

# **Agricultural Marketing Channels as Competing Entities: What are the Main Research Needs?**

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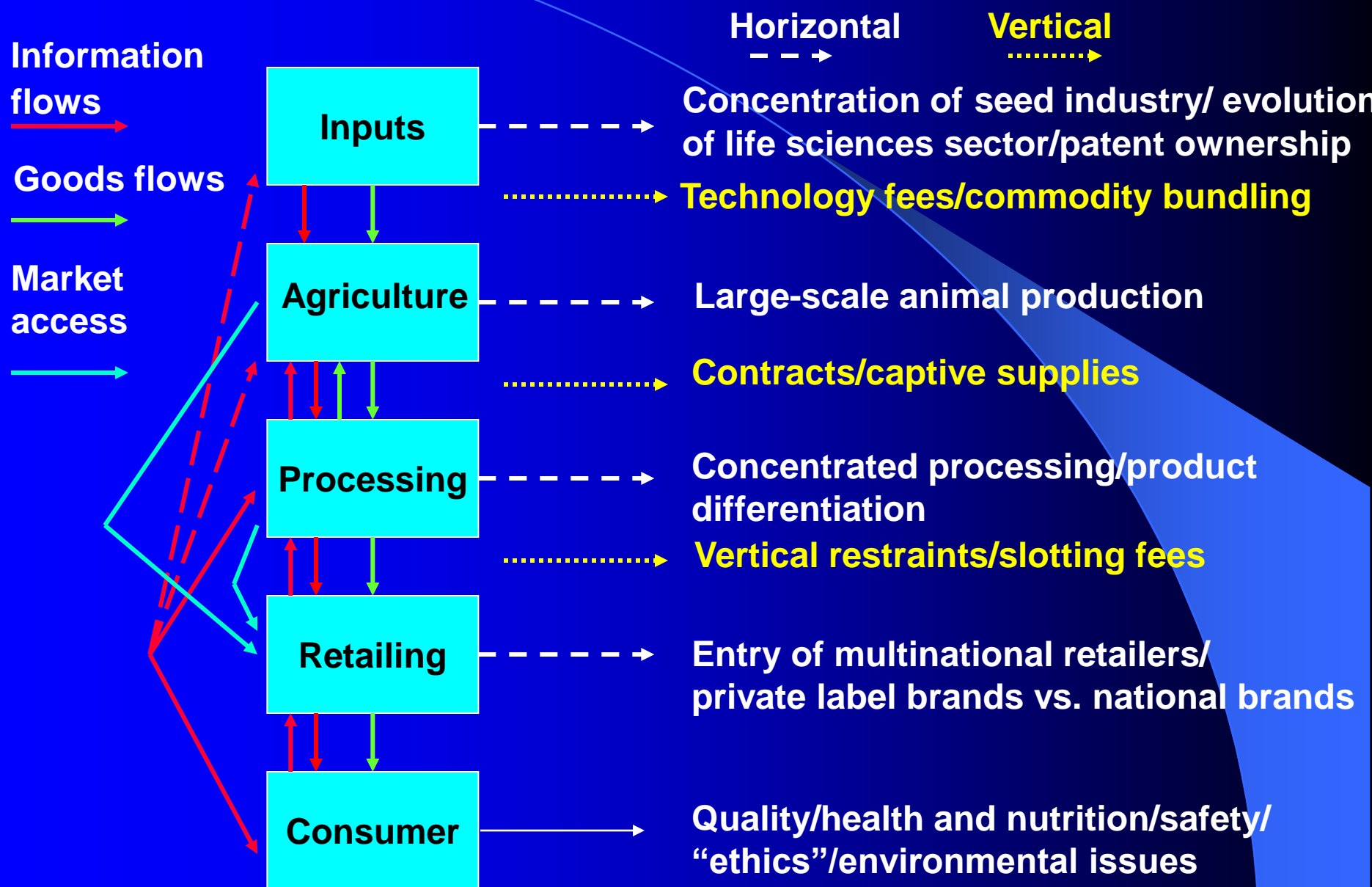
**FAMPS Policy Conference on “Agricultural Marketing Channels as Competing Entities: Implications for Agricultural Marketing Policy”, Washington, DC, May 4-5, 2005**



# Introduction

- **Key focus of conference:**
  - **Structural change in agricultural marketing system**
  - **Role of policy given structural change**
- **Research areas and methodologies:**
  - **What don't we need more research on?**
  - **Where are some key gaps in the research?**

# The Agricultural Marketing System: Structural Change



# Structural Change: Inputs

- Relatively *under-researched*:
  - Evolution and impact of seed industry concentration
  - Evolution of structure of life-sciences sector, i.e., co-existence of start-ups and multinational firms (Lavoie and Sheldon, 2002)
  - Concentration of patent ownership/technology fees/commodity bundling (Harhoff *et al.*, 2001; Moschini *et al.*, 2000)

# Structural Change: Agricultural Sector and Processing

- **Relatively well-researched:**
  - **Concentration and performance in processing**
  - **Estimation of monopsony power in meat-packing**
  - **Reasons for increased vertical coordination**
  - **Analysis of complete contracts using static principal-agent model (Knoeber and Thurman, 1994; Goodhue, 1999; Hueth and Ligon, 2001; Tsoulouhas and Vukina, 2001)**

# Structural Change: Agricultural Sector and Processing

- Relatively *under-researched*:
- Estimation of efficiency loss from principal's bargaining power and contract failure
- Analysis of “relational” vs. complete contracts (Levin, 2003)
- Behavioral analysis of time inconsistency (Della Vigna and Malmendier, 2004) and hidden information problem (Crawford and Sobel, 1982)
- Contract design with enforceable vs. implicit components (Bernheim and Winston, 1998)

# Structural Change: Agricultural Sector and Processing

- Relatively *under-researched*:
- Understanding connection between sunk costs, market structure and type of product differentiation, i.e., *horizontal vs. vertical* (Sutton, 1991)
- Analysis of product differentiation in traditional commodity chains, e.g, GM vs. non-GM crops and associated end products (Fulton and Giannakas, 2004; Moschini and Lapan, 2004)
- Product differentiation/labeling and resolution of *credence* good problem (Roe and Sheldon, 2002)

# Structural Change: Retailing

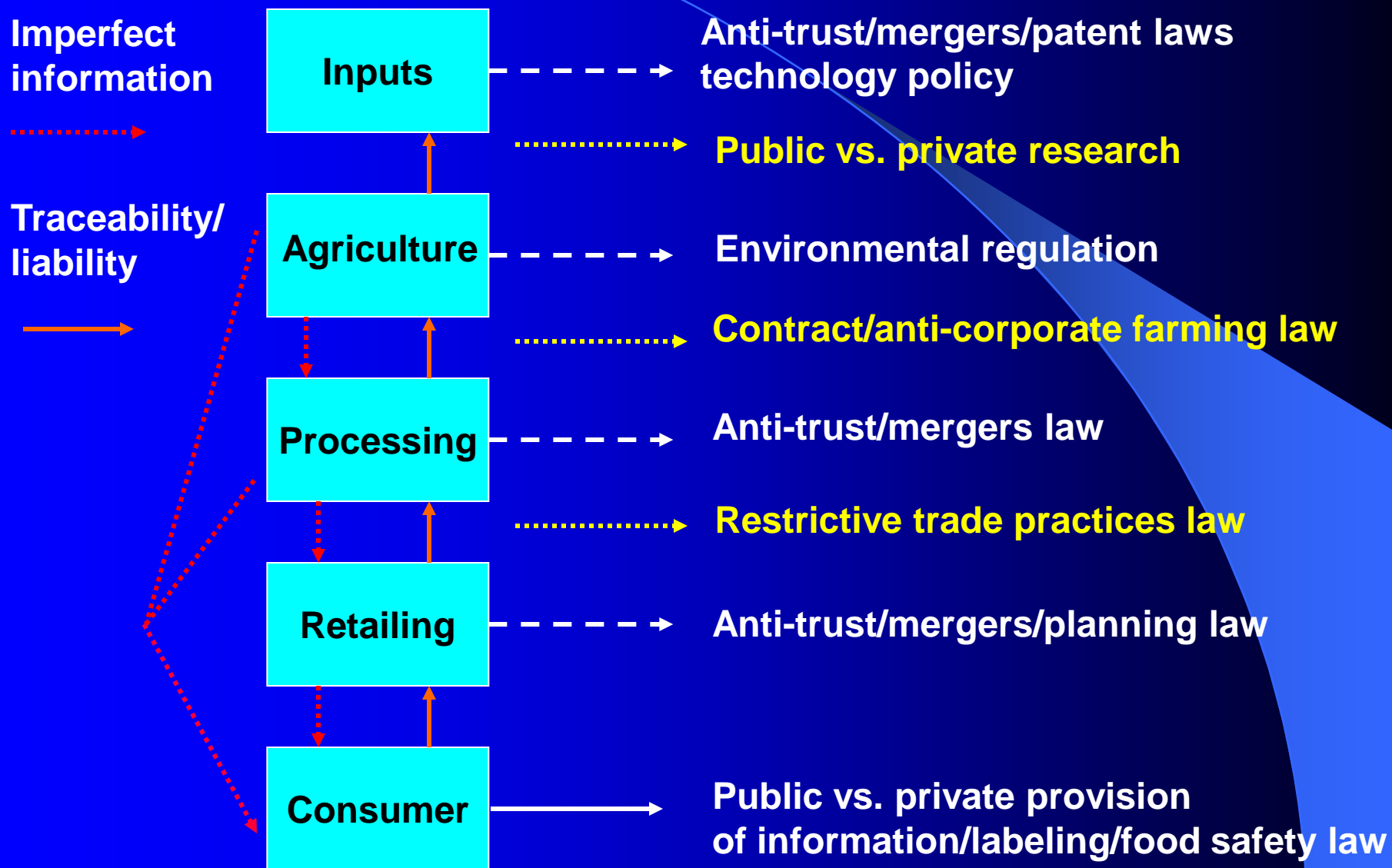
- Relatively *under-researched*:
- Role of *vertical restraints* – prior to 1980s, typically resale price maintenance/exclusive territories (McCorriston and Sheldon, 1997)
- Since late-1980s, *slotting fees* common (Shaffer, 1991; Sullivan, 1997) – why and what effects?
- Scarce retail shelf-space vs. high rates of product failure (Sullivan, 1997; Richards, 2004) vs. signals by processors of likely success of new product (Chu, 1992)
- Does control of scarce shelf-space impact behavior upstream – e.g., constraint on product differentiation?



# Structural Change: Retailing

- Relatively *under-researched*:
- Debate as to whether slotting fees reflect retailer bargaining power (Shaffer, 1991; Rao and Mahi, 2001)
- Rise of *private labels* suggests balance of power may be shifting to retailers (McCorriston, 2002) – analysis of effects of private labels (Bontems *et al.*, 1999)
- Will slotting fees and private labels generate a *dual marketing structure*?
- General issue of market access – role of *networks* (Gereffi, 1999; Rauch, 2001)

# The Agricultural Marketing System: Role of Policy



# Policy: Agricultural Marketing System

- **Relatively well-researched:**
  - **Anti-trust policy in food processing/retailing**
  - **Breadth and depth of patents (Matutes *et al.*, 1996)**
  - **Private research/patents (Moschini and Lapan, 1997)**
  - **Government supply of price information (Just, 1983)**
  - **Economics of generic promotion of commodities**

# Policy: Agricultural Marketing System

- Relatively *under-researched*:
- Should one be worried about impact of concentration of GM patent ownership? (Harhoff *et al.*, 2001)
- Are technology fees/commodity bundling in supply of GM crops anti-competitive? (Monsanto case)
- Is institutional environment for new agricultural technologies appropriate? Role of different agencies, FDA vs. EPA (Starlink corn case)
- Is there a place for the *precautionary principle*? (Gollier *et al.*, 2000; Barrieu and Sinclair-Desgagne, 2003)

# Policy: Agricultural Marketing System

- Relatively *under-researched*:
- Regulation of contracts – “Producer Protection Act”  
<http://www.newrules.org/agri/ppa.html> /anti-corporate farming laws – nexus of law and economics
- Need to think through policy in same context as mergers law, i.e., contracts need not be *per se* illegal, but evaluated in terms of efficiency vs. “fairness”
- Economic impact of banning of tournaments and other types of contract (Tsoulouhas and Vukina, 2001; Wu and Roe, 2005)

# Policy: Agricultural Marketing System

- Rules on contract termination damages – how does this affect expected payoffs in terms of efficiency vs. distribution?

Will principals respond by changing contract design? How are agents affected? Does it undermine *ex ante* reason for contracts?

- Rules about agents consulting advisers/ “cooling off” period – do they affect time-inconsistency?
- Provision of information by principals – does it moderate time-inconsistency problem and strategic use of information?

# Policy: Agricultural Marketing System

- If contracts contain clauses on binding arbitration, and principals have bargaining power, do they also have *ex post* bargaining power if there is a contract dispute?
- Rules on dispute mediation and agent's right to sue – is this form of litigation efficiency-enhancing?
- Principle of “good faith” and agent's right to sue – does it increase cooperation between principal and agent? Does it result in frivolous litigation?
- Do contract laws protect agents from *ex post* opportunism but not change *ex ante* distribution of rents? What is role of bargaining associations?

# Policy: Agricultural Marketing System

- Relatively *under-researched*:
  - Role of government vs. third-party verification of quality
  - Analysis of impacts of different labeling systems – voluntary vs. mandatory
  - What are implications of traceability/safety liability in the marketing system? (Hennessy *et al.*, 2001)
  - How does marketing system react to overseas regulation of traceability/labeling?