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Demonetisation and Future of Indian Dairy Industry : A Press Note

Dear friends,

What a fortnight it was for all the Indians ! This must have been the largest cleaning drive of bad intentions so far in the history of the world. I would like to share a line from a great book "The Alchemist " which got its true meaning today in the context of demonetisation.

"Loss of fortunes is a common occurrence at the beginning of most quests."

Since the beginning of the last week we have been hearing a lot of news related to problems being faced by various stakeholders in dairy industry due to changed scenarios. While organized sector have to close sales in some part of the country to avoid receiving old notes on one side and farmers are not getting paid by private sector as well as cooperative in certain areas due to the almost stalled banking operations for businesses in the country. In this issue of dairy pulse (though its too early) but I would like to share a quick reflection of demonetisation on Indian dairy sector.

a. It is a great opportunities for cooperatives and now for private sector also to make use of digital eco system for farmer's payment. Most of the key cooperatives have welcome this idea. With Jan Dhan Yojana giving direct access to nearly 15.67 Crores rural customers (as on Nov 9 2016) and 25 crores account in total, there is hardly going to be any trouble even for enrolling 7.2 crores dairy farmers in the country. Such initiative would instantly change the foot print of Indian non cash transaction from a paltry 9% to surpass the BCG projected number of 59% before 2025.

b. The companies will have to formulate strategy to be more responsible towards tax paid billing (particularly at unorganised sector level for products like panir, cheese, ghee and SMP) thereby creating a level playing field for responsible dairy operators as well as ensuring supply of pure and safe products at the consumer end. This would bring higher levels of transparency in the business and dairy would surely be moving up on the Integrity Index for doing business.

c. The companies have a massive opportunity to explore or cross benchmark the Newspaper selling model for milk and milk products by enrolling a part of the consumers online for week/fortnight/month/quarter/half year/yearly subscription through online payments and later directing their supply chain to make delivery directly at the door step or at a convenient location near to their home. The cash transaction pressure both at the retail point as well as at the consumer level would thus be reduced to a minimal level. The customer is also getting ready for such opportunities at least for the essential products like milk. Thanks to Mother dairy booth near my house which till date has been supportive for supplies of milk, fruits and vegetables and other standard groceries to me and my neighbour by receiving old notes.

d. Such booking in advance would strengthen the working capital structure of most of the dairies (look at the article where dairy industry is shown under stress with high working capital requirements).

e. Dairy has been a favorite investment hub for Private equity and Venture capitalist but due to propensity of higher cash transactions raises their eyebrows and they become selective and extremely precautionary while evaluating dairy sector. Shifting of majority of business to non cash transaction would make these funds to invest in dairy more aggressively and thus I could see a great time ahead for expansion , product innovation and new models of business along with foreign brands flowing in India along with huge FDI in dairy soon.

These are just a few of the reflections but I hope the group may have lots of lots of other things to share. Please do share to help us build a New Dairy Model for Indian dairy industry of future.

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