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CONTENTS

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Editorial Note

The business and investment climate in the country appears to be on the upswing. With government pushing hard the business agenda at the national and international level, the confidence of investing community is bullish. The rise in the contribution of the industrial and service sector to the total national product, since the last few years is the result of the favorable policy climate created by the new regime. In spite of the short term fall in the production indices the analysts predict a quick recovery in the coming months. The coordinated policy decisions regarding the fiscal and monetary policy issues are sending the right signals to the markets. Keeping in view the dynamic changes taking place in the business environment the management concepts of mergers and acquisitions is selected for publication in the present issue.

But the only dark cloud appears to be the weak agriculture sector. The rising trend of farmers' suicide in different states is becoming a cause of concern to the policy makers at the state as well as national level. Accordingly an article on agriculture sector is being published in the present issue of our journal. Such studies on agriculture and their publication are the need of the hour. Discussions and deliberations in different forums as well as publications of findings of studies on agriculture will bring forth new solutions to the current burning problem in India. Keeping in view the issues of national importance articles pertaining to these are selected for publication in the present volume. The published articles will be of use for young researchers, scholars and academicians.

Dr. T. V. G. Sarma
Editor

Reducing Channel Members in Agribusiness Industries : An Effective Tool for a Win-Win Situation

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Abstract: Distribution of agricultural products from farmers to customers has been a continual challenge in agribusiness industries. Over the years a relatively traditional system has evolved into a more complex distribution network that includes farmers, consolidators, commission agents, trader, wholesalers, retailers and the customers. A number of factors are forcing the traditional distribution system to be substantially restructured and reconfigured.

This paper will throw a light on how increased number of channel members in traditional distribution channel reduces the profit margin to the farmer, how the middle men makes money and how the product price increases till the time it reaches to final consumer. In developed countries the number of channel members is very less as compared to countries like India; therefore the farmers and the final consumers both are getting maximum benefits.

This paper explains the feasibility of the different distribution channel alternatives and how might one make intelligent distribution channel choices in this increasingly competitive business environment.

Keywords: Agribusiness distribution, Distribution channels, Channels in agricultural products, Distribution strategy, Marketing intermediaries in agribusiness.

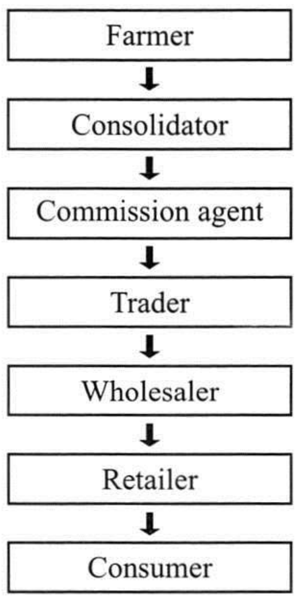
1.0 Introduction:

In the developed countries, agribusiness is defined as the total output arising from farm production and product processing at both pre and post farm gate levels. In developing countries like India, the agribusiness sector encompasses four distinct subsectors, viz. agricultural inputs; agricultural production; agro-processing; and marketing and trade. All these add value or utility to the goods. Agribusiness is emerging as a specialized branch of knowledge in the field of management sciences. In this context, agribusiness can be defined as science and practice of activities, with backward and forward linkages, related to production, processing, marketing, trade and distribution of raw and processed food, feed and fiber, including supply of inputs and services for these activities.

Marketing channels for agricultural products vary from product to product, country to country, lot to lot and time to time. For example, marketing channels for fruits are different from those of food grains. Packaging plays a crucial role in the marketing of fruits. Most farmers or producers, perform one or more marketing functions. They sell the surplus either in the village or in the market. Some farmers especially the large ones, assemble the product of small farmers, transport it to the nearby market, sell it there and make a profit.

1.1 Traditional system of distribution in India:

According to Pankaj Kapoor (2001), the traditional system of distribution of agricultural products which is generally followed in India is shown in the following flow chart.



In the traditional distribution system of agricultural products, the farmer generally sells it to the nearby consolidator who assembles the products of small farmers at very marginal prices who sells it to the commission merchant at a better price in which he has purchased from farmers. Then the commission merchant sells all these products purchased from different consolidators to the trader in the market again at a better price. Similarly the trader sells all these products to a wholesaler which he has purchased from different commission merchants with a better profit margin. Finally the retailer purchases these products from the wholesalers to sell them with the real and final consumer to earn the profits.

Hence we have seen that the product has to cross five levels to reach to the real and final consumers. All the marketing intermediaries from consolidator to the retailer are earning huge profits and making money through these transactions. At each level the price of the product is increasing gradually and when it reaches in the hands of the consumer it becomes very costly for them. In these transactions the ultimate loser is the farmer whereas the sufferer is the consumer.

1.2 Distribution system in developed countries:

The distribution system of agricultural products which is generally followed and which is also described by Pankaj Kapoor (2009) in developed countries is shown in the following flow chart.

Farmer
↓
Wholesaler
↓
Retailer
↓
Consumer

In the distribution system of developed countries, the product has to pass through only two channel members to reach to the final consumer. In this system, the farmers sell their products to the distributors of the agricultural products at marginal prices. Then the distributors sell all these products collected by different farmers to retailers at a better price in which he purchased from farmers. And then the retailer sells it to the real and final consumers to earn the profits.

1.3 Issues and problems in the present distribution system:

The problems and issues which we can find in the above mentioned two systems of distribution of agricultural products are enumerated below.

- The price of the product is increasing as the number of level in the marketing channel increases.
- Delay of products in reaching to the final consumer.
- Perishability of the product comes into picture specially in case of fruits and vegetables.
- Farmer is the ultimate loser who is not getting actual benefits by selling his products through this system.
- Consumer is the sufferer who has to pay a huge amount to purchase the products of his daily needs.

2.0 Proposed channel alternatives:

After keeping in mind about the issues and problems in the present distribution system of agricultural products, the author recommends two alternative channels of distribution for agricultural products which are as follows.

1. One level channel
2. Zero level channel

2.1 One level channel of distribution:

The flow chart for the proposed one level channel of distribution of agricultural products is as follows.

Farmer
↓
CA/W/D/R
↓
Consumer

In this type of channel of distribution for agricultural products, there is only one marketing intermediary who may be a commission agent or distributor or wholesaler or a retailer. In this type of distribution system the farmer sells his products to the only marketing intermediary present in the market at some what better prices as compared to the distribution system which were discussed above.

2.1.1 Examples of one level channel:

The following are some of the examples of the one level channel of distribution of agricultural products introduced in India.

i) Mother Dairy booths:

Mother Dairy basically handling milk in Delhi, was asked to try its hand in retail vegetable marketing by direct purchasing vegetables from farmers. Mother Dairy management has opened retail outlets in almost all important colonies of Delhi for providing vegetables to the consumers at reasonable prices.

ii) Apni Mandi / Kisan Mandi:

An innovative concept of 'Apni mandi' was introduced in Punjab by the Punjab Mandi Board at Chandigarh in February, 1987. Apni Mandi also called as 'Kisan Mandi', is different from the traditional Mandi, where the produce moves to the buyer through either a commission agent or trader. In Apni Mandi, farmers sell their produce directly to the consumers without involvement of the middlemen.

2.2 Zero level channel:

The flow chart for the proposed zero level channel of distribution of agricultural products is as follows.

Farmer
↓
Consumer

In this type of distribution channel of agricultural products, there is no marketing intermediary between farmers and consumers. The farmers can sell their products directly to the final consumers and can enjoy maximum profits.

2.2.1 Examples of zero level channel:

The following are some of the examples of the zero level channel of distribution of agricultural products introduced in India.

i) Hadapsar vegetable market:

Hadapsar vegetable market is a model market for direct marketing of vegetables in Pune city. This is one of the ideal markets in the country for marketing of vegetables. In this market there are no commission agents or middlemen between farmer and consumer. Buyers purchase vegetables in lots of 100 Kilograms or 100 numbers.

ii) Rythu Bazars:

Rythu Bazars have been established on 26th January 1999 in the major cities of Andhra Pradesh state with the prime objective to provide direct link between farmers and consumers in the marketing activity of fruits, vegetables and other essential food items. Both producers and consumers are benefitted from Rythu Bazars as producer's share in the consumers rupee is more by 15 to 40 percent and consumers get fresh vegetables, fruits and food items at 20 to 35 percent less prices than the prevailing prices in nearby markets.

iii) E-Choupal:

Choupal is a Hindi word which means "village meeting place". E-choupal is a virtual market place innovated by ITC Ltd. where farmers can transact directly with a processor and can realize better price for their produce. E-choupal has the advantages of the market but spans very large varieties of vendors and customers. Geographical distances do not restrict participation in the E-choupal. The main disadvantage of conventional market is that information asymmetry is inherent in the market whereas E-choupal provides for transparent transactions. This enables the participation of smaller as well as larger players. Elimination of some layers of intermediaries allows for larger share of profits to reach the lower end of value chain.

iv) Uzhavar Sandies:

Uzhavar Sandies (Farmers' market) were established in selected municipal and panchayat areas of the Tamil Nadu by the state government. In these markets, farmers enjoy better marketing infrastructure free of cost and also receive considerably higher prices for the products than what they use to receive from middlemen at village or primary markets of towns.

v) Shetkari Bazars:

On the lines of farmers markets in other states, the Shetkari Bazars were established in the state of Maharashtra for the marketing of fruits and vegetables. The Shetkari Bazar, by eliminating marketing intermediaries, links producers directly to the consumers, reduces price-spread (margin of intermediaries) and enhances producer's share in consumer's rupee.

vi) Krushak Bazars:

Government of Orissa has taken a programme of establishing Krushak Bazars in the state of Orissa in the year 2000-01 with the purpose to empower farmers to compete effectively in the open market to get a remunerative price for his produce and to ensure products at affordable prices to the consumers.

3.0 Findings:

By comparing the traditional channels with the proposed channels, the author feels that the proposed channels are far better than the traditional channels in a number of ways as follows.

- As the number of marketing intermediary is one or absent, the price of produce is not adversely affected.
- Delay of products in reaching to the final consumer and Perishability is avoided.
- Farmers will get maximum benefit by selling their produce at better prices, at the same time consumers will buy their needs at reasonable prices.

As both one level and zero level channels are equally good, the farmers can sell their produce according to the availability and convenience in their own locality.

4.0 Recommendations:

i) Awareness:

Majority of the farmers as well as consumers are not aware about availability of such kind of markets. Therefore the government should create awareness among farmers as well as in consumers about it.

ii) More markets:

All the state governments should take necessary actions about introducing these kinds of markets on taluka levels for the benefit of farmers and consumers and in turn for the development of the nation.

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