Tusker learnings report

Shell Foundation

Contents

Executive summary

Last mile logistics obstacles continue to choke economic growth across rural India, which houses up to 70% of India's population and which contributes to approximately 35% of India's GDP by way of agriculture, self-employment services, construction etc. Last-mile delivery (LMD) in rural markets is often seen as an undifferentiated, informal sector offering. In reality, transport capacity is simply utilised differently than inter-city routes where formal freight clearing marketplaces have been established. Reliable freight services are scarce in much of the rural developing world, and while there are innumerable factors responsible for it, certain technology-mediated interventions are beginning to improve conditions significantly. As the reach and diversity of supply chains into these markets evolve, understanding the varying priorities among market segments can inform successful business deployment strategies.

In this report, we aim to identify factors that influence purchasing behaviour and determine their relative importance. We begin by taking the business data of Tusker Transport (order transactions and associated metadata) as primary sources to examine along with customer interviews. The study draws on multiple years of correlating business trends and marketing heuristics and our strongest conclusions are that purchase drivers are more varied than often presumed, and that "*low price*" is not sufficient as a strategy to approach these markets.

About Tusker

Tusker Transport was launched in 2016 by Logistimo India Pvt Ltd as a project meant to accelerate the potential that mobile technologies had to significantly improve freight efficiency in the rural, low-resource environments. The rural logistics market's many inefficiencies manifested as expensive, unavailable and unreliable goods transport which had cascading negative impacts on rural economies. From Tusker's earliest stages, Shell Foundation has provided grant funding to develop, deploy and evaluate mobile technology-adapted service models to address these challenges and in course expand market access to underserved communities. to It is believed that affordable goods transport can drive an economic renaissance for the 60% of Indians living in rural areas, who generally pay more for to both send and receive essential goods to access markets. Further, the digital transformation of rural freight can facilitate credit inclusion for millions of rural businesses, hence increase accessibility for end-consumers for impact products.

In 2019, after years of market validation in the northern region of India's Karnataka state, Tusker incorporated as an independent entity with the expectation of scaling the business paradigm across a wider geographical footprint in the coming years.

Initial hypothesis on purchase drivers for Tusker's customers

Tusker's initial hypothesis was that the primary purchase drivers for their last-mile customers were the following:

- Reliability
- Accessibility
- Affordability

Reliability

Tusker defines reliability as their ability to meet the customer expectation of executing deliveries according to the service-level-agreement as well as minimising errors that may not be explicitly stated in it. Tusker's offering encapsulates the following options that drive perceived reliability for the customers:

- Formal invoicing and billing: Tusker automates the generation of these documents unlike informal transporters who typically don't abide by these business process expectations. Additionally, Tusker's digitised format allows for reprinting in case hard copies are lost.
- Guaranteed one-day deliveries: Tusker guarantees this in accordance with market expectations, whereas informal vendors often delay dispatches by several days to allow for their trucks to reach higher utilised capacity for cost savings.
- Deep rural coverage: With a commitment to serving smaller towns, businesses don't need to worry that Tusker will decline part of their shipment. This gives dispatchers the confidence not to have to juggle a multitude of vendors in their daily workflow, or to cancel their customer's orders because no transporter is willing to service the location.
- Track and trace features: Customers are able to see the location and status of their consignment via the Tusker app. Also, in case of misplacement, Tusker is able to internally locate the last registered location in the network to rectify the situation. This security allows the company to guarantee compensation for loss, and in the context of other services stands out as a highly reliable offering.
- Full-truckload priority deliveries: Many businesses require both less-than-full-truckload and full-truckload priced offerings depending on their shipment type. While Tusker's core operational paradigm is load aggregation, our ability to also book full-capacity loads is important for the strength of our customer partnership. This minimises their need to engage with multiple vendors, and moreover represents a valuable business opportunity in itself.

Accessibility

Tusker's offering encapsulates the following options that drive perceived accessibility for the customers:

- Proximity & placements of collection points: These are Tusker partner-managed storefronts that are strategically positioned near trading clusters that allow for shippers to drop-off consignments in-person. This is an alternative to requesting a scheduled doorstep pickup or making a longer journey to a Tusker depot.

- Single point of contact for enterprise customers: These are customers who have high, consistent shipment turnovers with Tusker and are given the opportunity to pay a monthly invoice. Unlike ad-hoc customers, they are assigned a dedicated customer service agent for their shipment and general account queries. This builds trust and a sense of partnership that may not be the case with other freight vendors.
- In-app contact management: Businesses, whether distributors or manufacturers, tend to dispatch to a long list of recipients. Entering contact details every time is very tedious, prone to error, and slows down processes. The Tusker customer app allows for these details to be saved and referenced at their convenience and strengthens their sense that dispatch processes are handled on a single accessible platform.
- App-based ordering: A core business thesis of Tusker is that mobile computing allows for cost-efficient and scalable order management. This is still novel in the rural LMD service landscape and enhances accessibility considerably.

Affordability

Cost has also been a key driver for all rural distribution players. Tusker addresses the need for affordable distribution services in the following ways:

- Less-than-truckload (LTL) pricing: Because Tusker's technology platform allows for aggregation of demand across a large set of daily customers, we are able to consolidate the loads of multiple shippers onto each truck and pass these cost-efficiencies over to customers with lower prices. While this is typical on well-trodden inter-city routes, it is uncommon on rural ones where vendors insist of full-truckload prices.
- Transit insurance: Tusker's service-level-agreement assumes indemnity for loss and mishandling of goods within reasonable limits. At present, the company insures consignments in its own capacity as a goods transporter, and passes the compensation to customers. This is not standard practice among last-mile freight vendors and is an example of how Tusker bundles value-added services that customers may have had to seek independently (with additional cost) as part of the basic service offering.
- Dedicated helpers on large consignments: The labour that is essential for loading and unloading boxes is not present at all service locations. Tusker ensures that a helper accompanies our transport partner and factors it at a reasonable rate into the shipment price. Other transporters often inflate prices opportunistically for this convenience.
- Discounts on monthly billed customers: Customers with larger average volumes can qualify for "enterprise" status. With this option they receive a consolidated monthly invoice on which Tusker offers negotiated bulk discounts.

In order to develop focus on value additions that matter most to customers, Tusker has designed a survey to study top purchase drivers for their customers.

Survey methodology

Tusker used customer surveying and staff feedback to better understand their customers' primary purchase drivers across reliability, accessibility and affordability of Tusker's distribution services, with the following methodology.

Key Research Questions:

- What are your Top 3 service expectations of freight partner?
- Are specific value-added services attractive to your enterprise?
- Is Tusker your sole freight vendor? If not, what is the reason?
- Would you take a discount for late delivery or pay a premium for same day delivery?

The responses to the above questions were then categorised either within the 3 categories of the initial hypothesis, if applicable, or as "other".

Type of information gathered and method:

- Ranked choice responses from customer interviews
- Qualitative insights from Tusker's Business Development Team, based on 3 years of field experience and customer reviews
- Tusker transaction data filtered across multiple categories

Selection of interviewees:

- Leading customers in segments defined by industry vertical, vendor type, and location context (urban vs rural) were selected
- All of Tusker's 4 business development associates (BDAs) submitted anecdotal perspectives of sector specific motivations, based on interviews

Other data taken into consideration:

- Consignment value: Sectors have different average invoice values for the goods shipped. The research took into consideration how that variation might influence purchase drivers like reliability.

Tusker engaged 4 business development associates (BDAs) and 40+ customers across 8 sectors for this survey.

Key customer characteristics and impact upon purchase drivers

In order to study purchase drivers informing decisions of rural distribution customers, it is important to first understand key players and their overarching dynamics. Tusker from their experience summarise these traits as below:

Customer sector: In the course of 3 years of service, the customer composition has evolved in rural areas served by Tusker. Pharmaceutical and textile distributors were early adopters of Tusker's service and had low order values. Subsequently, fast-moving consumer goods (FMCG), agricultural supplies, and construction materials ascended in importance. These sectors traded in greater consignment volume and came with customer expectation of long-term relationships. At present, the 8 leading industry sectors that Tusker serves mirror the rural economy in its composition. In the subsequent section we will expand on what has come to characterise the varying priorities of each of these industry sectors.

Shipper-receiver dynamics: Each sector has its own split between shipper payment versus receiver payment. This shift in payment responsibility was thought to have an impact on price sensitivity and other purchase drivers.

Value chain position: Across sectors, position within the value chain also appears to affect need for and dynamics of distribution activity, including pricing expectation.

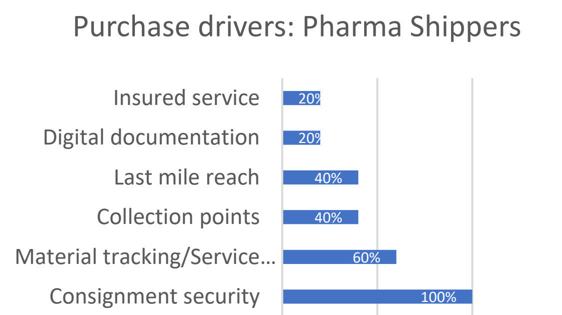
As such, a comparative understanding of purchasing behaviour by sector, distribution echelon and location context becomes compelling for its potential to draw more insights.

Sector-level survey findings

Given the importance of freight consolidation as the driver of last-mile delivery's economic viability, Tusker must find ways to serve a variety of sectors, each with their own seasonality and requirements in terms of pricing, volumes and other features.   As expected, it was evidenced that different sectors have slightly different priorities and hence have varied purchase decision drivers.

Pharmaceuticals

In the survey period, this sector decreased in revenue share from 22.3% to 14% over a year, while growing nominally by 135%.

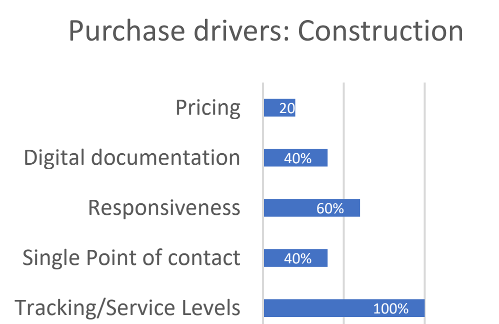


Pharma shippers have indicated material tracking, a reliability-enhancing value addition, to be their top purchase driver apart from consignment security. The latter is emphasised because medicine has a relatively high declared value (>$200 for a box on average). Material tracking to drive committed timely deliveries retains importance because shippers pay for consignment delivery for 94% of all pharma orders. The priorities of these distributors, as Tusker customers, are driving freight vendor selection.

Accessibility enabled by the multiple collection points and last mile reach was next the highest priority purchase driver for the category. Pharma wholesalers tend to be located in fairly congested market clusters which are not convenient for freight vehicles to dock at, hence the option to drop the boxes to conveniently located Tusker collection points is seen favourably. The flexibility to request door-pickups remains, facilitating smooth distribution workflows for dispatchers.

Construction/Hardware

At the time of survey, this sector accounted for a 24% share of all Tusker revenue, having improved from 11% the year earlier. Over the same period, the revenue from this category of shipments increased by a dramatic 563%.



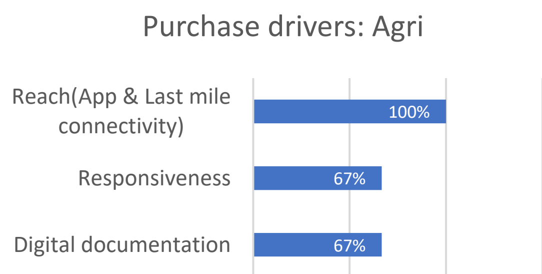
In the construction and hardware sector, customers prioritised reliability value addition above all others. Among the reliability-oriented drivers, all respondents cited "tracking/service levels" as desirable, and 40% cited digital documentation for proof-of-delivery and invoices as important. Moreover, although approximately 60% of orders in this sector are paid for by recipients, tracking is still very important because of high average consignment values and distributor sales teams' mandates to respond quickly to retailer demand.

Next in order of priority were survey responses indicative of service accessibility. Overall, the characterisation of Tusker as a "responsive" organisation was mentioned by 60% of the segments' customers, and 40% specified that having a single point of contact drove their satisfaction. As many construction and hardware customers are regional carrying-and-forwarding agents that are accountable for more detailed reporting to the corporate brands they represent, they expect their freight vendor to be aligned to the same practices. In the fulfillment of those expectations, Tusker partners use the mobile app to complete proof-of-delivery formalities, which along with online waybill processing are categorised as "digital documentation" in the graph and cited as a purchase driver for 40% of respondents in the sector.

"We know that if we have any question about service changes or billing, we can easily reach the same person we are familiar with"
- Berger paints (Tusker customer)

Agriculture

In the survey period, this sector increased in revenue share from 5.5% to 7.2% over a year, while growing nominally by 405%.



In the agricultural inputs sector, service value-additions related to accessibility were unanimously appreciated. All respondents cited "last-mile reach" and "customer app" as purchase driving features. Apart from textiles, this sector has the highest percentage of orders being paid for by the receivers, at approximately 80%, and the sample represented the prevalence of carrying-and-forwarding agents as shippers. Receiver-pay is often indicative of the goods purchaser being the initiator of the transaction and relying on a great diversity of upstream suppliers for their business. In this case, the payer is not the party choosing the transport vendor

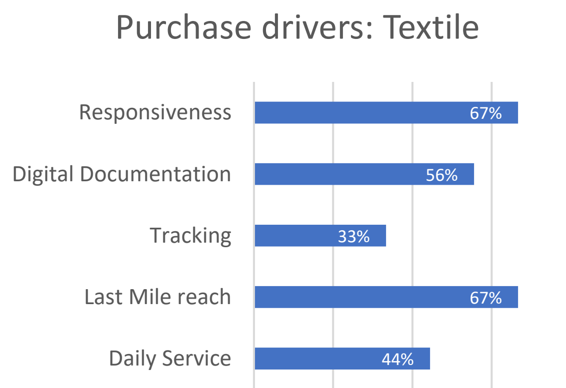
In this sector, another priority among the surveyed was "digital documentation". This comprises transport invoices, digitally uploaded proof-of-delivery receipts and online waybill processing with regulatory authorities. Often, informal freight vendors are not able to collate these documents which have to be shown as evidence if the business is to receive payment from higher level distribution offices. Finally, Tusker expects these larger regional enterprises to require reach to the deeper parts of the locality and that in comparison to other sectors, this is the most rural in orientation.

Demand is highly seasonal and agricultural inputs vary from being on par with the highest revenue sectors in July to its decline in December. Because of this, these enterprises don't maintain year-round dispatching and freight capacity, but look for strong vendors during the season of peak demand.

"Tusker ships to many destinations that are not common for other services"
- Biostadt Corporation (Agriculture input distributor)

Textiles

In the survey period, this sector decreased in revenue share from 14.6% to 7.0% over a year, while growing nominally by 79%.



Among Tusker's shipper base, this sector is dominated by very small multi-brand and generic wholesalers, and both are overwhelmingly (94.2%) receiver-pay. Moreover, it is a cost-sensitive sector that relies heavily on ad-hoc informal freight operators with whom the relationship is mediated via a porter's union.

Among textile and apparel wholesalers, all respondents emphasised the importance of service features that are reliability-oriented value additions. Besides the 67% who cited "door-to-door delivery" or "last-mile reach", the remaining all cited "material tracking" or "consignment security".

It can be inferred that because of the usually diffuse accountability, a formal, digitally enabled, ad-hoc service like Tusker is addressing an existing pain point at an acceptable price point.

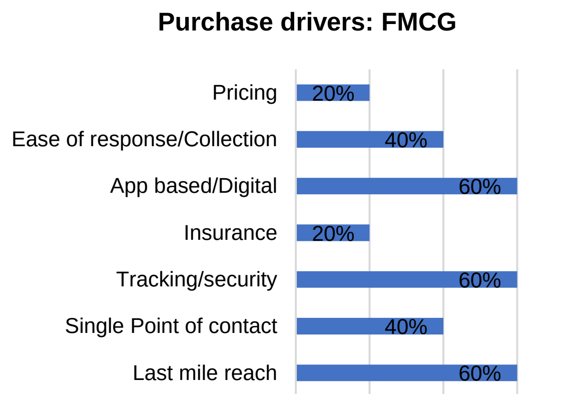
Accessibility was the next most prioritised category of drivers, with a majority of respondents citing responsiveness and professionalism as key value-adds. Other light freight companies in the intra-regional segment do not have customer service desks, nor single point-of-contact for their queries.

"We are happy with Tusker and find the service convenient and safe"
- Manohar Handlooms (Textiles distributor)

FMCG

In the survey period, this sector decreased in revenue share from 27.3% to 20.8% over a year, while growing nominally by 87%.

Last mile reach, security & tracking of consignments and pp-based digital documentation have been picked as top value adds by 60% of Tusker's FMCG customers; and 40% of customers find single point of contact provided and ease of shipment collection as their motivation of choosing Tusker as their preferred logistics partner.



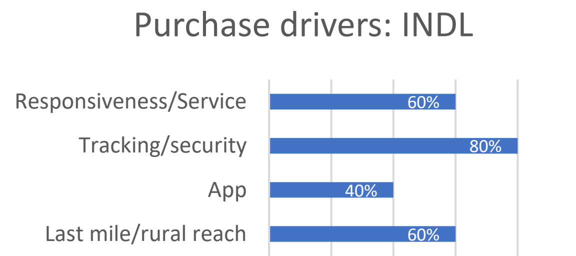
It is noted that only 20% chose pricing as their decision driver, making it conclusive that for FMCG customers accessibility and reliability are a higher priority for the current pricing offered by Tusker, which is on par with competitors. FMCG distributors are accustomed to having an in-sourced fleet for delivery or a seasonal contract with local freight vendors. In both of these cases, they have a high degree of control and visibility, and as such, those expectations carry-over to their engagement with a load consolidator like Tusker.

"We like that we can place orders with the app. Tusker's digital approach is unique."
- Prithvi agency (FMCG distributor)

Industrial/Automotive (INDL)

In the survey period, this sector increased in revenue share from 8.0% to 14.2% over a year, while growing nominally by 571%.

Industrial consists of auto components, machinery parts, lubricants, irrigation hardware and tyres. It makes up 15% of Tusker's orders. Owing to the high cost of items shipped, 80% of Tusker's industrial customers surveyed felt that consignment security provided by Tusker is their main decision driver to consistently use Tusker's services.



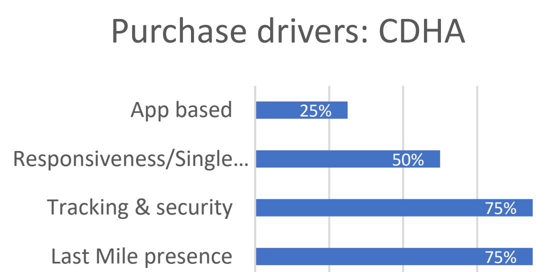
At comparable levels, 60% of INDL sector customers perceive value in Tusker's wide last mile presence and the company's responsiveness throughout the logistics transaction. Among all sectors, INDL accounts for the second highest volume of transactions, and this distribution chain is highly fragmented across many small vendors. Tracking orders "offline" is tedious at scale and the automation of updates is a notable convenience for customers.

Consumer durables and home appliances (CDHA)

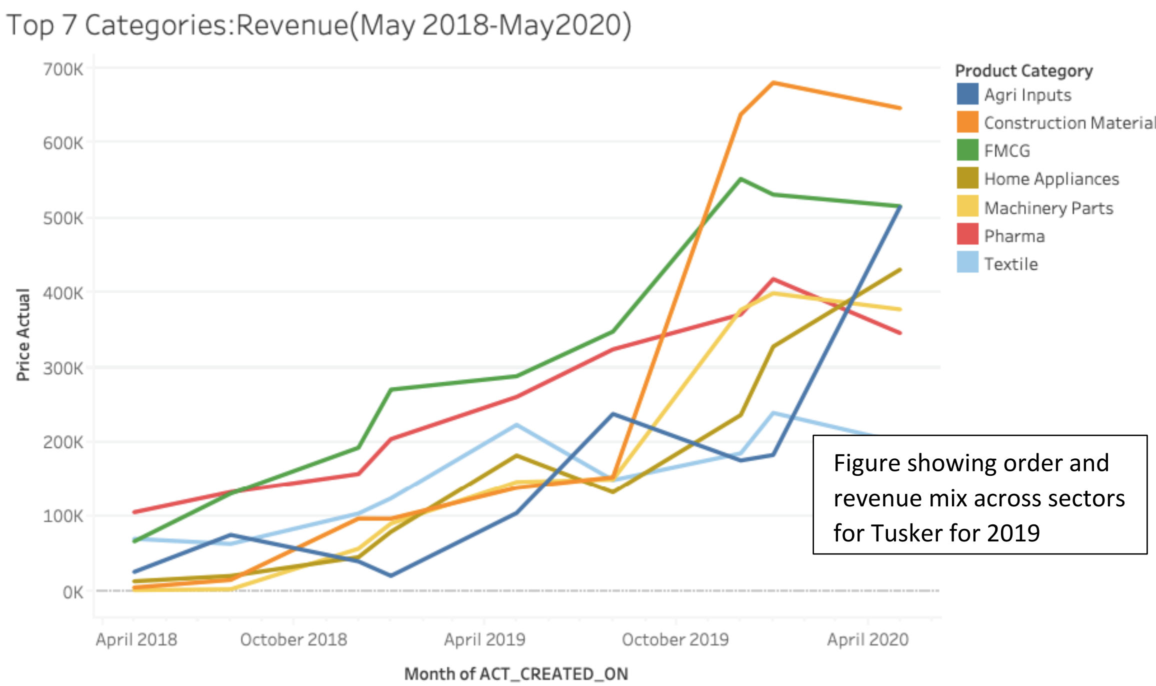
In the survey period, this sector increased in revenue share from 6.4% to 8.9% over a year, while growing nominally by 424%.

CDHA cover a class of consignments ranging from refrigerators and televisions to bicycles and table fans. CDHA demand tends to coincide with festival seasons, during which there are aggressive brand promotions.

CDHA customers echo similar thoughts as those of auto/industrial shippers. 75% of them highlighted consignment security coupled with deep rural market coverage by Tusker as their main purchase decision drivers.



Customers felt secure that Tusker would not outsource their shipments to further smaller transporters and are willing to pay for Tusker's services for this value addition. Other LMD businesses commonly pass on consignments that they cannot handle to third parties without providing a line of accountability. This is accepted because of the prevailing low service expectations in the rural market context. With Tusker, because of tracking alerts, an accessible customer service team and the clearly stated service-level-agreement, it is clear to the customer that Tusker is highly accountable. Moreover, the CDHA category has the highest average declared value for consignments, and correspondingly the highest shipping price by weight. These indicate a less price-sensitive but more security oriented shipper.



The trend of sum of Price Actual for ACT_CREATED_ON Month. Color shows details about Product Category. The data is filtered on ACT_CREATED_ON and ACT_CREATED_ON Month. The ACT_CREATED_ON filter ranges from 01/02/2018 10:16:27 AM to 31/05/2020 8:29:00 PM. The ACT_CREATED_ON Month filter keeps January, May, August and December. The view is filtered on Product Category, which has multiple members selected.

Sector comparisons

FMCG and Pharma were the top 2 sectors comprising 20.8% and 14% of revenue respectively, on average across the year. Both sectors have consistent demand, but due to growing traction in new sectors, their share of revenue decreased. They also comprise 24% and 14% of shipped weight respectively, demonstrating that Pharma has the highest revenue for unit of weight. The pharma customers have indicated reliability value addition – consignment security and tracking as top purchase drivers, followed by accessibility with multiple collection points, all of which Tusker offers. This gives Tusker insights to tailor their pitch to tap into new pharma customers while expanding to new rural geographies. A conclusion Tusker has been able to draw is that increase in pharma customers can increase revenue per shipped weight of overall consignment mix.

The FMCG sector is cost sensitive but relatively less time sensitive. Possibly due to tighter distribution margins in this sector, and merchandise value being less dense in comparison to some of the other sectors. Based on survey results, Tusker feel that their expansion into more disperse rural areas will win them more business from existing FMCG customers and this will inform Tusker's communication strategy on geographical coverage per sector.

Both INDL & CDHA customers found accessibility and reliability offered by Tusker as their decision drivers to opt for Tusker's logistics services. This means because INDL & CDHA consistently make up 25% orders and are high priced items, Tusker can look to offer premium services and customer engagement for Tusker's future pilots involving credit integration. For the construction segment, which is approximately 13% of average monthly orders, Tusker has learnt from this survey that these larger Carrying & Forwarding (C&F) customers, who are often on monthly payment cycles, have high regard for value-added services such as continuous real-time vehicle tracking, enterprise account portal/ dispatcher dashboard, transaction history and analytics. This informs Tusker's strategy to win new customers for the construction and hardware segment. Taking its cue from customer survey, Tusker will continue to engage with textile market porters as stakeholders and incentivise them to act as channel partners in much the same way as the company has with mini-truck drivers. By expanding visibility to encompass the entire consignment journey, it will enhance our ability to track and secure the delivery. Additionally, given the level of familiarity the porters have with shippers, if they were to be Tusker affiliates, our brand engagement to the dispatcher and sense of accessibility would be increased.

While this survey analysis is a success for Tusker in understanding their customers' purchase drivers and feedback into Tusker's strategy for scaling up their services for diverse sectors they serve, a further understanding developed from this learning exercise is that for priority sectors contributing most to Tusker's business, Tusker need to develop more insights into rural markets to strengthen their understanding of impact of their services from end-consumers' perspective. This will assist Tusker to improve their offering to distribution stakeholders to ultimately benefit end consumers.

Overall cross-sector learnings

In order to build a viable last-mile distribution business, Tusker has had to build a diverse cross-sector portfolio which could reach both the volume and unit profitability needed. Each sector has their own requirements and hence unique purchase drivers that Tusker has addressed in the previous sections. However, the following purchase drivers seem to cut across all sectors and have hence emerged as keen themes driving Tusker's strategy for the future:

Strategic territory expansion can escalate client partnerships (Reliability)

- Many customers have distribution territories much larger than Tusker's service area, and as such they must engage with multiple freight vendors. Although distributors would want to avoid over-reliance on a single vendor, they also see managing too great a number of small transporters to be a drain on resources. Tusker's growing service reach is accordingly met with enthusiasm from distributors who are keen on allocating more work to us, and further giving exclusive share of existing territory being served. In time these relationships have the opportunity to escalate into deeper and more exclusive partnerships.

The expectation of security and accountability is expanding (Reliability)

- Although the necessity of making claims for loss and damage are rare, the understanding that Tusker pledges a high level of responsibility for the safety of consignments allows trust levels to mature quickly. Track and trace visibility and digital notifications are tangible manifestations of the security of the consignment. Further to this, the Tusker customer service desk is accessible in a way that is exceptional for the last-mile segment of the logistics sector. For queries, the customer does not call a dispatcher's depot, but rather an office with trained agents accessing their complete order details. The Tusker sales teams, while pitching transaction renewal with customers, have collated feedback that reinforces the conclusion that security is a valued advantage over competitors.

Low cost isn't everything (Affordability)

- Low freight rates are very important at the initial stages of the customer relationship. This is to be expected in so far as there is a continuance of a negotiation posture. Unlike relationships with product vendors, however, there is a great deal of turnover when it comes to freight service providers. The inconsistent and disorganised nature of the informal freight sector necessitates that they are active in managing service levels, for which they use price negotiation as a lever. Generally, large enterprise customers in FMCG are among the most price sensitive, and yet we have evidence that they are open to paying more once service levels stabilise at an acceptable level. We understand from this that customers can be motivated by high service levels and value-added offerings to pay more.
- This is also in keeping with our own data that our freight charges on average amount to <1% of the declared value of consignments. Despite the variance in accepted distribution margins across sectors, this represents, in all cases, a very low fraction. This suggests there to be a much greater capacity for expenditure.

Convenience Matters (Accessibility)

- Service features like app-based ordering, dedicated helpers, cash handling, and nearby collection points indirectly reduce costs and save time and effort for the customer. The majority of Tusker orders are placed over a mobile app now, and the advantages to the user, once proficient, is less time on the phone with our customer service desk (CSD) and an immediate in-app ledger of their order history and status. They also have the ability to place orders at any time of day and do not have to wait to speak to an agent. This makes their workflow more predictable and sharable across personnel. The accessibility of helpers for large and heavy consignments is a highly attractive convenience for shippers of construction material, hardware and mechanicals. Accessible collection points drive a great deal of decisions for textile and pharmaceutical shippers. Among the former, the freelance labour force in the market only considers booking transport via freight options that are located in walking distance of dealers, and small commercial vehicles can’t access the dense inner-market warehouses. Pharmaceutical parcels are usually small enough for a shop assistant to carry by hand or on a motorbike to a nearby collection point, and they prefer the flexibility and reduced prices of bringing it a short distance rather than waiting for a parcel pickup in the narrow dispatch windows they are allowed.