

THE FIELD SUPPORT PROGRAM
LEARNING ON OUTGROWING INITIATIVE

A CASE STUDY
ON
ITC'S CHOUPAL FRESH VEGETABLES
OUTGROWER PROGRAM
INDIA

Presented by:
Vikas Choudhary
Consultant

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Abbreviations

APMC	Agriculture Produce Marketing Committee
GMED	Growth Oriented Micro-Enterprise Development
ITC-IBD	ITC-International Business Division
SKU	Stock Keeping Units
USAID	United States Agency for International Development

1. Introduction

The rapid development of the organized food retail sector (modern supermarkets, hypermarkets and specialty stores) is a significant indicator of the economic and cultural revolution that India is undergoing. According to the findings of a recent joint study conducted by the Federation of Indian Chambers of Commerce and Industry and Ernst and Young, organized retail sales will rise from the current five percent of total retail sales to thirty percent over the next ten years. Another study by Deloitte, Haskins and Sells indicated that organized food retail grew at an unprecedented rate in 2007, accounting for eight percent of total retail sales compared with five percent in 2006. The burgeoning consumer preference for supermarkets has its roots in the rise of the urban middle class. Most major corporate houses, multinational companies and Indian retail companies are actively engaged in the sector and competing for a larger slice of the pie and this growth in organized food retail provides significant opportunities, and challenges, for small-scale Indian farmers who may become preferred suppliers – or be marginalized – by this emerging food value chain.

This case study describes the experiences of one food retailer, ITC, in expanding its outgrowing activities to the fresh vegetable sector. The study describes ITC and its incentives for outgrowing and presents the structure of its outgrowing operation and its successes and challenges. Finally, it describes the role that GMED, a development organization, played in facilitating the expansion of ITC's outgrowing operations.

2. ITC: The Lead Firm

ITC, one of India's largest corporations, has diversified business interests in the cigarette, tobacco, pulp and paper, hotels, IT, retail and agribusiness sectors. According to ITC's 2008 annual report, its gross turnover was 213.55 billion rupees (US\$4.8 billion) and its net profit after tax was 31.20 billion rupees (US\$.71 billion). ITC-International Business Division (IBD), one of the largest commodity traders, has set up an e-Choupal system⁸ for directly procuring soybean, coffee, wheat, rice, grains, pulses, shrimp and other seafood directly from farmers.

Choupal Fresh is a new ITC-IBD horticulture retail venture, originally conceptualized as cash and carry stores that would wholesale fresh produce primarily to pushcart vendors, but also to various retailers and institutional buyers. The venture began with three pilot outlets in Chandigarh, Hyderabad and Pune. Though individual consumers flocked to the stores when they opened, there was an almost complete lack of acceptance by pushcart vendors. Since sales to consumers earned high margins, the outlets changed focus to concentrate primarily on retail sales, though some wholesaling continued. In addition to the Choupal Fresh outlets, ITC has entered into agreements with several other retailers to manage the fresh produce category in their stores under shop-in-shop arrangements. Besides these two arrangements, ITC has developed

⁸ ITC has initiated an e-Choupal activity that places computers with Internet access in rural farming villages to serve as both a social gathering place for exchanging information (choupal means gathering place in Hindi) and an e-commerce hub. What began as an effort to re-engineer the procurement process for soy, tobacco, wheat, shrimp and other cropping systems in rural India has created a highly profitable distribution and product design channel for the company—an e-commerce platform that is low-cost fulfillment system focused on the needs of rural India. (http://www.digitaldividend.org/case/case_echoupal.htm)

linkages with several institutional buyers (hotels, caterers, hospitals etc.) that regularly buy in bulk.

Fresh produce is a *destination category*, meaning it attracts customers to the retail store. While many grocery items are purchased only once in a fortnight or month, fresh produce is purchased every second or third day. Though fresh produce attracts consumers to stores, it can be a *loss leader*⁹ that needs to be sustained and subsidized by sales of other products. Many emerging retail players initially focused only on retailing fresh produce, but soon realized that fresh produce alone might be insufficient to meet bottom-line targets—they needed to diversify their product offerings to meet consumer needs. As an example, Reliance Fresh, another major Indian retail operator, started with 100 percent fresh produce but has reduced that to 40-50 percent of their SKU (Stock Keeping Units) with the other 50-60 percent comprising other groceries. ITC has now moved in that direction and begun selling other groceries in addition to fresh produce.

ITC Fresh Produce Venture: A brief overview

Location	Choupal Fresh	Store-in-Store Arrangements	Collection Center	No. of Farmers
Hyderabad	6	10	2	125
Pune	2	4	3	315
Chandigarh	2	1	2	310

(Source: Interview with ITC staff, July 2008)

3. Incentives for Outgrowing

India currently is going through a retail revolution with multiple competing players vying for consumer attention. ITC decided to differentiate itself from its competitors on the basis of its produce price and quality. ITC felt that a well-integrated and efficient supply chain with greater control over production processes was a prerequisite for delivering quality produce to its consumers. Furthermore, ITC has a corporate philosophy of *creating enduring value* for all stakeholders in the supply chain, from producers to consumers. ITC was one of the first Indian companies to enter into a large-scale, direct procurement arrangement with farmers through its e-choupal platform¹⁰, which allows it to reach more than four million farmers in over 40,000 villages who grow soybean, coffee, wheat, rice, pulses and shrimp through nearly 6500 kiosks across ten states in India¹.

All these factors prompted ITC to enter into a direct relationship with vegetable farmers; however, it had no prior experience procuring from horticulture farmers, who often have different attributes than grains / commodity farmers. ITC felt that horticulture farmers were more commercially-oriented, closer to the market and would respond more favorably to market demands and trends than grain / commodity farmers. Furthermore, fresh produce market

⁹ A loss-leader is a commodity that retail stores offer at or below cost to attract customers. This is a retail concept that sets prices on certain items at a loss and then widely advertises them to draw trade into the store. The loss is considered a cost of promotion that is offset by profits on other items sold.

¹⁰ Through its e-choupal platform, ITC places computers in villages where farmers receive information on crop prices that ITC is willing to pay. Based on this information, farmers transport their produce to ITC procurement sites where ITC purchases it in a transparent fashion and at a favorable price.

dynamics and farm-level production dynamics are very different from those of grains / commodities, requiring a more intensive, interactive system of outgrowing in which farmers are much more integrated with ITC than those producing grains / commodities.

4. Structure of Outgrowing Operations

Unlike some of its competitors, ITC is a conservative company that takes a pragmatic and calculated risk approach to new ventures. Its 2008 annual report mentions the piloting of Choupal Fresh stores, stating that “the business intends to further strengthen its farmer linkages and its expertise in the management of perishables before scaling up the business”. Unlike competitors who embarked on a strategy of rapid and massive scale-up of their retail operations, ITC’s strategy relied on modeling, testing, learning, improving, and consolidating its business model in a few locations before expanding operations. ITC believes that a large-scale roll out should happen only after the business model has been perfected. In keeping with this methodical approach, ITC’s fresh vegetable outgrowing operations have evolved during the three years since inception.

This paper outlines current ITC fresh vegetable outgrowing operations without analyzing its evolution. ITC tried multiple formats for procurement and sales since 2006 before arriving at the present configuration. In 2005, ITC signed an MOU with USAID’s Growth Oriented Micro-Enterprise Development (GMED) project to help set up and support ITC’s outgrowing operations. Since then, GMED has been advising ITC and building the technical and management capacity of its staff to better integrate smallholder farmers into their operations (see section 7). The present model is still a work in progress and ITC is incorporating what it is learning into the model to make it more robust. ITC believes in decentralized operations and giving operational freedom to regional managers. Though this has led to slight variations in its outgrowing operations in the three different locations, the overarching outgrowing structure is basically the same.

4.1. Organization

Before establishing its outgrowing operations, ITC contracted with institutional suppliers to supply fresh and exotic fruits, onions, potatoes and a variety of vegetables to its Choupal Fresh stores. The seasonal nature of operations and relative geographical concentration of production in a few locations led to the outsourcing of fresh produce. For the bulk of vegetables it procured, ITC entered into direct relationships with vegetables growers in certain clusters¹¹ close to its retail centers. For now, ITC’s outgrowing operation is restricted to fresh vegetables and it procures only 10 percent of the total vegetable production of its farmers. Farmers sell the remaining 90 percent of their produce to alternate markets. ITC expects procurement volumes to pick up gradually following expansion of its retail operations and hopes that in future they will be able to purchase the bulk of the outgrowers’ production. Currently, ITC’s purchase of fresh produce is 2.5-3 tons per day per store on weekdays and 3.3-3.5 tons on weekends; fresh vegetables account for 1-1.5 tons. ITC’s outgrowing structure consists of a village collection

¹¹ For the purposes of this paper “clusters” refers to the geographic areas where ITC is carrying out vegetable outgrowing operations with farmers.

center, ITC field extension staff, lead farmers and small vegetable farmers. Appendix 1 presents a diagram of ITC’s outgrowing structure; each unit of the structure is described in detail below.

Collection centers: ITC currently operates two collection centers in Hyderabad, three in Pune and two in Chandigarh, all of them located within a 60-120 km radius of its retail outlets. ITC currently procures 30-35 types of vegetables daily from these collection centers. Farmers in roughly 20-25 villages within a 30 km radius supply fresh vegetables regularly to the centers, which accept fresh vegetables from 9 am to 4 pm. Most farmers bring their produce to the collection centers in small vehicles or tractors. ITC supplies crates to some of their trusted and regular farmers, while others bring vegetables in gunny bags or their own packaging material. ITC’s collection center staff grades and sorts the produce on the spot and procures only Grade A vegetables from the farmers. ITC is working with farmers to help them see and understand the differences between Grades A and B and ensure they bring only Grade A produce to the centers.

According to ITC management, this transparent, on-the-spot grading system is very empowering for the farmers. Since ITC buys only Grade A produce, it saves time and money in grading and sorting operations at the retail end and enables the firm to deliver only the best and freshest produce to consumers. On the other hand, after seeing this grading a few times farmers are cued into the ITC system and have the incentive to produce and bring only their best quality produce to the collection centers, which can make grading and sorting redundant.

ITC extension staff: ITC has created a cadre of staff to provide extension services to farmers to ensure a consistent supply of quality fresh vegetables. Each collection center has an agriculture extension officer supported by two extension agents. The extension officer is usually a professional agriculture graduate with extensive training and experience in delivering agronomic advice to farmers. Extension agents are young, educated members of local farming families who have several years farming experience. ITC recruits and trains these young people in extension methodologies.

Lead farmers: ITC enrolls lead farmers in all its clusters. These progressive farmers are early adopters of new technologies and production techniques who significantly influence other farmers. Lead farmers reduce transaction costs for ITC while allowing it to control production and improve product quality and supply chain efficiency. Each lead farmer supervises the production of 15-20 farmers and provides them with technical and other information and knowledge. ITC envisages that, in future, lead farmers will be the firm’s main coordinators for scheduling outgrower production.

Farmers: Currently, more than 740 farmers supply fresh vegetables to ITC in its three different locations. The majority of these farmers are smallholders with less than two acres of land who have been engaged in vegetable farming for a number of years.

4.2. Technical assistance

ITC has initiated and successfully implemented many activities to improve the quality and quantity of the fresh vegetables produced by its outgrowing operations farmers. Some major activities are described below:

ITC demonstration plot: ITC has set up demonstration plots on lead farmer's land in the Pune and Chandigarh clusters to showcase the efficacy of different agronomic practices. ITC extension agents train and supervise lead farmers in creating and managing the plots and farmers visit them to learn about and adopt practices the lead farmers are using. In Hyderabad, ITC leased some land in the villages and set up company-owned and managed demonstration plots. Many farmers come to these demonstration plots to see the effect of different practices and ITC plans to organize field days to systematize the learning process.

Seedling transplantation: The majority of vegetable farmers in India are accustomed to using seeds for vegetable production. However, ITC suggests that setting up seedling nurseries and performing seedling transplantation, instead of direct sowing of seeds, is a good agriculture practice. A few initially skeptical farmers began adopting the practice and soon most farmers in the villages, including those who were not part of the ITC outgrowing arrangement, accepted the seedling transplantation practice. In a few villages, this practice is now the norm and entrepreneurial farmers who switched from vegetable production to seedling production in nurseries now sell the vegetable seedlings to other farmers. While farmers in the Hyderabad clusters were slow to adopt this practice, farmers in Pune and Chandigarh clusters picked up on it much more quickly.

Input supplier linkages: The availability of good quality inputs has long been a major constraint for many farmers. ITC developed links to companies such as Syngenta, Bayer, and others to ensure a consistent supply of good quality inputs to ITC clusters. In some cases, ITC procured inputs from the companies and supplied them to the farmers directly while in others, the suppliers used lead farmers as the distribution channel to sell inputs to individual farmers. In the Pune cluster, ITC leveraged Syngenta's existing input center to ensure supply of good quality seeds to its farmers. Bayer currently provides plant protection assistance and is testing new products in the Hyderabad cluster demonstration plots. A few local suppliers are also selling organic enhancements directly to lead farmers in the villages.

Improved agronomic practices: ITC has introduced many new agronomic practices to participating farmers, including soil and water testing, installation of tray nurseries, shade netting for appropriate crops, raised beds with plastic mulching, staking of vine plants, use of implements to ensure uniform planting depths, spacing, proper field preparation and similar measures. The introduction of drip irrigation and *fertigation* – applying fertilizers through an irrigation system – proved to be very important under Indian cropping conditions. ITC farmers have adopted many of these practices, resulting in higher production and better quality produce.

- **New Varietals Introduction:** Farmers in the production clusters have adopted more than 30 new varieties of vegetables and ITC introduced certain exotic vegetables in a few lead farmer plots.
- **On-farm Extension Services:** ITC provides regular on-farm extension services to participating farmers and its extension officers and agents periodically visit and monitor production and provide farmers information on general and specific issues. Farmers' input costs and production losses due to pest and disease have decreased considerably due to the timely availability of expert advice from ITC extension services.

There are some variations between the three clusters with which ITC works. Farmer adoption of new agronomic practices is quite low in Hyderabad clusters, while those in Pune and Chandigarh clusters have adopted, replicated and scaled-up several new agronomic practices.

4.3. Contracting and pricing strategies

Contractual arrangements: ITC-IBD’s Chief Executive Officer Mr. Shivakumar once remarked that, “We are more into *contact farming* and not *contract farming*...We handle the whole exercise very differently. We are in constant touch with the farmers who sell us produce.”ⁱⁱⁱ ITC did not enter into a formal legal contract with any of its outgrowers. Instead, ITC enrolled a group of farmers in each cluster who voluntarily agreed to abide by the terms and conditions of the informal arrangement between them and ITC. The informal contract was verbal and based on trust and a proposed long-term, mutually beneficial relationship. When it enrolls farmers, ITC explains that it provides extension services, seedlings and crates to farmers. ITC promises to procure Grade A vegetables from farmers and, in turn, it expects farmers to grow them according to plan and sell their produce to ITC. Conflicts are resolved by dialogue and discussions.

Pricing: Instead of a fixed, pre-determined price, ITC follows a *dynamic market reference* pricing policy. ITC staff compiles the prices of reference mandis¹² every evening and offers the same prices to the farmers at its collection centers the next morning. This means that farmers can get mandi prices at a collection center near their village. Though ITC deducts packaging and transportation costs (10 percent), which farmers would incur if they sold directly in the mandis, they do not have to pay mandi tax or loading and unloading charges and it saves them time. Farmer’s net earnings increase four to eight percent when they sell directly to ITC at collection centers.

4.4. Incentives for farmers

Increased productivity, lower cost, improved technology and on-farm advice and support are some of the biggest incentives for farmers to work with ITC outgrowing operations. During ITC pilot operations, farmers experienced reduced production costs averaging 16-18 percent, significant quality improvements, productivity gains and net income increases averaging more than 30 percentⁱⁱⁱ.

5. Fundamentals of Success

ITC feels it is still in the learning phase and its outgrowing model is far from perfect. Though it has yet to claim outgrowing operations a success, ITC thinks a few key issues have contributed to its accomplishments thus far.

- 1. Demand Pull:** Demand pull, i.e. when demand exceeds supply on the retail end of the operation, it is a significant driver of successful outgrowing operations. Initially, demand was lower than ITC expected it to be and it could not purchase the volume of produce that farmers expected to sell, and this led to frustration and disillusionment. However,

¹² Mandis are the government mandated auction houses where Indian farmers sell much of their agricultural production.

when retail operations picked up and demand for its fresh produce increased, ITC was able to procure more vegetables and re-establish its relationship with its outgrowers.

2. **Clear communication:** During the initial phase of the operation, there were cases when lines of communication between ITC and its outgrowers were not very clear and led to a breakdown of trust. Once it realized the reason for this, ITC directed extension agents to communicate frequently and clearly with farmers and provide them information on major decisions, procurement plans and demand schedules. This led to increased trust and stronger relationships between the outgrowers and the company.
3. **Seeing is believing:** Demonstration plots have been one of the most successful strategies for changing farmers' agronomic practices. Farmers who were very reluctant to change the way they did things adopted new practices after seeing the demonstration plot results. The plots also strengthened trust and relationships between the company and outgrowers.

6. Major Challenges

ITC has faced numerous constraints and challenges in its outgrowing operations; those that have yet to be fully resolved could present serious bottlenecks to operational growth.

1. **High attrition rate of field staff:** Finding and maintaining skilled and experienced human resources is one of ITC's greatest challenges. Trained agribusiness professionals are in short supply and in great demand in India, leading to a high level of attrition and frequent staff turnover. Since 2006, ITC has recruited many field managers and extension officers and agents, but the retention rate is low and few people stay more than a few months. Maintaining good relationships between the company and farmers is critical in contract farming and frequent turnover of field staff breeds discontent and decreases the level of trust in the firm. Every new field person has to start afresh and build relationships with lead farmers and farmers. By the time they and farmers become comfortable with one another, they move on to new jobs. This lack of field staff continuity is a matter of concern for ITC though it has not yet impacted the overall operations and ITC feels the matter is under control.
2. **Uncertain enabling environment:** When deciding on the location of its retail and procurement clusters, ITC was very cautious and selected only areas where the state government had amended the Agriculture Produce Marketing Committee Act (APMC)¹³ to enable direct procurement from the farmers. ITC invested almost two years in working with the Malerkotla cluster in Punjab for its Chandigarh operations. The farmers were very responsive and able to produce to ITC specification and the relationship between ITC and farmers was positive. However, ITC realized that Chandigarh, the capital of

¹³ Under the Agricultural Produce Marketing Committee Act (APMC), farmers were required to sell their products exclusively through government-mandated auction markets, known as *mandis*. Commission agents and brokers handle all *mandi* purchases, often in a collusive fashion. The central government has issued revision to the APMC, providing farmers with alternatives to the *mandi* by allowing them to sell their produce to other buyers, including entering into contract growing arrangements. Agriculture is, however, a state subject in India, meaning that each state must enact its own version of the APMC revision. This is happening, slowly.

Punjab, had its own rules and regulations regarding vegetable procurement when municipal authorities informed it that procuring from Malerkotla cluster farmers violated municipal rules, which do not permit retailers in the city to procure directly from farmers in villages. The authorities directed ITC to procure its vegetables from suppliers in Chandigarh municipality only. This put ITC in a difficult position and to comply with the regulation, it had to shift from Malerkotla – causing heavy losses and the disruption of its relationships with farmers. Uncertainty in the enabling environment puts ITC investments at risk and challenges its ability to continue and expand operations.

3. **Profitability of Retail Operations:** ITC and other major vegetable retailers are still struggling to make their operations profitable. Many companies are incurring heavy losses despite having made large investments and they are struggling to streamline their operations to contain losses. For this reason, ITC has been unable to increase procurement from farmers and expand operations. Management hopes that operations become profitable soon so they can expand.
4. **Side-selling:** ITC procurement volumes are relatively low so side-selling is not an issue and since ITC buys only Grade A vegetables, farmers have surplus produce to sell elsewhere. In fact, ITC farmers sell their surplus to some major ITC competitors. As ITC and other companies increase procurement volumes, ITC management thinks farmer loyalty and side-selling could become an issue.

7. Role of Development Organizations—the ITC Perspective

ITC partnered with the USAID GMED project in 2005 to develop a program for integrating farmers into the ITC Fresh produce supply chain. Fresh produce retail is a relatively new sector in India and there hasn't been much experience integrating farmers into modern retail chains. ITC was looking for a partner who could fill that knowledge gap and the GMED project proposed itself as that partner. ITC signed an initial, 18-month MOU with GMED for the project to assist ITC develop a *Good Agricultural Practices* protocol and train ITC staff to deliver extension services to farmers. GMED helped ITC develop strategies for integrating farmers into its supply chain, designed the demonstration plot interventions, linked ITC to input and equipment suppliers (seed, pest control, drip irrigation, shade nets etc), and proposed the lead farmer–outgrower model.

In 2007, GMED and ITC signed a new MOU focused primarily on training ITC staff to deliver extension services to farmers. ITC employed several educated young farmers as extension agents and GMED provided six months of training for 13 agents—6 in Hyderabad, 4 in Chandigarh and 3 in Pune—in agronomic, post-harvest and farm management practices. GMED's internal staff and external consultants conducted these on-site trainings. Though most of the training was field-based and hands-on, it also included theory and in-class components. The first training lasted ten days and the rest were intermittent and 1-2 days duration. ITC management appreciated this assistance and considered GMED a catalyst that was able to bring in international experience and expertise. The international learning and incorporation of good agricultural practices has been a great help for ITC.

8. Role of the Development Organization—the GMED Perspective

The GMED India program is sponsored by USAID and administered by ACDI/VOCA and its goal is to develop commercially viable, sustainable and scalable approaches to fostering the growth of micro and small enterprises. The project focuses on linking smallholder vegetable and fruit farmers with high-value, well-organized wholesale and retail processing and export markets and helping to build the capacity of farmers to meet the requirements of those markets.

8.1. Company Selection

2004-2006 were quite significant for the Indian retail sector as many major corporate groups entered into the organized food retail sector. Taking a lead firm approach, GMED decided to partner with selected retail players. GMED used several criteria to select the lead firms it would work with:

- Business model
- Scale potential
- Transparency
- Ability to respond to market demands
- Long-term strategy

The initial GMED strategy was to work with a few lead firms, but later it decided to work exclusively with ITC. Supply chain development was an important ITC strategic element and it wanted an exclusive arrangement with GMED. Since ITC did not want GMED to work directly with its competitors, GMED agreed to provide assistance only to ITC for a period of 18 months. The firm and the project agreed that after that time, GMED could partner with other retail players and share its knowledge and experience with the sector as a whole.

8.2. Establishing credibility

It took almost six months from their first meeting for ITC and GMED to sign an MOU. Part of the delay concerned operational issues, but the main reason was the time it took for the two parties to trust one another enough to become partners. GMED was unknown in India and partnering with it and following its advice on how to develop a supply chain strategy could have put ITC at great risk. The GMED team met regularly with ITC during those six months and slowly proved itself; its Chief of Party was a strong manager with over 30 years experience in 25 countries—this piqued ITC’s interest. GMED also brought international consultants and expert professionals from its headquarters office during the initial meetings with ITC, which also helped build ITC’s confidence in GMED’s technical competence and its ability to deliver. Fresh produce procurement from farmers was a relatively new concept in India and ITC appreciated that the GMED team had had done similar work in other countries. Gradually ITC’s trust level and confidence in GMED’s ability grew and they entered into a formal partnership.

GMED was a purely advisory project without grants or loans that provided technical support, including:

- Advising ITC on the design of its outgrowing operations
- Development of criteria for village, lead farmer and farmer selection

- Technical support through international consultants who worked with the ITC team in each of the three clusters
- Development of agronomic practices and a package of practices for dissemination to farmers
- Training of ITC extension agents in delivering agriculture extension services to farmers.

GMED held strongly to the principle that this was ITC's outgrower program and that its primary task was to assist ITC design and implement it. ITC's extension staff served as the real point of interaction with the farmers – the GMED team and its consultants mostly worked behind the scenes and rarely interacted directly with the farmers.

8.3. Cost-share agreements

GMED paid the consultants' fees and their associated costs and ITC paid for the hardware, field-level investments and all field staff costs. This arrangement ensured that ITC was taking responsibility for the outgrowing operations, bearing the majority of costs and making the requisite investments. GMED decided early on that it would focus only on building the technical capacity of the lead firms it supported to ensure partners would not come to depend on GMED. Because it acted as a facilitator and advised clients such as ITC how to set up systems, once those systems were established, they took responsibility for new operations and scaled up on its own.

8.4. Managing collaboration

The GMED project never interacted directly with producers, only with ITC field staff who worked with farmers on a daily basis. GMED assisted ITC not only to change farmer practices and perceptions, but also to change its own corporate culture, management practices and priorities. GMED worked with ITC at three levels:

1. **Strategic—top management:** The project manager and consultants frequently worked with top ITC management, advising and apprising them on outgrower program progress and the procurement strategy and helping them design partnership strategies with other organizations.
2. **Operational—clusters:** GMED staff interacted regularly with the ITC staff, advising them on planning weekly operations and outgrower programs.
3. **Field—extension staff:** The team worked primarily with ITC extension staff, using formal and hands-on informal training to build both their capacity to deliver extension services effectively and their technical competency / agronomic knowledge of different crops and agriculture practices.

In playing a catalytic, facilitative role, GMED ensured that ITC did not come to depend on it to manage their operations. Once ITC field extension capacity was strengthened and a package of practices developed, GMED reduced its role and frequency of interaction with the ITC team and ensured the continuity and sustainability of ITC's outgrowing operations over the short and long term.

Relationship and trust building is a long-term, gradual process and very small mistakes can break relationships that take years to build. ITC built farmers' trust in it through weekly extension staff visits and the results achieved on lead farmer demonstration plots. At the same time, when ITC delayed procuring their vegetables, their trust in the company weakened although eventually it was restored when retail sales picked up and ITC stepped up its procurement. GMED's trust level with ITC was built gradually and increased as ITC began to see the results of its advice in terms of higher quality and quantity of produce from outgrower farms.

8.5. Monitoring

This was a commercial venture for ITC and it was committed to making the requisite investments to ensure commercial success. However, the outgrowing operations supplied only part of the produce it needed for its Choupal Fresh retail operations. It faced challenges to ensuring the agreed-upon investment in the outgrower programs, especially in view of the frequent turnover of its field-level staff and administrative mechanisms. Sustaining its committed investment became even more difficult for ITC when it went through a cost-cutting exercise to reduce losses incurred in its retail venture. Once its retail sales picked up, however, ITC renewed its committed investment to the outgrowing operations.

GMED met regularly with top ITC management to ensure that work was progressing as planned. These meetings also served a monitoring purpose and GMED consultants and staff visited the field with ITC staff periodically and established a feedback mechanism to monitor program progress. The GMED team felt it would take a year or two (or three to four cropping seasons) before the company developed systems and practices that could ensure a successful and sustainable outgrowing operation. GMED also felt that technical support from a development organization could be useful and necessary during that time.

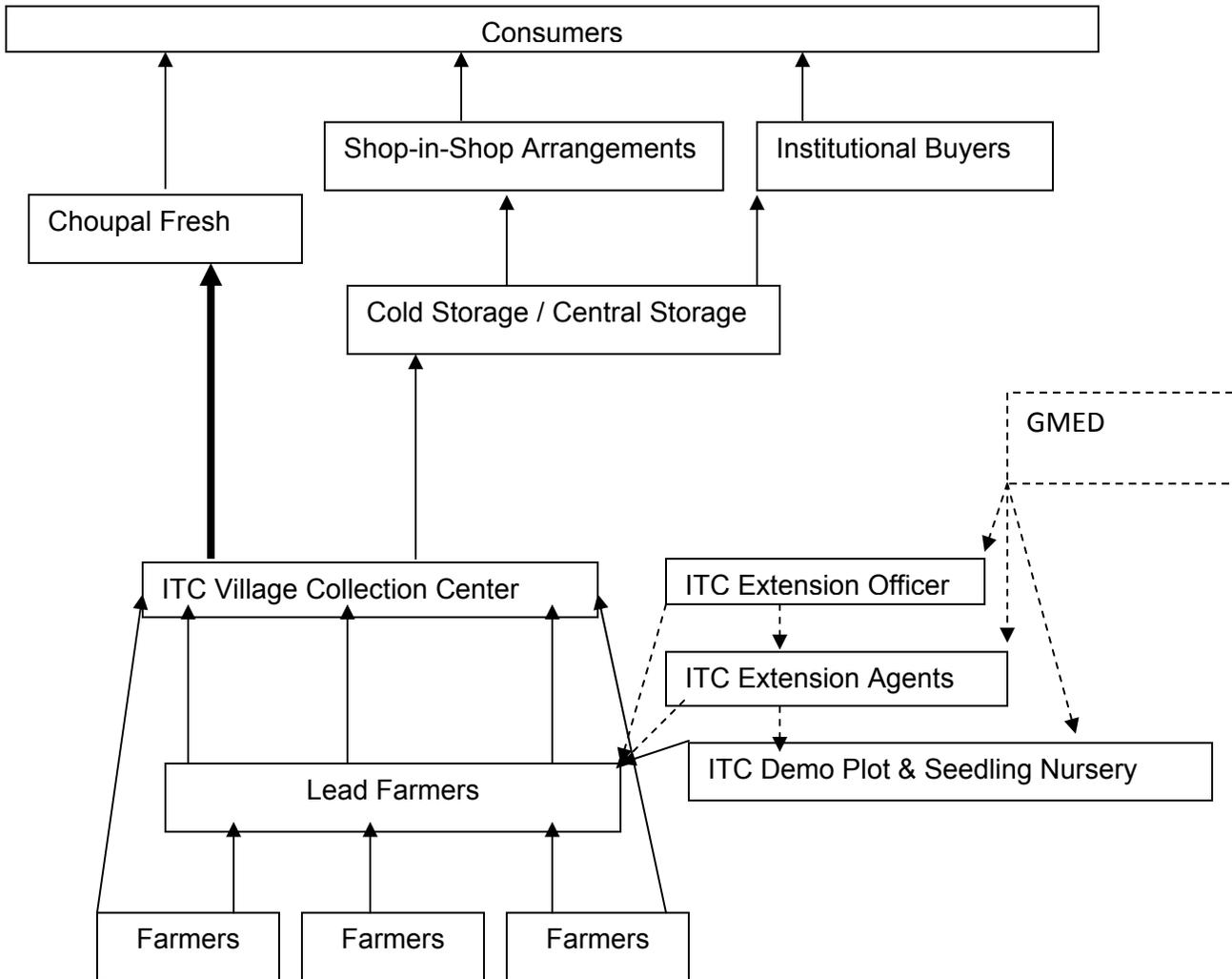
8.6. Capacity-Building Activities

GMED conducted numerous capacity-building activities for ITC field staff, who then provided farmers with training and extension activities. These had very positive impact.

- **Farmer training and extension activities:** The bulk of GMED's focus was on training ITC extension staff to develop a package of practices and provide extension services to lead farmers and outgrowers. This proved very successful; farmers accepted the advice extension agents provided, improved their productivity and reduced their losses.
- **Demonstration plots:** The success of demonstration plots played a crucial role in building farmers' trust and confidence and in facilitating their adoption of specific agronomic practices such as the use of mulch, adequate spacing and seedling transplantation. GMED advised ITC that demonstration plots should be one of the first entry-level activities in selected villages and in some, even farmers who were not a part of the outgrower program adopted the improved practices, thus broadening the development impact.
- **Promoting linkages with input suppliers:** During the initial phase of the project, GMED helped ITC establish linkages with Syngenta, a major seed supplier; pesticide dealers; and shade net and drip irrigation providers so it could better support its outgrowers.
- **Promoting improved organization / management systems:** The GMED team worked with ITC to design procurement, farmer interaction and field management systems.

The GMED team felt that the ITC outgrowing operations yielded significant dividends, both for the company and its outgrowers, and that ITC, with support from GMED, was able to create a model of integrating smallholder farmers into its corporate supply chain. Although ITC's scale-up and replication didn't happen exactly as planned due to the slowdown of its expansion, the lessons learned during the initial stages lead the team to hope that rapid scale up will happen soon. The GMED staff also is hopeful that other firms such as Reliance and Bharati learn from the ITC experience and adopt similar models and incorporate large numbers of smallholder farmers into organized fresh produce supply chains.

Appendix C-1: ITC Outgrower Model Structure



End Notes

ⁱ ITC's website : http://www.itcportal.com/sets/echoupal_frameset.htm

ⁱⁱ The Economic Times, ITC Plans expansion of Choupal Fresh in the state, 17th January 2007, Mumbai

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