

PROFITABLY SELLING TO INDIA'S RURAL CONSUMERS

>> EXPERT SPEAK



Rural marketing is no longer a fashion statement; it is a necessity for most companies
C S SADASIVAN | CHIEF EXECUTIVE-MARKETING | J K LAKSHMI CEMENT LTD



The greatest challenge is that you design the product in such a way that it makes sure you make the consumer come back to you
SUNEETA TRIVEDI | MEMBER (PLANNING) | INDIA POST



In rural markets, there are dealer centres and collection centres, you need to have various means to reach the customers... we have 950 collection centres only in rural markets because we cannot have a sole service centre there
RAVINDER ZUTSHI | DEPUTY MANAGING DIRECTOR | SAMSUNG INDIA



The demand for our products are already being created through mass media communication, we are very upbeat about it in the rural markets
ANIRUDDHA DESHMUKH | PRESIDENT-RETAIL & TEXTILE | RAYMOND



If it is not an integral part of your strategy, if you are not an established entity in that geography, then I think it is fool's gold for you... There is enough demand in the 50,000 plus strata.
 Follow the infrastructure, follow the roads, follow the postal system, follow the telecommunication system, and you've got business out there
NITA KAPOOR | EXECUTIVE VICE PRESIDENT - MARKETING & CORPORATE AFFAIRS | GODFREY PHILLIPS INDIA



It's the last mile connectivity that matters. You need to leverage the network of established players like India Post to improve reach, and then the key question is- how do you acquire the rural customer, how do you ensure demand, and finally, how do you sustain it to retain the customer in the long run? These are the biggest challenges for companies foraying in rural markets today
SANJAY DAWAR | MANAGING DIRECTOR | ACCENTURE MANAGEMENT CONSULTING INDIA



Multiple ways you can earn trust... we got a granthi (Caretaker) to put in a good word... you can build trust, and then the brand is done
ANISHA MOTWANI | DIRECTOR AND CHIEF MARKETING OFFICER | MAX LIFE INSURANCE



Catch the Panel Discussion on ET NOW on Saturday, June 29, 2013 at 6:30 pm and repeat telecast on Sunday, June 30, 2013 at 6:30 pm.

Over the last decade, unprecedented changes in its economic and social structure have shaped the Indian market to make it one of the world's fastest growing economies. With a large proportion of India still living in rural areas, it makes ample business sense for organisations to explore the why's and wherefore's of this market, delve deep into what it needs and gain a clear perspective on how these can be provided



Panel Discussion (L-R) C S Sadasivan - J K Lakshmi Cement, Suneeta Trivedi - India Post, Ravinder Zutshi - Samsung India, Manvi Dhillion - ET NOW, Aniruddha Deshmukh - Raymond, Nita Kapoor - Godfrey Phillips India, Sanjay Dawar - Accenture Management Consulting, Anisha Motwani - Max Life Insurance

Over the last decade, the rural GDP in India has grown almost 30% faster than the urban GDP. Over the last three years, this market has shot ahead of the urban market even in terms of lifestyle buying - USD 69 billion, as against the urban markets' USD 55 billion. The spending has been on lifestyle products - mobile phones, television sets and two wheelers - contrary to the Indian belief in simple rural living. Clearly the mammoth is awakening, and it is time to harness its strength.

To gauge this market, Accenture's 2013 study - Masters of Rural Markets: Profitably Selling to India's Rural Consumers - insights gathered from experts across business and academia on strategies they adopt and recommend. The report has a collation of views of over 20 industry experts, 40 business leaders and experts, and the findings of quantitative surveys of over 70 businesses. The conclusions show a clear path to the smart strategies to enter, capture and retain the rural markets.

The biggest challenge to rapid growth in rural market seems to be identifying and maintaining an efficient distribution channel. In the Report, almost 75% of the respondents agree that collaborative channels, winning the trust with locally appreciated activities and retaining the market by being a part of the social set up, will be the way forward. Almost 60% respondents identified selling and distribution efficiency as the key to success in rural markets. Deterrents such as high cost of maintaining channels, logistics and trust factors, however, can be fought with the right strategies.

Accenture, in partnership with ET NOW, recently held a panel discussion on the ground realities of conquering the rural markets, mitigating challenges and establishing brand identities.

Anchored by Manvi Dhillion, ET NOW, the panel consisted of Mr. Ravinder Zutshi, Deputy Managing Director, Samsung India, Ms. Anisha Motwani, Director and Chief Marketing Officer, Max Life Insurance, Ms. Suneeta Trivedi, Member (Planning), India Post, Ms. Nita Kapoor, Executive Vice President - Marketing & Corporate Affairs, Godfrey Phillips India Limited, Mr. C S Sadasivan, Chief Executive-Marketing, J K Lakshmi Cement Ltd, Mr. Aniruddha Deshmukh President, Retail & Textile, Raymond and Mr. Sanjay Dawar,

Managing Director, Accenture Management Consulting.

The base of the discussion - rural markets are the next destination, how can they be conquered - invited comments from the industry leaders present. Said J K Lakshmi Cement's C S Sadasivan, "we have been in the rural markets for a long time but it was in 2008 that a slowdown first triggered a focus on it," since it makes logistic sense to sell cement in rural markets, their area of manufacture. Samsung's Ravinder Zutshi observed that the government's rural development programs have pushed up incomes, migration has slowed down, so it makes business sense to target that market first. Raymond's Aniruddha Deshmukh sees the rising awareness levels in the rural market as the biggest reason for rural market growth.

India Post, with over 1.3 lakh base points in rural India, and one of the significant channel partners for rural strategies for a number of organisations, has been supporting many business forays in this market. Suneeta Trivedi, Member (Planning) of India Post agreed that the rural markets offer a huge opportunity, but at the same time, she emphasised that a very skilled base point is needed to sell there. "What really matters is that there has to be a base, a contact point... definitely a local skill, local information and trust, that is very important, and they should not be psyched with jargon," she added.

Godfrey Phillip's Nita Kapoor foresees that rural markets need to take the top slot for strategy. "...the report says, only if it is an integral part of your strategy, must effort be spent on it..." she stated. "Trying to establish sales and distribution models, trying to look at last mile servicing, outsourcing... it is such a huge ask on your bottom-line," she said, "if you are... just following the bandwagon, do not recommend to go to rural markets." The rural markets, she said, do not respond to brand management or finer strategy like marketing. "This is only a hardcore sales and distribution game," she emphasised.

So what are the key challenges to this ambition? "Sales and distribution is the key challenge," said Sanjay Dawar of Accenture, "It's the last mile connectivity that matters. You need to leverage the network of established players like India Post to improve reach and then the key question is-

how do you acquire the rural customer, how do you ensure demand, and finally, how do you sustain it to retain the customer in the long run? These are the biggest challenges for companies foraying in rural markets today."

Samsung's Ravinder Zutshi sees the strong channel network that Samsung has established in rural India as his strength there. Given the big investments and gestation period they need, investments in rural market expansion needs to have a complete top management backing - buy in and commitment, pointed out Aniruddha Deshmukh. But that may not be enough, added Nita Kapoor, "one of the biggest challenges is achieving consistent demand forecasting, price determining elasticity and setting up price points," she said, "for the rural scenario, one needs to offer a value proposition which in most cases is - what we can do for you, let us work with you, let's see how our relationship goes. The rural audience is constantly in a state of trial."

To build trust and awareness, new avenues are required. As Sadasivan points out, "Advertising will not create the trust, it is those school teachers, those sarpanchs that create the trust, and managing that eco system is difficult. You will have to manage the whole thought process in totality" he added. And trust with the right product, as Suneeta Trivedi adds, "the marketing jargon does not work there, the MBA language doesn't work... it is product design, they need."

Max Life Insurance's Anisha Motwani agreed that trust is the biggest challenge in rural India, brand building here is a whole new paradigm. "Like Lifebuoy - they taught people to be hygienic, and that's how Lifebuoy expanded... we need to build trust to build the brand and there are multiple ways of doing it."

So what is it that corporates need to do to enter, win and retain this market? In most cases, the product has to appeal to the aspirations of the purchasers, with its design, abilities and of course, price. Samsung has created the aspirations and has set up a good service support function to retain the customer base, and that is what works for them, says Ravinder Zutshi. In this fast evolving products market, getting loyalties is very tough, but with a good Connect and service setup, it is possible. In some cases, providing experiences at the doorstep works, like for

Raymond. "Over the past 2-3 years we have set up exclusive Raymond stores that provide the consumers with the brand experience, in smaller places of 20 or 30K population, and these are set up in partnership with locals, facilitating closer interaction. This is a sort of re-enforcement while the brand trust is being established over a period of time," he adds.

That seems to be one of the key challenges - choosing the right local partner, and what's interesting is that the social and financial standing of the partner is as important as your business decision. In order that the ecosystem develops profitably, it is imperative that the local channel partner have respect and authority in the rural milieu.

Accenture's Sanjay Dawar gave several examples of how the local marketing strategies helped some brands like Tata Motors' Neev and Ashok Leyland's Ban Jao Maalik initiative.

Nita Kapoor added to these, instances of a brand steadily established on the strength of sustained support it provided to some situation in the rural areas. Tata's Salt studied the iodine deficiencies of the rural population and worked on the iodine rich salt concept. "The strategy was so strong that today people identify iodine in salt with Tata," she pointed out.

"We partnered for the Adhaar Card, in 2010 we handled the entire census, and for these it is very important that you keep upgrading the skills of the people who are selling in the market. We have to make sure that spare capacities are being utilized. We have to train them, tweak and fine tune the operations... for instance, the government disbursements are in such high volumes that we need to use biometric devices and need to train the users in the field. We have to keep fine tuning our products and our resources, even for things like security like in leftist politically difficult areas where the government itself asks us to not venture in, it is a constantly evolving process, especially with such a wide variety of marketing to do" said Suneeta Trivedi of India Post.

As an example, Anisha Motwani shared the experience of Ghana, where an insurance company tied up with two of the biggest mobile service providers in the country - so every time you make a call, your insurance cover gets extended.

For Samsung, partnerships have not supported the marketing and communi-

cation initiatives, but vernacular and road shows etc have helped much more. But the rural markets call out for collaborations between rivals for various reasons - limited infrastructure, limited number of entrepreneurs and geographical challenges, all these create the push towards a number of companies using the same channel. Sometimes it is strategically smart as well, as Aniruddha Deshmukh points out "We can also keep track of what our rival is doing. In India it is about using pipelines, not really partnerships and in any case, the concept of partnership has to be based on optimal utilization of resources", he says.

Service quality is another prime factor for success in the rural areas as well, especially for lifestyle brands, like Samsung. "In our case, service quality is very important. We have established 950 collection centres only in rural markets because we cannot have a sole service centre there, says Samsung's Ravinder Zutshi. For Raymond's, it is as important for the channel partner to provide in-shop customer service, on the lines of after sales service for Samsung, which is why, Aniruddha Deshmukh points out, getting the right channel partner and distributor is imperative for the brand.

Corporate Social Responsibility (CSR) then enters the picture. Sadasivan pointed out that in his industry, since the rural market is better for logistics reasons as well, Lakshmi Cement has usually taken a lead with CSR initiatives, which paves the way to marketing. The second important part of localisation is getting the local talent to do the job, and in his case, the van which travels in villages testing cement, has a local person who does the needful, immediately creating a connect.

Godfrey Phillips created a connect with the rural population, where they are working for women's health. But as Nita Kapoor pointed out, "We learnt very quickly that if we tried to build trust on our own, we could not have taken it beyond a pilot. NGOs are your biggest bridge in building that relationship in that community, there are some very good NGOs working on state and district models that can really support us." She highly recommends the PPP model which ensures the local markets do not see a brand as an outsider. Increased frequency of brand communications that local NGOs offer can never be matched by the infrequent visits of sales personnel.

Finally it is all about connecting the marketing strategy with a cause, and that's what Nita Kapoor swears by. "Once a business model is identified, pick up a cause, because you will now be working forever with these people. It then becomes an organisation process, not a brand. But the catch is, that the entry should be carefully planned, piggyback or otherwise, because if a brand enters this market unprepared, and needs to be withdrawn, there is almost no hope of getting entry again.

To fall into any of the four categories that Accenture has identified for businesses succeeding in rural areas, these would be the most important issues, but most companies that attach the right significance to succeeding in the rural market, have worked around the challenges - using support, partnering, or just going in, winning hearts and winning business.

How the Rural market was Won

Between 2009 and 2012, per capita rural consumption in India, grew at 19 percent per annum, two percentage points higher than its urban counterpart. Given that only one fourth of rural GDP is now generated from agriculture, the rising and consistent income level of rural India is now a huge, lucrative deal for business markets, but there are still many challenges to it.

In order to understand these challenges and learn from the strategies and practices that have been followed by the companies that have carved a niche in the rural business environment, Accenture conducted an in - depth and extensive research on the success stories and the smart strategies - Masters of Rural Markets: Profitably Selling to India's Rural Consumers.

Interviewing over 40 CXOs of USD 200 million plus companies across 9 vertical groups - the report aimed to study their market strategies for sales and distribution for the rural market. In addition, a quantitative survey was conducted, exploring the selling and distribution models of 70 USD 100 million companies in the same sectors. For the academic view, opinions were taken from over 20 industry experts with significant experience in the field. Rural visits were also conducted to get the first hand view of the challenges and mitigation strategies, studying the distribution channels of over 100 companies.

Accenture's research for this report, along with client experiences, indicated that the Masters of the rural market can be identified according to two key indicators:

- ▶ **Rural Performance Index** - the strategic significance of rural markets to the company's profit lines
- ▶ **Rural Innovation Index** - the level of innovation in a company's product, packaging, pricing, channels and operating models, targeted for the rural markets. These measures helped classify the respondent companies into four categories:
- ▶ **Rural Masters** - profitable companies that have a significant rural market share, which has been ac-

quired using novel strategies and well-conceived expansion plans.

▶ **Rural Performers** - successful companies that have established a strong rural footprint by using conventional approaches or by learning from the models of the Masters, but without any innovations of their own.

▶ **Rural Voyagers** - innovative companies that have adopted disruptive strategies to enter the rural markets but have not yet made significant profits. A large number of companies fall in this category.

▶ **New Entrants** - companies that have just entered the markets and are a little conservative when it comes to strategies. The Report classifies the biggest challenges into three activities - Reach, Acquisition and Retention. How companies respond to these challenges sets the mark for their success in these markets, and so studying what the rural masters did right, can identify the track forward for most other entrants.

What They Do Right

The report says 59% executives identify selling and distribution efficiency as the key to success in rural markets. To ensure they meet these efficiencies, rural masters adopt a three pronged strategy to expand successfully to the rural markets:

REACH

A very smart move is that of been creating winning relationships with the local consumer groups, often using them as channel partners and ensuring upgrades to maintain the relationship in the pink, and this has been illustrated in the research by Tata Global Beverage's rural initiative, Gaon Chalo. The report has elucidated on some case studies for consumer activation activities and Hero Motors hub and spoke model based activities adding distributors in rural areas. Similarly, Maruti's resident dealer sales executives (RDSEs) - more than 7,000 locals recruited to sell its cars in India's rural areas- are today the "backbone of their rural drive".

Identifying clusters of profitability in rural geographies has been another Reach strategy - Maruti inti-

ated its foray in the rural markets in 2007 by identifying smaller prosperous clusters - like turmeric farmers in Tiruchengode in Tamil Nadu and apple growers in Himachal Pradesh. Loyalty from these customer clusters ensures consistent sales and Maruti has profited hugely from this.

Technology applications like GIS, field salesforce and other basic connectivity drives have really helped the masters in their objectives. But the smartest move is to demonstrate a commitment to building mutually beneficial relationships in the target market - Coca Cola's training arm, Coca Cola University's Parivartan program, which trains women retailers in rural markets, is a case in point. Mahindra tractors launched its Samridhi initiative in 2007 to transform channel partners from tractor dealers to real partners for farmers. Dealerships were identified as centres for farmers' prosperity - "Samridhi Centers".

The report goes on to describe several case studies to demonstrate smart strategy moves for greater reach - Dabur (using GIS technology to expand reach), Tata Motors (rapid scale of rural commercial vehicle business through a predominantly variable cost model).

ACQUISITION

Creating a place for the product is as essential as reaching the rural market. Since the market thought process is large community based, building stakeholders and keeping them satisfied with the product - both functionally and in terms of value, usually does the trick. The Masters of Acquisition have realised that the value proposition has to reach the trusted community stakeholders - and stay with them.

Companies that take a holistic approach to building symbiotic relationships with the rural communities are usually perceived as more focussed on rural needs than merely profit oriented. Novartis, a Pharma major, observed that often, delays in seeing a physician results in diseases getting into an advanced stage, since the rural population may not have easy access to primary or secondary healthcare. To remedy this, Novartis has set up Arogya Parivar - healthy family - with a commercial arm as well. It of-

bonds in the rural markets.

The 'Son of Soil' Idea helped Idea Cellular expand tele-density in rural areas where penetration was less than even 40% (vis-a-vis almost 150% in populated urban areas). Setting up and operating a rural channel costs almost 15% more than in the urban areas and finding a dedicated channel partner was a barrier to rural entry. Idea then started the concept of encouraging rural entrepreneurship - using data analytics effectively to identify areas with good electricity penetration, density of population, Idea expanded, even entering into tower sharing agreements. Creating awareness in village gatherings like melas, festivals and haats, they recruited enthusiastic local youth who had set up towers in towns, and encouraged them to replicate their success in their own villages. Idea Grameen Pratinidhis were also recruited to act as local mobile dealers. As a result of this initiative, the 'son of Soil' investors and distributor salesmen (Grameen Parinidhis) now earn more than twice the amount while Idea has achieved the highest share of the rural market among Indian telecom operators

The Report finally identifies three key enablers for this success:

1. Adapt differentiated organisation structures for rural market activities, with strong leadership commitment in terms of resources.
2. Create a winning talent management strategy.
3. Technology adoption to create advantage.

The government has various initiatives in place to ensure development in India's rural business environment - the welfare programs with planned cash transfers of US\$570 billion in the accounts of 100 million poor families by 2014, should give a huge impetus to rural consumption. Moreover, almost 55 % of manufacturing GDP is rural and rural based factories account for 70 % of all new manufacturing jobs, allotting rural India about 50 % of India's GDP across nearly 70 percent of India's population. To get a share of this gold mine, the biggest challenge seems to be establishing an effective sales and distribution network.

With this study, companies that achieve the rural master status can look forward to a massive addition to their top lines in years to come.