

Rural Supply Management: An Overview Of Growth

Varun Gautam
Research Scholar, IGNOU

Abstract

This paper provides detailed information about the growth of supply chain industry & its problems in rural unorganized sector in India. It examines the growing awareness and brand consciousness among people across different socio-economic classes in rural India and how the rural retail markets are witnessing significant growth. A basic rural supply chain system consists of goods or items that flow through various levels of hierarchies of suppliers, distributors and customers. We require a mechanism to track the goods at every level of the supply chain system. Supply chain systems in rural developing regions are extremely fragile and are vulnerable to a wide range of security threats. Now a days India is going to become a booming market after china in this world and if India grow with this rapid speed then in upcoming future it will cross the Chinese market. For continuing this speed we need to have sustained growth in our agriculture, manufacturing and service sectors also in our rural areas. In this paper, we investigate the problem of developing a low-cost and deployable solution that can aid in securing rural supply chain systems. In rural areas, agricultural supply depots are an important transaction center for a farmer. In recent years, due to the growing supply of agricultural production, the economic performances and the competitive advantages of the farms, have become more dependent on network organisations in the supply chains. Our aim is to show that different structure of social networks – which grows on different positions in terms of achieving common goals and sustaining and developing norms and networks for collective action - is helpful for successful uptake of socio-economic processes and then in taking market choices and in framework shaping of supply-chain in rural areas. A typical rural economy is agriculture based and the quality of life in rural areas has always been an issue of concern around the world. Poor living standards manifest themselves in the form of lack of basic amenities such nutritious food, safe drinking water, organized healthcare, education, etc. This is an issue of much concern

particularly in developing countries. These conditions prevail because of poor resource utilization of the rural sector, and lack of alignment of the industrial sector products towards rural community. There are a multitude of problems facing the rural sector and we need initiatives for improvement in the agricultural productivity, literacy rate, healthcare, standard of living, and infrastructure. Here we concentrate two related and mutually inclusive sectors of agricultural production and rural retailing. We must be aware of the constraints and sub-constraints under which the rural areas operate so that we can come up with actionable solutions.

KEY WORDS: Supply chain management, rural market , Unorganised Sector, Retailing, Agricultural Marketing.

INTRODUCTION

India is the second fastest growing economy in the world. It is third largest economy in the world in terms of GDP and fourth largest economy in terms of Purchasing Power Parity. India presents a huge opportunity to the world at large, to use as a hub. Standing on the threshold of a retail revolution and witnessing a fast changing retail landscape, India is all set to experience the phenomenon of global village. India is the “promised land” for global brands and Indian retailers. A “Vibrant economy”. India tops in the list of emerging market for global retailer and India’s retail sector is expanding and modernizing rapidly in line with India’s economic growth. Retailing in India is gradually inching its way toward becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retail has entered India as seen in sprawling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof. The Indian retailing sector is at an inflexion point where the growth of organized retailing and growth in the consumption by the Indian population is going to take a higher growth trajectory. Retailing in India is touching a new height on day to day , with consumer spending growing by unprecedented rates and with increasing no of global players investing in this market.

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Logistics and SCM practices defined as a set of activities undertaken to promote effective and efficient management of supply chains. These include supplier partnership, physical movement of goods, meeting customer demands and information sharing throughout the supply chain. Some of the key logistics and SCM practices that impact performance are related to estimation of customer needs, efficient and effective delivery, integration and collaboration throughout the supply chain, sharing of information and vision using ICT as well as informal methods and use of specialists for performing specific jobs across the supply chain. All of these practices impact logistics and supply chain performance.

The de-regulation of the Indian economy in the 1990s has attracted global players and has unleashed a new competitive spirit. However, a distinctive characteristic of the Indian economic environment is the inadequacy of basic inputs normally required to support organized economic activity. The UPS Asia Business Monitor Survey, 2004 (Available at: <http://www.etintelligence.com/>) finds that besides the lack of government support, poor logistics infrastructure and poor supply chain efficiency are the major obstacles to competitiveness in

India. The Indian infrastructure comprising roads, railways, airports, seaports, ICT and energy production is poorer as compared to many other countries. However, things are changing for the better at a fast pace. The Growth Competitiveness Index survey conducted by the Geneva-based World Economic Forum (WEF) for 2005-06 puts India at 50th position among 117 countries in its Global Competitiveness Report, five places up from previous years ranking of 55.

A few years ago, logistics and SCM were seen as necessary evils in India; today they are seen as a matter of survival and competitive advantage. As companies look at logistics and SCM strategically, they turn to specialized service providers to cut out non-core activities from within. A rising focus on outsourcing is leading to a surge in business performance for logistics service providers. One offshoot of the demand for logistics services is that many companies are changing their names to include 'logistics' somewhere as well, much like the dot-com boom times in the early 1990s.

Need for the study : India's rural markets present opportunities that companies seeking to become high performance business cannot afford to ignore. But the size and scale of those markets(Three-fourth of the country's approx 1.1 billion people live in villages) have been offset by concerns about the profitability of these markets and the durability of rural demand.

The overreaching trend that emerged from our survey findings is that business are confident about the opportunities that rural India has to offer. Further they plan to strengthen their presence in semi urban and rural areas over the medium to long term. Rural markets encompass eager consumers who want to share the fruits of India's industrial growth. More than half of the senior executives surveyed were keen to tap rural areas' new segments of consumers . From a supply-side perspective, more than 40 percent wanted to access raw materials. Unsurprisingly, more than a third of respondents agreed that rural markets offer labor pools at much lower cost than in urban markets.

Industry and academic estimates put logistics and SCM spend in India at approximately 13% of the Gross Domestic Product (GDP). Global estimates for this vary and are around 13% of GDP in China and about 9% of GDP in the US. The transportation cost in India accounts for nearly 40% of the cost of production, with more than half the goods being moved by road. Trucking accounts for nearly 70% of transportation and accounts for 60% of all logistics cost. 67% of truck ownership is in the hands of small unorganized players. Road is followed by rail and finally coastal shipping. Rail has been steadily losing ground due to myopic government

strategies and inherent inefficiencies. The freight movement of Indian railways has risen to 411354 net tonne-kilometers (Available at: <http://www.indianrail.gov.in/>) and the total road length is 3315231 kilometers (Available at: <http://www.nhai.org>). Though enormous maritime routes are available combination of poor government policies and lack of initiative from the private sector, water which is probably the cheapest mode of transport is barely used. Air as a mode is limited to a small percentage of courier shipments. Various SCM spend indicators such as in-bound transportation costs, inventory related costs and distribution expenses as percentage of net sales vary from industry to industry. However, as per Centre for Monitoring Indian Economy (CMIE), they are coming down over a period of years. The aggregate of the same for nine major manufacturing industries for four years are shown in Table II. These industries spent nearly 17-18% of their net sales on various logistics activities, including distribution, warehousing, and inventory. Global averages are around 9-12%. So, there is ample scope to reduce spends on logistics. This in turn allows companies to protect operating margins during downturns and make above-normal profits during upturns.

In our on-site observations, we find that the primary focus is on quality, cost and service. Recently, responsiveness (delivery speed, volume flexibility and innovation) is also catching up management attention. Correspondingly, the major concerns in all these firms and their supply chains are related to costs, clarity of demand, reliability of partners, shortening delivery cycle, production and logistics flexibility and innovation in supply chain practices. Sharing of benefits within the supply chains has not yet gained much attention. Firms show relatively high awareness of modern supply chain planning and control tools, including software and mathematical models. However, the utilization of such tools is still at a relatively low level. Relationships are messy and partnerships are short of true strategic alliances. Still, some benefits are being derived. Firms, especially in the automotive, retail, manufacturing and FMCG sectors, are increasingly opting to outsource their logistic requirements to specialized service providers. The positive business atmosphere and a burgeoning consumer market are making the shipper community push the logistic service providers hard for efficient supply chain value propositions. Many firms in our study have gone for spend management outsourcing instead of procurement management.

In firms with manufacturing as the core process, primary focus is still on in-house manufacturing though trend towards contract manufacturing is on the upswing. Quality assurance has become an order qualifier rather than being an order winner. The emergence of Service Level Agreements (SLAs) with internal customers can be seen in most of the firms. Presently, they are still informal in nature and not strictly binding. Firms have few manufacturing facilities with 20-24 warehouses and many dealers. This number of warehouses is a direct consequence of the tax-holidays and the erstwhile excise and custom duty structure in India. High collaboration and partnerships with vendors is strongly evident in this sector.

There is big focus on vendor development. Firms focus on developing vendors in geographical proximity. Another discernible trend is the gradual shifting of responsibilities and risks to vendors. In automobiles sector, there is collaboration and partnerships downstream with the dealers as well. Transportation and logistics being non-core activities are generally outsourced. As regards implementation and utilization of ICT, 6 out of 8 firms use standard ERP software, while one uses in-house developed legacy software. The firms appreciate the importance of inventory and order tracking for which they use Wide Area Network (WAN), Extranet and Internet. They seem to be catching up fast with their counterparts in the developed world. However, forecasting is still based on targets from dealers/ sales force. This is an area where they are much behind.

The focus of most of the service firms is on express deliveries and logistics solutions. They focus on efficient and effective service and better customer reach. Most of the firms have established highly responsive call centers with stringent performance metrics. High collaboration and partnerships with partners can be seen. The firms are generally going for global procurement and long-term strategic deals. They have multiple channels downstream so as to achieve door-step reach to the ever-increasing customer base in India. Transportation and logistics is generally through their own fleet. In some cases, it is outsourced. Routing and scheduling software are increasingly being used for these activities. 5 out of 6 firms use standard ERP software. There is high focus on tracking of customer orders and technologies like bar codes and GPS are being employed. Production process is mainly “pull” system. Successful logistics and supply chain management depends heavily on the state of the infrastructure scenario in the country. Undoubtedly, the state of infrastructure in India has been hampering the industrial and economic

performance for long. Infrastructure is the most quoted factor hindering supply chain competitiveness. This needs urgent remedy: most other bottlenecks of regulations and capital are falling away and it's only roads, ports and airports that hold Indian logistics back. Higher fuel cost in India lead to high inland movement cost. Poor conditions and low load-bearing capacity of roads lead to more wear and tear of vehicles, and slower movement. Imposition of load restrictions, permits for inter-state movement, lengthy and cumbersome documentation, large number of public holidays make lead-times larger with higher variability. Transportation costs too go up. It requires a concerted effort by the industry and government to dismantle bottlenecks in the completion of infrastructure-related projects and creation of demand-aligned capacities in sectors of logistics and information technology. Logistics and supply chain practices in India show that visibility is still limited. The companies have a realistic view on the advantages and risks of information sharing and so information is shared only selectively. Our study reveals that most Indian firms have aligned their logistics and supply chain objectives with their business objectives. However, due to some aberrations and diseconomies of scale/ scope most of them are not able to reap full potential benefits. Action is required by the Indian government to improve the infrastructure for better functioning of various supply chains. Firms and their supply chains need to closely integrate themselves into a network, carefully manage the complexity that ensues, align their business strategy with logistics and supply chain operations, and leverage information and communication technology with process improvement and pioneer operational innovation for superior performance. They also need to rigorously measure and monitor critical operational performance metrics such as customer service, responsiveness, supply chain costs, asset utilization, product quality and operational flexibility in order to achieve overall business success.

SUPPLY CHAIN MANAGEMENT ISSUES AND CHALLENGES :

Logistic cost is 13% of India's GDP in comparison to 11% in Europe and 9% in the U.S. of the total logistic cost, transportation represents 39%, while warehousing, packing and inventory accounts 24% of the total costs(365businessdays.com). Higher logistic costs are mainly due to poor infrastructure facilities in the country. Insufficient distribution channels and infrastructure bottlenecks restrict the scope to reach consumer of products nationwide. Though the country has

developed the largest road networks in the world, yet the regional concentration of manufacturing in Indian but geographically diversified distribution activities as well as infrastructure bottlenecks, e –infrastructural facility is not comparable to developed countries. Less than half of the roads were paved in India and less than 2000Km were express highways in 2007, which was significantly lower than china's 30,000Km (365businessdays.com). The scarcity of tracking technologies like global positioning systems (GPS),(www.scmr.com) the inability of ports to

handle goods quickly, and the lack of modern technology in warehouse. Though there are considerable investment underway to address these

issue, such as projects take large amount of time in India by comparison, emerging economic countries like china and brazil have been able to complete infrastructural projects on a considerably shorter timeline.

As emerging CPG markets open up, there is clear strategic need for multinationals to be close to these major opportunities. They can get into the markets either through effective integration of local acquisitions, or by developing a base of world class suppliers to undertake local contract manufacturing and outsourcing. In every case, there will be a need to manage inputs around raw material specifications and technology: what comes out can only be as good as what goes in and the way it is processed. Equally, there is a need to manage output in terms not just of product quality but of brand consistency and brand representation as well.

The rural trend creates a requirement to rethink the manufacturing and distribution footprints for the big centres of demand. A market of tens of millions of consumers in a relatively concentrated area makes a strong case for close proximity manufacturing and flexible, smaller scale plants. The potential benefits include cost efficiency, a shorter logistics chain, and greater product freshness.

CONCLUSION

Supply chain effectiveness starts with production strategy and there is a need to drive deep structural cost efficiencies to be competitive in the emerging markets. The cost argument does have another side however: efficiency of the local production and distribution chain has to be balanced with the prospect of higher margins from competitive direct imports. Organized retailers are starting to import more products

(personal care, foods and beverages) because they offer 20-30% higher margins than locally supplied products. India is one of the world's fastest growing economies with diverse markets. Managing supply chain in such a vast country is most challenging for any organization because of business practices, government regulations, technology capabilities, transportation infrastructures etc. the current paper has explored the state and issues of supply chain management of India. To achieve an improved performance, Indian organizations should focus on applying techniques which offer a strategic opportunity for companies to gain an increase in revenue. This is possible by improving the infrastructural development and refocusing on integrating IT with supply chain management and Logistics. Organizations must realize that they must harness the power of IT to collaborate with their business alliances. Strengthening of agriculture will help in upliftment of the farmers but also benefit the larger section of the rural poor who are directly engaged in agriculture or indirectly linked with agriculture as consumers. Efficient way of production, stabilized prices, higher income from agriculture would create a more conjugative environment in the country for the development of the economy as a whole and of rural population in particular. Empowerment of the small and marginal farmers through education, reforms and development will ensure a better, efficient and strengthened Indian agriculture. Motivation new models in marketing along with creating awareness and imparting education will help in development of the sector and more importantly improving job in agriculture sector.

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