Source : www.thehindu.com Date : 2022-01-17

PREDATORY PRICING IS PRISING INDIAN LIVELIHOODS APART

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

Last week, and all of a sudden, people in the small town of Talode in Nandurbar district in Maharashtra could not buy Colgate toothpaste from their only local store. It was because Nandurbar's distributor had decided to boycott Colgate's products and not supply them to the *kirana* store in Talode. Further, all consumer goods distributors in Maharashtra were protesting against Colgate's alleged unfair treatment of traditional distributors *vis-à-vis* B2B technology companies such as Reliance's JioMart, Udaan and others.

Nearly half-a-million of India's distributors pick up goods from consumer companies such as Colgate and deliver them to 13 million small local stores located in 7,00,000 villages and towns across the country through a web of millions of traders and other intermediaries. A vast majority of these distributors and traders are small family businesses that have developed relationships with their local stores over many decades.

Will the new e-commerce rules really favour consumers?

The *kirana* store in Talode sells a 100g tube of Colgate toothpaste to the consumer for 55, the maximum retail price (MRP). The Nandurbar distributor sells Colgate toothpaste to the Talode store for 45 and the manufacturer, Colgate, sells it to the distributor for 40. This is an illustrative but typical example of the current supply chain for consumer goods products in India.

Enter the new age technology B2B companies. They have developed technologies to connect directly to the *kirana* store in Talode through a mobile phone app, bypassing the intermediaries. They supply Colgate toothpaste to the local store for 35, lower than the 45 charged by the distributor. Ostensibly, the people of Talode will also benefit from these lower prices at their local store.

Unable to match such prices and facing the peril of losing business, India's distributors claim these are unfair practices and want manufacturers such as Colgate to stop supplying goods to the technology companies. Colgate has refused to do so and, hence, the distributors have decided to boycott its products.

Parliament panel calls for clear-cut definition of unfair trade practice for e-commerce

New innovations disrupting an existing process and rendering incumbents futile is generally a healthy process of 'creative destruction', as the Austrian economist, Joseph Schumpeter, postulated. But if this disruption is driven not entirely by technology innovation but also through pricing power, would it still be healthy?

These technology companies bear a 15%-20% loss on every Colgate toothpaste they sell to the local store. They deliberately offer their product at a price lower than what it costs them, to lure local stores away from the traditional distributors. Further, they offer extensive credit terms and working capital to the local stores. In other words, these technology companies rely not just on their mobile phone app innovation but also steep price discounting and cheaper financing to win customers.

Amazon documents reveal secret strategy to dodge India's regulators

Udaan has suffered total losses of more than 5,000 crore in just five years and JioMart reports even greater losses. Indian companies are able to absorb such heavy losses because they have access to copious amounts of money. These companies are flush with funds from foreign venture capital firms, which in turn are largely funded by American pension funds and university endowments. To put it cheekily, an American senior citizen is discounting Colgate toothpaste for a Talode villager while displacing the Nandurbar distributor, thanks to what economists call global capital flows. Such capital flows foster innovation and yield enormous consumer benefits is the neo-classical economic doctrine.

The flip side is that India's millions of distributors and intermediaries have no access to such finance. They are typically small businesses built over many decades by pledging their personal assets as collateral in return for meagre bank loans. These small companies are cut off from the endless stream of free foreign money that gushes into new age 'startups' and established large corporates. Evidently, these companies use the money to not only build new technologies but also to undercut competitors and steal market share. They are able to sustain huge losses for several years until they destroy incumbents and gain dominant market share. After which, they will presumably raise their prices to turn profitable. It is similar to what India experienced in the telecom sector with Jio.

'India will act against unfair trade practices'

This practice, called predatory pricing, is illegal in most countries including India. Behind the veil of technology innovation of these startups lies a murky abuse of pricing power. If this was true 'creative destruction', then these technology companies would lure the Talode store owner only with their innovative app and efficiency than also suffering losses on every sale and offering cheaper finance.

While consumers may benefit from lower prices, should the livelihoods of millions of distributors, traders and their families suffer only because they do not have equal access to easy money as these technology companies? The distributor and trader in Nandurbar and the *kirana* store owner in Talode belong to the same local community. Surely, there will be social ramifications within that community for some of these families being thrown in disarray?

To be sure, this is not just an India problem but a global one. The conventional economic notion that lower prices, regardless of the means adopted, are a sole and worthy pursuit is under severe challenge. Social media companies such as Facebook give away their products for free and e-commerce companies such as Amazon sell at lower prices, benefiting consumers enormously, but also causing immense social strife and disharmony. The new Chairperson of the Federal Trade Commission in America, Lina Khan, who is a fierce critic of abuse of pricing power by technology companies, is seeking to frame new rules to check such anti-competitive behaviour.

Govt. moots proposal to ban 'flash sales' on e-commerce sites

But in India's case, there is an added complexity of foreign capital flows. Large sums of free money printed in America are finding their way to India's stock and start-up markets. Access to this capital is only available to a tiny proportion of Indian businesses but threatens the livelihoods of millions of Indian families, as in the case of distributors, causing massive income and social disparities. Even erstwhile champions of free capital flows are now cautious about their social implications.

Editorial | [Policy creep: On e-commerce and overregulation risks]

To be clear, this is not a Luddite argument against e-commerce or technological innovations. The issue is about illegal predatory pricing and abuse of pricing power by startups and big corporates through preferential access to easy foreign money. By some estimates, there are more than 20 million families (100 million people) in India whose livelihoods depend on intermediary roles in the consumer goods supply chain. If suddenly these families are displaced and left stranded, it can cause enormous social unrest in the nation. Perhaps, the residents of Talode may even be willing to pay slightly more for their tube of toothpaste if they realise that some families in their community are being put to misery by free American money.

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A new form of ‘Gandhian’ democratic socialism powered by cooperative economic enterprises is required

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