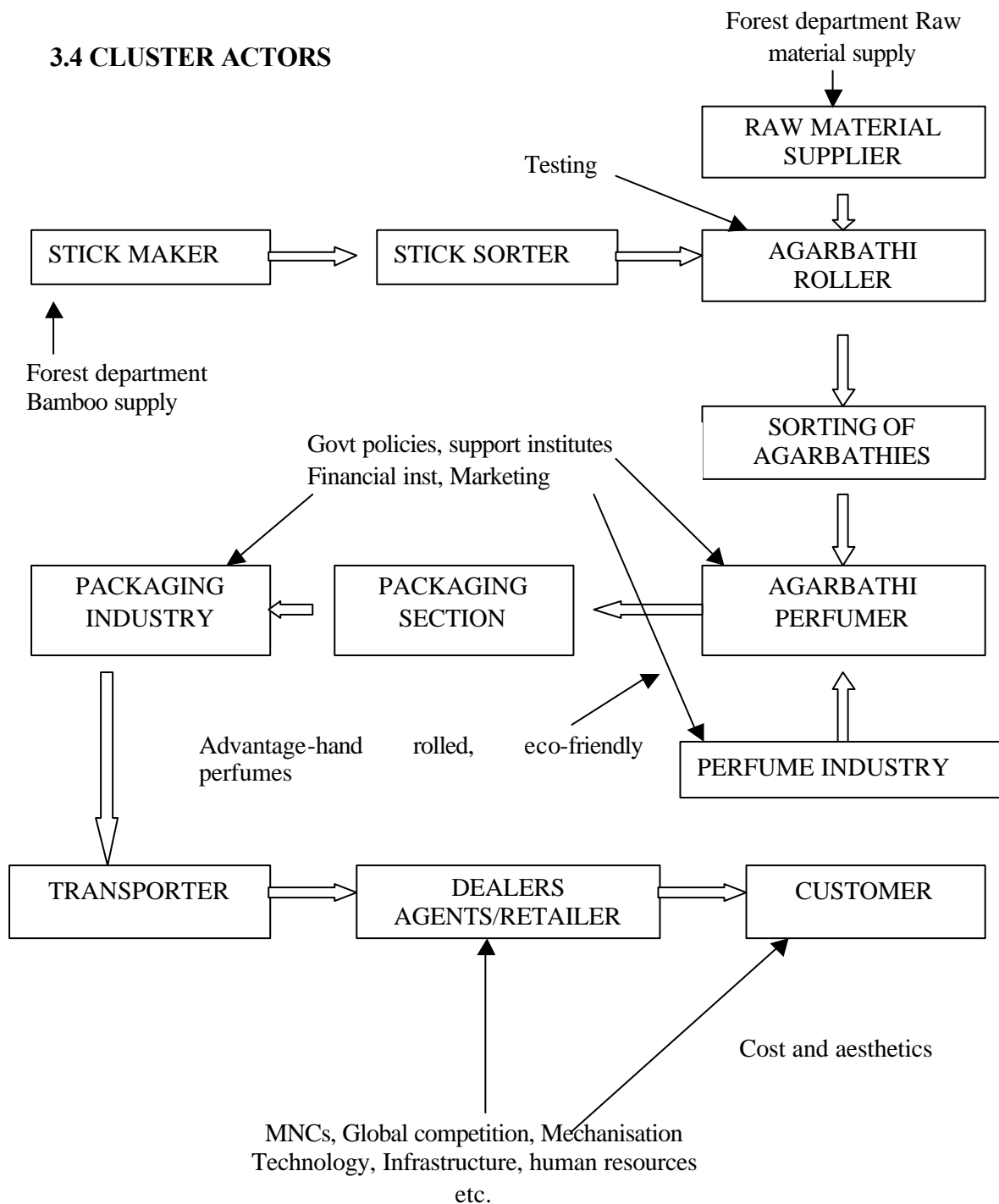
3.3 PRODUCTION PROCESS OF AGARBATHI





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3.4 CLUSTER ACTORS





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3.5 OTHER INSTITUTIONS

- **Karnataka Agarbathi Manufacturers Association (KAGMA), Mysore**
KAGMA was formed during the 1950's with aim of solving the industry's problems in relation to duplication of work. Now it is working with AIAMA and is still active in solving various issues.
- **City Agarbathi Manufacturer's Co-operative Society Ltd, Mysore**
The society was established during 1984 and is engaged in supplying of raw material to the Agarbathi manufacturers. It caters to both small and large size units. The large units sometimes directly buy in bulk from the original manufacturers, if the former requires heavy quantity. The society has an approximate annual turnover Rs 35 lacs and charges 1% for the services it offers to the industry. However, the society does not have a good reserve funds and situated in rental premises. It lacks proper infrastructure and has not built any noticeable assets.
- **All India Agarbathi Manufactures Association (AIAMA), Bangalore**
AIAMA was founded in 1949 originally as Mysore Oodabathi Manufactures Association. The main purpose of the association was to overcome the problem of sales tax. But now the association addresses the issues facing the industry at a national level.
- **Mysore State Agarbathi Manufactures Co-Operative Society Ltd (MSAMCS), Bangalore**
This was promoted by AIAMA during the year 1961 in order to help the Agarbathi manufactures in securing raw materials at reasonable rates. It used to import the raw materials and distribute them to members without any minimum quantity stipulation. It is doing good business in DEP with Indian organic chemical (IOC). In 1991 it became Karnataka State Agarbathi Manufacturers Co-Operative Society Ltd. Last year the association did a business of around Rs 6 crores with a profit of Rs 10 lacs.
- **Mysore Oodabathi Manufacturers Charitable Trust (MOMCT), Bangalore**
It came into existence in 1978 and is funded by the AIAMA. The main objectives of the trust are to work for technology up-gradation, to explore new aroma materials and to uplift the living standards of people engaged in Agarbathi manufacturing. The trust has its own building spread in an area of 4000 square feet.
- **Federation of Aroma/Agarbathi Manufacturing Enterprise (FAME), Bangalore**
The Government of Karnataka, Department of Industries and AIAMA promote this R&D center jointly for technology up-gradation of Agarbathi and Aroma industry. The centre is registered as a society in 1993, with a main objective of undertaking research in scarce raw materials, perfumes, environmental friendly packaging, innovative products, therapeutic usage of aroma, and also in bio technology, tissue culture, floriculture and horticulture. Besides the above, it also organises training programmes and works as an information center for the industry.



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Some infrastructure facilities have been created in the enterprises and more are proposed and shall be brought in as soon as funds are made available. There are plans to have tie-up with the Department of Science and Technology for further growth. FAME can be used as a testing center by the members on minimal payment. The center is housed in the MOMCT building.

- **HariPriya Biotechnology, Mysore**

The enterprise is dedicated to making contribution to Bio Technology areas such as Aroma/perfumery, Agarbathi raw material substitutes etc. Some major works are being done with respect substituting materials like Jigat, Halamaddi etc. The enterprise is situated in its own building which has all the basic infrastructure facilities. A qualified team of 15 persons has been employed. The financing of its activities totally comes from entrepreneurs and no credit has been taken from any source. However, a plan for funding is taking shape, which will involve an extensive study programme that will approximately cost around Rs 2 to 3 crores.

The unit is working towards production of high quality Agarbathi, which uses only natural and environment friendly raw material. Their works include extraction of oils, raw materials for masala-bathi, perfumes, alternative for bamboo, increasing quality bamboo production etc. Value addition is another area of interest on which work is in progress. This center is being used as an in-house R&D and testing center by the Agarbathi units.

Other Government departments & undertakings that are involved in the development of Agarbathi industries

- **Department Of Industries and Commerce, Government of Karnataka**

It has supported the industry from time to time by giving subsidies, tax exemptions, and other incentives and concessions as per the industrial policies of the state as well as that of the Central Government. It has given training in Agarbathi rolling under VISHWA programme throughout the state.

- **Forest Department, Government of Karnataka**

The Forest Research and Development wing has developed species of plantations that can be used by the Agarbathi industry. However, streamlining of procedures to be followed by the department and industry is yet to take shape. AIAMA has been active in this regard and is trying to address the issue at Government level.

- **Handicrafts Marketing & Service Extension Center**

As the Agarbathi now falls under Handicraft sector, this centre can take good advantages from the Government. Assistance could be taken for participating in exhibitions conducted at national and regional levels. The advisory board services provided by the centre can be utilised by the handicraft artisans (that are around 2000) in the cluster



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- **SIDBI Bangalore**

SIDBI is already supporting many Cluster development activities going on in different parts of India. The Agarbathi cluster too can be supported with the bank's financing and other schemes. There is special scheme for artisan earning within Rs 2 lacs, which could be looked at. However, it is to be noted that the institution does not fund pure working capital needs.

- **Banks and State Financial Institutions**

These can be utilised by the industry through proper evaluation. Since most of the institutions do not own fixed assets etc thus the banks are averse to finance them.

- **Vivesvaraya Industrial Trade Center (VITC)**

VITC is a nodal agency of the Government of Karnataka for promotion of international trade from the state. They conduct export related seminars and other programmes, provides escort services to entrepreneurs and helps them in arranging for participation in national and international exhibitions. They even take up the issues of the entrepreneurs who are engaged in international trade with the concerned Central and State Government, departments, organisations etc. One can make use of VITC's specialised services after registering with them for an annual fee of Rs 1500. Many Agarbathi exporters are already participating in exhibitions at national and international levels and they can utilise this center to expand their markets. The centre also coordinates with associations like ITPO, EPC, CHEMEXCIL for arranging expos and fairs.

- **Technical Consultancy Services Organization of Karnataka, Bangalore**

TECSOK is a Government of Karnataka organisation. It has carried out sample survey of Agarbathi during 1990. This organization can be of help in consultancy area.

- **Karnataka Center for Technology Up-gradation, Bangalore**

KCTU is a Government of Karnataka organisation that works for technology up-gradation for industry in general. The Agarbathi industry can benefit from it by exploring the possibilities of technology up-gradation of production process, perfumery works, storing of raw and finished goods etc.

- **Karnataka Cleaner Production Center, Bangalore**

KCPC is a Karnataka State Government organisation that deals with minimisation of waste, process losses, environmental issues etc for industries in general. The Agarbathi industry can utilise their services to minimise losses at all levels.

- **Non-Government Organisations**

There are many NGOs in Mysore working for rural developments. These are also engaged in training people in Agarbathi rolling. These can be effectively utilized in strengthening Agarbathi industry.



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- **Wood science research center, Bangalore**

This institute also works on researching for basic raw material substitutes. Their capabilities could be made use of by the industry.

4. ANALYSIS OF BUSINESS OPERATIONS

4.1 PRODUCTS & MARKETS

The Agarbathi industry has a very limited product range. Since almost a century now, no other innovative product has replaced the traditional Agarbathi. Some of the popular forms of Agarbathis are Raw Bathis, Scented Agarbathis, Flora Bathis, Masala Bathis, Dhoops and Cones.

Production of raw Agarbathis is done at the rollers doorstep and all manufacturers whether big or small have to purchase from here. Each enterprise has its own blend of perfumes, which are added in the raw bathis to make the final product. The firms usually keep their perfume formula a secret and due to this secrecy they generally resist the idea of forming a consortium to sell the finished products. The medium and large houses fear losing their individual brand loyalty of the customer.

A three-tier market exists for the Agarbathi industry i.e. low, middle and high end. Each of these markets require different quality of products, which is achieved by value addition done in respect of perfumes and packaging. The methods used to perfume raw-bathis vary from dipping, spraying, brushing etc. The choice depends on the kind of final product required and the market segment. Low to very high value perfumes are used in this process to enhance the value of the product.

The design and development of the product is the most important area on which a lot of work needs to be done. Marketing is through direct as well as indirect channels i.e. through agents, dealers etc. There is no fixed marketing strategy for the industry as whole but each unit has got its own method of capturing the market.

Quality of Raw materials

For producing good raw bathis, it is very important to use good raw materials. There is no control over the supply of the basic raw materials. Due to the lack of awareness about testing laboratories, it is usually only by experience that an entrepreneurs checks the quality of raw materials.

Enterprises have production base too

Enterprises that produce 'masala bathis' usually have own in-house rolling facility. This masala is again a trade secret and sometimes very expensive natural materials are used in the process. As a result, there are very few producers who undertake the entire process because of the cost and the chemistry involved.



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4.2 PROBLEMS IDENTIFIED

- **A Question of Sustainability**

The Agarbathi cluster in Mysore was busy focusing only on production activity all these years. It is true that very little R&D has been implemented in the industry. As a result, it has become a static cluster for all practical purposes. SMEs and small players are engaged in maintaining their market shares and no major steps are being taken to save the industry from a downslide.

Integration of the systems has failed and even though there exist a number of supporting institutions yet there has been no major break through in terms of bringing overall progress. The efforts of the associations, societies and individual firms have been beneficial to sort out the problems of the industry to some extent but it has not aimed at a long-term development strategy.

- **Global Challenge**

It is a well known fact that the times of State protection have gone by, and now there is an open competition with the Global market, whether in terms of exports or on the domestic front with the MNCs. A joint strategy needs to be evolved to overcome this challenge by the industry as a whole. International standards have to be adopted in marketing, quality producing, pricing etc in order to establish the Mysore Agarbathi brand competitively. This would need an active involvement of associations and Governments.

- **Brand Building**

Since the small and the large industries exist together in the cluster, there is a high level of unethical practices prevailing in terms of faking brand-names etc. This has pushed the industry into rough weathers, as there is a lot of mistrust between the enterprises and small producers. In order to curb these practices a common brand building for the cluster may be tried.

- **Entrepreneurial Background, Labour and Training**

The entrepreneurs who are operating in the industry are mostly very knowledgeable, educated and are pioneers in perfumery works. Unfortunately, looking at the market potential many people who are not well qualified have also ventured into the arena. These people have spoiled the brand name of the Mysore cluster.

Agarbathi manufacturing units have done away with the idea of keeping labour for the rolling activity. This has bought down the employment in registered enterprises. Only few people are required in the enterprises for finishing work, packing, accounts and other administrative works depending upon the size of the firm. Availability of labour is easy as only a little training is sufficient for a person to learn the process of rolling. The labour force is mostly illiterate or with very little education and it is a mainly women employment sector.



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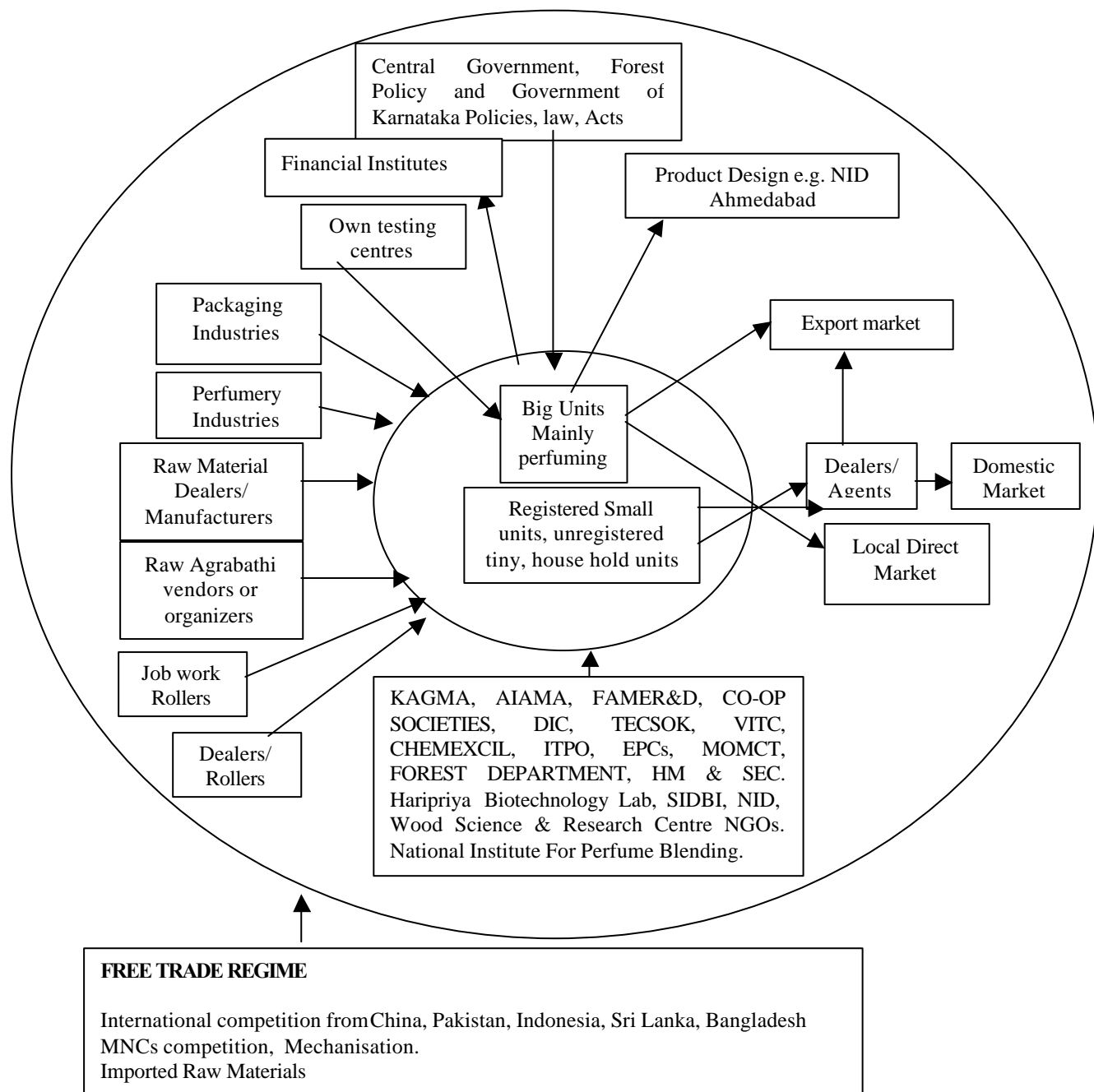
- **Production system**

The production system is very simple. Since Agarbathis are hand rolled, it requires little practice or training. Organisers distribute the raw material for rolling and then collect back the raw bathis. Some of the dealers collect the finished raw bathies from colonies as a whole. Large enterprises collect the raw bathis from dealers and rollers directly. Simple techniques are used to test the quality. Absence of technology has made the production base strong and large.



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5. CLUSTER MAP OF AGARBATHI INDUSTRY, MYSORE





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6. SWOT ANALYSIS

<p>STRENGTHS</p> <ul style="list-style-type: none">▪ Mysore brand name sells▪ Art of perfuming is well accustomed.▪ Large labour base▪ Exposure to Export markets▪ Reputed supporting institutions present.▪ Required Infrastructure exists▪ No power requirement▪ Aids to poverty elevating programmes▪ Has a huge potential to generate employment▪ Recognised under the handicraft sector▪ Supports many allied activity of handicraft (Bamboo splitting, Paper tube making etc.)▪ Supports packaging and printing industry.▪ Pioneers at work▪ Support of Government departments, NGOs	<p>WEAKNESS</p> <ul style="list-style-type: none">▪ Decrease in raw material availability▪ Lack of mutual trust▪ Customer awareness is very low amongst low-end producers.▪ Finance is not liberal since industry involves large working capital.▪ People at lower strata of the industry are less educated or illiterate▪ Lack of innovations and experimenting skills to explore the new users & uses▪ No progress in R&D▪ No level playing among the states in respect of raw material supply, implementation of various laws, acts etc.▪ Unethical practices prevailing▪ Export procedures tedious. Other than 100% Export Oriented Units, Exports is loss-making activity.▪ Poor living condition at bottom of the network
<p>OPPORTUNITIES</p> <ul style="list-style-type: none">▪ Large export market potential.▪ Scope for innovations and R&D▪ Domestic market expanding▪ Machine milled, hand rolled bathis are having a competitive edge over machine made Agarbathis▪ Free trade regime can provide better raw materials for better price	<p>THREATS</p> <ul style="list-style-type: none">▪ Global competition.▪ Unethical practices at local level.▪ Forest based raw material supply becoming scarce▪ Increase in unemployment.▪ Mechanisation.



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7. STRATEGIC DIRECTIONS

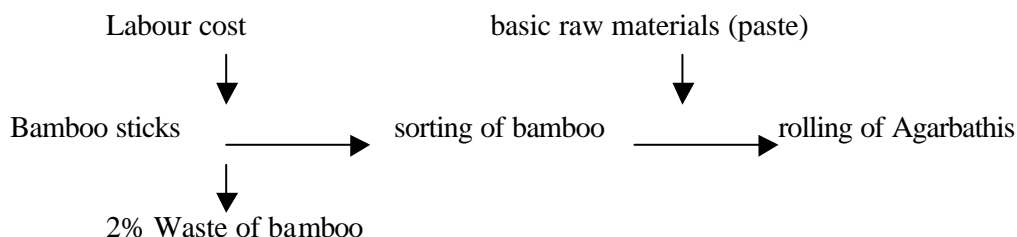
- The problem of basic raw material supply should be addressed immediately.
- The forest department has to play a significant role.
- A committee could be set up to monitor the requirement of industry involving Department of Industries and Commerce, Forest Department and Association.
- Present availability of forest based materials and the requirement to be studied.
- Biotechnology, Tissue culture, horticulture may request to work on requirements of Agarbathi industry.
- Plantation of basic raw materials producing trees/vegetation to be implemented.
- Implementation of acts, procedures by Government of Karnataka to be looked into and necessary steps to be taken.
- Strict rules/regulations to be brought in for duplication counterfeits.
- Proper pricing policy to be implemented for raw materials/bathis.
- These changes that are being brought in by the Free Trade regime should be studied with respect to Agarbathi industry and then a required support system to be developed.



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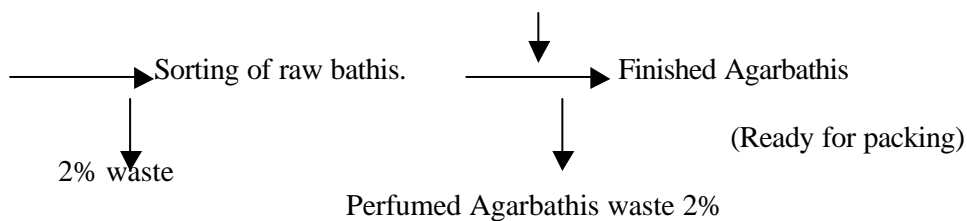
8. VALUE CHAIN ANALYSIS

(I) Production of Raw bathis



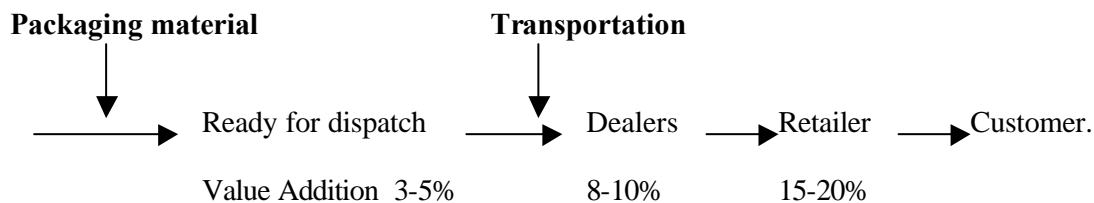
Total Value Added = 20%

(II) Perfuming of Agarbathis



Total Value Added = 30-60%

(III)



Total Value Added = 30-35%



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EXAMPLE:

Raw Agarbathi/Kg	= 40.00
Perfuming Average/Kg of R/Bathi	= 40.00
Packaging cost/Kg Agarbathi	= 17.00

	97.00

Out of the one Kg of raw bathi finished Agarbathis will be 600 approximately. If 50 sticks are packed in each packet 12 packets will be available. The cost per packet can be divided as follows:

Rs 6.60 finished Agarbathis
Rs 1.37 Packaging cost.
Rs 0.63 Dealer
Rs 1.19 Retailer

Rs 10.00 + Profit

Note: The above calculations are based on the following assumptions

- Calculation includes labour
- It is very conservative calculation. Further reduction in costing is problem.
- The above rates are at bulk purchasing prices. Most of the enterprises are not in position to buy goods in bulk as the enterprises are mainly small and or micro enterprises.
- Value addition at section (II), perfuming differs from enterprise to enterprise.



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9. VISION FOR THE CLUSTER & ACTION PLAN

"Hand rolled, value added Agarbathis of Mysore will continue to be the ambassador of fragrance with growth in domestic and in international markets."

DRAFT ACTION PLAN

- Trust building among the SMEs and small, micro enterprises.
- Interaction between SMEs and supporting institutions.
- Identification of problems and gaps in the services provided by the institutions and other service providers.
- Coordination by CDA, KAGMA, AIAMA
- Both short term (one year) and long term action plans to be prepared.

Trust Building Among the SMEs and Small, Micro Enterprises

Many enterprises are with all India and local associations, but there has been wide gap in coming together for planned growth. To explain the situation at state, national, and international level all these people can be brought together and future programmes can be chalked out. As trust building exercise seminars could be arranged in the following areas.

- Quality
- Marketing
- Effect of free trade regime
- Consortium/common facilities center concepts
- Packaging
- Common brand building
- Consumer awareness programmes, etc.

This could be done within six months, starting with one or two per month. From April 2002 to October 2002.

Interactions between SMEs and other supporting enterprises

As discussed in the diagnostic study, all the support institutions and SMEs can be brought to the discussing table to find out the required solutions. The facilities required could be matched to the institutions having it or who can offer the services. For example the society can look forward to more business through centralised purchases. KCPC can advise on cleaner production concepts. All other institutions can think of contributing to the industry.

This can be done within two months From April 2002 to June 2002.



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Identification of problems and Gaps of Institutions, Service Providers

Other than the supporting institutions, there are many areas where service providers are required for the industry like consultancy, domestic and international marketing etc.

Proposed Period: August 2002 to September 2002.

Karnataka Agarbathi Manufacturers Association could do all the above activities supported by the Cluster Development Agent and All India Agarbathi Manufacturers Association.

LONG PERIOD ACTION PLANS

- Research on alternative raw material sources
- Restructuring of Government policies
- Plantation of scarce raw material trees/plants/herbs.
- Exposure to international markets
- Stabilisation and creation of employment, improvement in economy
- Actions by KAGMA, AIAMA, BDS, CDA

Alternative Raw Material

Instead of depending on natural resources, alternative raw materials could be found by R&D, Biotechnology, tissue culture etc. Such programmes are already tried and are in the process. This could be hurried. Planning can be made during short-term action plan.

Proposed Period: December 2002 to December 2004

Restructuring of Government Policies

State and central government policies are to be addressed to help the industry. There are many issues pertaining to supply of raw materials, Government procedures, policies, acts, laws, rules etc. Study of pros and cons of simplification of all of these could be studied by a consultancy group, and a presentation can be made to the Government to overcome the present problems. It is understood that many memorandums are pending with Government on these matters and hence the necessity for appropriate decisions.

June 2002 to December 2002

Plantation of Scarce Raw Material Plants

The plantation programme can obtain raw materials required by the Agarbathi industry. This has been thought of long back, but no fruitful results have come out. Scientific programmes can be drafted to plant different species of plants in various locations depending on availability of land. Economics of raw material imports as Bulk purchase can be worked out. This activity can be carried out during the short-term action plan and implemented during long term action plan.

December 2002 to December 2003



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Stabilisation and Creation of Employment, Improvement in Economy

Agarbathi industry has a large employment potential. This can be properly linked to various institutions, NGOs etc. Plan to utilise the poverty elevation programmes of Governments can be developed.

Proposed Period: December 2002 to December 2003

Exposures To International Markets

Consultancy or the institutions within cluster can have programmes to explore the international markets. There are entrepreneurs who are already in the export markets. Problems of such entrepreneurs and introduction of new people in this are can be done through various programmes in short term action plans. Further delegations can be arranged involving concerned organisations, and the problems confronted during such programmes can be sorted out in the long-term plans.

Proposed Period: January 2004 to December 2004

Expert lectures on motivation, team building, problem solving techniques, business development, strategic partner finding, etc can be arranged at the appropriate periods depending on the requirement.



MYSORE AGARBATHI CLUSTER

ANNEXURE 1

EVALUATING THE CLUSTER'S STRENGTHS TO FACE THE CHALLENGES AND OPPORTUNITIES

Evaluating Current Strengths of the Cluster

	Markets	Technology	Inputs availability	Innovation Capabilities	Skills	Business
Strengths	1 Almost century old business	1 Very low	1 Raw material scares.	1 Only in perfumery.	1 Very less required.	1 Very competitive.
	1 large market.		2 R&D can help to find alternatives	2 low	2 labour available	2 Unethical practices
	3 Quality Products		3 available	3 existing	3 available	4 abundant
	4 No of institutions exist.	4 High on perfumery area		4 centers have not come up with results.		4 do provide good scope for growth.
Opportunities	1 Large export market exist	1 Not necessary	1 market exposure required	1 has scope	1 exist	1 international

FUTURE ANALYSIS OF THE CLUSTER

	Markets	Technology	Inputs availability	Innovation Capabilities	Skills	Business Environment
Challenges	1 global market	1 not serious	1 Raw material imports	1 no threats	1 no threats	1 very competitive
	2 high end	2 world class quality required	2 good raw material required	2 to be made		
Opportunity	Could be encashed	Available could be adopted	Planning could be done	Explored	To be explored	Can cope up the requirement.

Scale: 1- Very low & 5-High



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ANNEXURE 2

INTERVIEWS WITH ENTREPRENEURS

INTERVIEW- 1

Name of Enterprise	: Sunanda Agarbathi Factory
Name/Position of the Respondent	: Sri Nagaraj, looking after the total activities of factory
Location	: D14, Sayyjr Rao road –B, Mysore 570021
Main products	: Agarbathi
Estimated employment	: Around 15
Investment	: Own land & building but not to any standards, no idea of stock Turnover : Rs 15 lacs
Type of Organisation	: Partnership
Date of Established	: 1943
Recent growth	: No major changes

Enterprise's main products are manufacturing of Agarbathis. They usually purchase raw bathis from so called organisers, middlemen or dealers. Market is totally domestic.

ENTREPRENEUR'S RESPONSES

- Local market, other district of Karnataka and some parts of other states in India.
- No market intelligence, Brand loyalty exists, Traders, Retailers are marketers.
- No technology involved, no upgradation, product features cannot be changed any more.
- Now days a lot of competition exists from small manufacturers.
- Only USP/brand loyalty has edge over the others but market is very unstable. Survival of the fittest is the name of the game.
- No consultants engaged, no exports, no sharing of market jointly, process is simple, hence no control over production,
- Market expansion is an on going process, but extremely difficult to woo customers as big players do every day/moment.
- Export market is a big question mark itself, worried about money realisation, no proper information flowing.
- Not much has been achieved through association, consultants, institutions, they are not aware of the benefits, and don't believe that they can be of any help.
- Enterprise does wish to expand market as they do not have any strategy on how to go about it.
- Branding has been done, about 6 product of different fragrance are in the market.



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Production

Production is simple technology, which can be understood by any average person, practice/ training is required to roll Agarbathi. But perfumery work is knowledge based, only few people can be authoritative that is a selling point. No machinery is involved and do not intend to mechanize the system.

- Mechanisation will lead to heavy production. Marketing is the main constraint.

Technology

- Industry itself does not require any technology. Does not know how best any kind of technology can help.
- No agency/developers have come up with total solution.
- Traditional methods of testing exists, feels that no technology is necessary.
- Common technology purchasing/centers/publications are of no use.

Labour

- Labour force is available in plenty.
- Training is required at the beginning.
- Not aware of skill upgradation and don't believe that it could make any kind of difference in production or marketing.
- Growth cannot be made unless marketing problem is talked. No intentions to fund for any activity, don't know about diversification, value addition etc.

Raw materials

- No direct use of raw materials as the organisers/dealers provide for raw bathis.
- Standard Agarbathis are procured and finished products are made.
- Nobody can advise on this issue.
- Main raw materials are Charcoal, Gigitu (gum), Sawdust, and bamboo sticks Atht are easily available.
- Some standardisation has to be bought in to avoid shortages, hazardous materials etc.
- Some time back All India Agarbathi Association has solved the bamboo shortage problem.

Finance

- Own finance since inception.
- Petty business of food grain sales was turned to Agarbathies manufacturing.
- Not much information was forth coming.
- Organisation is making some profit (approx 10-15%).
- No application of surplus funds in any manner.
- Giving credit to market is major problem.

Infrastructure

- Infrastructure requirement is very negligible.



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Policy Matters

- Not much aware of policy matters on Agarbathis.
- Government should protect cottage industry and the multinationals should be discouraged.
- Small/unorganised people avoid all taxes. This causes major unbalance in pricing. Some method should be evolved to bring every one on to the same platform.

Association

- All India Agarbathi Manufactures Association.
- Karnataka Agarbathi Manufacturers Association
- City Agarbathi Manufacturer's Co-Operative Society Ltd.
- Karnataka State Agarbathi Manufacturer's Co-Operative Society Ltd

Enterprise is not benefited nor are they showing any interest in utilising them.

INTERVIEW- 2

Name of Enterprise	: N Ranga Rao & Sons
Name/Position of Respondent	: M R Suresh, Manager-Product Development.
Location.	: 1553, N R House, Vanivilasa Road. Mysore-570004 INDIA.
Main Products	: Agarbathis
Main Market	: Domestic, and 35 Countries In Asia, Europe, Latin. America, Africa, Middle East, Far East, And North America.
Estimated value of Sales	: Rs45 Crores.
Approximate Total Investment	:
Technology	: Basic
Employment	: around 300
Form of organisation	: Family Enterprise.
Date of Established	: 1950
Recent Growth	:
Other Business	: Rangasons Group Consisting of Following.



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- 1 Rangasons Electronics Pvt Ltd – Electronic Manufacturing Services, Total Product
- 2 Prosperity Marketing Services Pvt Ltd – Professional Marketing Services for Domestic and International Markets.
- 3 Rangasons Perfumes Pvt Ltd. – Manufacture and Marketing of Perfumes and Air Fresheners.
- 4 Sita Ranga Farms - Agriculture Cultivation.
- 5 Rangarao Memorial School For the Disable – A Free Residential School For Visually Disabled Girls.
- 6 Ranga Rao Memorial Junior College – A Pre University College.
- 7 Ranga Jnana Vinimaya Kendra – A Center For Intellectual Debate And Discussion.
- 8 Rangasons Information Service For Entrepreneurs – To Help Entrepreneurs.

Business relation with the SMEs in the clusters:

- Establishment is large manufacture of Agarbathis.
- Agarbathi manufacturing does not involve rolling of Agarbathis at establishment.
- Purchases raw bathis from organisers/dealers who supply raw bathies form rollers.
- Special Agarbathis are some times rolled at establishment for which raw materials are purchased directly from raw material suppliers.
- There is no marketing of other manufacturers Agarbathi products.
- Working closely with association to over come problems of industry as such.
- Working to give good buying support agency for rural production of Agarbathi.
- Plans for expanding market to support forward linkage to down-line industry.

As SME it has made very good progress in all respects.

- Marketing is done very systematically through dealers.
- Domestic and international markets as explained above are being catered.
- Approximately 20% of total turnover is exports
- Market intelligence, product development and design, and other departments are well established.
- Competitors are within the cluster and outside the cluster also.
- MNCs are also competitors now.
- Trademark, brands, quality, reputation of the organization, presenting of the product in the market sells the product of the company.
- No joint marketing, sub contracting etc,
- As such there is no problem in marketing but competition with MNCs and duplicates in the market, unethical practice by small players are causing problem for company.
- Company is managed by professionally managed.
- Right now funding plans are not there, but interested in expanding the market.

PREMISES

An own premise is located in the heart of the Mysore city.
Well-planned five-storied building is being used.



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PRODUCTION

- There is no machine production involved.
- Raw Agarbathis are being purchased from the dealers/organizers.
- There has been significant turning points in the history of the organization, during 1950 established, revolutionized packaging 1952, quality management, vendor development, HRD were taken up as early as 1960, cycle brand stabilized during 1965

TECHNOLOGY

- No high technology machines are involved.
- Perfumery work is intellectual property, but there are companies producing perfumes that are catering to the markets.
- Constant quality improvement programme are on, in house advisory committee takes care of the problems of company as whole.
- Raw material suppliers are advised on continuous basis to deliver quality.

LABOUR

- Labour is less, however care is taken to improve and maintain the out put in all departments.
- There is no requirement of training inputs to existing labors, since it involves no technology.

RAW MATERIALS AND INTERMEDIATES

- Raw materials are only in the form of raw Agarbathis, perfumery chemicals purchased in bulk from the producers at different parts of the country.
- Quality tests of these raw materials are done in house.
- Supplies of natural raw materials are becoming very difficult.
- Enterprise is actively involved in solving the problems of industry as whole with associations.

FINANCE

- Own financial support is being adequate.
- No outside financial help is taken.
- Enough surpluses are generated, being used in social causes, and other enterprises.
- Market credit is, realization of money is the areas where substantial funds are held.

INFRASTRUCTURE, POLICIES, REGULATIONS

- As such infrastructure facilities are good.
- Policy matters are more critical at this point of time, hence making all out efforts to come out of the problems.



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- Enterprise is also interested in MACRO issues of the industry such as branding, blending, tie-ups, packaging, WTO, creativity, formulations, marketing strategy, import substitute raw material, forest research institutes, taxes, labour laws, excise, export opportunity, child labour, world class production centers, standardization of products and processes, leadership development etc.

ASSOCIATION

- Enterprise is member of AIAMA, KAGMA, SOCITIES, etc also headed them for quite number of times.
- Constantly working with them to achieve/solve the problems of industry.
- World delegation on exploring market potential was accompanied.
- Use for conducting seminars, workshops, policy discussions etc.

SUMMARY

- Problems with counterfeits, duplicates, other unethical practices.
- Very strong in brand image, quality, management skills.
- MNCs entrance is immediate problem.
- Exploring international markets.

INTERVIEW- 3

Name of enterprise	:	Gopika Perfumery works.
Name/position of Respondent	:	Mr. G K Kumar/Manager accounts
Location	:	PB No 6, 12 th cross, Ramanuja Road, Maysore:570004 Phone 529290, 529529, Fax – 565961.
Main products	:	Agarbathis.
Estimated employment	:	30 to 40
Estimated total investment:		
Form of organization	:	Partnership 1 Smt Meenalaxmanmma W/O late Shri S R Laxminarashimaniah 2 Smt Lalithachandra W/O Shri S L Ramachandra 3 Smt Shanthamurthy W/O Shri S L N Murthy
Date established	:	1956, started with 5 people with knowledge of perfumery work.
Recent growth	:	1965 improved lot in all aspects, 1978 moved to new building. Additional varieties of Agarbathis are being introduced.
Along with Agarbathis in house R&D is being carried out.		



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MARKET AND MARKETING

- Marketing is all over the Karnataka, 7/8 other states of India, very little has been exported few years back.
- Turn over of the enterprise is approximately Rs1.5 crores.
- Main marketing channels are through dealers, 6vehicle move around to supply the products
- Profits are approx 10-15% of the turn over.
- No specific market intelligence, brand loyalty sells.
- 26 varieties of Agarbathis are being manufactured.
- No consultants for marketing strategy actively involved with Mysore Agarbathi association.
- Registered trademark is GOPIKA. Their brands are established and are doing well in market.
- Main competitors are mainly within cluster and to some extent other states.
- No joint marketing, no plans to fund further, no help from any corner for marketing, export market not easy to operate,
- Constant and slow effort is being made to expand market: because of MNCs, retaining existing market is main aim.

PREMISES

Since 1978 enterprise has it's own premises, which is situated in city itself, having three floors building.

- No noticeable income generation from ESSAR FRAGRANCE.

INFRASTRUCTURE

- Unit is having good infrastructure facility, like building, vehicles, communication facilities. No specific requirement of infrastructure.
- Association building exists.
- No planning for requirement of infrastructure.

POLICY

- Government does not support the industry with good policy.
- Forest department controls are too much to cope up.
- Taxation is another problem to be solved.
- Minimum wage act is in force within Karnataka only; hence competition is out of level playing with other states.
- Export procedures are too many. Stream lining, time fixing is required.
- MRP and selling rates by certain units are unimaginable; competition can be met only by unethical practices.
- Other states are encouraging Agarbathi industry by providing required raw materials same thing can be adopted.
- Finished raw bathies sale ends up with 8-10% margin.
- No waste management practiced.
- They are not aware of machine made Agarbathis.



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ANNEXURE 3

GOVERNMENT DEPARTMENTS AND UNDERTAKINGS INVOLVED IN THE DEVELOPMENT OF AGARBATHI INDUSTRIES

Department of Industries and Commerce- The Government of Karnataka

- Person contacted – B S Sirsikar, joint Director, industries center, Mysore.
- Department has supported the industry in the form of giving subsidies, tax exemptions, other incentives and concessions as per the industrial policies of state as well as central Government from time to time.
- It has given training in Agarbathi rolling under VISHWA programme. Thru ought state.
- Escort services are being given to all the industries including Agarbathi industry.
- Conducts EDPs.
- Tie-up can be made between PMRY beneficiary and large Agarbathi industries.

Forest Department Government of Karnataka

- Person contacted – Shri M N Jayaram. Conservator of forests, Mysore division.
- Department is supporting industries; issues are yet to be sorted out at government level.
- Bamboo worker community has been discarded by Agarbathi industry; their lively hood has been snatched away.
- As far as department is concerned there is no shortage of bamboo, but supplying of bamboo at price expected by Agarbathi industry is policy decision to be taken by govt.
- Forest research and development wing has developed species of plantations, which can be used by Agarbathi industry. Plantation of such species can be taken up by the industry.
- Required permits for bringing raw materials are given without hindering the production process.
- Scientific extraction of Jijit has to done.
- No other raw materials are being taken out form Karnataka forest.
- Streamlining of procedures to be followed by department and industry are yet to taken shape.
- AIAMA has been active in this regard, trying to solve the problems at Government level.
- For plantation of bamboo, Jijit and other trees government do not have the budget.
- Western Ghats are good source of raw material, which are to be used very carefully.

Handicrafts Marketing & Service Extension Center

- Person contacted: Shri B Ananda Rao. Assistant Director, Mysore Division.
- Office set up by Development commissioner (Handicrafts), Ministry of Textiles, Government of India.
- Situated at # 1259-60, Vinoba Road, Mysore 570001.



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- Recently Agarbathi has been included in Handicrafts list.
- All supports will be extended to this sector as it is already being done in case of other Handicraft items.
- No sales outlets are opened, but assist in participating in exhibitions conducted at national and regional level.
- It is advisory board service can be extended to Agarbathi also.
- Handicraft artisans enrolled – 13 district approximately 7000, and in Mysore district it is around 2000.
- Export help can be done through Bangalore office involving, Export promotional council, ITPO, etc
- Assists the buyer by tie-up.

SIDBI Bangalore

- Person contacted: Shri R K Agarwal, Deputy General Manager, Bangalore.
- Cluster development activity is already going on in different parts of India with assistance of SIDBI.
- Any cluster can be supported within the norms of SIDBI.
- There are 25 financing and other refinancing schemes available to all sector industries.
- There is special scheme for artisan within 2 lacs.
- Pure working capital finance is not possible.
- Many programmes like seminars, workshops, training etc can be conducted if group participate actively on sharing basis.

Vivesvaraya Industrial Trade center (VITC)

- Person contacted: Shri K Thimmarayappa, Managing Director, VITC Bangalore.
- Situated at : Kasturba Road, Bangalore – 560001
- VITC is nodal agency of Government of Karnataka for promotion of international trade from the state.
- Export related seminars, other programmes are being conducted regularly throughout state.
- Provides escort services to entrepreneurs.
- Arranges participation of small-scale industries in national and international exhibitions.
- Helps in resolving problems of entrepreneurs engaged in international trade with concerned central and state government departments, organization.
- Specialized services can be utilized by registering with VITC with annual fees of Rs 1500.
- Many Agarbathi exporters are participating in exhibition at national and international trade fairs.
- Agarbathi industry can utilize this center to expand the market.



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NON-GOVERNMENT ORGANIZATIONS

There are many NGOs in Mysore working for rural developments. These are also engaged in training people in Agarbathi rolling. These can be effectively utilized in strengthening Agarbathi industry. Following two organizations were picked up randomly as samples.

Rural Development And Self Employment Training Institute

- Person contacted: Shri Ramanujam, Joint Director, RUDSETI, Mysore.
- Situated at: Hunsur Road, Hinkal, Mysore.
- Established at Ujire village of Karnataka 1982 with sponsors – Sri Dharmasthala Manjunatheswara educational trust, Syndicate Bank, Canara Bank.
- Has trained people in Agarbathi rolling as residential programmes.
- Can be utilized by the Agarbathi industry.
- Conducts government sponsored programmes also.
- Numbers of other programmes are being conducted on regular basis.

Jagadguru Sri Shivaratrishwara Janshikshana Sansthe

- Person contacted: Shri Channabasappa, Principal, JSSJSS institute, Mysore.
- Situated at: # 10671/1, Vanivilas Road, Mysore.
- Established during 1986 April 1 as J S S SHRAMIK VIDYAPETHA, sponsored by Ministry of Human Resource Development, Government of India.
- Numbers of programmes are being conducted regularly.
- Training people in Agarbathi rolling, industry can utilize this opportunity also.

For both institutes infrastructure are available, permanent and guest faculties are working.