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# E-COMMERCE: AN AFFORDABLE TOOL FOR LOCAL NEEDS AND GLOBAL BUSINESS ASPIRATIONS OF FARMER PRODUCER ORGANIZATIONS

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## ABSTRACT

*In order to survive, one must adapt to the changing circumstances. The same is true for agricultural sector also. In this era of globalization, constant improvisation and innovative approaches are needed to compete and survive in the ever changing dynamic market. This paper researches first into how the corporate globalization impacted and led to the degeneration of small scale farmers especially in an Indian scenario. Then we see how new models of business, innovative approaches to the market and policy changes by governments led to improvement of these small scale farmers. Also we talk why these success models should be replicated in all parts of India and other developing countries.*

**INDEX TERMS** – *Small scale farmers, Globalisation, Farmer Producer Organisations, Online Marketing, Development.*

## INTRODUCTION

The concept of Globalization is not new to India, being the largest economy in the world before the British East India Company gradually colonized her. After the British left, the Indian economy was in shambles; India was intentionally isolated from the world market arena, to protect its fledgling economy and to achieve self-reliance. Foreign trade was subject to export taxes, high import tariffs and quantitative restrictions were imposed and restrictions were placed even in technology transfer. (Sahoo S 2013)

The liberalization of economy in 1991, finally opened the door of globalization in India. In a matter of time, the Indian large and small scale enterprises were facing stiff competition from all over the world. A lot of them benefitted by agreeing into memorandum with global companies for

various partnerships and have received huge investments which helped them to scale up. Globalization enabled people, assets, goods and information to move within and across national boundaries and even does today at an increasing rate.

Agriculture is one of the three main sectors of the Indian economy. It accounts for almost 20% of GDP and employs almost half of Indian population. In the case of agriculture, globalization has led to increase in demand of export oriented cash crop farming, mandatory insistence on quality standards, and enforcement of intellectual property rights.

## EFFECT OF GLOBALIZATION

Globalization has its advantages and disadvantages. There have been examples of poorly

managed cases where countries had opened their economic borders before they had the capacity to respond effectively to the world markets. On the other hand, there are also instances of well managed engagement with the international community. In ideal conditions globalizations gives a hope of complete food security, free trade, increased employment opportunities, increased access to food by the poor and even increase in the income of farmers. (Pirnea IC, Lanfranchi M and Giannetto C, 2013)

However, in the case of small scale farmers it affected adversely. It caused several problems and gravely affected the livelihood of many small scale farmers India. Large scale investments in heavy machinery, knowledge transfer, contract farming had helped large farmers with large tracts of land. The other farmers couldn't cope up or come into this chain of growth. Globalization has resulted in the decline of household subsistence production (Reddy D E, 2007). The introduction of new and more efficient farming machines eliminated the livelihood of a large number of unskilled laborers as they were unprepared for it and sent them to poverty. The introduction of new fertilizers with toxic chemicals caused the soil to lose its natural fertility and lead to its over exploitation. It also even caused many deformities and congenital problems in humans in places the chemical were sprayed; the endosulfan tragedy in Kasargode District in Kerala, India is an example to this issues. (Thampi AK 2012) Promotion of commercial crops encouraged by its increasing prices lead to loss of biodiversity and traditional varieties of crops.

The worst affected in this scenario were the small scale farmers. Globalization is leading to a monopoly of the seed industry, the increased use of toxic chemicals, and finally increased debt. Even in the regions where agriculture has been mechanized through globalization, higher costs are making it virtually impossible for small farmers to survive (Shiva V, 2000).

### **SPECIFIC CASE OF SMALL SCALE FARMERS**

Rise of supermarkets have benefitted the cause of large farmers. Contract farming promotes participation of domestic firms and MNCs in farming, and is seen as an innovation investment aspect of globalization. They need farm products in huge volumes and only such farmers who could meet their criteria would trade. Small scale farmers were completely left out these commodity chains as they were not able to meet their criteria. Also the other investments needed in quality management and standardization of products were out of reach for the small farmers. (Dawn 30<sup>th</sup> January, 2011)

Traditionally farmers used to depend upon farm saved seeds for harvesting. But with the introduction of hybrid seeds, the native ones have been eliminated. They problem arises as they have to buy these seeds each year from the private firm, which holds its exclusive patent rights, as they cannot save the seeds. Also these hybrid variants being vulnerable demand high amount of pesticide usage. Which in turn cause additional burden on

small scale farmers due to its high cost and also increase the toxicity in farm products or surrounding area.

Subsidies given in industrial or developed countries are comparably higher than given in developing countries. This gives unfair advantages to those farmers belonging to the former countries and it affects the overall global pricing of products, which the farmers in developing countries find the least profitable (Reddy DE 2007).

The main disadvantage for the small scale farmers is the lack of access to markets, both national and international. Their only options are either to sell in a local market or to sell them to a wholesaler at very low price. They don't have options for value adding processing nor the certifications to sell directly to intermediate consumers. Lack of sufficient access to markets and facing unfair competition from subsidized imports adds to their woes. Inputs and outputs are generally regulated by MNCs or other external agencies. Controlling these parameters and the marketing of commodities jeopardizes small scale farmers 'existence. Trade regulations, altering to the rules that govern international trade or WTO norms, high food safety standards expected, etc. have affected the small farmers very much.

### **THE SOLUTION – FARMER PRODUCER ORGANIZATIONS**

India has over 92 million small scale farmers (Salve P, 2014). The challenge is therefore to ensure that small holdings of such farmers are truly productive and profitable since they are the main source of livelihoods for millions of people dependent on it. Of the many models that have been tried, to integrate farmers within the value chain, the best one so far is the Farmer Producer Organizations(FPOs). In 2002 through an amendment in the Indian Companies Act. 1956, the Government of India enacted the Producer Companies Act. by incorporating a new part IXA in the Indian Companies Act. The producer companies are incorporated with the Registrar of Company. () The objective was to formulate a legislation that would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies, while ensuring that the unique elements of cooperative business with a regulatory framework similar to that of private companies. (Action for Social Advancement 2010)

The FPOs are formed with the shareholders being the primary producers themselves. The day to day operation is expected to be managed by the professionals, hired from outside, under the direction of the Board of Directors elected by the General body of the FPO for a specific tenure.

The need to aggregate farmers, especially the small scale farmers, due to the reasons mentioned above is a necessity. The basic purpose of the FPO is to collectivize small farmers or producers for

- getting inputs like seeds, fertilizers, credit, insurance, funds, knowledge and extension services, and

- to provide services like collective marketing, processing, value proposition, market led agriculture production, etc. (ASA 2010)

At the heart of this effort is to increase collective bargaining power for small farmers/producers. The improved bargaining capacity helps them to compete better. Unlike farmer cooperatives that were established before farmer producer organizations have several advantages. The main advantage is that in a FPO there is less government control whereas the cooperative institutions are government interference is overwhelming. Also the services of professionals with expertise in the fields of fund generation, managing day to day affairs of an office, etc. could be sought out as the small scale farmers have relatively less or no experience in these areas.

Another advantage is that as a FPO, it can invest collectively in huge machinery, packaging equipment, or other resources that are not viable or affordable by a single farmer. Also as an FPO the standardization for quality checks and measures will be improved. They can apply for food safety and standard licenses, export/import licenses, etc. together and share the huge costs involved. All these aspects/benefits which were impossible to achieve by a single small scale farmer could be achieved together and benefitted by all (When discussed with Mr. Aaron George 10<sup>th</sup> August, 2016).

### ONLINE MARKETING

As a new model was implemented, new problems started to arise. These FPOs had a very good inventory, met standard quality criteria but failed to expand as they expected.

The main difficulty they felt/faced was lack of demand or inability to create new customers. Also being newcomers in the market, it was hard to gain customer loyalty. Most of consumers used to buy from the popular MNCs or other branded retail shops and their products, as they could spend huge amount of money in advertisements and brand image popularization and thus were able to generate a loyal customer base.

The FPOs had neither the skill nor the funding required to generate tantamount campaigning through advertisements or infomercials. Also in order to create a valuable brand image, a lot of time period is required, which again the FPOs couldn't afford to lose much in order to remain self-sustainable.

Taking cue from the present day immensely successful e-commerce business stories, one of the best ways to overcome these challenges is to use the aid of modern digital technologies, i.e. online tools like ecommerce stores, social marketing concepts, internet banking etc.

With the help of these the need for traditional advertising could be cut off. Online Marketing has revolutionized the people used to shop in olden days. Online campaigns have become more prevalent, more and more digital platforms are being incorporated into marketing methodologies. Also instead of directly going to

shops, people are using ICT enabled devices to bring their desired products directly to home (Nielsen 2016).

Also a FPO doesn't have to rely on physical stores and maintain the staff or purchase vendor memberships to sell. Thus these costs are done away.

#### Online marketing

The case of **farmertree.com** is an example to this model. Farmertree is an online aggregator of FPOs and sells their products through its ecommerce site. The customers are able to buy the products at a lower rate than the market price. Also the FPOs take care of the delivery directly to their homes (George A, 2016).

The other benefit is that an FPO doesn't have to invest large capital or so to expand or sell in a region other than the local area where manufacturing occurs i.e., FPOs can tap in into all state level or national level markets easily and without much hassle.

Online marketing can help in customer generation without much difficulty and if a good product quality is maintained then a loyal customer base can be sustained. Various marketing schemes like provision of incentives to those who refer to buy from the online store, etc. can further

help to increase the demand for the products significantly.

### RECOMMENDATION

The large number of studies/reports in the case of Farmer Producer Organizations show that this model was huge achievement both for a small scale farmer and the country. Innovations like these must be regularly implemented in the agriculture sector for its development. This model has been repeated throughout India and have resulted in success.

In the same fashion this model can be could be replicated in the other developing countries where agriculture is a predominant occupation; especially in the developing South Asian countries like Nepal, Bhutan, Bangladesh, Pakistan and Sri Lanka which had similarity to Indian cultural and climatic conditions. The other factor is that all of these countries have an upcoming IT sector comprising mostly of the youth. So an online market could be easily made and maintained without high investments.

Agriculture is commonly seen as a poor man's job and those who follow conventional lifestyles. Through initiatives such as these we could help in the collaboration of the IT and agriculture and encourage more of the upcoming youth of our country to contribute in this sector; both of which further shall help in the overall economic growth of the country, food security and sustainable development.

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