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Channels of Distribution of Agricultural Produce in Nigeria

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Abstract
Channels of distribution consist of a set of independent organizations involved in making a product or service available for use or consumption. Basically there are two types of channel used for the distribution of goods; marketing channel for industrial good as well as that that for consumer goods .Both types of channels directly and indirectly make goods available to end-users. While all goods and services pass through the marketing channels of distribution, the perishability of farm produce sometimes compel farmers to make use of direct distribution channels. Also, since majority of farmers reside in rural areas and are separated from their customers they on the other side make use of the indirect marketing channels. This paper therefore explores gaps between the producers or farmers and the final users of farm produce that justify the use of channels of distribution; steps involved in selecting a marketing channel of distribution; the main functions of distribution channels and the centralized and decentralized channels of distribution of agricultural produce in Nigeria. The paper concluded that because of the high risks involved in agricultural production in Nigeria, there is the need for the channels of distribution to buy produce from farmers at a rate that would compensate for their efforts and continue to keep them in business.
Keywords: Channels of Distribution, Agricultural produce, Nigeria, Distribution intensity, Direct and Indirect marketing channels,. Centralized and Decentralized marketing channel

Introduction

Channels of distribution move products and services from producers to consumers or to other businesses. Also known as the marketing channels, channels of distribution consists of a set of independent organizations involved in making a product or service available for use or consumption (Blanco, 2000). Boone and Kurtz (2004) define a marketing distribution channel as an organized system of marketing institutions and their inter-relationships that promote the physical distribution and ownership of goods and services from producer to consumer or end user. Kotler and Armstrong (2006) define marketing channels as a set of independent organizations involved in the process of making a product or service available for use or consumption by the consumer or business end user. Also it can be said that the sequence of intermediaries or middlemen from which goods pass i.e. from the producer or farmer to the consumer is known as the marketing channel. Kotler (2005) outlined some major types of distribution channels. These are the direct and indirect marketing channel. In the direct channel, the producers sell directly to the consumers, where as in the indirect marketing channels there are other participants that exist in between the producers and the end users

The choice of a distribution channel depends not only on how to bring a product or service to the market at a lower cost but also in the different limitations of each market and of each channels operating in the market. According to Jallias (1996), the functional approach brings to light three (3) main functions of distribution channel:

1. Spatial function; related to transport and the assembly of products.
2. Time function; related to stocking and financing of transaction (Folorunsho and Wazis, 2005).
3. Commercial function; dealing with product assortment, communication and customer services.

Jallias (1996) further pointed that certain functions become more important than others. The importance is in accordance with the specific constraints of each channel member. A farmer that has customers scattered out (if he sells directly to consumers) would pay special attention to spatial functions. Small farmers with limited resources like in the case of most farmers in Borno state as opined by Polycarp and Bila (2005), would be more interested in the time function.

Along with these criteria for choice are the characteristics of supply. Sometime the supply (agricultural produce) are assembled in periodic markets. In this case, the task of going round to gather this produce is reduced hence a shorter channel is employed. There are also times when channel members have to go to individual farms or houses to buy the produce, in such situations the channel becomes longer because agents are employed to gather the quantity desired by the buyers.

The other factors that can come into play are linked to the environment in which the channel operates. These factors include economic recession, leading to a drop in consumption rate, in which case a producer will favor a short distribution channel thereby limiting the profit margins of each channel (Debuc, 2000). In Borno state, however, the isolated settings of the farmers as well as the financial position of the farmers do not allow the frequent use of direct marketing channels. Except in few cases as opined by Folorunsho and Wazis (2005), where they argued that because of the perishability of the produce, farmers use direct distribution channels. They further opined that majority of the farmers reside in rural areas and thus are separated from their customers hence the use of the indirect marketing channels cannot be avoided. Furthermore, the weak financial position of the farmers also make the use of direct marketing channel not feasible because the farmers are not in position to transport and stock the produce until the produce are needed. Another important issue is that since much information concerning the markets are not available (Amaza, 2006), the producers/farmers may not know where and how to locate the consumers and at what price to sell to them.

Channels of distribution develop also as a result of economies of specialization and also because of some gaps that separate the producer and the consumer. Buxton (1979) listed the gaps involved as follows;
(i) Time gaps; consumers purchase items at more or less discrete intervals.
(ii) Space gaps; consumers are dispersed geographically where as producers are located in few areas for obvious reasons.
(iii) Quantity gaps; economic reasons make firms produce large quantity, while the middle men buy and sell in the quantities required by consumers.
(iv) Communication and information gaps; consumers may not know the sources of the goods they want and producers may not know the potential purchaser of his produce.

Distribution intensity

Boone and Kurtz (2004) pointed out that the first step in selecting a marketing channel of distribution is to determine the producer's objectives as well as the distribution needs of the consumer. Distributions intensity refers to the number of intermediaries through which a producer distributes his products (Boone and Kurtz 2004). While taking these decisions, a producer must ensure that his product will have adequate market coverage. Adequate market coverage varies depending on the goals of the producers, the type of product and the consumers segments in a target market (Kotler and Keller 2004). Booner and Tuge (2004) however opined that there are 3 general categories of distribution intensity, namely:
(1) Intensive distribution; seeks to provide saturation coverage of the market by using all available outlets. Usually an intensive distribution strategy suits items with wide appeal across broad groups of consumers and where consumers have a range of acceptable brands to choose from. In other words, if one brand is not available, a customer will simply choose another. Examples of goods distributed through this strategy include soft drinks, cigarettes etc.
(2) Selective Distribution - This involves a producer using a limited number of outlets in a geographical location to handle his products. An advantage of this approach is that the producer can choose the most appropriate or best performing outlet. Also this type of distribution strategy helps the producer to control price cutting since relatively few dealers handle the product. By limiting the number of retailers, marketers can reduce total marketing costs while establishing strong working relationships within the channel. Moreover selected retailers often agree to comply with the producers strict rules for advertising, pricing, and displaying its product etc. Selective distribution works best when consumers are prepared to shop around" in other words they have a preference for a product brand or price and will search for the outlets that supply
(3) Exclusive Distribution - is an extreme form of selective distribution, in which a producer grants exclusive rights to only one wholesaler or retailer to sell its product.
All the three types of distribution intensity may not work with the agricultural produce channels in Borno state. These strategies can work in markets where participants have relatively equal power or where the producers have the power to dictate to other channel members on how their produce can be distributed. The farmers who serve as producers in Borno State seem to lack such power.

The Vertical Marketing System (VMS) Option for Marketing Agricultural Produce

Another option for the distribution of agricultural produce is the vertical marketing system (VMS).The VMS is a system in which the producer, wholesaler and retailer act as a unified system. In contrast to the conventional marketing system, which comprises of an independent producer, wholesaler and retailer, each existing as separate entity seeking to maximize its own profit even if such goals reduces or as negative impacts on the system as a whole (Cravens, 2000). A Vertical Marketing System is a planned system designed to improve distribution efficiency and cost effectiveness by integrating various functions throughout the distribution channel (Boone and Kuntz 2006). The vertical marketing system can be achieved through either backward or forward integration (Ash Yore, 2001). Kotler and Keller (2004) opined that in forward integration, a firm attempts to control downstream distribution. For example a manufacturer may buy a retail outlet that sells its products. Backward integration occurs when a manufacturer attempts to gain greater control over inputs in the production process.

A vertical marketing system offers several benefits as discussed by Cravens (2000), first, it improve chances of controlling and coordinating the steps in the distribution or production process. It can also lead to economy of scale. A VMS may also let a producer expand into profitable new business. However a VMS involves costs, the producers also assume increased risk when it takes control of an entire distribution chain. Producers may also discover that they lose some flexibility in responding to the marketing changes.

Overtime, three categories of Vertical Marketing System have evolved. Okechukwu (2003) outlined these categories as;
i) corporate Systems - A corporate vertical marketing system combines successive stages of production and distribution under single ownership. In this system, a single owner runs successive stages of production and distribution.
(ii) administered System - An administered VMS coordinates successive stages of production and distribution through the size and power of one of the members. In this system a dominant member exercises power and the other channel members obey.
(iii) contractual system - A contractual system consist of independent firms at different levels of production and distribution, who are joined together through contracts to obtain greater economies of scale or sales impact than each one could achieve alone. Instead of common ownership of intermediaries within a VMS or the exercising of power within an administered system, a contractual VMS coordinates distribution through formal agreements among channel members.

In practice, there are three types of agreements that set up the contractual system, viz:
(i) Wholesaler sponsored voluntary chain
(ii) Retail cooperatives
(iii) Franchise.

In a wholesaler sponsored voluntary chain, wholesalers organize voluntary chains of retailers to help them compete with large chain organizations. The wholesaler develops a programme in which independent retailers standardize their selling practices and achieve buying economics to enable them group to compete effectively with outlets of rival chains. The wholesaler enters into a formal agreement with retailers to use a common name, maintain standardized facilities, and purchase the wholesaler's products. Often the wholesaler develops a lot of private brands to be stocked by members of the voluntary chain. In retail cooperatives, retailers take the initiative and organize a new business entity to carry on wholesaling and possibly production. The retailers purchase ownership shares in the wholesaling operation and agree to buy a minimum percentage (%) of the inventories from this operation. The members usually adopt a common store name and develop common private brands. In franchise organizations a channel member called franchisors might link several successive stages in the production distribution process.

Another alternative for channel efficiency is the multi-channel distribution system. Multi-channel Distribution System is a distribution chain in which a single firm sets up 20 or more marketing channels to reach one or more customers. Also called the hybrid marketing channels, the multi channel system has many advantages, which indicates increased coverage, lower channel cost, and customized selling. Most intermediaries see gaining intermediary's cooperation as a huge challenge (Dolas, 2004). This is so because most of the time, these intermediaries use motivations such as higher mergers, special deals premiums, sales contest etc. to the producer, at times they apply the sanctions such as threat many to reduce markings.

In Nigeria, marketing channel for the distribution of a commodity may vary from one part of the country to another. Six classes of middle men have been identified some of them with overlapping functions (Adeyeye and Dittoh, 1989). These classes of middlemen are
I. Farm gate middle men
2. The non-commissioned agents
3. The cooperative marketing agency
4. The whole seller
5. The retailer
Adeyeye and Dittoh (1985) opined that the channels of distribution of agricultural produce in Nigeria are of two types. These are the centralized and decentralized channels. A centralized channel is the one in which the farmers produce are bought and sold together in large, central and terminal markets. They are purchased by the middlemen from commissioned agents and brokers who act as the farmer's selling agents, while a decentralized channel is one that does not make use of such stabilized market facilities rather the farm produce are purchased direct from the farmer (Okukosi and Isitor, 1990). Both the centralized and decentralized types of distribution channels are practiced in the distribution of agricultural produce markets in Borno state. Usually there are periodic markets that are held and produce are moved from nearby villages to these central markets (Gaya, 2007). Also some of the goods are sold through the decentralized channels at the farms (Adeyeye and Dittoh, 1985).

According to Adekanya (1989) agricultural produce often change hands up to six times before reaching the consumer depending on the particular produce in question. For fruits and vegetables, three transactions are often involved, with the consumers buying from the retailers after the commodity have passed from producers through the hands of assemblers and wholesalers. Rice and cowpea also change hands at least three times before

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reaching the southern part of the country. This is partly because of the geographical distribution of the consumer. Consequently, wholesalers send their commissioned agents to the producing areas (Borno state inclusive). These agents go round farms and primary markets to obtain supplies. They then send the commodity to their principals down south. The wholesalers then sale to other wholesalers or retailers who operate and sell in the same or other markets. Occasionally they sell directly to consumers, who buy in bulk for consumption.

Fish are marketed in fresh and smoked form. The distribution pattern of fish involves the interposition of series of middlemen from the producers (fishermen) to the consumers. Odogbo (2001) stated that in most cases, fishermen depend on middle men for credit to operate the business because of relative poverty. Odogbo (2001) further opined that middlemen make all the profit while the fishermen get little for the effort while the consumer buys at a higher price. Livestock markets are held once a week in some market for a particular day of the week. The exact number of agents in every market is difficult to determine. This is because whoever is financially fit could join the channel and buy as many animals as possible or that he can afford to buy on any market day (Olukosi and Isitor, 1990). The agents then sell them to merchants and brokers. Cattle and beef which are also produced in Borno state pass through four or more channel members or middlemen. Cattle producers in Borno state sell to cattle assemblers, who then arrange to send the cattle south on the hoof or by truck. The butchers or beef wholesalers then buy the cattle for slaughter before selling to beef retailers, who in turn sell to the consumers (Adekanya 1989).

Anon (1981) discovered that the speculative activities of middlemen can bring about seasonal price fluctuation in meat. The middlemen buy cattle directly from the owners/producers when they are cheap (i.e. January and February). When there is shortage of feeds, producers dispose their cattle, because of lack of kinds to feed the cattle and because of some other necessities that they must accomplish. Middle men buy and keep them in stock and sell them when the prices are high. Folorunsho and Wazis (2005) evaluated the channels of distribution of vegetables in semi arid Borno state.They opined that the tomatoes are bought from the producers by a transporter. The transporters then add place value by moving it from the farm to a convenient place (market) where the consumer buys it. They further added that marketing agents may buy some of the tomatoes; process them by freezing, canning or simply drying so that it can be stored from the period of abundance to period of scarcity, the marketing agent can also sell to the final consumer. They concluded that the prices paid by various consumers depend on negotiation and vary depending on demand and supply, when demand is low, the price tends to be lower and vice versa. The middlemen tend to have an upper hand in determining the price especially during the time of abundance. The average income of the farmers of vegetable is generally low.

Conclusion

This paper made an attempt to review the channels of distribution of agricultural produce in Nigeria. From the review carried out so far, it could be seen that the channels for marketing of agricultural produce in Nigeria negates the conventional marketing channels. Many factors account for this phenomenon, however, because of the high risks taken by the farmers that are associated by perishability and seasonality involved agricultural production in Nigeria, there is the need for the channels members to buy produce from farmers at a rate that would compensate for their efforts and continue to keep them in business.

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