
Indian Rural Market a Powerful Economic Engine Contributing to the Potential & Profitable Growth

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ABSTRACT

There is a growing realization that global investment and growth will increasingly come from rural populations, as their savings translate into consumption. But rural India's contributions to the nation's economic success and the obvious potential for profitable growth is just a part of the promise of wholehearted commitment to doing business beyond the city centers and suburbs. India is on the march. Its momentum is not only evident in metros, it is apparent in small towns and villages as well. Collectively, all over India's rural heartland and in its teeming cities, India is readying for an even more impressive era of economic growth. There is no question that India's rural markets are becoming a powerful economic engine. One telltale sign rural accounts now comprise over 50 percent of new subscribers for some of the leading telecom providers. The rural multiplier effect is what excites policy makers and business leaders alike. For every new opportunity for a villager to use his mobile phone to protect his crops, there is a knock-on opportunity for him to purchase a small refrigerator or a motorcycle.

This paper talks about the growing business confidence in rural opportunities and the attractions and distractions of rural markets.

INTRODUCTION

India's rural markets offer unprecedented opportunities for global and local companies to experiment with approaches and business models, which if successful, may be replicated in rural markets of other emerging economies. Business sector's growing confidence in India's rural markets. Business leaders' belief in the future of the rural opportunities in India and their willingness to invest in the opportunities. It is about the enormous disparity in incomes and living standards and lack of social infrastructure across India. Businesses can do much to accelerate employment, educational opportunities, infrastructure development, and wealth creation. In particular, they are in prime position to help bring education, healthcare and productive employment to a youthful workforce whose size promises to make it the major engine of India's future workforce and economy.

GROWING BUSINESS CONFIDENCE IN RURAL OPPORTUNITIES

India's rural markets present opportunities that companies seeking to become high-performance businesses cannot afford to ignore. But the size and scale of those markets (three-fourths of the country's approximately 1.1 billion people live in villages) have been offset by concerns about the profitability of these markets and the durability of rural demand. Now, though, there is abundant evidence to indicate that businesses are seeing more promise in India's hinterland. There are several strong regional and macroeconomic reasons for greater confidence. And, there is a growing body of statistics to demonstrate that rural markets, fueled in part by rising purchasing power, hold real prospects for profitable growth across a wide range of industry sectors.

Reasons for greater business confidence in rural India

1. Rural spending is now less dependent on farm income, which now constitutes less than 50 percent of the total rural income. Income remittances from migrant rural populations and increases in nonfarm activities such as trading and agro-processing are boosting nonfarm income.

2. The increase in procurement prices (the minimum price that farmers earn on produce sold to the government) is putting more money into the hands of the rural population.

(c) The government has increased spending in rural areas, from US\$9 billion for the financial year ending March 2007 to an anticipated US\$16 billion for the financial year ending March 2010.

3. Improved access to finance and institutional credit has brought greater cash inflows to rural households. Institutional credit to the agriculture and allied sectors increased from INR695.6 billion (US\$14.5 billion) in 2002-03 to INR2.6 trillion (US\$55 billion) in 2008-09.

4. Policy measures such as the US\$13.9-billion waiver of agricultural loans and the National Rural Employment Guarantee Scheme (NREGS), which guarantees 100 days of employment to one member of every rural household, have helped to reduce rural under-employment and raised wages. The official minimum average per-day wage paid under NREGS has increased from INR65 (US\$1.4) in 2006-07 to INR84 (US\$1.8) in 2008-09.

The increase in rural purchasing power is reflected in many ways. Rural incomes have been growing at more than 7 percent over the past few years, helping to account for almost 40 percent of India's total consumption of goods and services⁶. Non-food expenditures are growing at an 8.2 percent annual compound rate. Rural households are purchasing a wide range of products—cars, flat-screen televisions, microwaves—that until recently would have been beyond their reach. Some industrial sectors have seen surprising growth coming from rural consumers. Fifty percent of revenues from the fast moving consumer goods (FMCG) sector now come from rural sales. In the case of the telecom sector, subscriber base in the semi-urban and rural markets has grown at a phenomenal 98 percent over the last five years in comparison to other circles representing metros and urban markets.

THE ATTRACTIONS AND DISTRACTIONS OF RURAL MARKETS

The macroeconomic data clearly point to the soaring potential of India's nonurban markets. But the statistics do not give clues to how interested business leaders might be in the opportunities at hand. Nor do they say whether companies are prepared to make the kind of investments that are required to unlock long-term value from rural markets.

Rural markets present opportunities

The overarching trend that emerged businesses are confident about the opportunities that rural India has to offer. Further, they plan to strengthen their presence in semi-urban and rural areas over the medium to long term. 20 to 50 percent of their revenues coming from the rural market over the next three years. And, more than 65 percent of the organizations have already invested in rural India, in some cases more than five years ago.

Rural presence strengthens competitiveness

Corporate leaders believe a rural presence can help strengthen their overall competitiveness. The investment decision depends on factors that range from access to cheap labor pools and sources of raw materials to market expansion and an improved public image.

Rural markets are home to resources and talent

Rural markets encompass eager consumers who want to share the fruits of India's industrial growth. Senior executives are keen to tap rural areas' new segments of consumers. From a supply-side perspective, want to access raw materials. Unsurprisingly, rural markets offer labor pools at much lower cost than in urban markets.

Rural markets are crucibles for business model innovation

Many consumers in rural areas lack the prejudices that make their urban counterparts resistant to change. They are keen to experiment with new products, new services and new processes. "Ready to be trained rural talent is far more hard working, experimental, ready to adjust and learn," was the opinion of an executive in a telecom company.

Rural markets suffer from persistent structural handicaps

Issues such as inadequate infrastructure, low literacy, and high levels of poverty raise serious question marks about the sustainability of the rural opportunity. Our survey findings indicate how concerned businesses are about these issues. Lack of proper linkages for roads, railways and telecom infrastructure are big hindrances, Lack of skilled talent, fragmented demand patterns as key challenges. Other barriers to profitability and scalability include the lack of granular information on rural markets and consumers, and limited access to financing options. Timely data collection on demographics and consumption patterns is difficult; data analysis is no easier. One retailer related how difficult it was to switch suppliers from one season to another because rural customers, hit by a season of poor crops, could no longer afford a particular commodity at the price they had paid a year earlier.

Rural markets are costly to enter

The size of the necessary upfront investments as the biggest hurdle towards establishing rural operations. For instance, each of the 4,100 kiosks (containing a computer with a V-SAT connection) set up under ITC's e-choupal scheme cost between US\$3,000 and US\$6,000 to install and about US\$100 for annual maintenance. That translates to an average initial investment of US\$20.5 million and a variable cost of US\$0.4 million each year.

Skilled local talent is hard to find in rural regions

Compounding this issue, companies also find that their trained, seasoned staff are very reluctant to relocate to rural areas. One mobile content service executive "Most of the young people we interview say they have already done their rural stint and are not keen to spend more time there. We have recently made three offers for the position of rural marketing lead but all three have been turned down."

Success in rural markets demands flexible approaches

Inability to create flexible business models as one of the key internal barriers to establishing a successful rural presence. Mobile-phone entrepreneurs who have successfully penetrated urban markets are struggling to implement business models that can earn them sustained profits from their rural operations.

CONCLUSION

The high-performance businesses will be those that deliberately learn from their experiences in India and quickly apply those experiences elsewhere, not only in other emerging markets but in highly mature markets as well. These are the companies that also understand that today's multi-polar world of dispersed economic power does not simply refer to the growing economic might

of hubs such as Mumbai, Sao Paulo and Dubai. It also means that global investment and growth will come increasingly from rural regions and populations the world over. A large number of businesses merely Notesscratched the surface of the potentialfor profitable growth in rural India.And, they have made only a dent inthe social infrastructure challengesthat keep so much of India'spopulation in the shadows.But as Accenture's latest researchreveals, there is now real momentumon both fronts. Whether it is LG'simpressive market-creation activities,Hero Honda's customer outreachduring village festivals or ThomsonReuters' mobile content serviceshelping farmers to protect their crops,there are now abundant stories todemonstrate that businesses can andshould make rural markets a centralplank of their long-term strategyfor growth.There is ample evidence to indicatethat the best businesses help lift upthe lives of those less privileged. Ina nation where income disparitiesand differences in living standardsare so stark, it is the obligation ofthose tapping rural markets to helpboost education levels, to provideemployment, and to think in terms oftheir long-term involvement in andcontributions to the rural communitiesin which they work.

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