



Prospects of Direct marketing through Agricultural Market Reform in India

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ABSTRACT

Agricultural marketing is challenging due to the perishable nature of produce. Conventional markets such as the Rural Primary market (weekly *haat*) and Wholesale market (*Mandi*) have limitations like poor market infrastructure, middlemen, and informal traders' network to regulate the price. To eliminate middlemen and increase the producer's share in consumers' rupees paid at the market, direct marketing has a scope with several initiatives such as Farmgate sale, Rythu bazaar, Contract farming, e-NAM, etc. There is a win-win situation for both producers and consumers to get higher price realization and consumer satisfaction. Besides challenges with direct marketing, policy measures to deregulate the market are enabling direct marketing to prosper without any state restriction and trader's influence.

Key Words: Conventional Market, Direct Market, Price Realization, Contract Farming, e-NAM

Indian agricultural market is diversified, catering to several sectors of consumers channelized through various mediums of commodity transportation either in raw format or processed form. The major drawback in agricultural marketing is the perishable and semi perishable nature of agricultural produce which demands speedy marketing or end-use consumption. In economics, the value of some commodity is defined in terms of an increase in utility or exchangeability of the same in a span of space and time. Also, agriculture produce lacks in both the cases as per change in place or transportation is a challenge because of the high volume low-cost commodity and high perishable nature. It also has significance in food and nutritional security to the nation as essential items for everyone every day for survival and growth. Agricultural marketing has several features and types because of the involvement of several intermediaries and methods in exchanging the commodity. These can be narrated starting from barter system or one to one commodity exchange, rural primary markets (weekly *haats*), secondary/assembly market, wholesale markets, terminal markets, retail markets, livestock markets, and presently network market, export market, direct market, e-market, etc. The agricultural marketing has been beneficial for traders or middlemen and consumers being essential commodities for which farmers or primary producers always get fewer shares in consumer's price rather than the expected one.

Types of markets and limitations in conventional marketing system

Rural Primary Markets mainly the periodical markets known as weekly *haats*, *shandies* and fairs where producer sell their produce directly to the

consumers or rural small scale retailers on open-air exposing their products to heat, dust, rain, cold, etc. Lack of facilities results lacks potential buyers/traders for which the producers do not get competitive prices.

Secondary markets cater to distant demand, unlike the primary market. Here, traders/transporters having collection centres assemble produce at farm gate and transported to a city market. The market practices follow age-old customs or some local rules also plays important role in determining the prices of agricultural produce. The users of these markets (buyers or sellers) have to pay a fee to the managers of the market places.

The majority of **Wholesale markets** are covered under the Agriculture Produce Marketing Committee Acts and are also called regulated markets at nearby cities of production areas where producers bring their produce and transactions occurs between village-level commission agents and wholesalers. The excessive taxes, market fees, charges by a commission agent for buyers, and complex process of bidding where the informal network of traders works in price regulation up to a certain price limit despite the scope of fetching higher price by the farmers results in less price realization from their produce. Some are non-functional due to no actual transactions at market premises whereas a market fee is collected by the APMC at designated check posts. Also, inadequate facilities such as cleaning, grading, and packaging of agricultural produce for which price difference based on quality is not practiced as per the *mandi* process. Lack of storage facilities such as godowns, cold storage causes huge post-harvest loss and wastage at *mandi* yard decrease the price of produce.

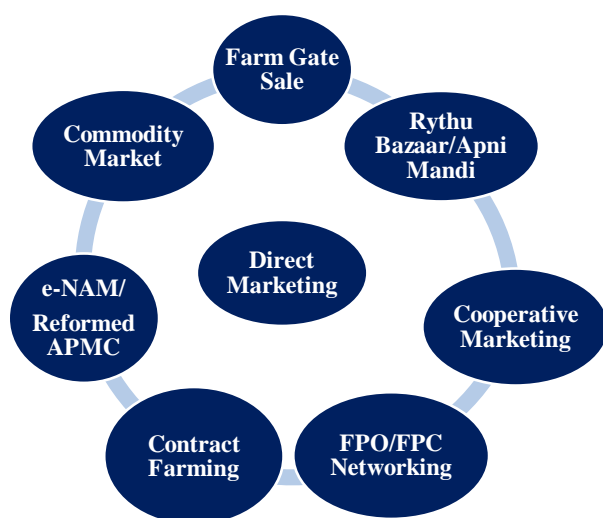
Terminal markets, where the disposal of products to consumers or processors or is assembled for

dispatch to distant domestic markets or exports. This market is handled by traders with infrastructure facilities at big cities act like 'hub' for collection centres or wholesalers as 'spoke' format. The Safal complex of NDDB is one such format, located at Bangalore.

Retail marketing though managed by small retailers for local consumers has been invaded by corporate sectors such as Reliance Fresh, Big bazaar, Safal, etc. These are catering the urban and semi-urban consumers for fetching premium prices with quality standard measures. Though the corporate sector is getting windfall profit by managing and selling the final product to urban consumer's farmers' producers are still struggling in getting their minimum price for their hard effort and expenditure.

Perspectives of Direct Marketing in line with Farmers higher Price Realization

Direct Marketing is a transaction between producer to the consumer without the involvement of middlemen or traders where farmers producers get maximum share in consumers rupee paid at the market.



Farm Gate Sale

When farmers sell directly agricultural produce to consumers by putting up a stall on the highway near their farm or develop linkage with bulk consumers such as restaurants, hoteliers, caterers, and independent retailers to supply directly to them. However, Gate sales are common where farmlands are located on highways or having transportation facilities to supply directly to their consumers. These are most commonly either retail outlets on the farm itself, roadside farm stands, or at farmers' markets or food fairs run and managed by farmers.

Hariyali Kissan Bazaar and Choupal Sagar are successful one-stop retail shops run by farmers.

Apni Mandi Initiative in Punjab/ Rythu Bazar of Andhra Pradesh/ Uzhavar Sandhaus of Tamil Nadu

This is a kind of market where farmers and growers are allowed to sell their produce directly to consumers on a market yard with minimum infrastructural facilities. It was an effort to eliminate middlemen so that both the growers and consumers benefit – the former by higher prices 25% more producer surplus while the latter get fresh produce at lower prices having 25% consumer surplus. The concept originated from Russian farmers market "Kal Khoj" and Saturday Market of UK and USA adapted in India in 1987 at Chandigarh, Punjab named *Apni Mandi*. Later it expanded with a similar concept as Rythu Bazaar in Andhra Pradesh and Uzhavar Sandhaus in Tamilnadu in 1999. (Babu & Kalyan, 2015). Krushak Bazaar in Western Odisha is similar to Rythu Bazaar held at a specified place allocated for a transaction between farmers and consumers in the semi-urban or urban area.

Cooperative Marketing

This is a kind of pooling the farm produce of member producers of any cooperative society voluntarily to market those produce collectively. Small and marginal farmers, who do not have resources to market themselves, get benefit being owner, operator, and enjoyer of the profit earned by society with the principles of equality, equity, and mutual self-help to achieve group goal along with individual's profit by enjoying economies of scale and bargaining power. The main function of cooperative societies is the marketing of aggregate produce of members with support services such as input service (credit, quality seeds, fertilizer, pesticide, etc.), logistic support (scientific storage, transportation, etc.) and ancillary support (quality measures, standardization, market linkage and export of the produce). There are three types of cooperative marketing societies in India based on a single commodity, multi-commodity, and multipurpose multi-commodity transactions. Sugarcane Cooperative Marketing, MAHAGRAPES, AMUL, etc. are some bright examples of successful cooperative societies.

Farmer Producers Organization/ Farmers Producers Company based Marketing

Though some successful cooperative societies flourished in India, there are many of them are having



serious limitations not meeting the purpose of benefitting member farmers rather politicization, institutional and bureaucratic intervention in societal activities which paved forward the Farmers Producers organization/ Company as per the Amendment of Companies Act, 2002. This is a hybrid of cooperative societies and the company's philosophies by pooling the virtues of both such as farmers' mobilization being members of a registered organization with mutual self-help and equitable distribution of profits among the members from cooperative societies whereas professionalism and profit maximization by business mode operations from companies. The FPOs enjoy the economies of scale and bargaining power and can sell anywhere across the country to potential buyers with higher margins directly benefitting the producer's members as per the share (Mukherjee *et al.*, 2018). The initial backing of NABARDs was financial support in the first three years for the establishment of FPOs with salaried CEO of their organization. They can access technical support from KVK, state agricultural department; private extension service, etc. with a free or paid basis. They can be linked to the digital marketing platform (e-NAM) for eliminating middlemen. They can strengthen their marketing with quality measures, value addition, standard packing, branding, and competing price to attract buyers for achieving higher farmers' share in the consumers' rupee and thus livelihood enhancement of Indian farmers (Mukherjee *et al.*, 2019)

Contract Farming

This is a kind of contract between farmer producers and buyers where producers sell their products to the particular buyers at a pre-agreed price for assured marketing at the time of sowing. Certain types of contract farming successful in India, corporate sectors such as Reliance, ITC, Pepsi Co, etc. are venturing into contract farming of potato, tomato, vegetables, etc. by providing technical inputs such as high-value quality seeds and extension services with scientific cultivation practices for better output. There is a win-win situation for both. The farmers are assured of the marketing of produce at whatever circumstances prevail during or post-harvest scenarios with a pre-agreed satisfied price whereas the buyers or traders are assured of getting quality products at a satisfying price for their enterprise which would not change if price fluctuation occurs after harvesting period. These corporate buyers are directly retailing the vegetables in case of Reliance Fresh and processed products of potato, mango in case of Pepsi Co.

There is an assured return to investment among farmers which is risk-reducing in post-harvest marketing and elimination of middlemen increases the share of both in price realization.

e-National Agricultural Market (e-NAM)

This is a kind of direct marketing of products to the buyer's wholesalers in any part of the country by eliminating the middlemen and marketing cess in the APMC *mandi* system. This is structural reform in the APMC *mandi* system. The transactions can happen between producers and traders without real transportation of produce to the *mandi*. The photograph of produce with quality standards range and price are uploaded by producers which can be seen by traders at a distant location at the time of bidding. The traders lock the bidding by selecting the product which is notified to the producers for transactions to the same traders at the same price placed by them. This overcomes the price fall by trader's informal network to lower the price in case of a conventional bidding system at an open market place in presence of middlemen/market agents which assures the price realization by the farmers from individual traders auctioned on the online platform. This also enhances quality maintenance of produce at farmers' custody which is not safe normally in *mandi* due to lack of Godowns or storage house for excessive produce arrived at one time in *Mandi*. There are two kinds of e-NAM modules introduced to decongest wholesale markets & to boost the supply chain in recent times. In the case of the FPO module, FPOs can directly trade with bidding facilities through the e-NAM portal. Warehouse Based Trading Module, where farmers can sell their produce from Warehousing Development and Regulatory Authority (WDRA) registered warehouses notified as a deemed market without physical transportation of produce to the nearest *mandis*. (MoA&FW, GoI, 2020)

Commodity Market

This is a market in primary economic sector trading in agricultural commodities such as spices, coffee, cocoa, sugar, soya beans, and others. Producers usually hedge their risk by using the commodity futures market. When there is a fall in price in the local market during harvest, the farmer can compensate for this loss by making gains in the futures market. In case there is an increase in price during harvest, the farmer would face loss in the futures market but he can compensate this loss by selling it at a higher price in the local market. Farmers are provided price information which reduces risk and



enables better decisions and better profit through transparency in prices for an efficient marketing system. Commodity trading is done through regional exchanges and national commodity exchanges, such as the Multi Commodity Exchange (MCX), National Commodity and Derivatives Exchange (NCDEX), and National Multi Commodity Exchange of India Ltd (NMCE). While commodity market investments can reap significant returns, substantial expertise is required for the same.

Challenges and Way Forward

Lack of market information, competition, lack of cold storage, and price volatility are the negative factors that highly affecting the farmer's direct marketing (Kumar *et al.*, 2018). There should be some unique strategies adopted to compete with others. Segmentation, positioning, and targeting are three stages process that could be useful to sustain and overcome the competition (Dhakshana & Rajendran, 2017). A research study in direct marketing in turkey reveals that concerns include competition with other farm markets, discount stores, import goods, supermarkets, and difficulty in finding skilled labour and high costs of labour. Other barriers are location, limited resources, changing market, and consumer demand (one-stop shopping and year-round supply) (Adanacioglu and Adanacioglu, 2016). In the case of future contract farming and commodity marketing, though substantial returns are there farmers don't have a clear idea about the demand-supply chain to trade in commodities and high expertise required to trade with risk. The changing scenario in agricultural marketing is realized by a lot of public policies that promote the farmer's income enhancement mission as a priority. The Companies Act (Amended in 2002), e-NAM (Reformed APMC 2016), Contract Farming Act (2018), Essential Commodities (Amendment) Ordinance 2020, Farmers' Produce Trade and Commerce Ordinance 2020 are the policies enabling the farmer's producers to go for direct marketing. Direct marketing between producers and consumers is to eliminate middlemen and the share enjoyed by them which can be distributed between both producers and tail end consumers or retailers. The farmer's producers can achieve a higher share in consumer prices which enhances both producer and consumer surplus as a win-win situation. Direct marketing is facilitated by several approaches where farm gate sales and Rythu Bazaar based on profit maximization in the individual interface whereas cooperatives and FPOs based on economies of scale in

group approach and contract farming and e-NAM based on advanced contract through smart linkages and digital platform. Apart from direct trading, the commodity market facilitates processing and value addition and export providing infrastructural facilities under apex agencies like NCDEX and NCDC and APEDA, etc. Minimum quality standards can be enforced by "AGMARK" and "FSSAI" marks in case of branding of farm produce or processed produce by Farmers Producer Company to enter into a market competing with previous branded market players.

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