

Contract-farming system solidifies Sabinsa's supply chain



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Sami Labs CEO V.G. Nair shows off a nearly mature turmeric plant. Turmeric is the main spice in Indian cuisine, and curcuminoid ingredients are extracted from the plant's root.

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Like other suppliers of a wide range of botanical materials, Sabinsa Corp is at the mercy of the vagaries of complicated supply chain. The Indian/American company has chosen to deal with this via a contract-farming relationship with many of the small-scale growers of its raw materials.

Sabinsa has growing operations in a number of places around the globe. The company sources a large share of its overall raw material intake in India, with significant operations located in the southern state of Tamil Nadu. Recently a group of US journalists toured the company's fields there near the major city of Salem to see first hand how the company manages these relationships and how the arrangement can be mutually beneficial to all parties. The trip was paid for by Sabinsa.

Stable price offered

Sabinsa cultivates its relationships with its farming communities by offering seed and knowhow to raise crops like turmeric and coleus that match its specifications. In return, the farmers agree to sell the crop at a set price. To take into account market fluctuations, the company, via its Indian subsidiary Sami Labs, agrees to adjust the price upward if the commodity price surges after the signing of the initial contract.

"We might not give them that full difference, but they will get a considerable amount above the contracted rate," said Sami Labs CEO and director V.G. Nair. In the past, the company has dealt with the issue of traders swooping in and purchasing crops that Sabinsa had contracted for by offering a higher price. While in the fully free market West this might be passed off as just how the cookie crumbles, Nair said these broker/intermediaries rarely have the farmers' long-term interests at heart. The brokers tend to take a narrowly transactional view of the relationship, and are either unable or unwilling to engage in other aspects of the farmers' lives.

"It takes years to build up that trust. If they go with Sami Labs, they know we'll be there next year and the year after that," Nair said.

Improvement in day-to-day conditions

Nair said Sami Labs supports farmers in more than just knowhow and price support. The company seeks to improve the day-to-day living conditions by offering support for local medical clinics and making sure schools have sufficient supplies.



The communal harvest festival meal consisted of rice porridge and sugar cane.

The press tour coincided with the harvest festival of Pongal, a tradition specific to Tamil Nadu. The festival features brightly decorated livestock and the sharing of a communal meal, a porridge that goes by the same name made of rice, jaggery (unrefined sugar cane syrup) and cashews. All participants also receive a length of freshly harvested sugar cane to gnaw on.

One of these observances took place at a small village near the town of Yercaud, which is located on a forested plateau. A large number of the farmers in the village work with Sabinsa and company representatives participated in the festival. Officials also handed out jackets to all of the children in the school. While Yercaud is located only 11 degrees north of the equator, it sits at nearly 5,000 feet elevation at the crest of the Shevaroy Hills, so winter nights can be cool even so.

Reduction of child labor

The effect of the contractual relationship on the farmers' future is borne out by the emphasis on education, said Sabinsa founder Dr Muhammed Majeed. The company makes a claim to have pioneered this idea in southern India. The company says supporting schools in the region helps farming families by showing a way forward for members of the household who might not be able to be supported exclusively via the family farm, most of which tend to be a few acres or less. For all of its recent progress, India still struggles with the blight of child labor. The incidence has been decreasing in recent years but still by a 2011 government census estimate about 4.5 million children ages 5 to 15 were working full time in India, with about 150,000 of those in Tamil Nadu state.

"What we do is we encourage them to go to college," said Majeed. "That way people don't get into the child labor market. They can go on in school."



Coleus root.

Turmeric, the source of curcuminoid ingredients for dietary supplements, is the major crop grown for Sabinsa via this contractual method in Tamil Nadu. Other crops include coleus, the raw material for Sabinsa's weight loss ingredient Forslean, and amla. Sabinsa structures the relationship by working through a local farming organization representative who manages the relationships with

the farmers at ground level. Majeed said the idea has been successful enough that the company is seeking to expand its turmeric acreage to meet growing demand for the ingredients.