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Implications of Retail Revolution in India: A Macro Analysis

Deepak Shah*

The paper attempts to ascertain and understand the implications of entry of corporate houses in retail business encompassing agricultural input and output markets, their likely impact on farmers as well as consumers, and various other issues relating to supplier-retailer relationship, government response function with respect to infrastructure investment and support, productivity growth and inflation, technology trends, innovation in transportation logistics, etc. The analysis shows a paradigm shift in the retail sector of India owing to phenomenal growth in organised retailing over the past few years, which has emerged from the shadows of unorganised retailing and is contributing significantly to the overall growth of retail sector. The new format of retail business is gaining grounds owing to several factors like the change in lifestyle, tastes and higher disposable income, growing need for convenience, exposure to western culture, increase in the number of working women and choice and value for money from food products. The availability of hypermarkets, supermarkets, convenient stores and department stores are finding more acceptance from service class population of India. India is becoming a strategic business hub for the investors. The new agricultural policy of the Government of India encourages promotion of private sector participation through contract farming and land leasing agreements to stimulate faster growth in technology transfer, capital inflows and assured market for crop production. In view of this policy initiative, agribusiness corporate houses have come up and entered into collaborative partnership through vertical integration between farmers and consuming population. The new format of agribusiness is expected to reduce inefficiency in agricultural marketing, which arise due to multi-layer intermediaries. Though the agricultural logistic management is expected to improve consequent upon reduction in market functionaries and higher participation of private sector players, long-term profitability and sustainability of retail sector can be achieved only if supply chain is realigned into efficient, agile and adaptable network. While extending scalability, such supply chain should have capability to handle larger volumes, expand reach, balance costs and address the demographic variations. Indian companies are now concentrating on logistic services to reduce costs. It is hoped that liberalising the retail sector will usher in investments into the developing and improving food supply chain. The entry of new companies in the retail space will also benefit the exchequer. It will result in greater employment and will offer the consumers greater choices and competitive prices.

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Role of New Marketing Arrangement in Input Delivery – A Case Study of Hariyali Kisan Bazar Hardoi, Uttar Pradesh

Rakesh Singh[†], H.P. Singh[†], O.P. Singh[†] and Akilesh Singh[‡]

A study was conducted to examine the role of new marketing arrangement in input delivery benefits realised by the farmers and to find out the constraints associated in expanding these types of arrangements. Hardoi district of Uttar Pradesh was selected because the first outlet of Hariyali Kisan Bazaar (HKB) was established in Hardoi. Data was collected from the annual report of DCM Shriram Consolidated Ltd. (DSCL) records of HKB outlets and 120 randomly selected farmers. The exponential function was used to analyse the temporal growth in sales and profit. Garrets Ranking technique was used to find out ranks of various constraints and benefits. It was observed that there were six outlets of HKB functioning in Hardoi and offering various services like soil testing facility, supply of quality agri-inputs, dissemination of modern agricultural technology, supply of consumer and durable goods to more than one lakh farmers of the district. Compound growth of gross sales and profit of DSCL was more than 15 per cent annually. The growth of HKB Hardoi was more than 60 per cent during 2006-07 and 2007-08. Among different benefits, farmers from HKB outlets area felt that timely availability of fertiliser was cited as the main reason for preference to become a member of HKB. Quality of seeds, their timely availability and access to agricultural information were the other factors responsible for popularisation of Hariyali Kisan Bazar. Farmers felt that quality of agri-inputs supplied by HKB at reasonable price and accessibility of these services are other important factors which benefited the farmers of the study area. Certain constraints associated with growth of this marketing arrangement include restrictions on direct marketing of agricultural produce, lack of rural infrastructure, unawareness about the new agricultural technology and high transportation cost. The results of the study indicated that since this new arrangement like HKB is successful in providing quality agricultural inputs and also in disseminating modern agricultural technology to the farmers there is need to promote and expand this type of marketing arrangement. Improvement in rural infrastructure and provision of credit facility on these centres are essential to improve the benefits of farming community. It was recommended that state government should modify/amend its APMC Act to promote competitiveness in agricultural marketing system so that these corporate houses can expand their business activities through market integration.

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Perception of Cotton Growers and Market Chain Agents Towards Cotton Seed Marketing in Buldhana District of Maharashtra

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An attempt is made here to analyse the perception of cotton growers and market chain agents towards marketing of cotton seed in Buldhana district of Maharashtra. The perception of cotton growers and market chain agents in cotton seed marketing was assessed through interviewing 5 cotton seed distributors, 65 cotton seed dealers and 195 cotton growers of Buldhana district- the rainfed cotton growing area of Maharashtra state. The results of the study reveal that private seed sector with a share of more than 86 per cent is dominant in the marketing of cotton seed over the public sector seed supplier. The market dominating varieties of public sector seed supplier are NHH 44, AKA 5 and PKV 2-468, while that of private sector companies are Bunny, Ankur 651 and JK 666. The characteristics of cotton varieties with higher yield, short duration, tolerance to biotic stress are the most preferred among rainfed cotton growers of Buldhana district. The experience in farming, credit and insurance facility, performance in the demonstration and early adoption by progressive farmers are the governing factors for selection of particular variety by the cotton growers. According to perception of market chain agents, mainly distributors and dealers, the brand image, which is proxy for quality seed and its field performance, is a major factor, which affect the sale of the particular variety of cotton seed in the district area. The overall conclusion of the study in cotton seed marketing is that the sale of cotton seed of specific variety is brand image driven rather than economic factors like cost of seed, sales incentives etc. The cotton growers of the study area do not compromise quality of seed *in lieu* of lower seed cost and short run profit.

Quadratic Comparison of Regulated and Unregulated Markets for Vegetables in Central Region of Uttar Pradesh

Keshav Prasad, Shiv Kumar and M.M. Rajput[†]

The paper attempts to examine the comparison of regulated and unregulated markets for vegetables in the central region of Uttar Pradesh. The study is based on primary data collected from the vegetable growers. For the purpose, two regulated markets, viz., Naubasta and Ghatampur were purposively selected. In order to have a close comparison, two private markets, Pukharya and Bilhaur, were also selected. Two vegetables, cabbage and chilli, were selected among the major vegetables grown

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in the study area. The data were collected by survey method through well designed and pre-tested questionnaire during the year 2007-08. The overall marketed surplus was more than 95 per cent of the total vegetable production in both regulated as well as unregulated markets, but a little higher in the case of unregulated market as compared to regulated market. The proportion of spoilage was found maximum among all the components of utilisation pattern in both the markets. The findings of the study revealed that the total marketing cost incurred by the producers was higher in case of chilli as compared to cabbage. The transport cost, packing charges and opportunity cost are the major items of marketing costs, whereas the share of local tax, loading, unloading cost and other pocket expenses cost was negligible in the vegetables at producer's level. The findings on marketing costs indicated that the total marketing costs per quintal of vegetables incurred at the producer's level were relatively higher in Naubasta regulated market compared to Pukharaya regulated market. The comparison of overall marketing costs incurred by the producers and retailers showed that the amount of marketing cost per quintal of the vegetables under study were relatively higher at the retailer's level. Reduction in commission charges, provision of cheap and efficient transport facilities, establishment of regulated vegetable markets at tehsil level, strengthening the co-operative marketing institutions, innovations in packing and storage technology for the vegetables are the major suggestions of this study.

Impact of Corporate Poultry Contract Farming on Producers' Income

D.S. Navadkar, P.P. Pawar and D.B. Yadav*

A study was undertaken to examine the economics of contract vis-à-vis non-contract farmers. Venkateshwara Hatcheries Group Ltd. (VHGL) as contracting agency was selected purposively. The respondent farmers comprising 10 contract farmers and 10 non-contract farmers were selected randomly from the two selected villages in Haveli tehsil of Pune district in Maharashtra. The collected data by survey method pertained to the year 2006 and were analysed using simple tabular analysis. The study revealed that the contract broiler farmers faced problems of mortality, health and hygiene, inadequate and untimely supply of inputs, poor and inadequate feed quality followed by inadequate training facilities, poor credit facilities, and incidence of diseases. More interestingly, 70 per cent farmers felt the need for framing suitable policy and inter-institutional linkage support for betterment of business under contract farming mode. Despite certain constraints, by and large, both the contracting parties were satisfied and willing to continue and expand the volume of business under contract farming arrangement.

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Production and Marketing of Chilli in Peri-Urban Area of District Kanpur Nagar, Uttar Pradesh

J. Rai, R.K. Singh and Rahul Kumar Rai[†]

The study was carried out to investigate the economics and marketing pattern of chilli crop in Sarsaul block of Kanpur Nagar district in Uttar Pradesh where maximum area is concentrated under chilli crop. Four villages, viz., Salimpur, Madarpur, Chanpur and Khajahapur were selected randomly and 24 respondents from two farm size groups were selected randomly. The weighted mean was used to compare different data and economics of chilli cultivation while Kanpur Nagar market was selected to study the marketing pattern and price spread in chilli market. The study observed that majority of the produce was disposed through two basic marketing channels, channel I (producer-retailer-consumer) and channel II (producer-wholesaler-retailer-consumer). The price spread in chilli market revealed that 10.55 per cent of the consumer's price was accounted as marketing cost in channel I. Marketing charges and retailers margin accounted for 7.41 per cent of consumer's price. This enhanced the marketing cost as well as reduction in the producer's share in consumer's rupee in channel I. The total marketing cost in Channel II accounted for 17.40 per cent of the consumer's price. The marketing charges paid by wholesaler and wholesaler's margin accounted for 7.76 per cent of consumer's price while retailer achieved 6.40 per cent of consumer's price. The number of intermediaries in channel II increased the marketing costs as well as decreased the producer's share in consumer's rupee and marketing efficiency also. If the chilli growers are able to mobilise their produce through channel I rather than channel II it could save Rs. 133 per quintal or, to a tune of 20 per cent increase in return. Thus the production of chilli crop is a demand-driven fruitful venture in peri-urban area of Kanpur city because of better productivity and return per unit area than any other crop and there exist vast potential to enhance the income and employment level of the growers even though this crop severely suffered on market front. It is strongly suggested to form an efficient chilli growers co-operative for quick and effective marketing through channel I to reduce the market intermediaries and enhance the percentage share of producer in consumer's rupee for betterment of the chilli growers in the study area.

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Potato Cultivation under Contract Farming, Reduced Risks of Production and Marketing in Farrukhabad District, Uttar Pradesh

Babu Singh, Rakesh Kr. Singh, Birendra Kumar and Yogesh Yadav*

An attempt has been made in the study to examine the cost and returns of potato crops under contract and non-contract farming systems, to work out the benefit-cost ratio of different systems and the advantages and disadvantages of contract farming. The study is based on primary data collected from 60 farmers selected from five villages of Barhpur block of Farrukhabad district of central Uttar Pradesh. It was observed that Cost A1 was 26.05 per cent higher on contract farms as compared to non-contract farmers. The total cost of production, i.e., Cost C2 was also higher in contract farming mainly due to higher investment on machine power, seeds, manure and fertilisers by this group of farmers. The contracting agencies had arranged for good quality seeds along with the recommended package of practices, suitable guidelines and timely supervision of crop by the expert scientists. The gross income and net return was higher under the contract farming system as compared to non-contract farmers. Thus the contract farmers applied more critical market inputs, which resulted in higher yield of better quality potatoes and received higher price for the produce in the market. The study concludes that contract farming system is more favourable and reduces the risks of production and marketing and can be an alternative to rural marketing. With this rural producer can receive better prices for his produce and improve his economic condition with contract farming.

Vegetable Supply to Corporate Retail Chains: Implications for Farmers

K.C. Badatya[†]

The paper attempts to address the patterns of procurement from farmers and explores the issues whether they have any contract farming arrangement with the farmers and its impact on farmers' production and productivity. Basically the study aims to understand the operation of the retail chain system pertaining to agricultural commodities, to understand the dynamics that exist between the large retailers and the producer farmers and get first hand knowledge on more specifically the contract farming practices being adopted by farmers and retailers for vegetables. The study was carried out in certain outlets within Hyderabad city. The results showed that vegetable supply by farmers to retail chains is more pronounced in consumption centres rather than production centres at the present juncture. This may be due to the problems of logistics, supply chain management, transport cost etc. Success is more

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pronounced in the case of produce, which has either a 100 per cent export content like gherkins in Andhra Pradesh and Karnataka or completely locally consumed say, wheat in the case of ITC e-choupal. Further success is more pronounced in the case of retail chains, which have a complete forward and backward integration and value addition in the supply chain (ITC e-choupal). In short, contract farming and supply to retail chains can only succeed if all the major stakeholders right from production up until the consumer are integrated seamlessly. At the front end there are lots of loyalty programmes being promoted by almost all the retail chains to attract and retain the consumer. But there is no such effort on part of the retail chains to retain the producer. However, it was felt that there are issues, which need to be addressed from both the supplier as well as retailer side to make it a complete success for both the sides. One of the major issues from the producer side is the price. While farmers prefer the fixed price route the retailers are for the market-determined price for which a large number of farmers' have reservations. That may be one of the reasons why such initiatives are sporadic and very location specific. The type of contract is also another issue that needs to be addressed. The retailers are reluctant to enter into a formal contract because of the non-enforceability of the same. On the other hand, the farmers are reluctant to put their money into some informal contract, which doesn't have any binding on any body. Various laws related to land, leasing of land etc. are also issues, which restrict the initiatives of the private retail players.

Vertical Integration in Indian Agrifood Industry: Case of Broiler Chickens

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Intense competition together with the increased expectations of consumers has forced many food processors to increasingly concentrate on developing an efficient supply chain to remain competitive in the market. The nature of the product or service offered by the organisations in the supply chain might give rise to 'hold up' and 'opportunism' after the investments has been made. In order to avoid such uncertainties the firm may integrate into that activity. There are several activities in the broiler industry chain such as grandparent stock, parent stock, hatcheries, feedmill, rearing chickens, processing, vaccine production etc. Each activity can be performed by independent organisations and exchange can take place in the market. However, the existence of autonomous property rights and difficulty in specifying ex-ante the way residual gains to be shared may lead to friction in the arrangement. Hence, broiler industry is highly vertically integrated. Vertical integration is a means of coordinating the different activities of an industry chain when bilateral trading is not beneficial. However, one activity that is not integrated but carried out through contract arrangement in the broiler industry is growing the chickens. The contract is

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very explicit with regard to the roles and the responsibilities of the firm and the farmers. The grower provided the land, invested in the shed and equipment and bore the operating expenses such as electricity, water, labour besides repairs and cleaning. The integrator supplied day old chicks, feeds and vaccines which may account for as high as 90 per cent of the total cost. As the birds reach maturity it was lifted by the integrator. Farmers were paid according to their performance, determined by the feed conversion ratio (FCR). FCR is a coefficient indicating kilos of feed used to produce a kilo of live meat. As the grower farmers are spread in many states, monitoring or framing suitable policies for them would be costly as well the effectiveness of such monitoring is suspect, payment to the grower was linked to the realised outcome. As the market risk is transferred to the integrator and almost the entire working capital needs are met by them the activity is ideal for linking the small farmers to the market. However, available evidence indicated that the benefits from the activity are at best equivalent to the wages for the grower and his family.

Supply Chain Linkages of Organised Corporate Retail vs Traditional Unorganised Markets with Small Vegetable Producers- A Performance Evaluation

D.V.S. Rao, G. Raghunadha Reddy and B. Kishore[†]

The present study was specifically conducted through case studies to understand the linkages and to verify the performance of organised corporate retailers and unorganised traditional supply chains and their impact on small vegetable producers in Guntur district of Andhra Pradesh. The producers of Okhra vegetable were of the opinion that unorganized and traditional supply chain is preferred and better relative to corporate organized retailer, i.e., Reliance Fresh Ltd. (RFL). It accepts only FAQ grade vegetable in limited quantity of 70 to 160 kgs as per the indent from each farmer. It rejects non-FAQ grade produce and sometimes the entire lot brought by the producers. The producers have to depend again on commission agents in the unorganised markets to dispose of this produce. There is no written agreement between producers and the RFL. There are no backward linkages established by RFL except buying only FAQ grade vegetables. The farmers opined that the price differential is only one or two rupees per kg from the unorganised market. The organised retailer determines the price band to be paid to producers by netting of all adjustments to expenses borne by farmers in the local referral vegetable mandi like primary transportation, commission, weighing charges, unloading charges and other deductions from price in local referral mandi during peak sale hour of the previous day. The cash payments are 'on the spot' in the organised market. Commission agent in unorganised market accepts the entire lot, no rejection of produce and cash

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payments are made the next day after deducting commission charges. In both the supply chains farmers incur transportation charges. The commission agent advances cash to producers during the season to meet farm input or personal expenses by producers. It was suggested that the RFL has to improve backward linkages like agricultural extension activities, arranging for input supplies like seed, pesticides, credit, insurance and quality production technologies besides purchasing arrangements for non-FAQ grade produce.

Contract Farming as a Corporate Entry into Agricultural Markets for Management of Market Risks in Agriculture

S.S. Kalamkar*

An attempt has been made in this paper to study the role of contract farming as a corporate entry into agricultural markets for management of market risks in the context of globalisation. The globalisation of Indian agriculture in recent years has resulted in the need for the production of export-oriented quality products having competitive advantage. In the context of liberalised global trade regime, among different possible avenues that could safeguard the interest of the small and marginal farmers, contract farming is the most convenient and safer option, which comes to the rescue of not only the small and marginal farmers in terms of guaranteed income and low capital investment but also the nation as a whole making it globally competitive. It could be one of the best solutions that may decrease the polarisation of rich and poor and thus encourage the Indian farmers to compete with the very large, rich and highly indirectly subsidised western farmers. The existing agricultural marketing system in India is lacking in forward and backward linkages. Contract farming is billed to be a veritable instrument to address many of the traditional ills affecting the agricultural sector and the farmers, such as fragmentation of land holdings, long chain of market intermediaries, and ignorance about losses to the farmers. It is an exciting way of giving the power of scale to the small farmers, of small farmer efficiency to the scale of economy, transferring corporate management skill to the agriculture field, providing assured markets for the produce, reducing the transaction costs involved in the value chains of the commodities and in ensuring vertical integration through forward and backward linkages. The advent of globalisation and liberalisation has intensified the role of the agribusiness firms who are entering into contract with primary producers and farmers for supplying raw materials. The farmer gets exposure to world-class agro-technology in the form of planting material and technical advice free at his doorstep. Contract farming and the establishment of private markets in the notified area will help strengthen the existing marketing system as also infrastructure facilities like processing, conditioned storage, packaging,

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quality control, transportation, market intelligence, export promotion etc. This will help farmers reap the benefits of technological development and globalisation of agricultural trade. To establish an agrarian economy that ensures food and nutrition security to a population of over a billion, raw material for its expanding industrial base, surpluses for exports, and a fair and equitable rewarding system for the farming community, contract farming is no doubt a viable alternative farming model, which provides assured and reliable input service to farmers and desired farm produce to the contracting firms.