



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

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ORGANISED RURAL RETAILING IN INDIA THROUGH 'RPSO' (RURAL PROCUREMENT AND SUPPLY OUTLET) MODEL

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ABSTRACT

Organized rural retailing plays vital role in development of rural India and economy. India is severely facing food inflation, floating near 20% in 2010. When it comes to groceries other than staples, local sourcing from the nearby wholesale market is adopted by every retailer. All such products suffer a mark-up of 25 - 30%, so as to absorb the cost structure. Thus, in many sub-categories, the price levels of organised retailers are much above unorganised retailers and more than the wholesale prices by as much as 25 – 30%. Though organised retailers have a small share in the overall food retailing, price set by some organised retailers are taken as benchmark by not only other organised food retailers but also unorganised retailers. Therefore, food prices are soaring. All essential items like vegetables, oil, milk, sugar are getting costlier. It is because of the India's agro products' marketing is characterized by: Fragmentation of the supply chain, Concentration of market power with the wholesalers, Existence of large number of intermediaries, little or no quality control, Absence of standards, Lack of product innovation, Small volume for transactions and Low inventories etc. The article focuses Rural Procurement and Supply Outlet (RPSO) model to overcome the above problems.

KEYWORDS

Rural Procurement and Supply Outlet (RPSO), Rural Procurement Entrepreneur (RPE), Rural Supply Entrepreneur (RSE), Rural Retail Outlet (RRO) Urban Retail Outlet (URO).

INTRODUCTION

The Indian retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. The organized retail which accounts for only 5% of the total retail trade is poised to grow at an annual rate of around 11% and is likely to touch business levels of 53,000 billion by 2020. Agro-food retailing accounts for 18% of the organized retail today and is likely to have a lower share (12%) by 2020. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, handcart and pavement vendors, etc.

India's retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64%, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience.

The Indian retail sector is highly fragmented with 97% of its business being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail however is at a very nascent stage though attempts are being made to increase its proportion to 9-10% by the year 2010 bringing in a huge opportunity for prospective new players. Over the past few years, the retail sales in India are hovering around 33-35% of GDP as compared to around 20% in the US. The last few years witnessed immense growth by this sector, the key drivers being changing consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the Government increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate building a world class shopping environment for the consumers. In order to keep pace with the increasing demand, there has been a hectic activity in terms of entry of international labels, expansion plans, and focus on technology, operations and processes.

This has led to more complex relationships involving suppliers, third party distributors and retailers, which can be dealt with the help of an efficient supply chain. A proper supply chain will help meet the competition head-on, manage stock availability; supplier relations, new value-added services, cost cutting and most importantly reduce the wastage levels in fresh produce like vegetables and fruits.

Large Indian players like Reliance, Ambanis, K Rahejas, Bharti AirTel, ITC and many others are making significant investments in this sector leading to emergence of big retailers who can bargain with suppliers to reap economies of scale. Hence, discounting is becoming an accepted practice. Proper infrastructure is a pre-requisite in retailing, which would help to modernize India and facilitate rapid economic growth. This would help in efficient delivery of goods and value-added services to the consumer making a higher contribution to the GDP.

International retailers see India as the last retailing frontier left as the China's retail sector is becoming saturated. However, the Indian Government restrictions on the FDI are creating ripples among the international players like Wal-Mart, Tesco and many other retail giants struggling to enter Indian markets. As of now the Government has allowed only 51% FDI in the sector to 'one-brand' shops like Nike, Reebok etc. However, other international players are taking alternative routes to enter the Indian retail market indirectly via strategic licensing agreement, franchisee agreement and cash and carry wholesale trading (since 100% FDI is allowed in wholesale trading).

EMPLOYMENT OPPORTUNITIES IN RETAIL SECTOR IN INDIA

India's retail industry is the second largest sector, after agriculture, which provides employment. According to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the retail sector will create 50,000 jobs in a year in next few years. Retail companies are starting retail management courses in partnership with management institutes, roping in talent from other sectors and developing comprehensive career growth and loyalty plans for existing employees. Trend has also started in-house learning programmes and now goes to under graduate colleges to recruit students. Since, the job market is hugely receptive to this with more and more business schools focusing on the sector and large retailers setting up retail academics. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10% of India's GDP. Modern retail industry has tremendous potential to generate

direct and indirect employment. The NABARD study has forecast employment potential at 1.88 lakh persons directly in 2020, with huge indirect employment generation down the chain.

ORIGIN OF THE PROBLEM

India is severely facing food inflation. Food inflation is floating near 20% in 2010. Everyone is facing the burden of rising prices. When it comes to groceries other than staples, local sourcing from the nearby wholesale market is adopted by every retailer. All such products suffer a mark-up of 25 - 30%, so as to absorb the cost structure. Thus, in many sub-categories, the price levels of organized retailers are much above unorganized retailers and more than the wholesale prices by as much as 25 - 30%. Though organized retailers have a small share in the overall food retailing, price set by some organized retailers are taken as benchmark by not only other organized food retailers but also unorganized retailers. Therefore, food prices are soaring . . . all essential items like vegetables, oil, milk, sugar are getting costlier. It is because of the India's agro products' marketing is characterized by: Fragmentation of the supply chain, Concentration of market power with the wholesalers, Existence of large number of intermediaries, little or no quality control, Absence of standards, Lack of product innovation, Small volume for transactions and Low inventories etc.

- A. **Fragmentation of supply chain:** There are no established national or regional level supply chain management systems to help the agro produce reach the customers without damage or delay. These are the causes for inefficiency of supply chain and proper marketing of fresh fruits, vegetables and agro based food products in India. In India, despite emergence of food retail chains, which are expected to overcome above issues, the penetration into rural market is very limited. The situation is more precarious in rural India, where food retail chains are of recent origin. The marketing arrangement in the form of rural retail chain is expected to reduce the market risks and transaction cost of farmers and help them in breaking away from the clutches of traditional brokers/wholesalers/ commission agents. Direct supply by farmers will allow the rural retail chain to simultaneously increase control over production quality, supply reliability and price stability.
- B. **Concentration of market power with the wholesalers:** Though the India is self sufficient in production of agro produces, it is unable to control food inflation. The strange truth behind this lacuna is that despite of strategic market interventions in the form of APMC etc., the market power for agro products is vested with a few traditional middlemen and wholesalers, commission agents etc.
- C. **Little or no quality control:** Since the supply of agro commodities and fresh fruits and vegetables is in a fragmented manner with absolutely no inputs from the markets, the farmers produce these products with no defined quality specifications. Therefore fresh fruits and vegetables arrive at the market in its raw form with very little quality control or grading etc. This leads to lower price realization and also exploitation by the middle men.
- D. **Absence of standards:** As the produce from the fields land in the market directly, there are no standards observed either during production, during harvesting or even during post harvesting. Fresh vegetables, including greens are hardly sorted, graded or properly packed. They all land in crude bamboo baskets using traditional intelligence like keeping smaller fruits or vegetables in the bottom and the bigger fruits or vegetables on the top. In short there are no standards either specified or followed. There is a strong need to have standards for fresh fruits and vegetables. In this project an effort is made to bring in the need for such standards, which are more local in its content and relevance.
- E. **Lack of product innovation:** As the farmers are not in any way connected with the markets, currently, the farmers are in no knowledge of what the market needs or wants. Just if in case they get to know the needs or wants of customers, there is a possibility of innovations that can be brought into pre harvesting activities and post harvest activities.
- F. **Small volume for transactions:** Due to the fragmentation of farmers land the production is less. Hence they cannot carry their produce to the market because the transportation cost will be more and results in getting low return.

The above mentioned, stresses on the point that, the existing system unless focuses on the organized retailing including: Branding, Scientific pricing, Packaging, Pre and post- sales services, along with a strong network of Organized Rural Retail chain, it would be impossible for the producers and consumers to be self sustainable. Organized Rural Retailing will reduce the gap between farmers' selling price and final consumers' buying price. The farmers are not getting good price for their produce due to menace of intermediaries who gains more profit. The Procurement and Supply Outlet (RPSO) will procure the produce directly from the farmers with remunerative price and value added with scientific, handling, storage, packaging and grading. The commodities are branded and sold to the consumers in the retail outlets which fetch higher price, in turn the farmers and retailers will be in win-win situation. A proper supply chain model needed to reduce the transportation cost and post harvest losses.

OBJECTIVES OF RPSO MODEL

So there is need for proper flow of produce to the consumers. RPSO Model will help the rural people who are facing marketing problems for their produce due to various reasons. We have come up with RPSO model as the solution for existing problems related to rural marketing and rural unemployment.

The model helps in various areas like:

- 1) Rural procurement and supply outlets (RPSOs) model transforms the rural unemployed into home-grown entrepreneurs, this generates employment opportunities for rural youths and minimise the menace by intermediaries. Farmers and consumers will get fair price.
- 2) Rural procurement and supply outlets (RPSOs) function like rural hubs for procurement of agro produces and supply directly to retailers in urban and rural areas.
- 3) Growth in local sourcing – Key to the success of organised retailers is local sourcing this will utilise resources effectively and provide employment opportunities for rural unemployed youths. It will reduce migration from rural to urban area also. So that slum eradication is also possible.
- 4) Price reduction and Inflation tempering – Organised retailer can bring down consumer prices and temper food inflation. Stronger consumer value proposition. From customer point of view it makes strong sense for opening up organised retailing, customers will get value for money. Direct procurement of agro-products by organised retailers from farmers will not only result in farmer realizing better share of consumer spending but also will reduced cost to the consumers.
- 5) Rural procurement and supply outlets (RPSOs) Model creates Value addition by scientific handling, storing, packaging and grading system of agriculture commodities for retail outlets. This will help to get better price for the retailers and farmers and consumers (win-win situation) and mainly helps reduce in post harvest losses and transportation cost for farmers. The post harvest losses are more in agricultural commodities due to practice of traditional method of handling, storing and packaging. The farmers are getting low profit due to ignorance of grading; intermediaries are taking advantage of this. With proper grading and packaging the agro-products can be sold at higher price there by retailers may assure farmers better procurement price.

RURAL PROCUREMENT AND SUPPLY (RPSO) MODEL

The rural procurement and supply (RPSO) model (network) is similar to hub and spoke model which is a system of connections arranged like a chariot wheel, in which all Rural Procurement Entrepreneurs (RPEs) and Rural Supply Entrepreneurs (RSEs) (spokes) connected to the RPSO (hub) at the center. The advantages and limitations of hub and spoke model are also associated with RPSO model. RPSO is a typical Rural Retail Hub! "A centrally located facility with a business management structure facilitating the aggregation, storage, processing, distribution and marketing of locally/regionally produced agro-products." The target markets for RPSO includes Rural Retail Outlets (RROs), Urban Retail Outlets (UROs), restaurants, Dabas and grocery stores — which tend to have a hard time buying local products in the desired volumes. RPSOs are providing a means for local producers to connect directly to retail consumers. RPSO is an independent organization headed by government or any private agency. RPSO centre can be established in rural area, where, five to six surrounding villages are well connected to the centre and average distance from RPSO centre is less than 5 kilo-meters and villagers can easily access to trade at RPSO. In this article, some of the ways RPSOs can increase their success, and thus continue to expand their role in promoting rural home-grown entrepreneurs, rural retailing and local foods.

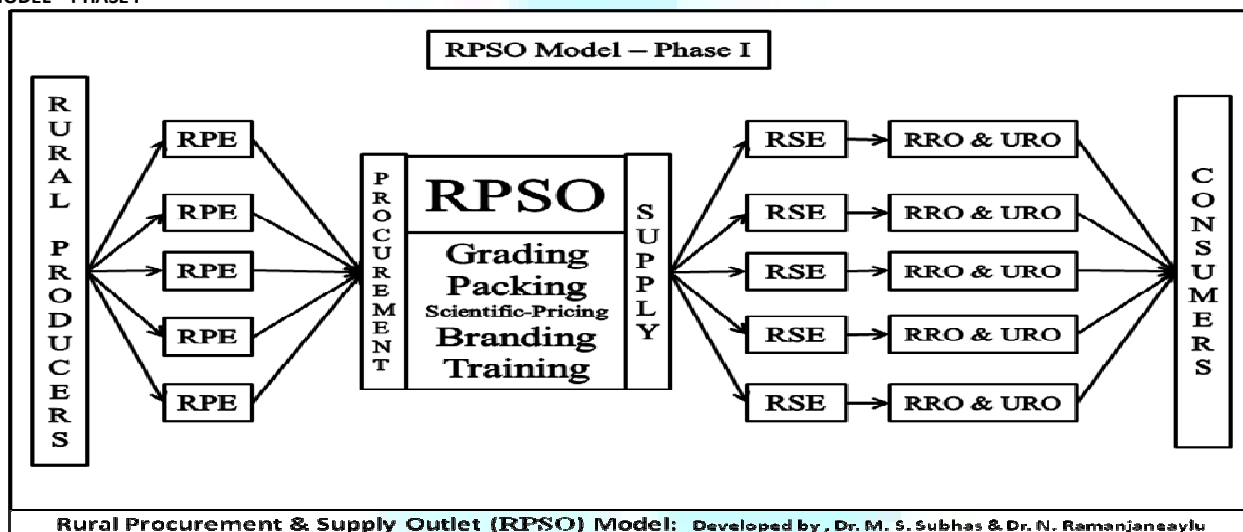
Rural Entrepreneurship Development & Providing Access to Local Food Markets: A primary role of a *RPSO* is to facilitate Rural Entrepreneurship Development, since there is huge growth potential in rural retailing and corporate retailers may not enter rural market easily in short span of time. Therefore, rural entrepreneurs should utilize this opportunity before big corporate retail chains capture it. It is possible only through organized efforts to establish and nurturing rural entrepreneurs by organizations like *RPSO*. And the another primary role of a *RPSO* is providing market access for agro producers who address market outlets (*RRO &URO*) that would otherwise be less accessible or completely inaccessible due to scale or location of the food production with respect to the market outlet. The successful *RPSO* can provide consumers regular access to a larger number of local food providers than they could access individually. *RPSOs* usually provide greater delivery reliability than can be obtained through purchasing from many small producers acting independently.

FUNCTIONS OF RPSOs

RPSOs function by fulfilling a variety of tasks, including:

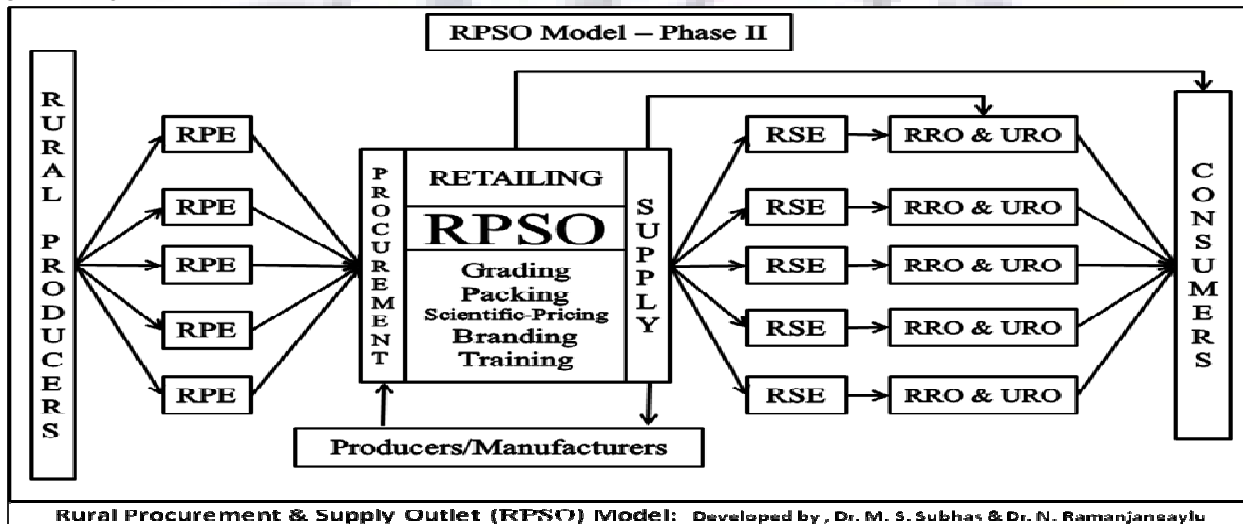
1. Rural Entrepreneurship Development;
2. Market access for local producers;
3. Information sharing on food production and marketing practices;
4. Product transportation and distribution;
5. Product bundling and aggregation, grading, sorting and cleaning;
6. Maintaining a consumer/producer connection;
7. Season extension for local product sales;
8. Producer-oriented technical assistance; and
9. Educating and Organizing farmers into clusters. Etc.

RPSO MODEL – PHASE I



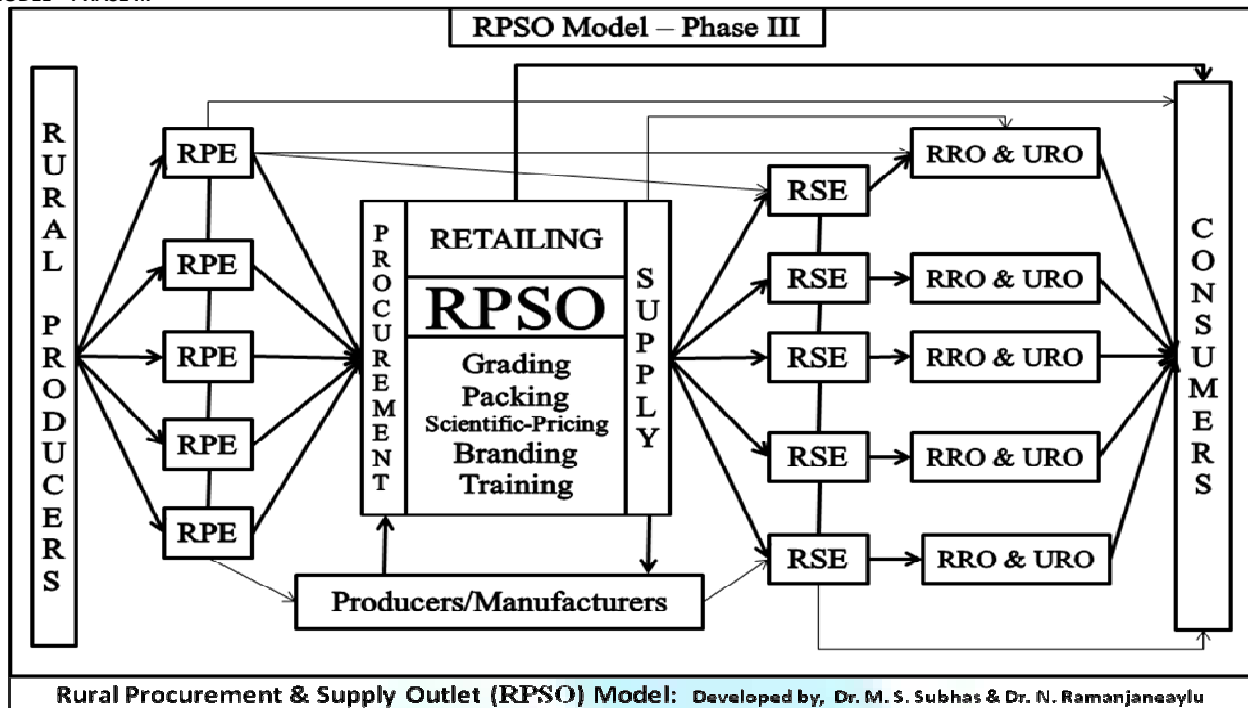
The above rural procurement and supply outlet model (*RPSO*) Phase -I is the simple model. *RPSO* is focusing not only procuring and supplying products but also acting as entrepreneur development centre. The *RPSO* can serve as an incubator for rural budding entrepreneurs to successfully procure and distribute local and regional agro products and strengthen regional food systems. *RPSO* initiates and nurtures entrepreneurship development in rural areas. *RPSO* identifies rural youths who have entrepreneurial qualities but lacking supportive guidance and develops them into either Rural Procurement Entrepreneurs (*RPE*) or Rural Supply entrepreneurs (*RSE*). In Phase – I, *RPSO* procure only rural products like food grains, fresh fruits and vegetables, and other agro-products through *RPEs* at one place and do perform some marketing activities like grading, packing, branding, pricing etc. and supply through *RSEs* to Rural Retail Outlets (*RRO*) and to Urban Retail Outlets (*URO*). It also focuses more on training both *RPEs* and *RSEs* towards marketing orientation. By the end of phase – I, *RPEs* and *RSEs* can become fully strengthen in terms of market knowledge. *RPSO* provides an excellent opportunity for farmers and rancher cooperatives to pursue high-value, local food markets. As we aim to inclusive growth and revitalize rural communities, this is exactly the type of innovation we need to win the future. The benefits of *RPSOs*, specifically which will set-up in remote villages are not merely economic, but also increase access to fresh, healthful and local products for communities underserved by full-service food retail outlets. The problem of malnutrition can be overcome by the establishment of *RPSOs* in remote villages.

RPSO MODEL – PHASE II



In the Phase-II, *RPSO* can itself do retailing which helps rural consumers to buy some products like agro inputs etc; otherwise rural consumers have to travel to nearby towns to buy them. *RPSO* procures those products either from local manufacturers or any other manufacturers and supply to rural consumers at reasonable price. *RPSO*'s retailing mainly focuses on rural consumers needs. And at the same time *RPSO* supply goods to local manufacturers like food processing units, if in case excess stock available, in harvest season, because in this phase the scale of business of *RPSO* has gone up and to overcome the problems like storage and inventory management, it is better to supply excess goods to local manufacturers like oil mills, pickle makers etc. *RPSO* can also supply products directly to nearby *RROs* and *UROs* as it starts procuring directly from producers/manufacturers. In this phase *RPSO* focuses on retailing to help especially rural consumers, and also supports to *RPEs* and *RSEs* to come up with their own units.

RPSO MODEL – PHASE III



In the Phase – III, *RPEs* and *RSEs* are developed and grown up as independent entrepreneurs with the training of *RPSO* and with their experience. As they grow up *RPE* can go for forward integration and *RSE* can go for backward integration. In the process they will become another *RPSO*, acting independently. In this phase, developed *RPE* not necessarily supply to *RPSO* and *RSE* not necessarily depend on *RPSO* for supply. *RPE* can directly supply to producers/manufacturers, *RSEs*, *RROs* & *UROs* and Consumers. Similarly *RSE* can directly buy from producers/manufacturers and supply directly to consumers. Amongst *RPEs* and *RSEs* there may be interdependency to balance supply and demand.

CHALLENGES BEFORE RPSO

Like all nascent businesses, there are many potential constraints to the development and growth of *RPSOs*. Some of these business limitations are recognized and addressed by the organizations assisting with the development of *RPSOs*. Others are more difficult to quantify. The primary constraints are often hard for a new organization to overcome. These may involve the lack of sufficient financial resources and a robust risk-management plan. Some constraints may take a longer time for a new entity to address, such as human resource development (as part of a staffing plan) and gaining access to local food processing facilities. One typical constraint is a lack of skilled management, which is often accompanied by poor recordkeeping, accounting and financial management. This is especially true in producer-based organizations, where managers may have a great deal of knowledge about production agriculture, but have less knowledge of business management. *RPSOs* usually need to develop or hire skilled management. There may also be legal or regulatory constraints on *RPSOs* development. These constraints may be imposed by local, state or central law.

ROADMAP FOR RPSOs DEVELOPMENT

RPSOs develop and evolve from highly localized circumstances and are dependent on several factors. Some factors that contribute to the success of *RPSOs* include:

1. **Having a strategic plan** with clearly defined goals and a vision and mission statement to ensure that the *RPSO*'s original intents are maintained (for example: fair prices for farmers and consumers or sustainable agricultural production methods).
2. **Getting all stakeholders engaged early in the process** and defining their interests and areas of expertise. Make sure there is a management or oversight team that is inclusive of the membership. The concerns of farmers and other businesses and investors must be addressed. The team should include individuals with skills in financial management, the regulatory environment, marketing and packaging, inventory management and quality control and farmer/business owner engagement. As one study noted, make sure all parties are well matched in size and scale and that they operate with similar goals and values. This limits some risk that may arise in fulfilling contracts with vendors and buyers.
3. **Understanding the location of different direct markets and how to access them.** For instance, if the market outlet is geographically distant from the production unit, how will transportation occur and how can products be priced to cover those costs? Is backhauling feasible to generate revenue on an otherwise empty return load? Is the market one with a customer base that is less familiar with purchasing and preparing fresh foods, for example, some urban or at-risk populations?
4. **Having an education program/strategy.** An educational program may have to be an integral part of the *RPSO* development. This may include partnering with an outreach entity, such as a university extension service or a nonprofit agency. Such entities can deliver consumer information based on what the *RPSO* provides and when the product arrives to the consumer. If local farmers and ranchers have limited experience in direct marketing but are going to be supplying products through *RPSOs*, then they will need support and training in production planning, quality control, packaging and delivery. It may benefit the efficiency of the hub overall if other training and production improvement opportunities are offered, such as business planning or season extension techniques.
5. **Learning and understanding end-user requirements.** Many end users require producers or processors to have Good Agricultural Practices (GAP) or Hazard Analysis Critical Control Point (HACCP) programs in place in order to receive product. This may necessitate additional costs in producer/business-owner training, and the development of specific protocols and quality assurance to meet the end user's requirements. Another type of producer support that may be necessary is affordable product liability insurance for individual vendors or umbrella coverage for vendors that is purchased through the *RPSO*. This is critical for *RPSOs*

accessing institutional markets, such as schools or hotels. The existence of such requirements for accessing a direct market may also cause some business owners to withdraw from the supply pool.

6. Acknowledging the level and types of infrastructure necessary to operate a RPSO. These may include technical infrastructure (such as billing protocols), Internet-management systems and payment processes. Physical infrastructure is also essential (such as product warehousing or processing capability) in order to ensure increased product quality and packaging control across suppliers.

7. Determining the correct business structure. The cooperative (or quasi-cooperative) business model is well suited to RPSOs. But when setting up the business, no one type of business structure is the best fit for all RPSOs. Rather, the business structure must help stakeholders meet their goals for financial, marketing and production planning and growth. It appears that flexibility is the key, and the management team should be able to identify the point at which a certain business structure constrains further investment and an alternative structure (such as incorporating one business function or outsourcing distribution) is the only way the hub can maintain its market share or expand into new markets.

8. Determining the threshold scale needed for the RPSOs to be able to operate in an economically efficient manner. Investment capital required for supply-chain infrastructure (for vehicles, storage facilities, retail locations, etc.) can be a significant barrier to starting local aggregation and distribution businesses. There are also businesses with technical expertise in processing, distribution or transportation with which a RPSOs could contract to more efficiently execute some of the more complex, or cost-prohibitive, functions of direct marketing through a RPSO. A key issue here is how comfortable the stakeholders are with alternative lenders or certain subcontractors. This sort of "comfort level" assessment is an important component in developing a strategic business plan for RPSOs.

9. Identifying all sources of technical and financial support, including those considered less conventional. There are emerging areas of public and private financial support for RPSOs, including micro-lenders, private investors, economic development entities and nonprofit community-based organizations.

10. Managing information efficiently. It is critical that timely and accurate information flow between producers and consumers — or between producers and wholesalers. The success of the RPSO depends on this, and it will help to minimize or avoid price or marketing risk, production risk and some legal risks. Information management, supported by dedicated staff and technology, impacts the RPSO's ability to manage orders accurately, to monitor product quality and to convey product attributes to consumers and other vendors. Information management also enables the RPSO to remain in compliance with certain federal, state and local food safety regulations and to maintain transparent working relationships across multiple partners in a value chain.

CONCLUSION

RPSOs serve as a way for a group of varied producers to find a local market for their agricultural production. They provide the thread of connectivity that keeps consumers in contact with farmers and ranchers, even when that thread is electronic, as with virtual RPSOs. RPSOs' success or failure should not be measured solely as aggregating units, or in terms of total volume of product moved, but more in terms of the places to which the product goes and the people who benefit from it. With growing demand for local or regional food products, conventional marketing channels are ill-equipped to supply local food where and how people wish to purchase it. RPSOs help producers and consumers connect in a marketing manner that retains the valuable information as to where a food item was produced and how it was grown. Large grocery retail chains rarely have farmers themselves offering produce for sale in their stores, yet this is the essence of farmers markets and the direct marketing experience so many people desire. By bundling together the product from multiple farmers for distribution to other direct markets — such as restaurants, schools, hospitals, workplace cafeterias, and other end consumers — RPSOs make it possible to supply them with fresh, local products produced by local growers in the quantities and packaging the customers require.

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