



consulting | technology | outsourcing

Institute for
High Performance

ITC: Sourcing from small rural suppliers on a mass scale

By Raghav Narsalay,
Ryan T. Coffey and Aarohi Sen

Case Study

A large, close-up photograph of a human hand reaching out from the right side of the frame towards the left. The hand is illuminated by warm, golden light, likely from a low sun. In the background, the Taj Mahal is visible, its white marble structure and domes reflecting in the water of the reflecting pool. The sky is a clear, pale blue.

High performance. Delivered.

Sourcing from small farmers at scale is difficult, partly because, on their own these farmers have limited production capacity ITC's "e-Choupal" helps solve this problem. The online platform now coordinates more than 4 million small Indian farmers in a mass procurement operation that serves its nationwide food business.

Impact of the inclusive business initiative

ITC's e-Choupal—an online data service for farmers in local villages—helps small Indian farmers get better prices for their produce by providing timely information about quality control, farming best practices and market prices, including prices offered by ITC. The system establishes a two-way channel of communication between ITC and village communities. Internet kiosks—located in villages and often owned by ITC—consist of a personal computer, a printer, and a backup power source. Using village-based internet access, farmers connect to the company through a local-language web portal. Locally, a sanchalak ("director")—most often a small local farmer—is placed in charge of operating the local e-Choupal system. The sanchalak connects the company to the village farmers who participate.

Local farmers have readily participated in the e-Choupal initiative because of several benefits they receive from it. The most important one is price discovery. In the past, farmers would have to visit an auction center several miles from their villages to see what prices their goods would fetch, an inefficient and risky process. Through e-Choupal, they have real-time access to information in their

local language on prices their products would fetch in surrounding markets, helping them decide where and when to sell.

Through the portal, the farmers can also get weather forecasts and information on how to improve crop yields, how to conserve soil, and other agricultural best practices.

ITC uses the system to sell supplies to the local farmers, such as seeds and fertilizer, and also to buy produce directly. Although the company often offers higher prices than local buyers, it has a lower net cost of procurement. Thanks to direct sourcing—it no longer needs to rely on market intermediaries, who charge high rates of commission, to bring the small farmers' produce to market.

Over the last decade, e-Choupal has expanded across 10 states, covering 4 million farmers in 40,000 villages, and has been a key contributor to substantially increasing the turnover of ITC's Agri Business Division.

Barriers to scale

Institutional deficits: When ITC established e-Choupal, there was no market mechanism in place to perform a credit rating of farmers. Farmers also lacked access to institutions capable of managing agricultural risks, including price and output fluctuations.

Infrastructure deficit: Poor infrastructure, such as an inadequate road networks, scarce availability of internet connections, and unreliable power supply escalated the cost of scaling and sustaining the e-Choupal venture, thereby threatening returns on investment.

Strategies for success

Obtaining leadership support by linking the initiative to business and societal gains: From the beginning, e-Choupal's leaders had ambitious goals that were always communicated to ITC's board. Early on, the project proposal team communicated to the board that successfully achieving scale would require the initiative to reach one in every six Indian villages. In addition, the project would only be deemed a success when it became financially self-sustaining.

The team also emphasized the connection between the company's business goals and its social goals. They demonstrated that the e-Choupal initiative would drive income growth in low-income communities by providing data and expertise to farmers. Further, the system would drive continual productivity improvements in the network over time, making long-term engagement with low-income farmers all the more attractive for the company's core business. They convincingly argued that ITC would become local farmers' buyer of choice and convenience, a source of competitive advantage for its agribusiness division.

By effectively communicating these anticipated project outcomes to the board, the team was able to attract significant leadership interest. Hence when they asked for INR 5 million (US\$111,000) as initial funding for the pilot, they received INR 100 million (US\$2.2 million) instead. The ITC chairman emphasized that, if the pilot were to fail, a lack of money should not be the reason. This financial backing allowed the initiative to scale much more rapidly during its early years of operation, establishing 5,400 kiosks and reaching 35,000 villages in its first five years.

Using organizational architecture to retain the start-up culture: From day one, the initiative's leadership instilled the value of experimentation within the team and motivated everyone to focus on identifying opportunities rather than roadblocks. They emphasized the value of acting in ways that were approximately right rather than conducting precise analyses of what was going wrong. They adopted what they called the "roll out-fix it-scale-up model" of project management.

To retain this start-up mentality, the organizational architecture was modified. People with different experience levels came together to work in teams that placed a premium on agility over hierarchy. They were asked to identify new challenges as the project scaled and to quickly take on new roles. For example, e-Choupal's senior management not only focused on orchestration and resource management, they also supported middle management teams and shared successful ideas with other businesses of ITC.

Collaborating to expand scale and scope: ITC's e-Choupal project now includes collaboration with numerous companies that wish to do business in rural markets. The e-Choupal acts as a distribution platform through which such companies can market their products and tap latent demand. Partners that use ITC's network to bring their products to low-income customers include companies in agricultural services, banking, insurance, consumer goods and marketing services.

These partnerships have greatly helped ITC scale its initiative. For instance, as partners from the fast-moving consumer goods industry have attempted to reach new customers through ITC's network, they have also opened up new leads for ITC's procurement business. Partners in the banking and agricultural-services sector have played a key role in local capability development, mainly by providing the financing and knowledge support local farmers need to become more productive. This in turn has allowed ITC to steadily increase the amount of produce it sources from e-Choupal annually, helping the initiative achieve economies of scale at a faster pace. At the same time, e-Choupal provides a unique source of competitive advantage to ITC's Packaged Foods business, giving it an edge in the market.

"Of all the approaches tried to date to bridge the income divide in this world, inclusive value chains have the best potential to scale. It is indeed heartening that ITC's e-Choupal offered an early proof of this concept, and continues to inspire several others."

-S. Sivakumar, Chief Executive, Agri Businesses Division



Company information

ITC is one of India's leading private-sector conglomerates, with a presence in such businesses as packaged goods, personal care products, apparel, hotels, paper and packaging, agribusiness and information technology. For the 2011-12 fiscal year in India, ITC's annual turnover was more than US\$7 billion. ITC employs more than 26,000 people in 60 locations. The company's agricultural business is one of India's largest exporters of agricultural products and has been a pioneer in rural agricultural transformation.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with 257,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$27.9 billion for the fiscal year ended Aug. 31, 2012. Its home page is www.accenture.com.

About authors:

Raghav Narsalay leads the research team in India for the Accenture Institute for High Performance. He is based in Mumbai.

Ryan T. Coffey is a senior specialist with the Accenture Institute for High Performance. He is based in Mumbai.

Aarohi Sen is a specialist with the Accenture Institute for High Performance. He is based in Delhi.

About the Accenture Institute for High Performance

The Accenture Institute for High Performance creates strategic insights into key management issues and macroeconomic and political trends through original research and analysis. Its management researchers combine world-class reputations with Accenture's extensive consulting, technology and outsourcing experience to conduct innovative research and analysis into how organizations become and remain high-performance businesses.

Copyright © 2012 Accenture
All rights reserved.

Accenture, its logo, and
High Performance Delivered
are trademarks of Accenture.

Rights to trademarks
referenced herein, other than
Accenture trademarks, belong
to their respective owners.
We disclaim any proprietary
interest in the marks and
names of others.