

Preliminary study of supply chain of imported food products

A. Background

The efficiency of a supply chain is determined by how effectively a good is delivered to the right place at the right time at the lowest possible cost. A well-functioning supply chain is critical in making a wide range of goods available to consumers at competitive prices.

While Bhutan exports few primary agricultural produces, it imports a lot of most essential food items – including rice, oil, flour, dairy products and beverages such as tea and coffee. A major portion of imports are sourced from India. Bhutanese wholesalers procure them either from principal companies/ manufacturers, authorized dealers or even sometimes through bulk purchase from open markets.

This study attempts to identify main bottlenecks in the supply chain of the major imported food items to devise possible interventions, where possible.

B. Methods and Materials

A total of 10 essential commodities¹ that are imported from India were identified. A representative number of wholesalers and retailers in Thimphu and Phuentsholing (Tab. I) were selected. Data was collected through survey questionnaires containing both close-ended and open-ended questions for both groups.

Tab. I: Study sample size

Location	Number of Wholesalers	Number of Retailers
Thimphu	13	85
Phuentsholing	6	57
Total	19	142

C. Findings and Discussions

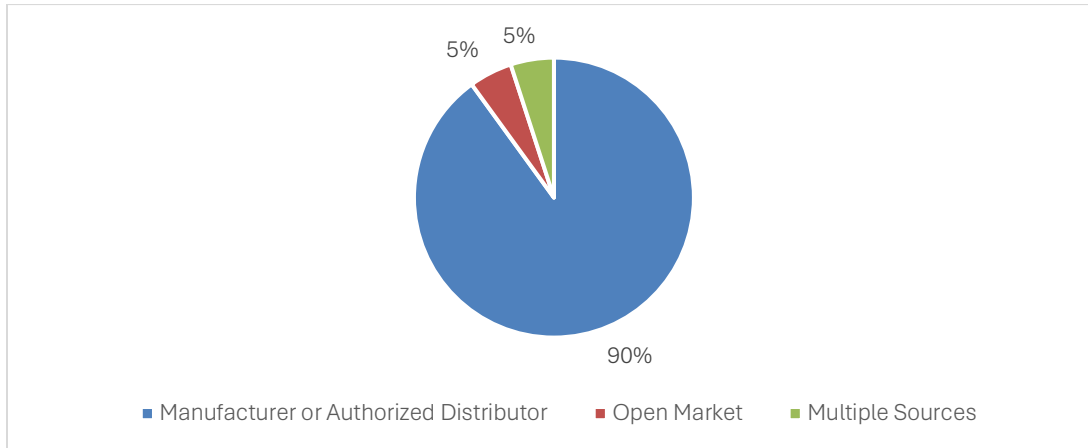
~ Source of Goods

Almost 90 per cent of the wholesalers acquire products from manufacturer or authorized distributor at wholesale prices or through commission-based arrangements (Fig. I). This enables them to get exemption from the Goods and Services Tax (GST) imposed by the Indian Government thereby reducing final costs; as compared to procuring from other market sources wherein GST is built into the final prices. Additionally, manufacturers and authorized distributors offer schemes such as discounts or incentives.

75 per cent of retailers in both locations source goods only from local Bhutanese wholesalers, including major ones such as Tashi Commercial Corporation, Zimdra Distributors and the Food Corporation of Bhutan (FCBL); while 15 per cent source from both Indian or Bhutanese wholesalers (Fig. II). A very small number of retailers procure their goods from open markets in India.

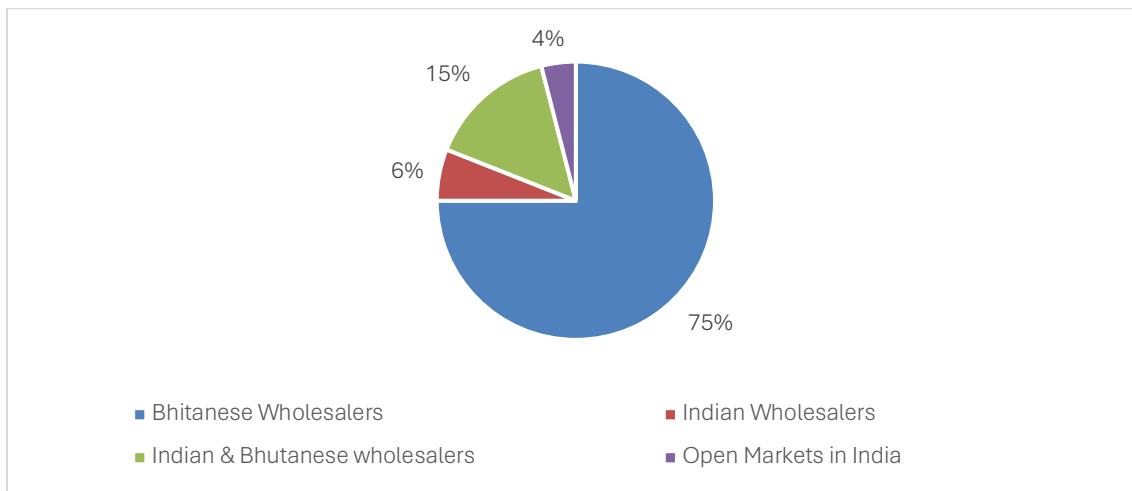
¹ Commodities included rice (3 types), edible Oil (2 types), milk powder, processed butter, processed cheese, tetra-packed milk and flour

Fig. 1: Source of wholesale imports



The Department of Trade (DOT) mandates retailers to procure the nine principal company's² products exclusively from licensed wholesalers within the country. The intent is to streamline procurement practices of Bhutanese retailers, thereby ensuring that tax exemption and other auxiliary benefits and incentives one gets by dealing with principal companies trickle down on to end consumers.

Fig. 2: Source of retail goods

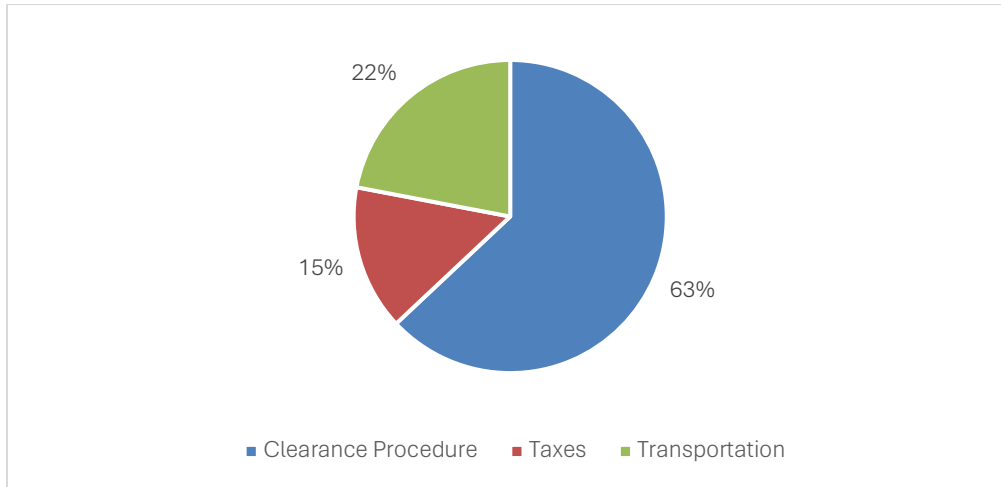


~ Challenges and Barriers in Importing Good

Wholesalers face several challenges in their business operations. More than 63 percent find customs clearance at borders cumbersome and time consuming, while 22 percent reported transportation as a challenge due to high transport cost (Fig. 3).

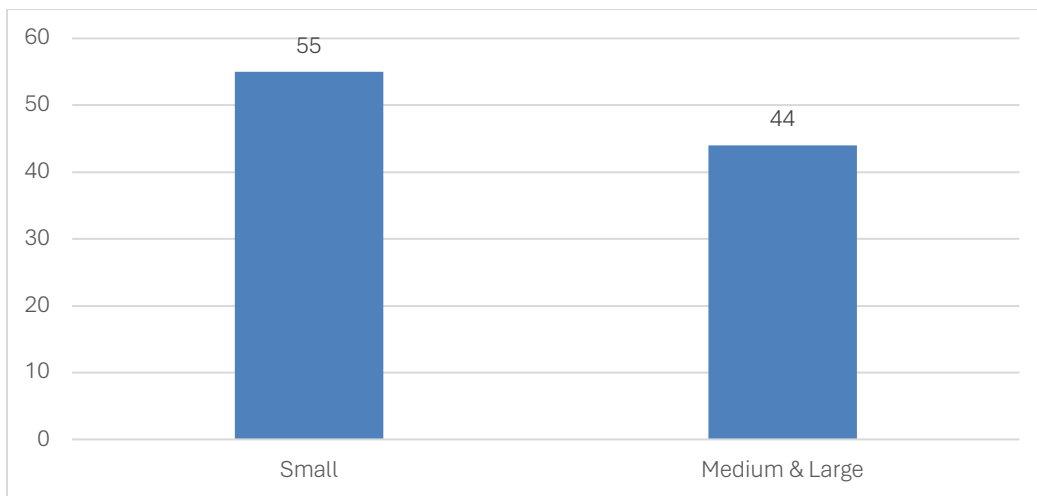
² Principal companies included: Nestle India Pvt. Ltd., Britannia Dairy Industries Pvt. Ltd., Gujrat Cooperative Milk Marketing Federation, Jothy Laboratory, CG Foods Pvt. Ltd., Reckit Benkiser India Ltd., Hindustan Lever Ltd., Colgate Palmolive India & Patanjali Ayurveda Ltd.

Fig. 3: Challenges in wholesale imports



A greater number of small retailers (55 %) reported that they find it difficult to source goods as compared to larger firms (only 44 % say it is a challenge) (Fig. 4). Small retailers do not have guaranteed access to authorized wholesalers and sometimes land up buying from sub-dealers often at higher prices. In some cases, especially in outskirts of main towns, wholesalers are reported to deliver their products to an identified sub-dealer (retailer) and do not supply to other retailers and if they do, it is at higher prices.

Fig. 4: % retailers by scale of business facing challenges in sourcing goods



~ Accessibility of transport service for goods

Ready access and high costs of transport are important impediments to both wholesalers and retailers. 37 per cent wholesalers report facing problems every now and then. 26 per cent of the wholesalers rely on hiring of vehicles while the 74 per cent either use their own transport vehicle and/ or hire (F5).

Retailers report that wholesalers offer free delivery when they make bulk purchase but for smaller quantities, they make their own arrangements. 84 per cent of the retailers report easy access to transportation service. About half of the retailers (51%) rely on hiring of vehicles to transport goods, while only 18 per cent either use their own vehicle(s) or hire depending on convenience and availability (Fig. 6).

Fig. 5: Mode of transportation used by wholesalers

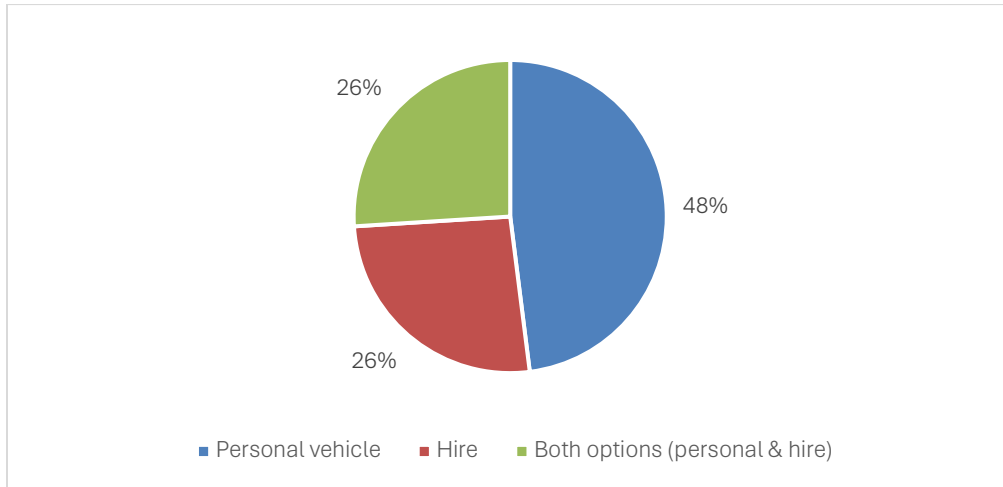
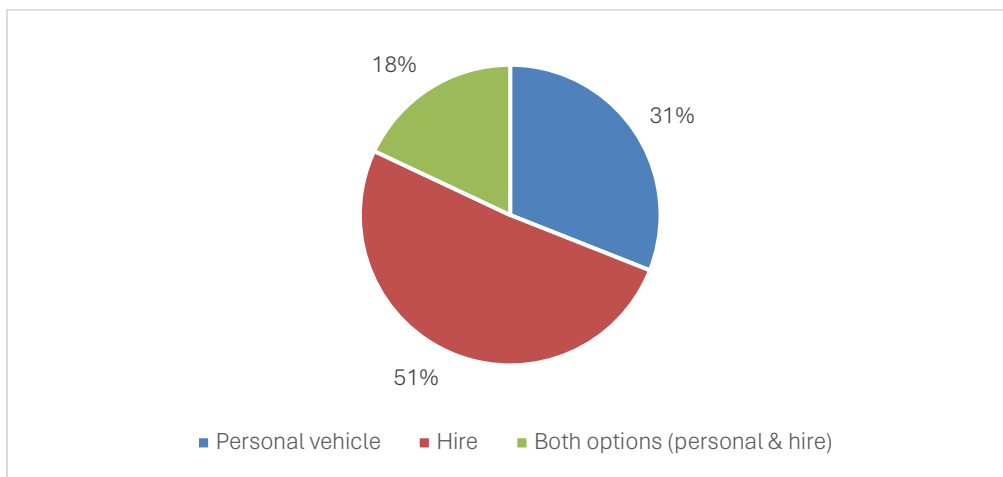


Fig. 6: Mode of transport used by retailers



~ Factors influencing commodity prices

While verifiable evidences are not available, majority of the retailers (31 %) attribute rising transport costs as the main reasons for rising selling prices, while 28 per cent attribute it to increase in price at source (Fig. 7). Other factors leading to increasing retail costs appear to due to price gouging when there is supply disruption or over speculations of supply disruption.

Generally, transport costs would change with the change in cost of fuel. While the price of diesel shows an increasing trend between 2019 to 2023, there are periodic variations, notably between June, 2022 to February, 2023, wherein priced dropped. With no historical transportation costs are available, it is not possible to co-relate the cost of transport with the change in fuel price. Nonetheless, there is an overwhelming public perception that transport costs have increased steadily over time, even when fuel costs decreased at periods.

Fig. 7: Factors influencing commodity prices

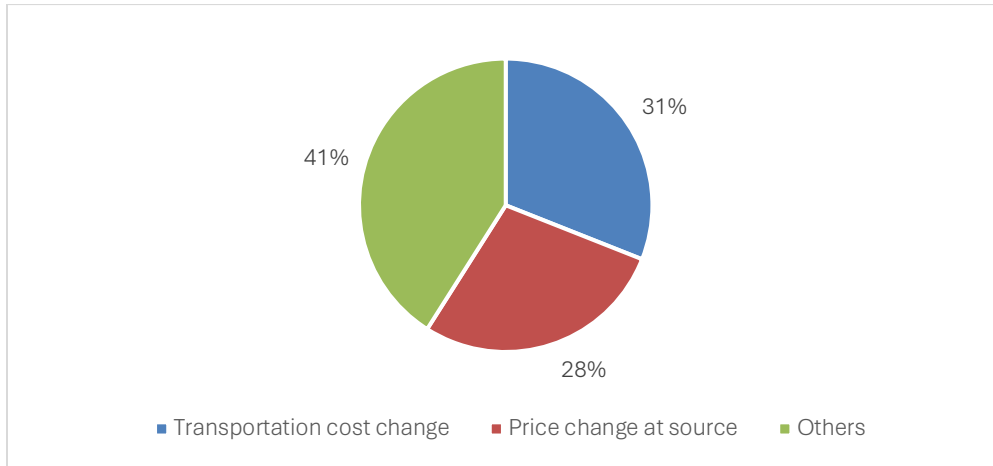
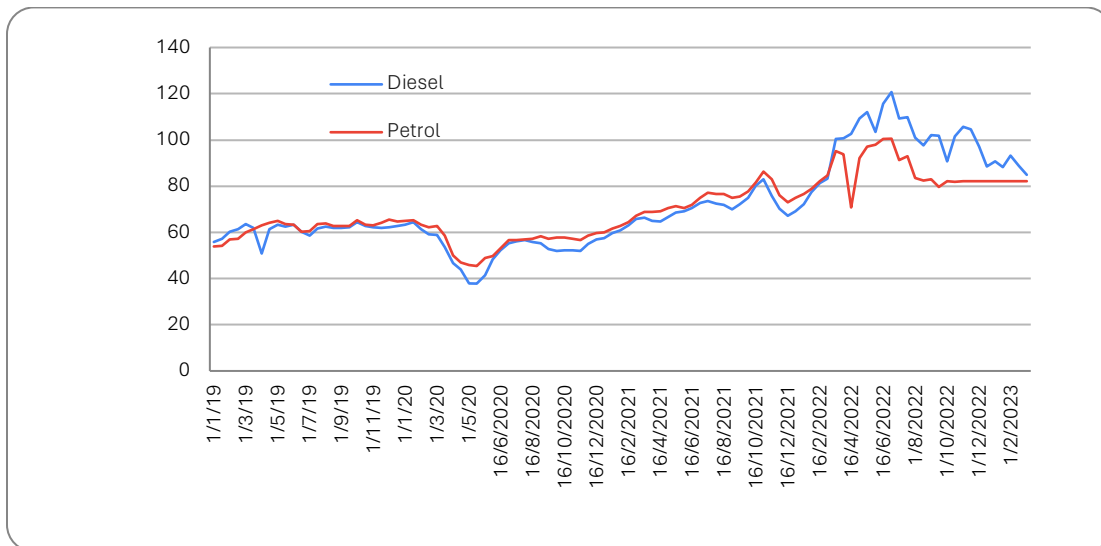


Fig. 8: Fuel price change from 2019 – 2023 (Source: DoT)



~ Wholesalers' and retailers' perception of market competition

68 per cent of wholesalers perceive significant market competition while 86 percent of retailers perceive strong competition in the market. This perception, though lacking precise measurement tools, implies a competitive landscape. Competition amongst businesses is vital to keep prices low and quality of goods and services high – for the benefit of consumers. However, on the other side, wholesalers and retailers perceive competition as a barrier to their profitability.

D. Recommendations

The supply chain for essential commodities is fairly open, competitive and robust, though there are certain areas for efficiency gains - such as in transportation, logistics and business licensing area.

~ Transportation Sector

Currently, a vast majority of truck or utility vehicle owners providing transport service are in the informal sector and majority of the customers use personal contacts to hire vehicles. A possible positive intervention would be by bringing goods transport business into the formal economic sector, thereby mandating all transport service providers to register as a business. Formalizing the transport sector has the potential to make the transport sector transparent and competitive, thereby keeping prices responsive to the forces of demand and supply.

Transport service users would be empowered if relevant government agency / agencies could calculate indicative transport prices on a regular basis, with the change in fuel prices, and disseminate such information. It will help them determine the reasonability of the price they are being charged.

~ Sourcing Goods from the Factory/ Principal Companies or Authorized Dealers

Though there are no rules limiting the number of principal companies that a wholesaler can enter into a dealership agreement with, there are principal companies that prefer to work with a sole wholesaler in Bhutan, probably because of the size of our market. This creates a monopoly which is detrimental to the market and consumers. It is therefore imperative for relevant government agencies to strive to address this issue, by mandating principal companies appoint more than one dealer.

Relevant agencies can attempt to ensure that all wholesalers source goods from reputed principal companies/ authorized dealers, through implementation of rules and where possible support in identifying and match making. If appointment of more than one dealer for a company or a brand is not possible, some kind of price capping would ensure consumers get a fair bargain. Goods procured formally can be guaranteed to be safer, better quality and more reasonably priced.

~ Restricting Wholesalers from Involvement in Retail Operations

Despite prohibition by law, it is reported some wholesalers continue to operate retail business by obtaining license in the name of their relatives and/ or friends. This gives the wholesalers undue advantages in pricing and distribution over other retailers, particularly in times of supply constraints. It is essential to enforce these rules consistently to ensure a fair competition for all participants.

~ Broaden the Scope of Principal Company and Exemption of Appointment Letter Requirement for Wholesaler Registration

According to Bhutan's Micro Traders Registration Regulation (2006), a "Principal Company" refers to a domestic or foreign manufacturer supplying goods and services to local wholesalers. Registering as a wholesaler in Bhutan necessitates an appointment letter from a principal company. However, some commodities, notably farm produce such as polished rice and vegetables, do not have a principal Indian company per se. In the absence of wholesalers, retailers have to import directly from suppliers in India. To resolve this, exemptions to the appointment letter requirement should be considered, allowing alternative methods like direct sourcing from recognized farmer groups and cooperatives. Such flexibility would promote an inclusive wholesale market and support sector growth.

~ Customs clearance

Customs clearance procedure consumes time and adds costs to importers, especially if the process is slow and laborious. Relevant agencies need to continually strive to minimize customs clearance at ports by employing labor-saving devices and by exploiting digital technology. It is understood the Department of Revenue & Customs (DRC) is already piloting the Electronic Customs Management System (eCMS) with plans to fully adopt the system across the country during the fourth quarter of 2023. It is expected to reduce clearance time, facilitate trade of goods across Bhutan borders, whilst exercising requisite border controls. In addition, eCMS has been integrated

with various agencies to ease the clearance procedures at the point of entry and exit such as the Bhutan Integrated Taxation System (BITS).

E. Conclusion

While this preliminary study identifies general problem areas in the supply chain, there is a need for more quantitative research to determine more targeted recommendations. In the meanwhile, more collaborative efforts between policy making agencies, regulatory bodies, business associations and stakeholders to tackle these gaps would have a positive impact on the supply chain efficiency thereby benefiting all consumers.