

The international business division

Business



The International Business Division (IBD) is the agricultural commodities export division of the ITC. Its relatively insignificant contribution to the group sales was evident from the fact that IBD had achieved gross sales of \$100 million in 1998 compared to total sales of \$2 billion generated from the other divisions including tobacco, paperboard, retail, hospitality, foods and others. Two-thirds of this agricultural export business is constituted by soybean and its derivatives.

ITC sold soybean oil domestically and exported the processed soymeal. Although the selling of soybean and its derivatives was successful, the agricultural supply chain in India was inefficient. The farmers and soybean processors were held in an unproductive cycle. Both, the input and output sides of the cycle were functioning far from their full potential. On the input side, farmers lacked information necessary for the farming communities.

They didn't have access to inputs like weather information, information on seeds and sowing, pesticides and herbicides, and marketing information. On the output side of the supply chain, middlemen were firmly positioned, chipping in, the profit margin of the farmers and buyers like ITC. Thus, as farmers were subject to threats like pests attack, inclement weather and low marketing price, they limited their risk by minimizing their investments. The cycle continued unchecked as no new sources of value were inducted into the cycle.

Although, ITC had a hundred year relationship with farmers in the tobacco and had an integrated presence throughout the value chain from procuring, processing and exporting; the sluggishness and lack of competitiveness in

the Indian agriculture sector, affected ITC. The potential of ITC's International Business Division was tied to the competitiveness of the entire value chain. ITC resourced soybeans from farmers throughout rural Madhya Pradesh, which was India's 'soyabowl'.

In March 1999, ITC chairman Deveshwar and IBD Chief Executive Sivakumar attempted to secure the competitiveness of the entire value chain, by incorporating digital technology. IBD needed to achieve a targeted revenue of \$442.6 million by 2005. They had a web portal developed for the farmers to provide all information they wanted. The site was in Hindi language and was accessed by the sanchalak in his house or e-choupal, and coordinated between the ITC and the farmers. With the e-choupal, farmers took an informed decision on the time and rate for their produce.

The sanchalak helped farmers in deciding. The farmers then took their produce to an ITC hub where they were reimbursed for their travel. Farmers in Madhya Pradesh lived the same way as their predecessors lived decades back. Once the crop has been harvested, these were loaded onto bullock carts and tractors and taken to nearest mandi located between 30 to 50 kilometers. The crops are auctioned in the mandi after a government appointed bidder inspects the produce and sets an initial price. Upward bidding is then carried out by the government licensed bidders or the commission agents (CAs).

ITC had contracted a CA in each mandi to bid on behalf of the company. Normally, when a CA bids an auction, the farmer brings his tractor with produce to the CA's shop in the mandi, where it's weighed. Due to the

inaccuracy of the crude beam scales, the actual weight of the crop would be manipulated. The farmer is expected to lose about 10 kgs for every 20 quintals, where each quintal is about 100 kgs. The farmers were not paid immediately too, although the law stipulates that the farmers need to be paid immediately.

The CA would simply tell the farmer to return after a few days for the money. In most cases, farmers were not in a position to turn down CA's offer as they had no alternatives. Farmers returning home with unsold crop would mean a big loss, because they have traveled all day to reach the mandi. They rarely have access to adequate storage facilities. The CA brought the produce to ITC processing facility, where he was reimbursed. Although the price with the CA was fixed by the ITC, the CA was free to procure it at a lower price, and keep the difference.

As the soybean procurement of IBD was well below supply level and requirement levels, it could have considered importing soybean. However the feasibility of importing depends on its pricing. ITC could have also applied for commission agent either in the name of the company, or in the name of its executives. This way the soybean can be procured at farmer's sale price. IBD could have also considered using other group agencies, like agencies and associates in paperboard, retail, tobacco and others as its e-choupals.

This way all ITC's network can be utilized for the IBD's choupal. As most of these agencies already have some or most of the required infrastructure, the company's investment is less. Also, since they already have links with ITC,

they can be better trusted for integrity and performance. However making use of agencies and associates of other group businesses may not be welcome since other ITC businesses are doing extremely well. Most agencies would prefer to expand their existing ventures rather than embarking on a venture that is associated with servicing the farmers.