



Small Producers in New Economy

**Transforming India Magazine Interview with
Mr. B.M. Vyas** - By Mr. G.V. Krishnagopal

One of the largest food product marketing organisations of India, Gujarat Cooperative Milk Marketing Federation (GCMMF) is the symbol of cooperative success. In this interview with Mr. G.V. Krishnagopal 'Transforming India', Mr. B.M. Vyas (Managing Director, GCMMF) talks about the challenges faced by the producers in changing economic & political scenario, suggests strategies for their survival in globalized market and expresses his views on the emerging production systems.

What has been Amul's experience of interacting with the markets for last five decades?

My experience in marketing is two decades old and is limited to Amul. However with an insider's knowledge of Amul, I feel Amul's marketing model suits its profile. The model eliminates middlemen and such a short marketing channel ensures a higher value to both producers & consumers. The consumer buys the product at the lowest possible cost and producer realizes the highest possible price with the absence of middlemen. Sardar Vallabh Bhai Patel had strongly advocated removing middlemen; this advice remains Amul's underlying marketing principle. Amul has been a part of the Indian market since the formative years of the country, and its success prompts one to state that it is a replicable model beneficial to the Nation. Amul's journey has been quite exciting and interesting.

Many argue that producers are incapable of interacting and transacting with the market. They also argue that producers are better off doing only production. What is your opinion on this?

Let me tell you that most governments help their producers to succeed in the market. Coca-Cola was banned in China during the 70s and early 80s until the intervention by Dr. Henry Kissinger and the US President. They did not request Chinese to liberalize their economy but simply petitioned that Coke and Pepsi be allowed market entry. So in this way the US Government facilitated the producers' entry into a new market. This does not mean that Coke and Pepsi were incapable. It is difficult for an individual person or business to influence a government, especially a foreign government. Business is engineered more by the policies of external powerful people than by the policies of the powerless. Who are the most powerful nations in the dairy sector today? Without doubt it's the European countries and the USA. These countries systematically dump their surplus in developing countries, ruining their market. This holds for many other commodities too. Such features make a poor producer in a developing country very vulnerable. Domestic governments also get carried away by the opinions of western experts whose advice is more beneficial to their own countries.

So is the individual farmer capable of interacting with the market? No, he is the most vulnerable actor in the market and cannot function alone because of stronger and bigger competitors, and a powerful government. The market is dominated by the power of knowledge, money and technology. The individual farmer in a developing country is too weak to combat this. The only way of survival is forming collectives like cooperatives and thereby strengthening farmers, making exploitation impossible and empowering their market position.

It is not necessary to form a large group with all producers joining simultaneously to become a formidable force. Organize farmers at a level where there is economy of scale in the activity they are pursuing. If you are functioning at a national level, you can create a national brand and if you are selling at a regional level, you can create a regional brand. If you are collecting milk in Andhra and selling in Andhra, you do not necessarily need a national level brand. So you need to create a

structure in alignment with your market and people involved.

But the donors say otherwise...

The first thing everybody should understand is that we should not be dependent on donors. In the donor-beneficiary relation none of the parties are respected. It is the intent & will that matter, not money. There has to be right intention and right people to manage cooperatives. A successful venture needs people who are ready to postpone the repayment of their investment. Mahatma Gandhi sacrificed his life for the country, never charged a single rupee and the country is still making the repayment. Dr. Kurien was working for very low salary. He could have worked for a higher salary at some other place. But he did not. He worked hard. And, look at what he has achieved. Professionals should work for their passion and not for money. Picasso made beautiful paintings, not for money, but because it was his passion. The same example applies to Michelangelo.

What is your take on advantages of consolidation of production systems, contract farming? What does it mean for producers' organization?

I feel contract farming will be difficult to operate in India. A businessman interested in a contract with farmers, must deal with a collection of farmers and not at an individual level. An individual producer is weak. He has no bargaining power and no foothold in the market. He needs a collective to reduce his vulnerability and, uniting and organizing themselves increases their bargaining power. It is better for farmers to organize themselves into cooperatives and engage in some kind of processing activities like grading, packaging; thus becoming large part of the value chain. However, if the level of value addition required is very high & products are for niche area needing expertise of a business savvy entrepreneur; the cooperative can sell just the semi-processed goods. For example, if you are making biscuits and need butter for making butter cookies, a farmers' cooperative can supply butter. Here such business is just 5% of cooperative's total business and hence you are not vulnerable enough for exploitation.

What are the complications of having farmers as board members?

Let me tell you, the degree of freedom, trust and respect one enjoys working under a board comprising farmers, cannot be enjoyed with any other entity. If somebody says he/she could not perform in a cooperative, understand that his/her non-performance was not because of the board but due to his/her own weakness. All one needs to do is to convince the board that by following a certain strategy, the interests of the cooperative can be served better and the board will provide an all-out support. Only when you are not sure of yourself, you will blame the farmers' board. For example, it is possible that individual farmer in the village may not understand the relevance of the internet, but if you tell the board that investment in this facility will make the business competitive, the board will not disagree. Again, first you need to enjoy their trust and prove that you are good at conducting business. I have not encountered any such problem. Whenever things went wrong, mostly I was responsible and whenever things took a better turn the credit must go to the board that never stopped me from taking action. Never have I taken a single proposal back to my Board because the board did not agree. The board has never forbidden me from pursuing any action I wanted to. I may not have taken certain actions because I lacked the guts to pursue them. I was unsure of the outcomes. The farmer cannot be labeled incapable in such cases. When I am in doubt they normally request me to hire a consultant.

What are the constraints rural producers have in interacting with the market?

I think that very often the constraint is in government trying to control prices for political reasons. Sometimes it tries to protect consumers rather than the producers. Of course, Gujarat has been an exception. Still the government finds it easier to control the affairs of cooperatives than those of the corporates. The corporates somehow are able to manage the government better than the cooperatives. That is why the cooperatives are not growing as fast as their potential for growth. The Government just does not allow cooperatives to succeed. The same Government spreads out the red carpet for multinational companies, giving away hundreds of acres of land and tax benefits when these MNCs are only just setting up an assembly line and not really investing. All Governmental officials and ministers stand in a queue to welcome the MNCs. When a cooperative needs any small assistance, it

has to wait for at least one year. So that's where the government plays its role. Today, people are not like Lal Bahadur Shastri, who could gauge Amul's potential in just one visit and asked to replicate it across the country making such a difference to villages across India. Today, ministers may sit just 100 km from you but will not spare time to meet you.

Why does everyone want to invest at the retail end?

Frankly, I have a different view. In 1980s, when I was in the marketing, I used to wonder why Amul products were not visible in the market. At that time we were marketing only Amul butter and milk, both of which were stored in refrigerators. So the consumer could not see products on display and hence sales were poor. This was more or less true for most Indian products. On the other hand, manufacturers in Japan, Germany and USA showcased their products in much better ways. They had huge display windows through which they attracted customers. They also created an enticing atmosphere in their stores that prompted customers to visit. In the process, they created brands which registered in the minds of customers. They also created an impression of superior products. For example, a T-shirt sold in a five storey, air-conditioned store may not be superior in quality to the one sold outside the railway station. Frankly speaking, in many cases, the only difference is in the label, the foreign label for which you will visit the store and pay a three times higher rate.

In the book, Confessions of an Economic Hitman, the author, John Perkins, says that the world is not run by local governments but by US corporatocracy. He narrates it as how an international aid agency team or some big consultancy team researches on a developing country. They hire local consultants for some work and pay them heavily with luxurious facilities. They then comment on the bad status of power and ask local consultants to write accordingly in their reports to the government. The local consultants show the report to the power ministry, media, business confederations, state governments and receive lots of publicity.

The local consultants receive lots of adulation over their work. Based on the findings, the Government liberalizes the power sector. Similarly on the direction of World Bank or similar consultancies, the fuel sector gets liberalized, followed by marine ports, airports and whole transportation sector and roads. In all these ventures, various bi-

lateral government contracts are made. Due to all these investments, the economy is debt ridden, and the currency value falls. The experts now ask the Government to reduce import tariffs, liberalize banking and financial institutions. Finally, the retail sector is identified as problem sector,

needing liberalization. Government succumbs and retail market gets flooded with foreign goods. Basically the gist of the book is how as a highly paid professional, he helped the U.S. cheat poor countries around the globe out of trillions of dollars by lending them more money than they could possibly repay and then take over their economies. This, in essence is liberalization. At the end of the book, author says he feels guilty for destroying economies of countries like Indonesia, Venezuela and many Latin American countries. Even in our software industry, we hardly produce branded products. We are doing commodity business. Where are our brands in the world class software markets? The best brains from our country (IITs) are working for commodity markets or work for MNCs building their brands. Our talents work for international companies, develop products which are sold under international brands to our own countrymen at high royalties. Our talented people should in fact learn from Amul and create marketable Indian IT brands.

Some days ago, one representative from a software company came here to sell ERP Suite to me. We needed software for all our milk unions, which meant crores of rupees investment. I asked him, "Can it be used for milk procurement"? He said "No, my ERP Suite does not have that model". I asked, "Can it handle veterinary medicine service we provide" He said, "No it can't do that".

Then I asked him, "Then what have you got for us? Stock maintenance software which you have developed by copying and pasting excel sheet? You never send an intelligent person to us who could study the scale of our work and accordingly develop suitable software linking up various activities we do, which could have tremendous value to us. Instead you sent me garbage called ERP Suite for which you want me to pay Five Crores. I prefer that my work be done manually rather than using your software." The Indian software professionals are at the same status today as the milk producers were in 1950s. Why are they not forming IT cooperatives to sell their software?

It is said that members' outlook is limited to their own benefits. What is your opinion?

If you work with commitment and prove to them that what you are doing is in their interests and for their benefit; if you secure their trust and respect, they will accept you and work with you the way you want. If you want them to follow you just because you are more educated, it will not work. If a child says he wants to fly, it is difficult to argue with him. But if you show him how a bird flies and make him experience that he cannot fly but can walk & run, the child will understand. Then he may say that he wants to become a pilot. Thus you understand that he has a dream but he does not know how to fulfill that dream. It is the same with farmers. If you want to teach your ward to jump, it is impossible to expect it to perform on the first day of training. You have to first gain its trust and this is a slow process.

E-chaupal is being touted as great innovation bringing change in the life of rural producers. What do you think about concept of E-chaupal?

I am not very conversant with E-chaupals. But I think it puts farmers at the mercy of collection agents. It is similar to the Marwari culture of *khali*, where middlemen used to collect produce from farmers and sell to the ITC. Now they have obtained computers, so middlemen would be more aware of the market, and accordingly decide when to buy and sell. So E-chaupal is favored more in the interests of the middlemen or collection agents than the farmers.

Ultimately, whatever model you design, it should benefit the farmers. When a child is born he is given a name, which becomes his brand and he becomes the owner of that brand. Likewise, when farmers produce something, they should become brand owners of their produce. Since the farmers have no brand and hence no identity they become the company's slaves. All entities in the public or private sector are known by their brand names. These brand names are owned by them and give them independence in the market.

So farmers should have a brand which will give them independence in the market. Amul cooperative is not important; Amul brand is the most important because it is

the identity of the milk producers. Consumers buy Amul product, because it is made by Amul the brand and not because it is made by Kaira District Cooperative Milk Producers' Union Limited. What matters is the consumers' trust in the brand, which ultimately makes it powerful. I am not against any model; my point is ownership of the brand should rest with the producers. If you are advertising and investing money, you can capitalize by charging fee or interest but you must commit to entrust farmers with brand ownership.

The journey so far...

On completion of his B.E. (Mechanical) from Sardar Patel University, V V Nagar in 1971, Mr. B.M. Vyas joined Gujarat Cooperative Milk Marketing Federation (GCMMF) as Officer (Purchase). For the next 23 years, he worked at different designations in GCMMF handling purchase and marketing. In 1994, when the Indian economy was going through the process of liberalization and was opening up to competition, Mr. Vyas became the Managing Director of GCMMF. In order to take on the competition he introduced Total Quality Management across the supply chain. Within a span of 14 years under his leadership, GCMMF succeeded in achieving following milestones:

Launch of 30 new products

Development of India's largest cold chain network

Amul became the largest Ice-cream brand and Asia's largest fresh milk brand

Development of largest frozen products network

Increase sales of GCMMF by five-folds (from Rs. 980 crores to Rs. 5200 crores)

Apart from these successes, under his guidance, GCMMF has also won recognition in the form of following awards: all 'Rajiv Gandhi National Quality Award' (2002), 'IMC-Ramkrishna Bajaj Certificate of Merit for Quality' (2003) and 'India's Most Respected Company Award' (Business World 2002). In his personal capacity, Mr. B M

Vyas has won QIMPRO Gold Standard Award (2003) and the National Citizen Award (2001).

He is on the Permanent Committee of Commission, International Dairy Federation. He has also represented on the board of various organizations namely: Institute of Rural Management, Anand, Indian Institute of Packaging,

Organization Profile

Gujarat Cooperative Milk Marketing Federation Ltd. (GCMMF), Anand is the marketer of India's largest food brands, 'Amul' and 'Sagar', with an annual turnover of Rs 52 billion. It is a marketing federation of 13 District Cooperative Milk Processing Unions of Gujarat state with a total farmer membership of 2.6 million. Under the leadership of Dr. V. Kurien, the cooperatives of Gujarat have pioneered the globally acclaimed "White Revolution" in India. GCMMF dominates India's food industry with a retail network of 500,000 shops serviced by 3000 stockists pan India and managed by a network of 50 sales offices and 300 member sales force. GCMMF is also the largest exporter of dairy products in India.

During the year 2006-07, the member unions took a revolutionary step in integrating liquid milk marketing operations in all districts of Gujarat under the common Amul brand. This has enabled all member unions to benefit immensely from the substantial investment made by the Federation in advertising Amul milk on national media. Amul has now possibly emerged as the largest milk brand in the world. One of the most conservative FMCG entities GCMMF spends a mere 1% of its turnover on promotions. GCMMF has written and re-written the rules of the game. The Amul butter girl is one of the longest run advertisement campaigns in the country. GCMMF is the first and the only Indian organization to receive the 2007 IDF Marketing Award which covered three categories Nutri-marketing, Innovation and Marketing Communication. Amul Pro-biotic Ice-cream received the award in the Nutri-marketing category.

The Gujarat Cooperative Milk Marketing Federation has a massive expansion plan. The company wants to roll out 10,000 retail outlets by 2010 to have a deeper Pan-India presence.

Tags: B.M. Vyas, GCMMF, Amul, short marketing channel, dairy sector, farmer, cooperatives, Dr. Kurien, value chain, farmers as board members, foreign label, retail sector, John Perkins, Indian IT brands, E-chaupals, brand, brand ownership, FMCG, Gujarat