

# Wait-and-see strategy pays off, incentives needed for risk takers

September 18 2017

---

Some people are quick to purchase the latest technology or sign up for a new service. Others adopt a wait-and-see strategy. A recent study by University of Illinois economist Hope Michelson, finds this is true for farmers in Nicaragua who enter into contracts with Walmart.

The study is based on data Michelson collected from 400 farmers over eight years, beginning the year Walmart began buying produce in Nicaragua. The data include when farmers entered a [relationship](#) with Walmart and when they dropped out.

"We find evidence of what's known in economics as 'strategic delay,' when it looks like people are holding back and waiting to see how an arrangement works out for their neighbor. If things look like they're going well, they join," Michelson says.

Michelson says the wait-and-see strategy makes a lot of sense and in economic terms it has some implications.

"There are some costs for a buyer to begin dealing with a new community. There are search and transportation costs to begin sourcing in a new location, for example. So if a buyer goes through all of that and there's only one farmer to buy from, that first farmer may have to bear some of those start-up costs on his own," Michelson says.

Michelson says Walmart buyers have strict quality parameters for fruits and vegetables and will only accept the produce that meets those criteria.

But as more and more farmers in an area join the supply chain, her analysis finds that the rejection rates for produce go down and the percentage Walmart buys goes up.

"We have data from year to year of how much Walmart was buying from each farmer. And we see that as more farmers from a community joined, Walmart winds up buying more and rejecting less from each individual farmer. The buyer comes more frequently and prices get better over time as well. Consequently, the [early adopters](#) benefit as more people join, but they've had to bear the initial cost of testing out the relationship. To some degree, later adopters free ride on the information provided by those early adopters."

Walmart in Nicaragua is expanding rapidly with over 100 stores. For a country with 6 million people, it has more stores per person than in the United States. According to Michelson, getting the right first adopter could matter a lot.

"If you think of it from Walmart's perspective, you want to be really smart about who you establish that initial relationship with," she says.

"When you're trying to make initial investments or forays into communities with the hope that you'll develop a robust, broader network of suppliers, then initially selecting the wrong farmer could lead to real challenges. If that first farmer enters a relationship with Walmart and has a bad experience, you could have others deciding to stay out of that relationship because they make broader inferences about that relationship based on the perceived outcomes of their neighbor."

In the United States, when new internet providers come into a community, some offer an incentive to early adopters - people who will sign up with a deposit even before it is available to them get the first year at a lower price per month, or some other incentive to join.

"If Walmart could establish something similar in Nicaragua, there could be an initial cadre of farmers to learn from," Michelson says. "One policy implication is that you could provide early adopters with some assistance or incentive because their initial willingness to enter into a relationship with a buyer provides a lot of good opportunities to lots of other people. By subsidizing that initial attempt, farmers could try it out without bearing a lot of private costs. Then, if they try and leave, it might not have significant economic consequences for them."

The study, "Influence of neighbor experience and exit on small [farmer](#) market participation," is published in *American Journal of Agricultural Economics*. The paper is authored by Hope Michelson. Funding for the work was provided in part by the US Agency for International Development (USAID) Agreement No. EDH-A-00-06-0003-00 awarded to the Assets and Market Access Collaborative Research Support Program (AMA CRSP).

Hope Michelson is an assistant professor in the Department of Agricultural and Consumer Economics in the College of Agricultural, Consumer and Environmental Sciences at the University of Illinois and a member of the Division of Nutritional Sciences.

**More information:** Hope C. Michelson, Influence of Neighbor Experience and Exit on Small Farmer Market Participation, *American Journal of Agricultural Economics* (2016). [DOI: 10.1093/ajae/aaw097](https://doi.org/10.1093/ajae/aaw097)

Provided by University of Illinois at Urbana-Champaign

Citation: Wait-and-see strategy pays off, incentives needed for risk takers (2017, September 18) retrieved 9 April 2024 from <https://phys.org/news/2017-09-wait-and-see-strategy-incentives-takers.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.