

case 1-429-184
July 10, 2011

Advanced Chemical Industries' Shwapno Initiative: A Bridge between Farmers and Urban Consumers

Mr. Asif Iqbal, Chief Operating Officer of Shwapno (brand name of Advanced Chemical Industries (ACI) Logistics Limited, a subsidiary of ACI), stood at the window of his Dhaka office one afternoon of January 2010. He had just returned from a meeting in which ACI's Chairman, Managing Director, Executive Director (Agri-businesses), and Executive Director (Consumer Brands) had announced that Shwapno, a chain of 32 retail outlets, would expand by more than 100 countrywide retail outlets by January 2011, to address everyday household needs of consumers.

This news greatly pleased Mr. Iqbal, who had been one of the creators of the Shwapno supply-chain concept. As car horns blared in consistent cacophony outside his office, Mr. Iqbal envisioned the Shwapno outlets that would collect fresh materials from rural areas, far removed from the streets of Dhaka. Millions of farmers scattered across Bangladesh spent their days in doubt as to whether they could sell their products at a fair price, or at all, even if they had bumper production in their fields. Most of the farmers, fisherman, and meat producers of the country were victim to typical interest business *Dadan*, a business system in Bangladesh in which middlemen purchase produce from farmers at a low price and sell it at a high price to consumers. Lots of vegetables grew moldy in rural areas, because farmers did not find enough buyers who would buy their goods, whereas city dwellers paid extra to meet their vegetable needs. Additionally, poor transportation infrastructure contributed to inefficient flow of agricultural goods from rural to urban areas.

Producers were on one extreme end of the value chain, and consumers were on the other extreme. A shopper in an urban area often lost his or her interest in shopping in the market, due to untidy ambiance, such as muddy floors, insufficient space to move, unhygienic arrangement of products, the bargaining process, and inconsistent pricing. Even though the market was flooded with a wide range of products, a large portion of the population, especially farmers and end-users, were deprived of an efficient and convenient retail process. Producers did not get appropriate prices for their production and consumers invariably were deceived by sellers, who often sold inferior goods, inaccurately measured goods, and so on.

Understanding this gap in the value chain, ACI had initiated to establish a new business, namely Shwapno, to eliminate the gap, uproot the cartel, and ensure reasonable prices for both farmers and consumers. The objective of this subsidiary was to engage in the business of buying, selling, importing, and exporting of agri-products directly to consumers. The company, a unit of ACI Group, claimed that the



Published by GlobalLens, a division of the William Davidson Institute at the University of Michigan.

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venture would also ensure fair prices for farmers, who often got poor returns on their yields, mainly due to market manipulation. The ACI's business decision to add at least 100 retail outlets throughout the country over the year would bring a number of challenges. Mr. Iqbal and his team would need to decide how to procure produce and create a viable strategy to build outlets.

Farming in Bangladesh

Agriculture was the prime sector in the economy of Bangladesh. Around 84% of people lived in rural areas or were involved with agricultural activities. The contribution of agriculture to the country's GDP was 32%, of which, the crop sector's contribution was about 23%. About 63% of employment was engaged in agriculture, of which, about 57% was employed in the crop sector. Bangladesh was a very productive area, like other river outlets.¹ There were no rocks, stones, boulders, or pebbles. It was all silt and mud washed down from the Himalayan Mountains over millions of years.

Bangladesh was one of the best producers of a broad range of crops like rice, wheat, maize, potato, jute, fruits, vegetables, and so on. The scope of modern agriculture has been widened significantly. Although agriculture was originally defined as the cultivation of land for producing crops only, any applied activity through proper utilization of natural resources that relates to the production, development, preservation, processing, marketing, and extension of not only



crops but also other agricultural commodities such as fish, meat, eggs, forest products, etc., is now universally accepted as within the purview of agriculture. According to the above definition, crop production, animal husbandry, fisheries, forestry, and so on, are integral components of agriculture.

Figure 1

Production of major agricultural crops in Bangladesh ("000" metric ton)

Item	FY 2006	FY2001
Rice	26,530	20,586
Aus	1,745	1,916
Aman	10,810	11,250
Boro	13,975	11,920
Wheat	735	1,673
Maize	850	149
Potato	4,161	3,216
Jute	821	821

Source: Bangladesh Bureau of Statistics Paddy Field

But, crops undoubtedly constituted the largest and most important sector of Bangladeshi agriculture. (See **Figure 1** for more information about Bangladeshi farming.) In contrast to developed countries, where agriculture was commercialized on a large scale, agriculture in Bangladesh remained the livelihood for the country population. The total area of Bangladesh is 14.845 million hectare, of which, the cultivable land area is 8.44 million hectare.²

The Small Farmer

Imagine a farmer standing motionless, raising his head to the open sky, staring aimlessly, having tears rolled inside his heart, waiting for customers who will approach him and purchase his product, but returning home having sold his merchandise at below the production cost or, most often, leaving the merchandise unsold at the end of the day due to lack of a buyer. A farmer from a typical bazaar in Bangladesh passes every day in this way, just for his livelihood. There are millions of farmers scattered across Bangladesh who have this sort of gruesome and untold experience in their lives, leading them to take other, unproductive occupations such as pulling a *rickshaw*ⁱ, thus dragging the agri-based economy down and making the people more dependent on imported food.

Ironically, most people do not know that silent cry is going on in the families of those hapless farmers. Most farmers spend their days in doubt, wondering whether they can sell their products at a fair price, or at all, even if they have bumper production in their fields. Rarely do they get a fair price. What a great humiliation for farmers, who work all day long under scorching sun, devoted to meeting the daily vegetable and grain needs of urban people. Likewise, fishermen and meat producers encounter a similar fate in their lives. Most of the farmers, fisherman, and meat producers of the country are the victims of typical interest business *Dadan*, which is exploiting them instead of benefiting them. Lots of vegetables grow moldy in rural areas because farmers do not find enough buyers who will buy their goods, whereas city dwellers pay extra to meet their vegetable needs. Additionally, poor transportation infrastructure contributes to inefficient flow of agricultural goods from rural to urban areas.

The Deprived Customer

Bangladesh had about 25.3 million households. Average household size was 4.8 people.³

Figure 2

Average monthly expenditure in household consumption in Bangladesh

	2005 (%)	2000 (%)
Food and beverage	53.81	54.60
Cloth and footwear	5.51	6.28
Housing and house rent	12.25	9.00
Fuel and lighting	5.98	6.81
Household effect	2.05	1.41
Miscellaneous	20.37	20.32

Source: Household Income and Expenditure Survey 2005

i Rickshaw: a small two-wheeled passenger vehicle drawn by one or two men, used in parts of Asia.

Male-headed household is 89.6% and female-headed is 10.4%. Households spent 53.81% of their income for consumption of food (see **Figure 2** for more information). A shopper in an urban area lost his or her interest in shopping in the market, due to untidy ambiance, such as muddy floors, insufficient space to move, unhygienic arrangement of products, the bargaining process, and inconsistency pricing. Shopping in kitchens and supermarkets is no longer a pleasant experience, but rather a nightmare for shoppers. As a result, home service is gaining popularity among urban people. Customers in urban areas are being deceived every day by shopkeepers selling inferior goods, charging excessive prices, and using incorrect measurement. In other words, consumers are a sort of hostage to these shopkeepers, who form a kind of syndicate and dictate the market. These factors trigger a loss of interest in shopping, whilst shopping is a pleasant experience in most other countries, especially developed countries. Notably, consumers of Bangladesh have always been the victim of deception by the shopkeepers, who invariably manipulate the prices.

The Middlemen

The above two parties of the value chain are the ultimate losers. Intermediaries in this value chain process get the major benefit by exploiting both producer and consumer by paying prices below the production cost to the producer and charging premium prices to the customers. Wholesaler and retailer are two intermediaries in that value chain, where the wholesaler often forms a cartel to manipulate the market by creating crises in the form of high demand or low production. Retailers take advantage of customers with high prices, inferior quality, inappropriate measurement, and so forth. Neither producers nor consumers get the benefit of the value chain. The wholesaler and retailer capitalize on the weak bargaining power of the producer and the absence of proper government monitoring of market prices or quality assurance.

Government Involvement

There is no significant progress in preserving consumers' rights in Bangladesh, even if government takes several measures, such as campaigning against contamination, enacting new laws concerning consumers' rights, and so on. Farmers, who are invariably deprived of having a minimal scale of social rights to make their livelihood through farming, are the most unfortunate community in Bangladesh, despite serving the nation by supplying the basic need for food. In addition, hardly do they get any assistance from government in terms of supplying fertilizer, diesel oil, seeds, or cultivation equipment, at a rational price; whereas farmers in developed and developing countries are the most respected community, who can avail themselves of subsidies from government for quality seeds, fertilizer, and diesel oil at cheap prices. This ironic situation of the farmers was leading them to embrace some unproductive professions, most often some anti-social activities, thereby negatively impacting the economy and dragging the country to more reliance on foreign aid.

History of Advanced Chemical Industries

Advanced Chemical Industries (ACI) Ltd, former ICI Plc UK, began its journey in 1992, with the mission of enriching the quality of life through responsible application of knowledge, skills, and technology, and successfully established itself as one of the biggest conglomerates in Bangladesh. ACI, with a multinational heritage, was committed to the pursuit of excellence through world-class products, innovative processes, and empowered employees, and to providing the highest level of satisfaction to its customers. ACI began its journey to ensure a better life for the Bangladeshi people with the name of ICI (Imperial Chemical Industries) in 1968, offering a wide range of products such as pharmaceuticals, consumer products, and so forth. However, ICI divested into ACI (Advanced Chemical Industries) by selling its share to local management, and called itself "ACI" in 1992. The life-saving drugs and home-care products had met the market demand

to some extent since the local community had accepted these products since 1968. Home-care products included ACI Aerosol, ACI Mosquito Coil, Angelic Air Freshener, Savlon Liquid Antiseptic, Savlon Antiseptic Cream, Savlon Liquid Soap, and so on. ACI had been involved in products for a couple of years that improved the life standard in Bangladesh. Thus, it followed that ACI started thinking about investing in new potential ideas for creating a better standard of living in Bangladesh. As a consequence, they established a new business, Shwapno, in October 2008, which would collect fresh materials from farmers, giving them better prices and distributing these materials to urban people at fair prices. Previously, urban customers had been deceived by shopkeepers selling inferior goods, charging excessive prices, and measuring goods incorrectly.

Shwapno Initiative

The suppliers for Shwapno were scattered across the country, so one farmer was chosen from each vicinity to collect the supplies from all others and be in charge of monitoring the operations in his area. Each day, an ACI Logistics Ltd personnel member personally visited the raw material sources to pick up the daily supplies and pay the farmers at a pre-fixed price for each day's supplies. Additionally, they monitored the method of farming and kept track of the quality of produce. The differentiating factor for Shwapno was essentially its price and location. The interior was cost-effective, and the stores were not located in prime spots of the city in prominent building centers, but closer to the consumers' homes, within their reach. The prices of everyday products such as rice, meat, vegetables, and fruits were significantly lower than the market price, and goods were fresh, since they were supplied from the farms each morning. There were festoons hanging at the entrance of each outlet,



clearly stating the difference in price between Shwapno and the going price at the local market on that very day, often up to BDT 20 (US\$0.28)ⁱⁱ for expensive products such as beef. While venturing into this project, Shwapno kept in mind the welfare of the society as a whole and not only aimed to provide the customers directly with fresh and low-priced everyday commodities, but also meet the interest of the farmers. Underprivileged groups of the society, such as widows, orphans, and students, made up the sales personnel of Shwapno and were given extensive training to build up their skills. Shwapno had almost all kinds of agri-products available to its customers. These ranged from rice, potatoes, wheat, and vegetables to fish, poultry, and cattle. Shwapno used state-of-the-art technology and software for the monitoring of its products and standardized weighing machines.

Suppliers

According to the product categories, they had different types of suppliers for collecting vegetables, fish, poultry, and cattle. Shwapno had trained 2,000 farmers across the country who supplied produce to the outlets. The number of suppliers was diverse, depending on the product varieties (see **Figure 3** for more information). They collected information on how farmers brought produce to the market, wholesale market, and urban market, and also on the packaging system and how the price was determined.

ⁱⁱ Currency conversion was made using rate of \$1 = 72 BDT on June 15, 2011.

Figure 3
Number of Fresh Material Suppliers for Shwapno

Items	Number of Suppliers
Vegetables	More than 100
Fish	More than 50
Poultry	More than 50
Cattle	More than 30

Source: Shwapno Internal Information, January 2010

Based on that market information, they selected the suppliers. Basically, Shwapno had no fixed suppliers but had floating suppliers throughout the country. Agri-products depended on the seasons and the land production capacity. For example, in September, tomatoes had been produced in Comilla, but after three months, they would not be available in that area, so then they would be collected from Dinajpur. So, the company had the ability to collect information about which products were available at what price, and accordingly suppliers had been selected from the whole country, depending on the product availability.

Logistics Management

Shwapno uses a dual logistics system: one is their own logistics and the other is a third-party logistics for procuring as well as distributing the agri-products and finished goods to the outlets. For collecting fresh materials into distribution centers, they are fully dependent on the cost-effective third-party logistics.

They had 14 vehicles that were used only for outbound operations, i.e., for allocating materials from distribution centers to retail outlets. Fifty percent of their outbound operations was done by their own logistics, and another fifty percent was done by third-party logistics. In Bogra, they used their own logistics for both inbound and outbound operations. The route was via the roads and waterways, and they used everyday logistics for perishable goods.

Warehousing Function

Shwapno had six distribution centers throughout the country for collecting produce from different suppliers and allocating it to the retail outlets. In Dhaka city, they had two distribution centers, one in Savar, for collecting and distributing only company goods all over the country, and another in Tejgaon, for bringing and allocating just the perishable items throughout the Dhaka city. Another four distribution centers were in Chittagong, Jessore, and Bogra. These were the regional distribution centers that collected agri-products from neighborhood suppliers and company goods from the Savar distribution center to serve the neighborhood outlets, rather than Dhaka city.

Shwapno Outlets

Shwapno had five types of stores that were designated A to E categories, designed to attract upper-class, middle-class, and lower-class customers. The stores were designed to be between 1500 and 6000 square feet, in different buildings close to the consumers' homes, within their reach. Mr. Iqbal, COO, said, "We carry out our operations keeping in mind the interests and rights of farmers, small suppliers, and consumers".⁴

Figure 4
Map of Bangladesh: Cities with Shwapno Outlets



A to C outlets were similar, but the square feet of the stores was different and they were situated in the expensive places of Dhaka City like Gulshan, Bonani, and Malibagh, for high-income people. D and E outlets were for middle-, lower-middle-, and lower-income people living in other places like Basabo, Donia of Dhaka city, and different districts outside Dhaka city. Shwapno had 17 outlets within Dhaka and another 15 outside Dhaka City (see **Figure 4**). Therefore, they had different types of competitors according to the different types of stores. Minabazar, Agora, and Nondon were the competitors for the A and B outlets, and for C to E stores the competitors were neighborhood shops and wet markets, because similar products were available there. In fact, they also had hybrid competitors.

Barriers to Expansion

Shwapno was facing some problems:

- Unused vehicle space. For example, Shwapno needs to bring 400kg vegetables from farmers to its distribution centers, whereas the vehicle has the capacity of 2160kg, so transport cost is inefficient.
- To run MRP software, they need at least three years of data for 99% accuracy in demand forecasting, but in fact, they have only a few days' data for using the software.
- They only used floating suppliers for collecting fresh materials. Bangladesh had a poor transportation infrastructure that contributed to the inefficient flow of agricultural goods from rural to urban areas.

Other Strategies

- **Advisory services:** Shwapno developed a quality training module for giving counseling to farmers about how to cultivate and nurture vegetables, take care of cattle, and so on.
- **Credit facilities:** Basically, they did not provide any direct credit facilities to the farmers, but they made a negotiation with a prime bank for providing loans to the farmers. The company was taking credit support from the FMCG suppliers.
- **Simple procurement:** They collected fresh materials from the places where the products were available. They did not follow any contract farming.
- **Benchmarking against competitors:** They followed the affordable relevant quality method for selling goods against competitors. According to the customer segment, they provided relevant product with relevant quality at a price 5% below the market price.
- **Demand planning and coordinating:** The category team and planning manager performed demand forecasting and coordinated demand with existing inventory. The category team included marketing people who knew when promotions would be given and adjusted the demand accordingly. For example, the daily sales of meat were 100 kg. If a promotion would be given, then they determined the demand at 120 kg of meat. The planning manager used material requisition processing (MRP) for identifying the required materials for the stores from the distribution centers. For perishable items, they did daily forecasting.

Farmers' Reaction to Shwapno

The company endeavored to collect vegetables directly from the farmers by appointing a small supplier from the farmers' community. One of the suppliers, Mohammad Asad, a small farmer from Raipura in Narshingdi, told of his experience:

"I get better price compared to the local market price by selling vegetables to ACI. We fix price by comparing the prices in different wholesale markets including in Dhaka." Tota Mia, another farmer, said he now gets higher prices than he got earlier by selling at local markets. "It has helped increase my earnings and reduce my costs of transportation as I can supply the produce from my doorstep," said Tota.



Future Expansion

Most of the farmers, fisherman, and meat producers of the country were victim to typical interest business *Dadan*, which exploited them instead of benefiting them. Lots of vegetables grew moldy in rural areas, because farmers did not find enough buyers who would buy their goods, whereas city dwellers paid extra to meet their vegetable needs. Additionally, poor transportation infrastructure contributed to the inefficient flow of agricultural goods from rural to urban areas. So, Shwapno took the opportunity to expand to more than 100 countrywide retail outlets that would address everyday household needs of consumers. Therefore, Mr. Iqbal and his team were evaluating the options for procuring the agricultural produce and building the outlets.

Review Questions

1. Explain the possibility of supply-chain management becoming a competitive advantage and contributing to top-line growth and bottom-line performance.
2. Assess the economy of Bangladesh that provides the opportunity for developing of supply-chain-based retail formats.
3. Discuss the strategies adopted by Shwapno to procure produce and build outlets across the country, and give your opinion of the best alternative.
4. What challenges does the company have at its present stage? Suggest a program of change to overcome these challenges.
5. Discuss the role of middlemen that has given the opportunities of developing such retailing business.

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Endnotes

- ¹ Bangladesh. National Agriculture Policy, 1999. Web. 29 Jun 2011. www.dae.gov.bd/Pdf%20forms/Policy/NAP.pdf
- ² Bangladesh. Bangladesh Agriculture at a Glance. , 2006. Web. 29 Jun 2011. <http://www.moa.gov.bd/statistics/bag.htm>
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- ⁴ Parvez, Sohel. "ACI rolls out plans to expand retail business." Daily Star (2009): n. pag. Web. 29 Jun 2011. www.thedailystar.net/story.php?nid=91009

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