

Supply chain management for realising true potential of agribusiness

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Indian agriculture is unique in many ways. With abundant arable land, water and bio-diversity and a large population accustomed to agriculture as a way of life, no country is better placed than India in bringing about agriculture-led prosperity.

But agriculture in India needs some critical management inputs, particularly that of supply chain management (SCM). Agri-business can realise its full potential by applying the principles of SCM- collaboration among various stake-holders, non-exploitative vertical and horizontal integration, market reforms, precision farming, contract farming, demand-led diversification and the extensive and intensive use of information technology for real-time communication across the chain.

Significance of SCM for agri-business: Agriculture dependent livelihood accounts for about 60 per cent of employment and 21 per cent of the country's GDP. The inference is that a person dependent on agriculture earns, on an average, 18 per cent of what others do. This is due to the fact that agriculture has not been allowed to evolve as a business.

India is a large market for multinational companies, but the farmer cannot freely move his produce. Controls and taxes deny him the opportunity. Subsidies in support prices and fertilisers do not necessarily serve the long-term interests of farmers.

Small holdings have their own merits: Equitable distribution, emotional involvement, opportunities to introduce appropriate intensity in farming, compulsion to collaborate with neighbours, soil conservation and composite farming. They fit into the supply chain concept well.

The WTO has brought in a qualitative change to global trade in agricultural commodities. What is needed is an efficient, value-adding link from the producer to the consumer. Globalised trade is a unique opportunity where some risks need to be managed. The nascent market for processed foods is stifled by high taxation. The limitations

imposed by lack of cold chains and road network also add to the constraints.

Emphasis of building networks: At the international level, there is no longer competition among firms, but among supply chain networks. The network in India is primitive and exploitative. The trick is to bring about an intensive collaboration among producers, processors, logistics providers, wholesalers and retailers to supply what the consumers in India and abroad want cost effectively. Horizontal collaboration among policymakers, researchers, extension agencies, technology companies and financial institutions add strength to the chain. The whole chain and not just production should be defined as agriculture.

Technology inputs form an integral part of SCM. The emerging ones are gene revolution, eco-technology,

information network and geographical information system. Biotechnology offers options for crop diversification for food, medicine and energy, as also cost effective pest management. Traditional innovations need to be rediscovered and applied. Organic farming is a traditional practice with a new appeal and a global market of \$30 billion growing at over 15 per cent per annum. State governments, the Planning



Commission and the Commerce Ministry are moving towards SCM in line with the global trend, even as there is the drag of past practices. Several State governments have prepared vision documents incorporating the SCM principles. The private sector is already looking at contract farming to cater to the high-end domestic market and the export demand. There is greater awareness among industrialists that agriculture offers attractive values and can no longer be ignored.

A nodal agency with market insight and vision is a prerequisite for every supply chain. The supermarket chain Wal-Mart takes care of its suppliers' needs for finance and logistics even as it encourages continuous cost cutting to serve the consumer. The supply chain performs both physical and market functions which means understanding

market requirements ,converting raw material into finished products and moving them from production centres to consumption points in a effective and efficient manner and fulfil consumer expectations.

SCM can be derived from the concept of social capital. It demands enlightened self-interest where all the links in the network work towards maximising the value for all, including the customer, in a collaborative way.

The key messages of supply chain successes are: Customer rank quality, price, specification, timely delivery and relationships with suppliers as their priorities.

Role of Government: The Government of India has announced a policy for agriculture over the first two decades of the 21st century. A mechanism that educates and persuades farmers on market-led diversification of land use into vegetables and fruits, medicinal and aromatic plants, forestry and floriculture is necessary.

A commodity approach to fixing the complete chain is the most appropriate strategy whether it is mango in Gujarat and U.P., litchie in Bihar, pineapple in Tripura or poultry in Tamil Nadu. Typically, the chain is broken or is weak in several links. Contract farming can help overcome this. An optimal mix of the area and commodity approach is appropriate.

While basics of agriculture such as land, water, forest management and infrastructure would fall under the area approach, diversification, precision and organic farming, processing, marketing and inputs could be addressed by the commodity approach.

Contract farming, unlike corporate farming, brings farmers into the mainstream of the economy. It reduces the market risk. The farmer is emotionally attached to the land under contract farming. Forward contracts enhance supply chain efficiencies by providing both knowledge and material inputs. This facilitates hassle-free availability of credit from banks at competitive rates. Contract farming permits control over standards of production demanded by niche markets, both domestic and foreign. Government needs to play the role of facilitator by developing required policy framework, attracting investment and creating infrastructure.

Participation of private sector: Liberalisation has made agri-business and partnership with farmers the next logical frontiers to conquer economic growth. There are a few exemplary initiatives of the private corporate sector, which promise sustained increase in farm income.

These include the Rallis Kisan Kendras, the e-Choupals of ITC and the market centres of Cargill. All of them place a premium on the use of information technology. The key is to understand what the customer wants —

where, when, how much and at what price, and respond to it accurately, speedily and with minimum flow of materials.

The private investment in agricultural sector is on the rise and several agribusiness companies have developed new models to reach to farmers. The need is how to make the agricultural sector more attractive for private sector to invest. Faster growth in agriculture tomorrow will happen because of rising private investment in agriculture today.

The supply chain concept is still nascent in Indian agriculture. However the need for the same, at this stage, is more than ever before because of the challenges unleashed on the competitiveness of the Indian agribusiness by deregulation and globalization. An essential first step in the process is to assess the current supply chain capability. A beginning has been made and large number of Indian agri based organizations today are realizing the importance of developing and implementing a comprehensive supply chain strategy - and then linking that strategy to deliver bottom line results.

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