Chapter - III

Distribution Mechanism
The conclusions derived from the foregoing chapter clearly show that apple industry has an important role to play in the horticulture sector of the State. Hence, the Government should mobilise all its resources under its command to give a boost to this industry. In fact this has been done to a major extent under the successive Five Year Plans but the returns from the said industry have not been commensurate with the inputs that have gone into this industry. The analysis that follows makes it abundantly clear and the reasons for all this are not far to seek. The defective and unscientific distribution system of the apple products right from the growers upto the ultimate consumers has proved one of the greatest stumbling blocks in this behalf. With a view to know more about the existing system of distribution a review has been made in the present chapter, highlighting the main ills that have infected the distribution system.

Channel of distribution provides the mechanism through which a company gains access
to the target market for its products. A market channel or channel of distribution, is a path traced in the direct or indirect transfer of ownership to a product, as it moves from a producer to ultimate consumer or industrial users. 

"Channel, is the structure of the intra-company organisation units and extra-company agents and dealers, wholesale and retail through which a commodity, product or service is marketed." Says the American Marketing Association.

In the ultimate analysis, channel of distribution is an organised network of marketing institutions which in combination perform all the activities required to bridge the gap between point of production and point of consumption. A right product with a right price and right promotional campaign can exercise its unfailing


impact on the sales volume only when the buyer is assured of a regular supply of the product. A suitable marketing channel tremendously affects decisions regarding product, pricing methods and strategies, promotional policies and programmes.

The selection of an appropriate marketing channel is a highly complex issue. For most producers, there are traditionally established channels though there are few instances where producers create entirely new channel arrangements suited to their specific requirements. The simplest channel arrangement is when a producer directly sells to the ultimate consumer either through its sales force or through its retail outlets. However, there is a wide gap between the producer and the ultimate buyer particularly in horticulture products, a host of intermediaries, such as selling agents, forwarding agents, wholesalers, semi wholesalers, independent retailers, producers owned retail outlets, commission

agents, brokers, accredited dealers have to be employed to bridge the gap between producer and the target market. Thus marketing institutions which are of particular interest in horticulture marketing can be classified as follows:

A) Merchant Middlemen
   i. Retailers and
   ii. Wholesalers

B) Agent Middlemen
   i. Brokers, and
   ii. Commission agents

Merchant middlemen take title to, and therefore own, the products they handle. They buy and sell for their own interests. The retailer purchases products for resale directly to the ultimate customers of the goods. From the functional viewpoint, the retailer has to perform all the marketing functions. The wholesalers sell to retailers, and industrial users, but does not sell in significant amounts to ultimate consumers. Wholesalers make up a highly heterogeneous group of varying sizes.

Agent middlemen, as the name implies, act only as representatives of their principals. They do not take title to, and therefore do not own, the products they handle. While merchant wholesalers and retailers secure their income from a margin between the buying and selling prices, agent middlemen receive their incomes in the form of fees and commissions. The agent middlemen generally arrange delivery, extend necessary credit, collects, deducts his fees and remits the balance to the principal.

Viewed against this background a review of the existing channel structure of apple industry of the State depicts that the choice of channels by and large conforms to the channels adopted in the case of agricultural products in the country as a whole. The channel linkage operative in the apple industry takes the following form:

A) Zero-level channel:

In this type of situation no intermediary exists between growers and consumers. Thus, it can

5. Ibid, Opp.cit, p. 29
be termed as a case of direct channel.

B) Three-level channel:

Three-level channel is a market situation where apart from the growers and the consumers, three stages/intermediaries are involved in the distribution process. In the apple industry of the State, this type of channel exists in two forms as shown below in Fig. II and III.
In the alternative channel as shown in the figure III, the place of commission agent has been taken by JKHPMC while other intermediaries are common in both the situations. It is, therefore, obvious that the role of JKHPMC is no less or more than that of a commission agent as already stated in chapter II.

C) Four level channel:

Four level channel operates in the three forms as shown in figures IV, V, and VI.
It would be seen from the above diagrams that in actual effect this is a case of six tyre channel structure from producer to ultimate consumer, with different functionaries playing their specific roles.

As a matter of fact a broad classification of channels as in vogue in the apple industry can broadly be divided into two heads: -

i. Pre-harvest channel; and
ii. Post-harvest channel.

In the case of former only one channel with a linkage of four tyres i.e., grower, preharvest contractors, commission agent, wholesaler, retailer and consumer, is included whereas rest of the types are operative in the post harvest situations.
The empirical results obtained during the course of field investigation conducted by the scholar, clearly show that most common channel adopted by the growers in the State is four level channel as is clear by Table 3.1. The relative importance of each channel for apple growers has been discussed below:

A) Zero level channel

i) Direct channel:

In this channel no intermediary exists between grower and consumer. A direct relationship is developed between them. Normally this channel is supposed to be the best and most remunerative one but practically it is the least used one. Under this channel the sale of apple takes place direct to the consumers like tourists, military personnel, hotels, hospitals, educational institutions etc.

B) Three-level channel

i) Commission agent's channel:

This is the most common channel used by the fruit growers of the State. The empirical study shows that out of 150 sample orchardists 98
### Table 3.1
Marketing of apple through different channels in Jammu and Kashmir

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Marketing channel</th>
<th>B.M.</th>
<th>%age</th>
<th>M</th>
<th>%age</th>
<th>A.M.</th>
<th>%age</th>
<th>No. of orchardists (total)</th>
<th>%age of orchardists to the total sample (150)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Commission Agents</td>
<td>28</td>
<td>28.57</td>
<td>32</td>
<td>32.65</td>
<td>38</td>
<td>38.78</td>
<td>98</td>
<td>65.33</td>
</tr>
<tr>
<td></td>
<td>(48.28)</td>
<td></td>
<td>(66.67)</td>
<td></td>
<td>(86.36)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>JK HPMC</td>
<td>4</td>
<td>50.00</td>
<td>4</td>
<td>50.00</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>5.33</td>
</tr>
<tr>
<td></td>
<td>(6.90)</td>
<td></td>
<td>(8.33)</td>
<td></td>
<td>(9.09)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Forwarding Agents</td>
<td>10</td>
<td>55.56</td>
<td>4</td>
<td>22.22</td>
<td>4</td>
<td>22.22</td>
<td>18</td>
<td>12.00</td>
</tr>
<tr>
<td></td>
<td>(17.24)</td>
<td></td>
<td>(8.33)</td>
<td></td>
<td>(9.09)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Preharvest contractors</td>
<td>10</td>
<td>62.50</td>
<td>4</td>
<td>25.00</td>
<td>2</td>
<td>12.5</td>
<td>16</td>
<td>10.67</td>
</tr>
<tr>
<td></td>
<td>(17.24)</td>
<td></td>
<td>(8.33)</td>
<td></td>
<td>(4.55)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>5.</td>
<td>Cooperative Society</td>
<td>6</td>
<td>60.00</td>
<td>4</td>
<td>40.00</td>
<td>-</td>
<td>-</td>
<td>10</td>
<td>6.67</td>
</tr>
<tr>
<td></td>
<td>(10.34)</td>
<td></td>
<td>(8.33)</td>
<td></td>
<td>(8.33)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Direct</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>7.</td>
<td>Total</td>
<td>58</td>
<td>24</td>
<td>44</td>
<td>44</td>
<td></td>
<td></td>
<td>150</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td></td>
<td>(100.00)</td>
<td></td>
<td>(100.00)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B.M. = Below marginal; M = Marginal, A.M. = Above marginal

Source: Constructed by the scholar on the basis of field investigation.
growers constituting 65.33 percent opt for this channel. Out of these 93 orchardists 23 were below marginal land holders, 32 marginal and 33 above marginal owners constituting 23.57 percent, 32.65 percent and 33.78 percent of the total respectively. Under this channel the important marketing activities like picking, grading, packing, transportation etc. of the produce to the target market are being performed by the growers. The only marketing activity being performed by the commission agent is the disposal of fruit at the terminal market. The service charges of these commission agents vary from 6 to 3 percent on gross sale of the produce for the said activity. The investigation further reveals that the commission agents usually sell the fruit to such of the wholesalers as have some kind of mutual understanding with them. Such a practice has an adverse impact on the fruit return as it leads to the filling of fictitious

7. Author's discussion with the Commission Agents.
returns commonly known as "Watak" by the commission agents.

ii) JKHPMC channel:

The three level channel involving grower, JKHPMC, wholesaler, retailer, and consumer is comparatively beneficial and economical compared to other available traditional channels. It involves all marketing activities except risk-taking. Under this system the corporation, itself picks fruit from the grower's orchard which they later on send it to the various terminal markets after proper grading and packing. The grading and packing of fruit is done at the corporation's modern and mechanical centres located at various places shown in the appendix -I. The sale of the fruit to the wholesalers at Delhi takes place at its own sales centre while in case of other terminal markets the fruit is sold through commission agents in the presence of the officers namely Area Marketing

Author's discussion with the Marketing Executives of the Corporation.
Officers of the Corporation. For rendering this service the corporation charges Rs. 1.00 and Rs. 0.50 n.p. as forwarding charges on full, and half box respectively from the individual growers. While the same charges for the cooperative societies are Rs. 0.75 and Rs. 0.50 respectively. The grading and packing charges are Rs. 2.00 per box in addition to cost of material consumed in packing. Over and above this the corporation deducts 4 percent on gross fruit returns to the grower by way of its commission.

The sample results show that 8 orchardists out of 150 constituting 5.33 percent of the sample, adopt this channel. Of the 8 orchardists the number of marginal and below marginal orchardists is just equal. It is sad to note that majority of the orchardists have not been able to take advantage of this channel. This is obviously the result of their ignorance about the existing facility. Hence, the corporation need to launch a vigorous publicity campaign so that the growers know about such facilities. This should be also supplemented by
providing adequate financial assistance to the needy growers at the time of harvest so as to check them falling into the clutches of commission agents.

**c. Four level channels**

i. **Pre-harvest contractor's channel:**

Pre-harvest contractor's channel with the linkage of grower, pre-harvest contractor, commission agent, wholesaler, retailer, and consumer, is commonly found in case of marginal, and below marginal growers of the State. Under this method the orchard is given on a contract for a specific period which is normally of two years to the contractors. Under this arrangement the contractors themselves assume the responsibility of looking after the orchard and its produce. The terms and conditions for contract vary from orchardists to orchardist. The contract is executed well before the blossoming time. It can even be executed any time before the ripening of the fruit. However, the general practice is that the agreements are drawn between the concerned
parties at the time of blossom. In this manner the marketing risks are shifted from growers to the pre-harvest contractors. The growers feel safe even in the adverse conditions resulting in the loss to the contractors.

According to the survey results conducted by the scholar, it has been noticed that as many as 16 orchardists constituting 10.67 percent of the total opt for this channel out of a sample of 150. Of this 16 orchardists, the number of below marginal, marginal, and above marginal growers, stood at 10, 4, and 2 forming 62.50 percent, 25 percent and 12.50 percent respectively.

Despite the fact that the pre-harvest contract system has some advantages, the fact remains that system on the whole has proved detrimental to the interest of the growers in more than one way. Under the system the advance payments made to the orchardists prove as an intoxicant under the influence of which the growers hardly came to know the real worth of their produce or even if they do,
they just do not bother to bargain. Therefore, the system has resulted in reducing the bargaining power of the grower under the allurement of advance payment and in the face of organised resistance offered by the contractors. It has also been seen that by working out this arrangement with the growers, bulk of whom consists of marginal and below marginal growers, the contractors more often than not get their produce at comparatively lower rates. Even the advance money is not made available to them in lumpsum but in installments. The distressing part of the situation is that these contractors fail to keep their promise under situations of depressed market conditions. The growers consequently have to be contented even in the absence of recovering the outstanding installments. Last but not the least drawback with the system is that maintenance of the orchards is neglected as the contractors are mainly concerned with the current year produce to the neglect of its future prospectus.

Most of the defects of the preharvest contract system can be minimised by checking the
malpractices of the contractors through an effective contract deed, enforceable by the law of land in the event of any default on their part. The provisions of agreement can be made specific and stringent. At the same time the marginal and below marginal growers are to be properly educated and informed about their rights as well as the defects arising out of the preharvest contract system. There is also urgent need to organise them so that their bargaining power is enhanced through a collective approach. The Government agencies have a positive role to play in this behalf.

ii) **Forwarding agent's channel**:

Another facet of four level channel which links the growers with the consumer involving forwarding agent, commission agent, wholesaler, and retailer has been found to be the next important route after the commission agent's channel. Table 3.1 reveals that 12 percent of the orchardists sold their produce through this system. Out of 8 orchardists forming 12 percent of the sample, the
number of marginal and below marginal growers was just equal. No above marginal grower was found using this channel in the sample survey conducted by the scholar.

Under this system the forwarding agents perform the role of an intermediary between the grower and the commission agents at export marketing centres. These forwarding agents are charged with the responsibility of maintaining accounts between the grower and the commission agent. "Wataks" are also received by the growers from the commission agents through the forwarding agents. The normal activities of a forwarding agent is to arrange for the transportation of fruit and to pay octroi, loading charges and taxes levied on the fruit. Presently Rs. 2.37 per standard box of apple are charges by these agents from the growers for such facilities. It has also been observed that in certain cases the forwarding agents emerge as financiers and advance loans to the growers on high rate of commission.
The system of routing fruit through forwarding agents has find favour with the growers. This is so because it provides some of the important facilities to the growers in the form of provision of finance, transportation etc. Naturally the growers are saved from a lot of botheration and are in a better position to look after their orchards efficiently and effectively. Such a facility is absent under the leasing out system to the preharvest contractors. Once the fruit is sold through the commission agents at the terminal market, the grower is provided with sort of an income and expenditure statement technically known as "watak".

However, the system suffers from certain inherent defects. To overcome the same another form of routing the fruit from growers to consumer viz., cooperative society is also widely practised by the producers/growers.

iii. Cooperative society channel:

Cooperative society is the third form of four level channel system. Under this arrangement as many as four intermediaries are involved and the linkage is formed as under:

Grower ... Cooperative society ...
National Agriculture Marketing
This linkage eliminates two main intermediaries namely commission agent and forwarding agent, whose role is taken by Cooperative Society and National Agriculture Marketing Federation, in an effective and better manner. In the absence of forwarding, and commission agents, this channel has gained more popularity as would be seen by the fact that the number of Fruit Growers Marketing Cooperative Society has risen from 2 to 45 between 1973 - 76 and it touched a figure of 100 by 1980 - 81. Within a period of 8 years there has been an increase of 50 times in the number of such societies operating under this channel. It, therefore, imply demonstrates that Cooperative form of marketing the fruit has gained more favour than any other system mentioned in the outgoing paras. This fact is further collaborated by Table 3.1 which exhibits that out of the 150 sample orchardists, 10 orchardists constituting 6.67 percent of the total dispose off their produce through these societies. Out of 10 orchardists, the number of marginal and below marginal growers are
4 and 6 forming a percentage of 40 and 60 respectively. No above marginal grower was found in the sample using this channel for disposal of fruit.

Under this channel only the members of the society are entitled to avail of the marketing facility. Those of the growers who are eligible to be the members of the cooperative society have to satisfy the following two conditions after paying a sum of Rs. 100/- towards the share capital and Rs. 10 as the membership fee:

a. the grower should not possess more than ten kanals of orchard; and

b. should keep two to three kanals of orchard as mortgage with the cooperative society. The society in turn is to keep this mortgaged with the concerned bank for the purpose of getting finance, on behalf of the member.

The bank sanctions loans to the growers according to the demand sheet of the society. However, the approval of the Registrar of Cooperative is a prequisite before loan is sanctioned by

* Reproduced at appendix - II
the bank. The growers are normally charged 9 percent interest by the bank on the loans sanctioned. The amount, thus advanced by the Cooperative Society plus costs incurred on marketing is reduced from the gross sales and the net balance is passed on to the growers.

A distinct advantage with cooperative society is that they charge comparatively a lower rate of commission usually Rs. 1.50 per box, whereas the National Agriculture Marketing Federation (NAFED) charges 3.5 percent of gross sales as commission at terminal markets. But it is unfortunate to find that with all these facilities growers have failed to take benefit of these facilities.

FACTORS RESPONSIBLE FOR CHOICE OF CHANNEL

The foregoing discussion reveals that commission agents have dominated the apple trade in Jammu and Kashmir State and do not allow the other marketing agencies to enjoy a good share in the marketing of horticulture produce irrespective of the fact that the age old traditional
channel viz. commission agent is not a modern and economical as compared to some other channels like JKHPMC and Cooperative Society.

The selection of a specific channel alternative is normally done on the basis of two main criteria:

a. Cost, and
b. Controllability

Ordinarily, there is no such sound and solid reasons for the selection of commission agents channel by the fruit growers of the State. However, the following reasons have been found for the non adoption of some other modern and suitable available marketing channels:

a. Most of the growers do not market their produce through apple marketing cooperative societies because they have no idea of the integration concept and the advantages that would accrue

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10. Scholar's discussion with apple growers / producers of the State.
to them through this arrangement. Some of the growers are of the opinion that these societies are not capable to provide the necessary and efficient services to the growers in apple marketing as are provided by the commission traders.

b. The commission agents extend a particular hospitality to their clients and also provide meals and tea etc when the growers visit them at even odd hours. They are often provided with board and lodge facilities in case they stay on for the night at export marketing centres. Such facilities are not possible in other channels like JKHMC, cooperative societies etc.

c. The growers prefer commission agents for their credit needs because they keep these loans as secret. Also the growers obtain credit from the commission agents for such purposes for which they do not get institutional credit. They get credit from them at almost any time they want. This was one of the major reasons for growers preference to commission agents.
d. Generally, growers would patronize that agency for sale of their produce which their forefathers had patronized for years before them. There exists close contacts and time-honoured relationship between the growers and the commission agents and they do not care to sever these relationships unless substantial economic incentives are offered by the alternative agency. Personal relations play a dominating role in the promotion of business.

e. Some growers believe that commission agents pay higher returns for their produce than the other alternative agencies. The cooperatives and other public agencies need to remove this impression through actual demonstration otherwise their business at extensive scale is not possible.

f. It has been indicated by some growers that the produce at commission agent's shop is disposed of quickly than in case of cooperative societies and the like. With the result there are less chances of deterioration of fruit through this channel.
g. At present, the cooperative marketing societies and public agencies hesitate to make out-right purchases for fear of price fluctuations and the resultant losses. At the same time these agencies do not make any bid whereas the commission agents participate in the bidding operations to create an impression in the mind of the seller that they help the growers to get maximum returns for their produce. So long as employees of these public agencies and cooperatives are salaried, they do not take many market risks which the commission agents normally do. The salaried employees of these marketing agencies do this for fear of losing their jobs.

h. The employees of JKHPUC and cooperative societies are salaried persons and follow fixed schedules of working hours. They show inability to attend their customers at odd hours as they do not have sufficient business incentives.

From the above discussion it can safely be concluded that the fruit growers have
a variety of channels at their disposal for routing their products. Each having its own merits and demerits with varying cost components. Whichever channel the grower might adopt fails to give him the due returns. This is because most of the channels involve a number of functionaries who thrive at the cost of the growers. The only channel which could assure good returns to the growers is that of a zero-level channel but unfortunately this is not much in vogue, as the growers are not in a position to handle the market operations all by themselves. Under the circumstances it would be worthwhile to identify a channel or channels that could be less expensive and more remunerative to the growers. The following chapter is, therefore, devoted to the discussion of cost—returns benefits of various channels open to the growers.