

CORPORATE STRATEGY AND INTERNATIONAL BUSINESS

CASE STUDY SERIES

Indiagriline by EID Parry

Indiagriline is an effort to provide an end-to-end solution addressing the needs of the farming community. EID Parry Ltd., a private corporation owned by the Murugappa Group, launched this project in early 2001 by setting up Internet kiosks in 6 villages around its sugar factory in Nellikuppam, Tamil Nadu. These kiosks were called Parry's Corners, named after a famous landmark in Chennai. Much like the Parry's Corner of Chennai, the kiosks were intended to be business hubs of their respective villages – a one-stop shop that acted as a storefront for buying farm inputs, a market for selling goods and an Internet café for communication and information services.

THE INNOVATION. . .

Organizing the unorganized farmer's through the use of Internet kiosks provides a two-way means of selling and buying that both opens markets while empowering the poor. Such a local franchise-based kiosk, with EID Parry sharing the risk and cost, acts as an Internet café, providing access to information and education as well.

The Murugappa Group – A Brief History

The Murugappa group began over a century ago as a small, family run business. Today, it is a diversified \$900M conglomerate with interests in farm inputs, sugar, confectionery, building materials, abrasives, bicycles, plantations and finance. The group has strong ties to rural India by virtue of its sugar, plantations and inputs businesses. In fact about 60% of the company's profits are derived from rural India.

One of the group's businesses, EID Parry is over 200 year's old and pioneered sugar production in India. It is also in the business of making sugar-based confectionery, sanitary ware, fertilizers and bio-pesticides. EID has close links to the farming community through its sugar and farm inputs divisions. The company markets almost a million tons of fertilizers annually to three million farmers. The company has about 100,000 registered sugarcane growers from more than 100 villages that supply sugarcane.

This report was written by Kuthuvan Annamalai and Sachin Ram under the supervision of Professor C.K. Prahalad. The report is intended to be a catalyst for discussion and is not intended to illustrate effective or ineffective strategies.

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Before the Murugappa Group took over EID Parry in 1981-2, corruption and pilferage was rife, and the Nellikuppam factory was in a dire state. Factory workers shortchanged farmers. After the takeover, the Murugappa Group improved operations. Employee morale was lifted and productivity improved. They installed modern weighbridges with digital displays and made the weighing process unambiguous. This generated tremendous goodwill for the company in the region.

Over the years EID Parry has acquired a strong rural presence. EID Parry's farm input division has 150 people who sell fertilizers and bio pesticides. The four sugar factories in Tamil Nadu have 50 people who are involved in procuring sugarcane. These people have intimate knowledge of rural India and have developed close relationships with farmers and their community. They are often the community one-stop shop for information. EID Parry has processes in place to serve its rural customers and suppliers.

The Context

A marginal Indian farmer is faced with several challenges that result in yields and quality being inferior by world standards. He lacks access to information such as best practices, accurate weather forecasts and up-to-date information on commodity market prices. He lacks access to the market and is thus caught in the vicious cycle of sub-optimal use of farm inputs, higher cost of credit and lower price realizations on his produce, leading to insignificant disposable income for him and his family.

For commodities, government-supported minimum prices have been in existence. Theoretically MSP, or the minimum support price, meant the government was willing to procure commodities at these rates. Though large and influential farmers benefited from these support prices, the marginal farmer had limited access to the market. As a result, marginal farmers often sold their produce to village traders at uncompetitive prices. The public procurement process was neither transparent nor efficient.

Increasing Farm Yield Alone Is Not Sufficient

Being in the fertilizer business, one of Murugappa Group's key insights was that increasing farm yield alone was not sufficient. Without proper infrastructure, lack of transparency in prices and access to market, productivity gains were useless. The prices often reflected localized supply and demand curves. Any productivity gain led to a local surplus and consequently a drop in prices in that region. If the farmer had direct linkage to the market, such productivity gains would actually benefit him.

Another insight acquired through their sugar and seeds businesses was that the farmers who were contracted to sell their commodities to EID Parry were better off than other farmers who only bought fertilizers from them. EID Parry bought directly from the sugar farmers. These farmers were also direct beneficiaries of EID Parry's farm extension services and assistance provided in getting credit, crop insurance, labor management and good-quality inputs. This helped them realize that to help a farmer out of the vicious cycle he is trapped in, intervention is required at multiple levels.

The Changing Landscape - Global Competition

In the 1990s India came under intense pressure to remove quota restrictions on agricultural and consumer products. After a WTO ruling in 1997, India, in a major policy shift, began removing many licensing and quota restrictions on agricultural imports. Although many quotas were replaced with tariffs, by dismantling several trade barriers the country moved incrementally toward open trade and greater integration with the global market. Domestically, the Indian farmer who was globally uncompetitive felt the price pressure.

While his western counterparts were heavily subsidized, farmer subsidies back home were shrinking. Government expenditure on rural development projects such as irrigation, fertilizer subsidies, etc. declined. Although the Indian fertilizer industry was operationally world class with low conversion costs, their inputs (raw materials, power) were far more expensive. This meant the Indian farmer had to pay a higher price for farm inputs than his counterparts in the western world. Power was getting increasingly expensive and the government irrigation schemes did not sufficiently address farmer's needs. The combination of increasing price pressure and rising input costs squeezed the farmer's margins.

Indiagriline Vision

The deteriorating plight of the Indian farmer and the looming threat of global competition concerned the Murugappa Group. It responded by setting a goal of raising farmer incomes three times in five years. This goal was not driven only by a sense of social responsibility; management also recognized the company's fortunes are strongly tied to the well being of the farmer. Better farmer compensation requires providing the farmer with the know-how and resources to raise production and supply better-quality inputs and access to markets. The company recognized the actual process of enabling him is also an economically worthwhile activity.

The strategic goal of Murugappa Group was to ultimately develop the following capabilities:

Distribution infrastructure: a infrastructure capable of supporting bi-directional distribution of products and services into and out of rural India. The lack of physical infrastructure makes the cost of establishing and managing a distribution channel extremely expensive. Today not many companies can market their products/services to rural areas cost-effectively. Therefore developing a low-cost channel for rural distribution was one goal.

Trading infrastructure: the foundation to a platform for trading agri-commodities and rural industry manufactured goods. By bringing real-time price and market information from local as well as distant markets and by enabling and educating farmers through complex risk-transfer mechanisms, EID Parry intended to create the foundation for a trading platform which can be brought to the fore once government policies and market institutions are in place.

EID Parry saw information and communication technology (ICT) as a powerful tool for bridging the infrastructure gaps in rural India. EID Parry regarded the Internet as the next logical medium for delivering its farm extension services. They recognized the market opportunity in creating a demand for rural supplies in urban India and in fulfilling the latent demand for urban goods and services in rural India. By leveraging ICT,

EID Parry intended to create a bi-directional demand and supply of goods into and out of rural India through partnerships.

Bringing the Power of Scale to the Farmer

Nuclearization of families led to fragmentation of land holdings in rural India as they passed from father to sons. Such fragmentation has disadvantaged the farmer significantly. A marginal farmer doesn't have the power of scale on his side either in procuring inputs or selling outputs. Effective use of information and communication technology has the capacity to bring the power of scale to the farmer.

Access to Real-time Information

The marginal farmer lacks direct access to markets and relies on information provided by the intermediaries. The intermediaries appropriated value from the chain by blocking the flow of information. EID Parry recognized that ICT could enable price discovery and provide access to market information, even to remote areas that lacked physical infrastructure. Access to information such as up-to-date local weather forecasts and advisories allow the farmer to make informed decisions. Such real-time information can help improve the farmer's decision-making ability and thereby better align his farm output to market demands.

Customization

ICT can be leveraged to gain specific information about the community's or an individual's needs and preferences, thus giving the unique ability to customize products and provide increased convenience.

Transparency

EID Parry also recognized ICT's ability to provide transparency by processing transactions without human intervention.

Indiagriline: A Network of Partnerships

EID Parry fostered and facilitated partnerships among a wide range of organizations, including Tamil Nadu Agriculture University and its Research Stations (TNAU), Tamil Nadu University for Veterinary and Animal Sciences (TANUVAS), National Horticulture Board, AMM Foundation and Murugappa Chettiar Research Center to create the agri-portal Indiagriline. The agri-portal (www.indiagriline.com) was developed by using in-house expertise (EID Parry's Sugar and Farm Inputs Division and Corporate R&D Lab). So far, EID Parry has set up Internet kiosks in 26 villages around its Nellikuppam factory in the Cuddalore district in Tamil Nadu on a pilot scale. They fashioned a franchise-based business model to meet the demand for information and connectivity. These kiosks are owned and operated by franchisees trained to operate the system.

Franchisee-Based Model

In this model, EID Parry allows the franchisees to use its brand, procure commodities on its behalf and sell its products or services.

Risk Distribution

By adopting a franchise-based business model, EID Parry has been able to keep its fixed cost low. Though EID Parry covers the cost of establishing the infrastructure for voice and data connection, each franchisee invests approximately Rs.50,000 that covers the cost of the computer and all related equipment. The operating costs of running the kiosks, such as electricity and connectivity charges, are covered by the franchisees.

Scale-Up Efficiency

For EID Parry, franchising is a cost-effective way to build a chain of many kiosks all operating under their banner. This "cooperative" relationship builds a win/win situation for both parties involved. It provides the incentives each party needs to contribute to the other's potential success.

Potential of the Small-Scale Entrepreneur

This model makes an attempt to leverage the potential of the small-scale entrepreneur. The franchisee partner owns the business and shares with EID Parry the risks and rewards of operating the kiosk. For the entrepreneur, franchising greatly reduces the risk of business ownership as compared to launching a new business from scratch. The franchisees can leverage the Parry brand name to attract customers to their location for selling products or services. They also benefit from a wealth of knowledge transferred to them by EID Parry on how to successfully manage and operate the Parry's Corners. EID Parry also offers assistance in financing the franchisees through arrangements with third-party lending institutions such as Indian Bank.

Franchising in the Rural Context

A Parry's Corner franchisee bears business risk and is likely to be motivated to operate a profitable kiosk. He is likely to play an active role in marketing the products and services offered, identify and bring products and services demanded by the community and look for innovative ways to increase his revenue stream. In a rural setting where literacy rates are low and fear/resistance to technology high, an enthusiastic and profit-minded entrepreneur willing to influence the people can play a vital role.

As this franchise becomes established, EID Parry will be able to transfer a proven and refined system of operation. They could streamline operational standards and establish management controls in order to ensure quality control and enhance profitability.

Sources of Payback

At an individual kiosk level, the capital invested and the risk borne by the franchisee in setting up the Parry's Corner kiosk is greater. It was therefore essential for EID Parry to identify ways to make this a profitable

venture for the franchisee. Sources of revenue fall under following categories. Although some franchisees do not charge the farmers anything for some of these services in order to promote use, they are listed here because these services could be charged for in the future.

Procurement: The Rice Opportunity

Relaxation of restrictions on buying, selling and holding of certain commodities including varieties of rice by the Indian government has opened up a whole new opportunity for EID Parry. The rice market is significantly (about seven times) larger than the sugar market. EID Parry realized it was possible to achieve considerable business size without significantly affecting the dynamics of this fragmented industry. Some of the strengths EID Parry expected to leverage were:

Farmer relationships: EID Parry has a strong relationship with the farming community in the Nellikuppam area. Paddy is one of the other crops grown in that region. EID Parry saw an opportunity to leverage this strong relationship with the community they had built over the years.

Agricultural know-how: EID Parry, before entertaining any plans of entering the rice market, had accumulated significant know-how in paddy farming by virtue of its farm extension services in the region. They saw an opportunity to increase paddy productivity by improving farming techniques and by providing the farmer with certified seeds and quality inputs. Closer inspection of the rice value chain revealed they could eliminate inefficiencies and reduce costs. By bringing in transparency to the process, through unambiguous pricing, prompt payment and accurate weighing, they knew they would be able to provide the farmer with an alternative. Several local rice mills were operating at 30% to 40% capacity utilization. They realized that by increasing the capacity utilization of the rice mills and lowering the working capital cost of rice millers, they will be able to save.

Synergies: EID Parry also expected to derive synergies from its sugar business by leveraging the brand, packaging facilities, stocking network and distribution channels. In the pilot phase, certified ponni variety paddy seeds were sold to 500 farmers who reported a 20% increase in their yield. In their very first year, they procured 27 MT of ponni from these farmers. The franchisee gets a commission for his services in the procurement process.

Marketing Products and Services

The same network that brings produce from the village can be used to transfer goods to the villages. EID intends to leverage this network to sell products to rural India. The franchisees help identify products and aggregate demand. By disseminating knowledge on relevant agriculture technologies, EID Parry creates a demand for agricultural inputs and services. Access to state-of-the-art agronomy coupled with quality farm inputs, such as high yielding seed varieties and fertilizers, can improve the farm productivity. The franchisee gets a commission for the products sold through this channel. The franchisee we met in Maligaimedu sold sugar in retail to the villagers apart from fertilizers and pesticides.

Desktop and Publishing Services

Desktop and publishing services are a key source of revenue for the franchisee. The franchisee is given a free hand in deciding what services can be provided and at what cost. At present, EID Parry does not take in the revenues generated for such services. As part of project e-inclusion, EID Parry, in partnership with Hewlett-Packard, has deployed all-in-one print/scan/fax/copy devices and digital cameras. These devices enable the franchisee to provide a range of services for which villagers would otherwise have to travel great distances. Typical desktop and publishing services offered by kiosks are shown below:

Internet services (eGovernance, Astrovision)	Franchisees also provide services available on the Internet on a per-transaction basis. For instance, the franchisees facilitate e-government services, such as filing online applications for acquiring birth and death certificates and other government schemes. They also provide services such as astrology. For these services he charges a fee.
Publishing/ Copying	More often than not, farmers have to travel to nearby towns in order to make photocopies of their land documents. Thanks to the all-in-one device, these tasks now can be performed without leaving the village. The combination of word processing software (with local language support), printer and copier makes the kiosk a mini publishing center.
Digital photography	With the nearest photography shop miles away, the franchisee can use the digital camera, scanner and printer at his disposal to function as a photography shop.

Communication Services

A Parry's Corner kiosk doubles as the local Internet café. Franchisees usually charge customers an access fee for surfing the Web. Information accessed at these kiosks relates to current affairs, education, health, entertainment and weather. The telecommunications infrastructure deployed in these villages uses a WLL (Wireless Local Loop) technology called corDECT, which provides sufficient bandwidth (70 kbps) to allow for simultaneous voice and Internet connectivity. In addition to a data line for Internet access, the kiosks get a telephone line as well. Franchisees usually charge an access fee for telephone and fax.

Farmers sometimes resort to using a telephone for fulfilling their communication and information needs, although the Internet or e-mail could have been used as effectively. For instance, the franchisees at Sitharasur are aware of their tendency to call their divisional officers in order to get information on agri-practices instead of accessing EID Parry's agri-portal on the Web.

Education Services

EID Parry has used its Parry's Corners to launch adult literacy and computer education programs. In partnership with NIIT, EID Parry organized computer education programs. These programs were intended to teach the basics of computer operation and applications to people who had never before seen a computer. In partnership with TCS, they also conducted an adult literacy program to educate illiterate women. Besides the initiatives organized by EID Parry, franchisees are free to conduct programs tailored to local needs. One franchisee we met conducts computer classes for school children between grades 1 and 5.

Farm Extension Services

Agricultural know-how and expertise exists within India, but the lack of infrastructure has impeded its dissemination. The farming community is not only fragmented but also scattered throughout the country. Providing farm extension services is central to EID Parry's business model. The extension services provided in the Cuddalore district focus on crops – paddy, banana, groundnut, papaya and cashew. For the cane farmers in the region, EID Parry provides the following farm advisory services:

- Expert visits/Crop seminars
- Soil sampling and analysis
- Land preparation
- Arrangements for labor/machinery
- Nutrient management
- Irrigation mechanisms
- Crop diagnostics
- Advice on farm inputs
- Harvesting techniques

Through effective use of technology, farm extension services now are available from village kiosks. Farmers can gather information directly from the kiosk or communicate with an agronomist to get specific, customized advice via e-mail. The typical turnaround time is a day. Services such as crop diagnostics actually can be performed remotely. The franchisee can use the digital camera to take a picture of the crop to be inspected and e-mail the image to the agronomist. The agronomist then will be able to follow up with his diagnosis. All this can be done without the farmer leaving the village.

Business Processes at Parry's Corners - Cane Management System (CMS)

CMS is EID Parry's Enterprise Resource Planner (ERP) system that helps manage sugarcane procurement. About 5,000 tons of sugarcane is crushed yearly at the Nellikuppam factory. Forty divisional officers manage the procurement process. They work with the sugarcane farmers on an ongoing basis and provide comprehensive assistance with all aspects of farming throughout the life cycle of the crop.

CMS enables registered sugarcane farmers to access and maintain their transaction records with the company. This application also is designed to track the progress of crops from sowing to harvesting; every aspect of cane farming is managed here. Conventionally the farmers would have to go up to the divisional office to access

CMS. This system now has been Web enabled. Instead of going to one of the factory's eight divisional offices, farmers now can go to a kiosk in their own village to leverage CMS services.

EID Parry's future plans include eliminating their physical divisional offices and carrying out the same management processes from its Parry's Corners.

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