

# Going Direct to the Farmer: ITC's *eChoupal* initiative

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## Background and Credits ...

- 1<sup>st</sup> year MBA project course at Michigan
  - 1<sup>st</sup> phase (Mar-Apr, `03): documentation of eChoupal concept [C.K. Prahalad and MBA students]
  - 2<sup>nd</sup> phase (Mar-Apr, `04): Rural retail [*myself w/ MBA students*]
- Client site:
  - Mr. S. Sivakumar, CEO (International Business Division)
  - Several others ... employees, farmers
- Presentation material
  - S. Sivakumar (talk at Michigan at the Asia Business Conference, Feb. `04)
  - Report of the 1<sup>st</sup> phase MBA project
  - Dave Upton (HBS case / draft teaching note)

## The New Indian Economy

- Forex Reserves : \$ 100 Bn
- GDP Growth : 7%
- Emergence of Indian MNCs
- India as a Destination of Choice
  - For Outsourcing
  - Billion People Market



## Rural India: The Real India

- 720 Million Consumers
  - Potentially a Huge Market
- ➔ Greater than 70% of population; less than 30% GDP
  - Small Wallets
- 156 Million Hectares of arable land in 36 rich & diverse agro-ecological zones
  - Potentially Food Factory to the World
- Government(s) spend a lot of money in developmental activities
  - Results not consistent with the resources

*Indian Farmer as a producer & consumer ...*

## Bottom of the Pyramid



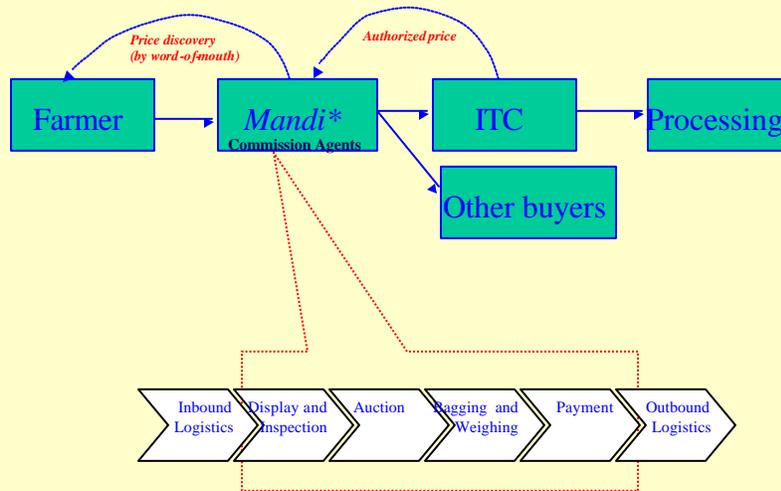
*Is there a Fortune here? Or just some Minor Change?*

Source: Prahalad and Hammond, "Serving the World's Poor Profitably", HBR, September 2002.

## Typical Character of Rural India

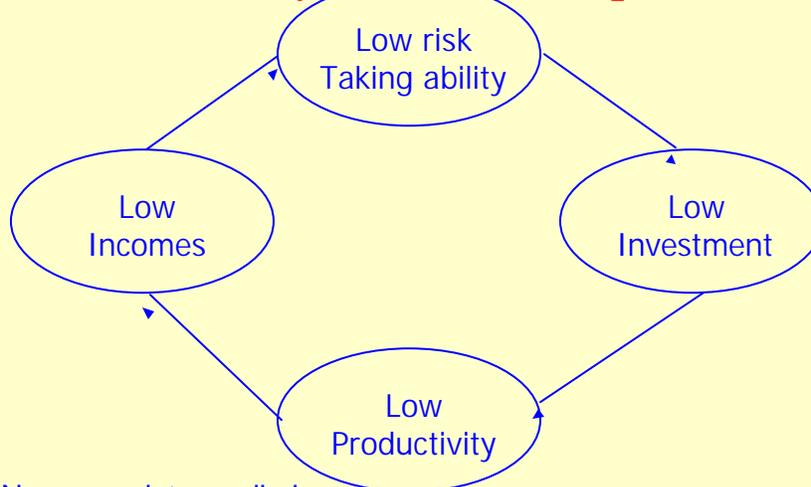
- ◆ Plight of a rural Indian farmer
  - Fragmented (avg. 1.5 hectares)
  - Geographically Dispersed
  - Heterogeneous
  - and
  - Weak Infrastructure
  - Monsoon Dependent
  - Numerous Intermediaries

## Traditional Soybean Supply Chain



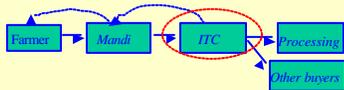
*Mandi: A government mandated market-yard where farmers sell their crops; [Agricultural Products Marketing Act of India]*

## ...Created a Cycle of Low Equilibrium



➤ **Numerous intermediaries...**

- ...necessary, as they make up for lack of infrastructure
- ...evil, as they block flow of information and run an exploitative cycle of dependency through linked transactions



## ITC Limited



- The ITC Group is one of India's largest private sector companies with a market capitalization of approximately US \$ 4 billion and annual sales of US \$ 2 billion.
- ITC has a diversified presence in cigarettes, hotels, paperboards, specialty papers, packaging, agricultural products, branded apparel, packaged foods & confectionery, greeting cards and other fast moving consumer goods (FMCG).
- The **I**nternational **B**usiness **D**ivision (IBD) of ITC, started in 1990, exports agricultural commodities such as soybean meal, rice food grains (basmati & non basmati), wheat & wheat products, lentils, and coffee
  - Liberalization, Competition, Commodity Markets, Low margin business
  - Corporate Challenge: GROW THE BUSINESS or EXIT

## Go Direct to Farmer ... eChoupal concept

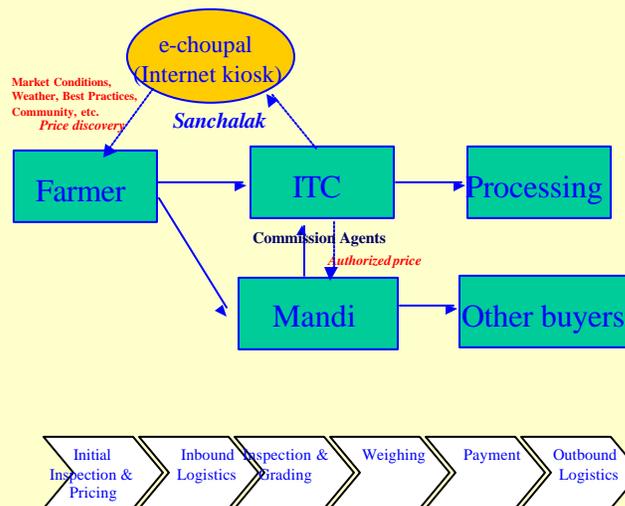
*Choupal: a village gathering place*



➤ *eChoupal: IT-enabled choupal*



## Reengineered Supply Chain via eChoupal



## Value for the Farmer through Unbundling !!

- The Traditional Alternative : Mandi
  - Auction – an Ideal price discovery mechanism for fragmented operations, but gets the wrong end of the stick due to sunk transportation cost
- The eChoupal Alternative
  - Farmer knows the sale price for his produce even before he leaves the village through online real-time information
- ✓ Empowerment through unbundling information from transaction

## ...And through Bundling !

### ➤ That bundled

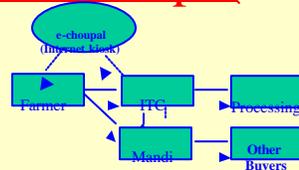
- Knowledge (what to use) and
- Information (when to use), with
- Transaction (ordering an input)

to deliver unique value to the farmer

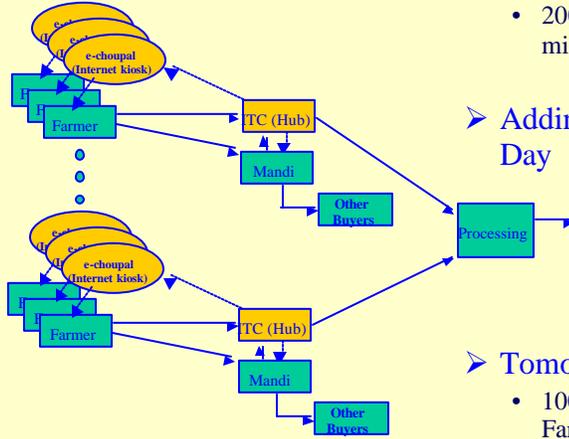
- ✓ “Customised” Knowledge despite Heterogeneity
- ✓ “Real-time & Relevant” Information notwithstanding Geographical Dispersion
- ✓ “Low-Cost” Transaction even for Small Scale

## The Privileged Assets of eChoupal

1. Farmer's Trust
2. Technology Infrastructure:
  - a. Computer
  - b. Internet
  - c. Multimedia
  - d. Broadband
3. Physical Reach:
  - a. eChoupals within walking distance of a farmer
  - b. Multipurpose warehouse hubs within tractorable distance
4. Key Relationships:
  - a. **Sanchalak** (1 per cluster of 5-6 villages) 2000/state
  - b. **Samyojak** (1 per group of 40 echoupals) 50/state



## eChoupal : The Scale



➤ Today:

- 3300 Kiosks / 20,000 Villages / 2m Farmers
- 2003 Transactions : US\$ 100 million

➤ Adding Six New Kiosks Every Day

➤ Tomorrow:

- 100,000 Villages / 10 million Farmers
- 2010 Transactions: US\$ 2.5 Bn

### Business Line

INTERNET EDITION

Date: 20/05/2004 URL:  
<http://www.thehindubusinessline.com/2004/05/20/stories/2004052002650400.htm>

#### e-Choupal bags inaugural 'World Business Award'

**Our Bureau**

Kolkata , May 19

ITC Ltd's Internet-based rural project, 'e-Choupal', has won the inaugural 'World Business Award' instituted in support of the United Nation's Millennium Development Goals, says an official release by the company here on Wednesday.

Announced in Paris on Monday, the worldwide business award recognises the significant role business can play in the implementation of UN's targets for reducing global poverty by 2015.

The award will be presented to ITC at the ICC (International Chamber of Commerce) World Congress on June 8, in Marrakesh, Morocco.

Selected from 64 nominations in 27 countries, the 'e-Choupal' project has been specially recognised for making a "significant contribution to society by deploying innovative and productive skills of a business enterprise and striving to address the challenge of development through a core business activity."