CHAPTER -III

MARKETING EFFECTIVENESS OF APPLE PRODUCE
IN KASHMIR

The conclusions derived from the foregoing chapter brings to light the fact that cooperative system has been introduced in almost all major economic activities of the State but at the same time, it is depressing to note that the concept of cooperation has not been used in apple marketing in its true spirit. The State of Jammu and Kashmir has most suitable agro-climatic and geographical conditions for the production of various kinds of fruits. Out of the total geographical area of the State 29 per cent is the net sown area which includes 20 per cent under fruits.\(^1\)

It is estimated that there are more than one lakh orchards in the State at present involving about ten lakh people in various horticultural activities. The industry has earned a revenue of 200 crores in the year 1987-88 besides providing job facilities to lakhs of people (32 per cent of the working population of the State) directly or indirectly.\(^2\) This


\(^2\) Govt. of J & K, A Short Review of the different important aspects of the fruit industry, 1987-88, Directorate of Horticulture (P & M), Srinagar (Kashmir) 1967, p. 348.
employment and income generating potential has indeed made the horticulture industry the bulwark of rural economy in the State. The State of Jammu & Kashmir, the land of flora and fauna possesses a very rich history of fruit cultivation especially apple. Kashmir apple lived up to its distinguished reputation of being one of the most choicest fruits. Though the production of apple is also found in Himachal Pradesh and Uttar Pradesh yet Kashmir continues to be the hub of apple industry of the country. The State has not only an edge over Himachal and Uttar Pradesh in the field of production but also in marketing as Jammu and Kashmir is the largest apple producing and exporting State, among the various fruits which grow in the State. Apple production amounts to 7.24 lakh metric tonnes representing 94.89 per cent of the total fruit production in 1988-89.\(^1\) It clearly reveals that there is bright chance to utilise this sector for the overall economic development of the State. But its success largely depends on market structure. An efficient and speedy marketing system is a crucial factor for both the maximisation of profits and satisfaction of the consumer. The scholar feels that cooperative marketing is the right weapon for the

efficient utilisation of horticulture resources of Jammu and Kashmir in general and apple produce in particular. Consequently it will be an interesting study to examine the reasons for the non-adoption of the cooperative system in apple marketing of Jammu and Kashmir. In this chapter an attempt is made to study the popularity and efficiency of marketing channels with special emphasis on cooperative channel.

Marketing 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. Infact, 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 popularity of the channels, their relative merits and demerits and reasons for the adoption of a particular channel by the growers.
Channel of distribution provides the mechanism through which a company gains access to the target market for its products. A market channel or channels 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.¹ "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".² 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.³ 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 other 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 little 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 and characteristics.

Agent middlemen, as the name implies, act only as representatives of their principal. They do not take little 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 commission. The agent middlemen generally arrange delivery, extends necessary credit, collects, deducts his fees and remits the balance to the principal.


2. Ibid., p. 29.

3. Ibid., p. 30.
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 be termed as a case of direct channel. See Figure I.

B. **Three-level Channel:**

Three-level Channel is a market situation where apart from the growers and the consumer three stages/intermediaries are involved in the distribution process. In apple industry of the State, this type of channel exists in two forms as shown in Figure II & III.

In the alternative channel as shown in the Figure III, the place of commission agents has been taken by JKHPMC while other intermediaries are common in both the situations. It is, therefore, obvious that the role of JKHPMC is not less or more than that of a commission agent.
THREE LEVEL CHANNEL

FIGURE II

GROWER

COMMISSION AGENT

WHOLE SALES

RETAILER

CONSUMER
FOUR LEVEL CHANNEL

FIGURE - III

CONSUMER

RETAILER

WHOLESALE

COMMISSION
AGENT

PRE-HARVEST
CONTRACTOR

GRO-MER

PRE-HARVEST
CONTRACTOR
C. **Four-level Channel:**

Four level channel operates in the following three forms as shown in Figure IV, V and VI.

It would be seen from the overall channel diagram as shown in Figure VII, that in actual effect this is a case of six tier channel structure from producer to ultimate consumer, with different functionaries playing their specific roles.

**Existing Marketing Channels and Their Popularity:**

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 tiers i.e. Grower, Pre-harvest 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
OVERALL CHANNEL DESIGN

GROWER

FORWARDING AGENT

COMMISSION AGENT

WOLESALE

RETAILER

CONSUMER

NAFED

COOPERATIVE SOCIETY

PRE-HARVEST CONTRACTOR

JKHMC
that most common channel adopted by the growers in the State is four level channel as is clear from Table 3.1. The relative importance of each channel for apple growers has been discussed below:

A. **Zero-level Channel**
   
   1. **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 consumer like tourists, military personnel, hotels, hospitals, educational institutions etc.

B. **Three-level Channel**

   1. **Commission agent's Channel**: This is the most common channel used by the joint growers of the State. The empirical study shows that out of the 150 sample orchardists 98 growers constituting 65.33 per cent opt for this channel. Out of these 98 orchardists 28 were small growers, 32 medium and 38 large growers, constituting 28.57 per cent, 32.65 per cent and 38.78 per cent of the total respectively. Under this channel the important marketing activities like
<table>
<thead>
<tr>
<th>S. No.</th>
<th>Marketing channel</th>
<th>S.G. Percentage</th>
<th>M.G. Percentage</th>
<th>L.G. Percentage</th>
<th>No. of Orchardists (Total)</th>
<th>% of Orchardists to the total sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Commission Agents</td>
<td>28 (48.28)</td>
<td>32 (66.67)</td>
<td>38</td>
<td>38.78</td>
<td>98</td>
</tr>
<tr>
<td>2.</td>
<td>JK HPMC</td>
<td>4 (6.90)</td>
<td>4 (8.33)</td>
<td>-</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>3.</td>
<td>Forwarding Agents</td>
<td>10 (17.24)</td>
<td>4 (8.33)</td>
<td>22.22</td>
<td>22.22</td>
<td>18</td>
</tr>
<tr>
<td>4.</td>
<td>Pre-harvest contractors</td>
<td>10 (17.24)</td>
<td>4 (8.33)</td>
<td>25.00</td>
<td>12.5</td>
<td>16</td>
</tr>
<tr>
<td>5.</td>
<td>Cooperative society</td>
<td>06 (10.34)</td>
<td>4 (8.34)</td>
<td>40.00</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>6.</td>
<td>Direct</td>
<td>- (-)</td>
<td>- (-)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7.</td>
<td>Total</td>
<td>58 (100.00)</td>
<td>48 (100.00)</td>
<td>44</td>
<td>150</td>
<td>100.00</td>
</tr>
</tbody>
</table>

S.G. = Small growers, M.G. = Marginal growers, L.G. = Large growers
JKHPCMC = Jammu & Kashmir Horticulture Produce Marketing and Processing Corporation, Srinagar
Source: Constructed by scholar on the basis of primary data.
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 8 per cent on gross sale of the produce for the 
said activity.\(^1\) 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 returns 
commonly known as "watak" income and expenditure statement 
received by growers from 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 growers 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 

\(^1\) Scholar's discussion with Commission Agents.
centres located at various places shown in the appendix 'G'. 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 Officers of the Corporation. For rendering this service the Corporation charges Re 1.00 and Re 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 per cent on gross returns to the grower by way of its commission.

The sample results show that 8 orchardists out of 150 constituting 5.33 per cent of the sample, adopt this channel. Of the 8 orchardists the number of medium and small 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 facilities. Hence, the Corporation need to launch a vigorous publicity campaign so that the growers know about such facilities. This should also be 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**

1. **Pre-harvest Contractor Channel:** PHC's channel with the linkage of grower, pre-harvest contractor, commission agent, wholesaler, retailer and consumer, is commonly found in case of medium and small 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 orchardist 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 per cent of the total opt for this channel out of a sample of 150. Of this 16 orchardists, the number of small, medium and large growers, stood at 10, 4 and 2 forming 62.50 per cent, 25 per cent and 12.50 per cent 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 care 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 medium and small 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 instalments. The distressing part of the situation is that these contractors fail to keep their promise under situations of depressed marked conditions. The growers consequently have to be contended even in the absence of recovering the outstanding instalments. 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 pre-harvest 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 medium and small growers are to be properly educated and informed about their rights as well as the defects arising out of the pre-harvest 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 fact 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 per cent of the orchardists sold their produce through this system. Out of 8 orchardists forming 12 per cent of the sample, the number of medium and small growers was just equal. No large 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 agents. "Watak"s 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 octrio, loading charges and taxes levied on the fruit. Presently Rs 2.37 per standard box of apple are charged by these agents from the growers for such facilities. It has also been observed that in certain cases the forwarding agents emerge as financers and advance loans to the growers on high rate of commission.

The system of routing fruit through forwarding agents has found 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 as facility is absent under the leasing out system to the pre-harvest contractors. Once the fruit is sold through the commission agents at the terminal market, the grower is provided with sort of a 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 - NAFED - Wholesaler - Retailer - Consumer

This linkage eliminates two main intermediaries viz. commission agent and forwarding agent, whose role is taken by Cooperative Society and NAFED, in an effective and better manner. In the absence of forwarding, and commission agents, this channel has gained more popularity. This fact is further collaborated by Table 3.1 which exhibits that out of 150 sample orchardists, 10 orchardists constituting 6.67 per cent of the total dispose off their produce through these societies. Out of 10 orchardists, the number of medium and small growers and 4 and 6 forming a percentage of 40 and 60 respectively. No large grower was found in the sample using this channel for disposal of fruit.

A distinct advantage with cooperative society is that they charge comparatively a lower rate of commission usually
Rs 1.50 per box, whereas the NAFED charges 3.5 per cent 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.

From the above discussion it can safely be concluded that fruit growers have a variety of channels at their disposal for routing their produce. 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. Thus next chapter is, therefore, devoted to the discussion of "Net Return Analysis" of various channels open to the growers to identify the share of basic growers out of the consumer every rupee which they pay for the produce in each channel separately.