

# Amul: When the milk supply chain takes on a new dimension

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In the wake of their European counterparts, Indian global organisations are looking at treasury centralisation as a smart, forward-thinking way of doing more with less, with shared service centres and payment factories at the forefront of change. In a nutshell, here is what leading Indian corporates have implemented to streamline their treasury processes, and the tremendous leap forward that they have made as a result.

## 1/ About the company

With an approximate daily production of 18 million litres of milk collected from 17,000 local cooperative societies, Amul operates a network of 17 member unions covering 24 districts. One of the largest in India, its distribution network has 54 sales offices, 6,000 dealers and one million retailers. The company is India's largest dairy product organisation, and it pioneered the country's White Revolution that led to it being self-sufficient in milk.

## 2/ Why cash management is strategic

- Amul has a unique 'from cow to consumer' supply chain that links 3.5 million milk producers / farmers to nearly 1 billion customers. Milk is purchased daily and farmers are paid at the point of delivery, with 80% of payments made in cash.
- At the other end of the chain, Amul collects remittances from distributors on a 'cash and carry' basis. Distributors and retailers provide post-dated cheques towards the payment of future milk supply orders, and only some of them use electronic payments.
- Cheques are sent to BNP Paribas for clearing, settlement and reconciliation.
- Prior to Amul transforming its cash management set-up, the whole process was dealt with at branch level, and cheques were paid daily. This translated into massive administrative overheads and high operating costs, in addition to the risks associated (cancelled or non-honoured cheques, errors causing cheques to bounce back, etc.).
- Supported by BNP Paribas, Amul improved its collection process and increased its operational efficiency and control. The company took the opportunity of redesigning its cash management systems to support the shift towards electronic payments.
- Amul has a long-time commitment to financial inclusion, but India's low ATM equipment rate means that progress is slow. However, mobile payments are emerging strongly, and Amul is looking at 80% of payments being made through banking channels by 2017-2018.

## 3/ The solutions implemented

- To gain efficiency in cash management and support of its ambitious development programme, Amul engaged in a transformation process that fully integrated the reality of

its unique distribution network. Among other challenges, Amul aimed for an efficient and reliable cheque management solution, while at the same time preparing for a near future where electronic payments would increase in power.

- After a thorough analysis of its supply chain with BNP Paribas, Amul worked out a set of key requirements to:
  - Improve the cheques' clearing process.
  - Facilitate distributors' electronic payments.
  - Allow distributors to transfer funds at any time using their mobile phones (vs. bank transfers), thanks to a mobile banking solution.
  - Facilitate direct debits.
- BNP Paribas' solution encompasses the outsourcing of cheque management; an e-receipt solution based on virtual accounts to improve the reconciliation process, an interbank mobile payment device (IMPS) and direct debits through the Indian service NACH (National Automated Clearing House).

In addition to savings on administrative costs, Amul rapidly increased its collection process by 2 days ?each day is estimated to be worth between \$10 and \$12 in working capital terms. The whole cash management process is now more accurate and reliable, which improves the overall operational efficiency and allows for a better control of cash flows. Best of all, this transformation also leads to better relationships with suppliers, which is the backbone of Amul's success.

Amul's development strategy is now well supported by a renewed, forward-thinking cash management approach. As for tomorrow, Amul plans to pursue its relationship with BNP Paribas and will rely on the bank to develop its activity in the United States.

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