As he went through the morning newspaper, Subhasish Chakraborty, Chairman and Managing Director of DTDC, had a worried look on his face. The Indian Postal Services (IPS) was lobbying for a ban on carriage of letters and packages less than 500 gms in weight by private courier companies. Although the demand of IPS was very unlikely to be met by the government, it could give a heavy blow to DTDC if it did happen. There were several other issues he was grappling with, prime among them being the growth rate of profits. Also, he had been debating with himself whether the company should continue with the franchising model for international expansion and for expanding the domestic operations. The company had already started international market trials in 2002-03 and had set up wholly owned subsidiaries in U.S. and U.K. and joint ventures in Dubai, Singapore, Sri Lanka, Nepal, Bangladesh, and Pakistan. While sipping his morning coffee, Subhasish was contemplating what should be the strategy of the company in the coming years to achieve the business objectives of increased market share and 50% growth in profits YOY.
Background

For Subhasish Chakraborty the seeds of entrepreneurship were sown early in life. Born in a very poor family in a small village near Calcutta, he did not even have the money to support his education. However, he decided to support his studies by working part time along side his studies and enrolled for a major in Chemistry at the prestigious Science College, Calcutta, from where he graduated with a gold medal.

While at college, Subhasish Chakraborty joined Peerless Insurance as a freelance agent. Though he was doing well for himself, balancing his studies and work life, Subhasish felt that this was not rewarding enough. He soon realized that he could in turn appoint other freelance agents and rapidly expand his network, thus earning more money for himself as well as provide an opportunity for other youths like himself to make a living.

In the late 80’s, because of the uncertain political atmosphere in its home state of West-Bengal, Peerless insurance decided to expand into southern state of Karnataka. Subhasish Chakraborty, by now recognized as one of the most entrepreneurial in the organization, was asked to set up the Bangalore office for Peerless. For this, Subhasish and his entire team of moved to Bangalore.

However, a couple of years after the Bangalore operation started, the MD of Peerless, who was also the mentor of Subhasish, died and Subhasish decided to move on. His entrepreneurial mind started evaluating alternate business ventures and in 1989 he started his own chemical distribution company. While in chemical distribution business, Subhasish discovered that though he was able to transport goods on time, the consignee documents suffered inordinate delays. The Indian Postal Service was inefficient and courier companies were few and expensive; this left businesses with limited options.
Setting up an entrepreneurial venture in Indian of the ‘90s was difficult. However, Subhasish realized that because of unaddressed gaps, tremendous opportunity lay in the courier business. Further, as a courier venture was not capital intensive - he could bootstrap as the business grew. He was a visionary and had the courage to look beyond the traditional model to introduce franchisee model in the courier business. This lead to the beginning of Desk to Desk Courier (DTDC), with its first office in Bangalore (Karnataka) in 1990.

**The Courier Industry**

The Indian Courier industry was highly fragmented with about 2000 companies, only 25 of which were in the organized sector. However, the organized sector accounted for more than 60 % of the revenues. The growth of the industry is directly linked to the economic and trade scenario of the country. Products in the industry could be divided into two categories:

- **Documents** – This segment comprises letters, financial instruments etc. The document sector offered high margins and opportunity to tap into unorganized sector for growth. However, the recent move by the Indian government to restrict the carriage of document packages weighing less than 500gms to IPS could, if implemented, spell disaster for private players operating in this space. The segment was expected to grow at a rate of 12~15%.

- **Packages** – This segment consisted of commercial goods like electronic products, spare parts, samples etc. In this segment, the margins were lower even though the competition was relatively less with only large, organized players in a position to offer the reach and service level demanded by the customers. This segment was expected to continue growing at around 30% for the next 5 years. It can be further subdivided into two segments:
o Air shipments – comprising of high value, time sensitive shipments which move through air transport. The typical weight per package was up to 50 Kg.

o Ground shipments – Typically high weight and/or low value shipments. Usual transit time was 3~5 days depending on the destination

In the mid 80’s, couriers were used primarily to send time sensitive documents and the non-document sector was very small. The trend began to change in the late 80’s and the domestic express industry grew at 30 ~ 35 % during this period. This led to international players like Federal Express® and UPS® making entry into the country through strategic alliances with Blue Dart® and Elbee®, respectively. Strategic alliances with international players gave Indian companies access to the global markets without replicating their network in these countries. This, however, came at a cost as the domestic companies had to share the revenue with their overseas partner(s).

DTDC Couriers

Early Years – The franchisee model

With a very modest investment of Rs. 75,000 (roughly US$ 2000), Subhasish Chakraborty founded DTDC Couriers in 1990 with its first office in Bangalore. A year into the business made Subhasish Chakraborty realize that he had to deal with three critical issues:

Finance: To emerge as a global courier company DTDC needed huge capital outlays. Capital however was difficult to come by – external commercial borrowing were banned, venture capital funding was virtually absent and prime lending rates at banks averaged 18%.
Untrained manpower: The manpower was generally untrained and lacked grounding in management best practices. Therefore, any service venture would have to be supported with robust processes and rigorous training.

Network: To compete with Skypak®, Blue Dart® or other large courier companies, DTDC needed a network that beat competition in both geographical spread and density.

With these factors in consideration, Subhasish Chakraborty decided to adopt a franchisee model for expansion. However, such a model had never been tried in the courier industry and skeptics prophesied that franchisees would foul ‘delivery’ – the critical element for success in the courier business. Even so, Subhasish remained convinced that this was an effective model and based his conviction on three basic philosophies:

Franchise to entrepreneurs who have spirit to excel but lack opportunities to do so:

“People, who had an entrepreneurial spirit but roamed the streets because opportunities to nourish that spirit did not exist in the ’90s, have today by sheer hard work and by being a part of the DTDC family attained remarkable social stature. Many who could not afford even a cycle, drive large cars¹, most others own houses and motorcycles” - Subhasish Chakraborty.

The ’80s and early ’90s were not exciting times for the Indian economy which was still predominantly socialist. Due to limited opportunities, the entrepreneurial spirit lay dormant in the Indian middle class. Subhasish associated with this ‘helplessness’ and so strove to ignite that passion in prospective entrepreneurs that he had once felt. Most franchisees were middle class youth who operated out small rooms and small shops.

¹ In India, Cars cost $10,000 - $20,000 and are unaffordable for the majority of the population.
The franchisee selection was straightforward and robust. Once DTDC had zeroed in on a particular locality for expansion, it advertised in leading newspapers and called for formal applications. Short listed prospectives were invited for an interview. Franchisees were chosen not on the amount of capital they possessed, the value of their real estate or prior knowledge of the business but usually by the sole criteria of possessing a burning desire to succeed in life. A rigorous training period which delved into minute details of the service readied the franchisees for business.

All franchisees were controlled through a regional branch with a typical branch controlling 30~35 franchisees in a particular geographical area. The BD team regularly visited the franchisees to keep a tab on the quality of service being provided. The franchisees collected packages from the customers and delivered it to the regional office which then ensures the onward movement and delivery to the consignee through franchisees at other end.

“Grow and let grow”:

"Let the entrepreneurs profit from this association with DTDC, for only if they do so will we profit in turn" - Subhasish Chakraborty

Franchisees used consignment notes provided by DTDC to transact with customers. These consignment notes were provided by DTDC at a preferential price (MOP or wholesale price) whereas the franchisee could charge up to MRP advertised by DTDC for various service offerings in its price sheets and brochures. Counter sales (i.e. walk-in customers) were charged at MRP by all the franchisees whereas the charges for corporate customers were flexible between MRP and MOP and was decided by the Franchisee. The difference between the selling price and MOP was the franchisee’s profit.

By leaving the final decision making with the franchisees, this model allowed remarkable flexibility to react to dynamic market pressures and individual price sensitivities.
Convert every delivery into a prospect for future business:

Subhasish Chakraborty believed that every courier delivery was an opportunity to develop business. DTDC was uniquely positioned in the courier market, and it trained its franchisees to communicate DTDC’s value propositions during deliveries:

- DTDC was less expensive than the competition in the organized courier market.
- DTCC was more efficient that the semi-organized courier services. There were hardly any delays in delivery.
- While most courier companies restricted themselves to major towns and cities, DTDC included small towns and semi-rural areas in its delivery web.
- DTDC franchisees were conveniently located close to most corporate offices.

Growth

DTDC’s franchisee model was a phenomenal success and the number of franchisees increased from 250 franchisees in 1992 to over 3710 franchisees in 2005 (see exhibit 3). The company expanded into small towns in semi-urban and rural India; to cite an example - DTDC was the first courier company to set shop in Kashmir2, which had witnessed an exodus of businesses in the 90’s due to militancy. Growth saw revenues growing from a meager INR 5.2 million in 1990-91 to INR 1.2 billion in 2004-05 (see exhibit 4) making DTDC one of the largest courier companies in India.

Over the years DTDC expanded the number of services offered (see exhibit 1 for a list of services offered). In addition, it provided customized solutions to suit business requirements. The Consignment Tracking and Billing System (CTBS) enabled tracking all consignments in real time. Further, many franchisees started

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2 Northern most state of India.
deploying Franchisee Module which essentially was a stripped down ERP system. By end 2005, a state of the art central data centre was functional.

This growth was supported with a $25 million investment in building a IT infrastructure. DTDC was the first courier company to offer an online consignment tracking system. In 2005, it also became to the first company to offer this service on mobile phones.

### Table 1: Network Strength

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tr>
<td>Zonal offices</td>
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<tr>
<td>Regional offices</td>
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<tr>
<td>Area / Hub offices</td>
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<td>Branch offices</td>
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<tr>
<td>Employees</td>
<td>13000</td>
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<tr>
<td>Shipments per day</td>
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</table>

With the liberalization of the Indian economy and the subsequent expansion of international business more and more of DTDC’s customers began demanding international deliveries. Therefore, in 1998, DTDC went international with a company owned delivery hub in New York. In addition it tied up with DHL and offered deliveries throughout USA and later worldwide. Subsequent expansions saw establishment of delivery hubs in London, Dubai (UAE), Katmandu (Nepal), Dhaka (Bangladesh) and joint ventures with regional courier companies in Sri Lanka, Singapore and most recently, China. Future plans look at similar joint ventures in Japan.

**Outlook**

The logistics industry in India is still at a very nascent stage, however, as more and more companies outsource their supply chain to third party logistics providers, there is a huge potential for growth in the non-document sector. Many of the competitors of DTDC are already providing total logistics solutions specifically tailored solutions to meet the changing demands of business. The distribution network and infrastructure of these companies make logistics a natural extension of their activities.

Globally non-core business activities are being outsourced, therefore, possible growth areas included providing mail room management services to corporate
clients and educational institutions, multi-modal transport solutions for industrial customers. Other courier companies were already moving in this direction at the time of writing this case.

Courier companies are increasing employing information-technology to simplify procedures for booking, transportation and delivery. Blue Dart has launched Power Dart 2000, under which scheme it installs for free software in its client's premises to track and trace consignments. In 2005 DTDC invested US$ 1 million in revamping its IT infrastructure to centralized its database and provide online tracking of consignment services.

Growth in e-commerce also presents a large growth opportunity as the e-commerce companies depend on the courier companies for the delivery of their merchandise. DTDC Shopping mall was a step in this direction wherein the company had tied up with www.fabmall.com to provide online shopping with free home delivery of popular gift items like flowers, books, apparels etc.

The government was expected to liberalize foreign direct investment in retail in the coming years. Once that happened there would be an exponential increase in logistic requirements both domestic and international. For this reason, foreign venture capitalists and global courier companies were on the lookout for Indian courier firms to invest in.
DTDC offers a wide gamut of services, which has been designed keeping in mind the customers’ requirements & expectations:

- **Air Express Services**
  To cater for your time-sensitive documents & small parcels within India & abroad

- **Air Cargo Services**
  To handle the heavier consignments, which need priority deliveries both in the domestic & international fronts.

- **Surface Cargo Services**
  To optimize your transportation charges, whilst offering the benefit of door delivery to your consignees across the country.

- **Intra-City Services**
  To fulfill your courier needs for despatches to consignees within your own city, enhancing your mailroom management.
Exhibit 2

VENTURE WITH A VISION

DTDC - VISION 2009

VISION
- To be the most admired and successful Express Distribution Company in India by meeting and exceeding our Customers' expectation of service.

MISSION
- To Focus on Customer Loyalty & make it the goal of our Organization.
- To encourage our people for adoption of new technologies, processes and systems for improved, reliable and speedy service.
- To relentlessly monitor our service levels to reach a minimum net of 98% delivery.

STRATEGIC INTENT
- To continuously improve our Line-haul connections to achieve shortest possible transit times.
- To save time by adopting 'Right-First-Time' approach in every part of Business.
- To impartially select and develop employees and Service Partners (Franchisees) for meeting our quality service standards.

CORE VALUES
- We are a part of our Customers' Balance Sheet.
- WIN-WIN Relationship with everyone involved in our Business.
- Transparency in all our Transactions.
- Protect the Environment by minimizing Pollution and Reducing National wastage.
Exhibit 3

No. of Franchisees

1992-93: 250
1993-94: 400
1994-95: 550
1995-96: 750
1996-97: 957
1997-98: 1082
1998-99: 1219
1999-00: 1394
2000-01: 1712
2001-02: 2076
2002-03: 2520
2003-04: 3058
2004-05: 3334
2005-06P: 3710

Franchisee Sales (In INR millions)

1990-91: 0.5
1991-92: 2.4
1992-93: 5.8
1993-94: 19.4
1994-95: 40
1995-96: 45.9
1996-97: 66.6
1997-98: 117.6
1998-99: 174.2
1999-00: 232.3
2000-01: 313.9
2001-02: 343.9
2002-03: 448.1
2003-04: 542.2
2004-05: 627.8
2005-06P: 760.4

From Company sources
Exhibit 4

Profitability & Sales (in INR millions)

From Company Sources
## Exhibit 5
Industry Analysis

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Blue Dart</th>
<th>DTDC</th>
<th>First Flight</th>
<th>Overnite Express</th>
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<tbody>
<tr>
<td>Established</td>
<td>1983</td>
<td>1990</td>
<td>1985</td>
<td>1987</td>
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<tr>
<td>Offices</td>
<td>250</td>
<td>127</td>
<td>350</td>
<td>110</td>
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<tr>
<td>Franchises</td>
<td>1,100</td>
<td>3,700</td>
<td>1,200</td>
<td>400</td>
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<td>Hubs</td>
<td>60</td>
<td>37</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>Employees</td>
<td>4,400</td>
<td>3,000</td>
<td>6,950</td>
<td>1,300</td>
</tr>
<tr>
<td>Franchise Staff</td>
<td>4,500</td>
<td>13,000</td>
<td>7,000</td>
<td>2,300</td>
</tr>
<tr>
<td>Local Volumes</td>
<td>272,000</td>
<td>321,000</td>
<td>250,000</td>
<td>85,000</td>
</tr>
<tr>
<td>Market Share</td>
<td>22%</td>
<td>13%</td>
<td>15%</td>
<td>6%</td>
</tr>
<tr>
<td>Overseas Volume</td>
<td>7,000</td>
<td>2,700</td>
<td>3,200</td>
<td>400</td>
</tr>
</tbody>
</table>

**Strengths**
- Technology, Customer service
- Network, Technical competency & Price
- Operations, Technology & Price
- Price, Service Quality, & North East operations

(Source: Express Courier Council)