

Indus Consumer Products Limited

Rural Connect Proposal

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INTRODUCTION

The Associated Chambers of Commerce and Industry of India (ASSOCHAM) estimated the size of the rural retail market in 2010 at \$112 billion or around 40 per cent of the \$280 billion retail market. This is expected to double in the next four to five years.

Though only about 10,000 out of India's 600,000 villages have access to organised retail services, the Indian FMCG players consider the Indian rural market vital for their survival as the urban markets are getting saturated and increasingly competitive with the entry of several MNCs. *"Rising rural incomes, healthy agriculture growth, boost in demand, rising consumerism across India, and better penetration of FMCG products in the rural market are contributing to high growth and rapid expansion of the FMCG industry in rural India. FMCG sector in rural areas is expected to grow by 40 per cent as against 25 per cent in urban areas,"* said ASSOCHAM president Sajjan Jindal.¹

Although the rural markets offer a huge revenue and growth potential, they are extremely price sensitive markets. Traditional methods of rural marketing use a few select rural distributors and retailers to stock FMCG products but there is little direct contact with consumers. As a result there is very little knowledge of this customer segment. The absence of distribution networks in many of these areas makes selling even more difficult. To penetrate this segment of the market, it is important to create awareness about the utility of FMCG products among the rural consumers. They have to be convinced that the value of the FMCG product is higher than other traditional substitutes, which they have been using until now.

¹ *Ibid.*

INDUS'S RURAL SUPPLY CHAIN

Unlike the urban supply chain, which has a robust network of distributors and retailers, INDUS' rural supply chain consists of distributors and retailers and company-owned Nodal Outlets. The Nodal Outlets were first opened in Gujarat and Maharashtra and later expanded to Karnataka and Madhya Pradesh. Through these outlets, INDUS seeks to understand the rural consumers, their consumption patterns and develop customised promotions and products for this market segment. Rural sales in the four states were over INR 1.5 billion in the year 2011-12.

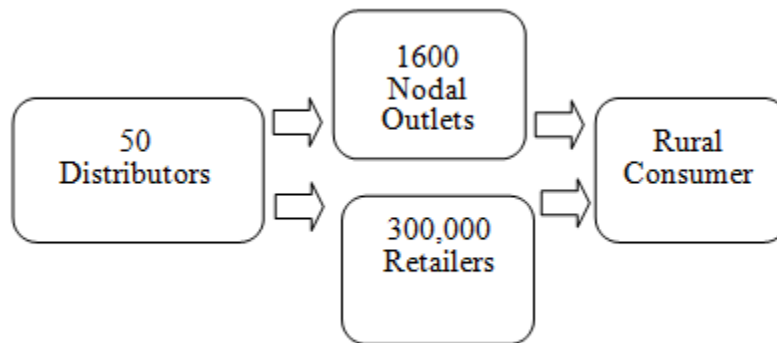


Figure 1: INDUS's Rural Supply Chain

RURAL CONNECT

In 2013-14, INDUS proposes to implement a Rural Connect initiative for rural and semi-urban markets. Rural Connect refers to a set of technology-enabled initiatives that will increase the touch points between INDUS and its rural consumers so that the latter view the INDUS stores not only as a place to buy products but also as a facility to get informed and educated about products. Rural Connect will gather information on rural consumers' consumption patterns and product preferences to help INDUS better design and promote its products.

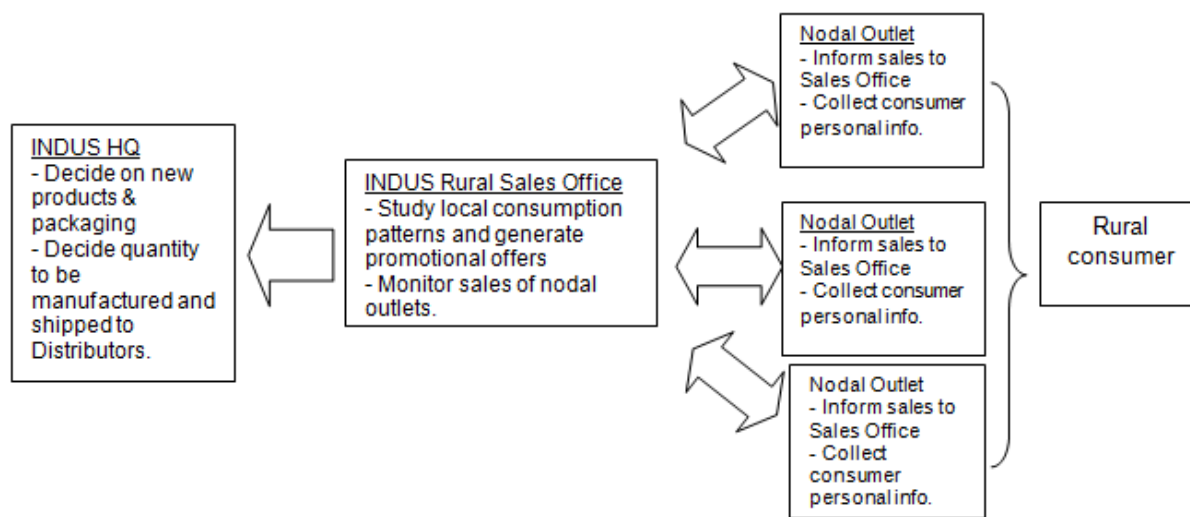


Figure 2: Information Flow in Rural Connect

As part of Rural Connect, the Nodal Outlets will develop relationships with customers and send information back to the company, which will use this information to design and price its products according to the preferences of its target audience. The Nodal Outlets will give online demonstrations of products, tips on increasing shelf-life and usage, track sales, upload daily sales data to the corporate server and keep basic consumer information like contact numbers, important dates, etc. so that the population can be informed of promotional schemes through their mobile phones. The Rural Sales office will create promotional schemes based on information collected from the Nodal outlets, including local events (local fairs, festivals, and seasonal events). It will also pass on this information to Sales HQ for further analysis and design of new products.

Through Rural Connect, additional services, which provide assistance in the following areas can subsequently be implemented on the same platform:

- ✚ Information about various government projects and initiatives e.g. National Rural Employment Guarantee Scheme (NREGS)
- ✚ Train & Bus ticketing and information
- ✚ Phone recharge facilities and use of bank cards through point of sales network
- ✚ Crop insurance, Health and Life insurance, in partnership with an insurance company

The company also aims to bring inclusive growth in the following areas through the various corporate social responsibility (CSR) initiatives that it plans to undertake with the assistance of the Rural Connect application:

- ✚ Programmes for empowerment of women
- ✚ Participating in various programmes in the rural primary schools
- ✚ Creating awareness about education, health and hygiene

WORKING

The IT infrastructure will form the backbone of this initiative. However, due to lack of infrastructure and poor power distribution and telephone connectivity, the company was able to identify only 400 nodal outlets to implement these solutions.

INDUS' central server will connect with the Nodal Outlet computers via mobile dial-up connection. The technology requirements include application software, servers, storage, personal computers (PCs), UPS (uninterrupted power supply) backup, batteries, battery chargers, voltage spike suppressors, printers, mobile data-cards, POS terminals and other physical infrastructure required to be set up at the outlets.

BENEFITS²

Increase in Rural Sales: The benefits of Rural Connect, estimated for the five year period following the implementation of the initiative, yield an IRR of 47%. This initiative will help the company penetrate relatively untapped rural and semi-urban markets, which offer a huge growth potential. With rising disposable incomes, the aspiration levels of consumers are rising fast and so is the demand for better products. A strong foothold in the rural market will help the company to continuously innovate and bring out customised and targeted products for the rural market. The increased contribution from Rural Connect is estimated at INR 42.65 million for the year following the implementation of the initiative. This contribution is corrected for

² All the benefits will start accruing in the first year following the year of implementation

cost of sales and is projected to grow at 20% each year over the five-year period following the implementation of the initiative.

COST

Based on certain assumptions³, following are the estimated costs of the application:

Upfront Cost:

- + *Mobile Data Cards*: A cost of INR 4.80 million will be incurred for the purchase of mobile data cards in the current year⁴.
- + *Hardware*: A cost of INR 10 million will be incurred for the purchase of hardware in the current year.
- + *Database licenses, installation, configuration costs*: A cost of INR 6.40 million will be incurred for the purchase, installation, and configuration of database licenses in the current year.
- + *Training*: A cost of INR 3.20 million will be incurred for training purposes in the current year.
- + **Recurring Cost:**
- + *Rural portal development and maintenance*: A cost of INR 4.50 million will be incurred for rural portal development and maintenance in the current year. In the subsequent years this cost will come down to INR 0.45 million per year.
- + *IT Administration*: A cost of INR 5 million will be incurred for IT administration every year.
- + *IT Maintenance*: A cost of INR 20 million will be incurred for IT maintenance every year.

³ -The Rural Connect is purely an IT initiative to be taken up in addition to the expansion of the physical network.

-With this initiative it is proposed to establish information connectivity between the sales offices and the rural outlets.

-Mobile data card cost is INR 1,000/month (This may come down if INDUS forms a strategic relationship with a Mobile service provider to sell their phone cards at their outlets.)

⁴ The current year, 2013-14, is the decision year as well as the implementation year

The decision to adopt the new Rural Connect system cannot be based simply on the above financial analyses. An internal impact analysis⁵ suggests that various quadrants of the organization will be differently influenced by the implementation of Rural Connect:

- ✚ *Financial metrics:* Elimination of redundancies across business processes and functions will significantly improve revenue growth and asset utilization. However, the system will have a moderate impact on return on IT spend and low impact on freeing of cash flow. The system will have no impact on reduction in cost of sales.
- ✚ *Customer metrics:* Customer satisfaction will substantially improve. As a result of Rural Connect, the company will significantly benefit in terms of gaining lead time over competition and number of products first to market. The application will have no impact on the defect rate.
- ✚ *Process metrics:* Barring its low impact on cycle time-order to delivery, the new system will have no impact on improving the internal processes within the value chain. This means that Rural Connect will bear no consequence on the lead time to procure inventory, capacity utilization, inventory obsolescence, inventory turnover, stock-outs, order-backlogs, or on-time deliveries.
- ✚ *Learning & Innovation:* The new system will have a high impact in the creation of new business capabilities. It will play a significant role in the acquisition of new customer insights and creation of new business models. The new application will have a low impact on improving business processes.

THE WAY FORWARD

Through this initiative, INDUS hopes to expand its rural network from four states to 25 states over the long term. Following are some of the possibilities:

1. Once having successfully established the network of outlets, INDUS can consider direct procurement of various agricultural produce through its nodal outlets to bring down the procurement costs.
2. INDUS aims to partner with a bank to provide credit, insurance, financial planning and other services not easily accessible to villagers. It would need to identify a partner for this initiative.
3. INDUS aims to develop the Nodal Outlet into a one-stop shop for all the needs of the rural populace.

⁵ Impact Analysis scores: High Impact- 3, Moderate impact- 2, Low impact- 1.

4. The company plans to identify ways to encourage entrepreneurs to take over these rural outlets.
5. INDUS plans to set up a Farmers' Store and Help Desk to provide information on farm management, soil nutrient analysis, crop protection services, crop insurance services, weather forecast, etc.

CHALLENGES

As the rural markets are becoming increasingly attractive, competition too is increasing in these areas. ITC's e-Choupal initiative is the biggest of all the initiatives, which is primarily based on direct procurement from farmers eliminating intermediaries. Other domestic companies have also started certain similar rural initiatives e.g. Godrej Aadhaar, the rural retail initiative of Godrej Agrovat Ltd and HUL Shakti of Hindustan Unilever Ltd.

With the launch of Rural Connect, Indus expects to decrease the advantage that competition currently has in various areas of rural business.