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“Development on the margin”

Modern Food Retailers and Traditional Markets in Thailand: Comparing Quality, Prices, and Competition Strategies

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Abstract

In many developing countries, agricultural and food systems are undergoing a major transformation towards high-value and modern supply chains. There is an emerging body of literature analysing how smallholder farmers can be linked successfully to these chains, particularly in regard to the supply of fresh fruits and vegetables (FFV). However, opportunities and challenges for traditional retail markets, in particular wet markets, in changing food systems have so far been overlooked. This is an important research gap, as wet markets are still the major market outlet for smallholder farmers. Moreover, the bulk of FFV has traditionally been sold in wet markets. Accordingly, it is important to understand the implications of an increased competition with modern retailers for the traditional retail sector.

Using data from a market survey in Thailand, where modern retail chains have expanded significantly, we have analysed and compared quality, prices, and competition strategies between traditional wet markets and modern retailers. We have taken the case of sweet pepper and morning glory as examples, as these vegetables are typically cultivated by smallholder farmers in the northern mountainous regions of Thailand. Compared to wet markets, modern retailers sell higher quality at higher prices, indicating that they are primarily targeting better-off consumers. Hence, they are not directly competing for the same market segments. Given these findings, the rapid expansion of modern retailers seems to be more associated with the growth of high-quality, differentiated market segments rather than a direct competition for traditional market shares. However, over time the modern retail sector will likely adapt to various consumer needs and, through exploiting economies of scale, it will also be able to reduce prices and increasingly attract lower-income customers. Thus, traditional and modern market segments will gradually converge. Moreover, economic growth and globalisation lead to rising household incomes, better access to education and information, and rapidly changing consumer preferences towards higher-value products. Hence, modern retailers grow over-proportionally with economic development, partly at the expense of the traditional retail sector. This may have far-reaching social consequences along traditional supply chains, because wet markets are still the major outlet for fresh produce from smallholder farmers.

Keywords: Modern retailers, product quality, traditional wet markets, vegetables

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