

PRODUCER COMPANY INTEGRATION WITH ORGANIZED RETAIL

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Abstract- Producer company is a corporate structure. The idea of a Producer company came from the felt need for an alternative institutional framework, free from regular interferences and which could easily undertake commercial transactions. Organized retail in India is little over a decade old. It is largely an urban phenomenon and the pace of growth is still slow. When Producer Company and Organised Retail join hands in business they can have good business combining both the features. This is the need of hour in today's world.

I. INTRODUCTION

A Producer company is a corporate structure. It allows producers of primary produce (farmers, dairy-products producers, etc.) to organize themselves into a corporate entity.

In spite of India mainly being an agrarian economy, as we all know that agriculture has become a sector from which a large number of farmers wish to exit. This is ironic considering that a number of corporates have entered into this business seeing the profit. One of the reasons for this, is that value addition to a product occurs only after the farmer has already exited after sale of his primary produce, hence s/he cannot share in these profits.

II. HISTORICAL EVOLUTION OF PRODUCER COMPANY

Recognising the above need, cooperative option came early into picture and was encouraged by the Govt, however experiment with cooperatives failed (today rather than being a panacea of problems of the farmers, large & successful cooperatives are few & numbered. This happened because one, they were considered more on the lines of welfare rather than undertaking business on commercial lines. Secondly the overpowering control of the state governments through Registrar of Cooperatives over these institutions throttled the growth of the very institutions it was supposed to nurture. Most cooperatives need to take permission from the state

govts for a number of activities, sometimes even for opening of offices, investment of surplus funds, issue of bonus shares, appointment of auditors, etc.

Thus the idea of a Producer company came from the felt need for an alternative institutional framework, free from regular interferences and which could easily undertake commercial transactions. Companies (Amendment) Act 2002 gave birth to a legal structure called 'Producer Company'. It would be unfair, if the name of Dr YK Alagh is not mentioned here, who was the chairman of the Committee which gave recommendations and hence became part of Companies Act.

The features of Producer Companies are detailed in section IXA of the Companies Act, 1956. A Producer Company (PC) is a company of the primary producers of any kind, like that of agricultural produce, forest produce, rural artisans, and any other local produce, where the members are actual producers. While each member can have only one share and one vote, he/she can contribute any amount of produce to the PC. Contrary to the traditional firm, the shares of the PC members cannot be transferred without the special approval of the board of the PC. As against the traditional company, a PC should have a minimum of 10 members but can have any number of members. It can also have a share capital of less than 100,000 INR. The legislation also allows the members to avail of credit facilities from the PC. With regard to management of the PC, the Act requires that the PC has to be run by professional managers with a Chief Executive Officer to be responsible for the overall operations. The 17 Producer Companies of DPIP-MP seem to have several elements as per the legislation. These PCs largely appear to serve the purpose of aggregation of agricultural produce. The

PCs through the arrangement of contract marketing sell their produce to processors or any other large national and international buyers. The attempt of the PCs has been on the traditional technology transfer mechanism, which may not fully leverage on the available local technology of the respective communities.

III. BENEFITS OF PRODUCER COMPANY

Producer Company can play an important role in reducing transaction costs. By dealing with a producer company, the company does not have to do business with a large number of farmers. Producer company may support contract farming by arranging or channelling the technical assistance needed to help producers increase product quality and uniformity. Existing producer company can make use of existing social capital, which supports low cost information exchanges and social mechanisms that prevent non-compliance. Finally, producer organisations can improve the power balance between producers and companies, thereby strengthening the incentives for both parties to continue with bilateral contracts.

- Private sector actors place a high value on reducing transaction costs. A producer company can provide them with a single contact point instead of many fragmented producers. As a chain actor a producer organisation can collect the produce and fulfil key responsibilities, such as grading, processing and transporting. As a chain-link facilitator a producer company can disseminate information and assist in the provision of technical advisory services and credit.
- From the perspective of producers, membership in producer company offers many opportunities for improving market access. Increasing economies of scale bring clear advantages in cost reduction for the individual producer, e.g. bulk produce transport – using one truck to take the produce of several producers to the market.
- Organisation increases bargaining power, stimulates solidarity and supports the producers in engaging in higher risk actions. A producer company can also support activities that provide added value and provide access to credit and technical assistance.
- Given the importance of quality assurance in contract farming schemes, not all small scale producers will be able to participate. This poses a challenge for Producer Company, as their

membership is comprised of producers with varying abilities to comply with higher quality requirements.

- The establishment of a new producer organisation by those producers who are able and willing to supply the higher quality produce.
- The development of different product pools within the producer company that would target different markets.
- Producer company can go for collective bargaining and set the rates according to their wish because they are giving the orders in bulk.
- Producer company can enter into contracts and borrow money. Banks will be willing to give them loans as well.
- Organisation and its membership can more easily be protected from abuses such as the fraudulent use of funds or the misuse of the Producer company name and identity. Legal status clarifies the liability of the organisation and its members

IV. EVOLUTION OF THE INDIAN RETAIL MARKET

Retailing goes back to centuries; it started as a very primitive business but today has grown tremendously. First people were doing businesses with their neighbours. Goods were exchanged between them. Gradually people began to collect themselves to a given neighbourhood, which provides a geographical place to do the exchange. This not only increases the exposure of a given good but also helps a lot towards the development of a more formalized system. Gradually, a few more start to get together to a place that in turn creates a need for a common place. Later this common place was called a fair. With the passing of time the number of people doing businesses in a given fair increased, issues like security, transportation becomes a matter of concern. This semi-formalized system then gave birth to small-scale groceries, where people start to provide more combinations in their own neighborhoods. Then came the issue of choice in given grocery, the choices the customer had was limited, this was the beginning of the concept of “everything under one roof”. As time passes, joint family changes into nuclear family. There too both members started earning which resulted into a new way of lifestyle. From then instead of mom-and-pop type of stores organized retail stores came into existence.

V. CHALLENGES TO RETAIL DEVELOPMENT IN INDIA

Organized retail in India is little over a decade old. It is largely an urban phenomenon and the pace of growth is still slow. Some of the reasons for this slow growth are: -

- The kiranas continue - The very first challenge facing the organized retail industry in India is competition from the unorganized sector. Traditionally retailing has established in India for centuries. It is a low cost structure, mostly owner operated, has negligible real estate and labor costs and little or no taxes to pay. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector. On the other hand, organized sector have big expenses to meet and yet have to keep prices low enough to compete with the traditional sector.
- Retail not being recognized as an industry in India – Lack of recognition as an industry hampers the availability of finance to the existing and new players. This affects growth and expansion plans.
- The high costs of real estate – Real estate prices in some cities in India are amongst the highest in the world. The lease or rent of property is one of the major areas of expenditure; a high lease rental reduces the profitability of a project.
- High stamp duties – In addition to the high cost of real estate the sector also faces very high stamp duties on transfer of property, which varies from state to state (12.5% in Gujarat and 8% in Delhi). The problem is compounded by problems of clear titles to ownership, while at the same time land use conversion is time consuming and complex as is the legal process for settling of property disputes.
- Lack of adequate infrastructure - Poor roads and the lack of a cold chain infrastructure hampers the development of food and grocery retail in India. The existing supermarkets and foods retailers have to invest a substantial amount of money and time in building a cold chain network.
- Multiple and complex taxation system – The sales tax rates vary from state to state, while organized players have to face a multiple point control and system there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi point octroi with the introduction of value Added Tax (VAT) in 2005, certain anomalies in the existing sales tax system causing disruption in the supply chain are likely to get corrected over a period of time.
- There is price war between different retail organizations. Each and every one is saying to provide goods at low cost and offers various promotional schemes. In such a case it is difficult to keep one's customers with oneself.
- International standards: Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.
- Inefficient supply chain management: Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management. India must concentrate on improving the supply chain management, which in turn would bring down inventory cost, which can then be passed on to the consumer in the form of low pricing.
- Lack of retail space: Most of the retail outlets in India have outlets that are less than 500 square feet in area. This is very small by International Standards.
- Cultural disparity: India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which by itself would be challenging.
- Escalating real estate prices: The enormous growth of the retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace.
- Human resource problems: Trained manpower shortage is a challenge facing the organized retail sector in India. The Indian retailers have difficulty in finding trained person and also have to pay more in order to retain them. This again brings down the Indian retailers profit levels.
- Frauds in retail: It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts,

shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems. As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system.

- **Infrastructure and logistics:** The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses. Infrastructure does not have a strong base in India. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.
- **Complexity in tax structure:** The sales tax rates vary from state to state, while organized players have to face a multiple point control and system there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi point octroi with the introduction of value Added Tax (VAT) in 2005, certain anomalies in the existing sales tax system causing disruption in the supply chain are likely to get corrected over a period of time.
- **Currency fluctuation:** In the past three months, the dollar/INR exchange rate has fluctuated by

approx. 8 per cent. This may put considerable currency risk on any foreign investment in India.

- **Red tape:** Getting various government approvals: Entry of a multi-brand MNC retailer in the retail sector would fall under the approval route. This implies that the MNC retailer would have to go through different layers of Government departments before getting the go ahead.
- **Political risk:** The largest opposition party in India has opposed FDI in retail and some of its leaders have indicated that they will scrap the policy if their party comes to power. A political change in state and central governments puts a lot of political risk on investment in retail.

VI. NEED FOR INTEGRATION OF PRODUCER COMPANY WITH ORGANISED RETAIL

Organised retail is known for their quality, their brand image is set in the mind of people, and moreover people trust them more. They have trained workforce. Producer company members have a variety of products which they make themselves and can have the cost advantage of manufacturing over the organized retailers. When they join hands in business they can have good business combining both the features. This is the need of hour in today's world because in a lot many cases organised retail stores are getting closed because of more running cost and they are finding it difficult to manage the business so integration of Producer Company with Organised Retail is the best solution for both and both will be able to make good business.

Farmer Producer Companies in India:

State Wise Farmer Producer Organizations (FPOs)- as on 10th March 2014

| State | Number of FPOs |
|----------------|----------------|
| Andhra Pradesh | 49 |
| Bihar | 3 |
| Chattisgarh | 4 |
| Delhi | 4 |
| Goa | 2 |
| Gujarat | 25 |

| | |
|----------------|-----|
| Haryana | 10 |
| Jammu | 1 |
| Jharkhand | 4 |
| Karnataka | 13 |
| Madhya Pradesh | 34 |
| Maharashtra | 33 |
| Meghalaya | 2 |
| Orissa | 4 |
| Punjab | 7 |
| Rajasthan | 22 |
| Tamil Nadu | 1 |
| Uttar Pradesh | 33 |
| Uttarakhand | 44 |
| West Bengal | 7 |
| Grand Total | 302 |

Source : <http://sfacindia.com/PDFs/Statewise-List-of-FPOs2014.pdf>

FPO in Punjab:

| Sr. No | FPO Name | FPO Registration No | FPO Contact Person Name | FPO Contact Number | FPO Address |
|--------|---|-----------------------|-------------------------|--------------------|---|
| 1. | Farmer To Fork Vegetable Producer Welfare Society | DIC/PTA Society 1009 | Meharban Singh | 9876715042 | At : Sahauli, Po : Bhadson, Tal : Nabha, Dist : Patiala, Punjab |
| 2. | Fatehgarh Sahib Vegetable Producer Association | 1668 | Kehar Singh | 8146795635 | V.P.O- Marwa,Block-Bassi Pathana, Tal : Bassi Pathana, Dist : Fatehgarh Sahib, Punjab |
| 3. | Good Day Vegetable Producer Organization | 20130009587 | Jagtar Singh | 9988665196 | V.P.O.: Hedon, Tal : Samrala, Dist : Ludhiana, Punjab |
| 4. | Jalandhar Vegetable | U01403PB2013PTC037758 | Ashok Kumar | 9463572925 | House No. 276 Raipur Araian, Aujla, Tal : |

| | | | | | |
|----|---|-----------------------|------------------|------------|---|
| | Producer Company Ltd. | | | | Nakodar, Dist : Jalandhar, Punjab |
| 5. | Ludhiana Quality Control Organization | 20130009628 | Gurdeep Singh | 9914429326 | At : Talwara, Po : Sidhwan Bet, Tal : Jagraon, Dist : Ludhiana, Punjab. |
| 6. | Sangrur Vegetable Producer Company Ltd. | U01403PB2013PTC037799 | Mohd. Sharif | 8872153651 | House No. 10 Abbas Pura, Innavajwa, Taluka : Malerkotla, Dist : Sangrur, Punjab. |
| 7. | Shaheed Udham Singh Vegetable Producer Farmers Welfare Society-Patiala | DIC/PTA Society 1017 | Gurdeep Singh | 9914121605 | 230/5 Fatehpur Road Sanour, Post office : Sanour, Tal & Dist : Patiala, Punjab. |

Source: <http://sfacindia.com/PDFs/Statewise-List-of-FPOs2014.pdf>

VII. OPPORTUNITIES OF INTEGRATION

- Contract farming include the crop diversification, increase in productivity, improvement in the profitability of farmers, improved decision making, increase in wages and employment of agricultural labour and technology transmission. A small farmer operating predominantly with family labour has many advantages which reduce the cost of labour supervision, cost of monitoring, screening of hired labour, cost of contract enforcement and cost of negotiation.
- Contract farming also reduces his price risk and eventually stabilizes income. The firms, however, prefer large growers to avoid dealing with large number of small farmers.
- Organized retail chains would impact farmers in a better way in terms of enhancement of income, farm efficiency and, updating farmers with market related information etc, these positive impacts on farmers are dependent on the terms and condition of the procurement contract.
- Agriprenuers will be able to make a producer company and will be able to sell the products under one brand. Sales will increase.

VIII. CHALLENGES OF INTEGRATION

- Small scale producers generally do not have access to all factors that are needed for delivering a product that responds to market demand. They often face strong economic, social and physical disadvantages: in some areas the infrastructure is poor, while in other areas up- to-date market information is not always available to everyone
- The difficulty in accessing technical advisory services, agricultural inputs and financial services. Agriculture is a risky business and lack of post-harvest facilities makes it difficult to deliver a consistent supply of good quality produce.
- Producers need to produce a surplus of produce and should be able to comply with the quality and quantity requirements. For many producers these are big challenges.
- Producers are most often already organised. Lack of awareness of these local dynamics can lead to strategies that are not pro-poor: private sector actors may opt for vertically coordinated arrangement, like estate farming. In some cases, the private sector may take steps to organise producers or requests a donor organisation to undertake this initiative.

- To survive in this globalising world with changing consumer behaviour, technological development and increasing chain integration cooperatives have to pursue competitive strategies.

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