Issues, opportunities integration of agricultural supply chain with trade channels

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Abstract: This notion of supply price as a minimum comes from the fundamental economic observation that people prefer more to less. As a lower limit, supply price indicates that sellers are willing to accept more for a given quantity, but not less. By accepting more for agree product, sellers have extra profit remaining after paying the opportunity cost of production. As a customer they have to pay more prices to purchase but farmer selling their product to lower price. Finally customer and farmer dissatisfied but sellers earn more profit. The main reason for this, bargaining power of farmers can be identified as low level.

The Meaning of Bargaining Power Discussions of inequalities of bargaining power between the two parties of an exchange transaction has rarely attempted. Finally satisfaction level of producers and customers go down so some intermediary agribusiness firms try to create solution for this issue. The interest in contract farming as a mechanism to coordinate linkages between farmers and agribusiness firms has increased considerably in the recent past. This paper reviews the changes in Agri-food systems that are leading to tighter coordination of supply chains and discusses the theoretical basis for contract farming as a chain governance strategy.

Keywords: Supply chain integration, bargaining power, backward integration

1. Introduction

Supply chain integration has received growing attention among scholars and practitioners in recent decades (Stank et al., 2001, Kim, 2013, Tseng and Liao, 2015, Yuen and Thai, 2016). It is defined as ‘the management of various sets of activities that aims at seamlessly linking relevant business processes within and across firms, and eliminating duplicate or unnecessary parts of the processes for the purpose of building a better functioning supply chain’ (Chen et al., 2009 p. 66). The literature has provided numerous definitions for Supply chain integration. While some studies defined Supply chain integration as a formalized process of partnership or collaboration (Cao et al., 2010), others viewed Supply chain integration as a set of practices that involve sharing of resources and information across internal departments and external organizations (Swink et al., 2007).

By accepting more for agree product, sellers have extra profit remaining after paying the opportunity cost of production. As a customer they have to pay more prices to purchase but farmer selling their product to lower price. The concept of bargaining power is most logically used to sum up overall advantages or inequalities in price-influencing abilities. More recently, bargaining power was defined as the ability to obtain the most favorable price possible under conditions prevailing in all markets, either directly or indirectly involved. In other words the competitive situation in the market in which the transaction takes place and all restraints and repercussions each party must face in all related markets enter as determinants of bargaining power. 5 The competitive price is the point of reference, and bargaining power is proportional to the deviation of the price obtained from the price that would rule for the quantity supplied under pure competition in all relevant markets.

Similar to considering bargaining power as one among many factors accounting for price, another approach is to identify it as the ability to settle price within the range of theoretical indeterminacy in bilateral monopoly. That is, when competitive influences are too imperfect to compel price and quantity outcomes at equilibrium levels, firms with bargaining power will be able to exercise discretion in finally establishing a price. This suggests a dichotomy between competitive or market forces on one hand and discretionary power in setting theoretically in determinant prices on the other. In practice, use of bargaining power in this sense will lead some people to see price determination through development of bargaining power as an alternative to prices determined by market forces. It is reasonably clear, however, that all of what has been called bargaining power by the various writers is present in market situations where prices are theoretically determinant; hence, bargaining power involves in large part the use of competitive influences to
establish prices more favorable than those otherwise prevailing.

2. Relevance of Increased Farmers' Bargaining Power as an Agricultural Policy Objective

Recognition of this comprehensive nature of the concept could explain why most persons concerned with agriculture seem to agree on the desirability of increasing farmers' bargaining power, although they cannot agree on the means to accomplish this end. However, this comprehensive concept is probably not the thing most people are talking about when they say that farmers are at a disadvantage in the market relative to the marketing and supply firms with which they deal. Here, the overall concept includes too much; what is needed is a concept which concentrates on the relative positions of buying and selling firms in specified markets. There appears to be a significant difference between the statement that "farmers have no bargaining power" and the claim that "farmers have less bargaining power than the firms from which they buy and sell," (Lehman B.F., Arnold P., Donald R. Kaldor, W. 1961)

This point can be expected to play an important role in consideration of any proposals to give farmers more bargaining power. The narrower question is whether producers as a group are at a relative disadvantage to marketing and supply firms as a group. Even if this question is answered in the affirmative, a choice must still be made whether to equalize the situation.

(1) By giving farmers more bargaining power
(2) By reducing bargaining power in the marketing and supply sectors.

3. Farmers and agree business firm

The interest in contract farming as a mechanism to coordinate linkages between farmers and agribusiness firms has increased considerably in the recent past. This paper reviews the changes in Agri-food systems that are leading to tighter coordination of supply chains and discusses the theoretical basis for contract farming as a chain governance strategy. It is argued that the need to minimize transaction costs in light of increasing uncertainty, asset specificity and market failures associated with changes in agri-food systems will continue favoring the intensification of contracting in supply chain management in food and agriculture. The international experience reviewed suggests that, under appropriate enabling environments, the potential advantages of contracting for farmers and agribusiness firms tend to outweigh the potential disadvantages. Potential socio-economic benefits are a further incentive to the promotion of contracts as a component of agribusiness development strategies. (Carlos Arthur B. da Silva, 2005)

4. Cargills Bank and Cargills group involvement

Our main sponsor Cargills (Ceylon) Plc, has always believed that uplifting the people in the rural sector will strengthen our nation, holding the belief that our nation has always been an agrarian society, from the ancient kings to this day, and the fortunes of our nation has grown around agriculture. The Cargills Bank logo thus in its entirety portrays an ear of paddy, the symbol of prosperity and agriculture in Sri Lanka. The upward movement of the logo depicts prosperity and growth. The colour a hue of Red and Orange denotes a bright future. As we look closer we also see its actually people standing behind one another, supporting each other giving significance to the nature of the human spirit that individual’s success is built on community and support, of which Cargills Bank is also a part. The tag line “Banking on the Human Spirit” embodies our philosophy and belief in the resolve of the human spirit of people as they endeavor to strive for success. (http://www.cargillsbank.com/about-us/our-bank/)

The largest shareholders of Cargills Bank Limited are Cargills (Ceylon) PLC and CT Holdings PLC, both highly diversified conglomerates listed in the Colombo Stock Exchange with interests in entertainment, hospitality trade, property development, manufacturing, food processing and retailing. Cargills Ceylon PLC, a Sri Lankan corporate established in 1844 is built on a strong foundation of values and ethics. Cargills Bank is also well partnered through investments of leading corporate in the country whose brands, financial performance, market share and business foresight have been in highest echelons of their respective fields. (http://www.cargillsbank.com/about-us/our-partners/)

5. Advantages for Agribusiness firms

The theoretical hypothesis is that agribusiness firms find in contract farming a strategy to minimize transaction costs, primarily the ones related to asset specificity and uncertainty. The main potential advantages are as follows:

Greater regularity of agricultural product supplies to the firm is ensured. With contracts, firms can schedule the deliveries so as to optimally utilize their processing capacity and / or distribution infrastructure. They can also better coordinate product delivery with the timing of the demands
from their own clients. Greater conformity to desirable product quality attributes and to safety standards is promoted. Since contracts specify quality attributes and since most also allow control of farming technology processes, firms are in a better position to meet consumer requirements and mandatory quality and safety standards.

Access to agricultural credit and eventual financial incentives and subsidies is facilitated. The reduction of risks in the firm’s supply chain and the economies of scale associated with contracting operations are conditions that in principle increase a financing institution’s willingness to lend. As earlier suggested, not only access is improved, but financing conditions tend to be more favorable to the firm. As to government incentives and subsidies, countries that promote contracting often use such instruments in their agribusiness development policies. They might be expressed in the form of tax breaks, foreign exchange quotas, profit repatriation flexibility, tariff reduction for imported inputs, etc.

Main

6. Poverty in Rural Agriculture for niche marketing

Sri Lanka needs is a marketing system that would address market identification and marketability of produce based on the principle of competitive pricing, quality and services. The strategy proposed in this study revolves around the ‘activation’ of agricultural output via market identification and marketability analysis. The ‘activator’ is the system identified as ‘Improved Marketing’; which initially would target 50 per cent of the annual agricultural (fruit and vegetable) production in a given period of five years. Activation of agricultural output is expected to activate supply of agricultural inputs and thereby bring about an ideal integration of agricultural outputs and inputs in a competitive environment. This system would help catch-up with the rest of the annual agricultural production once benefits are realized over time. Primary shareholders would be the rural farmers operating in socio-economically cohesive groups, linked to marketers who appreciate this ‘improved’ concept. The middlemen can join this system, upon accepting this ‘improved’ marketing mechanism. The public sector is encouraged to join as ‘improved’ marketers but the alienable task of the public sector is to support the ‘improved’ marketing of the private sector via the provision of required ‘public goods’. The methodology of the proposed ‘improved’ marketing system for marketing of fruit and vegetables could be extended to other sectors of rural agriculture. Agriculture is weather dependent, and if the state is less attentive to the needs of small farmers and agro-based traders in rural Sri Lanka, this group getting trapped in the vicious cycle of economic ups and downs, would be unavoidable.

7. Productivity a core issue

Agricultural productivity, the key to rural prosperity, has been hampered by inadequate attention on inherent rural scenarios of labor movement rigidity (inability of farm labor to move from one sector to another), seasonality in production and perishability of produce, rural attitude towards ‘individualism’, limited access to agricultural credit coupled with rural indebtedness, land fragmentation and the traditional marketing system with the conspicuous presence of the ‘necessary evil’, the unpredictable middlemen. They have all contributed to the stagnant farm productivity, especially in the small (fragmented) farm sector. Various views have been expressed by experts to tackle this ‘rural behavioral syndrome’; often with a ‘foreign flavour’ not accustomed to rural Sri Lanka and not recognizing the inter-connectedness of all these behavioral scenarios to the rural farm family. It is indeed a fault by respective Sri Lankan governments.

This article proposes an improved approach to marketing of fruit and vegetables; the methodology of which could be easily extended to other sectors in agriculture. It recognizes the inter-connectedness of all rural behavioral scenarios in problem solving with greater emphasis towards an improved or advanced marketing system from that of the traditional marketing system. It is the view that for the success of the improved marketing system involving niche marketing, all rural behavioral problems got to be coordinated and resolved together in order to bring forth the ideal outcome to small farm families. The significance of this system is the building up of a closer relationship between the stakeholders including the supporting services along the supply chain.

This system had been tried out originally in the Export Production Village (EPV) concept of the Sri Lanka Export Development Board (EDB) in the 1980s and presently practiced by Sri Lankan supermarket chains and dedicated stake holders consisting of farmer groups and traders (inclusive of ‘dedicated’ middlemen), in combination with input-output supporting services. It must be mentioned that the failure of the EPV concept was because of the lukewarm treatment it received from the EDB with change of ‘thinking’ of the government hierarchy. It emphasizes the importance of Government intervention with a set of well identified steady policies vis a vis on ‘public goods’.
10. Niche marketing

Niche marketing is a concept where comparative and competitive advantages in marketing are better exploited to provide a better deal to niche marketers and farmer groups. Prior knowledge of consumer behavior and the location identification of consumers and producers enable niche marketing to exploit comparative advantages. Product differentiation by way of demanded quality and agreed prices and service differentiation by way of timely supply, better product presentation and two way flow of product and market related information, are means of providing the competitive advantage in niche marketing.

Locally, similar consumer behavioral orientations suitable for niche marketing are evident in armed forces camps, tourist hotels, prisons, hospitals, retirement villages and in societies or communities with similar socio-economic background. Similarly, niche markets overseas could be identified among similar ethnic, cultural and economic standings. It should be noted that finding niches in the whole of the local or overseas mainstream markets are not practical and therefore, continuation of the traditional marketing system is also essential. With government intervention, the task is to find more and more niches and connect them to suitable niche marketers (groups of dedicated stake holders). Let us examine the potential that awaits groups of farmers and niche marketers. Inflow of demand (market) information and outflow of supply information will be evident in of competition between niche marketing groups dealing in similar products. Outcome of niche marketing can be seen as a ‘fair deal’ to both stakeholders – farmers and consumers.

12 Government interventions

The success of the state in business has seen mixed results. Instances of misallocation and misuse of scarce resources are many. It is not an exaggeration that appointment to government positions is not transparent while wage structures lag behind private sector wages. And as a result, the dedication that is expected to come from an efficient niche marketing operation may not happen. Additionally, fruit and vegetables are perishables and therefore much is expected from the niche marketers.

Under the present socio-political environment, whether government officers as niche marketers, can fulfill this task is debatable. However, the Marketing Department of Sri Lanka in a by-gone era, performed admirably in the traditional marketing system. Nevertheless, government intervention via ‘public goods’ is essential at least in well thought out areas, where misallocation and misuse of resources can be minimized and where there are no alternatives in the private sector. The following areas are recommended for government intervention.

Agriculture Minister said Sri Lanka might experience a shortage of rice if the harvest from the next season also drops drastically. He said that in view of forecasts that the current drought might continue for some time, instructions had been issued to the affected districts to switch from paddy cultivation to alternate crops. According to the minister the Irrigation Department will not be able to supply sufficient quantities of water needed for paddy cultivation. Relevant departments in the districts affected have been told to cultivate crops such as green gram, soya beans and kidney beans. The ministry has also decided to give a 50 percent subsidy to buy seeds needed, in an attempt to encourage the farmers to switch to alternate crops.

13 Promoter of state buyer

This is a sensitive area where use of state resources can be misallocated and misused. Nevertheless, Lak Sathosa is already a purchaser of the ‘last resort’ of fruit and vegetables under the traditional marketing system. If Lak Sathosa’s economic viability and social acceptability of buying and selling via its supermarket chain is proven, it will become a yardstick for Lak Sathosa to enter the improved marketing system as a niche marketer. Presence of Lak Sathosa will have the added impetus of competition between the state and the private sector niche marketers. Evaluate and report to the line
ministry, the performance of the above activities, at least annually. This is an effort to provide a ‘fair deal’ to the stakeholders and a ‘fairest deal’ to producers and consumers, by an improved marketing system involving niche marketing. The concept is not new to Sri Lanka and it is ‘time tested’. It doesn’t replace the traditional marketing system but an attempt to improve it by the introduction of ‘dedicated’ stakeholders. Dedicated government institutions could also be stakeholders. A target has been set (a practical but a subjective judgment), at 50 per cent of the annual production of fruit and vegetables (estimated to be around 2.75 to 3.25 million metric tons including pulses and cereals) from the present level of 8-10 per cent, to move through the improved marketing system, within a period of five years. This system recognises the inter-connectedness of farm input-output and support services and assumes that dynamic marketing is the ‘engine of socio-economic growth’. Therefore, it considers marketing as having the potential to resuscitate especially the small farms of Sri Lanka, consisting of approximately two million ‘active’ small holdings (having between 0.11 to 8 hectares per holding) occupying an area of approximately 1.45 million hectares. (Poverty in Rural Agriculture: Case for niche marketing, By Nirmalal Dias)

14 Marketing strategy for future learning
Marketing strategy has the fundamental goal of increasing sales and achieving a sustainable competitive advantage. Selling at a farmer’s market is a distribution and sales strategy that is ideal if you are a small or medium-sized agricultural producer. It can also be a stepping stone to larger markets if you want to grow, but with the popularity of these markets, many farmers sell at a different market every weekend within a reasonable distance from their farms. It allows you to sell several types of produce, provide recipes and offer taste samples. Another benefit is that market operators or local communities handle much of the promotion, saving you time and money. Marketing is any activity that leads you to sell a product. When you decide what products to sell, what price to ask, where and how to sell them, and how to promote them, you are marketing. Your strategy is your means of doing something -- how you will meet your objectives of selling this year’s crop. Depending on the type and size of your farm, and whether you are farming full or part time, you have several options for how to market your operation.

15 Integrative growths
Identifying opportunities to build or acquire businesses related to the current sphere of operations a strategy for growth in which a firm acquires some other element of the chain of distribution of which it is a member. Integrate growth strategies can be divided in to three parts. They are forward integration is a business strategy that involves a form of vertical integration whereby business activities are expanded to include control of the direct distribution or supply of a company’s products. Horizontal Integration is a strategy for growth in which a company develops by seeking ownership of some measure of control over, some of its competitors. Backward Integration is a strategy for growth, in which a company seeks ownership of, or some measure of control over, its suppliers. Backward integration is a popular competitive strategy. Backward integration is type of vertical integration in which a consumer of raw materials acquires its suppliers, or sets up its own facilities to ensure a more reliable or cost-effective supply of inputs. By backward vertically integrating by buying agree farm, Starbucks ensures that it will have a bean supply and that it will receive it at a reasonable price. In agricultural development seems important, theoretical analyses of the conditions for its positive impact on farmers’ marketing performances are rather scarce, as are empirical impact evaluations. Bargaining interactions between a farmer and a trader, and we study how information affects the bargain and the balance of power at the farm gate. An unexpected result of that providing price information to the farmer allows him to avoid negotiation failures while Pareto improving deals exist. In particular, it would be useful to collect detailed data on transactions completed at the market due to negotiation failures at the farm gate. Indeed, the data we use only describe the main farm gate transactions, meaning that we are not able to estimate the average impact on informed farmers who travel to the market. Moreover, it would be interesting to investigate a more dynamic framework in which average treatment effects are not constant through time because of traders’ strategy adjustments. Specifically, the trader should seek to deal in uninformed communities when the market price is high because, in that case, uninformed farmers, who systematically make incorrect estimates of the market price, would accept relatively low prices. On the contrary, the trader should seek to visit informed communities when the market price is low because it allows him to avoid costly negotiation failures. (Carlos Arthur B. da Silva, 2005) the growing role of contract farming in agri-food systems development drivers, theory and practice.
16 Conclusions
Experience indicates that food and agriculture in Sri Lanka are prime issues for public concern over perceived supply chain corporate social responsibility deficiencies. This paper explores empirically the effects of supply chain integration on food price and the interrelations among farmers' trust in the company, farmers' different types of relationship commitments to the company and supply chain integration. The theoretical model for "trust–relationship commitments–supply chain integration–quality performance" is established. The findings provide a theoretical basis and practice guidelines for agricultural enterprises' management of supply chain integration. In particular, supply chain integration has positive influences on quality, and trust has greater effects on integration. The conclusions provide the company with theoretical and practical guidelines to improve the quality of its primary agricultural products, and thereby enhance the competitive advantages of Sri Lankan agribusiness.

This study undertook to contribute and extend current thinking in the embryonic area of integrated supply chain management capability building (Hult et al., 2007) by examining their influence in utilizing industry-led innovation agribusiness industry supply chain, the Sri Lankan agriculture industry. In a small farmer dominated agrarian economy, farmer-based organization and collective action are often seen as a key factor in enhancing farmer access to market. Developing and strengthening farmer based organization is one important opinion to ensure effective farmer participation in agrifood supply chains. Agribusiness companies find it easy to collaborate with already organized group of farmer rather than trying to organize farmers into collective groups as it entails a considerable investment. The presence of a large number of farmer based organization they have made a modest impact on the development of the agree business sector as a whole long accumulated experiences in the areas of structure and management collective action and services are considered to be highly relevant to farmer based organization in Sri Lanka. Given the failure of farmer based organization in Sri Lanka as standalone organizations, the longstanding experiences of federated structure for farmer based organization in Sri Lanka. Moreover experiences in Sri Lanka indicates that most farmer based organization set up with the support of external agencies are not sustainable in the long term as they become defunct once the external support is withdrawn. Therefore, it is important to pay attention to develop the self sustaining capacity of these organizations in this regard federated structure can be use full.

17. References
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