

## 2. Executive Summary

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The Horticultural Producer's Co-operative Marketing and Processing Society Ltd. or HOPCOMS, was established in 1959 with the principal objective of having a proper system for the marketing of fruits and vegetables in Karnataka, where it is currently operating. Since the inception of HOPCOMS, there have been several changes in the availability of marketing options for farmers as well as buying options for consumers, thus affecting the performance of HOPCOMS. The operations of HOPCOMS, Bengaluru covers five districts; Bangalore Urban, Bangalore Rural, Kolar, Ramanagaram and Chikkaballapura. Presently, the Society has about 19,000 members, of which 5260 are verified and have voting rights. Members who have been given voting rights should attend the General Body Meeting for at least three years and should have supplied a minimum of 500 kilograms of fruits and vegetables per year. HOPCOMS is being run under the aegis of the State Department of Horticulture, managed by a Board consisting of 18 members. Among them, 14 members are elected from among the producers, and four are government representatives. At present HOPCOMS has 846 staff members.

The objectives of HOPCOMS are as follows:

- To ensure remunerative prices to producers of horticultural crops.
- To free both consumers and producers from the control of middleman.
- To ensure quality supply of fruits and vegetables at reasonable prices to consumers.
- To expand marketing and cold storage facilities progressively for the benefit of farmers.
- To promote development of horticulture on scientific lines by providing necessary inputs and technical advice.
- Training and technical advice to farmers and providing inputs and organize study tours to members.

The price at which HOPCOMS buys the produce from the farmers is based on the prevailing rates in the markets, which their staff visit and participate in the auction to observe qualities of commodities and prices at which they are sold. They compile these prices manually, average out, and based on the demand and supply of those commodities; Procurement and Marketing division sets the purchase prices.

HOPCOMS is having the following infrastructural facilities for marketing of Fruits and Vegetables:

1. No. of Retail outlets: 252
2. No. of Chemical & fertilizer retail outlets: 10
3. No. of Procurement Centres: 08
4. No. of Processing units: 1 (Bangalore)
6. No. of Vehicles: 25
7. No. of Walk in Cooler: 1
8. No. of Godowns: 19
9. Banana ripening chambers: 2

### **Summary of Study Findings**

The number of farmers who have registered with HOPCOMS currently is about 19,000. Number of farmers who have renewed membership is 5260 for the current year. HOPCOMS have sent letters to the remaining farmers for ratification of their membership.

HOPCOMS does not maintain any land records of the farmers in terms of the quantum of land holdings, and also their income level. Therefore, profile of farmers cannot be ascertained with the available data. As per the analysis of data from HOPCOMS, the number of farmers who have arrived at HOPCOMS in 2015-16 has declined sharply by ~46% from 2012-13, while the average quantity supplied by a farmer has increased by ~73% in the same duration.

Members who have voting rights should attend the General Body Meeting for at least three years and should have supplied a minimum of 500 kilograms of fruits and vegetables during each year. Details of quantity of supply of fruits and vegetables by each member and their attendance in the General Body Meeting have been maintained to monitor if they are fulfilling the aforementioned criteria. Currently, only 5260 out of 19,000 members, who have renewed their membership, are given voting rights. Denial of voting rights for the remaining farmers is justified since they are not active by transacting supply of fruits and vegetables to the Society. However, since the procurement has reduced over the years, there is a possibility that some farmers have not been able to receive indents, and this leaves a gap where transactions could be tilted in favour of selected farmers.

### **Procurement, storage and processing**

Total production of fruits and vegetables in the catchment area (Bengaluru Urban/Rural, Kolar, Ramanagara and Chikkaballapura) has increased by 13% from being 26.74 lakh tonnes in 2006-07 to 30.20 lakh tonnes in 2013-14. Area and production of fruits is higher in the catchment area contrary to the state trends. The catchment area has witnessed a stable production of F&V with increasing area for Fruit cultivation by 20% between 2006 and 2014. HOPCOMS' share of procurement from the total production in catchment area has been around 0.7%. There is a decreasing trend observed in the share from 2011-12 to 2013-14.

HOPCOMS does procurement of fruits and vegetables directly from farmers as well as from markets. In addition to procurement at procurement centres, procurement also happens through the central office at Lalbagh. Overall quantity of fruits and vegetables procured by procurement centres and godown, has reduced from 25.71 kilo tonnes to 20.27 kilo tonnes annually, a reduction of 21.2% from 2006-07 to 2015-16.

Volume of purchases for farmer members and non-members has not been monitored. Commodities procured from farmer members are recorded for the purpose of verifying criteria for membership, which is to supply a minimum of 500 kgs of fruits and vegetables during the year. Market purchases happen due to shortages in the quantity procured from farmers, variations of produce based on seasons, produce which is not available in the catchment area and imported products. Overall market purchase has increased from 15.23% in 2006-07 to 21.35% in 2015-16, while procurement from farmers has decreased from 84.77% in 2006-07 to 78.65% in 2015-16.

Procurement happens through several steps. Initially indenting is carried out on an ad-hoc basis including the selection of farmers. Farmers take or receive indents one day in advance, but sometimes it is done 2 to 3 days prior to the day the commodities are required. Indent receipts are given to the farmers if they go to central godown, else they are generally communicated verbally, directly from the godown keeper or through the supervisor at procurement centre. When there is a change in the demand, there are times when the quantity already indented is modified on same or previous day of procurement of those commodities. For example, due to rains on a particular evening, salesman decides to procure lesser quantity of commodities for the subsequent day. Godown supervisor predicts such changes in demand and communicate to the procurement centres accordingly. We couldn't

determine the exact quantity of commodities procured by indenting because formal indent related documents were inadequate. However, discussion through farmers and also HOPCOMS staff at godown, revealed that quantity bought by farmers is either in excess or in deficit up to 25% of the quantity indent is placed for.

When farmers bring their produce, while weighing, discounting of weight is done to compensate for the weight of gunny bag, box or stem of the fruits (Example: banana) and driage and wastage. In addition to the wastage allowance at godown level, 3% wastage (on sales value) allowance is provided at sales outlet level. At godown level, additional wastage is to the tune of 0.71% of the total procurement. Both godown staff and sales staff mentioned that the actual driage & wastage will be highest during the summer and lowest in winter.

Sometimes farmers bring the exact quantity of commodities, hence procured fully but many a times they bring extra and sometimes lesser than what is on the indent. If it is lesser, HOPCOMS looks for alternate option like market purchases, but when it is more than acceptable quantity, farmers either keep it with themselves and sell on the next day if the commodity can be kept without driage and wastage or sell the remainder to the local market on the same day.

Total requirement of F&V by HOPCOMS per day is about 65 tonnes. During discussions with staff at procurement centres, we have understood that about 15 to 20 tonnes of produce is procured through procurement centres, while rest is done at the central godown. Average market procurement is about 21%, which is around 15 tonnes per day, which happens at the central godown. Procurement from farmers at central godown is about 30 tonnes. Therefore, an estimated amount of 45 tonnes or 69% of procurement from farmers happens at headquarters itself. There is a need for broad basing of procurement across the catchment area, and necessary infrastructure in terms of procurement centres/ collection centres and logistics (including vehicles) needs to be expanded.

Farmers grade their commodities based on their experience as per the acceptance levels at HOPCOMS, overall rejection rate while procuring from farmers is about 10%-15% as mentioned by godown staff. But it can also happen sometimes that rejections at godown level are sent back to the procurement centre and hence back to framers. Based on discussions with HOPCOMS staff and the farmers, the rejected quantity is not procured by them at a lower price, however, few of the staff did mention that often salesmen purchases directly from farmers at a lower price. The same could not be verified if it is true and if yes, then to the extent of such purchase. Famers sell the rejected quantity to the nearby local vendors or to the market.

It was observed during our visits that standard grading rules, such as Fruits and Vegetables Grading and Marking Rules, 2004, were not followed during procurement and they grade based on their experience and acceptability from the salesmen. During visits to the all procurement centres, process of grading was not evident. On further discussions with the staff, two issues emerged. Firstly, there is lack of manpower to handle grading for all procured commodities and secondly, quality of the produce deteriorates when the number of stages at which they are handled increase for the reasons of grading or otherwise. Once the commodities arrive at godown, process of scientific grading is still absent. However, godown level rejections arise due to salesman selecting the commodities.

Total billing is done for the quantities accepted at godown. Procurement centres have not been effective in taking the final/spot decisions regarding quality and quantity, but they take on the role of transporting commodities to the godown. If rejections are found, it is communicated accordingly to the farmers. This online transfer is being done for both members as well as non-members.

The tracking mechanism for the quantity of products procured from each farmer member was not adequate. Total quantity of commodities procured from member farmers at an aggregate level is not tracked. Significant number of transactions from non members was also witnessed in the indent logbook. This is a systemic loophole where middlemen have the possibility of being involved in supplies to HOPCOMS. Procurement process lacks transparency and traceability, right from placing indent to receipt of products by both members and non-members of HOPCOMS. During interactions at the procurement centres, a few farmer members also indicated that they aggregate produce from other farms in addition to their own produce and supply to HOPCOMS, which indicates that some of the farmers route their products through middlemen. However, for HOPCOMS to validate production capacity of a farmer, total land-holding details would be required. But such data on extent of land-holding by each member is not being recorded. Procurement process lacks transparency and traceability, right from placing indent to receipt of products by both members and non-members of HOPCOMS.

During our discussions with HOPCOMS staff, it was found that a team from HOPCOMS visits four markets in Bangalore and observe qualities of commodities and prices at which they are sold. They compile these prices manually, average out, and based on the demand and supply of those commodities; Procurement and Marketing division sets the purchase prices. These prices are usually about 5% higher than the price for the best quality produce at the markets observed. The purchase price thus determined is common for both procurement from farmers and market purchases. All the farmers met have agreed that they get higher prices, hence better deal at HOPCOMS, than other markets.

Once purchase price is fixed, they decide the selling price with approximately 33% mark-up, which is the maximum allowed as per the Society regulations. Since the beginning of 2015-16 the payment to farmers is being made through NEFT/RTGS directly to the account of farmers. During our discussions with farmers it was understood that the payment is being made within 1-3 days. While medium and large farmers found this process to be good, small and marginal farmers finds it difficult as they would not have working capital and look for instant cash which in turn can be used for purchasing chemicals/fertilisers and equipment. So, on-spot grading, acceptance and same day payment would ideal for the farmers.

The key competing organised retailers have collection centres at Taluk/Hobli level, where the collection agents directly go to farmers to procure from them. During our discussions with the purchase team of the retailers, they said that they negotiate prices with farmers based on APMC and other market prices and often fix a price far lower than the market prices. There are several factors which play into pricing of commodities at APMC markets, for a farmer as well as a buyer. These factors include market commission, transportation charges, loading/unloading charges and waiting time risk. Hence, farmers are usually willing to sell at a lower price at the farm gates or collection centres itself. National retail chains are also equipped to do inter-state purchases based on the regional supply /demands and derive lower price, which is lacked by HOPCOMS.

With respect to fruits and vegetables, competitor retailers often follow ‘footfall-driven’ approach where margins on fruits and vegetables are often kept low as a tactic to attract more customers to their stores, while the profits are recovered through margins made in other products they stock (Example: private label products). Due to their reach to the farmers at farm gates and no obligation to contribute to their welfare, they are able to negotiate purchase prices for a better deal than HOPCOMS, which eventually are comparable to the lowest market rates that farmers are paid. HOPCOMS finds it challenging to follow this approach where few F&V are sold at lower margins which are recovered in

other products due to the cap on mark-up at 33%, where they may find it difficult to increase prices on few fruits.

We have observed prices at the APMC Market, retail outlets mentioned, as well as an online store, bigbasket.com, for 3 weeks. Average of the price was taken and compared with APMC average price for the same duration. Price of a competitor is considered similar to HOPCOMS if it lies in between (HOPCOMS price - 5% of APMC price) and (HOPCOMS price + 5% of APMC price) and higher or lower is determined accordingly. Other than Namdhari's Fresh, which is positioned as a premium store, price of HOPCOMS was higher than other competitor retail outlets.

The buildings of the godown built are very old, with inadequate flooring, racks, grading equipment. Material handling is primarily manual, so there is need for automation in material handling such as usage of forklifts. Similarly, transportation vehicle bays and material transportation routes need to be planned for efficient material handling. The organisation lacks cold storage facilities though establishment of cold storage facilities is one of the organisation's objectives. Availability of cold storage coupled with planned purchases of produce such as apples/berries, potato and other produce would help in reducing the overall cost of purchase as the cost of produce will be significantly lesser during the harvesting season and also buying in bulk quantities offer economies of scale in the form of bulk discounts, transportation saving, etc. There was no evidence on planning of bulk purchases found. However the organisation has purchased apples from China at bulk quantity by utilising outsourced cold chain facility.

HOPCOMS operates a fruit processing unit to extract pulp of mango and grapes. They extract about 400-450 *Cans* of pulp of mango and grapes per annum during its peak season, almost in the equal proportion between grapes and mangoes. Each *Can* contains approximately 50 kilograms of the pulp. There is pulp production machinery and reconstitution unit where they mix other ingredients to the pulp. Once the pulp is manufactured in bulk, it is stored in the cold storage, which is being outsourced. They have in-house cold storage facility which is not functioning for several years now. Every day or on alternate days, they take a can of the pulp out to distribute to the selected outlets where they are sold. Juice manufactured from the pulp is sold through dispensers provided with refrigeration, and their shelf life is 2 days.

From 2006-07 to 2015-16, value of sales of fruit juice has increased by around 2.65 times, and its contribution to the overall sales turnover has increased from 0.51% to 0.64% in the same duration, as shown in Exhibit 20. However, from the quantity perspective, the staff mentioned that it has been mostly stable and no growth has been observed. The shelf life of 48 hours is a constraint for the business, considering that there are substitutes available in tetra packs in the market which has shelf life of several months. The technology to process the juice which has longer shelf would help to scale up the business. Also processing of other produce such as tomato paste/puree, ginger, garlic would also help the farmers to sell their produce during price crash and produce is often wasted and pushing processed produce through institutions may also be explored, which can offer savings and at the same time reduce wastage. Considering that wide assortment of F&V is already being sourced from HOPCOMS, vegetable juices/other fruit juices/ blended juices, cold pressed juice manufacturing /outsourcing and distribution needs to be explored.

### **Sales and distribution**

HOPCOMS has multiple sales channels to sell various fruits and vegetables. It supplies fruits and vegetables to its consumers through 252 retail outlets, including mobile sales vans (as of April 2015).

It supplies F&V for marriages and social functions at the spot with free transportation, offers bulk supply of fruits and vegetables to Institutions, Organizations, Hostels, Hospitals, and factories etc and sells fresh Grape, Orange, Mango fruits drinks as well. It also conducts seasonal fruits Melas, Fairs and festivals of Grapes, Mango, and other fruits.

HOPCOMS earns preponderant share of revenue from selling fruits and vegetables, which is about 85%, the other sources being sale of fertilizers/PP chemicals, fruit juice and ice creams. Quantity of sales of commodities for the year 2015-16 is 20.27 kilo tonnes. While the overall gross profit has increased from Rs. 9.76 crore in 2006-07 to Rs.22.91 crore in 2014-15 and sales turnover has almost doubled from Rs. 46 crores to Rs. 91 crores, it is observed that the quantity of sales in the same duration has reduced by 20.7%.

IMaCS has estimated the market size of F&V in the catchment area (5 Districts) at Rs. 5970 crore. And the share of HOPCOMS sales is about 1.47% of the total demand for fruits and vegetables in the market. While consumption of market is more of vegetables, HOPCOMS sells more of fruits than vegetables. So there is a need for increasing the sale of vegetables. About 85% of the sales happen through its retail outlets, while bulk supply comprises of 13% - 14%, and the remaining 1% is through supply for events. All the retail outlets and mobile vans are divided into categories from 'A' to 'H' based on daily sales.

During the review period for a random month, sales figures of the outlets across the categories were analysed. It was observed that 'C' category has highest number of sales outlets comprising 28.5% of the total sales outlets. Number of sales outlets have increased for 'A' and 'C' category while it is reduced for rest of the categories. However, the improvement of performance of the outlets or lack of it cannot be concluded from this data, since the criteria was fixed more than a decade ago. This hasn't been revised based on change in levels of pricing/inflation. Overall quantity sold has reduced over the years, so this has to be revised based on the current prices of the produce and the sales outlet level contribution to the profitability to the organisation. Based on the data available, our estimates show that currently, a sales outlet is profitable if it makes sales exceeding around Rs. 6,000 per day. Breakeven point of sales has been estimated based on the financial data, wherein fixed costs such as salary and other administrative costs have been apportioned to the retail sales units.

Key reasons for non performance of the stores which were brought out during primary survey and discussions are

- Location issues such as no parking space, high traffic routes, inconspicuous store
- Competition from nearby stores
- Lack of salesmanship
- Highly price sensitive consumer segments

During the visits for primary research of outlets, it was observed that an average area of the outlets is around 150 sft. Layout of most of the outlets is designed and built to suit over-the-counter transactions rather than facilitating customers to walk in and choose the commodities. However, modifications are being done to be more customer centric by helping them choose the commodities. Most of the sales outlets have one salesperson, but one or more assistants are present at the sales outlets clocking an average sales of more than Rs.10,000 per day. Cold storage facilities for F&V are unavailable at all the sales outlets, except for a walk-in cooler at an outlet in Bangalore Club. Timings of the sales outlets are from 9.30am to 1:30pm and 4:30pm to 8:30pm.

While 90% of the sales outlets visited in Bengaluru stocked both fruits and vegetables, 10% of them had only fruits, which they say was due to the customer buying behaviour in that area. The sales outlets outside Bengaluru, which includes Channapatna, Dommasandra and Kanakapura, were also selling only fruits as vegetables were available locally at cheaper prices. In addition to F&V around 80% of the outlets stocked other products such as pickles, water bottles, dry fruits, juices, ice-creams but in varying quantity. One sales outlet was found to keep non-HOPCOMS products like chips, milkshakes and chocolates, to attract kids to buy them. As for display of arrangement of these products, most of the sales outlets have rusted, unclean shelves, poor lighting inside the shop, very less assortment and some had shelved dried and damaged fruits and vegetables. Lacking modernisation there were ingenious arrangements found in some sales outlets such as inclined display crates, wet cloth to keep produce, inverted crate platform for display etc.

Only around 30% of the sales outlets displayed prices on the board, but most of the salesmen said they follow the prices as per the list. It was found during random cases of mystery shopping in several outlets the pricing was not followed as per the list.

Several customers were neither aware of the existence of price list nor availability of price list by SMS. They informed explicitly that pricing is not transparent and that salesmen might have charged them higher. Further bill is not mandatorily provided and even when the bill is provided the name of the commodities is not printed with manual pricing inputs. Though there is a system of online billing where the unit prices of the commodities are updated centrally, the same is not being followed. It was observed that sometimes when the commodities are about to get damaged, some of them sell at discounted prices to reduce losses.

To compensate for the loss due to driage and wastage of fruits and vegetables, HOPCOMS gives wastage allowance, by which a salesperson receives 3% on the amount of fruits and vegetables sold. On discussion with the salespersons on whether it would suffice, most of them highlighted that the driage and wastage of all commodities is usually higher, about 5% and sometimes more. During our discussions with private retailers the driage and wastage at sales outlet level is understood to be in the range of 10%. However considering the produce in case of HOPCOMS is graded by the salesman, 5% of the wastage may be assumed as relevant. Since there is higher actual wastage than permissible, 3% will also impact the behaviour of the sales person

- To buy conservatively, thus resulting in possible stock outs, which in turn would lead towards potential sales loss and lesser visible inventory in the sales outlets,
- Hard selling low grade produce which would result in customer *cognitive dissonance*.

Effectively these factors may impact the loyalty of the consumer towards HOPCOMS sales outlet. However providing higher allowance towards wastage would impact the profitability of the organisation.

In addition to the above factors, the amount of work and hours on work spent by sales persons has to be noted. During our discussion with the sales persons it was found out that several of the sales persons start for work at as early as 4:00AM and often work till 10:00PM.

Salesmen has the following roles:

- Grading, documentation related to purchasing, loading at the central godown, settlement of cash, etc.

- At the retail outlet they have to unload arrange, interact with customers, billing, handle cash, etc.

So in addition to the physical work of loading and unloading, salesmen have to manage accounts and customer relationship amidst the sales risk. Considering that godowns open at 5:00AM it is imperative for salesman to reach the godown early and compete with salesmen of other outlets for the best quality F&V. And they will have to open till as late as 9-10PM, especially the profitable sales outlets as customers (working population) usually shop late in the evening. So salesmen, especially of the profitable stores, often work for 12 to 15 hours. As all the salesmen have expressed that the remuneration is not proportional to the risk and work hours involved. Also several salesmen complained that the management often treats shortage in collection which is mostly due to wastage as misuse and wrong-doing which demoralises the salesman's spirit. Older salesmen also disinclined to work in sales which they term as treacherous. So there is a need for positioning sales persons as the heart of the organisation and make sure their focus remain Customer Relationship Management.

Apart from driage and wastage allowance of 3%, sales incentives were not provided to salesman in spite of higher risks. The HOPCOMS management has rolled out a new incentive scheme on April 5, 2016 based on exceeding the set targets for various sales outlets.

Main strength for the current sales infrastructure is that most of them are located in commercially advantageous areas to provide accessibility of fruits and vegetables to consumers, such as residential areas, around parks, next to the milk dairy, high streets, clubs, hospitals. They pay a nominal rent to BBMP.

Since many sales outlets were constructed more than a decade back, they look old, require renovation and painting, interiors development, facade to match up to an average modern retail sales outlet. Many of the prime locations where sales outlets are situated have seen a declining trend in sales due to competitor retail units opening up nearby, local carts selling fruits and vegetables at the doorstep, and also increase in number of local shops.

It is observed that 54% of the customers were above 45 years of age and that it consisted of retired men and homemakers. Regarding the reasons for the customers to buy at HOPCOMS, 70% of them said that it was because it was conveniently located, 54% perceived that fruits and vegetables were of good quality. However the customers also told that often fresh and good quality produce is not available in the evening and a significant 42% of the customers expressed that the salespersons have maintained good customer relationship. When it comes to the selling price of fruits and vegetables, only 20% of the customers felt that it was reasonably priced.

It reveals that majority of the customers feel that HOPCOMS fare better in service and quality of the commodities, while it is worse compared to prices and cleanliness of the sales outlets. Packaging seemed irrelevant for most of them, while display of fruits and vegetables was considered almost similar to the supermarket, but some expressed inconvenience to walk inside the sales outlet to pick the products they wanted to buy.

Other problems they highlighted were lack of card payment facility, sightings of dried and rotten products were stocked along with the fresh ones, lack of cleanliness, no display of price list, inconvenient sales outlet timings since they sometimes want to buy before 9am and or after 9pm, and lack of variety in the stock.

Our assessment based on the survey and discussions with the sales staff is that currently home makers and the retired persons are the key consumer segments of HOPCOMS. However with the increasing literacy levels and higher aspirations trend of working couples is increasing and it is likely to sustain and grow in the future. Thus there is a need to target for young earning couples. Some of the salient features of this consumer segment are,

- Time constrained: They look for purchasing beyond working hours. i.e. early in the morning and late in the evening and even 24/7
- Reliable quality produce is essential, so package and brand conscious
- Solution oriented: Instead of visiting multiple stores for products they prefer everything under one roof
- Processed foods: Preference for ready to cook, ready to eat foods
- Highly mobile and internet savvy: Access multiple devices laptop, tabs, mobiles would feel convenient ordering online
- Uses card/online payment more than cash

While some of the strengths of HOPCOMS such as those mentioned below have to be leveraged further to boost sales, there is a need to align the strategies of HOPCOMS towards engaging the this new consumer.

- Strong procurement
- High penetration of the sales outlets
- Sales outlets located in convenient/prime locations of the city
- Salesmanship and customer relationship
- Low /reasonable rentals of the outlets

HOPCOMS utilises vehicles to transport commodities from Procurement centres to the central godown, and from central godown to all the retail outlets. Their current average quantity handled per day is about 65 Tonnes. It has 25 own vehicles, out of which 18 are used for transporting commodities, while the rest are used for mobile sales. Due to the Society facing inadequacy in the number of vehicles required for transport, they have 52 outsourced vehicles. To transport commodities, routes are fixed, as per which each vehicle serves the requirements of 3 to 5 sales outlets based on the locality.

Total capacity of in-house vehicles is around 50 tonnes. Quantity of commodities procured from the procurement centres varies as per season, indents and availability in the catchment area surrounding the centre. Due to this, capacities of the vehicles are not utilized fully. Each in-house vehicle runs only about 30 kilometres per day. However, procured quantities are combined from procurement centres which are nearby and transported. There is no formal system to optimise payload or route planning done to efficiently manage the vehicles and minimize loss of time and resources for the society. Transportation of commodities from central godown to the retail outlets takes place between 8am to 10am, which is a peak time for traffic. There is no cold chain transport available.

There are currently 17 mobile sales vans which have been classified from grade 'A' to 'H', based on their sales, similar to the sales outlets. They operate from 6:30am to 1:30pm. A driver and a salesman are involved in mobile sales, driver in addition to the driving activity, helps salesman in loading/unloading, organising the F&V and also home delivering the needy customers. Each of these vans stops at two or more residential catchments for the fixed interval of time on regular basis offering consumers the convenience of shopping next to the residences. When the performance for a

mobile van is observed to be low, they change its location and also experiment with the assortment of commodities made available under them. Incentive scheme is similar to the one applied for the sales outlets. As of May 2016, mobile vans are profitable, exceeded sales targets except 5 vans.

Based on the discussion with staff and farmers at chemical and fertilizer units in Sarjapur and Channapatna, it was revealed that farmers buy the products because they find them reasonably priced, available at a convenient location and with good service quality.

### **Administration**

HOPCOMS is being run under the aegis of the State Department of Horticulture, managed by a Board consisting of 18 members. Among them, 14 members are elected from among the producers, and 4 are government representatives.

At present HOPCOMS has 846 staff members having different designations such as Managing Director, General Manager, Executives, Assistant Executives, Sales Assistants, Store Keeper, Superintendent, Stenographers, Receptionists, etc. Gross salary per month paid to the staff is Rs. 1.28 crore.

Salary structure followed currently is based on 5<sup>th</sup> Pay Commission of GoK, which came into effect for the state government employees in August 2008, which is almost 8 year old structure. Discussions with salespersons including assistants who form the significant proportion of the workforce revealed that they are unhappy with the salary, which is around Rs.10,000 to Rs.15,000 per month, despite working for more than 15-20 years at HOPCOMS. They also incur expenses due to driages and wastages of commodities, over and above the quantity covered through sales incentives. There is a demand from the staff to implement 6<sup>th</sup> Pay Commission. This would increase gross salary paid to staff by almost Rs. 8.16 crore per annum.

Job role description for each of the post in all the cadres is not defined, which makes career progression difficult to aim for by the employees. Some employees mentioned that they have to perform multiple job roles including adhoc works. Promotions are done on an ad-hoc basis, and sometimes there is a variation in the cadres when the employees are transferred to different departments. Staff members expressed that there would be higher motivation to work if the experience, qualification and job performance is assessed to promote them, thereby giving a career progression map. Based on the discussion, it also came to light that about 70% of the staff members are expected to retire by 2020. There has to be plan of Human resources in the medium and long term has to be made based on the vision of the organisation.

Future plans of HOPCOMS include upgradation of existing facilities including sales outlets, godowns, processing unit and building new infrastructure with respect to new sales units, automation etc which are covered in the report.

### **Recommendations**

After analysing the quantity of procurement/sales by HOPCOMS between 2006-07 and 2014-15, it can be seen that there has been a 21.2 percent decline in the annual quantity of procurement during the period. At this rate a drop of over 12 percent may be expected further by 2020. The declining quantity of procurement affects the competitiveness of the organisation with increasing stress on the margins. So it is essential for the organisation to build competitiveness through higher sales- lower pricing-expanding the organisation. This would also help HOPCOMS to broaden their reach and include more farmers into their fold. HOPCOMS has relied on brick and mortar retail sales to improve the sales.

While externally the consumption through Institutions, Online retail and Cash and Carry formats is witnessing the increasing trend which HOPCOMS needs to look at. Recommendations are in the direction of improving the productivity at operational level and sales across multiple channels and markets.

**A. Short term recommendations:** These are implementable within a year without significant policy/budgetary interventions. This would include tactical improvements. The short term recommendations are as follows.

**I. Improve sales of the organisation through short term measures**

The immediate priority for the organisation is to build the sales volume. Though helping farmers is the prime objective of HOPCOMS. Increasing the sales is the way this can be achieved sustainably. The sales function is the heart of the HOPCOMS. The recommendations to boost sales in the short term are mentioned below:

- a. **Delinking Procurement and Marketing:** Despite of the importance of sales function, the managing of sales and procurement has been clubbed. General Manager (GM) for Procurement & Marketing is looking after both the functions. The roles are also having conflicts, so it is essential to separate the function accordingly as GM-Procurement and GM-Marketing roles may be created with both of them reporting to GM (Admin)/MD. And Entire functions of sales including Route supervisors/ salesmen/sales assistants can report to GM-Marketing.
- b. **Providing wastage allowance, reward and recognition for sales staff:** To push the sales productivity, it is essential to offer incentives, rewards and recognition in the organisation. Till recently 3 percent allowance was provided towards wastage and driage, which is not adequate. So the wastage incentive may be revised upward by 1-2 percent. Similarly best salesmen/store staff may be recognised periodically (Monthly/quarterly) based on the sales performance/ sales improvement/ housekeeping /visual display etc. During 2016-17 incentive system is introduced where, revenue sharing is done for clocking the sales beyond the target set by each store. The additional sales required are in terms of absolute value. The same may be changed as a percentage and incentives may be provided. This would help covering all the stores by setting up the improvement targets proportion to the current capacity.
- c. **Improve service levels with the below mentioned changes:**
  - Revise Store Timings from 7AM to 10PM
  - Introduce card payment system
  - Pricing to be displayed mandatorily
  - Online billing system to be implemented comprehensively
  - Dress code for salesmen may be made compulsory
  - Regular Housekeeping to be introduced
  - Non-performing sales outlet may be used as storage godowns or franchised for boosting sales
- d. **Multi channel Sales: online/institutional:** Store expansion while on the medium and long term may be carried with assistance from Government; expansion may also be carried on by deploying more mobile sales vans which can be hired initially. Also franchisee model may be followed to open retail stores, where deposits may be collected from the seller and rights to open franchise store with branding assistance from HOPCOMS. Tie-ups with online

retailers/aggregators such as Grofers, Amazon now, Zopnow has to be pursued. Similarly expansion of institutional sales with buyers including reputed hotels, caterers, manufacturing and service companies have to be pursued.

## **II. Decentralise Procurement of F&V:**

The share of procurement through procurement centres is relatively lesser which is estimated at less than 40 percent and the procurement at central godown is estimated at over 60 percent of the total farmer purchases. There is a need for decentralisation in procurement to help marginal farmers, and to scale up procurement. While in the medium term the procurement from farm gates as followed by modern retailers may be followed, in the short term, minimum procurement targets based on the catchment production and HOPCOMS requirements across the varieties may be set up.

## **III. Introduce Crop Planning and procurement planning**

The information on average daily consumption quantity estimates is available with HOPCOMS. However the advance planning aspect is missing. There is a scope for planning the crops with the member farmers. Federations such as Safal employ crop planning with farmer members based on the demand. This has been followed by developed countries effectively. Eg. in Israel the Crop planning is being done, where 80 percent of the produce purchase for the members is guaranteed. Similar model with 50-80% buy back guarantee may be employed with member farmers towards crop planning based on the daily minimum requirements of HOPCOMS.

Similarly procurement of produce such as apples/berries and other F&V during the season in bulk quantities would help HOPCOMS in procuring at lower prices. Cold storage facilities may be outsourced in the short term. Planning of procurement and storage may be done keeping demand and pricing throughout the year.

## **IV. Follow Corporate Planning for medium and long term performance**

Despite declining quantity of sales/ procurement since several years, there was no evidence found on the vision being formulated for the growth and the plan of action and is highly dependent on incumbent personnel at the helm in steering towards growth path. There is need for setting up of a vision over short term (6 months-2 years), Medium term (3-4 years), and long term (5 years). Blue print of plan may be decided on actions to be executed to achieve the vision with various scenarios.

### **B. Medium and long term recommendations are as follows:**

- Upgrade the existing sales outlets
- Align procurement to published market prices
- Sales and procurement through HOPCOMS of other districts/Co-operative grid
- Communication HOPCOMS to the younger generation:

During the primary survey we found 66 percent of the total sample to be homemakers and retired personnel. A rebranding exercise may be taken with the following indicative initiatives.

- Having a young brand ambassador/faces in HOPCOMS displays

- Social media connect
- Sub branded packaged product
- Recipes of traditional and local vegetables for time constrained consumers
- Communicating health benefits of F&V, especially the local produce
- Communicating the farmers' ownership and farmer benefits.

Considering the wide network of retail outlets, they can be leveraged for communication including, glow signs, posters, booklets, leaflets, etc.

- Procurement to shift from central godown to farm gate
- Supply to Government Schemes such as mid-day meal scheme and to other institutions
- Establishing of Cold chain facilities
- Setting up of new larger retail formats catering to daily needs of consumer
- Expand the foot print of processed foods through improved packaging and new products such as vegetable juices and processed/preserved foods in purees, pulp, concentrate, blend, frozen vegetable, Preserved Gherkins & fresh fruits & vegetables.
- To Focus on exports of Fruits and Vegetables

### **C. Recommendations requiring change in policy**

These are those which will need a lot of time, resources and procedure to implement. In addition to strategic changes, the need for continuation of existence of HOPCOMS has been detailed.

#### **I. Need for continuation of HOPCOMS**

During the study the following were the observations

- Farmers are being paid higher than the market prices and during the price crash this is more crucial.
- Though the coverage of farmers has reduced over the years, still it is an alternative for the market especially in places where market is not efficient.
- The organisation is self sustaining for operations management, however timely interventions in upgradations are required to ensure higher productivity
- Increasing scale may help HOPCOMS to serve more farmers
- HOPCOMS among a segment of consumers is still a trusted brand for fresh F&V
- The presence of over 250 stores at key locations will provide consumers convenience for fresh produce.

So HOPCOMS may continue operations. However there is a need for a bigger vision, larger operations, and more farmer inclusiveness beyond being a convenience shop for customers. Since KMF and HOPCOMS offer complementary products, tie-ups may also be explored so that together they may fulfil daily needs to the consumer. Leveraging retail spaces of each other, merging opportunities with other co-operatives which have synergies with HOPCOMS business as KMF may also be explored.

#### **II. Wholesale market operations**

With procurement being the key metric for helping farmers, HOPCOMS may look at building scale in procurement. On long term HOPCOMS may become a trading platform for the farmers across different regions of the catchment and beyond with its own market place.

### **III. Broad basing the farmers' involvement through a Tiered approach to Governance**

The governance model of HOPCOMS is highly centralised. The elections held at HOPCOMS for decision making is highly centralised. However the role of HOPCOMS in spirit is to assist farmers across the catchment area. By making the governance structure in to multiple tiers, where in at the lowest tier will be a cooperative body at Taluk/Hobli level and at tier 2, the electives from Tier 1 will choose a governing body. This will enable comprehensiveness in terms of representation from the entire catchment area. With increased procurement this may be subsequently expanded to village level.