CHAPTER V: STRATEGIC ADVANTAGES OF FOOD SCM FOR BACKWARD LINKAGES

The Farming is an age-old means of livelihood for millions of Indians. According to Rhodes (1993) Industrialization of agriculture is also nearly as old as agriculture itself. He points out that industrialization involves a switch from agriculture based upon a fixed resource (land) to one based upon manufactured and hence variable resources. However in spite of the development and advancement on scientific and business entrepreneurship model there have been few systems in which farmers are assured fair prices for their produce, leave alone a remunerative price. Farmers have on occasions had to throw their produce due to acute shortage of cold storage facilities, the poor and costly transportation system and some contingent startling eventualities further make the conditions worse for farmers by keeping the buyers away to approach directly to farmers.

BOX 5.1

- India has the largest area in the world under pulse crops.
- India is the first in the world to evolve a cotton hybrid.
- India grows more than half of the world's mangoes and leads all countries in the production of cashews, millet, peanuts, pulses, sesame seeds, and tea.
- The nation ranks second in the production of cauliflowers, jute, onions, rice, sorghum, and sugarcane.
- India is also the world's largest grower of betel nuts, which are palm nuts chewed as a stimulant by many people in tropical Asia.
- It is also a leading producer of such spices as cardamom, ginger, pepper, and turmeric.

Statistics Source - National Horticulture Board, FICCI, MoFPI

In spite of the above conditions the plus points give ample reasons that in India there is abundant scope for making India as a world’s leading food basket which will cater to the agricultural needs of the India’s raising population.
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The problems of agribusiness can be converted into big opportunities. There have been numerous cases in India and abroad where firms irrespective of States supports and cooperation, have adopted strategy of the Vertical Integration in a Forward and Backward form. This underlying paradox of the Indian agricultural scenario has given birth to several concepts like that of Contract Farming, Captive farming and Terminal market which promise to provide a proper linkage between the ‘farm and market.’

The above situation is on the side of the agro-based and food industry. The fact remains that still the food processing companies in India require timely and adequate inputs of good quality agricultural produce. Analyzing integration strategies in the food economy is an important research topic in the field of industrial organization in agricultural economics (Sexton, 2000). However, there is a dearth in comprehensive literature in India that has measured the impact of the legal policies and framework of backward integration strategies on firm’s value, and the prevailing legal framework and policies’ efficacies. This is one of main objectives of this chapter to measure the impact of these strategies on firm success and growth. Secondly to analyze whether the backward integration on the part of firms has yielded any good result in particular for the organizations interested as well as for the other stakeholders. Further objectives of this paper is to study the impact of Food Supply Chain for backward integration and its impact on the integration or diversification in food processing, wholesale grocery, retail supermarkets, and restaurants. Finally the effect of Food Supply Chain and backward integration for the larger benefits of the welfare of the farmers and their living standards is to be evaluated.

Recognizing the need for and merits of such a linkage with the farming/producing community, several corporate organisations from India have taken lead and are involved in agro commodity trading, processing, exports, etc. These firms have attempted to establish convenient systems/models that ensure timely and consistent supply of raw material of the desired quality at low cost. This chapter discusses a few successful cases of contract farming and a brief note on the bottlenecks and criticisms levelled against this emerging alternative farm business model.
The various methods which have been used for the awareness and implementation of the firms and farmers linkages have aptly remarked by Mr. Mani Chinnaswamy, Managing Partner of Appachi Cotton Company, a ginning and trading house from Pollachi (Coimbatore district of Tamil Nadu, India) in the following words:

“Various methods including street plays, village level meetings, display and print materials, door-to-door campaigns, and press meets were used to attract farmers’ attention and gain their confidence. A major portion of our energies were dedicated to bringing together all the linkage players such as the banks, insurance company, farm service providers, and consuming textile units and ensuring that they stayed committed to the program. The successful implementation of this program with active participation of 12 farmer groups belonging to various backgrounds and the linkage players itself amplifies the clarity and the transparency the formula holds,”

The other key characteristic of industrialized farming is the development of contractual arrangements between producers and farmers in the marketing chain. These arrangements have given rise to vertical integration in the form of backward as well as forward among producers and marketers. The World Bank (2001) points out that Vertical Integration linking input suppliers, producers, processors and supermarkets is already the common production structure in northwest Europe and parts of the USA. The successful examples of Europe and USA have great amount of influence on the Indian agro-industry. These influences and partnerships are taken at diplomatic level also whereby an agreement of assistance and sharing knowhow on the part of developed and less developed countries is worked out periodically.

5.1 Collaborative Measures in Food Supply Chains

Supply chains are complex entities that serve many functions. They are institutional arrangements that link producers, processors, marketers and distributors. Supply chains are forms of industrial organization which allow buyers and sellers who are separated by time and space to progressively add and accumulate value as products pass form one member of the chain to the next (Hughes, 1994, Fearne, 1996, Handfield and Nichols, 1999). Supply chains are the conduits through which (Cooper et al., 1997):
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- Products move from producers to consumers;
- Payments, credit and working capital move from consumers to producers;
- Technology and advanced techniques are disseminated among producers, packagers and processors;
- Ownership rights pass from producers to processors and ultimately to marketers;
- Information on current customer demand and on retail level product preferences pass back from retailers to producers.

Agro-supply chains are also economic systems which distribute benefits and which apportion risks among participants. Thus, supply chains enforce internal mechanisms and develop chain wide incentives for assuring the timely performance of production and delivery commitments (Iyer & Bergen, 1997, Lambert and Cooper, 2000).

All the chains are linked and interconnected by virtue of shared information and reciprocal scheduling, product quality assurances and transaction volume commitments. Process linkages add value to agricultural products and require individual participants to coordinate their activities as a continuous improvement process. Costs incurred in one link in the chain are determined in significant measure by actions taken or not taken at other links in the chain. Extensive pre-planning and coordination are required up and down the entire chain to affect key control processes such as forecasting, purchase scheduling, manufacturing programming, sales promotion, and new market and product launches.

5.2 Supply Chain Member’s Integration

Individual suppliers, producers and marketers who are associated through a supply chain coordinate their value creating activities with one another and in the process create greater value than what they would have while operating independently. Motives for collaboration between supply chain participants have been elaborated in detail (Mahoney, 1992, Giupero & Brand, 1996). Supply chain strategies create synergies in one of the following three ways:

a) Firstly they expand traditional markets beyond their original boundaries and thus increase sales volume for members;
b) Secondly they reduce the delivery cost of products below the cost of competing chains and thus increase the gross margin for the working capital committed by members of the chain; and

c) Thirdly they target specific market segments with specific products and they differentiate the service, product quality or brand reputation of the products they deliver to these market segments and thus increase consumer perception of delivered value.

5.3 Vertical Integration

To understand the advantage of Food Supply Chain for backward integration it is necessary to study the concept of 'Integrations in Business'. Vertical integration is defined as a method of vertical marketing system synchronization in which coordination of two or more stages occur under common ownership via management directive (Martinez, 1999). Horizontal integration is similar to vertical integration except that it refers to firms pursuing activities that are in the same stage in the marketing system. A related term is diversification in the meaning that firms can pursue activities outside of their core businesses. For the purpose of this chapter, diversification refers to activities outside the food economy. This is done to distinguish diversification from vertical or horizontal integration in the food economy. For example, the beverage company acquired a group of restaurant chains.

Vertical integration occurs when a single firm can produce complementary products and services more profitably than a number of firms. Activities are complementary when carrying out one activity reduces the cost of doing the other (Berlin 2001). Put somewhat differently, vertical integration refers to the common organization of an industry across a number of components of the value chain and to increase standardization of production at each stage of the production process. Maturing firms in a vertically integrated industry are likely under certain conditions to try to control more parts of the production process.

According to Dobashi (1999), there are three levels of integration. These are:

a) Non-integrated firms tend to act as individual business units. Non-integrated industries are likely to be found in developing countries. A small subsistence
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...farm producing food only for the needs of the farm household would be an example of a non-integrated firm.

b) Semi-integrated involves the processor taking over some parts of the production process to control the quality and quantity of output. In the broiler industry, the firm rearing the poultry may be involved in the production of parent stock or in running the hatchery operation.

c) Integrated large corporate entities control all levels of the value chain from feed milling to delivery at the retail level. For example, firms involved in Chicken meat production might own the feed mills used to manufacture the animal feed; they might also be involved in the breeding of chicken for the fattening operation; these firms might also own the slaughtering facilities and retail outlets to sell the product.

Hennessy (1996) summarizes the integration literature in agricultural economics. He suggests that firm structure, desire to reduce variability in supply, and cost of testing for quality are the three most common reasons cited for integration in the food economy. A firm using horizontal integration as a business strategy may achieve economies of improved processing technologies and marketing techniques. Barkema, Drabenstott, and Welch (1991) and Young and Hobbs (2002) suggest a premium for being vertically aligned.

5.4 Food Firms Integration

Recent researches which have surfaced for the food industry have identified a number of reasons to explain why farming community and processing industries enter into different forms of vertical coordination (such as contracting and vertical integration) as opposed to operating on open markets. Thus, for instance, farmers may enter into contracts to reduce price risks, to get access to capital and new technology, and to get an assurance for an outlet for their final produce and other byproducts. On the other hand, processors may enter into contracts to get assured consistent quality and quantity of inputs to run their processing plants efficiently (Hennessy, USDA 1996a). It has also been suggested that processors may integrate backwards into agriculture to internalize the deadweight loss associated with market distortions which are internalized by integration (Henderson, Mitra et al. 1996). The above requirement are demands of the business related to trade of food and products.
5.4.1 Inclusive Food and Agriculture Value Chain Development in Rural Areas

Asian Development Bank’s (ADB) multi sector food security report (ADB 2009a) states that engagement among the different players can be significantly enhanced by increasing synergy and value addition in the backward and forward linkages along the food and agriculture value chain, with particular attention to small farmers and other vulnerable groups. Such strategic interventions will help DMCs develop inclusive food and agriculture value chains that the operational plan espouses as a pathway to transforming Asia’s rural and agriculture sector, thereby achieving sustainable food security.

Such value chains will allow efficient integration of food and agriculture production, with processing and marketing at the country and regional and/or sub regional levels. With special emphasis on the poor and vulnerable groups that remain excluded from greater participation in economic activities, the value chains will also allow small producers adequate and fair access to inputs, markets, technologies, and information, and provide diverse incomes and job opportunities.

The report further states that Development of efficient and inclusive value chains will also enhance urban–rural linkage, allowing supply of safe and affordable food to increasing numbers of urban poor people. An example is found in the recent special evaluation study on ADB’s Contribution to Inclusive Development through Assistance for Rural Roads (ADB 2009). The study found that most of the road corridors had weak backward and forward linkages, with very little progress in adding value to agricultural production. Constraints such as the lack of storage, efficient transport services, and marketing systems prevented ethnic minorities and poor households and households headed by women from taking advantage of economic opportunities brought about by road projects. In the 1960s, 2 inhabitants in 10 in Asia lived in cities, whereas it is estimated that close to 60% of the population will be living in urban areas by 2025. Supplying the growing cities with adequate and affordable food is a major challenge, requiring massive investments in food distribution, storage, and marketing facilities.

In the food industry literature, a number of studies provide evidence of a trend towards greater vertical integration and greater concentration (at both the farm level and processing stage) over time (Barkema et al. 1991)
5.5 Production Contracts

Contract farming serves as an assured market for their produce at their doorsteps, reducing marketing and transaction costs and also price risk. Availability of assured quantities of product also acts as an incentive to firms to use quality output, hence the firms help farmers to adopt improved technologies and scale up their production systems. In circumstances when farmers face problems in accessing inputs, technology, information and services, firms provide these as a part of contract and hence reduce uncertainty in their availability, quality and prices for the farmers. Further, contract farming is often practiced in high-value perishable commodities that are riskier and require a different set of production and management practices, while farmers, particularly smallholders, are risk averse and may not venture into production of such commodities without technical assistance. To enable farmers to cope up with risks, exporting firms provide those inputs, technology and services, impart training in production management and share risks. The following are some other factors highlighted which facilitate firms to enter into Contract Farming.

5.5.1 Quality Control: Contract Farming provides control over the production methods and inputs used, and helps ensure uniformity and quality making the commodity more suitable for preparing standardized consumer products.

5.5.2 Assuring Adequate Supply: Contracts offer a mechanism to control the quantity of crops produced and how they are marketed to processors and consumers, helping increase the price premiums obtained and prevent over-supplies which may decrease demand.

5.5.3 Supply Management: Contracts lock in a guaranteed supply to meet potential needs but do so using pricing arrangements limiting the risk of acquiring more than is needed. "Passed Acres" clauses, common in vegetable contracts, allow the company not to harvest the crop, even if it meets contract standards. Producer is paid a portion of the price from a pool of funds created by charging growers.

5.5.4 Marketing Related Technology: Contracts may require use of related technologies or production methods, also marketed by the company. This means contracting may provide opportunities for economic linkages, such as offering "packages" of seeds, chemicals, and marketing opportunities.
5.5.5 **Intellectual Property Protections:** Contracts allow control over the release of the specialized crop and animal genetics creating the added-value trait, meaning the contracts serve as an additional form of intellectual property protection to control the unauthorized reproduction or sale of the crop.

5.5.6 **Market Protection:** Contracts protect confidentiality of the pricing and marketing arrangements for the commodity and of the identity of the end-user or purchaser. Buyer contacts can be very important in the specialty crop sector and protecting the identity of the end-user prevents producers from contacting the purchaser directly.

5.5.7 **Pricing Confidentiality:** Contracts using non-public pricing can conceal the true magnitude of any price premium gained from special traits. This allows the company to obtain higher profits and limit the ability of producers to bargain or negotiate for a larger share of the "added value."

5.5.8 **Reduced Risks and Higher Profits:** Contracts give companies investing in value added crop breeding and genetic engineering, a mechanism to project the company's financial interests, and thus potential returns, farther down the production process of the crop, without having to own the land or production facilities. The company can become involved directly in crop production without risking investments in farmland or buildings.

Important motivation for vertical coordination by processing firms is to run processing plants close to capacity in an environment characterized by large uncertainty in input supply. Vertical coordination can occur in various forms, ranging from marketing and production contracts to strategic alliances, partnerships and vertical integration. Some previous studies have examined the rationale for the choice between these alternative forms (Williamson, 1979).

These studies suggest that vertical integration is most likely to be observed when it is difficult to write complete contracts that induce efficient relation-specific investments. In a recent theoretical paper, based on a bilateral setting, (Wiggins R.R. and T.W. Ruefli 1995) shows that this situation is most likely to occur when the downstream firm faces both highly uncertain (input) cost conditions and (output) demand conditions. Here backward integration allows for greater flexibility and superior communication between the two stages of production.
Further illustration and identification of three possible broad theories on why firms integrate has been made here. These are Transaction Costs Theory, Agency Theory, and Contractual Incompleteness Theory. A brief overview of each theory is presented below. Boland, Golden, and Tsoodle (2008) describe various applications of each theory in the management and agricultural economics literature.

**Transaction costs** was first articulated by Coase (1937) who discussed integration and its relationship to the definition of a firm, indicating the "supersession of the price mechanism" through vertical integration was a defining characteristic of a firm. Firms can get the inputs they need from other firms, through a contractual arrangement or they can make them within their own firm. But, as Coase (1937) discusses, complete contract development and enforcement are difficult. Because of this difficulty, firms may be better off integrating (e.g., purchasing) other firms that already produce the inputs needed instead of contracting with them.

**Agency theory** explains why one party (the principal) determines the work for which another party (the agent) undertakes (Jensen and Meckling, 1976). An agent has an incentive to shirk and the principal must structure the transaction such that the agent does not shirk. While this theory has been used to explain contractual arrangements, in circumstances where a principal cannot structure such a contract.

Grossman and Hart (1986) discuss the Contractual Incompleteness issue and how it is applied to property rights, in particular they conclude that an integration strategy will be pursued if one firm’s investment decision is more important than that of the other firm and non integration will be pursued if the investment decisions of both firms are less important.

Factor which is responsible for the firm’s diversification is that a firm integrates backward or forward in the marketing channel in related businesses to achieve lower costs or control over the quality of an input whereas diversification is a portfolio strategy that occurs outside of the marketing channel. A detailed review of over 20 articles is presented in Dorsey (2006). With regard to the agribusiness literature Ding, Caswell, and Zhou (1987) found a lack of positive correlation between performance as measured by stock price and diversification. The current process of Diversification which started in the 1960s and 1970s when firms (e.g., conglomerates) diversified as a means of developing a portfolio of businesses that were not related with each other reached heyday in 1990’s among agribusinesses.
5.6 Rural Market and Supply of Agro Food

As shown in the figure 5.1 the different dynamics and complexities of Food Industry. This could be one of the reasons, i.e. lack of knowledge and expertise for very low share of processed food in Indian agro market. For development of rural entrepreneurship global trade is an opportunity waiting to be tapped in the Indian food market. Increasing urbanization and rise in disposable incomes which has further pushed demand for processed food in most of the Indian markets. This is a good time for companies to invest in quality facilities, diversification and develop products with features that appeal to the growing Indian consumer as well as foreign markets. Also, from a government's point of view, food processing sector can help to reduce the burden of subsidies and raise the farmer’s income simultaneously. The issues confronted by farmers are growing day by day and becoming major social and
economic problems for the country. It cannot be resolved through intervention approach alone. So, the government should continue to support the industry with an enabling and growth oriented policy. Agricultural produce that is processed for domestic consumption can fetch higher prices that will result in higher incomes for the farmers, and also it will generate direct and indirect employment for the rural population.

India's low level of processing is expected to change significantly in the future fuelled by sustained economic growth and steady urbanization. Processed food output is expected to grow at a strong 7 percent CAGR in terms of value from 55.6 billion USD in 2005 to 95.6 1 billion USD in 2013 (Business Monitor International, Jan-Mar 2009). Brand and quality of life consciousness, especially among the young and rich urban population, is also a key factor helping value growth over the forecast period.

There are two phases of modernization in food supply chains in India. The first phase was led by the public sector, where governments intervened in agricultural markets and tried to streamline food supply chains by injecting huge amount of money for developing cooperatives and public sectors organizations. The second one is in the post liberalization era (after 1990) which is led by the private sector concerns and causing the emergence in food supply chains of the private processing sector, the food service sector, and modern food retail.

### 5.7 Globalization and Outsourcing Model of Backward Integration

The generic value chain of the food processing industry from raw material to retail for the consumer is shown below. Traditionally, different players across the value chain played the different roles and worked more or less independently.

Recently, the trend has been towards increasing integration and collaboration across players in the value chain, to garner mutual benefits. Such integration is being driven by the manufacturers, who are looking to integrate backward and establish linkages both with raw material producers (farmers) and aggregators/ logistics providers. These links have led to two new models emerging in the sector namely Contract Farming and Terminal Markets.

From the Integration point of view, the strategy of off sharing depends on firm’s supply chain efficiency in that particular industry. The Different industries have different supply chain structures. Strategic attempts for Globalization of firms
require functional integration between internationally dispersed activities in which industries and commercial firms have two types of international economic network; one is producer driven and another is buyer driven (Gereffi, G. 1999).

The agro-foods and all allied products are an ideal industry with the dynamics of buyer-driven value chains. The relative ease of setting up agro-food companies, coupled with the prevalence of developed country's not very stringent protectionism in this sector, leads to an unparalleled diversity of food export to the developed countries of the world. Furthermore, the backward and forward linkages are extensive, and help to different activities associated with the industry (Gereffi, G. & Memedovic, 2003).

According to Christopher, globalization also tends to lengthen supply chain as companies increasingly move production offshore or source from more distant locations. (Christopher, M. 2005)

5.7.1 Global Outsourcing

With the advent of globalization and enhanced levels of competition, many organizations have started to have considerable difficulties in developing and maintaining the range of expertise and skills needed to compete effectively. The emergence of American, European, Japanese and Third World multinationals has created a new competitive environment, requiring the globalization or at least semi-globalization of corporate strategy. The above need has led many companies to engage with various kinds of outsourcing.

5.7.2 Definitions of Outsourcing

Before starting the discussion on outsourcing, some definitions might be appropriate to mention. Different authors have defined the outsourcing that covers a wide scope to assume the concept of outsourcing. The word “outsourcing” can be split as “out” and “source” that means sourcing externally.

Outsourcing is basically managerial approach usually taken for delegating the responsibility to an external source for carrying out the operation of production process or services of an enterprise. It can be summarized in other words as an agreement between buyer and supplier(s) to avail processes or services that the buyer is providing internally at present with an intention to reduce cost, increase focus on core business, improve quality of products and services and to ensure more flexibility.
The core concept of outsourcing is, therefore, locating an expert who can perform a certain business processes or functions outside the firm. So the process of outsourcing involves two main parties—"outsourced" that means buyers or the ones who outsource and "outsourcer" referring to suppliers or the ones who deliver services. (Saunders and Gebelt, 1997, Franceschini, F. et al., 2003)

5.7.3 Components of Outsourcing

Outsourcing is the act of transferring the work to an external party. An outsourcing initiative calls for the transfer of factors of production, the resources used to perform the work and the decision rights, or responsibilities for making decisions.

The organization transferring the values in goods these is referred to as the client, the organization that conducts the work and makes decision is the vendor, and the scope of the work is captured in a project. (Power, M.J., Desouza, K.C., & Bonifazi, C., 2006)

The major component of outsourcing which are depicted in diagrammatic form is given below in figure 5.2

![Diagram of Components of Outsourcing](image)

**Figure 5.2: Components of outsourcing (Source: Power, M.J., Desouza, K.C., & Bonifazi, C., 2006)**

5.7.4 Life Cycle and Stages of Outsourcing

An organization needs to maintain an operational cycle to conduct the outsourcing operation. Crossing over the time, experience and practice, an organization adopts the sufficient maturity of how to go through the various stages of the outsourcing life cycle.
According to Power, Desouza and Bonifazi (2006), as shown in the figure 5.3 below the outsourcing process is cyclical and it is important to follow through on each stage in the prescribed manner. It will be futile to omit a stage as the organization will miss out any benefits of following a well-organized life cycle.

**Figure 5.3: The Outsourcing Life Cycle**

5.7.5 **Strategic Assessment**

As the first stage of the outsourcing process, strategic assessment is the crucial activity in the whole life cycle of outsourcing. In this stage, the organization identifies a certain business case and assesses the potential benefit of adopting the outsourcing as a strategy. To do this task, the organization analyzes its core competencies, finds out the areas that are appropriate for the outsourcing operation and employs an executive team for conducting the various risk assessments. If the organization is agreed upon the business case for outsourcing after conducting the strategic assessment, it gets into the act of actual outsourcing process.

5.7.6 **Needs Analysis**

After completion of the strategic assessment, the next step for the organization is to define the needs and more specifically areas of the needs that are to be focused on. For doing this job, the organization conducts a thorough need analysis. Although need analysis is primarily conducted in the first stage of strategic assessment, but in this stage, it is analyzed in more detail and focused way. Here the organization looks
at the peculiarities of the given project, clarifies the requirements, and evaluates the requirements by mapping them to the broader business case that was prepared at the time of strategic assessment and prepares a proposal to articulate these needs to potential vendors.

5.7.7 Vendor Assessment

In the third stage of the cycle, organization goes for soliciting, evaluating and choosing the vendor for its outsourcing needs. Within a structured framework, vendor selection and contracting phase are conducted that guide the organization through critical vendor selection and contracting activities. Selection of the right vendor is tough as like selecting a good partner. The right selection of the vendor helps to maintain a lasting relationship or the wrong selection may damage the well-planned outsourcing project.

5.7.8 Contract and Negotiation Management

After selection of the vendor, the next steps for the organization is to be engaged in negotiations (and renegotiations) until an agreement is reached about the details of the outsourcing work. This is followed by the composition of the outsourcing contract__the legal document that indicates the nature and scope of the business relationship. In the negotiation and contract stage, organization focuses on securing a legally binding deal that is documented and not just verbally arranged, and which is best for all parties involved in the outsourcing relationship.

5.7.9 Project initiation and transition

After closing the negotiation chapter, organization is ready to begin the outsourcing project - the project initiation and transition phase. The stages of project initiation and transition are the most influential stages of the outsourcing relationship. In this stage, the client organization slowly starts to hand over the control of the work to the outsourcing vendor. The initial stages of the outsourcing relationship require thorough attention to deal with emergent issues and smooth out any problems that occur. This stage marks the foundation of the continued relationship.

5.7.10 Relationship Management

After the initial stages, the outsourcing relationship becomes routine enough to begin managing the day-to-day operations of the relationship, which is also called
governance. The focus of this stage is to keep up to date with the outsourcing relationship. The significant activities in this stage include evaluation of the relationship, problem resolution, communications management, knowledge management and process management.

5.7.11 Continuance Modification or Exit Strategy

While management of the relationship is a continuous process, occasionally the client organization may face events that require it to pause and evaluate the future of the relationship. Events could be items such as new strategic alliances, changes to the vendor's business or innovations in the marketplace. Organization must evaluate its current outsourcing contract to see if its best interest lies in continuing, modifying or exiting the relationship. Choosing any one of these alternatives will call for reconnecting to the first stage of the life cycle and re-conducting a strategic assessment, to repeat the life cycle.

5.7.12 Global Outsourcing as a Key to Competitive Advantage

When the outsourcing operation crosses the border of the client company's country then it becomes global. A company can adopt the global outsourcing strategy to achieve competitive advantage. Success of company depends greatly on the ability to create sustainable competitive advantage over its competitors (Porter, M., 1985). Sustainable competitive advantage means company's ability to create competitive advantage and hold it for a considerable period of time. McGee et al., (2005) defines competitive advantage as the ability of a firm to deliver a superior value to the customers and thus earning an above-average return. Competitive advantage may be gained when products or services are produced more effectively and efficiently by global suppliers (William, M., et al., 1999). A company can get the cost advantage from a successful global outsourcing. It also provides access to superior quality, i.e. product differentiation or enabling the company to focus on specific niche.
5.7.13 Motives for Global Outsourcing

There are some motivational factors that attract a company to go for the global outsourcing strategy. As shown above in Figure 5.4 the factors that influence
the performance of a Global Supply Chain (Prasad, S., and Sounderpandian, J., 2003). The company gets a number of benefits through a successful outsourcing operation. In fact if the company finds more benefits than the risks in outsourcing, then only it goes to this process. Some key motivational factors that drive a company to global outsourcing are as follows:

5.7.13.1 Cost Efficiencies: Cost reduction has been the prime motive for outsourcing (Ford, D., et al., 1993). The Boston Consulting Group (1991) studied more than 100 key companies with extensive outsourcing practices and concluded that “most Western companies outsource primarily to save on overhead or induce short-term cost savings”. To develop a complete product is always expensive for a company as it needs huge investment to improve products and production process through continuous research and technology development. Outsourcing reduces the cost of the client company in this area as the service providers invest in this area to meet up the demand of the buyers in a large scale. In this way, a company can achieve the competitive advantage in market reducing the cost through outsourcing process.

5.7.13.2 Improve Focus on Core Business: Every company has some activities that are not as essential as compared to its core business functions. By sourcing non-core business activities a company can focus on its core business in a better way. So, the efficiency of a company is likely to increase as more time and resources are focused only on the core business functions (Davis, J., 2002).

5.7.13.3 Access to World Class Capabilities: A company can produce standardized products or services through outsourcing (Quinn, J. B., et al., 1990), which is not possible by producing internally, because service providers avoid costs which they would have to incur in terms of investment in research and development, and in technology etc. In addition, there are some other driving factors that encourage the buyer company to adopt the outsourcing strategy. Such as internal scarcity of resources, to accelerate reengineering benefits, a particular function getting unmanageable, this is out of control for the buyer company, sharing the risks etc.

5.8 Factors Affecting Global Supply Chain Efficiency

To gain the competitive advantage, a company needs to examine its activities in relation to the comparative advantages, which is available in different countries. Corresponding these activities and the sourcing decisions with the imposed conditions
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of any particular country can lead to gain in cost, quality, lead times and perhaps innovation (Prasad, S., and Sounderpandian, J., 2003). There are some factors as shown below in Figure 5.5: The five major Supply Chain Drivers (Hugos, M., 2006) that work through the supply chain areas of procurement, processing and distribution to influence the competitive strengths in cost, quality, lead times and innovation. These factors can be categorized into three broad segments; like- role of country, type of industry and the strategy of multi-national corporations (MNCs).

5.9 Drivers of Supply Chain

Effective supply chain consists of some drivers. Each driver has the ability to directly affect the supply chain and enable certain capabilities. Companies in any supply chain must make decisions individually and collectively regarding their actions in the area of these drivers.

Hugos, M., (2006) has described these drivers in the following way.

5.9.1 Production: What products does the market want? How much of which products should be produced and by when? This activity includes the creation of master production schedules that take into account plant capacities, workload balancing, quality control, and equipment maintenance.

5.9.1 Inventory: What inventory should be stocked at each stage in a supply chain? How much inventory should be held as raw material, semi-finished, or finished goods? The primary purpose of inventory is to act as a buffer against uncertainty in the supply chain. However, holding inventory can be expensive, so what are the optimal inventory levels and reorder points?
5.9.2 Location: Where should facilities for production and inventory storage be located? Where are the most cost efficient locations for production and for storage of inventory? Should existing facilities be used or new ones built? Once these decisions are made they determine the possible paths available for product to flow through for delivery to the final consumer.

5.9.3 Transportation: The Transportation activity involves modes, size, loading, unloading, and fleet maintenance etc.

5.10 Summary and Conclusions

Previous studies on Backward Integration in the food industry have focused on providing a rationale for the growing trend towards vertical integration in terms of the private efficiency gains that integration entails. These studies generally assume a bilateral setting and thus ignore the possibility of great impact on the farming community; it may be very significant particularly in cases where the upstream or the downstream market is highly concentrated. In this chapter attempt has been made to have divergent and comprehensive view. Chapter has used a simple multilateral setting to examine the divergence that may arise between social and private incentives to backward integration.
Strategic Advantages of Food SCM for Backward Linkages

The current chapter has shown how backward integration by a processing firm provides for better protection against input supply shocks and demand uncertainty, and increases its payoff while decreasing the payoff of its competitor. Since product differentiation, in general, leads to greater concentration; this suggests that backward integration is likely to lead to further increase in downstream concentration. Earlier studies have looked at the growing trends towards vertical integration, product differentiation and concentration in isolation. Current study suggests that, under certain conditions, there might be a synergistic link between these variables that needs to be explored further.

As vertical coordination grows, the spot market becomes thinner and thinner, and acts essentially as a shock absorber. Thus it is not surprising, as many studies find, that the overall effect of captive supplies on input prices may be low but their effect on market downturns may still be quite significant.

Many of the options for food businesses and potential routes to more sustainable food supply chains discussed can create benefits both for the businesses involved and for others in the supply chain, from farm to farmers.

Although creating niche markets for more sustainable locally produced, conserved foods and some manufactured foods can result in significant social, environmental and economic benefits for those involved, greater overall gains could undoubtedly be made by improving the sustainability of mainstream agriculture and international supply chains.

Multi-stakeholder initiatives, where food businesses work together with farmers, academics, innovators, governments and NGOs, are important for raising the baseline for near-commodity and commodity food supply chains, including those important for manufactured foods.

Strengthening institutions like contract farming is an option to provide risk-mitigating services, and enable farmers to make the transition from traditional grain crops to higher value commodities. (Gulati 2008)

In addition to the assured markets and stable prices afforded farmers, the backward linkages help control transaction and marketing costs, yielding higher returns to contract farmers. (Birthal et.al. 2005)
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