

Social startup models - Can they address the Indian agrarian business crisis?

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Bryan Lee, a student of Kellogg School of Management and Engineer by profession was excited when he got an opportunity to do an internship at I- farms in India. He never thought this experience is going to change his life. As an Engineer working with Accenture, Lee felt that as an Asian American his efforts were not appreciated which forced him to quit the job and to join records label company promoting Asian-American artists. The focus of his MBA at Kellogg was Social entrepreneurship which resulted in his internship in the sub-continent. The Indian experience was an eye-opener for him which motivated him to create a social enterprise "Krishi star" to address the issues faced by Indian farmers. With the changing social, economic and business conditions the biggest challenge ahead for Lee is to manage the risk associated with the farm sector and how to mitigate the risk through his social startup.

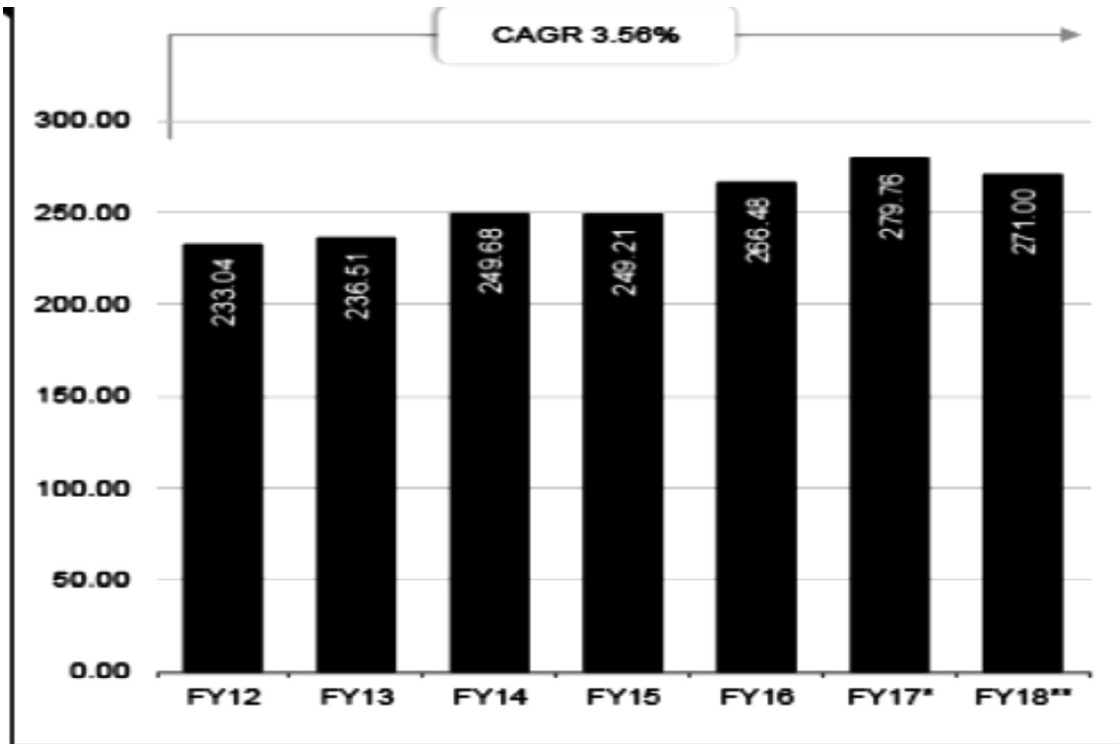
Agriculture in India

Agriculture is the primary source of livelihood for about 58 percent of India's population. Gross value added by Agriculture and allied sectors to the Indian economy is estimated at USD 271 billion in 2018 and contributes 17 to 18 percent to the country's GDP (IBEF, 2019).



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Source: IBEF (2019)

Figure 1: Gross Value added by Agriculture and allied sectors (Source: IBEF,2019)

The country is the ninth-largest exporter for agricultural products as per the 2017 figures. India has the 10th largest arable (irrigated) land resources and 20 agroclimatic regions in the world. The country has a competitive advantage due to the large agriculture sector, livestock base, a long coastline, and inland water resources. Cost advantage in production in comparison with other countries is a positive aspect of Indian agriculture.

Table 1 : Interesting aspects of Indian Agriculture(IBEf,2018)

Particulars	Units	Global Rank
Arable land (million hectares)	161	2
Area under irrigation(million hectares)	55	1
Cattle (million)	3.1	1

The Indian Agriculture sector over the years is witnessing a lot of challenges. Shrinking land base and declining access to land are the important factors that's affecting Indian agriculture. Farmer's access to credit and inputs followed by fair prices for the farm products are other critical problems faced by Indian farmers. According to the 2015-16, Agriculture census, the small and marginal land holding (up to 2 hectares) is nearly 86 % of the total cultivated land in India. These belong to small farmers who lack access to credit, input, output markets and public services like public irrigation, command area development, electricity grids. The marketing system in Agriculture and the role of middlemen also some of the issues affecting the agriculture sector in India. Low Productivity in comparison with other countries is a major challenge for the sector. The key opportunities in the sector are farm management services, supply chain infrastructure, cold storages, and food processing.

Agriculture supply chain system in India - Issues

The agriculture supply chain in India is long and highly fragmented. It consists of village traders, commission agents, contractors, and wholesalers, etc. There are large no of intermediaries(refer Figure-2) in the chain which adds little value to the product but increases the final cost and price. There are limited linkages in the chain which is one of the critical issues in the supply chain. Some of the other constraints faced are poor infrastructure facilities, lack of transparency in pricing, inept grading, low level of food processing, high post-harvest wastages, non-availability of largescale cold storages, poor capacity utilization, and fragmented producers. In recent years, the emergence of coordinated supply chains resulted in the development of structured relationships between producers, traders, processors, and buyers. This enabled quality, timely delivery and fair price for the producer. It also involved information exchange, assistance for finance and adoption of new technology also. Different models are emerging in the procurement of fruits and vegetables directly from the farmers through various formal and informal arrangements with wholesalers, retailers, food processors, and exporters.

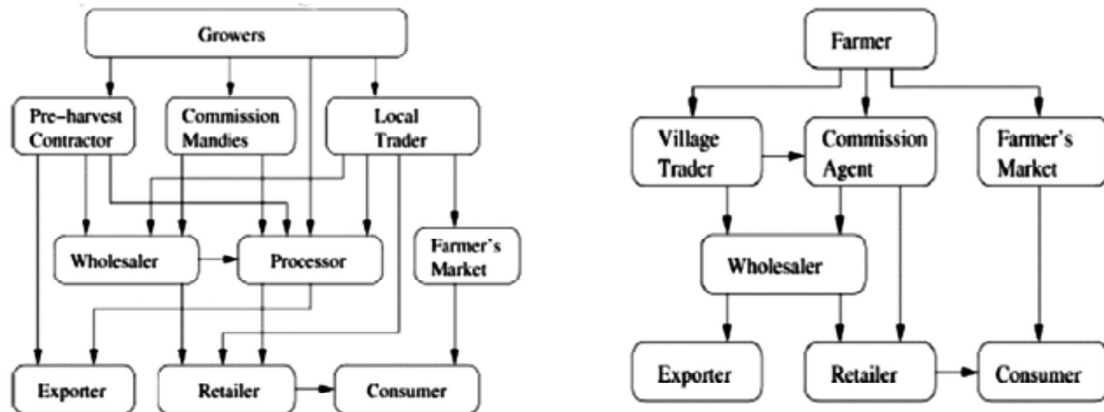


Figure 2-Agriculture supply chain - Fruits and vegetables(Mango and Onion)

Source: National Institute of Agricultural Extension Management (n.d)

These new models can address the inefficiencies in the supply chain and ensure fair prices, better returns to the producers and quality food products to the consumers.

Krishi star - Can it be a panacea?

Lee 's Indian experience gave him the insight that Indian small farmers are caught in a vicious cycle and their economic position is weak. After graduation in 2012 from Kellogg and he landed in Mumbai to create the social enterprise "Krishi star in 2014". He recalls a farmer's opinion that farm problems are the same faced across all the generations. Despite the interventions of NGOs and government small farmers remain in poverty and uncertainty. He wants to bring a shift in the rural economy with a focus on processing farm output. Farm output processing by farmers can hedge his or her risks. One key aspect he found was that capacity utilization at many food processing units was low. So, he decided to tap this and sensed an opportunity for the small and marginal farmers. He decided to use the unutilized capacity in these processing units, do the processing, brand them and sell the processed products to hotels and restaurants. The social startup created a network of farm owned processing units and selling their products -mainly processed tomatoes and mushrooms under Krishi star brand to restaurants and hotels in Mumbai, Pune, and Goa. By this effort, farmers will get a fair price, processing units revenue increases and Krishi star makes a healthy margin. The company adopted a business model in which they associate with farmer-owned companies called producer companies (PC) to launch farmer-owned processing units. For the financing part of the processing unit joint venture model where both Krishi star and Farm producer organizations (FPO) will have equity

ownership or Krishi star works with FPO's for securing institutional credit or financing. Farm producer organizations are vital entity in this business model which are primality co-operatives where farmers are the members.

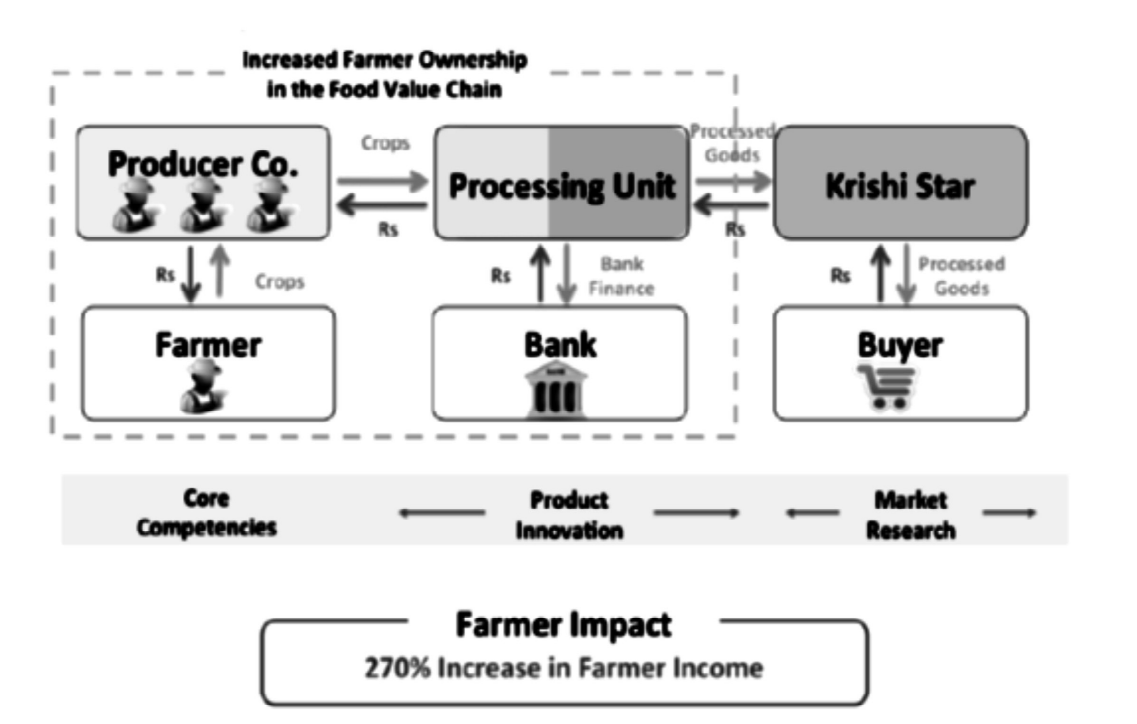


Figure 3: Business model -Krishi star (Source: The Better India)

These FPOs lack capital investment, management expertise as well as market linkages for the distribution of their produce. The social startup tries to address the following shortfalls of farm producer organizations.

Currently, the company engages around 400 farmers and planning to expand its sales and operations to Bengaluru and Chennai. The company is planning to concentrate more on the B2B segment and currently developing white labels for online retailers who will rebrand the product. The intriguing aspect of the Krishi star model is being a social enterprise the social accountability is very high. One of the key challenges faced by the social startup is working capital. Risk is entirely borne by the company as farmers are risk averse. Another key problem is the credit cycles followed by hotels and restaurants. With the operational challenges in the farm sector and agriculture products marketing the company need to introspect whether the social enterprise model can resolve the woes of small and marginal farmers or do the startup

need to relook at their existing business model based on Indian conditions.

- 1) How Krishi star can address the constraints faced in the agriculture supply chain in India?
- 2) What are the prospects and problems of the Krishi star model in comparison with the existing models?

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