

General Considerations in Sourcing Herbs, Spices and Agricultural Commodities in India

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India is one of the leading producers of herbs, spices and agricultural commodities. Pepper, cardamom, soybean, scented rice, wheat and nutraceutical ingredients in semi processed or fully processed forms are some of the key commodities exported from India to the Middle East, Asia Pacific region, Europe and the United States. To source efficiently from India, it is important to understand where these commodities are found, who grows them and how they are managed.^{1,2}

Some herbs and spices grow wild and require collection from forests. Forests in India are controlled and managed by state forest departments. Indian forests are managed on strict conservation protection principles. Logging of green trees is prohibited in most forests of India. The collection and sale of herbs from the forest areas are undertaken largely by state-owned forest product development entities. The collection process too is state controlled. For some of the major herbs, collectors are offered collection prices fixed by the state in advance of the collection season.

Minor medicinal herbs and forest products are either freely collected by local communities or collection rights are auctioned by state authorities. These rights are bought by small local contractors. The produce collected directly by villagers is sold to intermediaries in village markets. Intermediaries act as collection agents for bigger wholesale merchants.

Some natural products such as pepper, cardamom, cinnamon, berries of *Emblica officinalis*, many medicinal plants and agricultural commodities are commercially cultivated. The regulatory and social structures of India have placed limits on maximum permitted parcel size ownership of land. Ingredient suppliers must interact with large numbers of individual suppliers/producers. The sale of major commodities such as pepper, tea and cardamom is mediated by state entities or cultivator cooperatives.

India, like the United States, is a federation of states. Each state has its own sets of laws and regulations. Governance differences and business climate vary from state to state. The new government at the federal level is making many across-the-board regulatory changes aimed to reduce red tape for businesses. A concept of competition between states labeled as “competitive federalism” has been introduced. States are competing with each other to attract businesses and investment. Sourcing strategies that focus on better-governed states will benefit the industry.

Ingredient sourcing from India is often done by the United States and other international companies in semi processed or fully processed form. Processors based out of India act as white labeled suppliers to companies. These white labeled suppliers have built producer-to-manufacturing unit supply chains.

Ingredient sourcing strategies vary from company to company. Smaller companies prefer procurement agents and sourcing companies. There are many types of sourcing agents available in India. The larger ones have built sourcing supply chains from collectors to store houses. Others source products from small regional suppliers. In a fragmented market like India, a comprehensive due diligence of your ingredient supplier is critical.¹⁻³

U.S. companies often look to secure a year-round supply. This helps reduce plant idle time and improve manufacturing efficiency. Different companies, depending on their inclination and investible capacity, are opting for a variety of sourcing options. Some have sought to enter into joint ventures with Indian ingredient processors and suppliers. Others have opted to explore acquisition options.

The big boys in the industry such as fast-food retailer McDonald's and others have built sourcing channels directly from cultivators to processing units.⁴ They have invested in processing plants. Robust quality and process control mechanisms have been put in place in such plants. Plant location selection is done after comprehensive due diligence-which includes not only ingredient availability, but also considers state specific taxation, regulation, land availability, infrastructure and governance practices. The companies use India to sell into the domestic market, exporting the surplus elsewhere.

In addition to the aforementioned factors, a cost-reduction, efficiency-improvement ingredient sourcing model should include the following basic steps:³

1. **Spend analysis**—This analysis should include both direct and indirect costs. The outputs are used as a benchmark to compare against the projected cost-efficiency gain.
2. **Process re-engineering**—An end-to end process flow analysis that includes ingredient sourcing, logistics, storage and semi processing processes will help identify redundancies, and process re-engineering helps bring sourcing costs down.

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3. **Ingredient sourcing price analysis**—Most companies only focus on this aspect and often seek to beat down the suppliers to a minimum price. Such strategies are often counterproductive and could affect assured regular supplies. Producers will supply when prices are low and there is commodity glut, but stop when these rises.
4. **Mapping the supply chain from supplier to the port of entry**—Transport infrastructure within India is a major challenge. Mapping the logistics supply chain and a logistics cost analysis should be included in the sourcing model.
5. **Due diligence of suppliers and other players in the supply chain**—The supplier market in India is fragmented. There are many small-time players in the market. A due diligence and supplier antecedent review will help reduce supply risk.
6. **Regulatory and governance risk analysis**—Given the federal structure of both the United States and India, to get the maximum bang for each sourcing dollar, a regulatory and governance risk analysis is critical.

These tasks can be performed by an in-house team of experts from within the sourcing company, but are best addressed by deploying a multidisciplinary team of consultants. Such a team should not just have procurement specialists, but also business process re-engineering, supply chain optimization, subject domain and regulatory specialists. The entire team needs to be supported by an efficient financial analyst who does the benchmarking and future cost projection numbers. Based on my experience of executing such projects, cost saving in ingredients sourcing and efficiency can be brought down to 10 to 20 percent of benchmark costs.

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