Trends

The Discovery of Rural India

As prosperity visits rural India, incomes keep rising compelling companies to refocus their marketing strategies. Rakesh Joshi reports on the corporate initiatives currently apace to seize the rural bait.
For quite some time now, the lure of rural India been the subject of animated discussion in corporate suites. And with good reason too. With urban markets getting saturated for several categories of consumer goods and with rising rural incomes, marketing executives are fanning out and discovering the strengths of the large rural markets as they try to enlarge their markets. Today, the idea has grown out of its infancy and dominates discussions in any corporate boardroom strategy session. Adi Godrej, chairman of the Godrej group that is in a range of businesses from real estate and personal care to agri-foods, has no hesitation proclaiming, “It is a myth that rural consumers are not brand and quality conscious.”

A survey by the National Council for Applied Economic Research, India’s premier economic research entity, recently confirmed that rise in rural incomes is keeping pace with urban incomes. From 55 to 58 per cent of the average urban income in 1994-95, the average rural income has gone up to 63 to 64 per cent by 2001-02 and touched almost 66 per cent in 2004-05. The rural middle class is growing at 12 per cent against the 13 per cent growth of its urban counterpart. Even better, the upper income class — those with household incomes of over Rs one million ($22,700) per annum — is projected to go up to 21 million by 2009-10 from four million in 2001-02. It will have a 22 to 23 per cent rural component.

Higher rural incomes have meant larger markets. Already, the rural tilt is beginning to show. A study by the Chennai-based Francis Kanoi Marketing Planning Services says that the rural market for FMCG is worth $14.4 billion, far ahead of the market for tractors and agri-inputs which is estimated at $10 billion. Rural India also accounts for sales of $1.7 billion for cars, scooters and bikes and over one billion dollars of durables. In total, that represents a market worth a whopping $27 billion.

It is no wonder that even MNCs have cottoned on to the idea of a resurgent rural India waiting to happen. Four years ago, Coke ventured into the hinterland. Now Coke’s rural growth of 37 per cent far outstrips its urban growth of 24 per cent. Coke is not the first MNC to have cottoned on to the rural lure. Its global rival PepsiCo took a wider approach to the business when it was given permission to set up shop in India in the late 1980s and investment in food processing and farming was a pre-condition for entry. The company imported a state-of-the-art tomato processing plant from Italy to Punjab. In five years, productivity improved from 16 tonnes to 52 tonnes per hectare and there was a tomato glut in the state. Farmers weren’t complaining because even though prices fell, their incomes increased because of the huge jump in productivity. Pepsi is now heralding a citrus plantation drive in the state and other parts of the country for its brand of Tropicana fruit juices, to replace imported fruit.

Hindustan Lever Ltd, the $2.3 billion Indian subsidiary of Unilever, the country’s largest FMCG company, has also got on the bandwagon. Its Project Shakti uses self-help groups across the country to push Lever products deeper into the hinterland. Its four-pronged programme creates income-generating capabilities for underprivileged rural women; improves rural quality of life by spreading awareness of best practices in health and hygiene; empowers the rural community by creating access to relevant information through community portals and it also works with NGOs to spread literacy. There are currently over 15,000 Shakti entrepreneurs, most of them women, in 61,400 villages across 12 states. By the end of 2010, Shakti aims to have 100,000 Shakti entrepreneurs covering 500,000 of India’s 640,000 villages, touching the lives of over 600 million people.

With such an emphasis on rural marketing, consumption patterns are changing and it signals a change in the regulatory environment. Vertical integration of the food market from farm to firm to fork becomes the best way to achieve efficiency and serve the interest of every stakeholder in the chain — the farmer, the processor, the retailer and the consumer. As Ashok Gulati of the US-based International Food Policy Research Institute put it, “The future of Indian agriculture in general and the farmer in particular depends on how soon they can become globally competitive.”

Indian economic policy realises this. Between the 8th (1992-97) and the 10th (2002-07) Five Year Plans, successive governments have tripled the spending on rural development from $6.82 billion to $20.2 billion. The Manmohan Singh-led
UPA government plans to enhance rural credit. Besides, the National Rural Employment Guarantee Scheme, which provides 100 days employment to one person from each rural family, is all set to take off. With these two steps, more money is expected to flow into the countryside than ever before. During the current year, $2.4 billion will flow into rural India on account of the employment guarantee scheme alone.

All this potential has got India’s big business houses rushing to enter and expand rural businesses. Telecom czar Sunil Mittal, chairman of the $2 billion mobile telephony major Bharti Tele-Ventures, is another unabashed flag-bearer of the ‘go rural’ strategy. He is confident that the next ‘explosive’ phase of demand for cellular connections is going to come from the villages. In an interesting business diversification, he has tied up with the legendary Rothschilds of Europe for a $51 million food processing venture and export of fruits and vegetables. “We can replicate our pre-eminence in IT outsourcing in agri-

THE IDEA of e-choupal, a rural initiative by ITC, has been termed path-breaking by The New York Times, The Economist, Harvard Business School and the UN. In 1999, S Sivakumar, head of the ITC’s agri-business division, approached ITC chairman, Yogesh Deveshwar, for a $115,000 grant to test an idea. Sivakumar and his team, while sourcing soya in Madhya Pradesh, had watched farmers lug their produce in trailers to local daily markets, often to sell the produce even if the price wasn’t attractive. ITC used to buy the soya from intermediaries and bring it to their hubs. Not only did ITC end up paying more but the farmers got less. Sivakumar felt that there was a need to re-engineer this supply chain so that both the farmers and ITC gained. The solution, he felt, lay in information and communication technology.

Today, ITC’s e-choupal network has reached over 3.5 million farmers and is expanding into 30 villages a day, making it one of rural India’s most ambitious horizon-widening initiatives. Choupal is the Hindi word for the village square (normally under a tree), where elders meet to discuss matters of importance. ‘E’ stands for a computer with an internet connection and is the farmer’s window to the world outside his village. ITC installs a computer with a VSAT Internet connection in selected villages. A local educated farmer called sanchalak, or conductor, operates the computer on behalf of ITC. He is not paid for his services but gets a commission on all transactions.

At the e-choupal, farmers are offered services like daily weather forecasts and price of various crops in the local market free of cost. They can download information about farming methods specific to each crop and region through an arrangement with agriculture universities. They can buy seeds, fertilisers, pesticides and even bicycles, tractor and insurance policies. Over 35 companies currently sell their products through the network.

E-CHOUPAL: ITC’S BOLD RURAL BET

RE-ENGINEERING THE SUPPLY CHAIN: Farmers at one of ITC’s e-choupals
culture and transform the country into a global food basket,” he points out. Mittal’s initial investments include an agriculture research centre and model farm in Punjab. If the hinterland has caught the attention of Mittal, among the country’s most recent entrants to the ranks of big business, it has also not escaped the radar of the oldest business house, the $17 billion Tata group, which has consolidated its rural operations. The group’s two companies, Tata Chemicals and Rallis India, ran separate rural initiatives till 2003. Tata Chemicals ran a chain called Tata Kisan Kendra, which offered farmers a host of products and services ranging from agri-inputs to financing to advisory services. Rallis, on the other hand, was partnering ICICI Bank and Hindustan Lever in offering deals to farmers that covered operations from the pre-harvest to post-harvest stage. In 2004, the two operations were merged and Tata Kisan Sansar, a network of one-stop shops providing everything from inputs to know-how to loans, was launched. Today, the Tata Kisan Sansar has 421 franchisee-run centres in three states and reaches out to over 3.6 million farmers.

Like the Tatas, the $2.6 billion Mahindra group has successfully established a synergy between its current businesses and the planned rural forays. Its flagship, Mahindra & Mahindra Ltd is India’s largest farm equipment company. Its subsidiary, Mahindra Shubhlabh Services, has operations in 11 states, and leverages the strong Mahindra brand, the 700,000-strong Mahindra tractor customer base and the 400-plus dealer network, to provide a complete range of products and services to improve farm productivity and establish market linkages to the commodity market chain. Its retailing arm, Mahindra Krishi Vihar, has been instrumental in increasing the groundnut yield in Rajasthan through a new seed sourced from the state of Maharashtra, and it has also introduced a new variety of grapes in Maharashtra. Says Vikram Puri, head of Mahindra Shubhlabh Services, “Almost 80 per cent of the farmers registered with us have less than five acres land. We are making farming an attractive proposition through three basic guiding steps — growing what the market requires, improving the crop yield and decreasing the cost of crop production.” The activities of Mahindra Shubhlabh Services have attracted the attention of the International Finance Corporation, the financial arm of the World Bank, which recently picked up a 27 per cent stake in the company.

Rural India accounts for a market worth $27 billion. No wonder even MNCs have cottoned on to the idea of a resurgent rural India.
The $1 billion Godrej group entered agri-business through a small animal feeds sub-division 30 years ago. Currently, it is a $227 million business, spearheaded by two companies, Godrej Agrovet and Gulmohar Foods, with a product range that includes pesticides, animal feed, oil plant plantlets and farming inputs. The company has two interesting concepts in the pipeline. The first is Adhar, through which it will retail its own products as well as other brands, apart from offering services like soil analysis and veterinary care. The other is Manthan, which will focus on supplying quality animal feed, so that dairy produce and poultry get a boost.

The rural bug has even bitten the $16 billion Reliance Industries Ltd, India’s largest private sector company. Starting with a modest 200-acre medicinal and herbal plants garden in Navsari, Gujarat, the group plans to integrate this business with its bio-tech venture under the brand-name ReliCare. ReliCare has already spun off brands of plant extracts such as ReliCare Av (aloe vera), ReliCare Pa (patchouli oil), ReliCare Ge (geranium oil), ReliCare Ce (citronella oil) and ReliCare Le (lemongrass oil). Chairman Mukesh Ambani, according to reports, is now readying to get into agribusiness in a major way — with a reported war chest of $227 million — through largescale contract farming of fruits and vegetables. He recently visited the north Indian state of Punjab and held talks on the subject with the chief minister.

The rural thrust of corporate India is not just about providing agriculture inputs or entering into largescale contract farming. For many who are already into retail or consumer finance, the way upstream is through rural shopping malls. The New Delhi-based Shriram group, which is in the consumer finance and insurance businesses, is one such corporate which feels the future lies in rural malls. Ten of its malls are already operational in north India and more are in the pipeline. Malls are also on the agenda of ITC, which has its chain of retail outlets for its apparel line Wills Lifestyle. It plans to set up almost 200 of them by 2010 in various formats and with merchandise assortments designed for local preferences. These malls will act as a hub for both branded and locally produced goods, entertainment options, education, healthcare and farm advisories. The malls will also generate rural employment. ITC’s rural malls will be called Choupal Sagars — an extension of its famed e-choupal project. By March 2006, the company hopes to get 30 Choupal Sagars going, replete with shopping complexes, petrol pump, healthcare, training facilities and more.

ITC’s zeal reflects the dominant trend in corporate India to enter every area from contract farming to rural malls, seed research to medicinal plants and food processing to fruit exports. There is a growing perception that such is the scope of rural markets that what has been done so far amounts to scratching the surface. After all, as they say, India lives in its villages — 638,356 villages, to be precise. It appears that the fortunes of India’s largest corporations, and several MNCs, are about to be shaped there.