

The journey of an Indian onion

Lords of the rings

LASALGAON, MAHARASHTRA

Walmart, Carrefour and Tesco have been knocking on India's door, without much luck. The route of an onion from field to shopping bag shows why they are needed

NITIN JAIN is the big man in Lasalgaon, a dusty town a day's drive from Mumbai that boasts it has Asia's biggest onion market. With a trim moustache and a smartphone stuck to his ear he struts past a thousand-odd tractors and trucks laden with red onions. Farmers hurl armfuls at his feet to prove their quality. A gaggle of auctioneers, rival traders and scribes follow him, squabbling and yanking each other's hair. Asked why onion prices have risen so much, Mr Jain relays the question to the market. "Why?" he bellows. His entourage laughs. He says that the price of India's favourite vegetable is a mystery that no calculation can explain.

High food prices perturb some men and women even bigger than Mr Jain. Raghuram Rajan, the boss of India's central bank, is grappling with high inflation caused in large part by food prices: wholesale onion prices soared by 278% in the year to October and the retail price of all vegetables shot up by 46%. The food supply chain is decades out of date and cannot keep up with booming demand. India's rulers are watching the cost of food closely, too, ahead of an election due by May. Electoral folklore says that pricey onions are deadly for incumbent governments.

A year ago it seemed that India had bitten the bullet by permitting foreign firms to own majority stakes in domestic supermarkets. The decision came after a fierce political battle. Walmart, Carrefour and Tesco have been waiting for years to invest in India. They say they would revolutionise shopping. Only 2-3% of groceries are bought in formal stores, with most people reliant on local markets. They would also modernise logistics chains, either by investing themselves, or indirectly, by stimulating food producers to spend on factories, warehouses and trucks, and establish direct contracts with farmers, eliminating layers of middlemen.

On the ground little has happened. Foreign firms complain of hellish fine print, including a stipulation to buy from tiny suppliers. Individual Indian states can opt out of the policy—which is unhelpful if you want to build a national supermarket chain. In October Walmart terminated its joint venture with Bharti, an Indian group. India has reduced the beast of Bentonville to a state of bewilderment. Tesco has cut expatriate staff.

The reaction from politicians has been indifference. "We have liberalised...to the



Cry me a river

extent that we can. People have to accept this and decide whether they want to invest," said Palaniappan Chidambaram, India's finance minister. Despite the apparently obvious benefits of supermarkets and the experience of most other countries, few Indians seem to want change.

You're not in Bentonville anymore

Just how bad is India's food supply chain? To find out *The Economist* followed the journey of an onion from a field in the heart of onion country, in western India, to a shopping bag in Mumbai, a city of 18m onion-munchers. The trip suggests an industry begging for investment and reform.

"The system hasn't changed much—it's been the same since the 1970s," says Punjaram Devkar, an elderly farmer in a white cap. For generations his forefathers have grown onions near a hamlet called Karanjgaon. He owns a crudely irrigated six-hectare (14-acre) plot, larger than the national average farm of just 1.2 hectares. He does not want to buy more land; unreliable electricity and labour mean "it is too hard to manage." There are four onion crops each year—in a good season production is three times higher than in a bad one. To hedge his bets he also grows sugar cane. Costs have soared because of rising rural wages, which have doubled in three years. He says welfare schemes have made workers lazy. "They just play cards all day."

Storage facilities amount to a wooden basket inside a shed—at this time of year onions perish within 15 days, although the variety grown in the spring can last eight months. From here one of Mr Devkar's finest is thrown into a small trailer, along with the produce of nearby farms, and taken to Lasalgaon. The roads are mostly paved but the 32km (19-mile) journey takes a couple of hours in a rickety old tractor.

Lasalgaon neophytes will find their eyes water upon entering its market, a huge car park full of red onions, trucks and skinny farmers. Although the auction is run twice daily by an official body, it doesn't look wholly transparent. Some farmers complain that Mr Jain and another trader dominate the trade (Mr Jain denies this). Prices vary wildly day by day and according to size and quality, which are judged in a split second by eye. The average price today is \$0.33 per kilo.

Neither traders nor farmers agree why prices have risen so steeply of late. They blame climate change, the media, too much rain last year, too little rain this year, labour costs, an erratic export regime. "Our biggest problem is illiteracy," says one farmer. "We don't know how to use technology." Most folk agree that India needs better cold storage but worry that it is too pricey or that it ruins the taste of onions.

Farmers must pay a 1% fee to the auction house and a 4% commission to the traders. Sometimes they also have to stump up for fees for packing and loading. That takes place at several depots surrounding the market where farmers must drop off their loads and pour them onto tarpaulins on the ground. The onions may wait there for days but once put into hessian sacks they are loaded onto trucks operated by separate haulage firms and owned by intricate webs of independent consortiums.

At 8pm Prabhakar Vishad, a 20-year veteran of the onion-express highway from Lasalgaon to Mumbai, climbs into a battered Tata truck with "Blow Horn" painted in big letters on the back. Over the years the roads have improved and power steering has made life easier. Still, it is dangerous work, says Mr Vishad, who had a bad crash last year. By 6am next morning he sets his bloodshot eyes on Vashi market on the outskirts of Mumbai. It handles 100-150 truckloads of onions a day—enough to satisfy India's commercial capital.

Onions are sometimes unpacked, sorted and repacked, with wastage rates of up to 20%. By 9am the market is a teeming maze of 300-odd selling agents, who mainly act on behalf of middlemen, and several thousand buyers—who are either retailers or sub-distributors. Everyone stands ankle deep in onions of every size. The bidding process is opaque. The selling agents each drape a towel on their arm. To make a bid you stick your hand under the towel and grip their hand, with secret clenches de- ➤

noting different prices. Average prices today are about \$0.54 per kilo. If the seller likes your tickles you hail a porter. He carries your newly bought sacks on his head to a dispatch depot where another group of couriers takes them into the city.

"I'm crazy, like the guys you see in the movies. I don't negotiate," declares Sanjay Pingle. One of the market's biggest agents, he charges the seller a 6.5% commission. The buyers pay loading charges on top of that and a fee to the market. He says business is tough—bad debts from customers run at a fifth of sales and he has to pay interest rates of 22% on his own debts. The solution to the onion shortage is obvious, he says. "In China they keep things in storage facilities—if India had the same facilities as China has, prices would be lower." He says he has seen photographs of Chinese technology on his mobile phone.

By the afternoon thousands of cars and trucks are picking up small batches of onions to take them into Mumbai. In Chembur, a middle-class neighbourhood, Anburaj Madar runs a big sub-distributor. He handles 200 sacks a day which he sells to retailers and restaurants. He buys daily from Vashi market and has space to store only about 12 hours' worth of stock. Rent is dear and he too reckons cold storage destroys the flavour of onions. He marks up his prices by perhaps 20% but says a chunk of what he buys has to be thrown away—it is either damaged or of inferior quality.

For the onions that do make the cut the next stop is a small shop down the road where they are sold for another mark-up of 10% or so. From here Indubai Kakdi is hand-selecting onions with elaborate care. Buck-toothed and ragged, she sells seven kilos a day from a wooden barrow; she makes a 10% margin. She says climate change has made prices more volatile.

Peeling back the layers of truth

The journey of an onion from Mr Devkar's field to the end customer in Mumbai takes only a few days but is enough to make you weep. There are some underlying reasons why prices have risen—higher rural wages have pushed up farmers' costs. But the system is horribly fiddly. Farms are tiny with no economies of scale. The supply chain involves up to five middlemen. The onion is loaded, sorted or repacked at least four times. Wastage rates, either from damage or weight loss as onions dry out, are a third or more. Because India has no modern food-processing industry, low-quality onions that could be turned into paste or sauces are thrown away. Retail prices are about double what farmers receive, although the lack of any standard grading of size or quality makes comparisons hard.

The system is volatile as well as inefficient. Traders who buy onions from farmers may hoard them, but for the supply chain as a whole far too little inventory is

stored. As a result small variations in demand and supply are amplified and cause violent swings in price. In the first week of December 2013 prices fell again.

It is easy to see how heavy investment by supermarket chains and big food-producers—whether Indian or foreign—could make a difference. They would cut out layers from the supply chain, build modern storage facilities and probably prod farmers to consolidate their plots.

The shoppers of Chembur agree that

American food distribution

Meal deal

NEW YORK

Sysco shows how to distribute food with ruthless efficiency

WHEN John Baugh and his wife Eula Mae launched Zero Foods in 1946, to deliver frozen food to businesses in Houston, America's distribution system consisted of countless small local firms. So Baugh set about consolidating it. In 1970 he persuaded eight similar firms to merge with his to form the Systems Services Company (Sysco), which he then expanded through a series of acquisitions. Baugh died in 2007, but on December 9th his firm announced a deal which, if antitrust regulators approve it, may be the culmination of his visionary strategy to build the type of modern and efficient food-distribution system that India lacks (see main story).

In an acquisition valued at \$8.2 billion, Sysco will buy US Foods, its closest rival in America. There has been speculation for years that these two firms would get together. Indeed, William DeLaney, Sysco's boss, says he consid-

ered buying US Foods seven years ago, but decided that the price was too high. Thanks to its strategy of acquisitions and an obsession with cost control and efficiency it got from Baugh, Sysco has long been the market leader in delivering food, frozen and otherwise, to schools, fast-food chains and even fancy Michelin-starred restaurants such as the French Laundry in California's Napa Valley. With US Foods it will account for over a quarter of the American market. Food producers will not relish the extra clout of the combined firm. Likewise, restaurants, which will lose the chance to get lower prices by playing off Sysco and US Foods against each other. So the merger will provide a stern test for Barack Obama's antitrust enforcers after their recent attempt to block the merger of American Airlines and US Airways fizzled out embarrassingly.

After a hard year of slow growth and a scandal over poor storage of perishable food in some depots in California, Sysco hopes to return to what it knows best, stripping out costs. The outlook may be grim for employees of US Foods, who had hoped for an easier exit from six years of ownership by Clayton Dubilier & Rice and KKR, two private-equity giants. Workers would doubtless have preferred an initial public offering or even a sale to a big retailer like Walmart. Successfully integrating two such sprawling, decentralised firms (Sysco alone has more than 70 operating businesses in America) is likely to take several years. That will create opportunities for smaller rivals such as Performance Food Group and the innovative Gordon Food Services to poach customers disgruntled by the merger process. It will also hold back Sysco's efforts to apply its strategy to markets outside America. Many of them are almost as fragmented as America's when Baugh started earning his reputation as the "Sysco Kid".



Dinner is served