CHAPTER - 3

MARKETING CHANNELS

This chapter highlights the importance of marketing channels in physical distribution of fertilisers. It first deals with the types and choice of marketing channels in general, and then describes the marketing channels, their functions, and types in fertiliser business. The chapter discusses in detail the two main components of fertiliser distribution channels in India, that is, cooperatives and private trade, and also highlights the importance of retail dealers, the last tier, in fertiliser business. After identifying the marketing channel, in the selected firms, the procedure of selection and appointment of dealers by these selected firms has been discussed. Lastly, the chapter highlights the relationship of the selected firms with their channel members.

A Marketing Channels and Physical Distribution:

Distribution channels are the various outlets through
which products pass to reach the ultimate consumer in the right quantities, at the right place and at the right time. Even in case of small sellers it becomes necessary to have some channel of distribution to achieve two important marketing objectives, that is, to supply goods to the largest number of consumers in right quantities; and to make these goods conveniently available to the consumers. Personal selling is now a thing of the past. In the present complex conditions of the society, even those manufacturers who are producing on a very small scale can not do without distribution channels. For large and medium sized organizations, who are producing goods on a large scale, a good distribution system is imperative. But it is quite a complicated process to establish suitable distribution channels to ensure an economic flow of products from the point of production to the ultimate consumer. A distribution channel can have a number of stages and a number of intermediaries between the producer and the buyer. Distribution channels can be characterized according to the number of channel levels. Each institution, beginning with the producer, that takes selling responsibility or title ownership constitutes a level. The number of levels in the channel make up its length.

There are several marketing channels of different length, such as:

1. A two-level channel - which is the shortest distribution channel, having a producer selling directly to consumer.
2. A three-level channel - which contains one selling intermediary. In consumer markets this intermediary is typically a retailer, in industrial markets he is often a sales agent or a broker.

3. A four-level channel - which contains two intermediaries. In consumer markets they are typically a wholesaler and a retailer; in industrial markets they may be a sales agent and a wholesaler.

Higher level distribution channels are also found, but with less frequency. From manufacturer's point of view the problem of control increases with the number of levels, even though the manufacturer typically deals only with the adjacent level.

Distribution channels are networks of economic institutions through which a manufacturer delivers his goods into the hands of their users. These channels bridge the gap between centrally located manufacturers and dispersed consumers. Thus they help in the physical distribution of goods. A number of authors have highlighted the importance of the marketing channels in the physical flow.¹ These distribution channels

also perform very important functions like, communication link between the buyer and the seller, promotional assistance, reduction in number of transactions, and cost reduction etc.

B Choice of a Channel:

There are many factors, which have to be considered in taking a decision about the channel of distribution. The most important problem before companies is their capacity to establish or use a particular channel. A particular company may not have resources or facilities to set up an ideal distribution channel, and may, therefore, have to resort to the use of the channel available which may not be an optimal channel of distribution from company's point of view. In most of the cases the channel decision depends upon local conditions and opportunities. But factors like, type of product, type of consumer, resources and facilities with the company, competitors channels of distribution, market coverage, channel objectives and channel alternatives must be considered in taking a channel decision.

C Marketing Channels for Fertilisers:

Distribution channels play an important decisive role in the fertiliser business. The nature of the business is such that without extensive channels of distribution, the product will not flow smoothly from the factories to the farmers. Most
of the fertiliser manufacturing firms in India consider the channel as one of the important elements in the effective planning of their distribution strategies. They have rejected, and rightly so, the option of distribution of their fertilisers through a network of their own, that is, a network of sales depot owned and operated by them. The manufacturers have recognised that it is not possible to carry out the channel functions through such a network in a cost-effective manner, and they have consciously preferred the other option of heavily depending on the established distribution channels i.e. cooperative channels as well as private trade for carrying out their distribution job.

1) Functions of Marketing Channels in Fertiliser Business:

The fertiliser firms expect their distribution channels to perform the following two sets of functions:

1. A set of special functions which arise on account of fertiliser business.

2. The distribution functions that are normally expected from any distribution channel engaged in consumer marketing.

Fertiliser business differs from that of most consumer products and intermediate products. Correspondingly, the functions/services expected from the distribution channels in
the fertiliser business differ from the ones that are expected from the channels in other businesses.

From example, because of the acutely seasonal nature of fertiliser off take, the fertiliser distribution channels are required to adjust their sales operations to the agricultural seasons. They have to hold the fertiliser stocks ahead of the season and carry forward the unsold inventories of one season to the next season. Some fertiliser firms insist that their channels must hold a substantial part of the off season inventories. Again, credit being an integral part of this business, the channels are required to have the capacity to meet the credit needs of the customers.

The most significant among the special functions of the fertiliser distribution channels is the transfer of the farm know how to the farmers along with the inputs. As a matter of fact, the fertiliser channels are not selling a commodity but they are selling a know how, the new farm technology to the farmers. This, evidently, implies that in fertiliser business the channel functions can not be narrowly delimited.

b) Types of Channels :

The distribution channels in the fertiliser business of India are usually quite long. Mostly the product travels through two or three tiers before it reaches the farmers. The
types of the channel adopted by the fertiliser firms in the
country vary widely from one firm to another, despite the fact
that all of them have a common feature, viz. the use of both
cooperaives and private trade as a part of their distribution
outfit.

1. Classification Based on Levels:

When a classification of the different types of channels
based on the levels in the channel is made then three distinct
categories are seen in fertiliser business. They are:

(i) A single tier distribution channel, consisting of
a network of dealers (retailers) serviced directly
by the firm.

(ii) A two tier distribution channel consisting of a
network of distributors and a second network of
retailers operating under the distributors. The
distributors bear varying nomenclature such as
stockists, wholesalers etc.

(iii) A three tier distribution channel that involves
marketer or a distribution house as an intermediary
between the firm and the wholesale/retail trade. In
this pattern, the channel is usually structured into
a three tier distribution outfit, because, often
the marketer, himself has a two tier distribution
system as per pattern (ii) above.
Quite a few fertiliser firms have adopted pattern (i) and (ii). A few firms have adopted pattern (iii), but a large number of firms have embraced a pattern that combines the three types mentioned above. When a firm goes in favour of a combination of different types, normally, it applies the different types in different marketing territories, maintaining uniformity within a specified marketing territory. The above classification of channels based on levels in the channel applies only to the private trade. As far as the channels in the cooperative sector are concerned, the classification based on levels is not quite relevant, because the fertiliser firms do not have the freedom in this case to decide the number of tiers. It is already there as decided by the respective state government and the fertiliser firms have to accept it as it is.

2. Sectoral Classification:

Besides the level based classification it is also possible to classify the fertiliser channels on the basis of sectoral nature of the channel members. On this basis the fertiliser channels can be classified into five different types namely:

(i) Direct outlets of the fertiliser companies
(ii) Direct outlets of the government
(iii) Cooperative outlets
(iv) Private trade outlets
(v) Agro-Industries Corporations/Sugar mills/Mixing firms.
In fertiliser business, distribution through company's own sales outlets is not practised in an extensive manner. Even in the few cases where this system is used, it is confined to the respective home markets, because establishing a distribution network that is entirely owned and managed by the manufacturing firm is an extremely difficult task. It requires considerable resources and results in huge marketing overheads.

Departmental sales outlets of the state governments have in the recent past given way to the cooperative outlets. These outlets being a part of the state setup serve the objectives of the state in the matter of fertiliser distribution. Cooperative outlets and private trade outlets are the most commonly used channels in the fertiliser business and they share the fertiliser business in the country almost on a 50:50 basis. In some states, fertiliser mixtures - powder mixtures as well as granulated mixtures are still popular. The firms engaged in this business have developed a distribution outlet of their own. They, often use this outlet for distributing the fertiliser products of one or the other of the primary manufacturers of fertilisers. Thus, these fertiliser mixing firms form yet another distribution channel for the major fertiliser firms but they do not constitute a separate category as they generally fall under the private trade. In addition to private trade, cooperatives, and the fertiliser mixing firms certain other agencies like agro industries corporations, cooperative sugar mills and private
sugar mills also function as distribution channels in the fertiliser business.

It has already been said above that cooperatives and private trade are the main components of the fertiliser distribution channels in India. The following discussion of these two components would provide more or less a clear picture of the channel pattern in the Indian fertiliser business:

I) The Cooperative Channels:

The cooperatives play a very vital role in fertiliser distribution in the country. The volume of fertilisers distributed by the cooperatives has grown over the years, keeping in tune with the overall growth in fertiliser consumption in the country and the national policy of assigning the cooperatives a commanding role in fertiliser distribution. The cooperatives have more than doubled their fertiliser business between 1969-70 and 1985-86; the volume has increased from 1.2 million tonnes in 1969-70 to 2.9 million tonnes in 1985-86 in terms of nutrients. In some states like Maharashtra and Gujarat three fourth of the total fertiliser business is accounted for by the cooperatives. The cooperative channels enjoy several inherent strengths and advantages for doing fertiliser business, some of which are discussed below:

(1) Cooperatives are voluntary organisations of farmers who are the actual end users. While the quality of service provided by the cooperatives may not be ideal in all cases, the fact remains that the cooperatives try to safeguard the interests of the farmer.

(2) The massive integrated cooperative institutional network comprising 95,782 village societies linked to 3,632 primary marketing and 171 district level societies with 29 state marketing federations in the country is unique and perhaps unparalleled. This network covers 97 per cent of nearly 6 lakh villages in the country. The cooperative channels also claim a membership of 45 per cent of all rural households.¹

(3) Cooperatives are the major source of agricultural production credit. All the state governments, channelise their agricultural credit facilities almost entirely through cooperatives. The cooperatives disbursed short-term production credit to the extent of Rs.1,776 crores in 1981-82 which had gone up to Rs.2,500 crores in 1984-85. The rate at which it is increasing shows that it will reach nearly 5,000 crores by the end of Seventh Plan i.e. 1989-90.

(4) The storage capacity with cooperatives is being steadily augmented with the help of World Bank finance. The cooperative

structure has a network of about 46,850 rural godowns and 7,696 marketing godowns with a total installed capacity of more than ten million tonnes which is largely used for stocking fertilisers.¹

(5) Cooperatives enjoy a high degree of credibility and reputation among farmers for the quality of products distributed by them. They have also been entrusted with the job of distributing essential consumer articles in the rural areas which further broadens their area of contact with farmers.

(6) Cooperatives undertake distribution of not only fertilisers but the entire range of agro-inputs like seeds, pesticides, implements, etc., which are made available to the farmer under one roof. This is helpful since consumption of fertilisers cannot be viewed in isolation of the other inputs for achieving the food production targets.

The cooperatives in the country have by and large adopted a three tier system of distribution for fertilisers. The standard cooperative pattern is given below:

In most of the states, the state level Apex Cooperative Federation functions as the centralised and sole purchaser of fertiliser in the cooperative sector from the various domestic fertiliser manufacturers as well as from the pool and pool

handling agencies. However, the physical transactions, take place at the regional buffer warehouse level or the marketing society level or the village credit society level. The Apex body monitors the supplies, pays for the stocks and monitors the sub-distribution of stocks through the different cooperative outlets. In some states (for example in Gujarat) the cooperatives operate through a four tier distribution outlet consisting of the apex level, district level, taluk level and village level cooperatives. In some other states, for example in Orissa and Haryana only two tiers are involved in the distribution of fertilisers in the cooperative sector.

The cooperatives usually deal in all brands of fertilisers available in the state, though they give different degree of patronage to different manufacturers/brands on account of a variety of considerations. The distribution margins payable to the cooperative channels by the domestic fertiliser manufacturers and the pool have been determined and notified by the government. The government has also determined the terms of delivery - it is f.o.r./f.o.l. nearest block headquarters.

II) The Private Trade:

In distributing the fertilisers through private trade two distinct types of channels are seen - the single tier type and the two tier type. While a number of domestic manufacturers have preferred the single tier channel type, a few of them have
preferred to structure their channel members in two tiers. Of course, in some exceptional cases a three tier type is also seen. This normally arises when a domestic manufacturer prefers to operate through a marketer who in turn operates a two tier channel type. The main advantage of a single tier pattern is the elimination of the wholesale tier. The trade discount is available in full measure to the dealer. Elimination of one tier also brings in savings in distribution expenses to the firm by the avoidance of multiple and infructuous transport and handling. Another welcome aspect of single tier outlet is the direct serving of all the outlets by the manufacturers. Profitability being the main consideration of the dealer, the single tier system has a definite edge in dealer motivation, as compared to the two tier system. But the main disadvantage of the single tier pattern is its inability to cover the interior markets as effectively and deeply as the two tier pattern can. Further, in a single tier pattern, the manufacturing firms should be in a position to perform by itself the functions that are normally apportioned to the wholesale middlemen. The firm will have to increase the spread of its field storage points and the size of its sales force to make up for the absence of the wholesale middlemen in the distribution outlet.

The two tier pattern also has some advantages and some disadvantages. The main advantages of the two tier pattern are quicker outflow of stocks from the manufacturers warehouses and
an intensive coverage of the market. However, these advantages are dependent on the assumption that sufficient stock holding will be done by the wholeseller in the two tier pattern. The main disadvantages of this pattern are: lower profitability to the dealers, as the available dealer margin has to be shared between the wholeseller and the retailer, and weakening of manufacturer's control over the outfit, compared with the case of a single tier outfit.

Thus the firm should make a choice between a two tier and single tier pattern with great care, since many other physical distribution decisions depend upon the basic decision on channel design and number of tiers in the channel.

The firms can have greater flexibility with the private trade, in overall channel design as well as in establishing the individual outlets in the channel network. As pointed out earlier, cooperatives outlets exists as designed by the respective state government and the fertilizer firms have to accept the outlet as it is. The private trade, on the contrary, is not bound by a rigid structure. Therefore, when the firms operate through the private trade, they have the option to follow either a two tier or a single tier system of distribution. Likewise, they can pick and choose the individual dealers in the private trade. In managing and administering the channel too, the fertilizer firms have comparatively greater freedom with the private trade component as compared with the cooperative component.
D Importance of Retail Dealers in Fertiliser Business:

Of the several tiers in the fertiliser distribution outlet, the network of retail dealers might be the last, but in marketing effort, they are actually the first and the foremost tier in the chain. It is the retail dealer who actually sells the product, not the company's salesmen or the stockists. The role of the stockist is mainly to stimulate, enthuse and activate the retail dealers. Thus it will not be an exaggeration to say that individual retail dealer is the pivot in the entire fertiliser distribution effort. The marketing success or failure of the fertiliser firms is made at the dealer level, and on the strength of the dealer depends the strength of the firm.

a) Dealers Management:

Most of the fertiliser firms in India appreciate this very fundamental fact of their business very well. They do not consider their dealers as mere 'outlets' from where their products flow out, but they assign them a role in market penetration, market development and sales promotion. Indian firms are depending heavily on 'dealers management' for achieving their goals of increased market coverage and market share. The fertiliser firms in India are taking great care in the selection and appointment of their dealers. They look for a large number of qualities and qualifications in their prospective dealers. Financial strength, credit worthiness and ability to interact
with the rural customers and influence them are usually looked for in the prospective fertiliser dealer by almost all the fertiliser firms. However, in practice, the fertiliser firms very often find it difficult to locate fertiliser dealers possessing all the desirable qualifications and qualities. Therefore, out of the available candidates they carefully select those who have the potential to be a fertiliser dealer, and through training and development, make up the deficiencies in them and build them up into an effective and strong network of specialist dealers.

Selection of individual dealers and the establishment of a dealer network is one part of channel management. An equally important part of this job is the effective management of the dealers network. Dealer management includes dealer servicing, dealer administration, dealer compensation, dealer motivation, dealer training and development. As it has been mentioned earlier, that in fertiliser business, the war for sales is fought and won at the dealer level. Evidently, better servicing of the dealers, better communication with them, better motivation and training of the dealers and the resultant superior loyalty of the dealers to the particular firm/brand holds the key for winning the market. Thus a firm that is superior in dealer management usually gets a bigger slice of cake.

b) Inadequacy of Dealers Network:

There are nearly 15,6000 fertiliser dealers (retail
outlets) in India. Though in absolute terms this is quite an impressive number but the size is not adequate to meet the emerging requirements. The uneven spatial spread of these available outlets is another major problem—perhaps the most significant one. The outlets are not spread uniformly throughout the rural India, but they are clustered in areas where the fertiliser demand is assured and the areas that are close to rail head/mundi town. This is because of the easy accessibility of these areas and certain advantages enjoyed by the railhead based outlets in the matter of delivery terms. Some of the railhead towns have five or more outlets. The interior parts which are away from railheads suffer in contrast. Therefore, the number of villages in India, going without a fertiliser outlet is more than 4,20,000. This fact that a large majority of the villages in the country are without a fertiliser outlet is also reflected in the distance which the average Indian farmer has to travel to procure his fertiliser requirements. Surveys have shown that on an average, the Indian farmer travels 10 Km. to reach his nearest retail outlet. In the states like Andhra Pradesh the average distance is as high as 16 Km. The state-wise number of institutional/private dealers and the number of villages covered by each sale point is indicated in Figure-3.1.

FIG. 3-1 STATEWISE DEALERS NETWORK IN INDIA
(Figures in brackets indicate the number of villages served by each sales point)
There is certainly a need for expansion of the outlets especially in the interior and hitherto unrepresented parts. But, indiscriminate expansion of retail outlets has to be avoided because if the total business does not grow adequately, further increase in the number of outlets will only worsen the viability of the outlets. In fact, a seven step approach as indicated below is necessary for comprehensively tackling the problem of channel development in fertiliser business:

(i) Substantial increase in the base of fertiliser retail outlets in the coming years, considering only the live and active outlets as parts of the base.

(ii) Maintaining a steady growth rate of the network over the enlarged base.

(iii) Achieve a better spatial spread of the outlets.

(iv) Give special attention for developing outlets in interior parts.

(v) Develop outlets in environmentally handicapped areas.

(vi) Protect, the viability of all the outlets.

(vii) Pay special attention to the spatial spread of fertiliser consumption so that the viability of outlets in all areas would be improved.

c) Distribution Margins:

The fertiliser business incur a heavy expenditure towards
channel compensation. A survey of the Indian fertiliser industry shows that the margins paid to the channels form the third largest component of the marketing costs in the business. If the various special rebates are also extended to the channels in addition to the regular distribution margins channel compensation may even overtake the cost of transportation and the cost of inventory carrying and occupy the first position, among all the elements of marketing costs. In fact, the distribution margins in the fertiliser business comprise of a variety of elements; some of them are direct and others are hidden. The main element of course, is the standard dealer margin, and a sizeable part is in the form of credit facility or cash rebate given in lieu of credit facility. Off season rebates quantity rebates and special rebates of various kinds also constitute sizeable parts of the total compensation.

The fertiliser business in India had enjoyed full freedom, in the matter of distribution margins, until the government of India introduced the system of administered distribution margins in the business in August 1981. In the earlier period, governmental announcements on the distribution margins, were confined to the imported fertilisers, marketed by the government/pool. It was only with effect from 15.8.1981 that the government started fixing the margins for the domestic fertilisers as well.

taking away the freedom till then enjoyed by the domestic units in this regard. As per the notification dated 15.8.1981, the government refixed enblock, the distribution margins in respect of all fertiliser products — domestic as well as imported. The same margin was fixed for a given product irrespective of whether the source of supply was imports or the domestic industry. Similarly no distinction in margins was maintained between one domestic firm and the other for a given product. The notification however stipulated that the institutional channels shall be paid larger margin (Rs. 20 per tonne higher) as compared to the private trade for any given product. Now, under the present dispensation, in the first place, the fertiliser business is required to pass on to the channels the distribution margins notified by the government whether such margins are justified or not by the prevailing market conditions and by the functions actually performed by the channels. Simultaneously the business is also required to pass the channel the additional margins and special incentives, discounts and rebates whenever the market conditions warrant them. This twin compulsions of having to meet the governmental requirements and the market requirements on which ever is higher basis puts a great strain on the fertiliser business. Very often, the fertiliser firms in the country are compelled to fight out a margin war among themselves. They have to offer to the channel not only the full quantum of government notified margins but also additional compensation of various types.
in view of the overall competitive nature of the business and the occasional market glut suffered by the business. Thus there is a need to limit the distribution margins which are very high in relation to the functions actually performed by the channels. The following three step strategy would serve as the best solution for this problem in the given context:

1. The distribution margins should be related in a definite manner to the distribution functions actually performed by the distribution channels.

2. The stock holding function should be delinked from the channel for the purpose of determining the margin structure. The compensation meant for that function should accordingly be kept outside of the regular margins payable to the channel.

3. A major part of the total margin, including the provision towards stock holding should be retained with the manufacturers and the manufacturers should be given the freedom to pass it on to the channel in proportion to the functions actually performed by the channel.

3. Marketing Channels of the Selected Firms:

As it has been said earlier also, it is very difficult for a producer to reach every consumer of its product even if he is producing on a very small scale. Therefore, most of the products are sold to customers through middlemen. Similarly in case of fertilisers distribution in India, the product travels through
two or three tiers before it reaches the farmers. The types of channels adopted by these selected firms (Chart-3.1) would now be discussed.

All the three selected firms for the present study (NFL, IFFCO and SFC) are using cooperatives and private trade for the distribution of their products. Even IFFCO, which was using only cooperatives as its channel till recently, has in the recent past, made a beginning in diversifying its channel. It has absorbed the Agro-Industries Corporations into its distribution system. Since the Agro Industries Corporations operate mostly through the private dealers, the products of IFFCO also flow through the private trade. NFL is supplying its fertiliser materials through cooperatives and private trade, almost in 50:50 ratio, but SFC is supplying mainly through private trade.

a) NFL:

National Fertilisers Limited is producing nitrogenous fertilisers in the form of 'Kisan Khad' (CAN) and 'Kisan Urea' (Urea). Its marketing territories are Punjab, Haryana, Himachal Pradesh, Jammu and Kashmir, Rajasthan, Uttar Pradesh, Madhya Pradesh and the Union Territories of Delhi and Chandigarh. The 'Kisan Khad' which is widely accepted by the farmers due to its agronomical suitability to certain crops and soil is also being marketed to the states of Andhra Pradesh, Karnataka, Bihar and Orissa.
CHART-3.1 MARKETING CHANNELS OF SELECTED FIRMS

FIRMS (NFL, IFFCO & SFC)

Private Trade

Institutional Agencies

Firm's Retail outlets

Dealers

Buffer Stockists

Wholesalers/District level societies

Apex Marketing Federations (Markfed Pbl.)

Agro-Industries Corporations

Other Agencies

Subdealers/Retailers

Market level societies

Focal Point societies

Village level societies

Retail outlets

FARMERS

* SFC and NFL only

** NFL (Agro-service centres) and IFFCO (Farmer's Service centre)
NFL markets its products through following agencies:

1. Institutional Agencies
2. Private Trade
3. NFL's own Agro Service Centres

As per the Government policy NFL is making all efforts to supply fertilisers to cooperatives and private trade in 50:50 ratio. In the beginning of each season meetings are held with the institutional agencies to finalise the terms and conditions of supply. The institutional agencies include Apex Marketing Federations, Focal Points, Agro Industries Corporation etc. Material is supplied upto the block headquarter of the Institutional Agencies on F.O.R. basis. The Apex Marketing Federations act as wholesalers at the state level. They route their fertilisers through district/market/village level societies and focal point societies.

Agro Industries Corporations operate mostly through the private dealers. For implementing the scheme of integrated rural development in the state of Punjab, the Punjab Government has initiated a chain of focal points. These focal points have their village level societies who procure fertilisers for village farmers. In Punjab there are about 485 focal points. Fertilisers are supplied to these focal points by Appex bodies viz. Markfed or by manufacturers directly.

NFL has a well knit dealers network in each state. NFL
is appointing dealers at block level/mundi level and at different strategic points taking into account the potential up to interiors through sub-dealers network. Each dealer has three to four sub-dealers who are appointed in rural areas so that technical guidance regarding fertiliser may reach farmers easily. The selection, appointment and evaluation of performance of dealers is considered an important functional aspect, and is carried out at regular intervals. The dealers are appointed under different categories to benefit all the groups of people like small scale traders, physically handicapped, backward class, scheduled caste/scheduled tribe, ex-servicemen etc.

Besides the above institutional agencies and the private dealers network, NFL has opened its own Agro service centres to serve the farming community. Agro service centres have been opened with the sole objective of meeting all the requirements of farmers under one roof. These centres supply all agro inputs i.e. seeds, fertilisers, weedicides, pesticides to the farmers. The necessary technical assistance regarding the use of scientific modern agricultural implements is also provided to the farmers by these Agro service centres.

In the states of Punjab and Haryana, NFL is distributing its fertiliser products through the following distribution channels.
Punjab

1. Institutional Agencies
   (a) Punjab State Cooperative Supply and Marketing Federation Ltd., Chandigarh.
   (b) Punjab Agro-Industries Corporation Limited, Chandigarh.
   (c) Focal Points (about 485).
   (d) Punjab Land Development and Reclamation Corporation Limited, Chandigarh.

2. Private Trade

3. NFL's Agro Service Centres
   (a) Ropar (Ropar)
   (b) Samrala (Ludhiana)
   (c) Dharial (Gurdaspur)
   (d) Garhshanker (Hoshiarpur)

Haryana

1. Institutional Agencies
   (a) Haryana State Cooperative Supply and Marketing Federation Ltd., Chandigarh
   (b) Haryana Agro Industries Corporation Ltd., Chandigarh.

2. Private Trade

3. NFL's Agro Service Centres
   (a) Gurgaon (Gurgaon)
   (b) Jind (Jind)
   (c) Mandi Dabwali (Sirsa)
   (d) Panipat (Karnal)
b) IFFCO :

IFFCO is producing urea and three different grades of complex fertilisers i.e. NPK Grade-I (10:26:26), NPK Grade-II (12:32:16) and DAP (18:45:0). IFFCO's marketing area is the largest, covering all the States and Union Territories. Since farmers are the producers and ultimate consumers of the IFFCO fertilisers the products are channelled through their own cooperatives to ensure the easy and timely availability of fertilisers at their doorsteps at reasonable cost. It was envisaged in the Bye-Laws of IFFCO that all fertilisers produced in IFFCO's factories will be distributed only through cooperative societies and other institutional agencies. It does not use the private trade in marketing its fertilisers.

IFFCO markets its product through following agencies :

I. Institutional Agencies

II. Farmer Service Centres

The Institutional Agencies mainly include Apex Marketing Federations, IFFCO-NCDC societies and in some states the marketing/village cooperative societies getting direct supplies from IFFCO.

It has already been said before that Apex Marketing Federations act as wholesalers at the state level and they route the fertiliser products through district/market/village level cooperatives. In the beginning of 80's, IFFCO also started making
direct supplies to the lower level cooperatives in those states where the financial position of the Apex Marketing Federations was not sound. In Rajasthan direct supplies to Marketing societies are being done from the very beginning on account of poor financial base of RAJFED. The scheme was extended to 24 districts in Madhya Pradesh, Allahabad district in Uttar Pradesh, Punjab, Maharashtra and some southern states also. Societies were eager to take supplies directly from IFFCO because they were getting almost full margin as against only a small portion of it from Apex Marketing Federations. This scheme is operating with the approval of the Registrars of the Cooperative Societies of the concerned states.

IFFCO-NCDC scheme was introduced in 1983. The main objective of this scheme is to bring overall improvement in the share of cooperatives in the distribution of fertilisers. IFFCO in collaboration with NCDC has taken up the task of developing nearly 2500 village level societies on the lines of IFFCO Farmers Service Centres in phased manner. Till 30th June, 1987 IFFCO has implemented the scheme in 1542 cooperative societies spread over 13 states. IFFCO provides a subsidy of Rs. 12,000/- to each selected society and also arranges loan of about Rs. 30,000/- from NCDC as margin money for obtaining cash credit from the cooperative banks and purchasing fertiliser from IFFCO. The subsidy is meant for purchasing furniture and fixtures to the extent of Rs. 6,000/- and the agricultural implements like seed-
cum-fertiliser drills etc. to the extent of another Rs.6,000/-. The recovery of loan by NCDC is through IFFCO. The recovery of loan is being taken from the cooperative societies out of the distribution margin money earned by them on full margin. Only Rs.20/- or so is retained by IFFCO for meeting IFFCO's additional overhead expenses. The scheme is under revision. As per the new scheme, clusters of nearly 30 societies will be adopted and the loan amount will be disbursed through state governments.

In addition to this, IFFCO has established its Farmers Service Centres (FSC). These FSC's sell IFFCO fertilisers directly to the farmers in addition to providing services like supply of agricultural implements on returnable basis and sale of seeds and agro-chemicals on no-profit no-loss basis. FSC's are also categorised into two groups depending upon the volume of sales.

In the states of Punjab and Haryana IFFCO is distributing its fertiliser products through the following distribution channels:

**Punjab**

1. Institutional Agencies
   (a) MARKPED (Punjab State Cooperative Supply and Marketing Federation Ltd., Chandigarh.
   (b) Focal Points (about 485)
   (c) IFFCO-NCDC Societies (119)
   (d) Punjab Agro Industries Corporation Limited, Chandigarh.

2. IFFCO Farmers Service Centres (39)
1. Institutional Agencies
   (a) HAFED
   (b) IFFCO-NCDC Societies (43)
2. IFFCO Farmers Service Centres (42)

c) SFC:

SFC (Shriram Fertilisers and Chemicals Ltd.) is producing nitrogenous fertiliser in the form of 'Shri Ram Urea' (Urea). Its marketing territories are Punjab, Haryana, Rajasthan, Uttar Pradesh, and Madhya Pradesh.

SFC is marketing its fertiliser material through the following agencies:

I. Private Trade
II. Institutional Agencies

The Shriram Fertilisers and Chemicals Ltd. is mainly distributing fertiliser material through the private trade. It also has a well knit dealers/sub-dealers network. It appoints dealers/stockists at strategic points taking into account the potential up to the interior through the network of dealers/sub-dealers. This firm also considers the selection, appointment, motivation, and performance evaluation of dealers as an important functional aspect, as in case of NFL.

Small amount of SFC fertilisers is being sold through
Institutional agencies like Apex Marketing Federations, Agro-Industries Corporation etc.

In the States of Punjab and Haryana SFC is distributing its fertiliser material mostly through private trade.

Selection and Appointment of Dealers by the Selected Firms:

Selections and appointments of dealers are mainly done by NFL, and SFC in the 'Private trade' because the channels in 'Cooperative Sector' are already there as decided by the state governments and the fertiliser firms have to accept it as it is.

The firms NFL and SFC are selecting and appointing their dealers with great care, because these firms have realised from their very beginning that the proper selection of dealers is an important criteria for utilising this community as an effective media of transmitting the knowledge of modern agriculture, and also the strength of their dealership network is an important element in effectiveness of fertiliser distribution process. These firms have a well knit dealers network in each state.

For the appointment of regular dealers these firms give press advertisements regarding vacant blocks/sale points of the firm. The applications are invited and are scrutinized by the selection committee mainly keeping into account the following:

1. The financial soundness of the dealer (cash and credit worthiness).
2. Experience in fertiliser trade/allied agro products.
3. The godowning capacity of the dealer.
4. Location of the shop.
5. The goodwill enjoyed by the dealer amongst the farmers.

Some other desirable qualities for which the firms look in selecting a dealer are:

1. He should be good in communication and polite by habit.
2. He should be able to take medium risks in all activities.
3. His objectives in business should not be profit alone.
4. He should be prepared to diversify his activities into more service-oriented lines.
5. He should be income tax payer and have confidence in the policies of firm/government.
6. It is desirable that he belongs to a farmers family and owns piece of land in the village, wherein he can demonstrate to the farmers, the modern agricultural practices.
7. He should preferably be graduate in agriculture sciences and willing to live in rural areas.

After selecting the person found suitable, appointment offers are issued by the firm.

G Relationship of these Selected Firms with Their Channel Members:

Besides having a strong and effective network of dealers, a good relationship of the firms with their channel members is also very important for the marketing success of the firms. The superior loyalty of the channel members to the particular firm is the key for marketing success and can only be achieved by a
better training, better motivation and better communication with the channel members.

a) Dealer's Training, Development and Motivation:

The dealers' training programmes are organized by these firms to give them necessary education regarding sales procedures, stocking of fertilizers and promotional work, which they can do for offering best services to the farming community. 'IFFCO' has established two training institutions for training its own staff, cooperative personnel as well as the farmers. Fertiliser Marketing Development Institute (FMDI), Gurgaon is meant for training IFFCO's own staff and cooperative personnel. The Motilal Nehru Farmers Training Institute, Phulpur established under Cooperative Rural Development Trust (CORDET), and promoted by IFFCO is meant for farmers training.

Dealer's motivation is also essential to ensure that he puts in maximum efforts in performing his role efficiently in the distribution of fertilizers and other agricultural inputs. These firms are motivating their dealers by conducting regular training programme, making frequent visits of firm's officials like agronomists, sales representatives to them, giving them support in getting distribution credit, and giving incentives on the basis of their sales performance etc. For example, NFL review the performance of each dealer during the whole year at the end of
Rabi season. The dealers who stand first and second in their respective districts are given prizes in the Dealers Conferences which are organised by NFL for different states.

b) Distribution Margins and Rebates/Discounts Given to the Channel Members:

To strengthen the cooperative system, IFFCO passes on patronage rebate, quantity rebate and other cash discounts in lieu of credit days and off season rebate etc., in addition to the statutorily permitted distribution margins on fertilisers. In order to encourage Apex Marketing Federations, Marketing and Village level societies to lift the material during off season, IFFCO had been passing on off-season rebate which covered the cost of warehousing and interest on the capital employed. But since July, 1987, the government of India has not permitted IFFCO to do so, because it was coming in the way of positioning of fertilisers in the field before the on-set of the season. NFL and SFC are also giving rebates/interest free credit (in days) besides the fixed distribution margins to their channel members.

Thus, this chapter concludes that distribution channels serve to supply goods to the largest number of consumers in right quantities at the right place and in the right time. These channels are of varied types i.e., one tier, two tier, three tier etc., according to the number of levels and it is seen that the
problem of control increases with the increase in the number of levels.

Different distribution channels are preferred by different firms depending upon factors like resources to set up a channel, type of product, type of consumers and competitor's channels etc. For fertilisers, channels of distribution are of utmost importance as it involves flow of large quantities of fertilisers from the factory to the farmers. In India, the fertilisers firms have preferred the option of depending mainly upon established distribution channels such as co-operatives and private trade etc. The distribution channels serve specialised function in case of fertilisers because of their highly seasonal demands, for which the firms are supposed to adjust their sales operations according to the agricultural seasons and hold the stocks ahead of these seasonal demands. IFFCO, a cooperative sector firm is using the services of only co-operatives as their distribution channels in order to boost co-operatives movement in the country. NFL on the other hand is utilizing the services of both co-operative as well as the private trade channels, whereas the private firm SFC is mainly depending upon the private trade channels. Recently IFFCO and NFL have started using their own channels in the form of "Farmer's Service Centres" and "Agro Service Centres" respectively. However, it has been found that establishing a distribution network that is entirely owned and managed by the firms requires considerable resources and results in huge marketing overheads.
Of the different channels, co-operatives are growing much faster and have more than doubled their fertiliser business in the recent past. The massive network of co-operative channels covers nearly 97 per cent of villages and thus proves to be the most effective distribution channel especially for fertilisers. The private trade channels on the other hand have either single tier or two tier systems rarely involving a third tier. These are preferable solely because of their flexibility in channel design. The private channels also offer a greater freedom to the firm in the matter of administration.

Whatever be the channel, the individual retail dealer is considered to be the pivot in the entire fertiliser distribution effort. All the selected firms heavily depend on their dealers for achieving their goals of increased market coverage and thus take great care in their selection and appointments, scrutinizing their financial strength, credit worthiness and ability to interact with local consumers etc.

Effective management of the marketing channels is the basic need of a successful distribution system. It includes dealer servicing, dealer compensation, dealer motivation and dealer training etc. In order to motivate them, the fertiliser firms are giving a distribution margin which is fixed by the government. As it is fixed, different firms are giving additional benefits to their dealers, for instance, IFFCO passes on patronage rebate, quantity rebate and other cash discounts in lieu of credit days.
and off-season rebates etc. Similarly NFL and SFC give interest free credit (in days) and off-season rebates etc.

The dealer's training programmes are other methods of motivation. These programmes impart education regarding effective sales procedures and agricultural services. IFFCO has established two such training centres. NFL on the other hand holds dealer's conferences at regular intervals and even give prizes for best sales performance. All these factors reflect the firm's interests in effective management of marketing channels.

In spite of the fact that the number of fertiliser dealers in India is very high, a very large number of villages are still without the sales outlets of fertilisers. Therefore, there is a need for expansion of these outlets. However, this expansion must be need based and not indiscriminate.