

**Empowering Farmers through Creation of a Rural Hub:
A Case Study on Haryali Kisaan Bazaar**

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On December 22nd 2007, Arvind Kumar Jain, Center Manager of Hariyali Kisaan Bazaar, Rae Bareli, came out of the staff meeting that he had been heading. While he had been away on leave, a team of auditors had come down for a surprise audit at the center, which lasted three days. Everything was in order; the auditors had highly commended the work being carried out at Hariyali. Vikas Tyagi, audit officer with audit firm Vipin Garg & Company¹, had remarked to one of the staff:

‘Of all the other rural marketing initiatives that I have seen, Hariyali Kisaan Bazaar has impressed me the most; especially in regard to the variety of products being offered and customer database present with it. No other initiative, including ITC e-chaupal has this kind of a penetration into the rural hinterland.’²

Arvind knew that while this was the truth, what bothered him was the low sale of the agro-products stocked by the center and the replication of Hariyali Kisaan Bazaar (HKB) model by other business houses. While Fast Moving Consumer Goods (FMCG), house construction and lifestyle sections were doing quite good, which was a surprise for him, the flagship section of the initiative, ‘Agro-products’ were not generating the kind of sales that had been expected. In fact even in the initial stages, when HKB had been launched, FMCG and other related services had to be added to the primary section of agro-products to increase the customer acquisition rate. What worried Arvind was that five years down the line the situation was more or less the same. FMCG goods were driving the sales on agro-products rather than it being the other way round. Though this phenomenon was not affecting the sustainability of the center, it was giving the basic philosophy of Hariyali, ‘empowering the farmer’ a beating. Also similar concepts being floated by Tata, Godrej, Reliance, etc. would impact HKB performance. Arvind pondered over the possible ways to rectify this situation.³

DCM Shriram Consolidated Limited

DSCL or the DCM Shriram Consolidated Limited, founded in 1889 by Sir Shriram (as DCM Limited) is an integrated business conglomerate with a group turnover of Rs. 2,940 crores and primary business interests in agro-sectors (urea, sugar, Shriram bio-seeds, agro-merchandising inputs and Hariyali Kisaan Bazaar), energy intensive businesses (Chemicals i.e. chlor-alkali; Plastics – PVC⁴ resins and compounds; Calcium Carbide; Cement business) and Value Added Businesses (Fenesta™ Building Systems, PVC Compounds, Energy Services). The Concern has manufacturing facilities at Kota (Rajasthan), Bharuch (Gujarat) and Ajbapur, Rupapur, Hariawan and Loni (UP); hybrid seed operations at Hyderabad (India), Vietnam, Philippines and Thailand; fabrication units at Bhiwadi, Bangalore, Mumbai, Hyderabad and Chennai. The focus in this case is on the agro business of DCM, which also happens to be one of the key growth drivers for the company.

¹ Vipin Garg & Company is a Ghaziabad based firm of auditors. External auditors for Hariyali Kisaan Bazaar

² Interview with Mr. Vikas Tyagi, audit officer with Vipin Garg & Company

³ Interviews with company staff

⁴ PVC means Poly(vinyl chloride) is a plastic used for fabricating pipes.

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DSCL's agro-business has two dimensions to it – the inputs and the outputs. While urea, DAP⁵, MOP⁶, SSP⁷, soluble fertilizers, micro nutrients, pesticides and hybrid seeds form the agro inputs, the outputs produced and marketed are sugar and seeds. There is also an information dissemination angle to DCMs rural operations, whereby over a hundred Shriram Krishi Vikas Kendra's⁸ are working towards **empowered farmers**. Online agronomy services are being provided by a team of 102 agricultural graduates, through these centers. The objective is to provide assistance to the farming and rural community and help them adopt better and improved farming techniques.

DSCL started manufacturing urea in 1960's and today has a production capacity of about 380,000 TPA⁹. It is the lowest cost naphtha based urea manufacturer in India. Not only has the company a strong presence in north and central India but has also made a successful entry into the Southern region. Sugar is another important component of the agro-business of DSCL. These operations commenced with the establishment of the first sugar mill at Ajbapur in Uttar Pradesh in 1998. With four sugar production facilities at Ajbapur, Rupapur, Hariawan and Loni, the company now has a combined installed capacity of 33,000 tonnes (crushed daily) making it the fifth largest in UP. Its Ajbapur plant is supported by ERP¹⁰ resources and the first sugar factory in India to receive ISO 9000¹¹, ISO 14000¹² and OHSAS 18000¹³ certifications simultaneously.

Shriram bioseeds is a range of hybrid seeds offering which is developed, produced and marketed by DSCL's 51% subsidiary Shriram Bioseed Genetics India Ltd. This is a joint venture with Bioseed Genetics International Inc. Corn, Bajra, Jowar, Paddy, Cotton and Sunflower are marketed in India, while in Philippines and Vietnam, the overseas hybrid seeds business of DSCL operates as a joint venture. As a part of its R&D initiative, Bioseed Research Philippines (BRP) was set up in 1992 and has a sizable presence in both Philippines and Vietnam. Bioseed Genetics Vietnam (BGV) and Bioseed Research Vietnam (BRV) were established in 1992 and aim at commercialization and research support respectively.

DSCL has had a powerful presence in the rural market and its urea brand 'SHRIRAM' has a strong recognition value in villages with respect to quality, reliability and trust. With an increasing focus on rural sector, DSCL decided to strategically **leverage** its wide distribution network, over 35 years of direct relationship with farmers and strong brand equity to start off with the new rural venture, Hariyali Kisaan Bazaar (HKB). Operations spanning the North, West and South of India and a well developed infrastructure with over 30 sales offices, 12 distribution warehouses, 200 wholesales and 4800 retail outlets were positives working in favour of DSCL.

DSCL's rationale to go in for HKBs

In his presentation at the IFA¹⁴ Agricultural Conference held at Kunming, China (27 February – 2 March 2006), Mr. Rajesh Gupta, Business Head of Hariyali Kisaan Bazaar, summarized the issues facing the Indian farmers when HKB was initiated in 2002 as:

⁵ DAP means Di Ammonium Phosphate

⁶ MOP means Muriate of Potash

⁷ SSP means Single Super Phosphate

⁸ 'Krishi Vikas Kendra's' mean farmer development centers

⁹ TPA means tonnes per annum

¹⁰ ERP means Enterprise Resource Planning

¹¹ ISO 9000: International Standard Organization 9000 is a quality management and quality assurance series of standards

¹² ISO 14000: International Standard Organization 14000 is an environmental management system

¹³ OHSAS 18000 is Occupational Health and Safety standards and gives requirements for an occupational health and safety management system

¹⁴ IFA is International Fertilizer Association

- Fundamental: Small land holdings, low mechanization, need for consolidators
- Inputs: Unreliable sources, spurious inputs
- MSP¹⁵ driven economics: Repetitive cropping, land potential untapped
- Credit: Habit created by middlemen, expensive credit
- Output Buyers: Unreliable and unfair
- Lack of Know-how: Low yield levels, unreliable advisors

These according to him were resulting in low productivity levels.

While certain issues like small land holdings, untapped land potential, etc., have not been addressed, HKB has tried plugging in issues relating to lack of know-how, inputs, credit and output buyers. Thus, the four pillars of Hariyali's agro-offering to the farmers are¹⁶:

1. Complete range of quality inputs
2. Objective technical guidance
3. Easy crop finance
4. Direct output linkages for the farmer'

The Agro-advisory and technology functions of a Hariyali Kisaan Bazaar are the services dealing with farm inputs, farm fuels, financial services (farm credit, retail banking and insurance), automotive products, pharmaceutical services and financial services. Almost all farming inputs which include a complete range of fertilizers, pesticides, seeds, veterinary products, irrigation equipment, farm implements are there at the Hariyali outlets under **one roof**. The extension services provided to the farmers at Hariyali aim at improving farmer's crop output and income levels through a commercially sustainable model. Thus, what is provided to the farmers is 'Customized Advisory' and knowledge of best practices in farming tailored to his needs as against a general/mass dissemination of information. [EXHIBIT I]

Attractiveness of the rural market

The pilot studies undertaken by the company indicated a strong case for venturing into the rural sector. There was a growing attractiveness of the rural market increased further by the congestion in the urban markets. Urban markets were nearing their saturation points and at this juncture the nascent rural markets with their increasing potential for the consumption of goods and services were becoming hot favourites with the corporates. Other corporate players eyeing the rural sector included ITC, Hindustan Unilever Limited¹⁷, Tata¹⁸, Godrej¹⁹ and Reliance²⁰.

Factors like a large population, changing life-styles, growing prosperity, higher market growth rates as compared to the urban markets, life-cycle advantages and growth in consumption contributed to their viability. Since 2002 this trend had been on an upswing as can be seen from the report published in The Marketing Whitebook 2005:

Rural India boasts of nearly 42,000 Haats and 6,800 mandis. It is interesting to note that LIC sold 50% of its policies in rural India in the year 2002-03. Of the two million BSNL mobile phone connections, 50 percent are in small towns and villages. Out of the 20 million who have signed up for Rediffmail, 60% are from small towns. Of the 100,000 who have transacted on Rediff's

¹⁵ MSP means Minimum Support Price

¹⁶ Hariyali Kisaan Bazaar farmer informationbooklet

¹⁷ HUL: Hindustan Unilever Limited is one of India's largest fast moving consumer goods company. Its parent company, Unilever, is a Fortune 500 transnational.

¹⁸ Tata - Tata Chemicals Limited is a manufacturer of inorganic chemicals, fertilisers and food additives. Incorporated in 1939, the company has an annual turnover of over Rs 5,800 crore and is part of the \$ 22.8 billion Tata Group.

¹⁹ Godrej: Established in 1897, Godrej & Boyce Mfg. Co. Ltd. is a diversified industrial corporation functioning in India

²⁰ Reliance: The Reliance Group, founded by Dhirubhai H. Ambani (1932-2002), is one of India's largest private sector enterprise.

shopping site, 50 percent are from small towns. The fact that 20 million of the Kisan Credit Cards (KCC) issued so far exceed the 25million credit plus debit cards issued in Urban India.....a whopping Rs. 65,000 crores have been sanctioned under the KCC scheme. [EXHIBIT II]

India with 70% of the population living in its 627000 villages has a rural market which cannot be ignored by the business houses. The projected increase in total number of rural households from 135 million in 2001-02 to 153 million in 2009-10, make rural India potentially the largest untapped market in the country.

Life-style changes being witnessed by rural India are not confined to the middle and upper classes alone but can also be seen in the aspirations of the less privileged class with low purchasing power. No longer are these sporadic and part of impulse purchase but increasingly certain products like soap cakes, washing detergents, toothpaste are forming a part of regular purchase patterns. The driving force behind the changing life-style is the aspirations of the rural youth who are better educated and more open to fresh concepts as compared to the elderly in their families. Further, brand consciousness is not confined to larger villages. Even villages with populations in the range of 500+ are as brand aware as those with populations above 25,000. [EXHIBIT III,IV & V:]

A consistent growth in consumption in the rural areas is indicative of growing rural prosperity and greater purchasing power. In 1990 the all-India average per capita household expenditure was Rs. 382; while the per capita rural household expenditure in the leading states of Punjab and Kerala was almost double this. As many as seven states (Punjab, Kerala, Haryana, Rajasthan, Gujarat, Andhra Pradesh, and Maharashtra) had rural expenditure levels above the national average and five States averaged about the same level as the national figures in their per capita household expenditure in rural areas. [EXHIBIT VI] This trend is corroborated by the steady rise in the number of higher income and middle income households and shrinking of the low income households. [EXHIBIT VII]

Hariyali Kisaan Bazaar: A One Stop Solution for the Farmer

The first Hariyali Kisaan Bazaar was opened on 16th July 2002 at Del Panderva in Hardoi District of Uttar Pradesh with stocks of 300 Stock Keeping Units (SKUs)²¹, ranging from fertilizer to pesticides to farm implements to animal feed, which quickly rose to the current 22,000 SKUs at a typical Hariyali center²². Within a month results showed an average footfall per day of 300 and bill size of Rs.400/-. By 2006, the average footfall per store per day was in the range between 500 and 1,000, the variations being the result of seasonal patterns of agricultural requirements. Of these, 55-60% gets converted into purchases. Two more outlets were, soon set up at Ramraj in Meerut District of UP and at Kota in Rajasthan.

By mid-2006, 30 HKB stores were in operation with the average annual sales per HKB in the range of Rs 4-6 crore. At outlets operating petrol pumps, the total sales per store stood at Rs 10-15 crore. At an investment of Rs. 1.5 crore to Rs. 2 crore, per store, the returns were encouraging. At present there are close to 100 HKB stores with 250-300 planned for 2008-09.

Hariyali Kisaan Bazaar - Structure

Two types of Hariyali outlets were designed–

- Large format Hariyali Center spread over 10,000-15,000 sq. ft; company owned
- Small format Hariyali Stores/outlets spread over 3000-6000 sq. ft leased premises.

²¹ 'Stock Keeping Units' mean the items available in the store

²² Company sources

Each HKB campus is 3-4 acre in size accommodating facilities like an agro-advisory center, agro-input retail store, farm output warehouses, fuel pump, tractor service centres, warehouses, bank branches, ATMs etc., thus, providing greater options and flexibility to the farmers. Managed by 7-8 staff members, the centers have their own power supply. With a catchment radius of 20-25 kms, a HKB caters to the requirements of around 15-20,000 families and approximately 30-40,000 hectares of agricultural land. [EXHIBIT VIII] Each center has 3-4 agronomists posted there and the total catchment area of 120 kms is divided amongst these. The agronomists are qualified agricultural graduates who provide inputs to the farmers after taking into account different factors like price trends, risk-taking capability of the farmer and the future availability of buyer for the produce. The agronomists' presence at the centers instills confidence in the farmers, thus fulfilling HKB's objective of creating "*Trust based relationships*". Also the interest factor is positively compounded as the focus is on techno-commercial results.²³

HKB Divisions and Functions

A typical Hariyali Center has six areas of function, which are:

- Front operations – dealing with, advising and helping the customers who come to the HKB center. Front operations include building customer database by recording the customer details for future reference; consultations provided the farmers at the Center itself.
- Support (Supply Chain Management) – essentially deals with the procurement of products to be stocked at the center
- Accounts – billing and center specific accounting reports and records
- Human Resource – management of the workforce operating at the center
- Information Technology – online support to farmers on latest advancements in farming technology, weather forecasts, transparency in billing, optimization of inventory levels, tracking customer preferences
- Output – interactions with the farmers outside the center, primarily taken care of by the agronomists, deals with advising farmers on cropping patterns, inputs, etc.²⁴

[EXHIBIT IX]

When the Hariyali concept was launched for the first time in 2002, its focus was providing agricultural inputs, hence only agricultural implements; fertilizers, seeds, etc were stocked. According to Mr. Adarsh Mishra, the Commercial officer at the Rae Bareli Center, the FMCG and House Construction sections were initiated to increase the customer acquisition as Agro-products were not being able to generate requisite customer necessary for the viability of the centers. This step paid off and gradually there was an increase in the number of footfalls in the center and the same model was replicated at the other Hariyali centers to be established.

Another factor was that a farmer remains free for around four-five months every year once his fields have been sown causing decline in his demand for agro-inputs; thus the need arose to introduce goods for the farmer's family as well. Newer segments – lifestyle, kitchenware, fuel, LPG²⁵, FMCG, consumer durables, pharmaceuticals, automobiles/service/parts, banking and insurance services were added. [EXHIBIT X]

Today, the range of products available at a Hariyali Center can easily compete with any of the modern departmental stores at the city shopping malls. There are reputed national and international brands jostling for space on the shelves; Peter England, Marc-O Polo, Emanuel Fida (Apparel), Phillips (mixer-grinder, irons, juicer, audio systems), Tata Sky, Igo (TV), Padmini (Kitchenware), Garnier, Blue Heaven (Cosmetics), Motorola (Cell Phones) to name a few.

²³ Telephonic interview with Mr. A. K Jain, Center Manager, HKB, Rae Bareli

²⁴ Company sources

²⁵ LPG means Liquid Petroleum Gas

According to staff at HKB, Rae Bareli, on any given day sales from the FMCG and House Construction sections range from Rs. 6,000 to Rs. 15,000/-. Products are supplied to the centers based on the requirements of the rural consumer. Since the customers all have their membership cards and all transactions are recorded, there is complete information at the Central office based in Delhi, regarding the pattern and quantity of product requirements.²⁶

Keeping in mind the changing consumer demands at the HKB outlets, the number of items available has gone up from 1,200 in 2002 to 10,000-15,000. For this the group is forming alliances with corporate majors; opting for the ownership model, rather than a franchise one, so as to prevent brand and service dilution. Few of these tie-ups include:

- ICICI²⁷ – banking and insurance

The tie-up between ICICI and HKB is an extension of HKBs philosophy of becoming the one-stop rural hub providing the entire range of services and products to the rural consumer under **one roof**. With this, HKB would be able to distribute ICICI's wealth creation, retirement solutions, health insurance and wealth protection products to the rural consumer. Under this agreement, ICICI Prudential and ICICI Lombard financial services consultants shall be stationed at the HKB centres to create awareness and advise the rural customers on their financial needs. To reach the rural customers, the company has adopted a multi-channel distribution network strategy. According to **Mr Tarun Chugh, Senior Vice President, ICICI Prudential Life Insurance Company**, "Our tie-up with DCM Shriram's Hariyali Kisaan Bazaar is in line with our strategy of partnering with organizations that have strong brands and loyal customer bases in their markets.... Hariyali Kisaan Bazaar has rapid growth plans on a pan-India basis, and we believe that together we can offer rural customers a stronger proposition that caters to both their agricultural and financial needs".

- Bharat Petroleum – fuel (13 outlets)

The petrol pumps are set up by Bharat Petroleum and run by DSCL.

- Motorola – mobile handsets

Motorola's tie-up with HKB is in perfect sync with its new BharatMoto initiative. There is a burgeoning demand for mobile handsets in the rural areas and this is the right time to tap it. While the Hariyali setup will provide Motorola with a strong distribution network and penetration into the rural market, it will help in fulfilling HKBs objective of empowering the rural consumer by providing him with all services under one roof. "Motorola is committed to delivering on its vision of connecting the next billion and Hariyali Kisaan Bazaar's concerted rural retail project gives us the distribution weight to address a vital segment of the Indian market", said **Allen Burnes, Corporate Vice President, High Growth Markets, mobile devices business, Motorola Inc.** "This outstanding distribution network will unite our common strengths and bring even greater reach and choice of mobile communications to consumers across rural/semi-urban India".

- Fortis Healthcare

The HKB alliance with Fortis Health World (FHWL) shall be a one stop store for health care reaching the remotest corners of the country. OPD²⁸ facility, telemedicine, routine pathology tests Collection centre, prescription, OTC²⁹, alternate medicines (Ayurveda & Homeopathy) and also veterinary medicines along with a range of fast moving health goods and support system would be the salient features.

²⁶ Company sources

²⁷ ICICI -

²⁸ OPD means outpatient department

²⁹ OTC means over the counter

Procurement and Distribution at Hariyali

Procurement of consumer goods has been centralized at Delhi, where the head office directly procures from the manufacturing companies. From there the regional Distribution Centers (DCs) are supplied the products which supply to the different outlets and centers. At certain times when the Delhi Center is unable to ensure the availability of a product, the same is transferred from one outlet to another. Procurement is done on the basis of regional demand which is ascertained through the data that is transmitted to the head office every day. A tight control is kept on the functioning of each center through regular requirement of reports on different sections and parameters. [EXHIBIT XI] Agricultural products are sourced directly from the manufacturers and supplied to the respective centers. The warehouses for agricultural products and consumer goods are separate to avoid contamination.

Building Customer Base

Hariyali Kisaan Bazaar was set up to plug in the information gap of the farmers and to make agricultural inputs available to them. For effectively achieving this objective, a comprehensive farmer database was essential. Thus, at the time of making his first time purchase, entire customer information (name, village, address, contact details, make, model and date of purchase of vehicle) is recorded in the 'Customer Record Register' and relayed to the Delhi office from where the Customer Membership Cards are issued. Now whenever a customer shops again at Hariyali, he uses his membership card for identification and all transaction details are entered into and relayed to Delhi office. This has a twofold objective. On one hand it helps in keeping track of the requirements of the farmers facilitating efficient and accurate restocking and on the other hand it helps in identifying regular customers who can then be rewarded for their loyalty. Different schemes are floated from time to time to attract and reward the customers. These range from freebies, discounts to rewards given from time to time.³⁰

During their visits to the catchment area, agronomists also record farmer details. The agronomists work on giving inputs to the farmers and also give proof of their methods. A big farmer is identified and convinced for an experiment. Presuming that this farmer has 20 acres of land, these would be divided into two parts of 10 acres each. While one part would be cropped according to the advice of the agronomist, the other 10 acres would be cropped as per the wisdom of the farmer. At the time of harvest, there is proof to show as the area cropped according to the agronomists' advice generally has a better production. This is enough to convince the farmers and get them to the Hariyali Center for future advice and input support.³¹

To provide quality inputs to the farmers, the centers stock only national brands/ISI certified agricultural inputs whether they are seeds, pesticides, fertilizers, farm equipments, cattle feed, etc. Only a rare product of local make can be spotted at the center and that too labeled as local and only in the FMCG section. Quality is the first priority of the initiative.

Overview rural retail

Rural market structure

In-house surveys conducted by DSCL before launching HKB had revealed much about the buying behavior of rural consumers. One significant finding was that unlike his urban counterpart, rural consumer showed a clear differentiation of places where specific products and services are to be sold and purchased leading to a hierarchy of markets. Thus, **village shops** fulfill

³⁰ Interview with Mr. Vijay Vishwakarma, staff, HKB, Rae Bareli

³¹ Interviews with Mr. Adarsh Misra, Commercial Officer, HKB, Rae Bareli

the requirement for the basic needs like matchboxes, beedis³², edible oils, salt, kerosene, etc, purchased in small quantities by the villagers and required in daily routine. **Weekly haats or 'local markets'** next level in the rural market hierarchy, are organized on a periodic basis on a specific day each week and sell almost everything from articles of daily usage to agricultural produce. Larger quantities of produce are exchanged at the **wholesale assembling markets** which are bigger and where transactions are conducted by the producers or the traders themselves. Wholesale assembling markets also called '*mandi*' and further categorized as primary and secondary (terminal markets) may either be in operation throughout the year or be organized seasonally, depending upon the type of produce being dealt with.

Rural Consumer and his Buying Behaviour

The main factor which needed to be well understood before going all out for the rural marketing venture was the rural consumer and his buying behavior. The rural consumer has a different psych as compared to his urban counterpart. His aversion to taking risks and preference for already tried products increase the importance of influencers such as a progressive farmer, peers, family elders, school teacher, *pradhan*³³ and those having exposure to urban areas. Recently public health workers i.e. ANM³⁴, ASHA³⁵, ICDS³⁶ workers, etc. have emerged as new influence group. The retailer is a vital link in purchase decision. A rural consumer would ask for a '*panch rupey wali chai*'³⁷ or a '*laal wala sabun*'³⁸ rather than saying a specific name. The brand here becomes subservient and retailer pushes product of the company which offers him the maximum margin.

Purchase decisions of rural consumers are shaped by the social customs, traditions, caste factors and the value system operating in the place. In spite of the buying decision process being universal limited information sources and less systematic evaluation process differentiate the decision capabilities of rural consumer from urban. However, similar buying patterns can be observed between rural and urban consumers. Patterns like habitual buying behavior (biscuits), variety seeking behavior (occasional purchase of a sachet of Fair & Lovely), complex buying behavior (purchase of a tractor after thorough discussions with friends, opinion leaders, company staff, etc) and dissonance reducing behavior (a geyser that was purchased by neighbors) can be seen in rural consumers as well.

At the same time, the real challenge lies in the heterogeneity and spread of the rural population which restricts application of segmentation, targeting and product positioning by marketers. Another factor differentiating the rural consumer was the unpredictability of their purchasing power because of having agriculture as their primary occupation. [EXHIBIT XII].

Initiatives by Other Business Houses

However, DSCL was not the only business house to notice this dramatic shift in rural markets. Other business houses, too, were gearing up to penetrate the untapped rural areas. The key players included ITC (E-chaupal), Tata (Tata *Kisaan Kendra/Sansar*), Hindustan Unilever Limited (*Shakti*), Godrej (*Aadhar*) and Reliance (Rural Business Hubs).

³² '*Beedi*' means form of local hand rolled cigarette

³³ '*Pradhan*' means village headman

³⁴ ANM means Auxiliary Nurse & Midwife

³⁵ ASHA means **Accredited Social Health Activist** appointed under the National Rural Health Mission (2005-2012).

³⁶ ICDS means Integrated Child Development Scheme

³⁷ '*Panch rupey wali chai*' means tea worth five rupees

³⁸ '*Laal wala sabun*' means red colored soap

Perhaps the first to spot opportunity in rural retail was Tata Chemicals, when in 1998 they set up the **Tata Kisan Kendra (TKK)**, a one-stop shop for the Indian farmer entire farming needs from seed sowing to post-harvest. Later rechristened as the Tata Kisan Sansar (TKS), the initiative did business worth Rs 307 crore in 2005-06. Working on a hub-and-spoke model, each hub serves as a resource center for several outlets which in turn service surrounding villages. At present 25 hubs and 497 TKSSs operating in northern and eastern India (Punjab, Haryana, Uttar Pradesh, Bihar and West Bengal), serve more than 35 lakh farmers in 16,000 villages. The original basket of agro-products, contract farming and credit facilitation is now being expanded to include lifestyle goods, telecommunication services, solar power products and a tie-up with Indian Oil for selling packaged kerosene and coming up with fuel stations.

ITC changed the way the traditional information channels operate in the rural markets with its **E-chaupal**. An e-chaupal, drawing heavily from the village marketplace concept, was formed as a virtual market place where farmers can interact and complete transactions with vendors and customers without the restrictions placed by geographical distances. It delivers real time information to facilitate the farmers' decision making ability and helping him improve quality and productivity, thus paving way for securing a better price. The first e-chaupal was launched by ITC in the year 2000 with the soyabean growers in the villages of Madhya Pradesh. The subsequent success of the initiative has seen it spread over 9 States, covering 38,500 villages with 6500 e-chaupal installations and 4 million empowered farmers. The agenda for 2012 spells out a spanning over to 15 States with a coverage of 1,00,000 villages (1/6th of rural India) having 20,000 e-chaupals 10 million empowered farmers. E-chaupal has removed the inherent disadvantage present in conventional markets and provides for transparency in transactions. A local farmer, called 'sanchalak'³⁹ oversees e-chaupal operations. 'Sanchalak' is provided with a computer system and an internet connection either through a phone line or via VSAT⁴⁰. This hub serves around 600 farmers within a radius of five kms and in about 10 surrounding villages. [EXHIBIT XIII] ITC is now geared up to start the second phase of its e-chaupal project. While the first phase concentrated on sourcing grains like wheat and soya directly from the farmers, the second phase will have ITC venturing into horticulture. ITCs *Chaupal Sagar*⁴¹ launched in Madhya Pradesh is a procurement led initiative which ties-up with e-chaupal to bring consumer goods to the rural buyers.

Shakti⁴², a rural initiative of Hindustan Unilever Limited, targets small villages with population of 2000 or less. Launched in 2001, it has been extended to 80,000 villages in 15 states - Andhra Pradesh, Karnataka, Tamilnadu, Maharashtra, Gujarat, Madhya Pradesh, Chattisgarh, Uttar Pradesh, Rajasthan, Punjab, Haryana, West Bengal, Orissa, Bihar and Jharkhand. By the year end 2006, HLL had 30,800 'Shakti' entrepreneurs covering a lakh village in these states and aims at 600 million consumer coverage through one-lakh entrepreneurs in five-lakh villages by 2010. Unlike other models, 'Shakti' has underprivileged rural women as its focus. Its *Shakti Vani*⁴³ programme seeks to empower the rural women by educating them on health, hygiene and providing them with income-generating opportunities. The FMCG Company under 'Shakti' promotes the concept of *Shakti* entrepreneurs, thus creating micro-enterprise opportunity for women drawn from Self Help Groups (SHGs)⁴⁴. The *Shakti Vani* programme is supported by the

³⁹ 'Sanchalak' means organizer

⁴⁰ VSAT means a **Very Small Aperture Terminal** and is a two-way satellite ground station with a dish antenna that is smaller than 3 meters

⁴¹ 'Chaupal Sagar'

⁴² 'Shakti' means empowerment

⁴³ 'Shakti vani' means voice of empowerment

⁴⁴ SHG means Self-help Groups

i-shakti (objective being information access and dissemination through community portal) and the *Shakti Pracharini*⁴⁵ initiatives.

Godrej, which spun off **Godrej Agrovet** for its rural initiative, seeks to provide the farmers with complete agricultural solution coupled with household services (grocery, apparel, home appliances, furniture, to name a few) and value added services – postal, banking and pharmacy, under a single roof.

According to Mr C. K. Vaidya, President, Godrej *Aadhar*⁴⁶, “Positioned as ‘Godrej *Aadhaar - Khushiyon Ka, Khushhali Ka*’⁴⁷, the new format stores mark the beginning of a chain which shall form the farmer’s *Aadhaar* for ‘*Unnati, Ghar Sansar & Gaon*’⁴⁸, a move from being just a complete agricultural solution provider to being a multi category retail outlet with wide range of products and services housing a fair mix of brands and private labels”.⁴⁹

In December 2003 the first Godrej Aadhaar Center was started in Manchar, Pune District. Spread over an area of 10,000sq ft, the objective was of forging stronger bonds with the agricultural community. Since then Godrej Aadhaar Centres have been set up across the country in the states of Maharashtra, Gujarat, Punjab, Haryana, Andhra Pradesh, Tamil Nadu, Orissa and West Bengal with plans of having at least a 1,000 Godrej Aadhaar stores across rural India in another five years time. Farmers are provided with information on new farming techniques, given technical guidance, provided with soil and water testing services as also with retail products of leading companies.

However, the most ambitious of these was perhaps **Mukesh Ambani’s Reliance Retail promoted Rural Business Hubs**. Reliance is in the process of identifying and establishing around 1,600 rural business hubs between 2007 and 2010 throughout the country. These hubs will have a two pronged approach; first to serve as a procurement center for the Reliance Fresh urban retail outlets and second as a retail outlet itself stocking manufactures, agricultural inputs, consumer durables, financial products and services. Reliance hopes to make these nodal centers for effecting rural transformation by providing a bouquet of services to the farmer including cold storage, transportation logistics and information technology support.⁵⁰

Key Challenges and Alternatives

Future plans

The HKB business has delivered a strong performance with revenues up by 81% during the quarter ended 30th June 2007. DSCL’s strategy for this business is to rapidly scale up its operations to create a strong customer base and brand equity. Given that the business is in an investment phase it will take some time to break-even. DSCL added 15 outlets during the quarter and with that the total number of outlets now stands at 85. Last year the company successfully implemented the SAP IS⁵¹ retail package for Hariyali Kisaan Bazaar. This business now runs completely on the advanced SAP platform thereby ensuring a robust IT system. Future plans include: [EXHIBIT XIV]

⁴⁵ ‘*Shakti pracharini*’ means spreading empowerment

⁴⁶ ‘*Aadhar*’ means foundation

⁴⁷ ‘*Aadhar – Khushiyon ka, Khushhali ka*’ means foundation for happiness and prosperity

⁴⁸ ‘*Aadhar for unnati ghar sansar aur gaon*’ means foundation for development of (farmer’s) home, world and village

⁴⁹ ‘Godrej Agrovet plans to expand its rural retail initiative *Aadhaar*’
<http://www.thehindubusinessline.com/2006/01/10/stories/2006011001220800.htm>

⁵¹ SAP IS means Systems Analysis and Program Development

- Adding fifteen new outlets during first quarter of 2008 which would include one large format outlets and fourteen satellite outlets.
- Streamline the supply chain management by setting up two new distribution centers, one at Bhatinda and the other at Kota.
- Scale up the number of Hariyali outlets from the current 85 to ~ 250 outlets by December 2008.
- Planned investments to the tune of Rs 150 - 180 crore in the fiscal year 2007-08.
- Expansion into three new states of Andhra Pradesh (5), Maharashtra and Karnataka.
- The Management has also sought the permission of the shareholders to spin-off Hariyali Kisaan Bazaar as a separate company so as to achieve faster growth.
- Plans are on to expand the agro-output services. Currently the company supplies agricultural produce to Spencer and Big Bazaar.
- Introduce life, general and weather insurance for the farmers.
- Expand product portfolio to include Children's Products.
- Build warehouses for storage facility to farmers.

Arvind came back to his room and thought about the recent market developments. The emergence of organized retail in urban India offered tremendous opportunities to the company in further empowering the farmers. Direct procurement of farm products with the removal of multilayered middlemen from the distribution network could translate into benefits for the farmer. Some big retailers like Reliance, Tata, ITC and Bharti were already entering into contract farming. However, it was not possible for all the retailers to organize a nationwide network. DSCL could exploit this business opportunity by acting as an **interface** between the farmers and the retailers. The challenge before the company was twofold:

- how to quickly increase the number of its HKB outlets and **leverage** these outlets for meeting the needs of various retail chains and *mandis* across the country
- and make adequate investment to create **back-end infrastructure**.

There were plans on the anvil to take the number of outlets to 1,500 within next three years. However, this at best seems part of the solution as the small and medium farmers operate on a system of credit. While tie-ups with ICICI, HDFC⁵² and Western Union⁵³ were in the offing, Arvind was slightly skeptical about their success. Rural consumers had shown their inclination towards trusting Government organizations. Then given the reports in national dailies, what was the guarantee that these institutions would not start hounding the farmers for repayments, as they were prone to do in the urban sector? While HKB promoted farming techniques were yielding results, what if there was a crop failure? The farmer would not be in a position to pay. The farmer would only be released from the clutches of the village money lender to that of an institutional money lender. Should this happen, it would adversely impact the brand equity of HKB as well, since HKB would be introducing these institutions in the rural sector.

Another issue to be dealt with was competition from the unorganized sector. Small and medium farmers often opted for agro-products from the local vendors and of local make as these were cheaper compared to the ISI certified/branded agro-products of Hariyali. Credit, long term association, trust on tried and tested and risk aversion associated with trying new things were factors promoting this behaviour. Something had to be done to penetrate this mindset of the rural consumer. While big farmers with larger income were quicker in adopting and innovating, the

⁵² HDFC is Housing Development Finance Corporation Limited incorporated in 1994 began operations as a Scheduled Commercial Bank in January 1995

⁵³ Western Union is an US based bank.

small and medium farmers form the base of the rural consumer pyramid which was impossible to ignore.

The current strategy of Hariyali Kisaan Bazaar is to retain the customer base it had generated over a span of four years. With this end in view, they were introducing newer services, schemes and going in for tie-up with other corporate bodies. To enhance the quality of services provided and to cater to the needs of the rural buyers, customer segmentation was being introduced. The aim being to target customers according to the segment to which they belonged, rather than following a blanket market strategy. This was especially needed as the rural market is highly fragmented in nature and efforts are needed for its consolidation. However, the rate at which awareness was being created among the farmers was not fast enough. Strong market presence and brand recognition had to be established before competition geared up.

Reminiscing over these issues, Arvind was sure that while HKB was a winner at hand, more still had to be done to ensure sustainability of this venture and to realize the ultimate vision of Hariyali Kisaan Bazaar. [EXHIBIT XV]

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EXHIBIT I: HARIYALI'S OFFERINGS TO THE FARMER

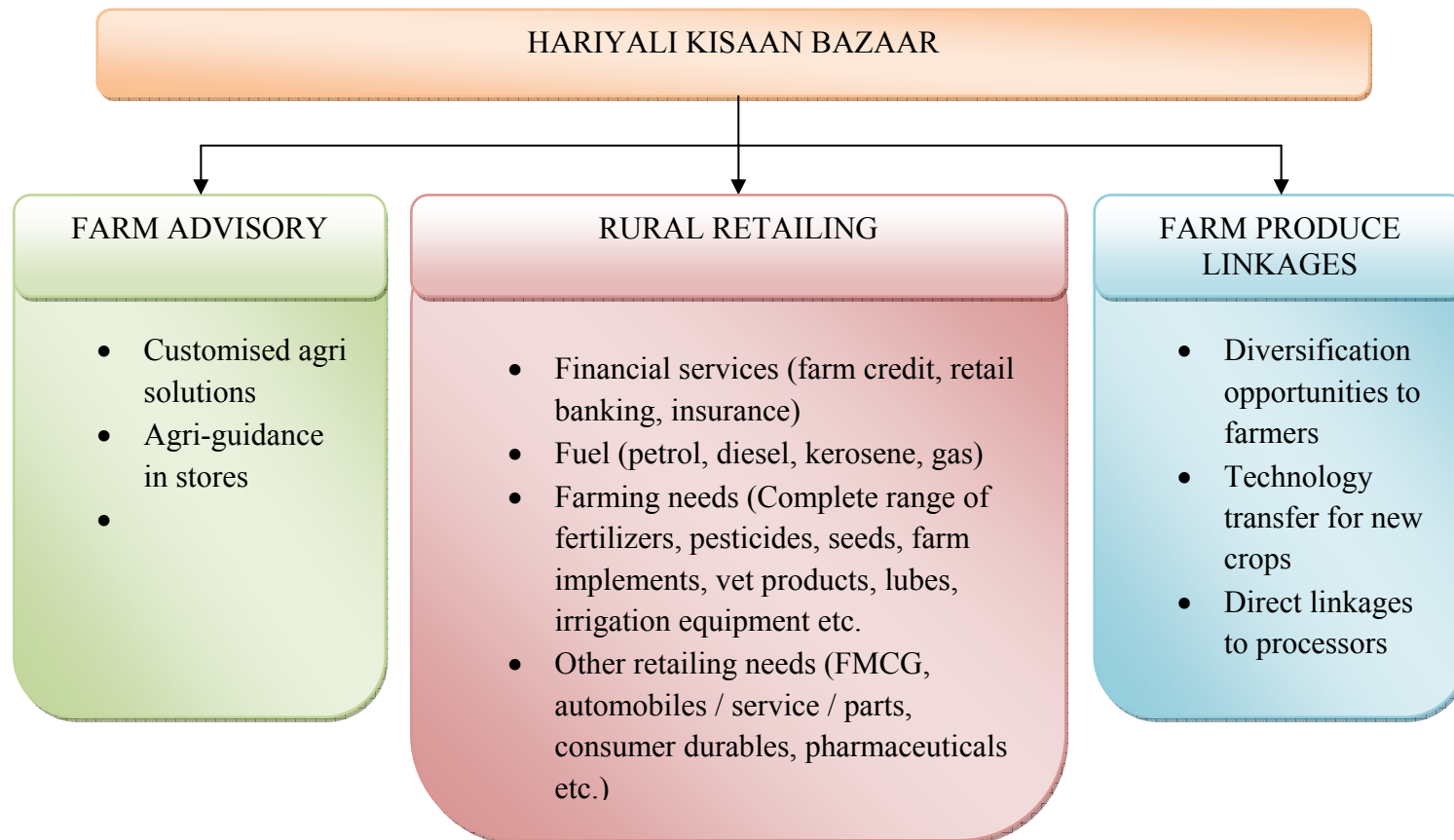


EXHIBIT II: CHANGES IN HOUSEHOLD INCOME IN RURAL INDIA

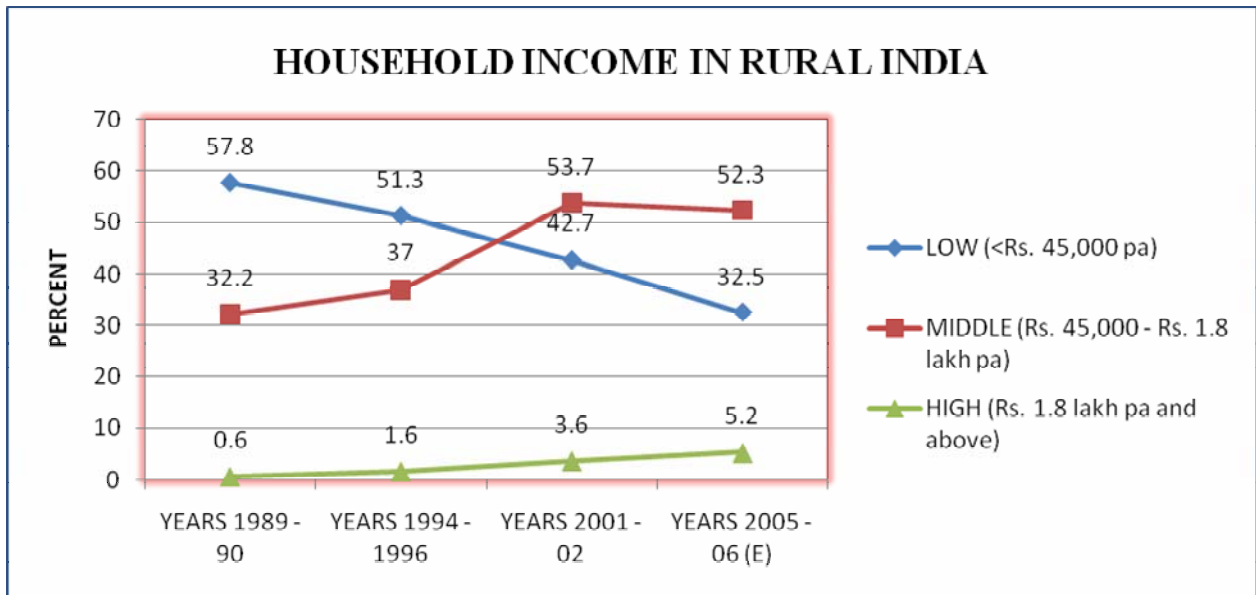
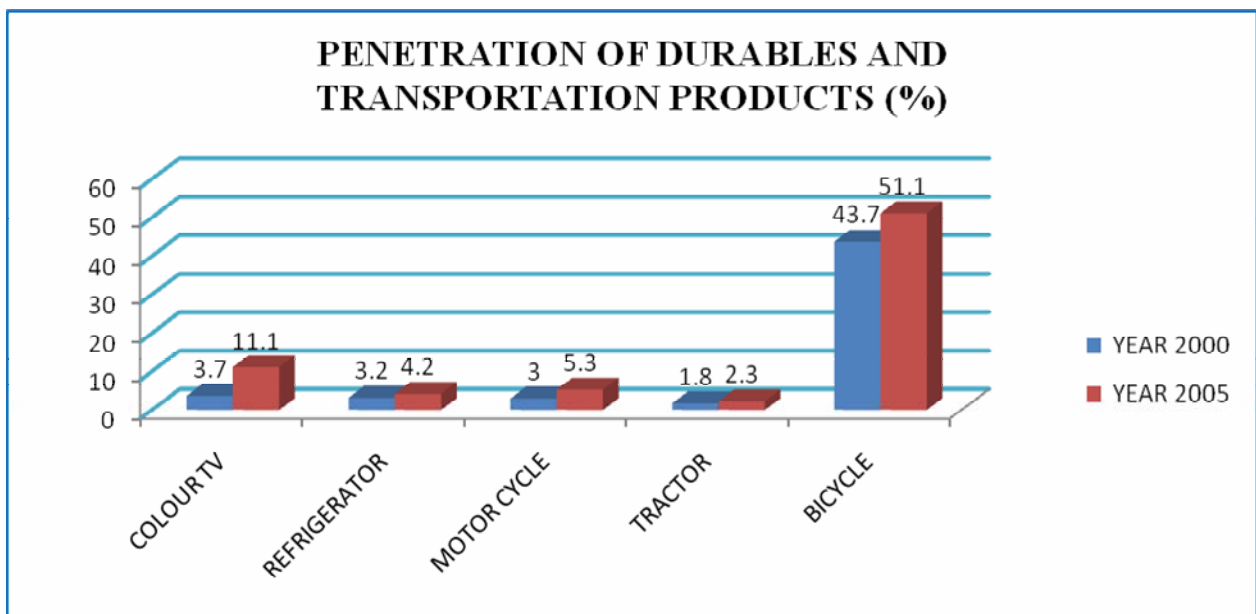
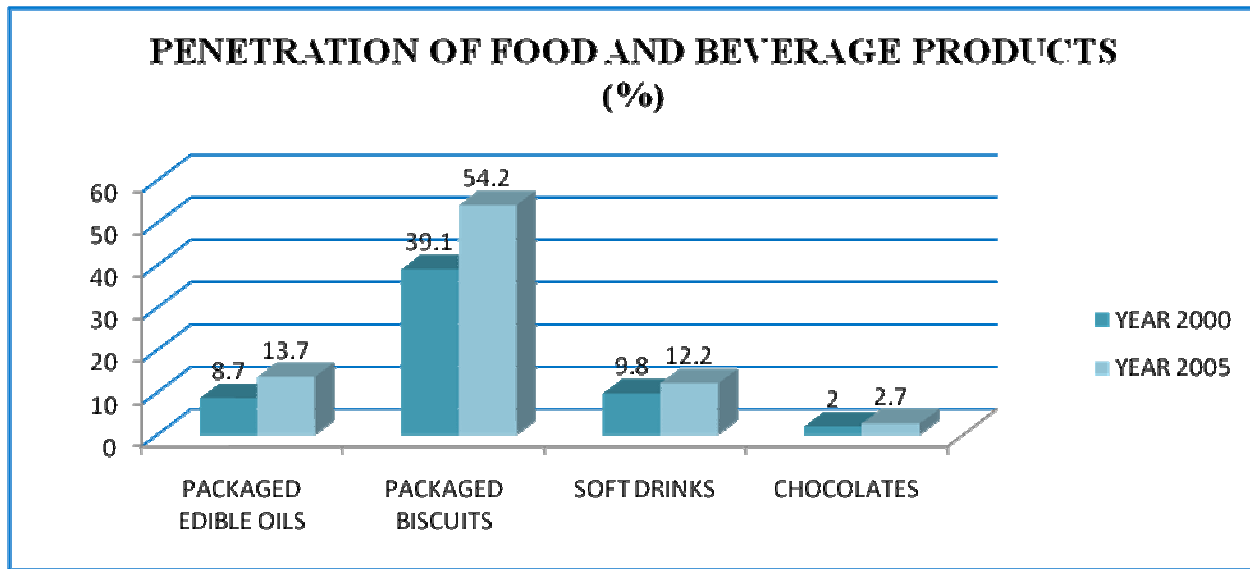


EXHIBIT III: PENETRATION OF DURABLES AND TRANSPORTATION PRODUCTS



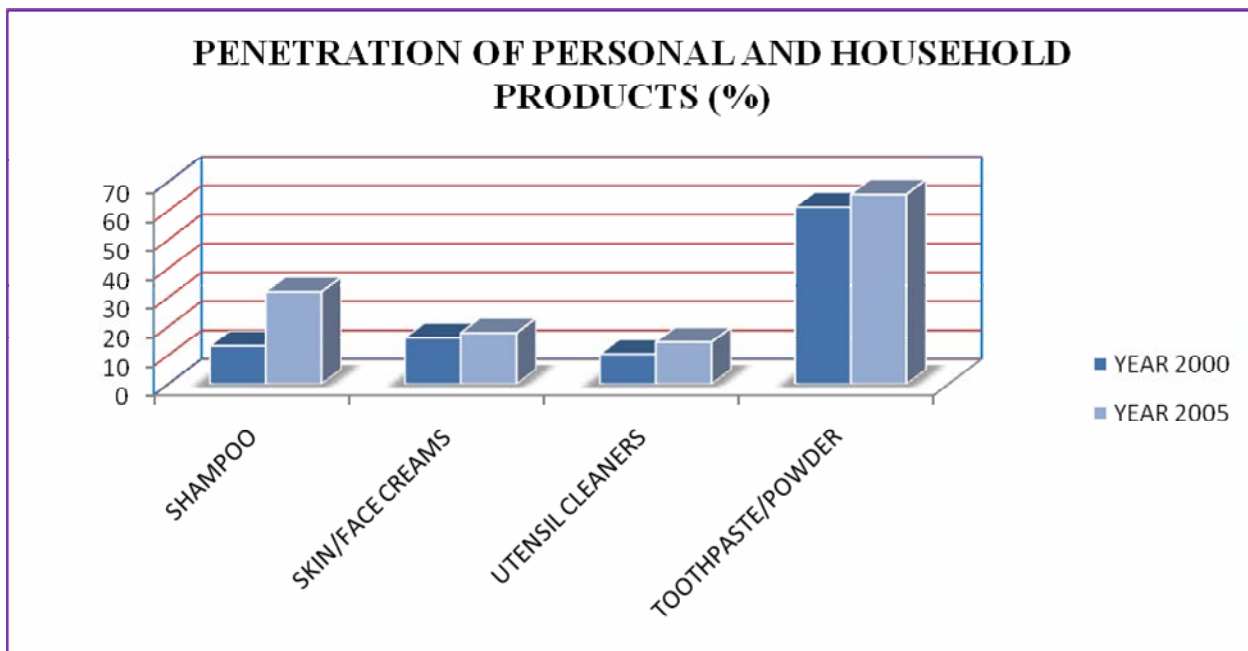
Source: MRUC Hansa research guide to Indian market 2006

EXHIBIT IV: PENETRATION OF FOOD AND BEVERAGE PRODUCTS



Source: MRUC Hansa research guide to Indian market 2006

EXHIBIT V: PENETRATION OF PERSONAL AND HOUSEHOLD PRODUCTS



Source: MRUC Hansa research guide to Indian market 2006

EXHIBIT VI: SEC & BEHAVIOUR, ASPIRATION AND LIFESTYLE

SOCIO-ECONOMIC CLASSIFICATION (SEC)	BEHAVIOUR, ASPIRATIONS AND LIFESTYLE
R1	Landlord farmers, educated, exposed to urban environment, children in schools/colleges in nearby towns, aspiring to match urban lifestyle, technology adopters, experiment with modern farming methods, eager for additional sources of income, socially and politically well connected, high spender on social occasions, owns durables like tractor, two-wheeler, TV, music system, steel almirah, LPG, refrigerator, mixer-grinders.
R2	Rich farmers with about 5 acres of land, may not be educated but wants to get the children educated, with friends and relatives in urban area, consults them for technology adoption, conscious of status, aspires to be well known in social and political circles, owns durables like tractor, two-wheeler, TV, LPG.
R3	Average landholding 2-5 acres, manages small savings, children sent to village school, opts for time tested technology, low risk taker, owns durables like TV, tractor (self and rental)
R4	Has little or no land, agricultural labour, living below poverty line, a major purchaser from public distribution system.

EXHIBIT VII: CHANGES IN RURAL CONSUMER'S PERCENTAGE

RURAL CONSUMER CLASSIFICATION		PERCENTAGE	
		1995-96	2006-07
The Affluent/very rich	Households owning personal car/jeep with other products	1.6	5.6
The Well-off	Household owning any/all of these – air conditioner, motor cycle, scooter, washing machine, refrigerator, colour TV with other durables but not car/jeep	2.7	5.8
The Climbers	Household owning any/all of these – mopeds, VCR/VCP, mixer grinder, sewing machine, audio equipments, B/W TV, geyser with other durables but not those mentioned under first two categories	8.3	22.4
The Aspirants	Household owning any/all of these – bicycle, electric fans, electric iron with other durables but those not mentioned under first three categories	26.0	44.6
The Destitutes	Households other than those classified under categories 1 to 4 above (owning any/all/none of these – wrist watches, pressure cooker, cassette recorder, transistor/radio)	61.4	20.2

Source: NCAER Indian Market Demographics Report, 2002

EXHIBIT VIII: HARIYALI'S PRESENCE IN THE AGRICULTURE CHAIN

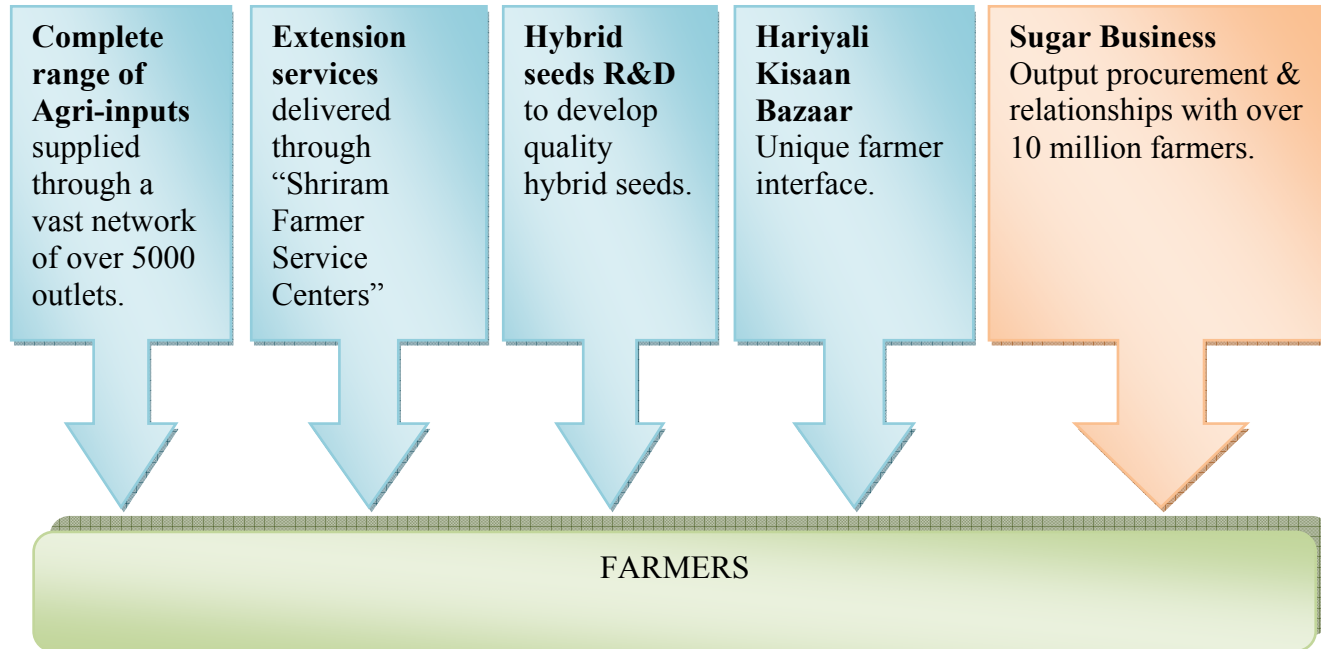


EXHIBIT IX: ORGANIZATION STRUCTURE AT HKB

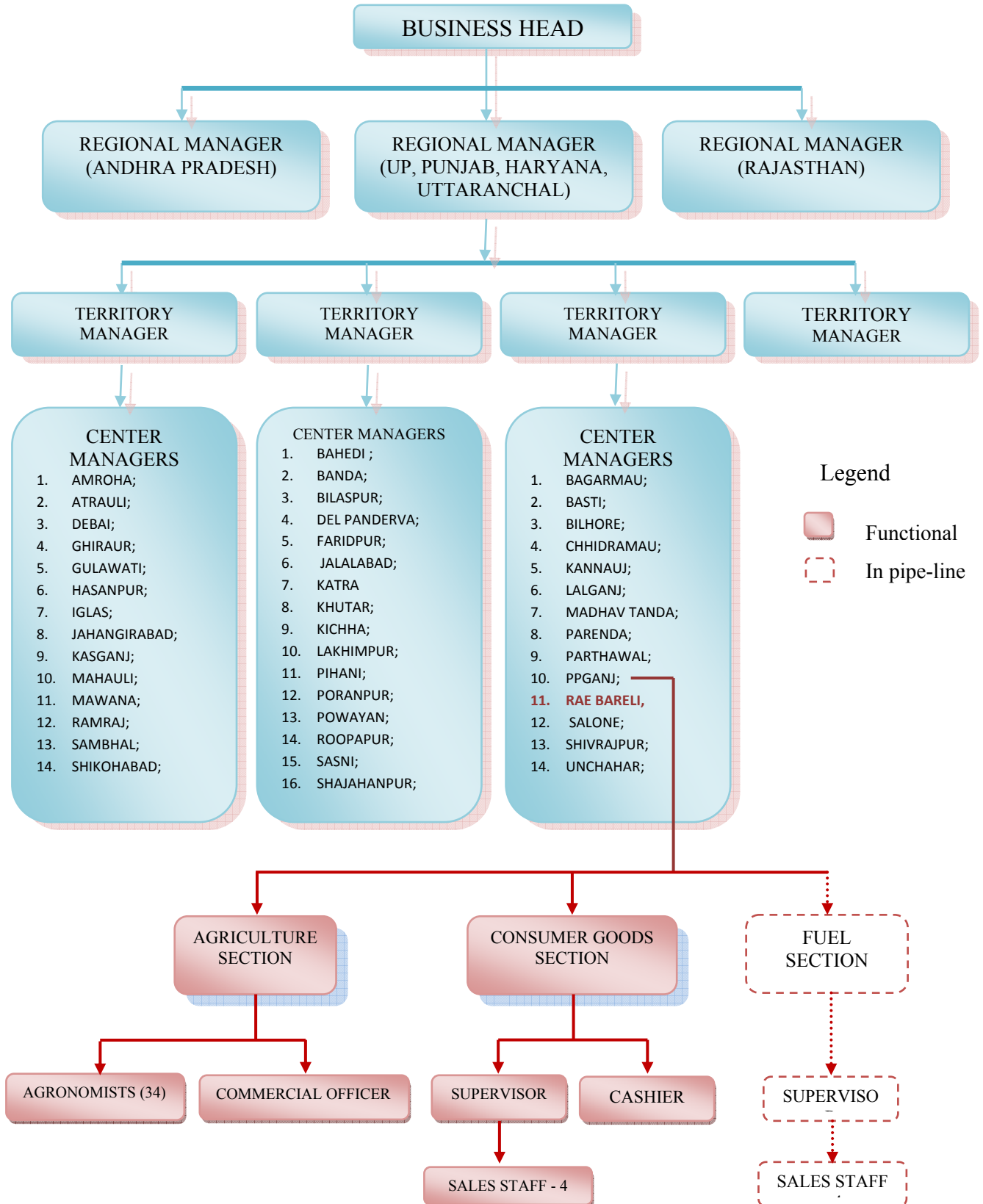


EXHIBIT X: PRODUCTS AT A TYPICAL HKB CENTER

PRODUCTS AT A TYPICAL HKB CENTER	
1.	Agro-products
2.	FMCG
3.	Life-style
a.	Apparels
b.	Footwear
c.	Kitchen ware
d.	Electronic items
e.	Electrical gadgets
f.	Cosmetics
g.	Plastic ware
h.	Furniture
i.	Stationery items
j.	Communication sets i.e. cell phones, landline sets
4.	Domesticated animal feed
5.	House construction material
6.	Lubricants, tyres and machine spares
7.	Banking and Insurance services
8.	Fuel
9.	Pharmaceuticals (at some centers)

EXHIBIT XI: SUPPLY CHAIN (CONSUMER GOODS) OF HKB CENTERS

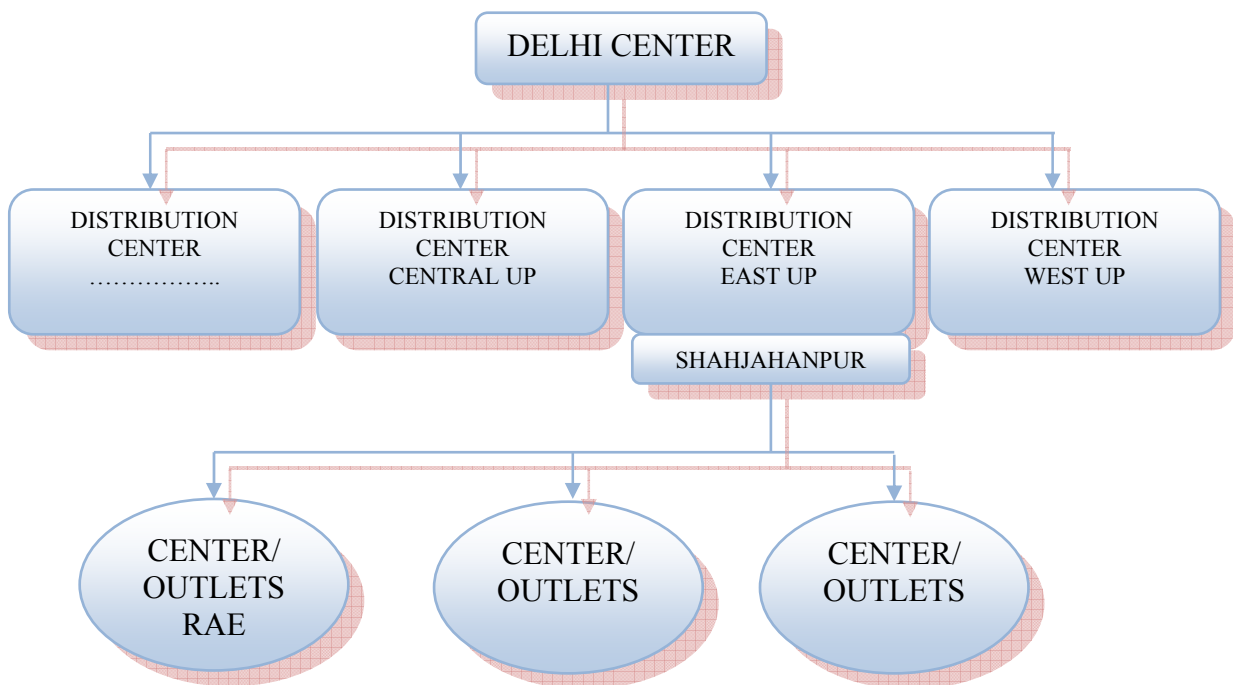
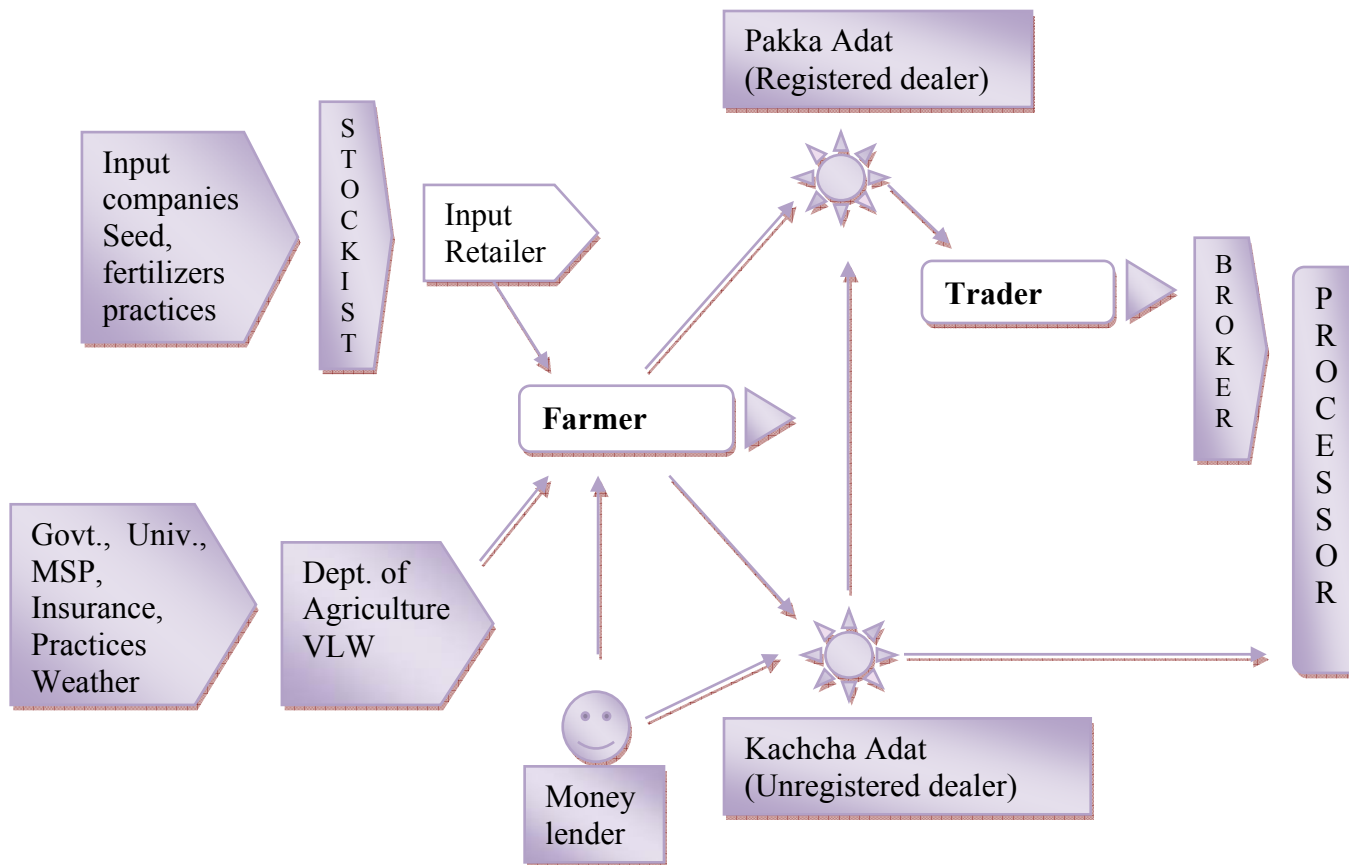


EXHIBIT XII: RURAL VS URBAN MARKET – A SUMMARY

Sl.	Aspect	Urban	Rural
1.	Philosophy	Marketing and societal concepts, Green marketing and relationship marketing	Marketing and societal concepts, Development marketing and relationship marketing
2.	Market a) Demand b) Competition c) Consumers -Location -Literacy -Income -Expenditure -Needs -Innovation adoption	High Among units in organized sector Concentrated High High Planned, even High level Faster	Low Mostly from unorganized units Widely spread Low Low Seasonal variations Low level Slow
3.	Product -Awareness -Concept -Positioning -Usage Method -Quality preference -Features	High Known Easy Easily grasped Good Important	Low Less known Difficult Difficult to grasp Moderate Less important
4.	Price -Sensitive -Level desired	Yes Medium-high	Very much Low-medium
5.	Distribution -Channels -Transport facilities -Product availability	Wholesalers Stockists Retailers Supermarkets Specialty stores and authorized showrooms Good High	Village shops <i>Shandies</i> <i>Haats and Jatras</i> Average Limited
6.	Promotion -Advertising -Personal Selling -Sales promotion	Print, audio-visual media, outdoors, exhibitions, etc. Few languages Door-to-door, frequently Contests, gifts, Price discounts	TV, Radio, Print media to some extent More languages Occasionally Gifts, Price discounts

EXHIBIT XIII: CONVENTIONAL VALUE CHAIN



E-CHAUPAL: NEW BUSINESS MODEL BY ITC

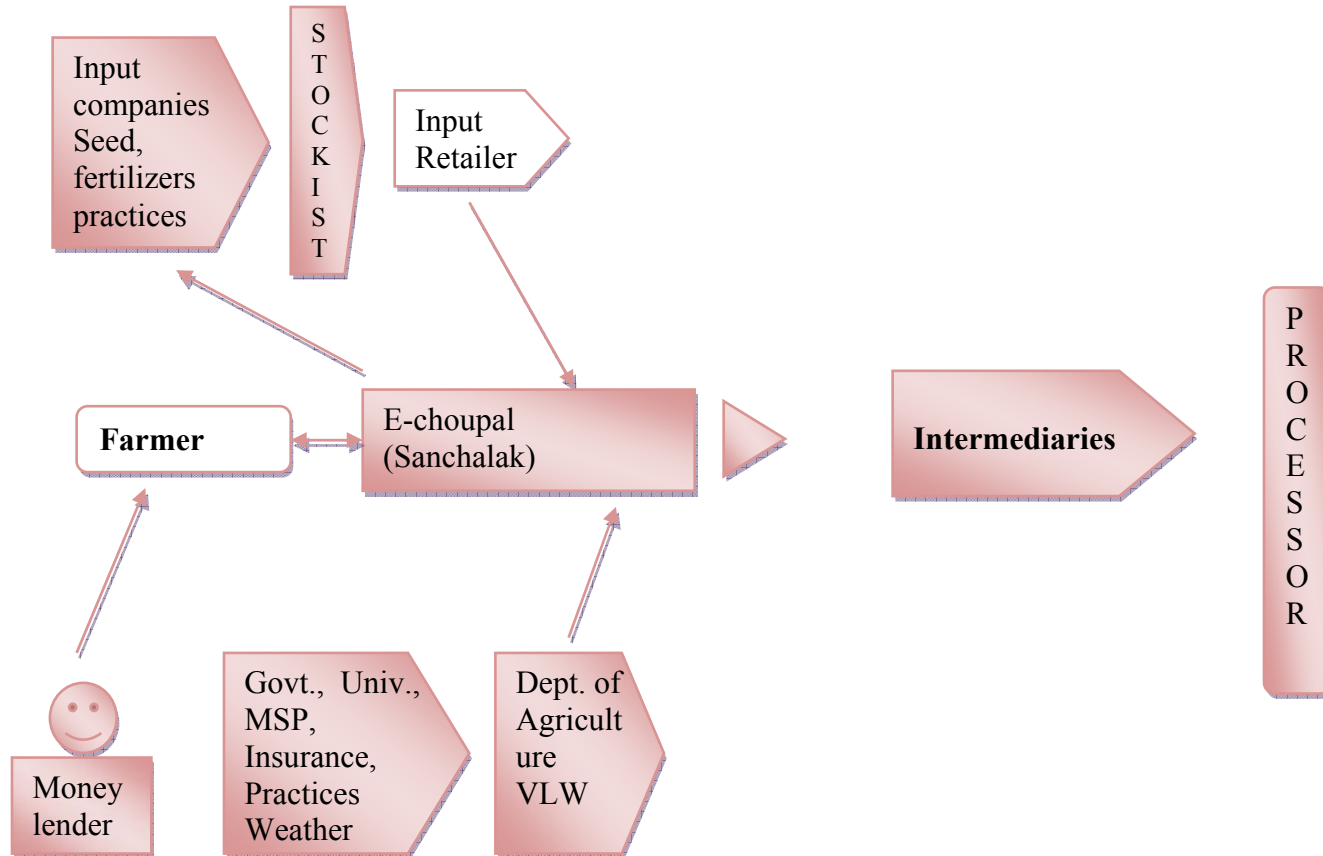


EXHIBIT XIV: INFORMATION TECHNOLOGY IMPLEMENTATION AT HKB CENTERS

Snapshot of the Infotech implementation at HKB	
Solution implemented	SAP IS-Retail, and Retail Excel Point of Sale solution from Polaris Software
Server	Dell PowerEdge 6400 server with Intel Pentium III Xeon dual processor and 2 GB memory
Operating system	Windows 2003
Database	Oracle 9.2.0.6
Cost of the project	Rs 2 crore including the cost of the SAP and Polaris application software, hardware, training and implementation

EXHIBIT XV: KEY PLAYERS IN RURAL RETAIL

	DCM Group	ITC	HLL	Tata	Godrej	Reliance	
Initiatives	Hariyali Bazaar	Kissan E_chaupal (Chaupal Fresh)	Sagar; Chaupal	Shakti (i-shakti; Vani; Shakti Pracharini) Mahamaza	Tata Kisan Sansar	Godrej Aadhar Agrovet	Rural Retail Hubs
Model	HKB is a chain of centers that aim at providing end-to-end ground level support to the Indian farmer to improve his profitability and productivity	Chaupal Sagar (India's first rural mall) is a procurement-led initiative which ties in with its e-chaupal network	Mahamaza model where dealers consolidate orders from surrounding villages and pass on the discounts from bulk buying.	TKS aims at providing end-to-end ground level support to the Indian farmer by aligning farming with technology.	Aadhar aims to be the 'complete solutions provider'	<i>Khushi aur Khushali</i>	Rural Retail Hub model involves procuring-cum-processing hub & one-stop farmer shop
Commencement	2002	2000	2001	1998	2003	NA	
Status as on:	January 2008	August 2006	May 2007		January 2008	-	
States Covered	7 (Punjab, Haryana, Rajasthan, Madhya Pradesh, Uttar Pradesh and Uttarakhand)	E-chaupal 9 (Madhya Pradesh, Haryana, Uttaranchal, Karnataka, Andhra Pradesh, Uttar Pradesh, Maharashtra, Rajasthan and Kerela.) Chaupal Sagar 3 (Maharashtra, Uttar Pradesh, Madhya Pradesh)	15 (Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra, Gujarat, Madhya Pradesh, Chattisgarh, Uttar Pradesh, Rajasthan, Punjab, Haryana, West Bengal, Orissa, Bihar & Jharkhand)	5 (Punjab, Haryana, Uttar Pradesh, Bihar and West Bengal)	8 (Maharashtra, Gujarat, Punjab, Haryana, Tamil Nadu, West Bengal, Andhra Pradesh, Orissa)	1 (Punjab)	
Villages		38,500	1,00,000	16,000	1220	-	
Project Units	127	6,500	35,000 entrepreneurs	497 TKS	61	-	
Farmers empowered	15-20 thousand families per HKB	4 million	15 million	35 lakh	-	-	
Future Projections (2010-2012)							

States Covered	10	15	-	-	9	
Villages		1,00,000	5,00,000	-	-	
Project Units	1,500	20,000	1,00,000 entrepreneurs	-	1,200 1600 hubs	
Farmers empowered	15-20 thousand families per HKB	10 million	600 million	-	-	
Offering to farmers						
Facilities	<p>1. Quality Agri-Inputs: fertilizers, seeds, pesticides, farm implements & tools, veterinary products, animal feed, irrigation items</p> <p>2. Financial Services: retail banking, farm credit, insurance.</p> <p>3. Farm Output Services: Farm produce buyback opportunities</p> <p>4. Other Products and Services: Fuels, FMCG, Consumer Goods and Durables, Apparels</p> <p>5. 24X7 support through a team of qualified agronomists based at the centre.</p>	<p>Chaupal Sagar provides the following facilities:</p> <ol style="list-style-type: none"> 1. Multi-Category Hypermarket 2. Godowns 3. Parking space for 100 to 200 tractors 4. Petrol/Diesel Pump 5. Cafeteria 6. Banking and Insurance services, etc. 7. Agri-inputs and Agri-equipment 8. Tractors/Motorcycles/Cycles 9. Durables/White goods, etc. 	<p>micro-enterprise opportunity to women</p>	<p>Every Sansar is equipped with</p> <ol style="list-style-type: none"> 1. an administrative office, 2. a training hall, 3. a crop clinic, 4. a soil-testing laboratory, 5. a research and development farm, 6. a storage godown, 7. an exhibition hall and 8. a TKS retail outlet. 	<p>Provide complete solution provider to the farmers rendering</p> <ol style="list-style-type: none"> 1. farm advisory services, 2. credit facility to farmers, 3. providing up to date information on weather, price, 4. soil & water testing facility, 5. FMCG / consumer durables 6. Health pharmacy 7. buy back of output, 8. crop finance, 9. supply of agri inputs, and 10. animal-feed 	<p>To act as nodal points for procuring fresh fruits and vegetables, their handling, storage and processing. These will act as back-end support for the company's eventual foray into food & beverages retailing.</p>
Source: Compiled by the authors from Websites and Published Reports						