

SUPPLY CHAIN AND CONSUMER IMPACT

ARE WE PAYING TOO HIGH A PRICE FOR PERISHABLES?

THE SCREEN READS: DISADVANTAGE CONSUMERS. THOUGH THE ISSUE HARDLY FINDS ANY PROMINENCE, THE INHERENT INEFFICIENCIES IN THE SUPPLY CHAINS OF FRUITS AND VEGETABLES IN THE INDIAN MARKET OFTEN RESULTS IN STEEP PAYOUT BY CONSUMERS, VIS-A-VIS WHAT FARMERS ACTUALLY EARN.

By **RITWIK SINHA**

Have you ever wondered why the same fruit and vegetable which you buy from a road side push cart vendor frequenting your locality is sold probably ten rupees a kg costlier than the nearest perishable hub which could well be within 1-5 kms radius of your residence? Yes, all our big cities have such small hubs (which could not be precisely called *mandis* in the conventional sense) in proximity with the middle class concentration. Subconsciously, this price differential must have hit you in a flash but in the regular flow of city life, this is not an issue which commands paramount importance. Not till the next sudden and unexpected spell of burgeoning inflation hits us hard, forcing us to look for cheaper options.

The anomaly pointed above subtly underlines the problem of consumers being forced to pay too steep a price for their perishable items vis-à-vis what producers earn. Every time you buy any fruit or vegetable, say for Rs 50 a kg, chances are its actual grower would have just netted Rs 10, or even lower. In extreme cases (read supply falling short of demand), the problem could well get magnified to epic-scale magnitudes – something like ten times or even more!


Even if we leave aside extreme cases bordering on aberration, the moot

point is: how does the pricing trends of fruits and vegetables play out in normal condition? The point has to be analysed in the backdrop of the fact that the supply chain inefficiencies all across the value chain, from pre to post harvest stages, and products' market journey through different set of intermediaries, till they reach the consumers are believed to be biggest culprit resulting in a staggering 30-40 percent wastage of our agrarian produce (Deputy chairman of the Planning Commission, Dr. Montek Singh Ahluwalia, had once strongly doubted the veracity of this statistic). According to a noted expert, the price differential of our perishables at the two extremes of farm gate to fork, could well be in the range of five to six times on a general basis. In developed markets, which can boast of more efficient supply chain systems in place for a long time, this difference would usually be three to four times. The entire pricing equation, however, varies from commodity to commodity and is also a function of distance travelled by the produce to reach to the ultimate consumer and the demand-supply situation in the given season. A study testifies that in India, the average transportation distance which vegetables have to cover is around 200 km and for fruits, it is 800 km.

Talk to any expert and he will tell you what pushes the pricing proportion on to the higher pitch in a country like

ours. First and foremost, of course, is the overwhelming presence of intermediaries. In general, there are about half a dozen intermediaries involved in completing the journey from farm gate to fork in India as against two, or maximum three, in efficient supply chain models of Europe. Secondly, even though the consumption of fruits and vegetables is going up due to rise in income levels, especially in metro centers, our domestic supply is insignificant for which huge wastage is also responsible. The over-populated agriculture business also defined by presence of too many intermediaries means too many stakeholders involved in escalating the margin, something which is not the case when farmers in some European markets sell to pack houses from where retailers directly pick up.

Supply chain inefficiency is clearly the key here but there are some positive developments to suggest that the Indian perishable market may begin to witness some structural changes, going ahead. Allowing FDI in multi-brand retail is one instance. The government has also set up a regulatory body called National Center for Cold-chain Development (NCCD) which will strive to usher in modern storage facilities in the country by defining standards and accreditation for the private operators. But will it all help in bringing the farm gate to fork pricing ratio to say x:3x or 3.5x and provide some relief to consumers who are susceptible to

market vagaries? Those involved in agri-business are keeping their fingers crossed, given the inherent complexities in the Indian agri-business and the fact that any structural change would always be easier said than done. 



PERSPECTIVES



SHAILENDRA KUMAR
DIRECTOR, NCCD

"There have been instances when farmers had complained that the same mango which fetches Rs 10/kg at farm gate is sold at Rs 120/kg in a market like Delhi. Thus, the consumer is paying a huge amount – almost ten to twelve times what the producer is actually getting and both of them are extremely unhappy. It is expected that if more players join the multi-brand retail bandwagon, the supply chain integration exercise would get a fresh impetus. Secondly, if there is a condition that a sizeable amount of your investment would go into the back end, it means post harvest to the market supply chain process would be strengthened."



PAWANEXH KOHLI
CHIEF ADVISOR, NCCD

"If the cost is too high for the customer, the trade optimizes and aligns in accordance. One of the ways to make it happen faster is to have more competition. Promoting multiple supply chains and ensuing competition is the best way to reduce overheads or optimise costs, where the input costs in production (farm) are predetermined. If in five years even 50% of our farmers can claim to have directly sold to five markets in that year, it will have been a job well done by India. It would have opened new opportunities to the farmers and brought new lines of supply to the customers. Competition and markets will do the rest."



SK SHARMA
MD, GLOBAL AGRISYSTEM

"During the National Democratic Alliance (NDA) regime ten years ago, a very serious onion crisis had happened. But do you know that crisis had happened just because of a meagre production shortfall of 10 percent even as the price of onion in metro markets had skyrocketed by nearly five times to the tune of Rs 75/kg then? Within the agri-business circle, it is widely believed that the trigger point for that onion crisis was the lack of transportation facility for onion stock from Nashik and surrounding areas to the major consumption centers in the country."



SANJAY AGARWAL
CHAIRMAN, DEV BHUMI COLD CHAIN

"Supply chain of perishables is saddled with the overwhelming presence of intermediaries. In general, there are about half a dozen intermediaries involved as against two intermediaries in efficient supply chain models of Europe. Secondly, even though the consumption of fruits and vegetables is going up due to rise in income levels especially in metro centers, our domestic supply is insignificant for which huge wastage is also responsible. And lastly, our purchasing capacity is no where at par with developed western markets."