

THE EFFECT OF TRADE INTERMEDIARIES ON COST STRUCTURE AND PRODUCT PRICES IN THE DOMESTIC MARKET

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Abstract

Trade intermediaries play an important role in the domestic distribution system by bridging the relationship between producers and consumers. Their presence is expected to enhance distribution efficiency by reducing transaction costs; however, in practice, intermediaries are often associated with higher cost structures and increased product prices. This study aims to analyze the influence of trade intermediaries on distribution cost structures and product price formation in the domestic market. The research employs a qualitative-descriptive approach using a literature review method, drawing on academic journals, economics textbooks, and other relevant sources. The findings indicate that trade intermediaries have a dual role: they can serve as a source of efficiency through functional specialization in distribution, but they may also become a source of inefficiency when operating in highly concentrated market structures. The length of the distribution chain contributes significantly to cost accumulation and price disparities between producer and consumer levels. In the Indonesian domestic market context, the dependence of small producers on intermediaries strengthens the bargaining power of intermediaries and affects price structures. Therefore, public policies should focus not only on reducing the number of intermediaries but also on improving efficiency, transparency, and fair competition within the distribution system to enhance overall economic welfare.

Keywords: trade intermediaries, cost structure, product prices, distribution, domestic market.

INTRODUCTION

Domestic trade is one of the main pillars of the national economy because it functions as a mechanism for distributing goods and services from producers to end consumers (Mankiw, 2021). The effectiveness of domestic trade greatly determines price affordability, supply distribution, and market stability. In the context of developing countries such as Indonesia, the domestic trade system is not only influenced by production capacity, but also by a complex distribution structure involving various economic actors. This structure is often characterized by the existence of multiple layers of trade intermediaries, ranging from collectors, wholesalers, distributors, to retailers.

Trade intermediaries theoretically have important economic functions, including facilitating the flow of goods, reducing transaction costs, providing market information, and bearing distribution risks (Kotler & Keller, 2016). The existence of intermediaries allows producers, especially small and medium-sized ones, to reach a wider market without having to bear all the logistics and marketing costs. From a microeconomic perspective, intermediaries can increase market efficiency by reducing search costs and negotiation costs between producers and consumers.

However, in practice, the existence of trade intermediaries is often perceived as a factor that increases cost structures and drives up product prices in the domestic market (Nicholson & Snyder, 2017). The length of the distribution chain and information asymmetry between business actors can create high trade margins. This condition has the potential to cause market inefficiencies, especially if intermediaries have a dominant bargaining position that allows them to unilaterally determine the purchase price from producers and the selling price to consumers.

Issues related to trade intermediaries become even more relevant when linked to issues of inflation, people's purchasing power, and producer welfare (Todaro & Smith, 2020). Various studies show that the price difference between producers and consumers (price spread) often does not fully reflect reasonable distribution costs, but is influenced by oligopolistic market structures or inefficient intermediary practices. Therefore, analyzing the role of trade intermediaries in shaping product cost and price structures is important for a more comprehensive understanding of domestic market dynamics.

Based on this background, this study focuses on the influence of trade intermediaries on the cost structure and product prices in the domestic market (Stiglitz, 2002). This study is expected to contribute academically to the development of distribution and marketing theory, as well as practically to the formulation of more efficient and equitable domestic trade policies.

Research Questions: (1) What is the role of trade intermediaries in the distribution structure of products in the domestic market? (2) How do trade intermediaries affect the distribution cost structure? (3) How does the existence of trade intermediaries affect product pricing in the domestic market?. **Research Objectives:** This study aims to analyze the role of trade intermediaries in the domestic distribution system, examine their influence on the distribution cost structure, and assess their impact on product prices in the domestic market.

RESEARCH METHOD

This study uses a qualitative-descriptive approach with a library research method (Creswell, 2018). Data were obtained from national and international scientific journals, economics and marketing textbooks, and official reports from relevant institutions related to the topics of trade intermediaries, cost structures, and product prices. Data analysis techniques were carried out by grouping theoretical and empirical findings, then analyzing them systematically to draw conclusions about the relationship

between trade intermediaries, cost structures, and product prices in the domestic market.

RESEARCH RESULTS AND DISCUSSION

Research Findings

The research findings indicate that trade intermediaries play a significant role in facilitating the distribution of products from producers to consumers (Kotler & Keller, 2016). Intermediaries serve as connectors that overcome producers' limitations in terms of capital, distribution networks, and market information. In many cases, the existence of intermediaries allows products to be more evenly distributed across different regions.

In addition, this study found that trade intermediaries contribute to the formation of distribution cost structures (Nicholson & Snyder, 2017). Costs such as transportation, storage, packaging, and the risk of product damage are generally transferred to intermediaries. However, the more layers of intermediaries involved, the greater the accumulation of costs that are ultimately passed on to the selling price of the product.

The results of the study also show a positive relationship between the length of the trade intermediary chain and the price level of products in the domestic market (Mankiw, 2021). Products with long distribution chains tend to have a greater price difference between the producer and consumer levels, compared to products distributed through shorter channels.

Discussion

In economic theory, trade intermediaries are seen as agents that reduce market friction by organizing transactions that were previously scattered and uncoordinated (Coase, 1937). In fragmented markets, producers and consumers often face information constraints, high transaction partner search costs, and uncertainty in the exchange process. The existence of intermediaries enables the specialization of distribution functions, such as collecting products from various producers, storing them to maintain supply availability, transporting them to consumption areas, and conducting structured marketing activities. Thus, producers and consumers do not need to carry out all these activities independently, which ultimately reduces business costs and risks. Through this specialization, transaction costs, which include information search costs, contract negotiation costs, and transaction monitoring costs, can be significantly reduced. This view is in line with Coase's theory, which emphasizes that transaction costs are a key factor in determining whether an economic activity is more efficiently carried out through market mechanisms or through specific organizations. Therefore, trade intermediaries can be understood as a rational institutional response to high transaction costs in a market system that is not fully efficient.

However, the effectiveness of intermediaries is highly dependent on the market structure in which they operate (Nicholson & Snyder, 2017). In competitive markets,

the presence of many businesses and low barriers to entry will limit the ability of intermediaries to set excessive profit margins. Competitive pressure forces intermediaries to improve operational efficiency, enhance service quality, and reduce distribution costs in order to remain competitive. Conversely, in highly concentrated or oligopolistic markets, intermediaries tend to have greater market power. This power allows them to influence purchase prices from producers and selling prices to consumers through control of market access and information. As a result, intermediaries' profit margins can increase disproportionately, leading to higher consumer prices that do not fully reflect actual distribution costs.

Dalam konteks pasar domestik Indonesia, perantara perdagangan sering kali memiliki peran ganda sebagai penyedia modal sekaligus pengendali akses pasar (Todaro & Smith, 2020). Banyak produsen kecil, terutama di sektor pertanian dan UMKM, menghadapi keterbatasan akses terhadap lembaga keuangan formal. Kondisi ini mendorong ketergantungan pada perantara untuk memperoleh pembiayaan awal, sarana produksi, serta kepastian penyerapan hasil produksi. Ketergantungan tersebut memperkuat posisi tawar perantara dalam menentukan harga dan syarat transaksi, termasuk waktu pembayaran dan volume pembelian. Akibatnya, struktur harga di tingkat produsen sering kali tidak mencerminkan nilai ekonomi produk secara adil. Dampak lanjutan dari kondisi ini adalah terbentuknya harga di tingkat konsumen yang relatif tinggi serta semakin lebarnya kesenjangan distribusi pendapatan antar pelaku usaha.

Advances in information technology and the digitization of trade have the potential to significantly shorten the distribution chain (Kotler & Keller, 2016). Digital platforms, e-commerce, and marketplaces enable producers to reach end consumers directly without having to go through many layers of traditional intermediaries. Digitalization also increases price transparency and real-time market information availability, thereby reducing the level of information asymmetry that has been exploited by certain intermediaries. With fewer intermediaries, distribution cost structures can be reduced and product prices become more competitive. However, the effectiveness of digitalization is highly dependent on the readiness of technological infrastructure, supporting regulations, and the level of digital literacy of business actors, especially small-scale producers.

However, eliminating intermediaries is not always the optimal solution in all economic sectors (Nicholson & Snyder, 2017). In some sectors, particularly agricultural products and perishable commodities, intermediaries continue to play an important role in maintaining supply continuity and price stability. Intermediaries generally have logistics capacity, storage facilities, distribution networks, and risk management capabilities that small producers may not necessarily have. Without intermediaries, producers may face difficulties in distributing products in a timely and efficient manner, which could potentially increase losses, waste, and market instability.

Therefore, public policy should not be solely oriented towards eliminating intermediaries, but rather towards increasing the efficiency and transparency of their role (Stiglitz, 2002). Regulations that encourage healthy competition, price

transparency, and strengthen the bargaining position of producers can curb exploitative intermediary practices. In addition, policies that support digital technology integration, strengthen distribution institutions, and provide access to financing for small producers can improve the performance of intermediaries without eliminating their economic function in the domestic trading system.

From a welfare perspective, an efficient distribution structure will increase producer income while lowering prices for consumers (Todaro & Smith, 2020). Distribution efficiency allows added value to be distributed more proportionally throughout the supply chain, so that it is not concentrated in just one group of business actors. Producers obtain fairer and more stable prices, while consumers enjoy more affordable prices and better product availability. Thus, an efficient distribution system contributes directly to improved economic welfare, poverty reduction, and lower income inequality.

Thus, the influence of trade intermediaries on the cost structure and product prices is ambivalent (Coase, 1937). Intermediaries can be a source of efficiency if they function to reduce transaction costs, facilitate distribution, and reduce market uncertainty. Conversely, intermediaries can also be a source of inefficiency if they exploit market power and information asymmetry to obtain excessive profit margins. Therefore, the impact of intermediaries is largely determined by market structure, regulatory frameworks, and the level of competition that prevails in the domestic trading system.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the results of the research and discussion, it can be concluded that trade intermediaries play a significant role in the product distribution system in the domestic market. Theoretically, the existence of intermediaries is a response to high transaction costs in fragmented markets, as stated in transaction cost theory. Through the specialization of distribution functions, intermediaries are able to reduce the costs of information search, negotiation, and distribution risks that would otherwise be borne directly by producers and consumers.

However, the influence of trade intermediaries on the cost structure and product prices is highly dependent on the market structure in which they operate. In competitive markets, intermediaries tend to contribute to increased distribution efficiency. Conversely, in concentrated markets, intermediaries have the potential to exploit market power and information asymmetry to obtain excessive profit margins, thereby driving up prices at the consumer level and depressing prices at the producer level.

This study also shows that the length of the distribution chain has a direct implication on product pricing. The longer the distribution chain, the greater the accumulation of costs and markups charged, which ultimately increases the price difference between producers and consumers. In the context of the Indonesian domestic market, the dual role of intermediaries as capital providers and market access

controllers further strengthens their bargaining position, especially against small producers and MSMEs. Thus, trade intermediaries have an ambivalent nature: on the one hand, they can increase market efficiency, but on the other hand, they can be a source of inefficiency and distributional inequality if not balanced with a competitive market structure and adequate regulation.

Recommendations

Based on these conclusions, several recommendations can be made. First, the government needs to formulate domestic trade policies that are not solely oriented towards eliminating intermediaries, but rather towards increasing the efficiency, transparency, and accountability of the role of trade intermediaries. Regulations that encourage healthy competition and price transparency need to be strengthened to prevent excessive margin setting practices.

Second, strengthening the bargaining position of producers, especially small producers and MSMEs, needs to be a policy priority. This can be done by increasing access to formal financing, strengthening cooperative or producer association institutions, and developing more efficient alternative distribution systems. Thus, producers' dependence on intermediaries can be reduced without disrupting the smooth flow of distribution.

Third, the use of information technology and trade digitization needs to be continuously encouraged as an effort to shorten the distribution chain and improve market efficiency. However, the implementation of digitization must be accompanied by improvements in infrastructure and digital literacy so that its benefits can be felt equally by all business actors.

Fourth, for further research, it is recommended to conduct empirical studies using a quantitative approach to measure more specifically the impact of the number of intermediaries, market structure, and length of the distribution chain on product prices and the welfare of business actors. Further research can also focus on specific sectors, such as food or MSMEs, in order to produce more contextual and applicable policy recommendations.

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