Buyer Market Power and the Model of Vertical Restraints in Agribusiness

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ABSTRACT

This article considers an example of a vertical competition where downstream firms purchase agricultural food products from the consolidators (i.e. small traders) and the consolidators buy their saleable commodities from the small farmers. Here, the author identifies and explains a vertical model used by the large traders to collect the agricultural food products in India from the small farmers. The author tries to resolve the question whether it is possible to collect agricultural food products by the large traders at lower prices or not and to understand the competition between the small and large traders in agricultural food commodities in wholesale, as well as in the retail market in India.

KEYWORDS

Agricultural Market, Bargaining Problem, Buyer Market Power, Consolidators, Large Capital Traders, Non-Linear Pricing Strategies, Price Behaviour, Small Farmers, Vertical Competition

INTRODUCTION

The term “buyer market power” denotes here the ability to lower the wholesale prices. Here, the article considers a good example of a vertical competition where, downstream firms (viz. Retailers, Cash and Carry traders) purchase agricultural food products from the consolidators (i.e., small traders) and the consolidators buy their saleable commodities from the small farmers. Chambolle and Villas-Boas (2007) find that retailers may choose to offer products differentiated in quality to consumers, not to relax downstream competition, but to improve their buyer power in the negotiation with their supplier. Here consolidator includes the small traders or intermediaries predominantly present in the rural wholesale market in India. The intermediaries are, transportation cost, village level trader, aggregator, sub wholesaler, retailer. These small traders are now acting as an aggregator or consolidator and collect high quality products from the small farmers and sell to the newly arrived large traders. These small traders actually participate in the rural wholesale markets. In presence of the large traders they are now acting as a consolidator and also participate in the rural wholesale market. Due to the problem of collection from the small farmers they have been used by the large traders; therefore, now in the rural wholesale market we have three types of agents; one, small traders who deal with the average quality products and act as a wholesaler, two, large traders who collect only high quality products and act as a wholesaler and three, consolidator, who participates both in the rural wholesale markets and deals with the average quality products, also collects high quality products from the farmers and sells to the large traders.
In relation to buyer market power, the present study is in the context of the new “Model Agricultural Produce Market Committee (APMC) Act, 2003” that aims at freedom of farmers to sell their products to the large private firms. Moreover, the article also considers the reforms in the wholesale Cash and Carry and retail markets in India. The regulations of hundred percent Foreign Direct Investments (FDI) in Cash and Carry markets have been enforced in 2006 with an automatic route and FDI in the single-brand retail market in 2012. In India, large retail traders; as well as, cash and carry (wholesaler) traders are either involved in single or multi-brand trade. These traders exist in organized as well as unorganized sectors.

On one hand organized retailing in India refers to trading activities undertaken by licensed retailers. This means retailers register for sales tax and income tax. These include the publicly traded supermarkets, corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

On the other hand, unorganized retail traders are the small retail traders involve in conventional format of low cost retailing. These include the local corner shops, small general store, convenience stores, hand cart and pavement vendors.

Single-brand retail implies a retail store selling goods under a single brand name. Single brand retail outlet may sell an Indian or an international brand. Any additional product categories to be sold under single-brand retail must first receive additional government approval. Multi-brand retail refers to selling multi-brands under one roof. Here the author denotes organized single and multi-brand retailers and cash and carry wholesale traders as “Large Traders”.

A report by Global AgriSystems (Global AgriSystems, 2013,) of fruits and vegetables supply chain in four metros in India-Delhi, Mumbai, Bangalore and Kolkata shows that there are at least five to six intermediaries operating between primary producer and consumer. The intermediaries are, Primary producers, transportation cost, village level trader, aggregator, sub wholesaler, retailer. The study shows that, the total margin by all these intermediaries are, retailers-25 percent, sub wholesaler-6 percent, wholesaler-10 percent, aggregator-8 percent, village level trader-10 percent, transportation cost-10 percent and primary producer or grower-25 percent respectively. The study shows that a primary producer gets only 20 per cent to 25 per cent of the consumer price. These intermediaries are the examples of “Small Traders” in the rural wholesale market. A section of these “Small Traders” are acting as consolidators.

Here, the author explains an actual vertical model used by the large traders to collect the agricultural food products in India. The author explains in particular, that how the large traders are collecting agricultural food products. Moreover, the author tries to resolve the question whether it is possible to collect agricultural food products at lower prices or not. The author also explains how the collection of high-quality products is affecting the retail prices set by the large traders. Thus, the author can easily be able to understand the competition between the small and large retailers in agricultural food commodities retail market in India.

**The Buyer Power and the Agricultural Sustainability**

Sustainability in agricultural systems leads to improvements in food productivity without any adverse effects on environmental goods and services. This involves technological innovations (Pretty, 2008). The concept of sustainability and the supply chain management are getting closer in practice (Kudla & Stöltze, 2011). The rise of private food systems has brought forth an ongoing debate about whether they work as a barrier for the small holders and hinder poverty reduction in developing countries. A study by Joonkoo Lee, Gary Gereffi and Janet Beauvais (2012) highlights different leverage points for improving the sustainability of agrofood chains. According to them retailers play a critical role in most nontraditional agrifood chains. In recent years, agricultural markets in India have grown in size and complexity in terms of the proliferation of new marketing channels. In this connection the paper by P S Vijayshankar and Mekhala Krishnamurthy (2012) studies the issues involving the protection of farm incomes, sustainability, enforcement of contracts, quality control and downstream market
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