

OUTLOOK Business

70 Outsourcing Farming

It's no longer about captive farmlands. Companies like Pepsi are providing outsourced farm services to other companies as well

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SELL BETTER CONTRACT FARMING

Sudipto Dey

IT DOES NOT TAKE MUCH CAJOLING TO MAKE Surjit Singh Sekhon, Mohinderjeet Singh, Sukhjot Singh and Satinder Singh break into a bhangra jig—that too, amid their lush green paddy fields, situated just off the Jammu-Pathankot highway, around 20 kilometres from Jalandhar town. They are expecting a good harvest in mid-October, the price of Basmati rice has shot up by 30% in the last one year, and so have their income-generating prospects—understandably, they are in good spirits.

They are part of a growing tribe of 4,000-odd farmers across Punjab and Rajasthan

who sell their produce directly to buyers, at competitive market rates. In this case, the pre-contracted buyer is LT Overseas, a leading rice miller, exporter and owner of the popular Daawat brand. LT Overseas will pick up the rice—around 20,000

tonnes—and will process, package and ship it to the Middle East, Europe and the US. "Prompt payments and the absence of middlemen are added incentives," says Sekhon, who has around 20 acres of land under paddy cultivation.

In neighbouring Rajasthan, some 1,300-odd farmers growing barley in Ganganagar and Hanumangarh districts have similar reasons for good cheer. Spirits major UB Group is offering them a 75-80% premium (over the government-mandated minimum support price) for growing barley for the brewing industry.

This year, UB plans to meet 5-10% of its annual requirement for barley from 10,000 acres under cultivation in Rajasthan. "We want farmers to treat barley as a commercial crop," says RK Jindal, who heads the malt division at the group. The 30-40% jump in barley prices over the last couple of years has also come as a booster shot to these farmers.

And Now, Farm Process Outsourcing

Outsourced contract farming, where one company tells another to help grow and procure specific farm produce, may spell big bucks for all



REAPING THE BENEFITS Over 4,000 farmers in Punjab and Rajasthan are reaping the benefits of commercial contract farming

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DIRECT SEEDING

Experimental Grain

RENEWED CORPORATE FOCUS IS helping Indian agriculture experiment with innovative practices. For instance, direct seeding in paddy cultivation is just about taking off in select areas of Punjab and Rajasthan.

While traditional paddy cultivation requires about 7,500 kilolitres of water per hectare, direct seeding could help reduce overall water consumption by around 30%. This is because direct seeding, at one shot, combines the tilling, seeding and fertiliser input stages by using a specially-designed machine. By cutting back on additional hands during the tilling and transplanting process, farmers save on labour costs.

"This is an added incentive, especially when labour costs have doubled in the last one year," says Surjit Singh Sekhon from Jalandhar, who used direct seeding techniques on about 2.5 acres of his land. Next year, he plans to use the method on at least 12 acres. Many more farmers from Sekhon's village have evinced interest in the direct seeding technique.

Outsourced Grain

Such stories of contract farming are, by now, quite commonplace in rural India, but there is something unique to both examples.

LT Overseas does not deal with the paddy farmers directly, nor does the UB Group with barley growers. Instead, it is soft drinks and snacks major, Pepsi Foods, that handles the entire contract farming business for the two companies. This includes roping in farmers, giving technical support and connecting them to buyers.

For many years now, Pepsi has been working with potato farmers for raw material that go into its snacks sold under the Lay's brand; but that has been for captive use. However, its partnership with farmers to grow paddy and barley are intended for commercial sale to specific buyers. This is a fairly new phenomenon and may be categorised under farm process outsourcing.

In fact, Pepsi has been among the first ones to adopt commercial contract farming. Others, such as Bharti Del Monte and Mahindra Subhlabh Services, the agri-business arms of telecom behemoth Bharti Group and auto major Mahindra & Mahindra, respectively, are fairly new to this field.

Bharti Del Monte is working with over



ON A NEW GROUND:
Direct seeding machines reduce water consumption in paddy by around 30%

PHOTOGRAPHS: BHUPINDER SINGH

"Farmers can save at least Rs 1,000 per acre in cultivation costs (by direct seeding)," says Amit K Bose, Executive Vice-President (Exports), Pepsi Foods, which has been experimenting with this technique for the past four years. Typically, the input costs of paddy-growing farmers range between Rs 8,000 and Rs 10,000 per acre. Pepsi now plans to spread the use of this technique from the current 700-odd acres to 3,000 acres by 2009.

200 farmers in Punjab, Rajasthan, UP and Maharashtra for baby corn and sweet corn cultivation. Over the next one year, it plans to extend the area under baby corn cultivation from 600 acres currently to 1,000 acres. It will also bring to market 15,000 tonnes of baby corn and sweet corn this year; around one-third of that would be exported to overseas markets.

"Over the last two years, farmer incomes have gone up by 30-40%," says Rakesh Bharti Mittal, Vice-Chairman, Bharti Enterprises, and the man who heads the group's agri-business division. In Maharashtra, Mahindra Subhlabh Services is playing a key role in offering extension support and marketing services that help grape growers tap the European markets.

Widening Footprint

Having tasted success with this method, farmers, buyers and commercial contract agencies are looking to extend their footprint. In Rajasthan, Pepsi is planning to bring another 4,000 acres under barley cultivation by next year. The UB Group has an annual requirement of more than 100,000 tonnes of barley, and wants to meet 70% of its requirements through contract farming

over the next four years. However, that is Pepsi's headache, not UB's. Punjab, Haryana, Karnataka and UP are the other states where efforts are on to bring more land under barley cultivation, says UB's Jindal.

As for paddy, after Punjab and Rajasthan, UP is the next halt for Pepsi. It has 23,000 acres under paddy cultivation in Punjab and Rajasthan, and plans to add another 4,000 acres, with a major thrust on the direct-seeding method (See box).

Such arrangements bring in the benefit of outsourcing into farmlands. Companies like LT Overseas and UB can focus on their respective core competencies, leaving the agricultural linkages of their businesses to Pepsi. For Pepsi, more such outsourced deals help increase economies of scale. The economic rationale for this model is not very different from that of independent service providers in the BPO space. As modern retail formats gain momentum, specialist commercial contract farming institutions will start feeding multiple retail entities. In fact, these retail chains, hotels and quick-format restaurants are fuelling domestic demand for contracted produce.

"Only when modern retail formats in the domestic market are able to generate enough volumes for fruits and vegetables will the business of non-captive contract farming become sustainable," says Abhiram Seth, who was until recently heading Pepsi's contract farming initiatives in the country, but quit to turn a farming entrepreneur.

Seth is now involved in a project to grow a type of seaweed in coastal Tamil Nadu, which will be exported for industrial use. The project could employ up to 50,000 people, over the next five years. Seth is backing his entrepreneurial instincts, which whisper that commercial contract farming could be the next big business opportunity. ■