

THE POTENTIAL FOR GROWTH IN RURAL INDIA



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AN OVERVIEW

The rural market in India offers tremendous growth opportunity, as evident from the broad macro statistics. According to National Accounts Statistics (2010) and National Sample Survey Organisation (NSSO) (2009-10), 70 per cent of India's population, 48 per cent of income, 56 per cent of expenditure and 33 per cent of savings come from rural India.

Many factors have contributed to the increasing purchasing power of the rural population, and hence the growing market potential of rural India. These include several government initiatives for building rural infrastructure (such as Bharat Nirman and the National Rural Employment Guarantee Scheme), sustained good monsoons coupled with a consistently rising minimum support price for crops.

Some time ago, the McKinsey study, *The Bird of Gold: The Rise of*

Indian Consumer Market (2007) had pointed out that, 'In 20 years the rural Indian market will be larger than the total consumer markets in countries such as South Korea or Canada today, and almost four times the size of today's urban Indian market'.

GROWTH ACROSS SECTORS: SOME EXAMPLES

To effectively tap this huge rural market potential and establish a sustained business presence, strategic planning, innovation and technological advancement are needed across sectors. There is substantial scope to create products that are oriented towards non-urban sectors. These can be in terms of either functional appeal or cultural aspects, or both.

If one is to characterise rural markets in generic terms, three elements stand out:

- Rural households are price savvy buyers and need value-for-money

products. Most of these buyers do not have a 'cash fund' problem as much as a cash flow problem as it is a function of the crop cycle.

- The rural market is not homogeneous; rather, it is fragmented.
- The rural consumer is now changing. Increasingly, the younger working class, that is, the next generation, is making the buying decisions. Hence, traditional marketing strategies of product, price, place and promotion need to be interchanged with affordability, awareness, availability and acceptability for rural markets.

By and large, fast-moving consumer goods (FMCG) companies have mastered product development and pricing. They have set up local partner networks that work well not only for the rural consumers, but also help the companies achieve good profit margins. Several FMCG companies have innovated on package sizes to introduce low price points. Hindustan Unilever initiated *Operation Bharat* to tap the rural market by rolling out low-priced sample packets, among others, of its toothpaste, fairness cream, shampoo and cream. They have customised promotional strategies for rural markets by using local languages and talent, thus creating a market specific relevance. Chik shampoo created the jasmine variant for some regions, in tune with the practice of women using jasmine flowers to style their

hair. Similarly, Godrej introduced three brands of Cinthol, Fair Glow and Godrej (soap) in 50-gram packs and priced them lower. Adidas and Reebok too significantly increased their sales in rural markets by introducing lower-priced products.

Companies tapping into the rural market are taking the price sensitivity of rural households very seriously. There is huge potential in the consumer durables market too, clearly understood and recognised by industry participants. Videocon has introduced a washing machine without a drier for a much lower price especially for the rural market while Philips has launched a low-cost smokeless *chulha* (stove). Tata has developed a low-cost water purifier especially for rural areas.

However, affordability alone cannot sustain market share for long unless product design and re-engineering to suit the needs of rural households are also built into the marketing strategy. LG Electronics customised one of their television models—*Sampoorna*—for rural areas. Recognising the problem of low intensity signals, they created a television which could be effective in picking up such low intensity signals efficiently.

Telecom companies have spotted a large growth potential in rural areas, and many mobile device manufacturers are also tailoring their products to this market. Nokia had

earlier launched a basic handset with a torch in recognition of the fact that large parts of rural India don't have electricity. In December 2008, it went one step further with the launch of Nokia Life Tools with a range of agriculture, education and entertainment services designed especially for consumers in small towns and rural areas of emerging markets. The device is aimed at providing timely and relevant information customised to the user's location and personal preferences directly on their mobile devices. Nokia Life Tools is the first step towards bridging the digital divide between rural and urban areas. Telecom service providers—Airtel, BSNL, Vodafone and even the smaller players—are also focussing on rural India as there is still a lot of scope for growth considering that teledensity is still undermapped in these areas.

Similarly, in the auto segment, vehicle penetration levels in rural India are at 2.3 per cent, as compared to 10 per cent in urban areas according to FADA (Federation of Automobile Dealers Association), a fact that offers a huge potential for players. Maruti Suzuki India Limited has been targeting the rural market as a strategic initiative from 2008, and has been the most effective player in the passenger vehicles category in terms of tapping this opportunity. In rural markets, the endorsement of opinion makers takes precedence

over an informed objective judgment. Having understood this, Maruti Suzuki launched a *panchayat* scheme for such opinion makers, covering the village *sarpanch*, doctors and teachers in government institutions, etc., wherein an extra discount is offered. Since the average income of a rural household is lower than that of an urban one, there is a focus on lower cost products such as Alto and Santro in passenger cars. The recently launched Tata Nano is also eyeing the rural market and tied-up with *Hariyali Kisaan Bazaar*, the rural retail chain, to showcase the car.

Given the high cost of reaching out and convincing the fragmented rural consumer segment, the two most important enablers are the mass media and rural retailers. There are several examples of rural retailers playing an important role in introducing customers to new products. *Hariyali Bazaars* are selling seven times the slim/LCD television screens that they were selling two years back. In one year's time, costlier non-stick utensils have overtaken the sale of traditional utensils. Supposedly, urban products like cornflakes and aluminium foil are selling in good numbers through such retailers.

Besides focussing on affordability, design and reaching out, companies which wish to access rural markets need to forge an emotional and sentimental connect with the rural popu-

lation to increase their product's acceptability. Some players have used specific rural campaigns to expand rural penetration, such as, Hindustan Unilever's Project *Shakti* and Tata Tea's *Gaon Chalo*. Coca-Cola's *Parivartan* programme has trained more than 6,000 retailers to display and stock products. In 2008, Hyundai launched its *Ghar Ghar Ki Pehchaan*, special schemes on the Santro car for government officials in rural areas and members of the *gram panchayats*.

THE WAY FORWARD

In conclusion, it can be said that while rural India offers tremendous growth opportunity, it needs a somewhat innovative marketing campaign focussing on affordability, acceptability, technology, emotional connect and a reach-out strategy to make it successful. And this principle applies across all sectors. Be it automobile, telecom, insurance, retail or banking, the future drivers of growth are dependent on increasing rural demand.



*This article was written in September 2011 and the rural scenario might get impacted/affected due to the economy and market dynamics going forward.