Procurement Challenges at Marico India


Considering that problems in the supply chain are the main reason behind spiraling prices of fresh farm produce and kitchen staples onion and potato in India, the government has fast tracked the plan to ensure smooth supply of such items through alternative chains besides the (Agricultural Produce Market Committee- APMCs)

After an effort spanning two decades to dis-intermediate its copra supply chain—ridding it of exploitative structures and agents—and infuse it with technology platforms for quick, transparent transactions, FMCG major Marico is nearing its holy grail: the enviable situation of dealing with the smallest possible vendor—a marginal farmer with a few coconut palms in his backyard.

For a company that is the largest buyer of copra in India—about 100,000 tonnes a year—and is striving to meet steadily growing demand for its popular range of Parachute coconut oils, reliable, resilient and sustainable in-bound raw material chains are a lynchpin for a crisis-free future.

"Supply chain is also a critical driver of efficiency in today's complex business environment, given the existing cost structures and challenges," says Saugata Gupta, Managing Director of Marico.
1991
Moves buying office from Mumbai to Kozhikode. Buying mostly from Kerala terminal markets.

1994
Starts developing vendor base in Tamil Nadu; gathers steam between 1999 and 2003.

1998
Stops sourcing from terminal markets, which accounts for 45% of its purchases. Instead, contracts with individual traders.

2002
Stops daily price negotiations with traders. Instead, starts thrice-a-day reverse auctions. Lowest bidder informed of accepted quantity and destination factory. Despite blockage by traders, company persists with auction and sourcing from TN.

2003
First company-owned copra collection centre opened in Perambra, Kerala.

2003-05
Introduces Web-based auctions to replace telephone-based auctions. Sophistication of transactions gradually improves.

2006
Integrates Web-based auctions with email-based transactions. Starts e-payments to vendors a day after receipt of copra at factory. Also introduces SMS-based transactions. By year-end, 95% vendors opt for e-payments.

2013
Launches pilot collection centre to convert coconut to copra.
The difficult years spent to “broad-base supply” has evidently borne fruits for the company feted for its supply chain innovations. The unveiling of a pilot collection centre near Madurai in Tamil Nadu— where farmers can troop in with their ‘raw’ coconuts—is a milestone.

Earlier, Marico would buy only copra—coconuts sun-dried by its vendors. This migration from copra to coconut is significant.

**One-Stop Shop**
This collection centre, one of the thousands it has, has machines to de-husk, de-shell and dry coconuts. Farmers disinclined or unable to convert their coconuts to copra can sell their produce here.

"It was a game-changer," says Jitendra Mahajan, EVP and global head procurement and operations, Marico. "Once Marico refines the technology, bring down costs, we will proliferate."

For Mahajan, the Madurai centre was a turning point in streamlining the supply chain and establishing a relationship with the smallest farmer possible, without engaging in contract farming. Marico has suffered during two bull runs in copra—in 2003-05 and in 2008-09—as middlemen salted away copra in warehouses.

From Rs 18,000 a tonne in 2001-02, the price peaked at Rs 52,000 a tonne in 2005. "To break this stranglehold, we set a goal of reaching out to the largest possible mass of people willing to sell," says Mahajan. "Farmers don't usually hoard. Their aim, always, is to sell their produce as quickly as possible and invest in the next crop." Min. support price of Copra announced by Government in 2019 is Rs.99200/-

The procurement head doesn't want to reveal too much about his Madurai experiment, but does say it also addresses a host of present day challenges—like manpower shortage, emblematic to Kerala.

The mechanised drying-conversion process takes just a day at Madurai, a vast improvement from the manual six days, and uses one-third of manpower.

Marico has also been endeavouring to increase productivity among its farmer-partners.

Its cluster farming initiative, which started in Malappuram in north Kerala, has expanded to 61 clusters involving 7,982 farmers covering 1,737 hectares; yields have improved 20%, covering 300,000 palms.

**Trader Pressure**
It's been a long haul for Marico. This dis-intermediating initiative, which began in 1991, is a case study at IIM-Ahmedabad. Professor Saral Mukherjee, in his inimitable style, takes students of supply chain management through Marico's breakthroughs and setbacks.

In the early years, Marico sourced its copra from terminal markets of Kerala—a beehive of agents and unions.

There was the transporter, who doubled up as trading facilitator; traders undertook fumigation, drying and sorting; a workers’ union also sorted; another union filled copra into sacks, and stitched and loaded them; and yet another union stacked the sacks in trucks.
All these activities cost around Rs 1500 a tonne and gunny bags cost another Rs 600 per tonne. Knowing that sourcing from terminal markets couldn't go on, Marico diversified into buying directly from individual traders, who moved truckloads of copra directly to its factory.

Simultaneously, the company started developing a sourcing base in Tamil Nadu to de-risk itself from Kerala.

In 2002, with of reverse auctions, price discovery and a feel of the quantity available became much easier.

This prompted a month-long blockage by Kerala traders. Another tactic adopted by angry traders, to break and discredit the auction system, was to offer copra at lower prices than those accepted by Marico, after auction hours. Marico buyers, however, refused to renge on the high prices contracted.

Professor Mukherjee says traders even complained to top management that the company was incurring losses by buying copra at higher prices.

"We had set up a transparent system, and we ensured the process is never violated," says Mahajan. "Once it was clear that no off line buying would happen, everything fell in place."

A web-based system was also crafted. Marico set up its first copra collection centre in Perambra, Kerala.

It was another significant step in broadbasing supplies and also enabled Marico to rehabilitate smaller agents as centre heads, paying them Rs 150 a tonne as commission.

"It was important to bring them in as they have a connect with farmers and also understand the commodity well," says Mahajan. Today, over 50% of copra procurement by Marico is through its centres; the rest comes from normal trade.

Recent developments in https://tinyurl.com/scnextmarico2019
https://www.slideshare.net/shiveshr1/maricos-supply-chain

Questions:

1. Based on this article and your own research, summarize the procurement challenge Marico was facing
2. Marico used reverse auctions and web based approaches. In your opinion what challenges did it face during implementation. Do you think web based services for a relatively un-savvy farmer worked and how do you think this challenge was overcome with better connectivity now.
3. Middlemen/traders are a very big characteristic of the Indian Market. This is one of the major factors preventing organized retail from growing rapidly and vastly different from the model of most developed western world countries. In your opinion do you think middle-men and traders add any value? Describe if any? Also, explain why it has been so difficult to bypass this system across India? You can use statistics from other industries as well to support your argument
4. E-Commerce in India is a burgeoning industry. A lot of the players also have a direct to seller approach to get best prices. Draw parallels between what Marico did and what E-commerce players are doing. Can Marico learn anything new from e-commerce business procurement practices?

5. If you were Chief Supply Chain Officer at Marico, would you have done something similar? Explain what else you would look into to help improve procurement process and make supply chains more efficient. (Note: only investigate into procurement practices and not other supply chain areas)

Do your own research and come up with innovative solution.