

Rural Petroleum Retail – Case of a Major Oil PSU

*Rajesh K Aithal**

Introduction

General Manager Operations of the State Head Office who at one time was heading the rural initiative of the company says that the origin of the idea lies in the need to provide quality products to rural people. The fact is that villagers have to travel long distances before they can get petroleum products for their farming and transportation needs. And the quality of fuel that they buy is also not assured as they tend to buy it from unreliable intermediaries. By opening the rural petroleum retail outlets the company was bringing assured quality petroleum products near the door-step of the rural consumers.

The rural retail format of the oil PSU operates on a low investment and high returns model. When a typical petroleum dealership in the urban areas would cost somewhere around 1-1.5 crores, the rural retail outlet would not cost about Rs. 6 to 9 lacs. The payback period is expected to be around 3 to 4 years. The total revenues of the outlet is supplemented by the sales from non fuel products like, seeds, fertilizers and other FMCG products (the list of tie-up is given in Table III).

The advantages of the rural foray are that it would provide reach into new markets, which would lead to growth in the revenues of the PSU and a first-mover advantage in the rural areas. With the increasing interest in rural markets this first-mover advantage could be leveraged later on. These two advantages are over and above the value added service being provided to their old rural customers.

There has been due recognition coming for the initiative, in September 2007 the initiative was awarded the 'Most Admired Retailer of the Year' Award in the category of Rural Retailing, by the India Retail Forum (IRF), which is one of most substantive intellectual and information exchange platforms for retail business in the Indian sub-continent.

Rural India

Rural India is a very significant part of Indian market, both in terms of sheer numbers and the potential. Though problems related to access and purchasing power of the rural masses have made it a difficult market to tap. Close to 72 percent of Indian population lives in rural areas. In the country we have 6.36 lakh villages out of which only 13 percent have population above 2000. According to NCAER 2002, the number rural middle class households at 27.4 million are very close to their urban counterpart at 29.5 million and the rural economy contributes nearly half of the country's GDP which is mainly agriculture driven and monsoon dependant. More than 50 percent of the sales FMCG and Durable companies come from the rural areas.

The McKinsey report (2007) on the rise on consumer market in India predicts that in twenty years the rural Indian market will be larger than the total consumer markets in countries such as South Korea or Canada today, and almost four times the size of today's urban Indian market and estimated the size of the rural market at \$577 Billion.

* IIM Luknow, rajshaithal@iiml.ac.in

Last few decades has seen a lot changes happening in rural India. Growth in agriculture has witnessed a faster rate of growth in 1980's in agricultural output compared with the decade of 1970's. Green revolution had a major impact on agricultural productivity, through the introduction of hybrid seeds, fertilizers and systematic irrigation. Combined with the breakthrough in wheat and rice production in the mid- 60's, was a price policy which ensured minimum support price, and in turn insulated the farmers from market risk, cheap input policy and a stable demand . These all lead to a quantum jump in the incomes of farmers in the country. Initially the impact of green revolution could be seen only in the prosperous agricultural states of the country but now slowly its influence has spread across the country with the increase in irrigation.

All basic development indicators education, housing and basic infrastructure have shown marked improvement on the last few decades. If one were to specifically look at the two decades 1981-2001, rural literacy levels have improved from 36 percent to 59 percent, the number of below poverty houses have declined from close to half to 46 percent and the number of pucca houses have doubled from 22 percent to 41 percent. These figures provide us with a clear picture that rural India with the increase in agricultural income and improving standards is on the verge of becoming a large untapped market which marketers have been aspiring for a very long period of time. This also explains why many corporate initiatives have taken off in the last few years which have rural India as the focus.

The Company

The Oil PSU is one among India's largest company by sales with a turnover in excess of US \$50 billion. The company is also among the highest ranked Indian company in the prestigious Fortune 'Global 500' listing, having moved up 18 places this year based on fiscal 2006 performance. It is also among the top 25 largest petroleum companies in the world.

The company was started in 1959 and grew on to become one of the largest companies in the country. For the year 2006-07, the group sold 57.97 million tonnes of petroleum products, including 1.63 million tonnes of natural gas and exports of 3.13 million tonnes. It operates 10 of India's 19 refineries with a combined refining capacity of 60.2 million metric tonnes per annum (MMTPA, i.e., 1.2 million barrels per day). The retail network of the company is beyond compare, it reaches precious petroleum products to millions of people everyday through a countrywide network of about 32,500 sales points. They are backed for supplies by 170 bulk storage terminals and depots, 101 aviation fuel stations and 89 LPG bottling plants.

It operates the largest and the widest network of petrol & diesel stations in the country, numbering about 16,600. It reaches its cooking gas to the doorsteps of over 47.5 million households in 2,671 markets through a network of 4,990 distributors

The Rural Retail Initiative

The Oil PSU has already convenience stores at its existing filling stations in urban areas, but "the idea now is to move further into promoting our own malls," says an official from the company. The company, whose non-fuel sales are around Rs 100 crore at present, has set a target of Rs 3,000 crore from the segment in the current financial year. The company has had a presence in rural indirectly through its presence in highways and main roads across the country but the target consumers were not specifically villagers.

The rural retail initiative is a low cost business model of a retail outlet offering fuel and other non fuel value added services with penetration in rural markets generating high returns. The company officials say that the rural retail initiative is based on a simple business model. "It is scalable and quite organized and has emerged as a brand in itself," they claim. It has been designed to be a one stop centre of services for the farmer, by making doorstep availability. The current portfolio of products that the retailer offer is,

The overall goal is to increase the earnings for the outlet owner by increasing his business through the sale of non-fuel products. For this the PSU has tied-up with many different companies for seeds, fertilizers and a host of every day FMCG products which are consumed by the rural consumers. Many financial service providers have shown interest in using the outlet to expand their reach in rural areas. The current status of the all India level tie-ups is shown below,

The dealer operates the outlet and earns a margin on the sale of petrol and diesel. The margins on fuel sales at the rural outlet are similar to what petrol pump dealers in urban areas earn - Rs 1.03 per litre of petrol and 60 paise per litre of diesel. The rural outlets are set up in the dealer's land, gets to pocket the entire revenue he earns from his non-fuel sales. The oil company may demand a share in the non-fuel sales at a later date, as has been done in the case of petrol pumps in urban areas, where a larger share of the revenue has been demanded by the oil companies once the non-fuel retail picks up.

The minimum fuel sales required to set up a Rural Retail Outlet is 30-kilo litre (kl) per month. The average fuel sales per Rural Retail outlets are 50 kl per month. This sale volume is pretty impressive, given that the all-India average throughput per outlet per month is about 70 kl. "Some rural outlets are, in fact, selling as much as 200 kl per month, which is very impressive in rural areas," according to a company official.

Besides selling commodities, the rural outlets also conduct educational programmes, which are aimed at giving farmers better insights into their field of work, for example agriculture. For non-rural and non-fuel retail, the company is looking at two segments - highways and urban areas. The company is also planning to set up its own shopping centers and malls in these areas, in the near future.

Though the initiative is commercial in nature it also has a social angle, as it is able to generate employment opportunities in rural areas. The PSU has tried to specifically give dealership to first generation entrepreneurs and educated youth in the rural areas, by doing so they are able to fulfill certain social obligation also. The table below gives the details of the current profile of the dealers who have been appointed.

The initiative is only about three years old but the company is planning a rapid scaling-up of the initiative across the country. The current status and the plans are given in the table below,

The target for 2007-08 is to add 1000 more and to take the number up to 5000 by 2012. The current coverage of the rural retail initiative across the country is as given below,

Other Rural Retail Initiatives

Competition in rural retail is not high as in urban but with many corporates taking interest in the scene is changing rapidly. There have been many ventures in rural retail and which means increased competition for the rural retail initiative for the oil PSU. Some of the main competitors and their rural retail initiatives have been described below,

One of the most researched initiatives in rural has been the ITC's echoupal. The initial focus was on improving procurement of agricultural commodities but they have moved on to set-up rural retail chains under the name ITC's Choupal Sagar. The typical choupal sagar is about 1,00,000-1,50,000 sq.ft retail outlet. These are company owned outlets and are closely aligned with the echoupal kiosks set up by the company.

The Godrej group has a rural retail format called Godrej Aadhar. It is primarily a rural and semi-urban format selling FMCG products, fertilizers, animal feed (similar to the ITC Choupal Sagar). A host of services such as banking, insurance, pharmacy, postal services and petrol pumps have been planned to make Godrej Aadhaar a destination points for all convenience in rural hubs. Similar initiatives have also been floated by the DCM group called DCM Hariyalli Kissan Bazaar and Tata Kisan Sansar from the Tata Group.

The major differentiator between these initiatives and that of the PSU is the scale, each of the above mentioned model operates on a high investment and lesser number of outlets model, where the rural retail initiative from the oil PSU is about setting up a large number of smaller outlets with less investment.

Future Growth

For decades the infrastructure status in rural India was very poor and it was one of the main deterrents for reaching these markets. But now things are changing on this front. As of today less than half of the village in the country are connected with all weather roads, but this scene will change very soon, with plans to connect more than quarter of the villages in the country in this decade. A total of 1,46,185 kms of new rural roads are being planned with up gradation of 1,94,132 kms of existing rural roads and the overall budget for the next four years has been put up to - Rs.48,000 Crores as per PM gramian sadak yojna 2005-2009. With the improvement in physical connectivity the requirement of reliable fuel for transportation would also increase. This argues well for the company's rural retail initiative.

Table I: Spread of Villages in rural India

Population	Number of Villages	Percentage of total villages
Less than 200	114267	17.9
200-499	155123	24.3
500-999	159400	25
1000-1999	125758	19.7
2000-4999	69135	10.8
5000-9999	11618	1.8
10000 & above	3064	0.5
Total	636365	100

Source: Census (2001)

Table II: Product Range in the Rural Retail Outlet

	Products Available at the Rural Outlet
1.	Diesel and Petrol with Q&Q
2.	Seeds, pesticides, fertilisers and other agri needs
3.	Nutan stove, Hurricane lamps
4.	Daily needs such as grocery, personal care
5.	Stationery for children
6.	Tools, auto spares

Table III: All India Tie-ups

Companies /Organizations	Products/Services
National Seed Corporation	For seeds. Around 1000 varieties of seeds
Indo Gulf Fertilizer	Fertilizers
Bank of Baroda and few other Banks(in pipeline)	For extending WC-loan / financial assistance to Rural Retail dealers in line with NABARD instructions to all Scheduled Banks.
Western Union money transfer	Money transfer from foreign Countries
Others	FMCG companies, Banks for ATMs, Cellular companies, water filters, Hospital services

Table IV: Profile of a dealer

1.	Total Rural Retail Dealers	1318
2.	First Generation Entrepreneurs	1095 (>85%)
3.	Employment Generations	5500
4.	Age Profile	<45 years 85% <30 years 30%
5.	Educational Qualification	Graduates – 65% Professionals - 27% (3 MBBS, 4 Ph.Ds, 5 BHMS)

Table V: Growth of the Retail Initiative

Year	Number
2004-05	22
2005-06	557
2006-07	738
Total	1317

Table VI: The Current Coverage

Total Number of Rural Retail Outlets	Total Districts	No. of Districts with Rural Retail outlets	% Covered
1317	485	410	84
	Total Tehsils	No. of Tehsils with Rural Retail outlets	% Covered
	3675	1150	32