Chapter 12

SUPPLY CHAIN REENGINEERING IN AGRI-BUSINESS

A Case Study of ITC’s e-Choupal*

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Abstract: The main premise of the chapter is that emerging economies are characterized by “broken value chains” that attempt to connect the poor, as sellers and buyers, to markets for products and services. Often these value chains do work (as they need to) but with the help of numerous intermediaries who extract disproportionate value leaving the poor with little residual income. The challenge of fixing these value chains is further exacerbated by factors like fragmentation, dispersion, heterogeneity, and weak infrastructure. Nevertheless, the enormity and the complexity of the task at hand imply that reengineering the farm-to-market supply chain offers a tremendous business opportunity.

In this chapter we describe a large scale agri-business supply chain reengineering effort, called e-Choupal, being implemented across various commodities by the ITC Group of India. We argue that this large-scale effort enhances shareholder value, alleviates poverty, lays the foundation for global competitiveness of agriculture, and at the same time sows the seeds of social transformation. We illustrate this through a detailed discussion of ITC’s interventions in soybean, wheat, and coffee procurement. Together the three highlight a progression of value provisioning using supply chain reengineering. While the first one focuses on improving the logistics efficiency of a commodity supply chain, the second example illustrates the shift from commodity-based to a variety-based strategy, and finally the third example illustrates the migration from products to services-
based strategy in agri-businesses. For each of these cases, we articulate benefits that accrue to the key stakeholders. We close the chapter with a discussion on how ITC’s e-Choupal is an innovative business platform to convert agricultural supply-chains into demand-chains or from ‘selling what is produced’ to ‘help producing what is wanted’.

12.1. Introduction

With a population of about 1.03 billion – and growing – living in an area of 3.2 million square kilometers, India is the second most populous nation after China, the seventh largest country by land mass and the largest democracy in the world. Since its independence in 1947, India followed a mixed-model economy with very modest growth. India finally liberalized its economy in 1991 and has since seen a 6–7% annual growth rate. Today India’s GDP is about $600 billion (with over $100 billion in foreign exchange reserves) making it the 12th largest economy in the world (4th largest when adjusted for purchasing power parity). Some experts predict that in 10–15 years, India is slated to be the third largest economy with a share of 14.3% of the global economy. Most of the descriptions and achievements of India written up in the popular press – the India of the third largest pool of scientific and technical manpower, the India of high technology and biotech industries, the India as a destination of choice for services outsourcing – is based on the industrial and services sector largely focused on what we call the urban India.

A sector-wise break up of India’s economy illustrates that services (inclusive of government services) contribute about 52% of the GDP; the rest is equally divided between agriculture and industry. At 24% of GDP, agriculture is a significant component of India’s economy. Agriculture as a relatively large component of overall domestic economy is a characteristic of most emerging economies, especially when compared to the developed countries; for example, in the United States agriculture comprises just 1.4% of the 2003 GDP. Table 12.1 gives some selected statistics to highlight India’s position in the world agriculture. Based on the aggregate metrics of arable land areas and volume

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