

Madagascar Retail Solutions Pvt. Ltd

Business Plan

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Executive Summary

Idea: *To provide end to end Retail solution for the Unorganized Sector*

Situation : India currently has more than 14 million Kirana stores (Mom & Pop stores) which accounts for about 85-90% of the retail sales. Currently they trade in around 4200 SKUs dealing with 300 local distributors operating at a gross margin of close 8-10%.

Challenges - However their ordering, supply chain, inventory management and operations is unorganized, impacting several key areas like Availability, and shrinkage. It is estimated that at any given point of time kirana stores have availability issues upto 40% and have shrinkage of more than 12%. This not only results in lost sales, but also has impact on the profitability of the store. To resolve the above issues, kirana stores need warehouses to store inventory, technology and processes to manage them and substantial capital to sustain them; this is something that they cannot afford and have no knowledge about.

One of the other issues faced by kirana stores are the very low credit period and low margins extended to them by distributors resulting in very low profitability. Currently, 90% of the vendors offer a 7 day credit periods with others insisting on a delivery on cash basis. This stops the capital growth due to which a kirana store cannot grow their scale of business, and makes the entire unorganized retail industry very unattractive.

Another point worth considering is that even though more than 90% of the Indian population still shops with the kirana store, very less data is currently available on the sales trends of these stores, as data management is very poor in the unorganized sector. This results in the brands having to spend a lot of money on either primary research or secondary research reports to understand customer trends and product performances.

Solution: Our objective is to provide an end to end retail solution with a focus on Supply Chain, logistics and technology solutions to the kirana stores in the categories of Staples, FMCG Food, FMCG Non-Food and General Merchandise products. Our business model is to setup a large distribution centre and stock a range of products like an organized retailer and indirectly extending the facility of warehousing to kirana stores. We also intend to deal with the brands directly to

accommodate our scale of operations to service at least 1000 Kirana stores. Retailers can order all their requirements from us, at a higher margin and longer credit terms. Additionally we would also be incentivizing the stores to use our ordering and forecasting systems to help in continuous replenishment, accurate order forecasting and inventory management. We would then use this data of buying patterns across stores to provide the brands with an insight into the customer buying trends which will help them gauge their performance.

Financial Plan: Below is an overview of our expected financial performance over the next five years.

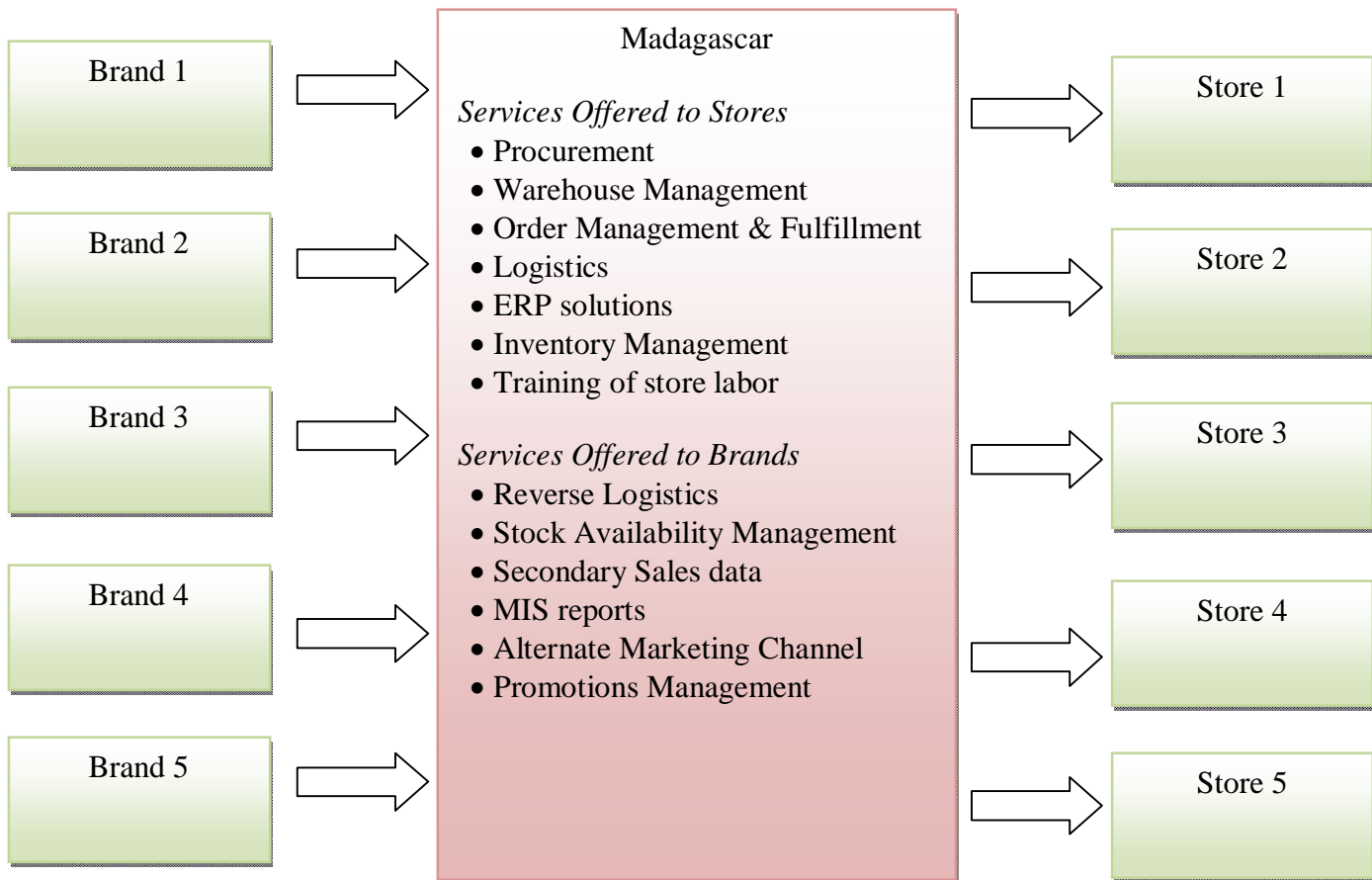
To achieve these projections, we need to raise INR 26.6 crores in financing; this is being planned to be done in two phases over a period of 4 quarters.

	FY 1	FY 2	FY 3	FY 4	FY 5
Revenues	₹ 2,577,700.00	₹ 5,324,820.00	₹ 6,490,950.00	₹ 7,462,520.00	₹ 8,575,840.00
Direct Expenses	₹ 2,435,700.00	₹ 5,031,410.00	₹ 6,132,230.00	₹ 7,047,240.00	₹ 8,095,370.00
Gross Profit	₹ 142,000.00	₹ 293,410.00	₹ 358,720.00	₹ 415,280.00	₹ 480,470.00
Gross Profit (%)	5.5%	5.5%	5.5%	5.6%	5.6%
Other Expenses	₹ 117,160.00	₹ 131,773.20	₹ 147,576.61	₹ 158,562.74	₹ 170,423.76
EBITDA	₹ 24,840.00	₹ 161,636.80	₹ 211,143.39	₹ 256,717.26	₹ 310,046.24
Depreciation	₹ 49,600.00	₹ 51,200.00	₹ 51,200.00	₹ 51,200.00	₹ 50,300.00
Amortization	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
Preliminary Exp Written off	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
Interest Expense	₹ 34,200.00	₹ 35,200.00	₹ 35,200.00	₹ 35,300.00	₹ 35,300.00
Income Tax Expense	₹ 0.00	₹ 4,900.00	₹ 37,400.00	₹ 51,100.00	₹ 67,300.00
Net Income	₹ -58,960.00	₹ 70,336.80	₹ 87,343.39	₹ 119,117.26	₹ 157,146.24

This can be either achieved by a 100% debt which will be repaid at the end of the 5th at the existing market premium return rate.

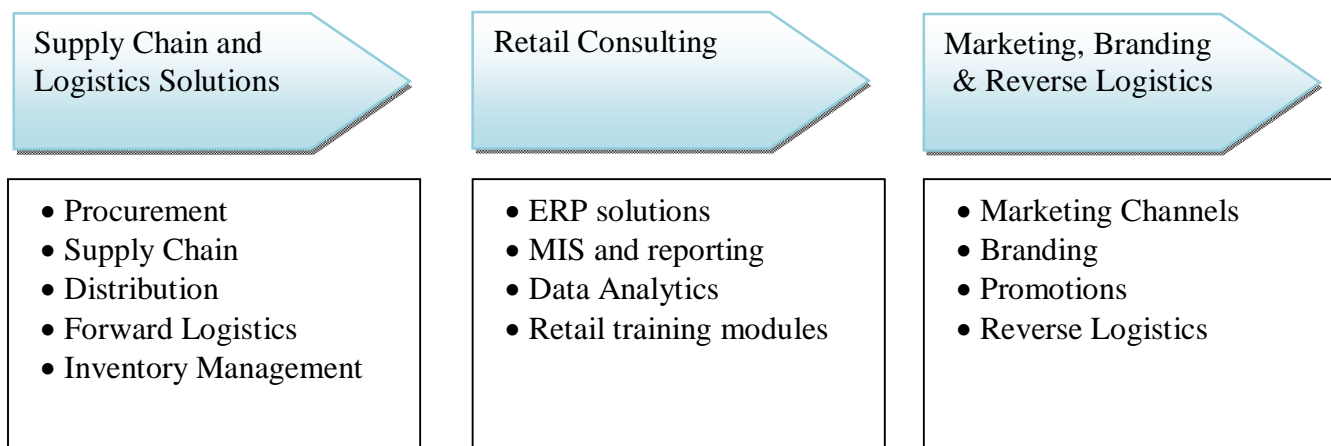
Additionally we are also open to an equity investment of INR 25 crores for a 25% share of the company, which would make the investor an equal partner with the rest of the team.

Company Overview: Madagascar Retail Solutions provides is mainly focused on the unorganized retail sector, and is planning to setup its business in Bangalore. The below diagram explains the basic business model and the services offered by Madagascar to its customers.



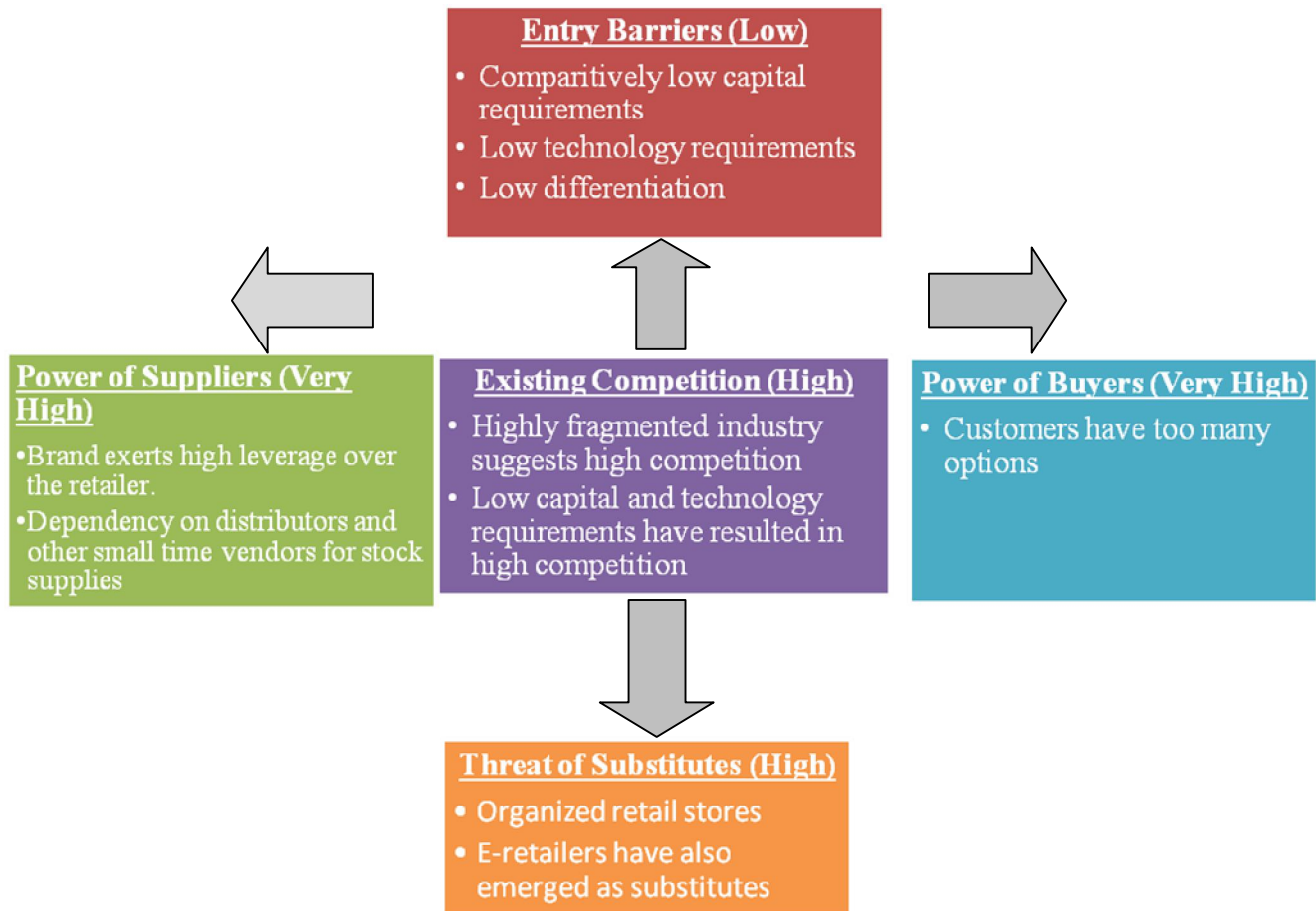
Madagascar Retail Solutions has based its business model over the various revenue streams and the Management structure has been aligned to match this business model.

Based on the multiple revenue streams, Madagascar has been divided into three verticals as shown in the diagram below:



Industry Overview:

We have analyzed the unorganized retail industry which is our target market using Porter's five forces framework,



Porter's Five Forces: Kirana Stores

Low Barriers to Entry:

The current model does not require a heavy investment from the Kirana shop's point of view. They are usually located in residential areas with a fairly moderate real estate cost. The shops generally stock goods only to the amount they are able to keep in circulation. Most of these stores are family owned and currently operate without much of technology integration. There are no major efforts towards marketing and rely on the efforts of the distributor to essentially push the product through the shelf. This leaves them with a model which is fairly simple to replicate - obvious from the fact that one can find a virtually 'undifferentiated' Kirana store at every nook and corner.

Existing Competition:

Undoubtedly, the competition is huge. The existing players have developed strong personal ties with the customers and offer home delivery and credit options that help them retain their customers. The network is based more or less on the region as one would not want to travel to another shop if he can get the same goods in the neighborhood. However, since there the product market is pretty much a commodity one, there is little incentive for the customer from not-switching to an option that offers a lower price (this has in some way also helped the organized retail chains to mark up a phenomenal growth). Since there is very little intellectual property involved as well, (QOS) quality of service essentially depends on the local training. A low capital and technology requirement further aid anyone to pose as a potential competition. Overall a very highly fragmented industry leading to practically universal competition

Threat of substitutes:

With the advent of 'branded' retail chains, loyal customers are likely to switch with an expectation of lower prices and better customer service. The organized retailer also offers brand loyalty points, tie-ups with other stores, a better range and variety and comes with a great 'trust' factor tagged along. On the other side of the spectrum we also have the e-tailers gaining market share. With internet penetration and greater convenience, one can place an order without actually having to keep cash-in-hand. Also, it is supported by analytics that enables one to keep a track of the spending and offers a more holistic solution. Also the online platform offers a comparative and informative search and can, if required, charge a slight premium for its offerings. We do see some shift already with people preferring organized retails over kirana shops, especially in the metro cities. In all, the competitive advantage of the kirana stores is very weak and its territory can easily be captured.

Power of buyers

With an overcrowded market and a plethora of options, the customer in this market is practically the king. He can command a competitive price, credit facility option, home delivery service and a host of add-ons. The consumer loyalty towards the products and the store is something that cannot be assumed. With the household buying power from the kiranas generally with the ladies, which in most of the Indian context, happen to be housewives, there is no pressure for time-bound search which further strains the margins that the organized retailers can command. A non-working homemaker may in fact be okay to shop across 3 Kirana shops and pick the one with the lowest price even if that could

demand a few hours of diligence. Hence it would be fair to say that Kirana's with no USP are almost always directing all their efforts to woo their customers.

Power of Suppliers

Brands often exert a very high pressure on the retailer and force the sell. There is a huge amount of dependency and one time small time vendors for stock supplies. This puts the retailer on a weaker side and is incompetent to tackle problems such as stock-outs efficiently at his level. Also the suppliers generally pamper the high volume stores and may neglect/delay supplies to the local kirana stores. As the kirana stores don't have much of an option, they do stick around and the entire model thereafter is affected. Many suppliers also have a differential rate based on volume commitments that the kirana owners may not be able to honor. Further, lack of significant credit facilities from the retailers limits the volume that they can purchase and hence triggers a viscous cycle.

To sum, the industry that the kirana shops are playing in is extremely fragmented and unattractive. To establish a competitive edge, the kirana shops would need to start bringing our differentiating factors and a serious value add, both to the consumers and their own operations. With the rapid growth in the use of technology, Kirana stores stuck in the Stone Age may find it increasingly difficult to survive and make the cut.

Also to assess our opportunities within the target market, we have referred to the **BMI India Retail report Q4**, which has provided us with a SWOT analysis of the Grocery Retail Industry in India

Strengths

- India's mass grocery retail sector is developing, and there is scope for considerable expansion across all formats and across all regions of the country.
- New and existing retailers have announced a series of expansion plans, with companies targeting growth outside their established region. This is partly in preparation for the now-inevitable arrival of foreign retailers, which will heighten competition dramatically.
- India has a very large domestic market, and rising domestic demand is a major driver of economic growth.

Weaknesses

- Widespread poverty and the country's size and regional diversity act as impediments to the development of the mass grocery retail sector; sector growth to date has been confined to major urban areas, where salaries are higher and infrastructure is better developed.

- Distribution remains a major challenge to retail expansion, with retailers often having to invest heavily in the supply chain before opening new stores.
- India's infrastructure is notoriously inadequate. A 500km road journey can take as much as 24 hours owing to poor road conditions, congestion and tolls.
- Foreign investment in the retail sector remains subject to government restrictions; liberalization has allowed for market entry but only via still-restrictive joint ventures with local firms.

Opportunities

- Investment in the discount retail sector provides a means of targeting lower-income consumers outside of major urban centers who will become a key market once the sector begins to mature.
- Likewise, investment in the convenience sector will enable retailers to capitalize on the increasingly busy lifestyles of consumers living in urban areas.
- For multinational corporations, the hypermarket sector is a good opportunity, with few hypermarkets present owing to many local operators being unable to afford the higher set-up costs of such outlets.
- In the long term, well beyond the current forecast period, rural retailing represents an opportunity for financially powerful firms that can afford to offer low prices.
- India's emerging middle class will continue to drive demand for new goods and services.

Threats

- Many consumers remain wary of modern retail owing to its perceived detrimental impact on the role of traditional retail in society.
- Low prices remain integral to luring shoppers away from traditional retail formats; elevated operating costs could undermine retailers' efforts to offer these.
- The government's move to backtrack on its decision to allow foreign direct investment in India's multi-brand retail sector has sent out a negative message to foreign investors about the lack of stability in the country's policymaking process and could potentially deter foreign investments in the sector.

Business Opportunities assessed from the above analysis: From the above analysis (Porter's five forces and SWOT) it is clear that there is a noticeable business potential in targeting the unorganized retail sector.

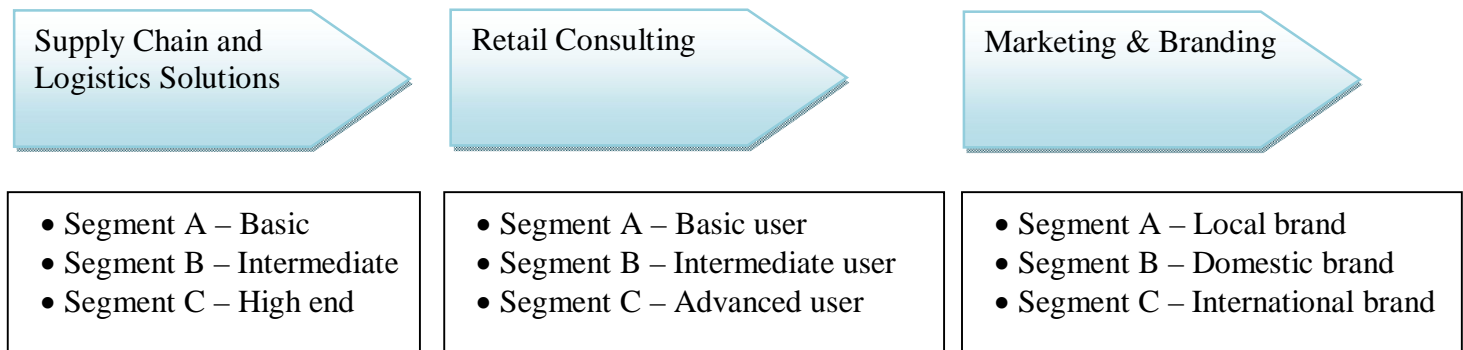
- A regular kirana store deals with as many as 150 vendors and distributors who provide margins as low as 5-7% and provide a credit period of 7 days or less. This is a clear

opportunity as anyone who can provide a better credit term and higher margin creates immediate differentiation.

- As stated above, many consumers still remain wary of the modern retailers, as they perceive it to have a detrimental effect on traditional businesses; however they are also faced with a problem of high availability issues. According to a retail report a normal Kirana store has availability issues on 40% of its products. A business model that can ensure better availability will not only mean higher sales for the store but also better market reach for the brands, so this is a great business opportunity.
- Currently the kirana stores have a disadvantage when compared to the organized retail, that the scale of business does not merit a warehouse, which is also believed to be the root cause of many inventory issues, this creates a very good business opportunity for anyone who can design a supply chain model to target this segment.
- Currently the data reporting provided to brands on its product performance is virtually non-existent or very expensive and time consuming. This is a tremendous business opportunity.
- The proposed business model also provides an alternate marketing channel for brands to promote themselves to a larger audience. According to an independent survey, at least 15% of the brand promotions do not reach the end customer as the local stores do not follow them, which not only causes lost sales, but also causes consumers to switch brands. This can be tackled through our business model.
- As FDI is yet to be approved, a business opportunity exists before MNCs move in to create a supply chain which can strengthen local stores.
- As stated in the SWOT analysis, there is a huge domestic demand which is constantly rising, this is not only true for the retailer but also for the brand especially in the food sector, which provides a great opportunity for collaborative business.
- Also as most of the customers are low-middle class people, any increase in the local store margin can be passed on to the end customer which would further strengthen this industry.
- A step towards strengthening unorganized retail automatically opens up the rural retail market which is perhaps the biggest market currently in India.

- Increased urbanization has also meant rise in demand for convenience stores, which is a business model most similar to the local stores. This provides a tremendous business opportunity.

Market Overview: Based on the revenue streams the target market in which Madagascar operates can be divided into three categories:



Supply Chain and Logistics Solutions Market:

As per the **BMI India Retail report Q4 2012** “Indian retail is dominated by an estimated 15mn independent retailers, consisting of the local kirana shops, owner-manned general stores, chemists, footwear shops, apparel shops, paan and beedi (small corner shops) and handcart and pavement vendors, which together make up the ‘unorganized’ market. BMI estimates that this fragmented offering still accounts for about 95% of the country’s grocery retail sales.

‘As has been the case for several years, Indian consumers continue to urbanize, have more money to spend on non-food purchases, and have more exposure to brands. The result is a powerful, more discerning consumer class. India’s population of nearly 1.2bn – forecast eventually to overtake China’s – also is an attractive target.’

In the 2012 GRDI, India slipped one place to fifth, but Kearney stated that the country ‘remains a high potential market with accelerated retail growth of 15 to 20 percent expected over the next five years’. With organized retail penetration remaining low, at an estimated 5-6%, the report pointed out that there was room for growth.

India’s MGR sector is dominated by small-scale traditional retail outlets. BMI estimates that this fragmented offering still accounts for around 91% of the country’s grocery retail sales. However, this is changing fast as multinationals begin to seek opportunities to enter India and as local organized players accelerate their own expansion and business-activity efforts in preparation for greater competition. The country’s economic development has allowed for the further development of MGR, as increasingly wealthy

consumers in major towns and cities turn to modern formats in search of the convenience and quality that they now desire and can increasingly afford.

Inefficient supply-chain management is viewed as one of the biggest problems facing the Indian MGR industry today; less problematic for the broader retail industry, supply chain problems have been prevalent in the grocery retail industry, where the timely distribution of perishable items is vital. Retailers have pointed the finger of blame at poor road infrastructure and complex federal and state tax laws which make cross-state transportation difficult. India's transport networks certainly need investment, although rural infrastructure and national highways have been identified, along with power, as the main beneficiaries of government spending. As the situation currently stands, India's vast size and underdeveloped infrastructure is preventing retailers from opening stores any distance from their distribution hubs. Within this environment, retailers themselves must take responsibility for supply-chain inefficiencies rather than view them as a national problem affecting all players equally. At a company level, the primary problem is a lack of supply-chain expertise. The majority of retailers have yet to set up a separate unit for managing supply-chain issues, instead treating supplies as part of the day-to-day running of a store. This has meant a fairly unidirectional flow of information – retailers simply summon stock when they need it and then wait for it – and a lack of investment in storage space to support the scale of most retailer ambitions.”

The overall sales pattern of Grocery sales across formats are as follows:

Table: India MGR Sales by Format – Historical Data & Forecasts, 2009-2016									
	2009	2010	2011e	2012f	2013f	2014f	2015f	2016f	
Supermarkets (INR bn)	363.2	537.7	654.7	781.4	949	1,101.60	1,242.30	1,399.70	
Hypermarkets (INR bn)	224.7	305.1	381.1	458.9	546.1	633.1	730.5	839.3	
Discount stores (INR bn)	117.6	138.6	159.5	181.1	205.4	230.3	258.2	289	
Convenience stores	83.4	105.1	120	135.2	152.2	169.3	188.3	209.6	
Total mass grocery retail sector (INR bn)	788.8	1,086.40	1,315.20	1,556.60	1,852.60	2,134.30	2,419.30	2,737.60	
Total mass grocery retail sector growth, INR, (y-o-y) %	11.9	37.7	21.1	18.4	19	15.2	13.4	13.2	

Source: Official Statistics, BMI

In addition to the above statistics, it is interesting to note that 91% of the sales still come from the unorganized sector, which suggests our target market (kirana stores) across India could be more than INR1400 billion and is expected to grow at an average rate of 15% annually.

Considering Bangalore as our primary target market at least during the first 2 years of business, as per BMI estimates the market size to be around INR 15 billion (assuming 1% of the total market).

To further assess the market potential of our business, we conducted a survey in which around 50 kirana store owners across areas like Koramangala, Banashankari and Malleswaram (Bangalore) participated. The results of the survey are listed in **Appendix 3:**

Based on the above results we have divided our target market into basically three segments:

Segment A – Basic retailers

- Average store size of less than 1000 sq ft, generally located in the interior roads or outskirts
- Mostly a family run business with less than 2 people managing the store
- Generate sales less than INR 10000 per day, average gross margin of 5-7%
- Credit terms of less than 7 days, generally buy stocks on cash basis
- Sell daily groceries and fruits & vegetables
- Stock less than 1000 products and deal with less than 100 vendors
- Market size of around 90000 stores
- Targeting to achieve a minimum of 300 customers by the end of first year.

Segment B – Intermediate retailers

- Average store size of 1000-3000 sq ft, located on main roads or residential areas
- A family run business with 2 people managing the store, and also includes 2 employees – 1 store helper, and another store helper + delivery boy
- Generate sales less than INR 30000-60000 per day based on the store location, average gross margin of 7%
- Credit terms of 7 days, very low percentage of cash based buying
- Sell daily groceries and fruits & vegetables and some general merchandise products
- Stock around 2000-3000 products and deal with 150-160 vendors.
- Market size of more than 50000 stores
- Target to achieve a minimum of 150 customers by the end of first year

Segment C – High-end retailers

- Average store size of more than 3000 sq ft, located on main roads of higher middle class or upper class localities
- A professionally run business with around 7-10 people working in the store
- Generate at least INR 70000-100000 per day, average gross margin of 8-10%
- Credit terms of 10 days, with almost zero cash based transactions
- Sell grocery and general merchandise, same as an organized retailer, with lower depth
- Stock more than 5000 products and deal with 250-300 vendors.
- Market size of more than 10000 stores
- Target to achieve a minimum of 50 customers by the end of first year

Listed below is the five year plan of our targeted number of customers in each segment:

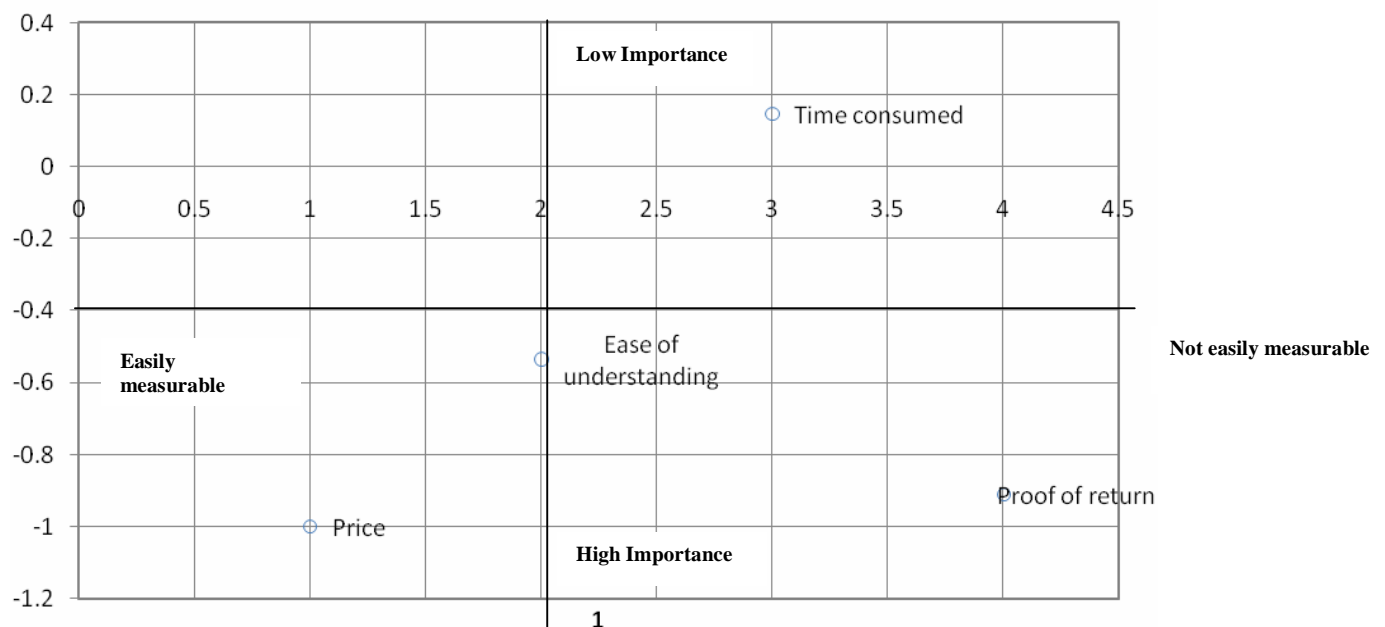
	FY 1	FY 2	FY 3	FY 4	FY 5
Segment A	300	750	1650	2145	2500
Segment B	150	570	1440	1796	2000
Segment C	50	65	195	429	500

Retail Consulting:

According to Accenture “Retail continues to change at a dramatic pace, with customers leading the charge faster than retailers—seeking more personal experiences at every point of shopping and purchase. Better-informed and super connected, these new digital consumers are fully engaged across all channels—from smartphone, PC, stores, tablet, social networking and more—to find and buy what they want. Through value driven strategies and solutions, Consultants can help retailers create a great experience”

During our survey conducted with kirana stores in Bangalore, we had also asked the store owners to point out the most important features they would look for in a program, and generated a perceptual map based on the results

Perceptual Map of store owners for Retail training programs



Based on the perceptual map, we have divided the customers into three segments:

Segment A: Basic User

- Typically a small retailer, usually have no exposure to any of the retail frameworks
- Low interest in applying technology
- Price is the most important factor
- Need local language training programs designed
- Estimated Market size to be around 80% of our consumers

Segment B: Intermediate User

- Typically a medium size retailer, have some exposure to the retail concepts
- Interested in applying technology, but only if returns can be guaranteed
- Price is an important factor, however they are also interested in the returns
- Local language training programs are preferred
- Estimated Market size to be around 15% of our consumers

Segment C: Advanced User

- Typically a big store owner, has experience managing the store and dealing with brands
- Interested in applying technology, but time constraint a challenge
- Price and proof of returns are the most important factors, however they are also conscious about the time the program consumes
- Estimated Market size to be around 5% of our consumers

Listed below is the five year plan of our targeted market share in each segment:

	FY 1	FY 2	FY 3	FY 4	FY 5
Segment A	25	139	329	437	500
Segment B	10	42	164	580	900
Segment C	5	25	50	75	100

Marketing, Branding and Reverse Logistics: As per an independent report (**to be validated*) at least 15% of the promotions and branding exercises do not reach the kirana stores lack of awareness or middlemen. This gets exponentially increased from the kirana store owner to the end customer, resulting in failure of a substantial number of promotions.

Also currently most brands spend a big percentage of their budgets on collecting the secondary sales data and market shares, however our business model proposed to automate this process, so that brands get accurate and easily available data for managing their decisions.

We have segmented the brands into 3 categories based on their scale and reach of operations

Segment A: Local brands

- Typically the local food and staples brands
- Operate in only 1 city
- Very low presence in hypermarkets and other organized retailers
- Monthly turnover of less than 1 crore

Segment B: Domestic brands

- Majorly food but also includes some non food products
- Operate in multiple cities but within India
- Present in hypermarkets and other organized retailers but in non-premier locations
- Monthly turnover of more than 1 crore

Segment C: International brands

- All types of products
- Operate in multiple cities both within and outside India
- Present in all hypermarkets and other organized retailers occupying premier shelf spaces
- Monthly turnover of more than 5 crores

Listed below is the five year plan of our targeted market share in each segment:

	FY 1	FY 2	FY 3	FY 4	FY 5
Segment A	15	25	35	50	65
Segment B	5	10	15	20	25
Segment C	2	5	7	9	15

Market entry strategy:

Our aim is to first enter the market with the Supply Chain and Logistics Solutions business, and we have identified Bangalore as our set-up market.

The expected revenue from this business for the first five years are shown below:

Supply Chain Solutions	FY 1	FY 2	FY 3	FY 4	FY 5
Revenue	₹ 2,551,700	₹ 5,269,500	₹ 6,419,600	₹ 7,373,800	₹ 8,469,700
Direct Cost	₹ 2,409,900	₹ 4,976,800	₹ 6,063,000	₹ 6,964,100	₹ 7,999,200
Gross Profit	₹ 141,800	₹ 292,700	₹ 356,600	₹ 409,700	₹ 470,500
	5.6%	5.6%	5.6%	5.6%	5.6%

The phase two of our business model involves setting up IT systems within the stores to manage the processes like ordering, we have listed below the cost structure (based on an actual quote received from an IT vendor)

COST SHEET Capex costs

Category	Category	India Distribution - Center		
		Unit	Price / unit (INR)	Total cost INR
INFRA	Server Equipment	6	5,226,750	5,226,750.00
	Backup	30	3,500	50,000.00
	Office IT Equipment	12	229,350	755,800.00
	Network	16	4,404,000	4,460,000.00
	RF AMT	66	469350	3,356,535.00
INFRASTRUCTURE TOTAL				13,849,085
DEPLOYMENT	Server Build			131,956
	Installation			541,680
	Testing			1,329,273
	Training			151,960
	Go-Live Preparation & Post-Go Live Stabilisation			1,434,540
	20% Contingency on Efforts			1,008,803
	Admin charges and taxes			907,923
DEPLOYMENT TOTAL				5,506,135
IMPLEMENTATION	Desktop costs	500	15000	7,500,000
	Internet connections	500	8388	4,194,000
	Scanners	500	2500	1,250,000
	Setup and other maintenance costs	500	3000	1,500,000
Rental DEV, PROD and RIB Server (5 months)				14,444,000
TOTAL				33,799,220

The model involves working collaboratively with both brands and kirana stores to encourage usage of technology and standard processes in stores to ensure availability, better management of inventory, avoid shrinkage and intuitively develop Visual merchandising ideas within the available space.

Initially this business model would be incurring negative margins during the first year, however it is expected to break even during year 2, and is expected to gradually pick up momentum. This is a long term vision which is expected to generate profits after we start servicing more than 1000 stores.

The expected revenue from this business for the first five years is shown below:

Retail Consulting	FY 1	FY 2	FY 3	FY 4	FY 5
Revenue	₹ 480	₹ 2,610	₹ 7,160	₹ 14,990	₹ 21,430
Direct Cost	₹ 540	₹ 2,440	₹ 5,690	₹ 10,140	₹ 12,320
Gross Profit	₹ -60	₹ 170	₹ 1,470	₹ 4,850	₹ 9,110
	-12.5%	6.5%	20.5%	32.4%	42.5%

The third stream of revenue would be the Marketing and Brand Management. This would be an extension of the above two business streams, which exclusively deals with the brands. One of the major problems faced by the brands are the availability of secondary sales data, it is estimated that a brand spends more than INR 100k every week to survey and analyze its brand performance in one city. Our business model is to utilize the systems installed in the stores under our second business model to send out daily MIS reports on sales, inventory levels and promotions performance.

We would also additionally be working with the brands for additional margin based revenue which would be part of Volume discounts, Centralization benefits, and reverse logistics. We are estimating this revenue to be around 1% of the revenue generated from the Supply Chain business.

The expected revenue from this business for the first five years is shown below:

Marketing and Branding	FY 1	FY 2	FY 3	FY 4	FY 5
Revenue	₹ 25,520	₹ 52,710	₹ 64,190	₹ 73,730	₹ 84,710
Direct Cost	₹ 25,260	₹ 52,170	₹ 63,540	₹ 73,000	₹ 83,850
Gross Profit	₹ 260	₹ 540	₹ 650	₹ 730	₹ 860
	1.0%	1.0%	1.0%	1.0%	1.0%

Competitive Analysis:

We have identified some of the direct and indirect competitors we may face during the course of our business:

Supply Chain business:

Direct competition	Indirect competition
Local distributors	Larger kirana stores who sell to other stores
Organized retailers	Logistics companies
Wholesalers and Cash & Carry business	
Online retailers	

Retail consulting business:

Direct competition	Indirect competition
--------------------	----------------------

Other consulting firms	Organized retailers
Local distributors	
Brands	

Marketing, Branding and Reverse logistics:

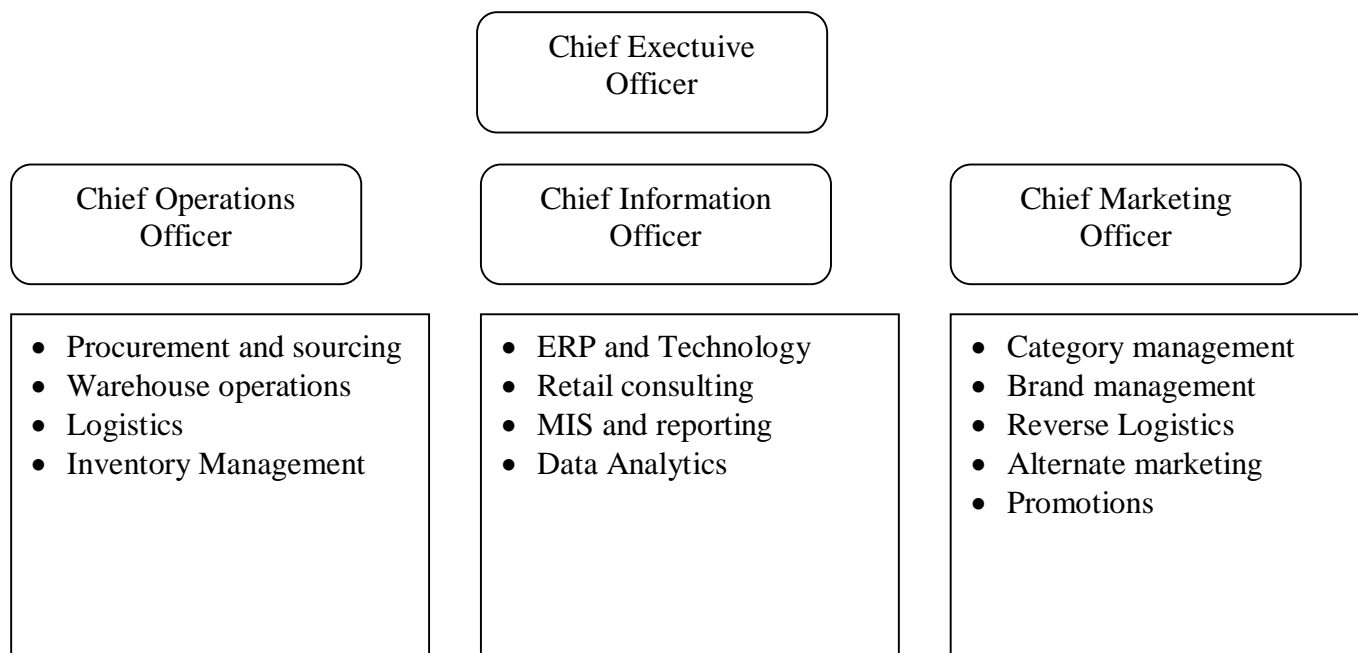
Direct competition	Indirect competition
Other consulting firms	Organized retailers
Local distributors	Logistics companies
Brands	Transport companies

Competitive Advantages

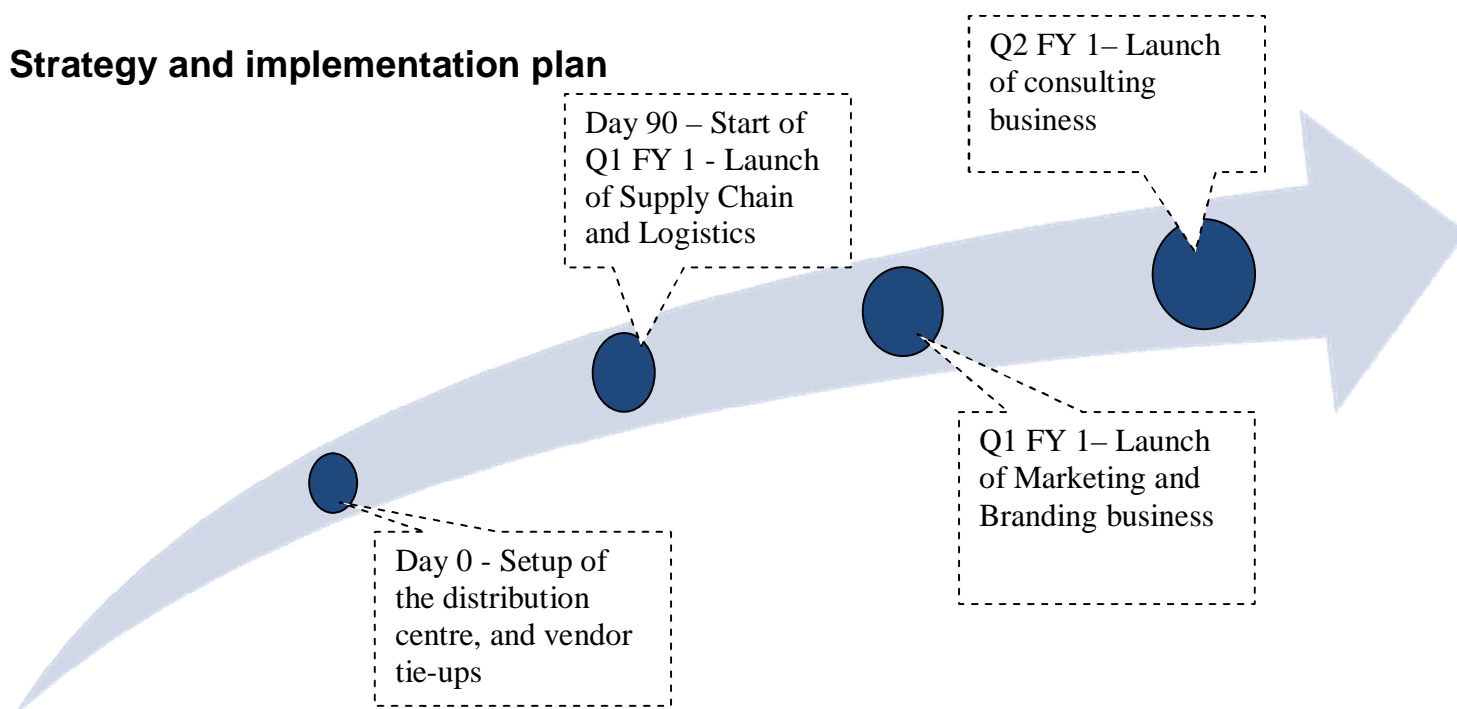
Madagascar Retail Solutions is positioned to outperform competitors as we are targeting a market which is currently untapped and we are offering the below mentioned services at a superior quality:



Organization Structure



Strategy and implementation plan



Project tracker for the Implementation Plan

Task Name	Start Date	End Date
Distribution Centre Setup	Day 1	Day 90
Build	Day 1	Day 45
Equipment	Day 1	Day 27
People	Day 1	Day 45
Licensing	Day 1	Day 23
IT setup at the DC	Day 1	Day 90
Operations	Day 1	Day 90
Market Assessment		
Primary/Secondary Research	Done	Done
Market Sizing	Done	Done
Segmentation	Done	Done
Competitor Analysis	Done	Done
Product Categories	Done	Done
Study existing sales channels	Done	Done
Sourcing		
Vendor identification	Day 1	Day 15
Vendor agreement	Day 16	Day 75
Delivery timelines agreement	Day 76	Day 85
Vendor setup	Day 86	Day 88
Order placement	Day 89	Day 90
Logistics		
Vendor identification	Day 1	Day 15
Vendor agreement	Day 16	Day 20
Delivery timelines agreement	Day 21	Day 30
Operations	Day 30	Day 90

Operations Model

For setting up this business, we have identified locations for setting up distribution centers (DC) near Whitefield (Soukhya Road)

Features of the proposed DC

- Location – Whitefield (Soukhya Road)
- Gross Area – 250,000 sq ft
- DC type – Jumbo DC
- Roof height - More than 32 ft
- Planned Staff strength – 200-250 ppl including management
- Pallets spaces planned – 10800 pallets
- Volume capacity – approx 129,600 cases
- Scalability – Additional space of 40k sq ft for every 500 stores
- Bulk breaking area – approximately – 40k sq ft
- Repacking area – 10k sq ft
- Office space – 10k sq ft

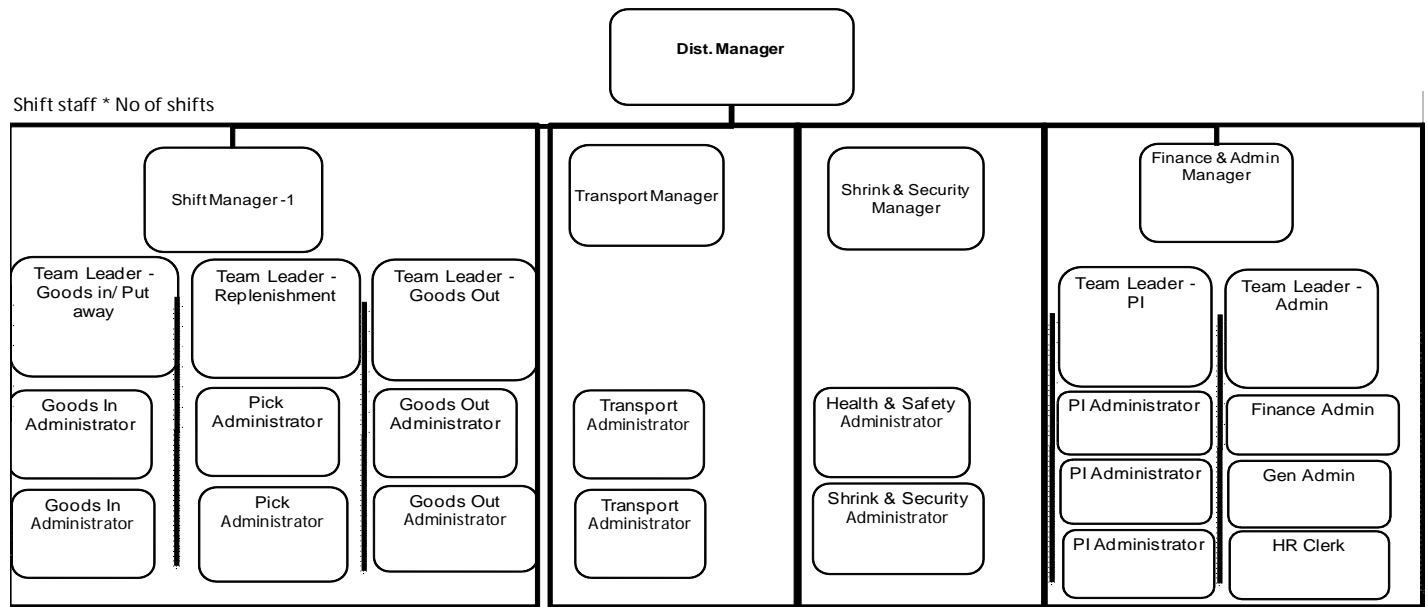
Estimated cost structure for setting up a Distribution center in Bangalore

PARTICULARS	Monthly expected expenses
<i>Gross Area in sq ft.</i>	<i>250,000</i>
A. Rent	2,763.1
B. Salaries	2,630.1
C. Capex Charges for Pallets, racking and MHE	1,430.7
D. WMS	376.0
E. Other Operational expenses	1,416.5
F. Total Operation Expenses (A+B+C+D+E+F)	8,616.4
G. Transportation costs	
H. Additional costs like Office and Project cost	266.9
Q. Total Distribution costs incl Transportation & ORWMS & Wari costs (M+N+O+P)	8,883.3
R. Sales (Rs. 000) during FY 1	427,734.2
% of sales (Q/R)	2.1%

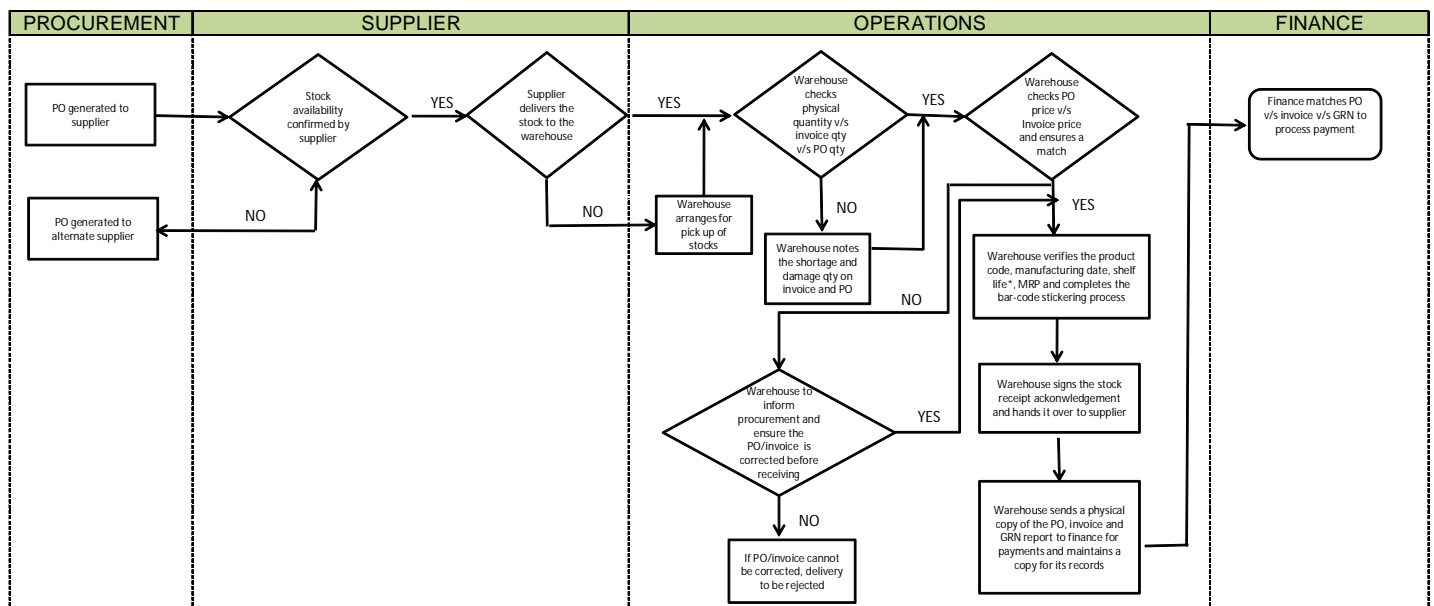
Estimated head count and salary structure

	FY1	FY 2	FY 3	FY 4	FY 5
DEPARTMENT/ POSITIONS Salary(INR'000)					
Senior Management	₹5,400.00	₹5,832.00	₹6,298.56	₹6,802.44	₹7,346.64
Middle Management	₹1,800.00	₹1,944.00	₹2,099.52	₹2,267.48	₹2,448.88
Team Leaders	₹4,800.00	₹5,184.00	₹5,598.72	₹6,046.62	₹6,530.35
Adminstrators	₹3,852.00	₹4,160.16	₹4,492.97	₹4,852.41	₹5,240.60
Skilled Labour - Fork lift operators	₹3,048.00	₹3,291.84	₹3,555.19	₹3,839.60	₹4,146.77
Staff Role #1	₹1,260.00	₹2,041.20	₹2,939.33	₹3,174.47	₹3,428.43
Staff Role #2	₹19,200.00	₹25,920.00	₹33,592.32	₹36,279.71	₹39,182.08
Total Calculated Salaries	₹39,360.00	₹48,373.20	₹58,576.61	₹63,262.74	₹68,323.76
Total Salaries	₹39,360.00	₹48,373.20	₹58,576.61	₹63,262.74	₹68,323.76
Staff Role Calculations					
Staff Role #1 Annual Salary	₹126.00	₹136.08	₹146.97	₹158.72	₹171.42
Staff Role #2 Annual Salary	₹96.00	₹103.68	₹111.97	₹120.93	₹130.61
# Staff Role 1 Employees	₹10.00	₹15.00	₹20.00	₹20.00	₹20.00
# Staff Role 2 Employees	₹200.00	₹250.00	₹300.00	₹300.00	₹300.00
Senior Management	₹5,400.00	₹5,832.00	₹6,298.56	₹6,802.44	₹7,346.64
Rest of Staff	₹31,561.04	₹34,085.92	₹39,757.82	₹40,155.40	₹40,556.95
Total Salaries	₹36,961.04	₹39,917.92	₹46,056.38	₹46,957.84	₹47,903.59

The organization structure of the warehouse has been listed below for easy reference:



The distribution center is expected to follow all the normal processes of supply chain like Goods In, Goods Out, Fulfillment, Replenishment, and Put Away which will be in-line with standard operating procedures (sample shown below)



Sourcing Plan:

The targeted categories in our business are Staples, FMCG Food, FMCG Non Food and General Merchandise. Below is the estimated number of products and vendors as per the category split

Major Category	Vendor	Products	Forecasted Sales Contr
Staples	50	900	18.1%
Ready Foods	30	300	6.0%
Instant Foods	10	130	2.7%
Beverages	25	230	4.5%
Cleaning Aids	15	235	5.5%
Health & Beauty	200	2300	9.7%
Houseware	10	125	2.5%
Total	340	4260	100.0%

The initial plan is to identify multiple vendors (preferably large vendors) who can extend a minimum credit term of more than 15 days and can provide delivery to the Distribution center.

However the long term goal is to have direct tie-ups with brands and national distributors. For staples the strategy is to have tie-ups with all the major mandi market (wholesale) distributors in Yeshwantpur, Bangalore.

Eventually cereals like rice and wheat can even be purchased from vendors in Gujarat, Andhra, Tamil Nadu after the initiation of the new tax structure and bigger vendors can be identified in other categories as well.

Financial Plan

Listed below is the forecasted five year Income statement of Madagascar Retail Solutions Pvt Ltd

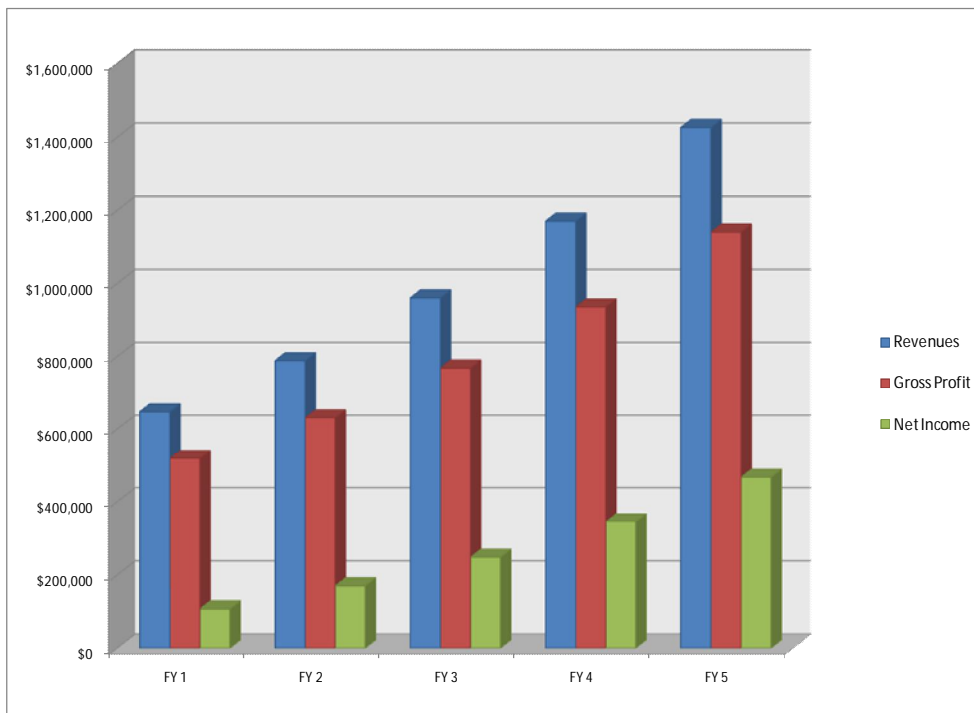
	FY 1	FY 2	FY 3	FY 4	FY 5
Revenues					
Revenues	₹ 2,577,700	₹ 5,324,820	₹ 6,490,950	₹ 7,462,520	₹ 8,575,840
Total Revenue	₹ 2,577,700	₹ 5,324,820	₹ 6,490,950	₹ 7,462,520	₹ 8,575,840
Direct Cost					
Direct Costs	₹ 2,435,700	₹ 5,031,410	₹ 6,132,230	₹ 7,047,240	₹ 8,095,370
Total Direct Costs	₹ 2,435,700	₹ 5,031,410	₹ 6,132,230	₹ 7,047,240	₹ 8,095,370
GROSS PROFIT	₹ 142,000	₹ 293,410	₹ 358,720	₹ 415,280	₹ 480,470
GROSS PROFIT(%)	6%	6%	6%	6%	6%
Other Expenses					
Salaries	₹ 39,360	₹ 48,373	₹ 58,577	₹ 63,263	₹ 68,324
Marketing Expenses	₹ 9,600	₹ 10,000	₹ 10,000	₹ 10,100	₹ 10,200
Rent/Utility Expenses	₹ 34,400	₹ 38,000	₹ 42,000	₹ 46,300	₹ 51,100
Other Expenses	₹ 33,800	₹ 35,400	₹ 37,000	₹ 38,900	₹ 40,800
Total Other Expenses	₹ 117,160	₹ 131,773	₹ 147,577	₹ 158,563	₹ 170,424
EBITDA	₹ 24,840	₹ 161,637	₹ 211,143	₹ 256,717	₹ 310,046
Depreciation	₹ 49,600	₹ 51,200	₹ 51,200	₹ 51,200	₹ 50,300
Amortization	₹ 0	₹ 0	₹ 0	₹ 0	₹ 0
Preliminary Exp Written off	₹ 0	₹ 0	₹ 0	₹ 0	₹ 0
EBIT	₹ -24,760	₹ 110,437	₹ 159,943	₹ 205,517	₹ 259,746
Interest Expense	₹ 34,200	₹ 35,200	₹ 35,200	₹ 35,300	₹ 35,300
PRETAX INCOME	₹ -58,960	₹ 75,237	₹ 124,743	₹ 170,217	₹ 224,446
Net Operating Loss	₹ -58,960	₹ -58,960	₹ 0	₹ 0	₹ 0
Use of Net Operating Loss	₹ 0	₹ 58,960	₹ 0	₹ 0	₹ 0
Taxable Income	₹ 0	₹ 16,277	₹ 124,743	₹ 170,217	₹ 224,446
Income Tax Expense	₹ 0	₹ 4,900	₹ 37,400	₹ 51,100	₹ 67,300
NET INCOME	₹ -58,960	₹ 70,337	₹ 87,343	₹ 119,117	₹ 157,146
Net Profit Margin (%)	-2%	1%	1%	2%	2%

Listed below is the forecasted payment schedule till Year 5

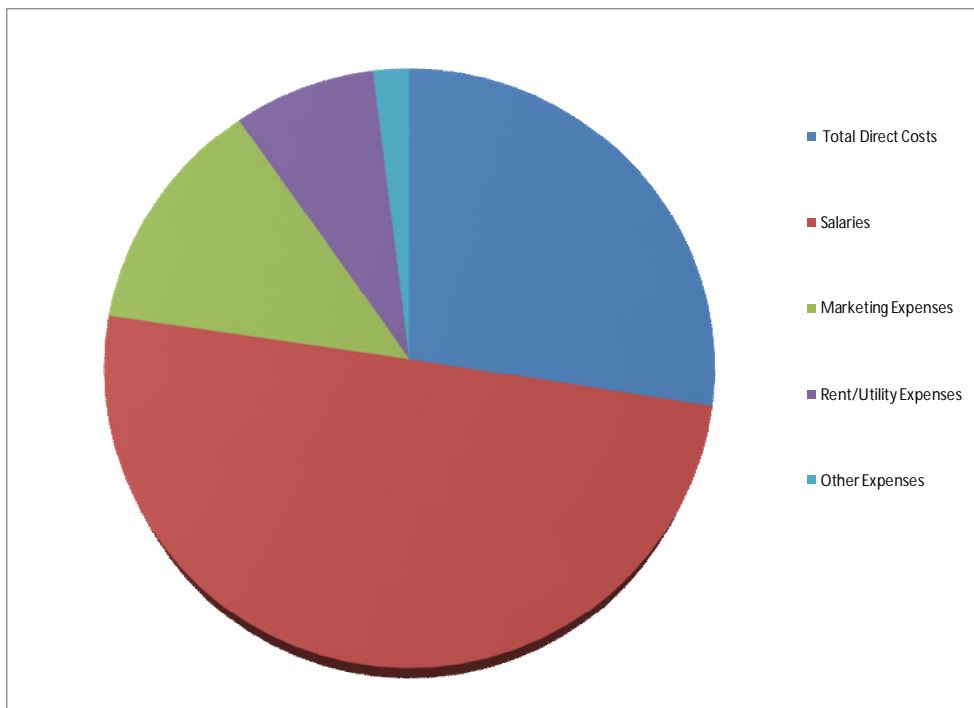
One time	FY 1	FY 2	FY 3	FY 4	FY 5
Debt Outstanding at the beginning	256,593	256,593	256,593	256,593	256,593
Less : Debt Repayment	-	-	-	-	256,593
Closing Balance	256,593	256,593	256,593	256,593	-
Interest Payable	18,000	18,000	18,000	18,000	18,000

Financial highlights

Revenue trend



Projected expenses



Exit strategy

We expect that investors will be able to cash out on their investment in our company when we reach the INR 15 crores mark in Net Income. We expect to achieve this goal by Financial Year 5.