



TEACHING NOTE

India's Suguna Poultry Farm Ltd.: Can it Go Pan-India with its Current Business Model?

Prerequisite Conceptual Understanding

- To bring out the various ways in which ideas are generated by entrepreneurs – Bhide Amar, “How Entrepreneurs Craft Strategies That Work”, *Harvard Business Review*, March–April 1994
- To analyse the strategy making process of an entrepreneurial venture – Stevenson H. Howard and Gumpert E. David, “The Heart of the Entrepreneurship”, *Harvard Business Review*, March–April 1985
- To understand the differences between emergent and deliberate strategies of an enterprise – Gavetti Giovanni and Rivkin W. Jan, “Seek Strategy Right Away at the Right Time”, *Harvard Business Review*, January 2008
- To understand the adjustment making process in crafting a strategy – Rivkin W. Jan, “Where do successful strategies come from?”, *Harvard Business School*, February 27th 2006

Synopsis of the Case Study

The case study deals with the fast growing poultry industry in India and its contribution to the country's economy. It highlights the structure, performance and supply chain of the Indian poultry system and also the evolution of contract farming in the sector. Contract farming, considered as a boon to small farmers, was adopted by Suguna Poultry Farm Ltd. (Suguna) as its business model. With a strong position in the broiler industry, it has captured a considerable share of the market in the southern region of the country. Now its focus is on expanding throughout India and to make a mark in the global poultry market as well. Towards the end, the case study highlights two dilemmas: (i) Will Suguna be able to acquire greater share in other parts of India with the present business model? (ii) Will it be able to sustain its business and achieve success in the global scenario?

Pedagogical Objectives

- To understand the competitive dynamics of the poultry industry in general and Indian poultry industry in particular
- To understand and evaluate Suguna's business model and the role of contract farming in its success
- To debate on the growth options available for Suguna
- To contextualise strategy making in an entrepreneurial venture

This teaching note was written by Mora Sowjanya, under the direction of Vara Vasanthi, IBSCDC. It is only an illustrative orchestration of the case study 'India's Suguna Poultry Farm Ltd.: Can it Go Pan-India with its Current Business Model?'. It is never meant to limit the learning outcomes.

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Assignment Questions

- I. Analyse the dynamics of the poultry industry in general and with reference to Indian poultry industry.
- II. Evaluate the circumstances in which Suguna's business model evolved and the role of contract farming in its success.
- III. Analyse the strategy making process in an entrepreneurial venture.
- IV. What are the future strategic moves of Suguna in the competitive poultry industry?

Teaching Plan

The Teaching Note follows a specific Teaching Plan [Annexure (TN)-I].

Case Analysis

I suggest giving the case study to the students one day in advance to make the analysis. I initiated the session with some general questions – (a) How many of you are non-vegetarians? (b) From where do you purchase the meat? (c) What factors would you consider while buying poultry products like eggs, meat, etc.?

Gradually, the discussion moved towards an in-depth analysis of the various trends in the poultry industry. The students analysed the significance of Indian poultry industry and its contribution to the economy. The discussion then advanced to Suguna and the strategies adopted by the company to make its mark in the poultry industry. Towards the end, I asked the students to debate on the viability of the future plans of Suguna and the possible challenges to the company.

I. Dynamics of Indian Poultry Sector

How did the Indian poultry industry transform itself from being a mere backyard activity into a major commercial activity?

Agriculture is one of the biggest contributors to the Indian economy. The different climatic conditions and variety of soils in India are best suited for any crop. More than half of the Indian population depends on agriculture, thereby serving as an important socio-economic development tool. It is considered as the only means of survival and primary occupation for people in rural areas. It has many other sub-sectors like forestry, fishery and livestock.

Despite being a major contributor to the country's GDP, the agriculture sector has a low share in the national income. Its contribution has been declining and stands at 18.5% in 2006—2007 for instance (**page 2, para 2 of the case study**). Various inefficiencies like fragmented land holdings, poor infrastructure, improper marketing channels and lack of government policies have resulted in increased prices of food, high wastage and low returns. Since agriculture is mainly dependent on monsoon and other requirements (land, fertilizers, equipment, etc.), rural population has been finding it difficult to survive on agriculture. As such, people's interest in agriculture dwindled and they started searching for an activity which is independent of monsoon.

In such a situation, the livestock sector, especially the poultry sector, came into prominence. Starting a poultry business was relatively easy as it does not require high investment or land. It could be practised as secondary business to agriculture as well. Even during tough times, people could easily sell their poultry products.

Today's modern poultry system has its roots in this rural backyard farming. It has passed through three distinct stages including traditional, semi-commercial and commercial farming systems [Exhibit (TN)-I]. In the traditional farming system, farmers used to grow the poultry for self-consumption and seasonally sold it in the nearby market. They neither followed any structured procedures nor were they aware of veterinary services. But, semi-commercial farmers improved over traditional farmers by using improved breeds of stocks. But, even they did not follow any structured production methods. With increasing demand for poultry and motivation from the Indian government's initiatives, many commercial farmers adopted specialised technology and changed the entire scenario of poultry farming system.

Exhibit (TN)-I Differences between Traditional, Semi-commercial and Commercial Farming of Poultry				
S. No.	Category	Traditional	Semi-Commercial	Commercial
1.	Origin	Rural	Urban and semi-urban	Urban
2.	Adoption of technology	Low	Medium	High
3.	Organised system of production	Low	Medium	High
4.	Differentiation in birds	No	No	Yes
5.	Productivity	Low	Medium	Optimum
6.	Infrastructure	Low	Medium	Sophisticated
7.	Facilities (hatchery, transportation, etc.)	No	Low	High
8.	Production scale	Low	Medium	High
Compiled by the author				

What initiatives were taken by the Indian government after recognising the potential of poultry sector? How did these initiatives help the poultry industry?

The development of any industry cannot be full fledged without the support of the government. This is applicable to Indian poultry sector as well. Recognising the importance of the industry, the Indian government played a major role in the transformation of the industry. The various initiatives taken by the Indian government with regard to poultry industry were:

- **Technological developments:** Government has developed technology and provided it to the members in the industry. It has taken up research programs to introduce new technologies
- **Alternative poultry feed:** The primary and key poultry feed is maize or soya. There is a shortage in the supply of these components and their prices are very high. Any fluctuation in their prices severely affects the poultry industry as well. To control this situation, government tried to identify various alternative substitutes like broken rice, wheat etc. It also offered subsidies on poultry feed to poor farmers
- **Awareness programmes:** It has conducted different programmes to bring awareness in the rural people regarding the usage of vaccines and veterinary services. It has also provided training and helped them in gaining technical knowledge
- **Collaboration with foreign institutions:** To develop a healthy poultry sector, government has taken the support of foreign agencies like United States Agency for International Development

(USAID) and United Nations Development Programme (UNDP) and collaborated with foreign hatcheries

- **Research programmes:** Since the consumption of poultry is very low in India compared to global poultry consumption rate, government has taken up various research programmes in different areas of poultry production such as breeding, management, etc. There are research groups with regard to poultry in public and private sectors. In the public sector, ICAR (Indian Council of Agriculture Research), the apex body for agricultural research in the country performs an important role in the poultry research and development (R&D) activities. Other institutions such as Central Avian Research Institute (CARI), Indian Veterinary Research Institute (IVRI), Central Poultry Breeding Farms (CPBF), Central Food Technology Research Institute (CFTRI), animal husbandry departments and 26 State Agricultural Universities (SAUs) of state governments have been carrying out research programmes
- **Incentive schemes:** Incentives were offered to the players who attained higher productivity and used improved technology in their operations. Moreover, it offered incentives to those who invested in commercial poultry activities
- **Relief against risk:** During the period of semi-commercial farming, the total risk was borne by the farmers themselves as there was no structured form of contracts or vertical integration. To reduce the risk, government provided insurance coverage to these farmers
- **Setting up units:** It established poultry estates in which large number of farmers were grouped into one for a cluster approach. These estates were mostly centered in a single urban region, which helped them attain economies in input supplies. Also, it established 33 (improved breeds) units of different species of poultry
- **Boost to local producers:** To encourage local producers of poultry, government has created trade barriers (licensing) for the import of breed stocks, equipment and feed ingredients from foreign countries.

However, the initiatives taken by the government to boost the poultry sector were mainly focused on the urban and semi-urban areas. As a result, the number of large poultry farms increased and created entry barriers for rural small scale farmers. These small independent farmers were unable to cope with competition from commercial farmers.

The problems faced by small farmers were:

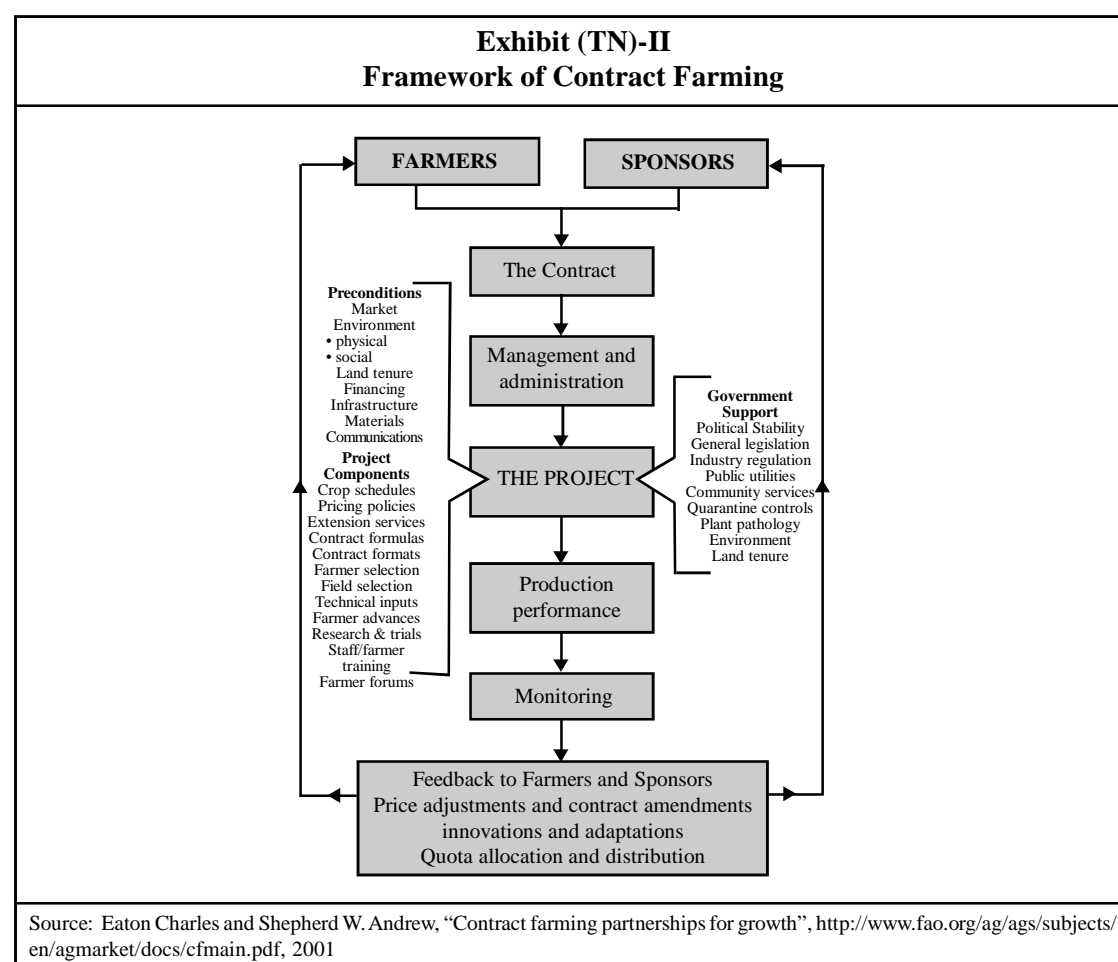
- Marginal farmers failed to get sufficient funds from the government
- Small scale farmers were unable to adopt modern technology due to financial constraints and lack of technical expertise
- The usage of inputs such as feed was poor in quality. As a result, the end product (egg, meat) did not meet the quality standards
- Lack of managerial skills constrained them from reaching optimum level of productivity
- Infrastructure, cold chain storage and other facilities such as transportation, distribution and marketing were inadequate in the rural environment
- Rural people were not aware of vaccines and veterinary services, which resulted in high mortality rate of birds. They were also unable to identify the diseases that afflicted the birds
- The advantages of poultry products were not fully known to the rural consumers which resulted in scanty demand
- A strong legal framework for protecting the rights and bargaining power of the small producers does not exist.

On the other hand, commercial farmers were actively engaged in poultry operations. Their main focus was on attaining maximum productivity and economies of scale. Purchase of land, constant caring of birds, transportation, etc., were some of the challenges faced by the commercial farmers.

As a result, a gap existed between the small farmers who needed assistance and commercial farmers who wanted to achieve economies of scale. This gap was filled by contract farming. It is an arrangement between two parties in which one party supplies all the inputs for the production of specific product to another party in return for an end product.

Discuss the evolution of the contract farming model. What is the criticism that is being directed towards contract farming?

Contract farming has its origins in the British period. Indian farmers produced commodities like Collin Indigo for English factories. Changing tastes and preferences, increasing demand for fast food outlets and growth of the retail sector have further developed this mode of production. The new agricultural policy of 2000 included the participation of private sector in agri-business through contract farming. Various aspects like planning, administration, monitoring, pre-conditions, etc., should be considered for successful contract farming [Exhibit (TN)-II]. In this model, a farmer and a company come to an agreement and enter into a contract where the pre-conditions like market environment, infrastructure, price, etc., are made clearly understandable between the two parties. Feedback from farmers to company and vice versa goes on continuously. This form of production is used not only in agricultural products such as vegetables and fruits but also in poultry and dairy products.

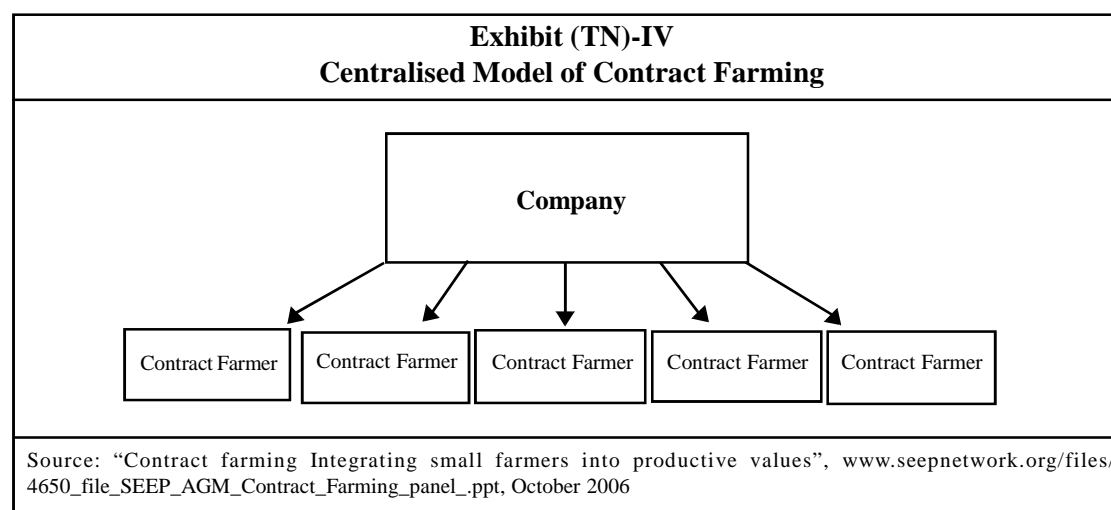


There are different types of contract farming models depending upon the requirement of the product, the resources of the company and the extent of relationship between the farmer and the company. Each model has characteristics of its own [Exhibit (TN)-III]. There are five models of contract farming:

1. The Centralised model
2. The Nucleus estate model
3. The Multipartite model
4. The Informal and
5. The Intermediary model.

Exhibit (TN)-III Characteristics of Contract Farming		
Structure – Model	Sponsors	General Characteristics
Centralised	Private corporate sector State development agencies	Directed contract farming. Popular in many developing countries for high-value crops. Commitment to provide material and management inputs to farmers.
Nucleus estate	State development agencies Private/public plantations Private corporate sector	Directed contract farming. Recommended for tree crops, e.g. oil palm, where technical transfer through demonstration is required. Popular for resettlement schemes. Commitment to provide material and management inputs to farmers.
Multipartite	Sponsorship by various organisations, e.g. <ul style="list-style-type: none"> • State development agencies • State marketing authorities • Private corporate sector • Landowners • Farmer cooperatives 	Common joint-venture approach. Unless excellent coordination between sponsors, internal management difficulties likely. Usually, contract commitment to provide material and management inputs to farmers.
Informal developer	Entrepreneurs Small companies Farmer cooperatives	Not usually directed farming. Common for short-term crops; i.e. fresh vegetables to wholesalers or supermarkets. Normally minimal processing and few inputs to farmers. Contracts on an informal registration or verbal basis. Transitory in nature.
Intermediary (tripartite)	Private corporate sector State development agencies	Sponsors are usually from the private sector. Sponsor control of material and technical inputs varies widely. At time sponsors are unaware of the practice when illegally carried out by large-scale farmers. Can have negative consequences.
Source: Eaton Charles and Shepherd W. Andrew, "Contract farming partnerships for growth", http://www.fao.org/ag/ags/subjects/en/agmarket/docs/cfmain.pdf , 2001		

Centralised model: In this model a centralised processor (company) makes contracts with large number of small farmers [Exhibit (TN)-IV]. The production operations are large in scale in this model. Products require high quality and need to follow international specifications. So, there is strict control on quality. This is a vertically coordinated model, where the company, after receiving the products from the farmers, follows other processes like processing, packaging, etc. This model of contract farming is used for high value export crops, trees as well as for poultry and dairy products. The degree of involvement of the company in the operations of contract farming can either be minimal by providing the basic inputs or the firms can control all the aspects of production. Though centralised model provides greater control over the production, implementation is expensive.



Nucleus model: This is a quiet distinct model when compared to the centralised model. In this model, the company owns the estate (shed), which is located nearby to the central processing unit and manages it on its own. This model is not popular in India.

Multipartite model: This model involves contracting with farmers and various groups like statutory bodies and private organisations. These bodies are separately responsible for credit provision, production and management. In other words, each body takes care of different activities of contract farming. There are written contracts between different bodies and oral understanding with farmers and their committees.

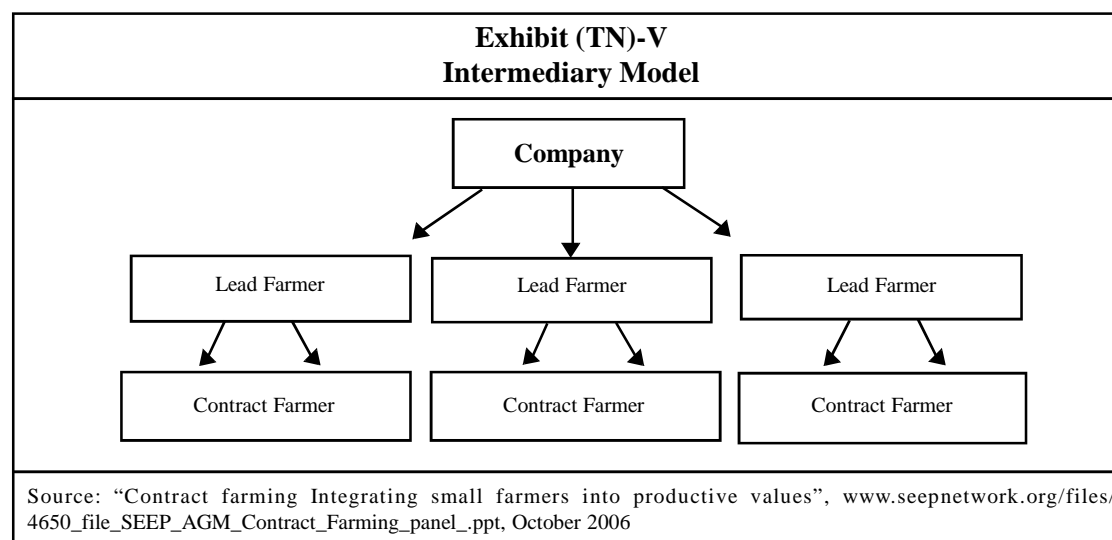
Informal model: This model is taken up by medium-sized individual entrepreneurs or small companies. Contracts are made with the farmers for the production of crops such as fresh vegetables and seasonal fruits on a seasonal basis. Material inputs and technical support is limited in this model.

Intermediary model: In this model, company contracts with farmers through middle persons or intermediaries (lead farmer), who are connected with farmers [Exhibit (TN)-V]. The selection of lead farmer by the company should be done with extra care, as there is every possibility of exploitation by the lead farmer.

But the method of contract farming has raised a debate as to whether it is beneficial to the company or the farmers. Many critics emphasise that contract farming is more beneficial to large companies as they exploit the farmers by paying less and transfer the whole risk to them. On the other hand, many companies argue that they are at a loss as farmers lack loyalty.

To ensure smooth functioning, contract farming should be considered as a partnership deal and should be implemented with commitment and loyalty by both the farmers as well as the companies. Farmers should produce the products according to the quantity and quality specifications mentioned by the companies. On the other hand, enterprises should support the farmers' production by supplying needful material and services.

However, the popularity of the model in many developing countries tells that risk is shared equally by both the parties. Many private firms have started contract farming with vegetables, milk and flowers apart from poultry.



What role did contract farming play in the growth of the poultry industry? What are the advantages and disadvantages of contract farming?

The contract farming model in the poultry industry involves a poultry farm which supplies Day-Old Chicks (DOCs), medicines, adequate equipment like incubators, technical and managerial services, etc., to the contract farmers who own the shed and other facilities. Till the period of conversion process (i.e., DOCs are kept till they convert into broiler (young chicken) or kept for laying eggs) is over, contract farmers take care of the birds. The period for conversion takes 42–45 days. Finally, poultry farms take the end products (eggs and/or broiler) by paying the contract amount to the contract farmers.

The benefits of this model can be equal to both the parties. The advantages and problems of contract farming differ according to the physical, social and market conditions like nature of the market for raw material and processed product.

Advantages and disadvantages of contract farming to farmers:

Advantages:

- **Supply of inputs:** All the required inputs such as DOC, feed, medicines are offered to the farmers. So, a farmer need not buy the inputs and bother about the quality of inputs. He only has to produce according to the specifications mentioned by the firm. Apart from offering material inputs, the company also provides managerial, technical and other veterinary services. The only thing the farmer needs to worry about is the healthy growth of the birds
- **Adoption of modern technology:** Technology plays an important role in poultry farming. Demand for high quality products requires modern technology. Small farmers may not be in a position to adopt latest technology due to risks and costs involved in it. With contract farming, they will get resources (inputs and services) and the latest technology

- **Assured income:** Earlier farmers had to depend on the prices prevailing in the market to sell their poultry products but in contract farming, farmers get regular income and fixed amount for growing the birds. The price is predetermined at the time of contract. So, this model protects the farmers from market price fluctuations
- **Learning new skills:** Under contract farming, a farmer can learn new skills, which include maintaining records, utilising resources to the optimum level, importance of quality, awareness of market demands, etc. Continuous involvement with this model helps increase experience in handling the processes thus reducing the chances of mistakes
- **Access to reliable markets:** The products produced under contract farming provide market guarantees to the farmers and purchasers. Farmers, therefore, need not search for new buyers.

Disadvantages:

- Poultry farms can exploit the farmers as the latter lack sufficient knowledge regarding the market trends
- Improper maintenance
- Unfair remuneration
- Manipulation in quality specification.

Advantages and disadvantages to the poultry farms:**Advantages:**

- Poultry farms can overcome land constraints. Even without owning a farm, they can produce the products
- They provide all the inputs resulting in greater quality consistency
- Contract farming is more politically acceptable as it lends a helping hand to small farmers
- The poultry company can rely on the supply of products from the contract farmers rather than purchasing from open market or imports
- The production risk and uncertainty can be reduced. Moreover, there is a shared risk in contract farming.

Disadvantages:

- Disloyalty of farmers, who sell their products outside the contract
- Farmers can manipulate the inputs supplied to them by selling them to other parties
- Farmers can be corrupted by the competitors
- Training and awareness programmes for farmers involve additional expenditure.

“Parallel to the increase in the per capita consumption of poultry meat, its production has also increased tremendously.” (page 5, para 2 of the case study). Evaluate the reasons for the increase in consumption and production in the poultry industry.

In ancient times, meat consumption was a status symbol and only rich people used to consume it. However, in the current scenario, people started taking poultry in their regular diet as they became aware of the rich nutrients available in poultry products. Within a period of 15 years (1991—2006), per capita poultry

consumption increased from 200 grams to 1.8 kilograms (**Exhibit IV of the case study**). Production also increased on par with consumption. The different reasons for the increase in consumption are:

- **Reduction in price:** Increase in the number of integrators reduced the overall production costs as they used various cost reduction methods like contract farming in their supply chain. Demand for poultry in India is price-sensitive. With lowering prices, people started including poultry products in their daily diets
- **Shift from vegetarianism to non-vegetarianism:** The consumption of poultry products by non-vegetarians is high. But there has been a drastic shift of vegetarians to non-vegetarianism in recent times, which has increased the demand for poultry. Nearly 60% of the Indian population is non-vegetarian according to a survey conducted by *Hindu CNN-IBN State of the National Survey* in 2006 (**page 6, para 1 of the case study**)
- **Increasing purchasing power:** Increasing income has led to a rise in the purchasing power. People started spending more on nutritious food and poultry is one of the protein-rich diets
- **International exposure:** Globalisation has had an impact on every aspect of people's lives. Entry of multinational companies has, therefore, changed the lifestyle and eating habits of the Indians
- **Expansion of the retail sector:** The retail sector has been increasingly garnering attention. People now-a-days prefer to purchase more from retail outlets. With the increase in the retail sector, the demand for processed meat has also increased, which ultimately led to a rise in the consumption of poultry
- **Urbanisation:** There is a huge migration of population from rural areas towards urban localities. Rapid urbanisation is expected to bring increased demand for poultry
- **Rising population:** Increasing population also resulted in increased consumption of meat
- **Easy accessibility:** Poultry is available at every other street shop in India. Other products are available only in certain areas. For instance, fish is available more in coastal areas and beef mostly in Kerala and Tamil Nadu.

Analyse the various components of the supply chain in the poultry industry? How did the supply chain evolve and what changes have taken place in it?

The supply chain of the poultry industry consists of several processes. Earlier, the integrators limited their supply chain operation to processing and sold processed meat to retailers. However, with the increasing demand for processed meat, integrators started participating in the retail segment. They controlled all the aspects of supply chain beginning from breeding to retailing (**Exhibits III and VII of the case study**). It is a continuous chain, which links the producer and the ultimate consumer by the flow of products from producers to consumers and reverse flow of information from consumers to producers. Large poultry companies control all the aspects of the supply chain. The end product of poultry is processed meat, which goes through various steps to reach that stage. The various components of the poultry supply chain are:

- **Parent breeder farm:** The eggs, produced by grandparent birds in grandparent breeder farm, are developed into birds called parent birds. The eggs produced by parent birds can be developed into broilers or birds, used in laying eggs. So, the DOCs, given to contract farmers are the chicks produced by the parent birds
- **Hatcheries:** It is a large open space with many small houses, looking like traditional chicken cages, built inside it. When the hens lay eggs in these coops (cage) their eggs are collected and taken for incubation. Proper care should be taken to prevent egg contamination. The breeder hens

live for 45 weeks, after which they are not suitable for laying eggs. These 'spent' hens are slaughtered and used as meat or purchased by food companies that use cooked, diced meat in soups, etc. Parent eggs are either retained by the company for further process or sold

- **Feed production:** Maize or corn is one of the important constituents in the poultry industry. Nearly 70%—75% of production costs accounts for poultry feed (**page 7, para 1 of the case study**). Integrators purchase the poultry stuff from the farmers, but most of the time it is the integrator who cultivates the maize
- **Veterinary services:** Continuous monitoring of birds' health is very essential in poultry industry because of the threat of various unknown viruses. Integrator provides all the necessary poultry medicines for the healthy growth of birds. The cost of the vaccines is minimal
- **Contract farmers:** These are the independent poultry farmers, who make arrangements with poultry companies for monitoring the birds. The size of the farm may vary from 5,000 to 50,000 birds per farm
- **Slaughtering and processing:** Once the live birds or broilers are collected from contract farmers, they are further processed. They pass through various stages like stunning, defeathering and cutting to get converted into final product, i.e., processed meat
- **Trader:** Trader can directly purchase live birds from commercial farmers or can sell the processed meat to different retailers
- **Retail:** Earlier, retailing was not included in the supply chain of integrated poultry farms. However, with the increased demand for the processed meat, poultry companies involved themselves in retailing too. They started setting up retail chains as well.

What are the various challenges faced by the Indian poultry industry?

Although, India has offered investment opportunities in the fields of poultry like processing, breeding, etc., it still suffers from various drawbacks:

- **Low consumption rate:** The consumption of poultry products in India is significantly low when compared to the world's poultry consumption. The consumption of poultry meat in India is 2.04 Kg and 42 eggs per annum when compared to global consumption of poultry which is 11.40 Kg and 128 eggs per annum in 2007 (**page 15, para 1 of the case study**). Unawareness of the advantages of poultry combined with various religious practices led to poor consumption which has become a hurdle for expansion of the poultry industry
- **Shortage of poultry feed:** Maize is the key ingredient for poultry production although soya and oil cakes are used as substitutes. But, the production of corn is limited in India compared to wheat and rice due to seasonal variations. Profitability of a poultry farm, therefore, is dependent on the availability of poultry stuff as feed accounts for 70%—75% of the production costs. Fluctuations in the prices of maize adversely affects not only the poultry industry but also the profits of a company. Moreover, the transportation and storage costs are also high due to high freight charges
- **Threat of viruses:** This is one of the critical challenges in both rural as well as commercial farming sector. Poultry industry should be careful of birds' health as there is threat of unknown diseases. During 2006—2007, Indian poultry sector was badly affected by Highly Pathogenic Avian Influenza (HPAI). Although, the government introduced new vaccines and drugs to control such diseases, the poultry industry is always in danger from these uncertain and unforeseen diseases
- **Wet market:** Majority of the Indian poultry industry comprises of wet market (sale of live birds), which offers low hygiene meat. Consumers in India have the perception that live birds are fresh and processed meat is old. As a result, demand for processed and frozen chicken is little in India,

whereas it is high in foreign countries. This is hindering the growth of exports as well. Although, the government has taken the necessary steps to make slaughtering houses mandatory and ban the market for live birds, wet market continues to rule the Indian poultry industry

- **Lack of infrastructure:** Infrastructure has an important place in the poultry industry as the end product of poultry (eggs and/or meat) has to pass through various stages. For smooth running of the poultry business, one requires good housing facilities for rearing of birds, cold chain storage units and refrigerator vans, laboratories for checking the quality of feed and health of birds, etc.
- **Limited scope of exports:** The major producers and exporters in the world poultry industry are the US, China, EU and Brazil. India's contribution is less than 1% (**Exhibit VI of the case study**). This is due to the small size of poultry operations and poor infrastructural facilities. Moreover, the quality of Indian poultry products does not match with international standards. Indian poultry industry also does not have detailed and standardised measures for food safety. The EU and the US are not ready to sanction documentation for the procedures as it is not in accordance with their laboratory requirements
- **Role of unorganised sector:** The use of advanced technology has completely transformed the Indian poultry industry. But, this development is observed only in urban and semi-urban areas. The weaker section of the rural population, which forms a part of the unorganised sector of poultry farming, still uses old methods of production. Poor quality of inputs, improper vaccinations, bad monitoring and high mortality rate further reduces the rate and quality of production
- **No foreign investments:** There is a negligible role of foreign direct investment in the Indian poultry industry
- **Under-utilisation of processing plants:** The demand for processed meat rose after the outbreak of virus. Hence, integrators started concentrating more on setting up processing units. The small market for processed meat, however, made them produce in excess. This resulted in the under-utilisation of processing units. Presently, capacity utilisation rate is only 50%—70%
- **Limited intervention of the government:** There are various issues such as subsidies of feed, reduction of import duty, other taxes like excise duty and value-added taxes on poultry products, which should be considered by the government. It has to take up more initiatives in developing the industry.

II. Business Model of Suguna

Analyse the circumstances in which the business model of Suguna evolved. How did contract farming help in perfecting this business model?

Many private integrators have overcome the limitations in the poultry industry by adopting latest technology and some unique strategies. Among them, Suguna Poultry Farm Ltd. is one. The company, which had a modest beginning as a small shop, functioned well till 1990. But due to the external factors, which prevailed in the market, the operations of the company wavered.

The local poultry market was over supplied with birds, which dwindled the prices of poultry products. Due to declining prices, farmers were not in a position to participate and earn enough profits. This in turn, made it difficult for them to repay the credit purchases they had made from the company. Farmers stopped their operations as the suppliers of poultry feed and medicines stopped providing the goods. The whole industry was moving towards depression. This is when the contract farming idea came to the founders of Suguna. They started investing in farms by supplying necessary inputs to the farmers, who in turn agreed to give the end products (eggs/meat). The farmers readily agreed to the offer as they had the adequate infrastructure

and Suguna supplied the necessary inputs. Suguna was also benefitted by the investment as they were receiving the end products without owning a single shed. The mutual understanding between two parties resulted in the unique model of contract farming.

The process of contract farming at Suguna:

- Company provides DOC, feed, medicines and all other technical and managerial services to the contract farmers
- To check the condition of birds, Suguna has appointed field staff who regularly test the health, growth and mortality rates of birds
- Receiving all the necessary inputs, contract farmers rear the birds for a period of 6 weeks (42–45 days)
- Company takes back the end products (eggs/broilers) after paying certain predetermined price.

Entering into partnership deals with Suguna made the survival of marginal farmers easy as they were growing along with the company and earning an income of INR 15,000 per month (**page 11, para 3 of the case study**). To obtain optimum benefits from the model, Suguna provided training to the farmers regarding sophisticated technology and undertook many awareness programmes for farmers. In the initial stages of practicing the model, Suguna took great efforts to convince the farmers regarding its viability. After understanding the prospects of the model, farmers were actively participating and made the implementation of the model successful.

What challenges did the company face during the course of its operations?

Suguna has passed through various challenges to sustain itself in the poultry industry. By adopting contract farming as their businesses model, it was successful in its operations. However, during the course of its operations it has faced several challenges:

- **Interruption in operations:** During the year 1992, the regular supplier of DOC stopped delivering the chicks. Obviously, without DOC, the operations of the poultry farm would come to an end. However, Suguna was unperturbed by this threat. In fact, it took the prevailing circumstances as an opportunity and decided to set up a hatchery, a house which provides DOC hatched from parent birds. To get these parent birds, it has also set up a parent breeder farm in 1993. In this way, they followed backward integration
- **Lower margins:** In the late 1990's, the company met with another difficulty. Its operations were highly concentrated in a single region, Tamil Nadu and heavy investments were made in this area. As a result, the company suffered from excess production of poultry products. They had to forego the profits by selling them at low prices. To overcome the crisis, they diversified their operations to neighbouring states. Beginning with Karnataka in late 1990's, they entered into different states year after year.

Although the company faced tough times, it has come up with unique strategies and reached optimum level of productivity to achieve a competitive advantage in the poultry industry.

What are the unique strategies that Suguna has adopted to grow in the poultry industry?

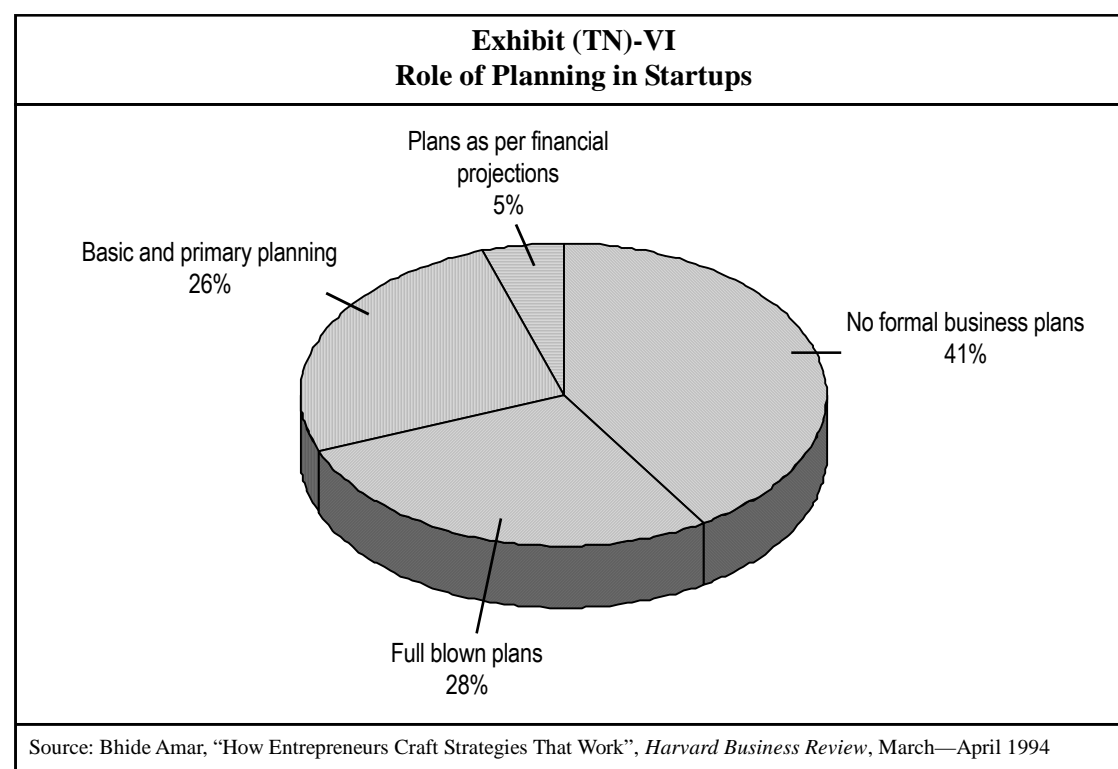
The different strategies adopted by Suguna gave the company a unique stand in the poultry industry. The various strategies were:

- **Elimination of middlemen:** Generally, the value chain of poultry industry involves participation of various players in all its long processes like breeding, hatching, slaughtering, etc. As such, there is a long gap between the consumer and the producer. But Suguna has broken the chain and maintains a simple value chain comprising of the farmer, the company and the retailer. By eliminating the middlemen, the company has reduced the cost of production resulting in lower prices of poultry
- **Information technology:** One may think that there is no application of IT in the poultry industry. But Suguna is the first to implement ERP solutions in its business operations. The company made agreements with IBM and has adopted Oracle E-business Suite in 2005. It was implemented at nine divisions across seven states with an investment of INR 8 crores (**page 12, para 2 of the case study**). This increased the employee productivity and overall efficiency of the company
- **Maize cultivation:** The demand for maize, a chief ingredient of poultry feed, is directly proportional to poultry production. Increase in poultry production increases the prices of maize. Hence, Suguna has entered into maize cultivation too through contracting. It is applying the model of contract farming in maize cultivation as well. This resulted in low costs of production and lower prices for consumers as well
- **Flat management structure:** The company follows a flat management structure, which enabled it to grow faster. Each operations unit, across 13 locations, is headed by a regional manager, authorised to take decisions on the issues pertaining to their region
- **Quality management:** Suguna's commitment towards its products is significant. To obtain a good quality product, it ensures the quality of inputs as well. Suguna takes care of quality starting from the feed. It has been certified by ISO 9001:2000 and HACCP (**page 11, para 6 of the case study**). It applies Total Quality Management and other innovative methods too so as to produce good quality products. It has won many national awards for its excellence with regard to quality. For the decade of 1996—2006, it was awarded as the best performer by the National Productivity Council — New Delhi
- **Stepping forward:** The entry of Suguna into retailing has helped the company serve its customers in a better manner. It launched a retail outlet chain called 'Daily Freshh' which offered a range of value-added products like branded eggs, ready-to-eat and ready-to-cook products. It has earned huge revenues with this diversification
- **Global partnerships deals:** To strengthen its backward and forward integration system, Suguna tied up with various global parties:
 - To set up hatcheries and feed mills, it has taken financial assistance from IFC, a private arm of World Bank. It is the first Indian agri-business company to get a loan amounting to INR 50 crore from IFC (**page 13, para 1 of the case study**)
 - To update its hatchery system, it has tied up with Pas Reforms, a Dutch Hatchery technology company, for the supply of smart incubators. This tie up helped in improving hatching facilities
 - Suguna has begun operations in the Middle East through a joint venture with Supreme Foods Co. Ltd. of Saudi Arabia
 - For the smooth functioning of its grandparent farm, it has signed up a deal with Ross breeders in UK for the supply of grandparent chicks.

III. Strategy Making in an Entrepreneurial Venture

Using Exhibit X of the case study, analyse the ways in which ideas are generated in an entrepreneur's mind? How do they make a choice between the various ideas generated?

Every entrepreneur may not start up a venture immediately after an in-depth study of opportunities and detailed planning. Though planning plays an important role in any activity, too much of planning may not result in expected returns. "By the time an opportunity is investigated fully, it may no longer exist."¹ In other words, an entrepreneur's approach should lie between the points of systematic planning and no planning at all. The success of an entrepreneurial venture does not imply spending time in detailed planning, rather it depends on grabbing the opportunity at the right time. According to interviews conducted with 100 successful entrepreneurs, nearly 41% of startups have no formal business plans at all, 28% go according to their plans and the remaining 26% have basic or primary planning [Exhibit (TN)-VI].



Any entrepreneur for adopting successful entrepreneurial approach should consider the following three elements:

- Seize the promising opportunities (ideas) by avoiding the low attributed ones
- Analyse the core issues
- Quickly execute and easily adapt to changes.

An entrepreneur should ensure that the idea is prima facie (clear, definite). An individual can become entrepreneur only if he discards the unpromising ideas and works on highly attributed opportunities. Generally, several ideas in multiple number of ways are generated in the minds of individuals possessing entrepreneurial

¹ Bhide Amar, "How Entrepreneurs Craft Strategies That Work", *Harvard Business Review*, March—April 1994

qualities. Out of all these ideas, they judge the best opportunity. Nearly, 71% of these ideas come from modified ones or from past employment (**page 10, para 1 of the case study**). Only 4% of ideas are generated from systematic research for opportunities, whereas, 20% are discovered out of chance. Selection of the most promising idea requires judgment and reflection rather than acute/correct information.

There exists a close relationship between opportunity and individual needs. If an opportunity has to be recognised as entrepreneurial, it should satisfy two requirements. It must bring a change, which should have the state of future growth and the individual should be optimistic to reach that state. This relationship often identifies four groups [**Exhibit (TN)-VII**]. Any mismatch in these two requirements can render the opportunity as non-entrepreneurial and turn the individual into a frustrated potential entrepreneur or just a satisfied manager or worse yet a consummate bureaucratic functionary.

Exhibit (TN)-VII Manager's Opportunity Matrix			
	Desired future state characterised by growth or change		
	Yes	No	
Self perceived Power and ability to realise goals	Yes	Entrepreneur	Satisfied Manager
	No	Frustrated Potential Entrepreneur	Consummate Bureaucratic Functionary

Source: Stevenson H. Howard and Gumpert E. David, "The Heart of Entrepreneurship", *Harvard Business Review*, March–April 1985

Ambitious entrepreneurs should consider the characteristics like objective of the venture – whether one wants to set a large enterprise or acquire niche market, considering the external factors and should also be able to adapt to the external uncertainties. The decision should also be made on the basis of competition, which includes proprietary assets versus hustle (recognition of an enterprise depends on the assets it holds like patents, location, and brands).

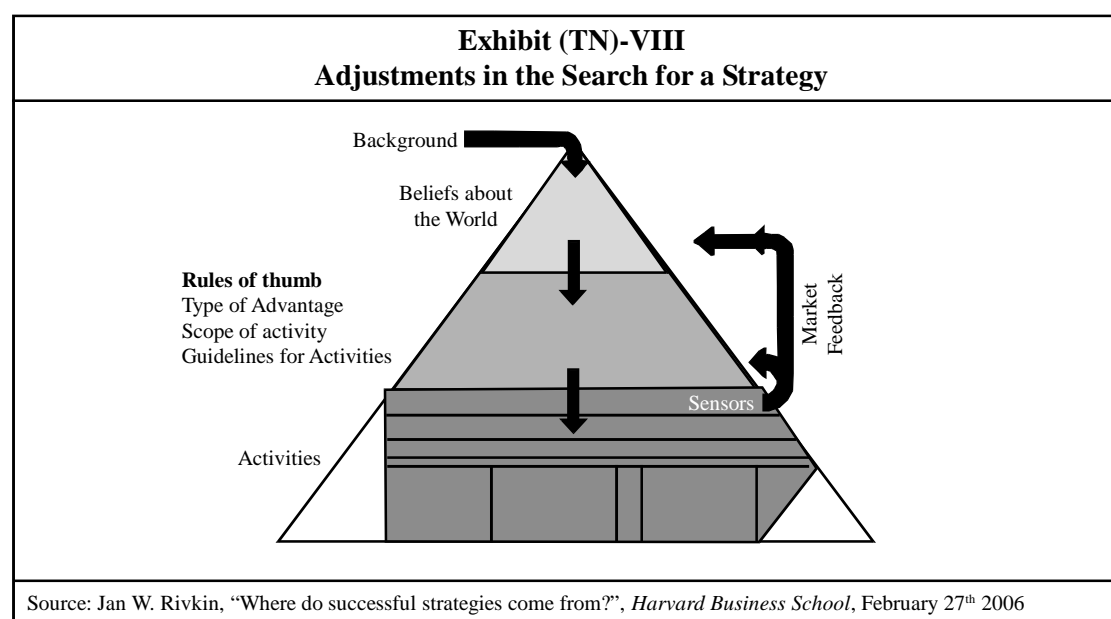
Analyse the strategy creation process in an entrepreneurial venture. What factors need to be considered while formulating a strategy?

Successful strategies emerge from a constant process of search. All this depends on how intelligently and innovatively the search processes are taken up. Effective search processes result from promising starting points. Even more challenging than finding a good starting point is to design a good adjustment process. The following features should be considered while framing a good adjustment process:

- **Consider various alternatives:** Before zeroing in on a strategy, it is better and advisable to consider multiple alternatives. If a process does not suit the conditions of the venture, another alternative can be considered
- **Maintain flexibility, but selectivity:** Maintaining tight rigidity or too much flexibility may result in the failure of the strategy process. Selective flexibility is favourable where it can move from flexibility towards rigidity according to the circumstances

- **Analyse the backgrounds, beliefs and personal values of others:** A company should predict the actions and attitudes of the external parties who are connected with it like competitors, creditors, customers and partners
- **Right approach towards the feedback:** Any company to be successful should consider the feedback seriously and right actions should be devised on its basis. Gathering feedback and actively responding to it will help in building a good adjustment strategy
- **Elaborative value chain:** Once the best opportunity is finalised, then focus should be on maintaining an elaborative value chain

Factors like personal and professional background of an entrepreneur are reflected in strategy framing, which gives them certain beliefs about the world. These beliefs result in high-level thumb rules, which show how the company should behave and utilise the opportunities in the market environment. Considering the market response (feedback), management has to select a strategy basing on the attributed ones and avoiding the rest. It has to make the selection from a set of sensors. Finally, reshaping beliefs, rule of thumb and activities can be done through the feedback from those sensors [Exhibit (TN)-VIII].



Using the 3rd PCU, analyse the emergent vs deliberant strategy formulation in an entrepreneurial venture. Compare and analyse the strategy formulation with respect to Suguna. Was its strategy emergent or deliberate?

Any strategy creation process should be positioned between two extreme points. One is the emergent process, in which strategy is formulated gradually after taking action, receiving response (feedback) and learning from experience. The other is the deliberate strategy process, where strategies are framed fully before they are implemented. Considering the competitive moves and environmental conditions, the most promising strategy should be implemented. A company cannot follow a single strategy all the time. Both emergent and deliberant strategies are right but both are incomplete. They can be exercised in different circumstances at different times.

Many a times, Suguna followed emergent strategy as it has framed the strategy after the occurrence of events. Responding to the circumstances and learning from the experiences made the company follow emergent strategies in its business operations [Exhibit (TN)-IX]. However, at a later stage, the company started following deliberate strategy.

Exhibit (TN)-IX Strategy Formulation at Suguna		
Situation	Result	Strategy
Poultry industry was moving towards depression	Unique business model	Emergent
Supplier stopped delivering DOC	Setting up backward Integration	Emergent
Concentration on single region	Expansion of operations	Emergent
Expanding business	Pan-India	Deliberate
Compiled by the author		

IV. Suguna's Expansion Plans

“We want to be an INR 13000 crore company by 2013. By then, we should have a network of 60000 contract farmers across India.” (page 15, para 2 of the case study). What are the expansion plans that Suguna is planning for the near future?

There is a wide scope for expansion in Indian poultry industry as its consumption levels are very low compared to global poultry consumption rates. Suguna, therefore, is focusing on its expansion plans [Exhibit (TN)-X].

Exhibit (TN)-X Expansion Plans of Suguna				
Sl.No.	Plans	Locations	Investment (INR)	Target
1.	Hatcheries	Chittoor and Hyderabad in Andhra Pradesh and Nasik in Maharashtra	45 crore	To support backward integration
2.	Hatcheries	Karnataka, Tamil Nadu and West Bengal		
3.	Feed mills	Maharashtra, Andhra Pradesh and Karnataka	40 crore	
4.	Market entry	North India	120 crore	To become Pan-Indian player
5.	Market entry	Delhi and Haryana		
6.	Marketing strategies	North India	6-7 crore	
7.	Processing units	Karnataka and Maharashtra	20 crores each	To strengthen forward integration

8.	Processing plants	West Bengal	15 crore	To build strong relations with global players
9.	40—50 retail stores	Chennai		
10.	150—200 retail stores	Tamil Nadu and Kerala		
11.	Mutton producing Plants	Coimbatore		
12.	New facility to produce Ready-to-eat products	Bangalore		
13.	Green field projects			
14.	Exporting value-added products	Japan		
15.	Exporting	Europe		
16.	Supply branded eggs	Wal-Mart, US		
Compiled by the author				

What are the possible challenges to Suguna in achieving these plans?

There are some challenges that Suguna faces in the poultry industry:

- **Threat from competitors:** There are a few players dominating the organised sector of the Indian poultry industry:
 - **Venkateshwara Hatcheries Group:** It is one of the biggest players and was founded by Padmasree Dr. B. V. Rao in 1971. It is a conglomerate company and has a wide spread business such as Venkateshwara Hatcheries Private Ltd., Venky's (India) Ltd. (VIL), and Venco Research & Breeding Farm Ltd. It has a strong hold in poultry industry, as it is a fully integrated enterprise. One of its diversified firms BV-300 has a market share of 85% in the layer segment and other division called Vencobb holds a share of 65% in broiler sector (**page 17, para 1 of the case study**). Moreover, one of its units named VIL is planning to convert into a FMCG company.
 - **Godrej Agrovet:** It is also a fully integrated company established in the year 1999. It uses highly sophisticated technology (in-house laboratory, world class farms) and manages all the aspects of the supply chain beginning from breeding to retailing. It offers fresh and hygienic processed meat under the brand name 'Godrej Real Good Chicken'. It has a market share of 16% in the broiler market (**page 17, para 1 of the case study**).
 - **Others:** There are other players such as Pioneer Poultry Group, Sky Lark group, Arambagh, Jaffa, etc., who are giving tough competition to Suguna.

Each of these poultry companies has been trying its best to capture higher market share. As such, Suguna should make unique strategic moves to deal with the competition.

- **Risk in expanding in retailing:** The attitude towards food consumption has changed. People are becoming more health conscious and preferring to eat hygienic and fresh food. As a result, demand for processed and ready-to-cook food has increased. It is applicable to poultry products as well. Many poultry farms have entered into retailing by offering a range of poultry products. Suguna has also received an outstanding response to its value added products, when they were first launched. However, offering these branded products increased the selling price by 40% as it involved the cost of packaging, taxation, advertisements etc. As consumers in India are price sensitive, the processed meat offered by poultry retailers like Suguna may not attract customers

towards them. Suguna has to come up with new strategies to offer best price to the customers by maintaining the cost at minimum.

- **Entry into new regions (North and East):** Suguna's operations are highly concentrated in the southern and western regions of India. It plans to enter into northern and eastern parts of the country. However, these regions are still in primitive stages of development in the poultry industry. Independent farmers use the traditional techniques for rearing the birds. Educating and training these farmers in adopting the latest technology is like green field strategy (starting from the scratch) to Suguna. As such, in the initial stages of entry, farmers may not agree to work with the company. They may not be able to recognise the benefits of contract farming. For this purpose, it has to take up many awareness programmes and should attract the farmers by providing incentives. It has to put maximum efforts in training a few farmers initially, because the viability will spread from person to person. Once the farmers are involved in the activities of the farm, then the company can move its business operations efficiently.

Final Thoughts

With its unique business model, Suguna can achieve the goals it has set for it itself. But intense competition can hinder its growth prospects. In addition, the challenges for the Indian poultry industry as a whole might also have an impact on the company. Adopting specific strategies to address these issues might help the company in achieving its plans.

Annexure (TN)-I Teaching Plan Flow				
Sl. No.	Analysis Section	Expected Learning Objectives	Forward Linkage	Ideal Duration (mins)
1.	Dynamics of Indian Poultry Sector	<ul style="list-style-type: none"> To understand the importance of Indian poultry sector and its contribution to the economy To understand the various phases involved in the evolution of the poultry sector and the significance of contract farming. 	Provides an understanding as to how poultry sector is a key contributor to Indian economy. It highlights the major players in Indian poultry sector and the evolution of Suguna Farms in particular.	15
2.	Business Model of Suguna	<ul style="list-style-type: none"> To analyse the evolution of Suguna Poultry Farms Ltd and its growth in the poultry sector To evaluate the business model of Suguna and various strategies adopted by the company. 	Provides an understanding as to how the company adopted contract farming in its unique business model. It also explains how an entrepreneurial venture like Suguna faced challenges and addressed them in the course of its operations.	20
3.	Strategy Making in an Entrepreneurial Venture	<ul style="list-style-type: none"> To examine the process of strategy making in an entrepreneurial venture To understand the necessary adjustments required in formulating strategies. 	Gives an understanding as to how strategies should be formulated considering the business environment and explains as to how Suguna turned challenges into opportunities to expand across India.	20
4.	Suguna's Expansion Plans	<ul style="list-style-type: none"> To analyse the expansion plans and competitive strategies of the company To understand the possible challenges Suguna will face in the course of its expansion across India. 		15
Prepared by the author				