

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

The Indian poultry industry plays a prominent role in the agriculture sector contributing 2.5% to the country's GDP. In just a few decades, the industry has transformed from a backyard activity to a highly technology-driven industry. This rapid growth was aided by the development of the contract farming model. Adopting this model, the Coimbatore-based Suguna Poultry Farm Ltd. (Suguna) stumbled upon its unique business model while trying to find a solution to the problems it faced in the course of its operations. It has successfully established itself in the Indian poultry industry and is currently the world's fourth largest player in the broiler segment. Its operations are, however, centred in the southern part of India. In 2008, Suguna announced its plans to expand across India along with its efforts to strengthen its backward and forward integration processes. With competition getting intensified, will the company be able to sustain its current rate of growth if it expands across the country? What possible challenges could the company face?

## Indian Poultry Sector: Structure and Performance

India has a cultivable land of 184 million hectares, which helps in producing various items (Exhibit I). Despite the boom in the service sectors (software and IT), agriculture is still considered as the backbone of the Indian economy with more than half of the population associated with it. The percentage share of agriculture in GDP was 18.5% in 2006–2007. Out of the agriculture sub sectors, livestock is one of the major contributors. The contribution of livestock sector to agricultural GDP grew from 22.51% in 1999–2000 to 24.72% in 2004–2005. The contribution of livestock output to the country's GDP was 6% in 2003–2004.

Exhibit I Production of Items out of Agriculture (2004–2005)		
Items	Quantity (million tonnes)	Ranking in the World
Milk	91	Highest
Fruits and vegetables	150	Second
Livestock	483	Largest
Food grain	210	Third
Fish	6.2	Seventh
Egg	45.2	Fifth

Source: "Ministry of food processing industry", <http://www.agbios.com/docroot/articles/05-010-001.pdf>, 2005

The share of poultry in the livestock sector is significant compared to other sub-sectors like buffalo, goat and sheep. Out of the total meat production in the country, poultry meat comprises of 25%. By 2004, the annual growth rate of poultry was moving at 15% per annum whereas growth rates of other meats were advancing at only 5% per annum. The poultry industry contributed 2.5% to the country's GDP, which amounted to INR 29,000 crore in 2004.<sup>1</sup>

<sup>1</sup> Sharma Pradeep, "Poultry belt losses cross Rs100 crore", <http://www.tribuneindia.com/2004/20040212/ct1.htm>, February 11<sup>th</sup> 2004

This case study was written by Sowjanya Mora under the direction of Vara Vasanthi, IBSCDC. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

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Over the years, the poultry industry underwent tremendous changes in its structure and operations. In just four decades (beginning from 1960's), the industry has grown from a subsistence activity into an organised, scientifically-oriented and technologically-driven industry. The structure of the poultry industry, however, is not uniform and differs region wise within the country. Broadly, the poultry industry in India consists of two groups – organised and unorganised sectors. The contribution made by the organised sector accounts to 70% and the remaining 30% is contributed by the unorganised sector.<sup>2</sup> The organised sector uses intensive farming, modern technology and sophisticated breeding systems to generate greater productivity. The unorganised sector, on the other hand, has little or no promotion for brands. Indeed, most of them do not sell under any brand. The poultry sector has evolved through three definite phases namely traditional, semi-commercial and commercial system.

### Phases in the Evolution of Poultry Sector

The traditional system of farming was regarded as a 'backyard business', where small-scale farmers raised the fowl (poultry birds) for self-consumption and occasionally sold the surplus at neighbourhood/local markets. Farmers were disenchanted with agriculture due to irregular (uncertain) income, erratic climatic conditions, inadequate irrigation facilities, limited credit sources and increased debt burden. Farmers, it was argued, were gambling with monsoons. As a result, the farmers took active interest in non-crop sector (poultry and dairy). Although unorganised poultry farming did not follow any organised form of production, it played an important role in the rural environment, as it was a source of income as well as employment. The traditional system, however, faced several limitations like unawareness of veterinary services, limited/inadequate infrastructure, high incidence of disease, poor quality of inputs, etc., which did not enable farmers/cultivators to achieve optimum level of productivity.

The commercial system of farming adopted more specialised and sophisticated techniques focusing on bulk production and required low levels of labour. By adopting modern technology, farmers were able to produce poultry for specific uses – layers for eggs, broiler for meat etc. To further encourage them, the government offered several incentive schemes. For instance, incentives were given to players who adopted modern technologies and achieved higher productivity. In addition, many research institutions were set up and other facilities like training, veterinary care, technical support and insurance schemes were provided, which helped the growth of commercial farmers/integrators.

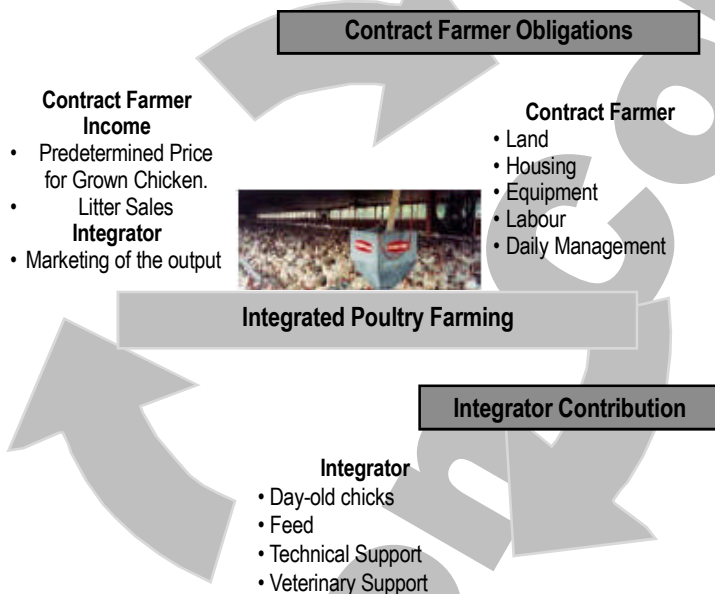
The fast growing market prompted integrators to look for ways and means to increase market share, maintain low transportation costs, achieve economies of scale and high productivity. However, small farmers could not fully participate in the rapidly growing poultry market, due to the challenges like diseconomies of scale, poor infrastructure, lack of proper transportation channels, etc., they found it hard to survive independently. To fill this gap between the integrators and small farmers, the 'contract farming model' emerged. The model involves an agreement between company and farmer, wherein the company agrees to supply all the necessary inputs to the farmers at a predetermined price for the production of a specific product. The integrator supplies inputs (Day-Old-Chicks (DOC), medicines and feed) to the contract farmers for the production of broiler and/or eggs. After the conversion process, which takes an average period of 6 weeks (42–45 days) poultry farms take back the end products from the farmers by paying a price (growing charges) (Exhibit II). Contract farming in the poultry industry follows the centralised model, which involves vertical integration with strict quality control and high level of processing.

Contract farming benefits both the farmers and integrators. Farmers are able to improve their efficiency with the transfer of technology and skills, and they are provided with all the managerial (managing skills and procedures) services and inputs required for production. They also get an assured (guaranteed) price for their product and are unaffected by market volatility. On the other hand, integrators are able to ensure consistent quality, overcome problems like land constraints, reliable sources of supply, and reduce the risk involved. Integrators control all the aspects of the supply chain. Independent farmers are provided with DOCs, which in turn come from parent breeder farms. After receiving the products from the contract farmers, the company can either directly sell to trader or it can further process the meat (slaughtering, chilling and packaging) and send it to retailers (Exhibit III).

<sup>2</sup> Ravikumār K., "Poultry farming in India and its future prospects", <http://www.fnbnews.com/article/detnews.asp?articleid=19331&sectionid=32>, November 18<sup>th</sup> 2006

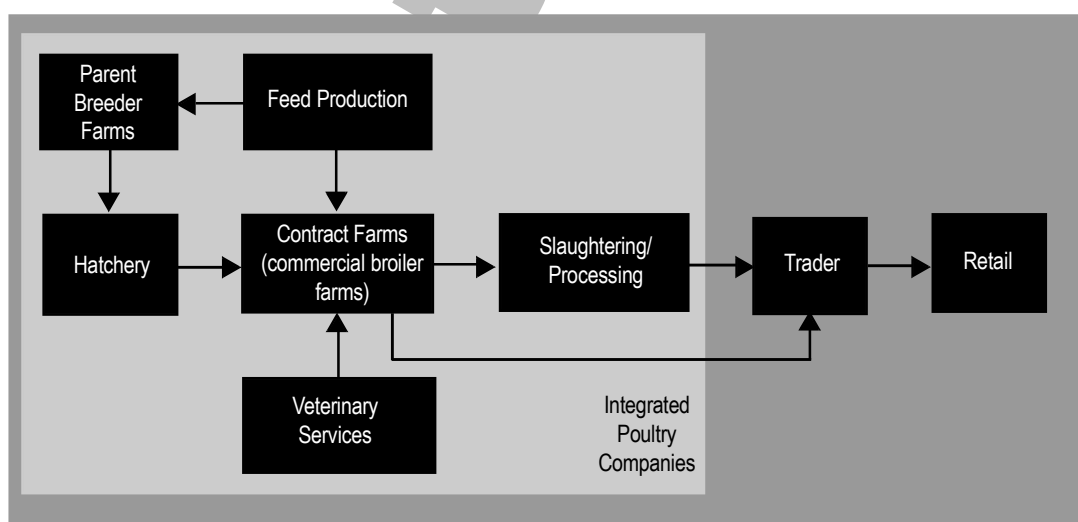
## India's Suguna Poultry Farm Ltd.: Can it Go Pan-India with its Current Business Model?

### Exhibit II Integrated Contract Poultry Farming



Source: "Iraq private sector growth and employment generation", <http://www.usaid.gov/iraq/contracts/pdf/ThePoultryIndustryIraq.pdf>, November 20<sup>th</sup> 2006

### Exhibit III Supply Chain of Poultry (Broiler) Industry in India



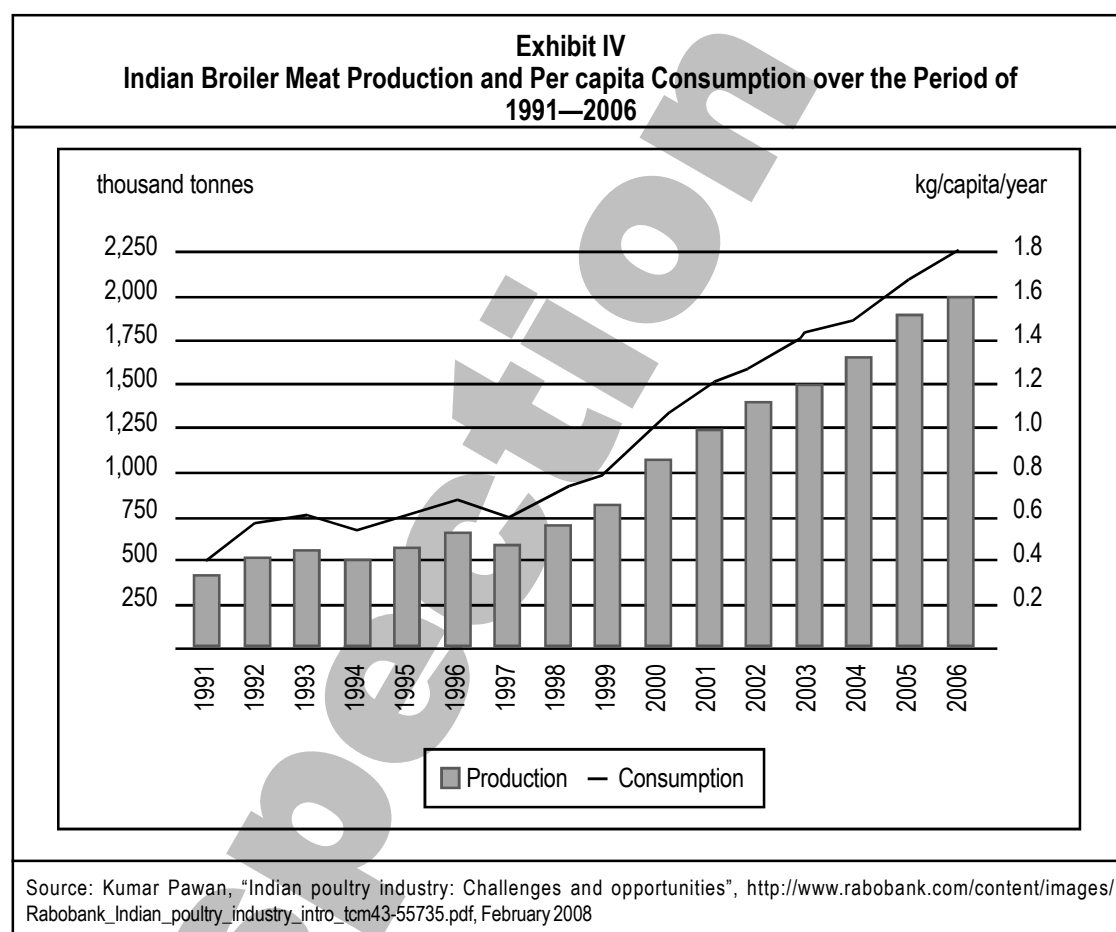
Source: Kumar Pawan, "Indian poultry industry: Challenges and opportunities", [http://www.rabobank.com/content/images/Rabobank\\_Indian\\_poultry\\_industry\\_intro\\_tcm43-55735.pdf](http://www.rabobank.com/content/images/Rabobank_Indian_poultry_industry_intro_tcm43-55735.pdf), February 2008

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

Majority of the integrators are highly concentrated in southern (Coimbatore) and western (Pune) regions. The major players in the industry are Venkateshwara Hatcheries, Pioneer Poultry Group, Suguna Poultry Farm Ltd, Godrej Agrovet Ltd, which are mainly centered in the southern region of the country. The expansion of the poultry sector has simultaneously increased the demand for poultry farms. There were around 60,000 poultry farms under the organised system of farming in 2002.<sup>3</sup>

### Consumption Patterns

Consumption levels in India have been rising. The per capita consumption of poultry has been moving at a Compound Annual Growth Rate (CAGR) of 10% in the last 15 years (1991–2006).<sup>4</sup> Parallel to the increase in the per capita consumption of poultry meat, its production has also increased tremendously (Exhibit IV). The escalating production has created employment to 1 million people directly and 4 million people indirectly.<sup>5</sup> Increase in per capita consumption of one egg or 50 grams of poultry meat can create 26,000 additional employment opportunities.<sup>6</sup> The consumption levels are projected to increase further in the future. The total consumption of egg is estimated to increase from 34 million in 2000 to 106 million by 2020, 200% increase. The total consumption of domestic meat is estimated to increase at a slower rate compared to egg, from 0.7 million tonnes in 2000 to 1.67 million tonnes in 2020.<sup>7</sup>



<sup>3</sup> Singh Raj Vir, et al., "Technology Options for Sustainable Livestock Production in India", [http://www.icrisat.org/Text/pubs/digital\\_pubs/J144\\_2002.pdf](http://www.icrisat.org/Text/pubs/digital_pubs/J144_2002.pdf), January 18<sup>th</sup>–19<sup>th</sup> 2001

<sup>4</sup> Kumar Pawan, "Indian poultry industry: Challenges and opportunities", [http://www.rabobank.com/content/images/Rabobank\\_Indian\\_poultry\\_industry\\_intro\\_tcm43-55735.pdf](http://www.rabobank.com/content/images/Rabobank_Indian_poultry_industry_intro_tcm43-55735.pdf), February 2008

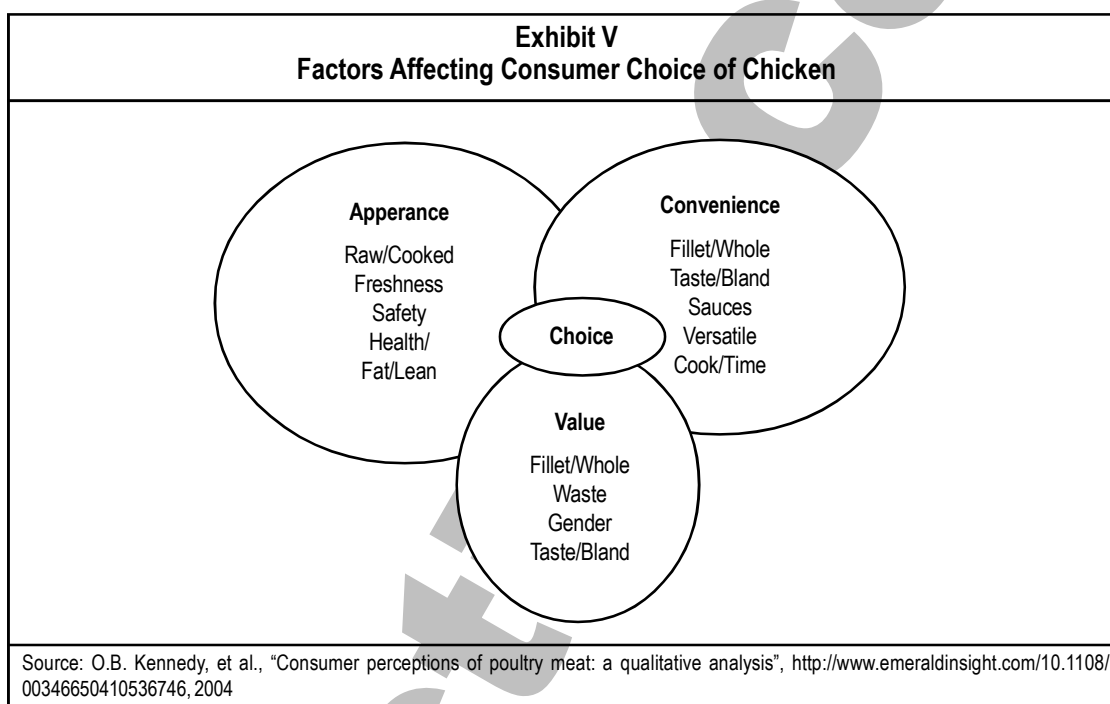
<sup>5</sup> "Indian Poultry Industry at a glance", [http://www.vethelpineindia.com/art\\_poultryind.htm](http://www.vethelpineindia.com/art_poultryind.htm)

<sup>6</sup> Desai J. Anuradha, "Current scenarios and growth prospects for poultry and raising India's share in global markets", <http://www.e-krishi.org/Produce/Files/136.pdf>

<sup>7</sup> Mohanty Samarendu and Rajendran K., "2020 Vision for Indian Poultry Industry", <http://www.pjbs.org/ijps/fin74.pdf>, 2003

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

Consumption of poultry products in India is highly influenced by price. Over the years, the prices of poultry products decreased with the entry of new participants, implementation of latest technology and increasing number of vertically integrated companies. Increasing population and a gradual shift of vegetarianism to non-vegetarianism has also contributed to the growth of the poultry industry. According to The *Hindu CNN-IBN State of the Nation Survey*, in 2006, around 60% of the Indian population was non-vegetarian. Consumer behaviour in choosing chicken can result in variations of supply and demand for poultry meat. Product appearance, freshness, fat content, convenience etc., are the drivers determining the choice of the chicken (Exhibit V). Other factors which have enabled more people to include poultry and other meats in their diet are – increasing purchasing power due to increase in incomes and international exposure with the entry of MNCs. In addition to this, overseas travel, health consciousness and boom in the retail sector have had an impact on the industry.



Observing the growth trend in the Indian poultry industry, many global players have started building trade relations with India. The industry, which achieved self-sufficiency, started extending its scale of operations globally. India has a good market for its poultry products in Japan, Malaysia, Indonesia and Singapore. The exports include table eggs, meat, live birds and value-added products such as egg powder, frozen yolk and albumin powder.

However, with the outbreak of Avian Influenza (Bird flu) in 2004 and 2006, the Indian poultry industry's image was badly affected. It created a huge gap between supply and demand. The poultry industry was in huge financial losses as most of the poultry firms closed their units. Although India was one of the first countries to be declared free from Avian Influenza, the exports were negligible. Exports of poultry products amounted to INR 3,169 million in 2005–2006 and constituted less than 1% in the world poultry trade in 2005 (Exhibit VI). There is huge room for expansion in the poultry industry, as global importers prefer to have different sourcing bases. To increase its share in world poultry trade, the Indian poultry industry has to overcome a few challenges. Firstly, the poultry industry, to be globally competitive, has to work on improving its image in the world. Certification issued by Indian laboratories is not accepted by EU, US and other major developed countries, as they are not accredited in accordance with the developed countries' laboratories.

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

Exhibit VI Exports of Poultry Products (2005)	
Countries	'000 Tonnes
EU	2,735.14
Brazil	2,605.87
China	112.04
India	0.68
US	2,487.93

Source: Kumar Pawan, "Indian poultry industry: Challenges and opportunities", [http://www.rabobank.com/content/images/Rabobank\\_Indian\\_poultry\\_industry\\_intro\\_tcm43-55735.pdf](http://www.rabobank.com/content/images/Rabobank_Indian_poultry_industry_intro_tcm43-55735.pdf), February 2008

Moreover, although India is the world's third largest in egg production and sixth largest in chicken meat production according to the International Livestock and Dairy Expo 2008,<sup>8</sup> it is marked by irregular growth trends. In addition, north-eastern and eastern regions are still in the primitive stages due to the absence of organised marketing and training programmes. Other problems are shortage of feedstuff, unorganised farming and infrastructural facilities. The supply of maize is very limited and a slight change in its price, may considerably affect the production cost of poultry farms as feed accounts for 70%—75% of the production cost. The logistics costs involved for poultry stuff is very high. With the entry of integrators (poultry companies), poultry farming has been modernised to some extent but unorganised sector continues to be the same. Indigenous (local) farmers, having a major share in rural environment, do not follow quality standards and as such attain low productivity. Infrastructural facilities like cold storage, distribution, testing systems, etc., play a key role in the poultry industry. Due to lack of cold chain facilities and poor food processing, about 20% (INR 500 billion) of all foods produced in the country is being wasted.<sup>9</sup> However, industry experts opine that India can improve its exports if it upgrades its system infrastructure.

Indian poultry industry's another major drawback is that it is predominantly a wet market (market of live birds). Approximately, 95% of poultry is traded through wet market.<sup>10</sup> Indian consumers have the perception that live bird is fresh and processed meat is old. Poultry companies, therefore, did not have much incentive to explore processing. Global markets, however, prefer processed meat. With the demand for wet markets reducing due to the outbreak of Avian Influenza, people have started shifting to processed meats. Government also banned the sale of live birds and setting up slaughterhouses was made mandatory. This has opened up avenues for integrators to move into retailing of processed meat, thus altering the supply chain of the poultry industry (Exhibit VII). By entering into retail marketing, integrators would influence the wholesale-retail profits and gain cost efficiency. It is also being forecasted that the industry would consolidate in the future with a few players dominating the market (Exhibit VIII).

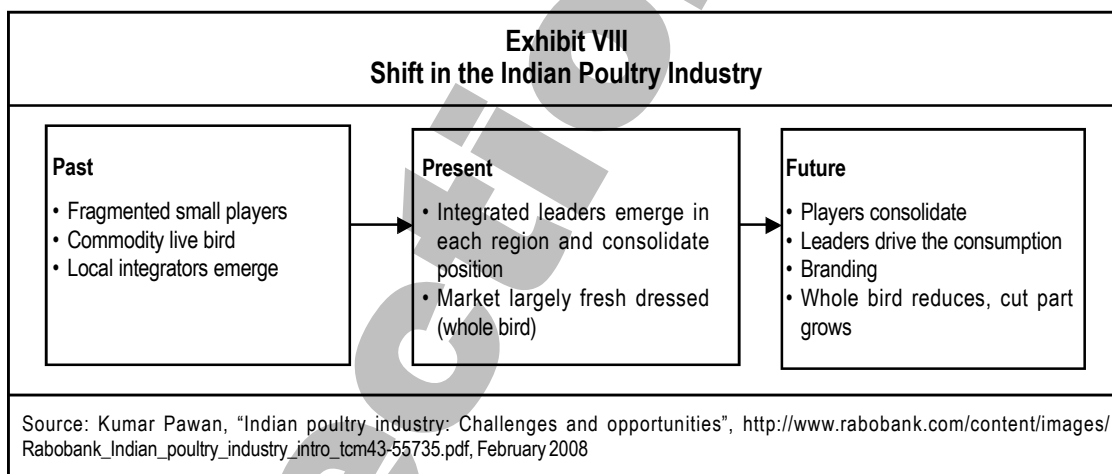
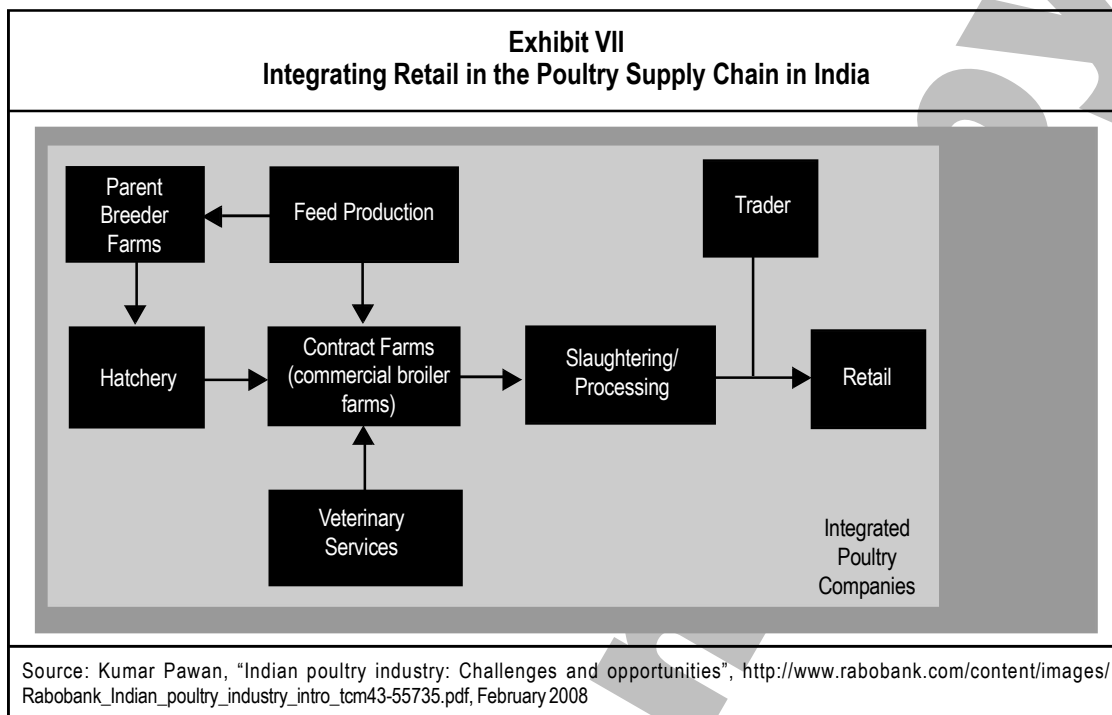
In spite of these inadequacies, several private companies have established themselves by overcoming these challenges through sophisticated technology, alternative sourcing of feedstuff and installing adequate infrastructure. Among them, Suguna has achieved a competitive edge in the poultry market through its unique business model.

<sup>8</sup> "International Livestock and Dairy Expo 2008", [http://www.4to40.com/fairs\\_and\\_exhibitions/print.asp?fairid=353](http://www.4to40.com/fairs_and_exhibitions/print.asp?fairid=353), August 22<sup>nd</sup>–24<sup>th</sup> 2008

<sup>9</sup> N. Viswanadham, "Can India be the food basket for the world?", [http://www.isb.edu/faculty/Working\\_Papers\\_pdfs/Can\\_India\\_be\\_the\\_Food\\_Basket\\_for\\_the\\_World.pdf](http://www.isb.edu/faculty/Working_Papers_pdfs/Can_India_be_the_Food_Basket_for_the_World.pdf)

<sup>10</sup> "Indian poultry industry: Challenges and opportunities", op.cit.

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

**Suguna: Pioneer of Contract Farming****About Suguna**

"A simple innovation with great business model is more successful than a great innovation with simple business model."<sup>11</sup>



<sup>11</sup> "Suguna Presentation", <http://www.sugunapoultry.com/presentation.html>

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

**Suguna's Vision**

Energising rural India through a business process that creates and sustains innovation and strategy, by continuously adding value and care to its shareholders with a style of management that will be exemplary to the corporate world.

**Suguna's Values**

Breeding trust and growing together

Suguna believes in providing safe and hygienic, nutrient rich, quality products

Suguna focuses on customer satisfaction

Suguna believes in transparent and ethical business processes

Suguna recognises human potential and meets the business relevant aspirations of all employees

Suguna treats farmers as extension of their business and aims for their betterment

Suguna behaves as a socially responsible corporate citizen

Suguna treats everyone with dignity and respects the feelings.

Suguna was initially set up as a poultry farm by brothers B. Soundararajan (Soundararajan) and G.B. Sundararajan in 1986 in Udumalpet, a town near Coimbatore in Tamil Nadu (a state in south India). The brothers had borrowed INR 5,000 (about \$120) from their parents to set up the farm with 200 layer (egg-laying) birds as well as a small shop to sell eggs, poultry feed and medicines. With no formal education to boast of (Soundararajan dropped out in class 11 and G.B. Sundararajan in class 12), the brothers have come a long way in establishing Suguna as the largest player in the Indian broiler market. It is currently the fourth largest in the world (broiler segment).<sup>12</sup> The company did not achieve this status instantly but has survived several challenges to establish itself (Exhibit IX).

<b>Exhibit IX Milestones of Suguna</b>	
<b>Year</b>	<b>Achievements</b>
1986	Suguna was founded by M/s. B. Soundararajan and G.B. Sundararajan. The company began trading layer eggs
1991	Introduced new concept of contract farming in their operations
1992	First hatchery was started
1993	First breeder operation
1995	Hatchery and breeder operations expansion
1998	Extruder plant to produce full fat Soya
1998	Semi-automated meat processing unit with cold storage
1999	Fully automated, micro processor controlled feed mill
2000	Inclusion of grandparents
2001	Expansion of operations into other states
2004	Soya unit operations in Nagpur
2006	Foundation for Asia's biggest feed mill laid at Hoskote, Karnataka
2006	Successful implementation of Oracle ERP
2007	Layer launch.

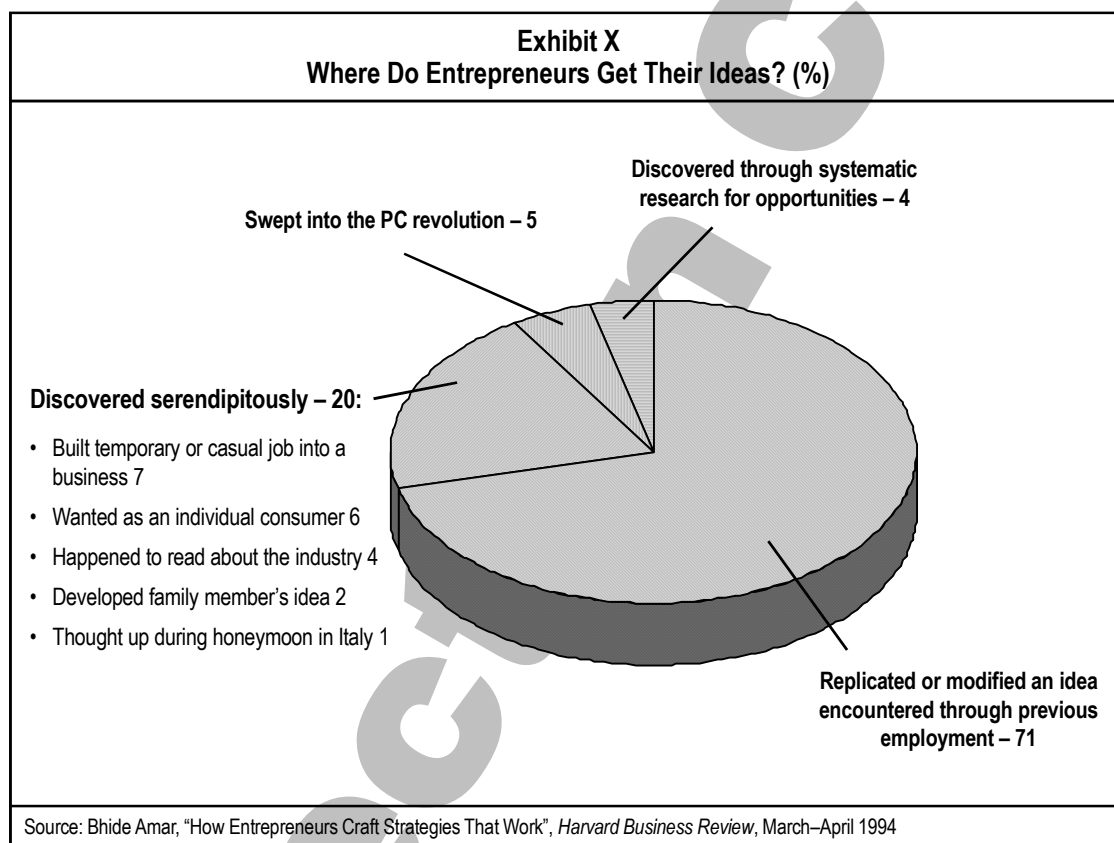
Source: "Milestones", <http://www.sugunapoultry.com/milestone.html>

<sup>12</sup> N. Madhavan, "Radically Different", [http://businesstoday.digitaltoday.in/index.php?option=com\\_content&task=view&issueid=36&id=6053&Itemid=99999999&sectionid=25](http://businesstoday.digitaltoday.in/index.php?option=com_content&task=view&issueid=36&id=6053&Itemid=99999999&sectionid=25), July 27<sup>th</sup> 2008

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

**Troubled Times**

Until 1989—1990, the farm was running smoothly. During this period, the local market was flooded with oversupply of birds, thus bringing down prices of poultry drastically. As a result, many of the poultry farmers, who had taken feed and medicines on credit from the companies, could not pay their dues and stopped operations. Though the industry was moving towards a state of depression, the brothers never thought of withdrawing from the game. The founders of Suguna saw an opportunity in this situation just as any other entrepreneur. According to founders of successful new ventures, nearly 41% businesses have no formal business plans and 71% of ideas to start up a venture come from replicated or modified idea, which belong to past employment.<sup>13</sup> Individuals possessing entrepreneurial streaks generate many ideas based on which strategies are formulated (Exhibit X). In trying to find a solution to the problem at hand, the two brothers decided to adopt the contract farming model.



Instead of trying to recover the money that the farmers owed them, they provided feed and medicines to them in exchange for the end product – eggs and/or broilers. Soundararajan, managing director of Suguna, said, "Suddenly, we thought why not invest working capital and manage these farms? Farmers also wanted stability. We supplied the inputs and they (farmers) became converters."<sup>14</sup> Farmers readily agreed to this as they were running short of feed and medicines in spite of having the necessary infrastructure. The success of this practice gave birth to the business model of Suguna, wherein farmers owned the infrastructure and reared the birds for a fee. Inputs like DOCs, feed and medicines are provided to the farmers. Apart from providing all technical services, their field staffs checks the condition (health, growth and mortality levels) of the birds at each farm through daily visits.

<sup>13</sup> Jan W. Rivkin, "Where do successful strategies come from?", *Harvard Business School*, February 27<sup>th</sup> 2006

<sup>14</sup> "He Counts His Eggs Before They Hatch", <http://chennaistartup.wordpress.com/>, July 26<sup>th</sup> 2008

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

During 1990—1995, the company grew steadily and tried perfecting its business model. But two critical situations threatened the company's existence. In 1992, perturbed by the rapid rise of the company, their regular supplier stopped delivering DOCs. G.B. Sundararajan, joint managing director of Suguna Poultry, said, "It was a major problem for us. Without chicks, our growth would end. So, we decided to set up a hatchery to supply day-old chicks to our network of contract farmers. This taught us an important lesson—we had to integrate backward if we had to grow and make it big in the business."<sup>15</sup> To overcome this problem, the company set up a hatchery. In 1993, the company extended its backward integration by establishing a parent farm in which parent breeds are reared (DOCs are hatched by these birds and are sent to contract farmers).

In the late 1990s, the company faced yet another challenge. It had heavily invested in a single market – Tamil Nadu. Due to excess production, it had to sell its products at a low price. This had a major impact on the company's margins. As a course of correction, it diversified and entered into neighbouring states namely Karnataka, Andhra Pradesh and Maharashtra.

### Reaching Rural India — 'Building ordinary people to perform extraordinarily.'

Through the Suguna model, on an average a farmer earned up to INR 15,000 per month.<sup>16</sup> Moreover, they were protected from price fluctuations. It was a win-win strategy where both Suguna and the farmers benefited. With the help of Suguna, farmers became free from the burdens of production, marketing, etc., of poultry products. Palanisamy M., a former textile company worker and one of the contract farmers engaged by Suguna since 1994, said, "There is no risk for us as we do not own the chicks. We also don't have to worry about the prices of feedstock, the logistics of arranging for veterinary guidance and the selling price of chicken. Suguna takes care of all that. We just need to ensure that the birds are well looked after as they grow."<sup>17</sup> Suguna also educates and provides training to the farmers on new technologies and concepts.

By adopting the contract farming model, the company eliminated the role of intermediaries in its value chain to just three players — farmer, company and the retailer. Soundararajan, said, "Until then the middlemen took away around 10% as commission. As a result, costs increased by 25%."<sup>18</sup> In the traditional farming model, there were 14 cost centres. Now, with Suguna model, they were reduced to four. This enabled Suguna to achieve economies of scale and cost efficiency in the procurement of raw materials, feed and medicines. It has further lowered production costs by setting up networks with farmers to directly procure maize and soya, the key ingredients of poultry feed.

Presently, Suguna operates in 8,000 villages of 10 Indian states (Tamil Nadu, Andhra Pradesh, Karnataka, Maharashtra, Gujarat, Rajasthan, Punjab, Uttar Pradesh, West Bengal and Orissa) covering 15,000 farmers. It aims for further expansion across the country by 2013. Through contract farming, Suguna has built a bridge between organised and unorganised sectors of the poultry industry. Many state governments are inviting Suguna to set up contract farming in their states as well.

### Quality and IT

Elements like Total Quality Management, continuous innovation, hygienic products and fulfilling customer requirements have helped the company grow. To attract potential customers and to deliver maximum satisfaction to the existing customers, Suguna benchmarked its products with international quality measurement standards like ISO: 9001<sup>19</sup> and HACCP<sup>20</sup>.

<sup>15</sup> "Radically Different", op.cit.

<sup>16</sup> "He Counts His Eggs Before They Hatch", op.cit.

<sup>17</sup> "Radically Different", op.cit.

<sup>18</sup> "He Counts His Eggs Before They Hatch", op.cit.

<sup>19</sup> ISO 9001:2000 specifies certain measures for a quality management system such as consistent product that meets customer and regulatory requirements.

<sup>20</sup> Hazard Analysis Critical Control Point (HACCP) is a systematic process control system used to identify and prevent microbial and other hazards in food production.

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

To strengthen its backward integration system, it established a grandparent farm (parent birds are reared from the grandparents) in the year 2000. To run the grandparent farm smoothly, Suguna tied up with the Ross Breeders<sup>21</sup> in UK. It utilises these breeders for delivering day-old grandparent and parent chicks (chicken that have the best genetic makeup for breeding broilers). Suguna signed a deal with Pas Reforms<sup>22</sup>, for supply of its smart incubation system in 2005. The upgradation of technology in the hatchery segment resulted in increased hatchability and improvements in DOC uniformity.

Suguna uses the latest technology to improve the efficiency on par with the market requirements. In 2005, it invested INR 8 crore (about \$2 million) and signed a deal with IBM to incorporate Oracle E-Business Suite in its business operations. The company is the first in the Asian poultry industry to implement ERP in its system of operations. The modules of Oracle applications include ERP, Advanced Pricing, Enterprise Asset Management, Self-service Work Request, Incentive Compensation, Advanced Supply Chain Planning and Constraint Based Optimisation. The application improved employee productivity and efficiency and is being implemented at nine divisions across seven states in India. Information regarding the mortality of the birds, feed intake, condition of each farm etc., is tracked down from 15,000 contract farms and processed by the ERP system every day. "As pioneers in integrated poultry farming in India with 10,000 farmers from 270 business locations from across India feeding into our supply chain, IT has always been an integral part of our growth plans. With the assistance of IBM and Oracle E-business suite, we will be better positioned to support our current and future growth,"<sup>23</sup> comments Soundararajan.

### Awards and Achievements

Suguna has received several awards for its contribution to the poultry industry. It was adjudged 'Best Performer' by the National Productivity Council<sup>24</sup>, New Delhi for 'Excellence in Domestic Broiler Birds Marketing, Hatching, Eggs Export, Processed Meat Export, Quality Consciousness, Research & Development and Continual Development of Value-Added Products', six times in a row (1995–2002) (Exhibit XI).

Exhibit XI Awards Received by Suguna			
S.No	Name of the Award	Year	Award Presented By
1	National Trade Excellence Award	1994–1995	The Minister for Power, Government of India
2	Best Performance Award	1995–1996	National Productivity Council, New Delhi
3	International Excellence in Economic Performance Award	1996–1997	Greece
4	Best Performance Award	1997–1998	National Productivity Council, New Delhi
5	Best Performance Award	1998–1999	National Productivity Council, New Delhi
6	Best Performance Award	1999–2000	National Productivity Council, New Delhi
7	Best Performance Award	2000–2001	National Productivity Council, New Delhi
8	Best Performance Award	2001–2002	National Productivity Council, New Delhi
9	Vocational Excellence Award	2001–2002	Rotary International
10	Asian Livestock Industry Award	2007	Government Of Malaysia
Source: "Awards", <a href="http://www.sugunapoultry.com/awards.html">http://www.sugunapoultry.com/awards.html</a>			

<sup>21</sup> Aviagen is the world's leading poultry breeding company which has three chicken breeding brands — Arbor Acres, LIR, and Ross. Ross are used to deliver day old grandparent chicks.

<sup>22</sup> It is a Dutch company, which specialises in the development of innovative hatchery technology for the poultry industry.

<sup>23</sup> "Suguna Poultry Chooses IBM to implement Oracle Applications", [http://www.oracle.com/global/in/pressroom/051114\\_India\\_Suguna\\_IBM\\_Oracle%20announcement\\_pre-final.html](http://www.oracle.com/global/in/pressroom/051114_India_Suguna_IBM_Oracle%20announcement_pre-final.html)

<sup>24</sup> National Productivity Council (NPC) is an autonomous body that awards the organisation which improves the productivity periodically.

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

**Global Partners**

To fill the gap in consumption in India, Suguna has launched several initiatives. Suguna is spending nearly INR 400 crore on expansion every year.<sup>25</sup> Getting financial assistance was a tough task for the company as initially no bank was willing to offer funds. But the scenario has changed to a large extent. Many banks are coming forward to support the company's expansion plans. Nearly 10 banks have already connected with the farm. State Bank of India (Mumbai branch) has extended its credit facility to the existing as well as new farmers in this regard and will also take part in financing maize cultivation activity. Apart from national banks, Suguna is the first Indian agri-business company to get funds from International Finance Corporation (IFC), the private arm of the World Bank. To support the company's expansion plans (setting up hatcheries and feed mills) and to meet working capital and capital expenditure requirements, IFC granted an amount of INR 50 crore (\$11 million) as equity in 2006.<sup>26</sup> Being positioned as a leader in the broiler industry, it diversified into layer breeding through a partnership with the world's No. 1 primary breeding company for layers, Lohmann Tierzucht GmbH of Germany in 2007. It already captured a 6.6% market share in the layer segment in 2007.<sup>27</sup>

**Retail**

It stepped up its forward integration efforts by setting up retail outlets of chicken called 'Daily Fresh', a processed meat retail chain, in 13 locations in Tamil Nadu. The outlets offer an array of whole and portioned fresh, hygienic, nutritious and tender chicken apart from branded eggs, sausages and salami (Exhibit XII). The retail chain received outstanding response to its retail outlets and the company is planning to set up another 200 retail outlets in Tamil Nadu, Kerala and Karnataka in 2008.

<b>Exhibit XII</b> <b>An Array of Products Offered at Suguna Retail Outlets</b>	
<p><b>Chilled Chicken</b></p> <ul style="list-style-type: none"> <li>• Whole chicken</li> <li>• Skinless curry cut</li> <li>• Boneless breast</li> <li>• Boneless chicken</li> <li>• Skinless whole leg</li> <li>• Skinless drumstick</li> <li>• Lolli pop</li> <li>• Liver</li> <li>• Marinated chilli chicken</li> <li>• Marinated lollipop</li> </ul> <p><b>Frozen products</b></p> <ul style="list-style-type: none"> <li>• Frozen curry cut</li> <li>• Frozen drumstick</li> <li>• Frozen boneless breast</li> </ul>	<p><b>Sausages</b></p> <ul style="list-style-type: none"> <li>• Chicken sausage</li> <li>• Cocktail sausage</li> <li>• Mini cocktail sausage</li> <li>• Mini sausage</li> <li>• Mini salami</li> </ul> <p><b>Eggs</b></p> <ul style="list-style-type: none"> <li>• Suguna Heart</li> <li>• Suguna Active</li> <li>• Suguna Pro</li> <li>• Suguna Shakti</li> </ul>
Source: "Retail", <a href="http://www.sugunapoultry.com/retail.html">http://www.sugunapoultry.com/retail.html</a>	

<sup>25</sup> "Suguna forays into branded retail", <http://newstodaynet.com/newsindex.php?id=9052%20&%20section=9>, July 10<sup>th</sup> 2008

<sup>26</sup> "Suguna readying to tap retail revolution", <http://www.financialexpress.com/news/Suguna-readying-to-tap-retail-revolution/197396/2>, April 23<sup>rd</sup> 2007

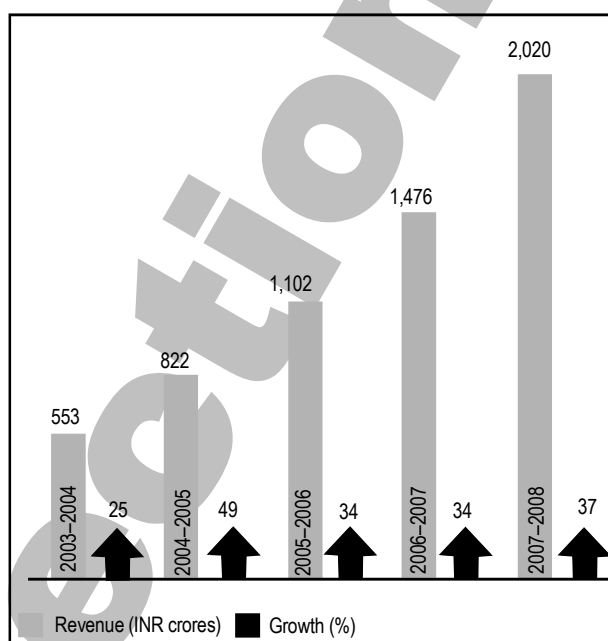
<sup>27</sup> "Radically Different", op.cit.

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

It is also planning to launch valued-added products like ready-to-cook, ready-to-eat mutton and fish products at high-end retail stores. In addition, the company is planning to focus on the marketing of its branded eggs. The company has a line up of four branded eggs – Suguna Heart, Active, Pro and Shakti. It sells 8.5 lakh branded eggs a month.<sup>28</sup> These branded eggs are rich in Vitamin E and Omega-3 fatty acids, which are nutritious, and bacteria free. These eggs benefit people with diabetes and heart diseases. The company sells these eggs to Indian retailers and talks have been going on with Wal-Mart for the supply of these branded eggs.<sup>29</sup> Soundararajan, said, "The goal is to mobilise at least 5 per cent of our revenues from the value-added products from this year, compared to about 2 per cent now (2008)."<sup>30</sup>

The flat management structure of the company permits it to grow swiftly. The company, whose operations are divided into 13 regions, authorises regional managers to take decisions on the issues relating to their regions. It recruits experienced staff from well-established players like Venkateshwara Hatcheries to increase its management width. Its strategies have helped the company grow at over 30% year-on-year (Exhibit XIII). It is making arrangements to double its current chicken production of 15 lakh per week by the end of 2010. It is also planning to increase its average size of contract farm from 5,000 to 10,000 bird farms. Increasing contract farm capacity two-fold will increase current average income of farmers from INR 15,000 to INR 30,000 a month.<sup>31</sup> Suguna is planning to expand across the country as it sees several opportunities in the Indian poultry industry.

**Exhibit XIII**  
**Revenue and Growth Percentage of Suguna over the Period of 2003—2008**



Source: N. Madhavan, "Radically Different", [http://business.today.digitaltoday.in/index.php?option=com\\_content&task=view&issueid=36&id=6053&Itemid=99999999&sectionid=25](http://business.today.digitaltoday.in/index.php?option=com_content&task=view&issueid=36&id=6053&Itemid=99999999&sectionid=25), July 27<sup>th</sup> 2008

<sup>28</sup> "Radically Different", op.cit.

<sup>29</sup> "Suguna in talks with Wal-Mart to supply branded eggs", <http://www.thehindubusinessline.com/2008/06/25/stories/2008062550361100.htm>, June 25<sup>th</sup> 2008

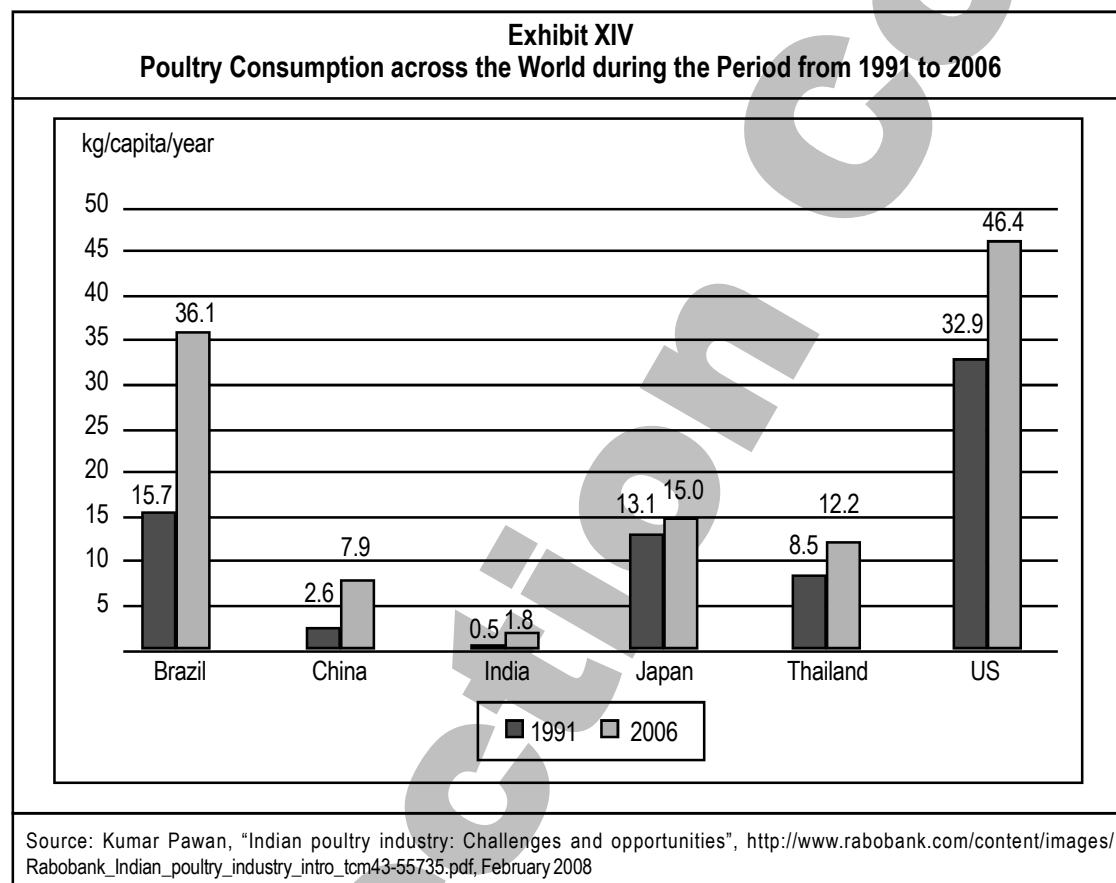
<sup>30</sup> "Radically Different", op.cit.

<sup>31</sup> "Suguna Poultry, SBI in pact for contract farming", <http://www.thehindubusinessline.com/2006/12/19/stories/2006121904421200.htm>, December 19<sup>th</sup> 2006

## Suguna Poultry Going Pan India: Will it Succeed?

### Expansion Plans

When compared with other nations across the world, poultry consumption in India is significantly low (Exhibit XIV). In the year 2007, the per capita consumption of poultry meat in India was 2.04 Kg compared with global average of 11.40 Kg. On an average, Indians consume 42 eggs per annum compared to 128 eggs globally.<sup>32</sup> There is a huge gap between consumption of poultry products in India and world over. This huge gap provides opportunities for Suguna to expand and establish itself firmly in the poultry industry.



Suguna's operations are mainly centered in southern and western parts of India with a small existence in eastern parts as well. The company is attempting to spread its operations throughout the country in the near future. Sundararajan expresses, "We want to be an INR 13000 crore company by 2013. By then, we should have a network of 60000 contract farmers across India."<sup>33</sup> As Suguna has little presence in northern regions, it is planning to enter the northern market with an investment of INR 120 crore over the coming years. It wants to spend another INR 15 crore towards marketing strategies, out of which it is planning to spend INR 6 crore—INR 7 crore in the north. It is also planning to set two processing units in Karnataka and Maharashtra at a cost of INR 20 crore each.<sup>34</sup> These units will produce 3,000 birds per hour and will look after the export market. It is also preparing to set up processing units with retail stores in each of the 10 states it is operating in.

<sup>32</sup> "Radically Different", op.cit.

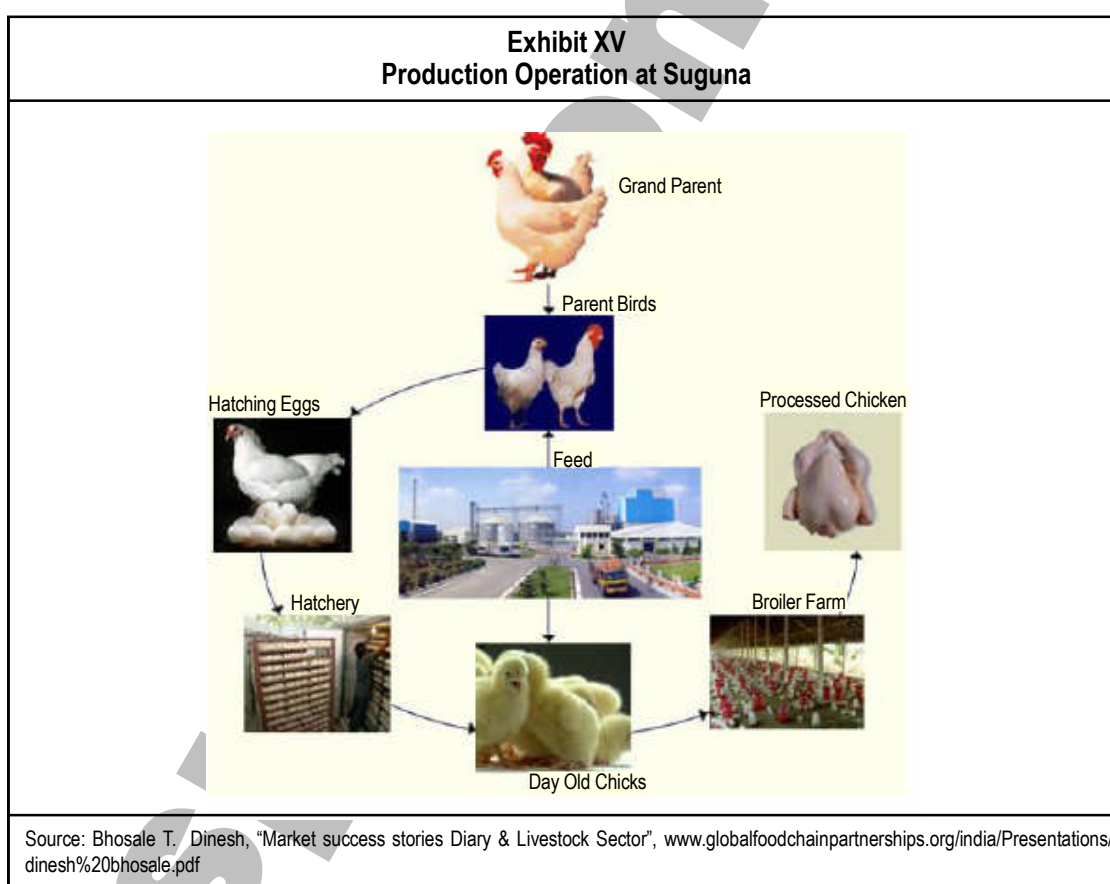
<sup>33</sup> Ibid.

<sup>34</sup> "Suguna Poultry to invest Rs.120 cr in N. India", <http://www.thehindubusinessline.com/2006/08/30/stories/2006083003090800.htm>, August 30<sup>th</sup> 2006

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

Plans are also been drawn to increase the capacity of its breeders, hatcheries and feed mills. Soundararajan, said, "Our broiler capacity will increase to 100 lakh birds a week from the present 45 lakh birds a week. The company has invested about INR 45 crore to set up hatcheries in Chittoor and Hyderabad in Andhra Pradesh and Nashik in Maharashtra. New hatcheries will also be set up in Karnataka, Tamil Nadu and West Bengal. The company also depends on small poultry farms for its processing units. Suguna will invest about INR 40 crore in new feed-mill projects in Maharashtra, Karnataka and Andhra Pradesh. Most of the expansion will cater to the domestic market."<sup>35</sup> Presently, the company has 38 feed mills in operation across the country. It is setting up four additional mills, two in Andhra Pradesh and one each in Karnataka and Maharashtra. The feed mill in Bangalore (capital city of Indian state Karnataka), would be Asia's largest feed mill. It is also planning to invest INR 400 crore (entirely funded by debt) to establish a vaccine manufacturing plant near Hyderabad.<sup>36</sup>

It not only wants to concentrate on surviving and expanding in the domestic poultry market but also to make a mark in the global scenario. It has already penetrated into global poultry market through partnership deals with poultry firms. It successfully established its operations in the Middle East through a joint venture with Supreme Foods Co. Ltd., Saudi Arabia called 'Supreme Suguna Foods'. Japan, which is very stringent in following quality standards, has also opened its doors for trade with the company. Suguna will be exporting valued-added processed chicken by the end of 2008. Deals are taking place with European countries for exports of Suguna products as well. It has already established itself as a supplier to brands like McDonald's and KFC. By successfully strengthening its backward and forward integration systems, the company has achieved a state of self-sufficiency in its business operations (Exhibit XV).



<sup>35</sup> "Suguna Poultry Farm to get fund from International Finance Corp'n", <http://news.jimtrade.com/200608/2267.htm>, May 5<sup>th</sup> 2006

<sup>36</sup> Ibid.

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

**Challenges**

Suguna, however, faces a few challenges in fulfilling its expansion plans. Firstly, Suguna is relatively new to the market when compared to its competitors. It has only 18% market share in broiler segment and holds a small share of 6.6% in the layer segment, which it entered in 2007.<sup>37</sup> Its biggest competitor, Venkateshwara Hatcheries Group on the other hand, has a market share of 85% in layer segment and its other unit Vencobb has 65% of the market share in broiler segment.<sup>38</sup> Godrej Agrovet, another fully integrated poultry company holds a market share of 16% in the broiler segment.<sup>39</sup> It is more into retailing of processed meat under the brand name 'Godrej Real Good Chicken'. The other competitors like Pioneer Poultry Group, Sky Lark Group, and Jaffa also pose a challenge to Suguna, as they are capable of taking away market share due to the highly fragmented nature of the industry.

Suguna's entry into northern regions of India also presents a few challenges for the company. The region is still underdeveloped and unorganised compared to other regions. To expand in this region, the company has to incur additional expenditure in educating the farmers, providing training and building infrastructure. In addition, its expansion into the retail sector could also be an uphill task. Offering a branded product will add up 40% to selling price on account of additional costs like packaging, taxation and advertisements. By branding its products, the company can sell its products at its high-end retail stores and command premium prices for them. But this would eliminate a large percentage of consumers who would not be willing to spend so much on something they get at a cheaper rate. Although the consumer preferences are changing with regard to consumption of chicken, people still prefer to purchase it from street corner shops rather than high-end retail stores.

Regardless of all these challenges, Suguna's founders are confident that it can achieve the plans it has set for itself. Soundararajan, said, "We are going to focus on expanding the poultry farming for the domestic market till 2010 by replicating our existing business model of contract farming across the country. Our bid to enter into international markets will be only beyond 2010."<sup>40</sup> In this scenario, it remains to be seen if Suguna will be able to give a tough competition to the players in poultry sector and whether it will be able to survive and achieve success in the global market with its unique business model.

<sup>37</sup> "He Counts His Eggs Before They Hatch", op.cit.

<sup>38</sup> "Venky's (India) Ltd", *Pratibhuti Research*, January 5<sup>th</sup> 2004

<sup>39</sup> "Godrej Agrovet, Tyson Foods form JV for poultry", <http://www.business-standard.com/india/storypage.php?autono=327492>, July 1<sup>st</sup> 2008

<sup>40</sup> G. Gurumurthy, "Suguna Poultry to invest Rs 600 cr in expansion", <http://www.thehindubusinessline.com/2007/02/27/stories/2007022700971200.htm>, February 27<sup>th</sup> 2007