CHOUPAL SAGAR: PROBLEMS OF THE PIONEER OF ORGANIZED RETAILING IN RURAL INDIA

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With a major segment of Indian population residing in the villages, and a significant part of them having purchasing power for the daily necessities, the Fast Moving Consumer Goods (FMCG) companies have shifted their focus from urban to rural India. Big industrial houses such as DCM, Mahindra, Godrej and corporate giants such as Hindustan Unilever and ITC have ventured into organized rural retailing. This case study traces the origin and development of Choupal Sagar, the rural marketing initiative of ITC. Based on secondary research, the case deals with issues in rural distribution, product management and rural marketing as a whole. It also enlightens on the growth stagnation faced by Choupal Sagar during 2007. The case also discusses the problems and challenges faced by rural retailing.

"The myths about the rural consumer class being an impoverished mass are slowly being dispelled"
S. Sivakumar
Head of International Business Division, ITC (Srivastava, 2006)

"These malls make a lot of sense as it's clear that rural consumers are becoming increasingly brand-conscious and they are the 'value-seekers' who don't mind paying more if the quality is assured."
Guy Goves
General Manager (Agri-business), Tata Chemicals (Srivastava, 2006)

INTRODUCTION

The two above quotes signify the potential of the rural markets in India. The Indian business groups have realized the potential of an erstwhile untapped and ignored market, i.e. the rural markets of India. The dynamic nature of the Indian retail market and more specifically the rural market has attracted Indian and multinational companies to enter into the Indian retail market. India's rural markets offer a sea of an opportunity for the retail sector.

The urban-rural consumer spending ratio was at 9:11 in early 2008, and almost half of the Indian retail market (which amounts to INR 13.3 trillions) was coming from rural India. Rural population in India was accounting for 55% of the total retail consumption. Surprisingly, the major retailing giants in urban retailing have been left behind by the companies who were pioneering rural retailing. The reason was relatively simple. Firms such as Imperial Tobacco Company of India Limited (ITC) (Refer Exhibit 1 for a brief profile of ITC) were involved in agri-business since the 1990's. This gave them knowledge about the rural markets and the demand structure in rural areas. Thus were set up ventures like 'Choupal Sagar', a rural retail mall by ITC. The prospects in Indian rural markets have driven big corporations like Fast Moving Consumer Goods (FMCG) giant Hindustan Unilever Limited (HUL), industrial conglomerates like the Mahindras, the Godrejs, Delhi Cotton Mills (DCM) Shriram group, oil majors like Indian Oil and Bharat Petroleum, and even bankers like Industrial Credit and Investment Corporation of India (ICICI) towards the hinterlands of India. Choupal Sagar was one of the pioneers of organized rural retailing. However, with increasing competition, the rural markets were going to witness new players and new strategies to gain market share. In such a scenario, it would be interesting to observe the marketing strategies of Choupal Sagar to retain its market position.

THE ORIGIN OF ITC e-CHOUPAL

The idea behind the Choupal Sagar originated in a venture by ITC known as the 'e-Choupal'. The e-Choupal was introduced by ITC in June 2000. It was initiated by ITC to set up a direct link with rural farmers for procurement of products like soybeans, wheat, coffee, oilseeds etc which it requires for its agro based division. The agricultural sector of India had been characterized by weak infrastructure and several intermediaries. Most of the products were procured in the agricultural marketing centers known as 'mandi's' resulting in high profits of the intermediaries. Generally in this sector a farmer used to sell his produce to a small trader called a kaccha adat, who sold the produce to a larger trader called the pakka adat, who in turn took the produce to a local Mandi, where a larger trader bought the produce. The Mandi traders then operated through brokers to negotiate sales to companies such as ITC. This long supply chain (Refer to Exhibit 2 for the Traditional Supply Chain in Agricultural Products) resulted in high cost of procurement for ITC on one hand and also very low profit opportunity for the farmers on the other hand. Moreover, the entire process was too lengthy and complicated. Such a time consuming process also resulted in the deterioration of the quality of the products.

At the backdrop of these problems ITC took the initiative to introduce e-Choupal through which the farmers could directly negotiate the sale of their produce with the company without further involvement of intermediaries. This provided many benefits to the farmers. On one hand they could sell their produce at reasonable prices and on the other hand they could have access to PCs and internet which enabled them to obtain useful information about the weather, fertilizers, seed quality, information about various types of seeds etc. They could also place orders for good quality seeds and fertilizers thereby improving the quality of produce. The farmers were also assured about correct tonnage since e-Choupal used automated weigh bridges to weigh their produce. As the farmers agreed to sell their produce, it was dispatched to the nearest e-choupal warehouse and they immediately received their income.

For operation of these e-Choupals, Sanchalaks (meaning coordinators) were employed by ITC. They were the literate people elected from among the farmers of the village and were trained to run the internet and access useful information from meteorological sites along with other agricultural information. The roles of the intermediaries were redefined to Samayojaks (meaning Agents) assisting the company in setting up new e-Choupals, collecting price data and maintaining records etc. They also got commissions on product processed. Though there was an initial reluctance by the agents to join but they soon saw the benefits of a substantial earning opportunity in the form of increased commission as sale volume began to increase.

The e-Choupal initiative was also beneficial to the company as had easy and direct access to the agricultural produce without going through the process of negotiation with the intermediaries. The cost of transportation of the goods from the local mandis to ITC storehouses also got reduced due to the set up of their own warehouses as part of this initiative. The initiative was successful in making the entire process transparent and smooth. ITCs e-Choupal network reached out to over four million farmers in the later part of the first decade of 2000. These farmers were growing a range of crops such as soybean, coffee, wheat, rice and pulses in a staggering 40,000 villages through 6,500 kiosks across the Indian states which included Madhya Pradesh, Rajasthan, Uttar Pradesh, Maharashtra, Karnataka, Andhra Pradesh and Tamil Nadu. The company was also planning to launch e-Choupal Version 3.0. The objective of the move was two-fold. First, it would help ITC discover new businesses on which it can hedge to insulate its existing e-Choupal model from market and environmental risks. Second, it would also deepen the company's relationship with individual farmers and, thus, create more value for the farmer, the network partners and ITC itself. The launch was expected by 2012.

CHOUPAL SAGAR IS LAUNCHED

Following the success of the e-Choupal, the company launched Choupal Sagar comprising collection and storage facilities and a unique rural hyper market offering multiple services under one roof. This was another unique initiative by the ITC to lure the rural agricultural community by constructing a rural mall in the same warehouse used for storage of produces that it purchased through its e-Choupal. The first rural mall was set up at Rafiqganj, about four kilometers from Sehore town in Madhya Pradesh on an eight-acre plot with a shopping area of 7,000 square feet (sqft) in August 2004. What had started as an experiment to use information technology tools to enable farmers find the best price for their produce, now metamorphosed into this shopping idea by providing multiple services under one roof, like selling produces and buying quality products for farm and household consumption, additional services like soil testing, banking, insurance from ICICI Prudential and LIC and medical facilities and restaurant. Thus Choupal Sagar had been successful in evolving into a universal platform for rural India with a basket of goods, services and most important, information access.

The key factor for success of Choupal Sagar was the fact the rural India had much more potential than the urban marketplace, not only for agro-extension services but also for organized retailing in the form of rural malls and supermarkets. Rural India accounted for over 50% of India's GDP. There was tremendous potential in Rural India as the rate of disposable income was increasing. The rural markets had been growing at a much higher rate than the urban markets which shifted our concentration on rural retailing market.

THE TWO P's: PRODUCT and LOCATION

Choupal Sagar was one of the first organized retail forays into the hinterland. The ITC store, being a one stop shop for farmers, sold everything that a rural consumer may ask for such as footwear, groceries, electronics and consumer durables ranging from TVs to microwaves, cosmetics and other accessories, farm consumption products like seeds, fertilizers, pumps, generators and even tractors, motorcycles and scooters. Its 7000 sqft area was stacked with brand names such as Sonata (watches), home appliances from brands such as Usha, Prestige and Hawkins. Among the apparel brands there was Italio, Cosmo, Springwood and John Players. Philips (mainly light bulbs) and LG products were available in the consumer electronics shelf. However, majority of the brands sold were national such as Marico, Colgate, Eveready, TVS. The mall also had a Bharat Petroleum Corporation Limited (BPCL) outlet selling diesel and petrol, and average farmer could purchase fuel for Rs. 3,000. Besides the products, other facilities such as banking and automated teller machines, primary healthcare services, information centers for providing online information on commodity rates and weather were also provided. One of the strategies for success of Choupal Sagar was the use of its ITC warehouses. ITC had targeted the farmers selling to ITC warehouse through e-Choupal. With its network of e-chaupals, ITC communicated its latest commodity prices to the farmers. If the farmers found the prices attractive, they used to sell their produce to ITC. The Sanchalak (the person who operates an e-chaupal) of villages near these malls reckoned that half the farmers in the villages dealt only with ITC. Now, by setting up the mall next to the warehouse, ITC tried to monetize the footfalls from farmers. That is, every time a Sanchalak and/or farmers visited the warehouse to sell their produce, they also had the opportunity to spend their freshly earned cash. According to Mr. R. Nandkishore (Nandkishore), director (marketing), Philips Lighting, "ITC realized that the farmers had just got money, that they would spend it anyway, and that they had an empty vehicle with which they could lug the stuff back" (Choupal Sagar - Unlocking rural markets, 2004). It was in this way that ITC achieved a two way flow of products and services into the rural economy.

Companies such as Philips who could not penetrate deep into the rural areas of India greatly benefited because of Choupal Sagar. The logic was simple according to Nandkishore. If we assume that a village needed 200 bulbs, given the MRP of Rs. 10 per bulb, the revenue was Rs. 2,000 and the company made a gross margin of 5-7 per cent on it. However to go deeper into the rural markets and beyond the villages below 20,000 population, the company had to hire a van. Given the van cost to be Rs. 50, the entire model failed to work out. However, after collaboration with ITC, Philips' dealers in the 20,000-population villages supply to ITC, which sent a van to all its Sanchalaks once every 15 days, dropping off their orders. This resulted in increasing the coverage up to 50-60 per cent in these areas from 20 per cent in 2002. Added to this the high cost energy saving products were being displayed in the Choupal Sagar (because of problems of space and less sales in village kirana store) thereby adding to more penetration.

THE RURAL RETAIL LANDSCAPE

The early years of organized retailing in rural India was not what it was in the early 2000's. The most prevalent format of organized retailing in rural India was the agricultural input stores. The stores used to have a catchment area of about 100 villages and used to sell products related to the occupational needs of the farmers such as fertilizers and seeds. The daily necessities were on the other hand provided by the village local shop of the Haat. A haat used to a be a weekly market at a vantage point from a cluster of villages. Traders used to come from different areas as well as buyers. Generally a Haat used to be spread over 2-3 acres of land with around 300 stalls. A wide variety of products ranging from cattle to medicines were sold at Haats. There were a few reasons which led to a growing dissatisfaction for unorganized retail among the rural buyers. First, the goods sold were often counterfeit and without any guarantee. The typical rural store had more of local brands and less of national brands. Most products were sold at a premium over and above its maximum retail price citing reasons of transportation and storage by the seller. The fact that the rural consumers were having more buying power and awareness was a fact which was overlooked by the local sellers. This was the point which the large format retailers thought as their advantage and they jumped into the rural retailing arena.

COMPETITION CATCHES UP

Looking for new areas of growth, the corporate sector had realized the huge potential of the untapped rural market with increasing liquidity in rural India. Along with ITC's Choupal Sagar, few more companies took initiative in the same direction like Delhi Shriram's Kissan Haryali Bazaar, Godrej's Aadhaar etc. The rural market was then accounting for over one-third of the market for most durable and non-durable products. Even manufacturers were developing new products with the rural consumer in mind besides using village-oriented marketing strategies for brand promotions. Hariyali Kisaan Bazaar, the rural retail arm of DCM Shriram Consolidated Ltd (DSCL), had started its operation since 2002. These stores were so planned that they catered to around 100 small villages within a radius of about 40 kilometers with a diverse product range from farming products to household goods. In early 2006, it had 275 stores across Uttar Pradesh, Uttarakhand, Punjab, Haryana, Rajasthan, Madhya Pradesh, Maharashtra and Andhra Pradesh offering products like agricultural inputs, cattle feed, plastic furniture, fast-moving consumer goods, automobiles, banking, crop insurance and other agronomical services. Godrej Aadhaar, the rural retail initiative of Godrej Agrovet was first set up at Manchar near Pune in December 2003 with the aim of expanding the shopping horizon of the rural community. The company planned to set up 1,000 Aadhaar stores across rural India by 2010. Godrej Aadhaar, had a very wide array of associated services along with sales of products such as crop advisory services, buy back facility of output, dissemination of information such as weather, price, and demand supply), and most important home delivery of products. The Mahindra group (Mahindra), the largest farm equipment maker in the country was another competitor in this area. Its branded rural retailing foray was a chain of superstores called Mahindra ShubhLabh Stores. The farm extension arm called Mahindra Krishi Vihar. ShubhLabh Stores began in 2002, and extended in 11 states of AP, MP, Tamil Nadu (TN), Maharashtra, Karnataka, Gujarat, Rajasthan, Orissa, Chattisgarh, Bengal and Delhi. Kisan Seva Kendra (KSK), started in 2005, was the retail outlet pioneered by Indian Oil Corporation (IOC). IOC was the only Fortune 500 oil company in the public sector to cater to the needs of customers in the rural segment. There have been more than 2000 of these rural retail outlets across the country which was providing non-fuel retail facilities. Convenience stores had been added to the KSK to sell pesticides, vegetables, banking products and stationery items. IndianOil also used their tie up with Indo-Gulf for fertilisers, and National Seeds Corporation for marketing seeds and agricultural inputs through the KSKs. The banking and financial products were being sold as a result of collaborations with rural banks such as the NABARD (National Bank for Agricultural and Rural Development), and commercial banks such as Oriental Bank of Commerce and Bank of Baroda. Consumer products giant HUL started its new rural venture Project Shakti in 50 villages of Nalgonda district in Andhra in 2001, empowering women through self-help groups to increase awareness of HUL's products to reach areas of low access and low market potential. The project has now been extended to MP, Gujarat, Karnataka, TN, Chattisgarh, Uttar Pradesh and Orissa.

OUTLOOK

The prospect of rural retailing was very lucrative going by the report published by McKinsey India on Rural Retail in 2007. According to the reports, the rural consumption growth rate would increase from around 4% in 2005 to more than 5% in the next ten years resulting in a rural market worth INR 16 trillion (1 USD = INR 46 approx as on 09/09/2011). By 2017, the average rural household consumption would cross the same value of urban households of 2005. This may have been the most important reason leading to increasing focus of large corporations into Indian villages. However, though ITC had its expansion plans in rural retailing; it was not sitting idle on the prospects of urban retailing of consumer goods. 'Choupal Fresh' was the name given to the vegetable and fruits supermarket and the first store came up in Hyderabad in August 2006. The 2,500 sqft store combined retail with wholesale. The store had its own cold chain and operated from 5 am every day to supply to wholesale and retail clients. The success of Choupal Fresh subsequently in Chandigarh, Pune and Hyderabad has provided the impetus to ITC who had plans to open up around 140 stores in 54 Indian cities over the next three years. The focus on Choupal Sagar however would still be there and expansion would go on. However, in late 2009, it was found that the total number of Choupal Sagar outlets was stagnating at 24 and the very concept of e-Choupal was also being questioned. The growth potential which ITC projected could not be realized. Thus the very question faced by ITC was that of how to sustain growth. Given the fact that all the projections related to Indian retail were showing an explosive growth, it was surprising to observe that the pioneer was not able to capitalize on that. Moreover, the market signals were indicating the entry of more players in the rural market thereby increasing competition. Thus the point to ponder would be whether to open up more stores or whether to retract. Moreover, a second dilemma was to decide between rural and urban retailing. Even though there were established players in the urban market, there was place for new entrants. It would be up to time, competition and strategies taken by ITC which would decide the fate of Choupal Sagar.

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EXHIBIT 1

Brief Profile of ITC

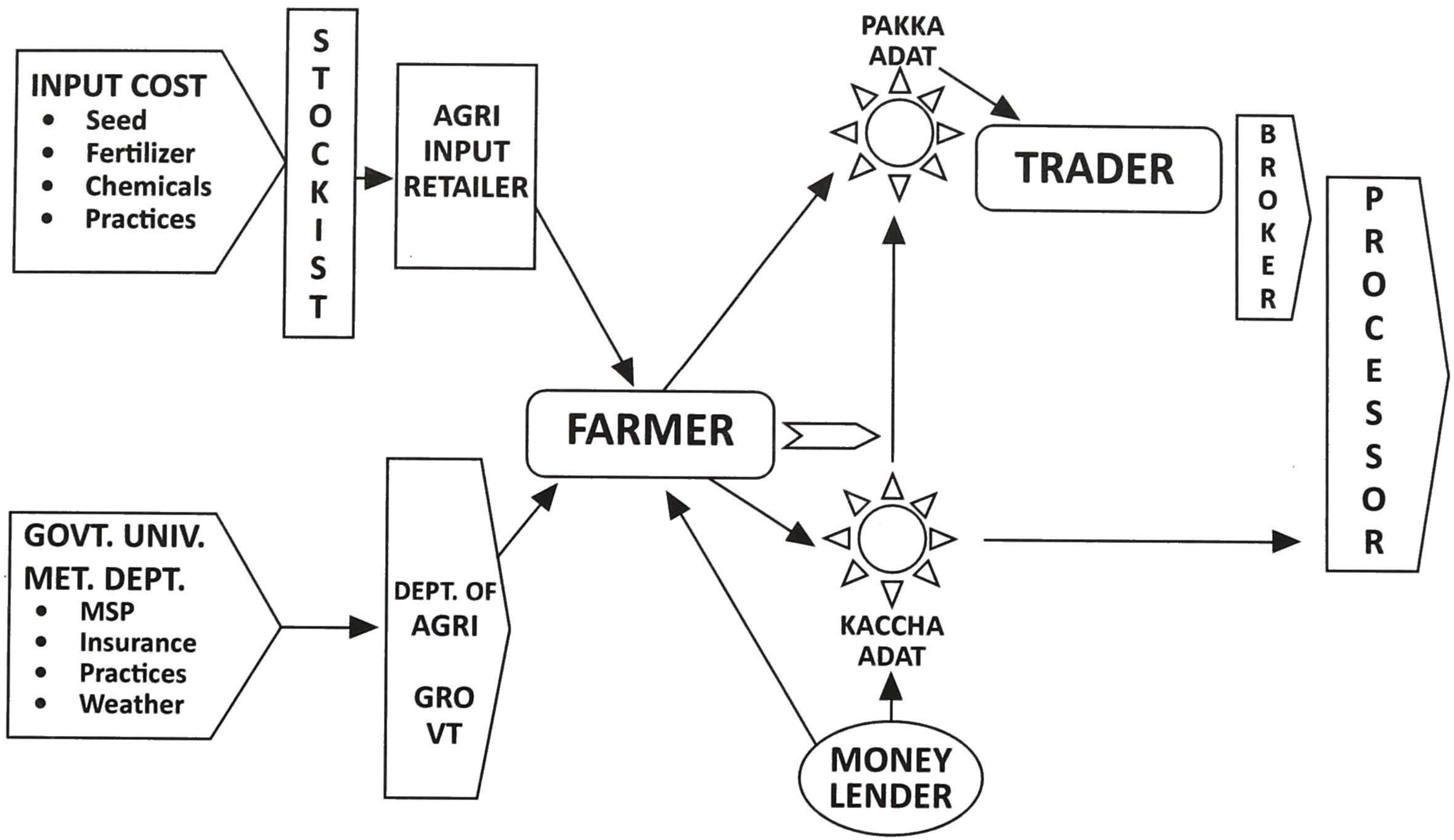
The 'Imperial Tobacco Company of India Limited' or ITC was incorporated on August 24, 1910. It started in a leased office on Radha Bazar Lane, Kolkata, which shifted to 37, Chowringhee, (now renamed J.L. Nehru Road) in Kolkata on August 24, 1926. The Company's ownership became more and more Indianised, and the name was changed to I.T.C. Limited in the year 1974. The Company has a diversified portfolio of business encompassing a wide range of businesses such as Cigarettes & Tobacco, Hotels, Information Technology, Packaging, Paperboards & Specialty Papers, Agri-Exports, to name a few. In September 2001, the full stops in the Company's name were removed and the company name was rechristened 'ITC Limited' which stands till 2009.

ITC is one of India's leading private sector companies with a market capitalization of about US $ 14 billion and a turnover of over US $ 5 billion as on 31st March 2009. ITC has been ranked among the World's Best Big Companies, Asia's 'Fab 50' and the World's Most Reputable Companies by the Forbes magazine. It has also been rated among India's Most Respected Companies by BusinessWorld magazine and among India's Most Valuable Companies by Business Today. The Agri-Business of ITC is one of India's largest exporters of agricultural products. ITC is also one of the biggest foreign exchange earners for India. ITC employs more than 25,000 people in more than 60 locations across India. The all inclusive vision of the company is captured in its corporate positioning statement which says: "Enduring Value. For the nation. For the Shareholder."

Source: Adapted from http://www.itcportal.com/sets/itc_frameset.htm

EXHIBIT 2

Traditional Supply Chain in Agricultural Products



Source: Adapted from http://www.itcportal.com/agri_exports/images/value.