

Accenture Research Report

Masters of rural markets: The Hallmarks of High Performance

>
accenture

High performance. Delivered.

• Consulting • Technology • Outsourcing



Contents

| | |
|---|----|
| Foreword: Unleashing India's rural multiplier effect | 03 |
| Growing business confidence in rural opportunities | 05 |
| The attractions and distractions of rural markets | 09 |
| Distinctive capabilities that enable companies to succeed in India's hinterland | 15 |
| Framework factors critical to nurturing distinctive capabilities | 28 |
| Developing the right capabilities—and acting on them | 29 |
| Last word | 31 |

Foreword

Unleashing India's rural multiplier effect



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.¹

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. 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'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.

This report chronicles the business sector's growing confidence in India's rural markets. It draws on the new Accenture survey results to demonstrate the strength of business leaders' belief in the future of the rural opportunities in India and their willingness to invest in the opportunities. Just one snapshot: more than half of our survey respondents foresee 20 to 50 percent of their revenues coming from rural markets over the next three years.

The report also offers a framework that highlights the characteristics of high-performance businesses in rural markets. The framework identifies three distinctive capabilities—the ability to create, shape and develop markets; the ability to adapt and optimize supply chains; and the ability to co-create value through innovative use of technology. The report explores each of these tenets in detail, before highlighting the facets of organizational culture essentials to the organization's growth strategy.

But, there is one more theme that cannot be ignored. It is about the enormous disparity in incomes and living standards and lack of social-infrastructure across India.

Accenture firmly believes that businesses that are benefiting by providing goods and services to rural consumers have a duty to bring more inclusive, sustainable, social and economic growth to those consumers' communities.

As this report explains, 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.

We believe this report can accelerate those efforts. We look forward to discussing its findings with you.

A handwritten signature in black ink, appearing to read 'Sanjay Dawar', written over a thin horizontal line.

Sanjay Dawar
APAC Supply Chain Lead



Growing business confidence in rural opportunities

India's rural markets² 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.

Five reasons for greater business confidence in rural India

(a) 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.

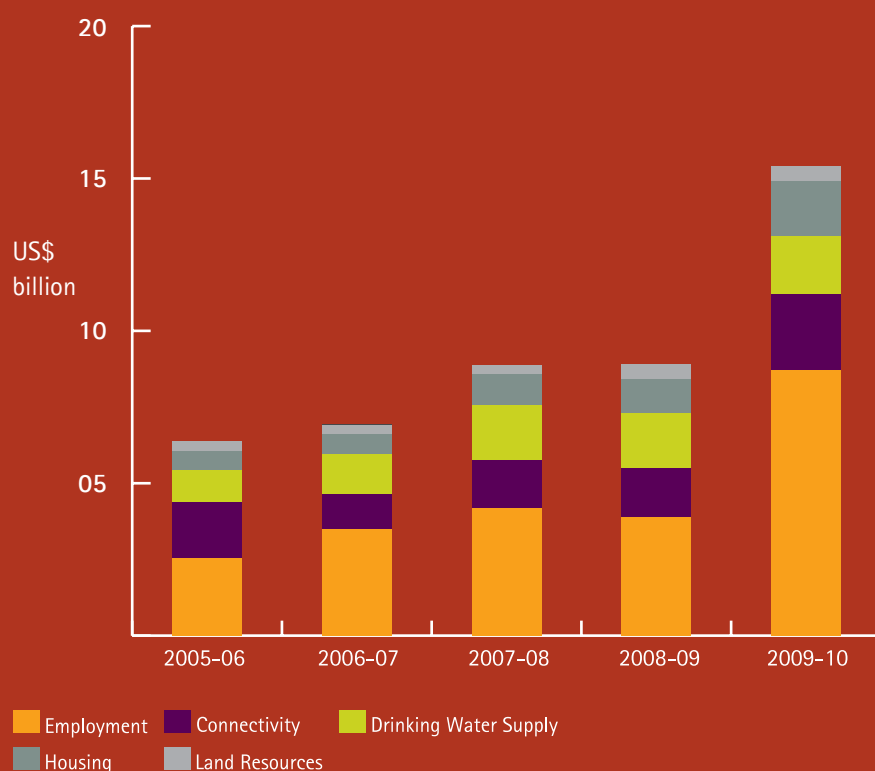
(b) The increase in procurement prices (the minimum price that farmers earn on produce sold to the government) is putting more money into the hands of the rural population. A series of good harvests, on the back of several good monsoons from 2005 to 2008, has accelerated rural employment in agricultural and allied activities.

(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

(d) 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

(e) 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 2008-09.⁵

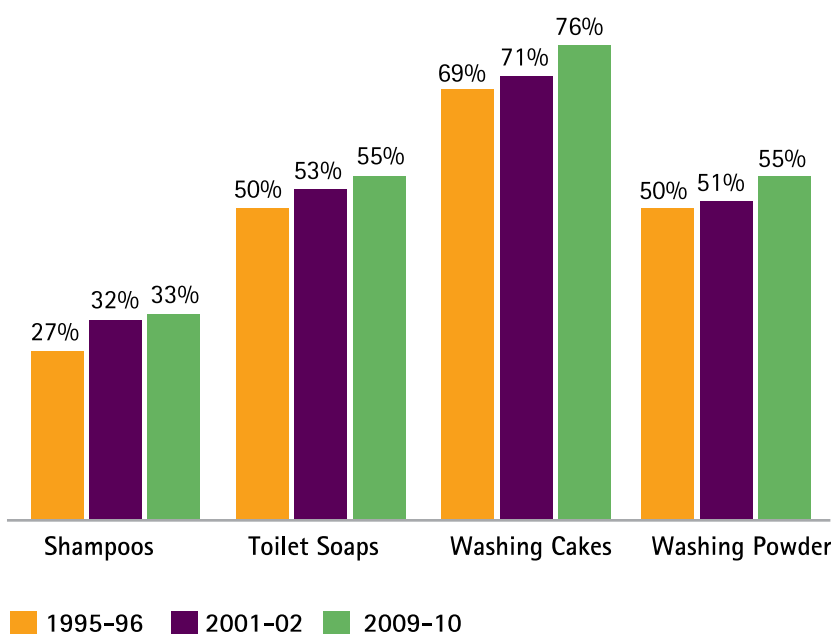
Figure 1.1. Government budgeted expenditure on rural development



Source: Ministry of Rural Development



Figure 1.2a. FMCG—Rural market share as percent of all India market



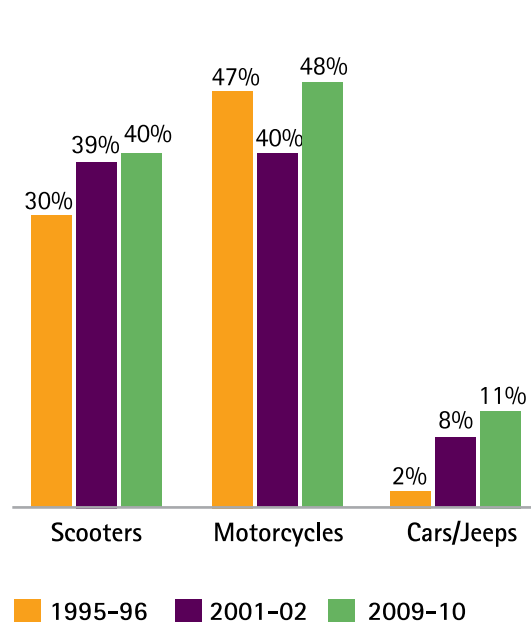
Source: National Council for Applied Economic Research (NCAER)

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 sales⁷.

In the case of the telecom sector, subscriber base in the semi-urban and rural markets (Circle C geographies) has grown at a phenomenal 98 percent over the last five years in comparison to other circles representing metros and urban markets (see Figure 1.2c.).

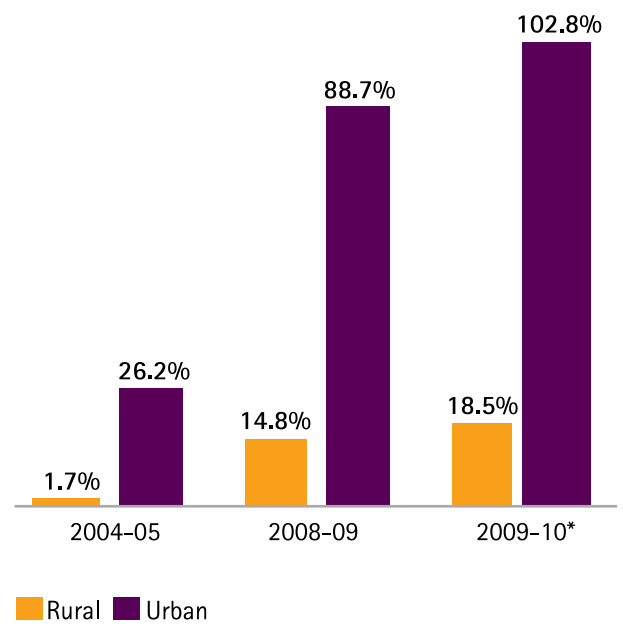


Figure 1.2b. Automobile—Share of rural market as a percent of all India market



Source: Edelweiss Research

Figure 1.2c. Total teledensity (ownership per hundred population)



Source: Telecom Regulatory Authority of India (TRAI)

*data for the period April 2009 to September 2009



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.

Are business executives who do express interest in the nation's rural opportunities typically looking at them as consumer markets or as sources of raw materials and labor—or both? Do they believe they have what it takes to understand what exactly rural consumers want now and in future? And have business leaders really begun to identify the challenges and drivers that will influence their approaches to rural opportunities?

To get answers to questions such as these, Accenture commissioned a quantitative survey of 109 large and mid-sized multinational and domestic companies with revenues ranging from US\$200 million to more than US\$10 billion (see "About the research" for more information).

We also interviewed select C-suite executives from companies in a range of industries to learn more about what made them succeed in rural markets. Here are the key findings, highlighting the attractions and distractions of rural markets.

Rural markets present opportunities

The overarching trend that emerged from our survey findings is that businesses are confident about the opportunities that rural India has to offer. Further, they plan to strengthen their presence in semiurban and rural areas over the medium to long term⁸. More than half of our survey respondents foresee 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 surveyed have already invested in rural India, in some cases more than five years ago (see Figure 2.1).

Rural presence strengthens competitiveness

Our survey findings indicate that corporate leaders believe a rural presence can help strengthen their overall competitiveness. As Figure 2.2 illustrates, 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.

Figure 2.1. Businesses are investing in rural markets
(Percent of survey respondents)

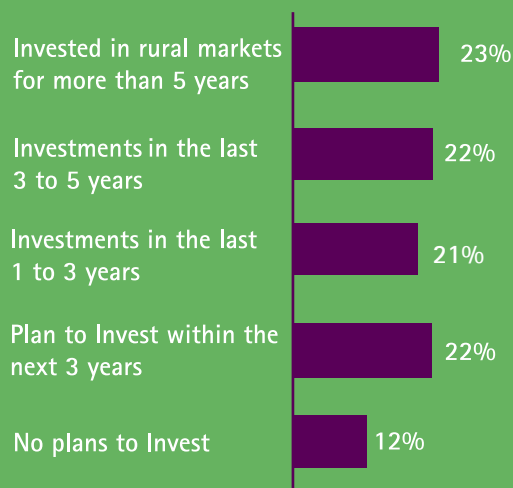
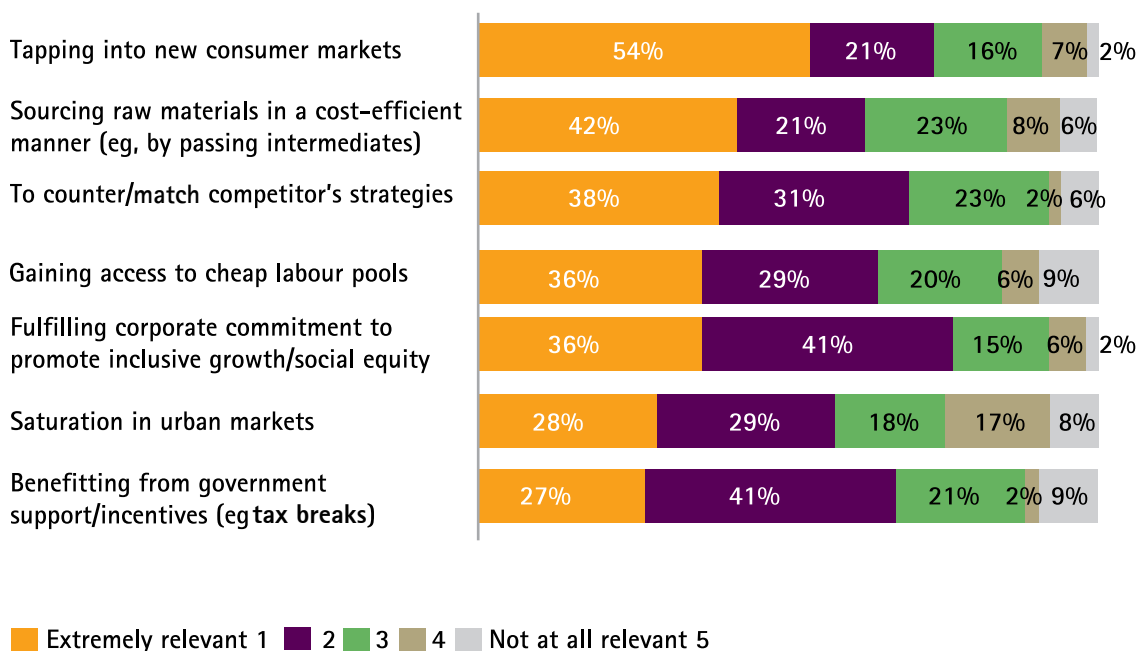


Figure 2.2. Rural markets offer opportunities across the value chain
(Percent of survey respondents)



Rural markets are home to resources and talent

Rural markets encompass eager consumers who want to share the fruits of India's industrial growth. More than half of the senior executives surveyed were keen to tap rural areas' new segments of consumers (see Figure 2.2). From a supply-side perspective, more than 40 percent wanted to access raw materials. Unsurprisingly, more than a third of respondents agreed that 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. Around 74 percent of respondents reported that lack of proper linkages for roads, railways and telecom infrastructure are big hindrances. Another 40 percent cited the lack of skilled talent and 34 percent highlighted 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.

Figure 2.3. Key external barriers to expanding in rural markets
(Percent of survey responses)

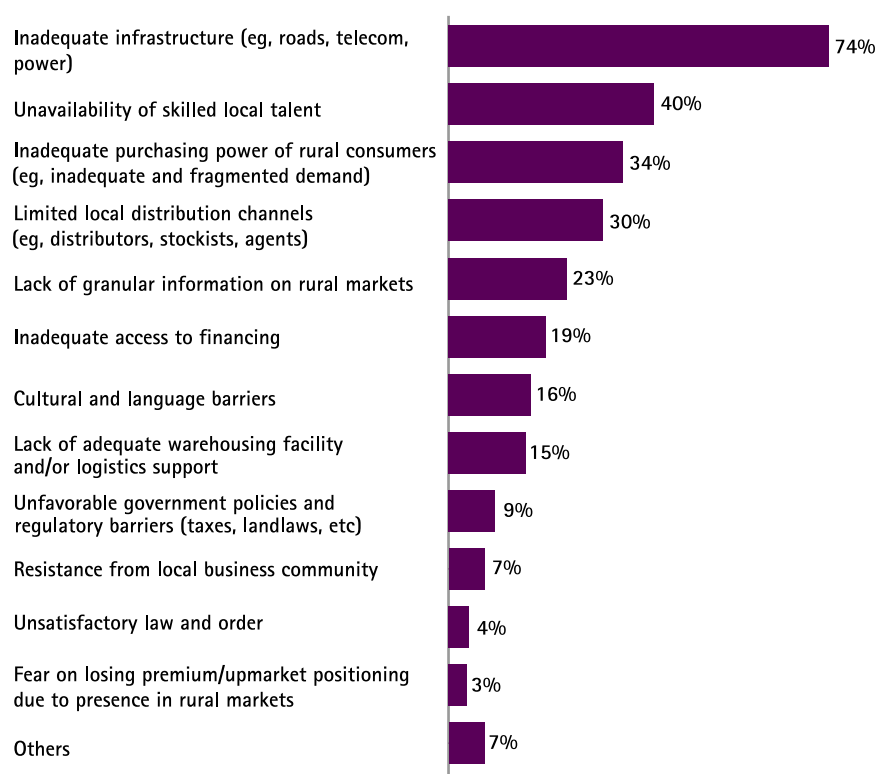
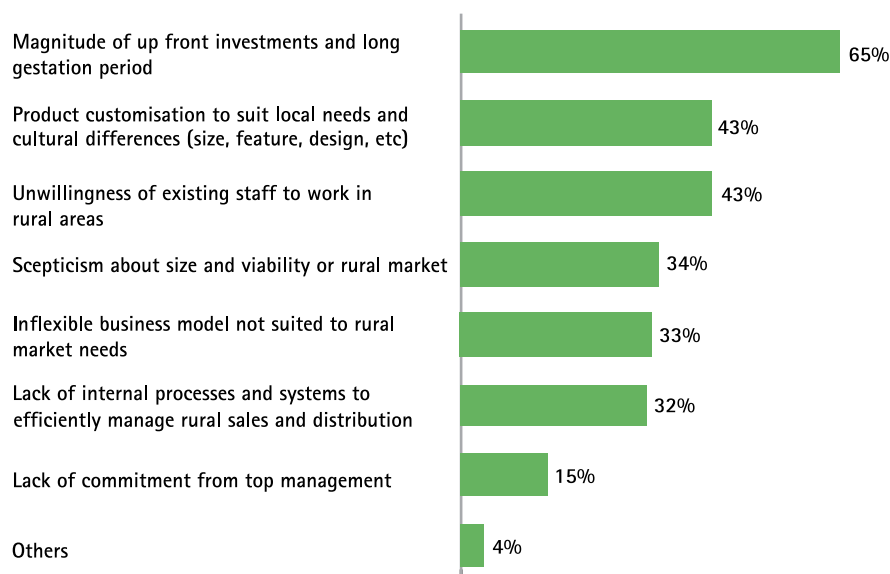


Figure 2.4. Key internal barriers to establishing successful rural operations
(Percent of survey responses)



Rural markets are costly to enter

More than 60 percent of respondents identified the size of the necessary upfront investments as the biggest hurdle towards establishing rural operations (see Figure 2.4). 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\$6,000⁹ 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. Forty-three percent of respondents said this was a challenge. Commented one mobile content services 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

More than a third of the respondents cited their inability to create flexible business models as one of the key internal barriers to establishing a successful rural presence. That finding meshes with a recent Accenture research report which concluded that 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.¹⁰



About the research

This report draws on three major research components. First, Accenture conducted a quantitative survey to discover how companies view the rural market opportunity, to learn what kinds of investments they are making in rural areas to access growth opportunities, and to understand the challenges that companies face while operating in rural areas. The data was collected through an online survey, conducted between June and August 2009. The survey was completed by respondents from 109 large and mid-sized multinational and domestic companies, with revenues ranging from US\$200 million to more than US\$10 billion. All respondents held positions of influence with regard

to their companies' strategy and operations in India. Respondents represented companies in consumer goods—manufacturing, banking, communications, electronics and high technology, capital markets, automotives, insurance, pharmaceuticals and consumer goods—retail. Around 57 percent of respondents belonged to domestic Indian public companies, 23 percent to domestic Indian private companies and the remaining 20 percent to Indian subsidiaries of multinationals.

Secondly, between March and November 2009, Accenture undertook extensive secondary research into the rural strategies and operations of more than 100 companies.

Accenture also interviewed select C-level executives across a range of industries to understand how they are shaping their strategies to harness the rural market opportunity. The interviews also sought to understand how companies are addressing human resources issues, marketing infrastructure, and supply chain challenges as they venture into rural markets.

Figure 2.5. Revenue breakup of business survey respondents

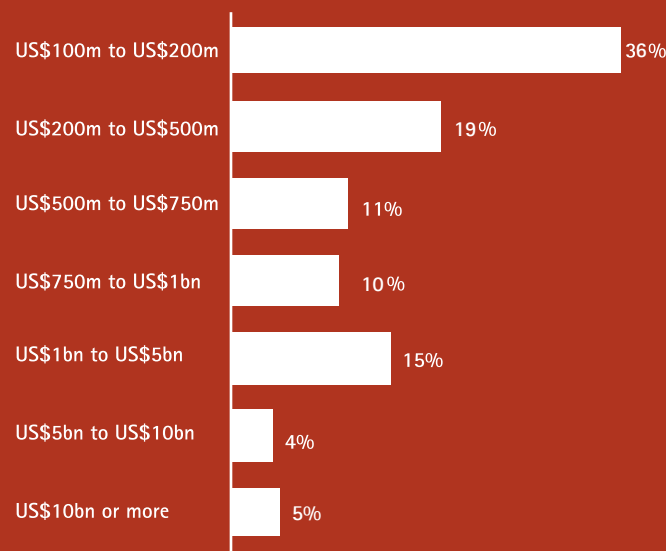
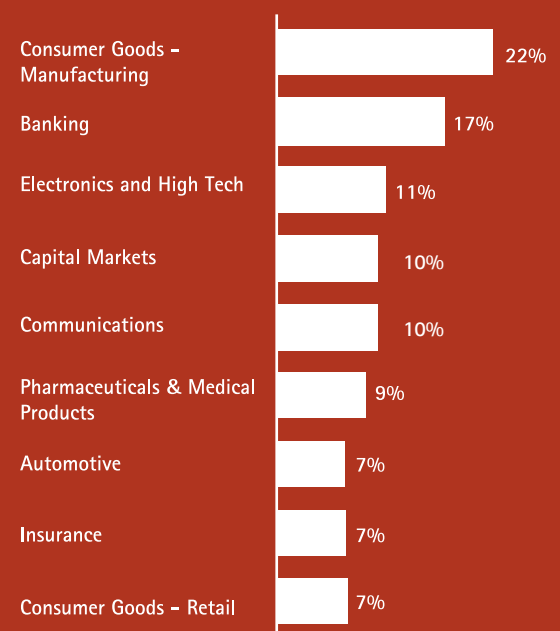


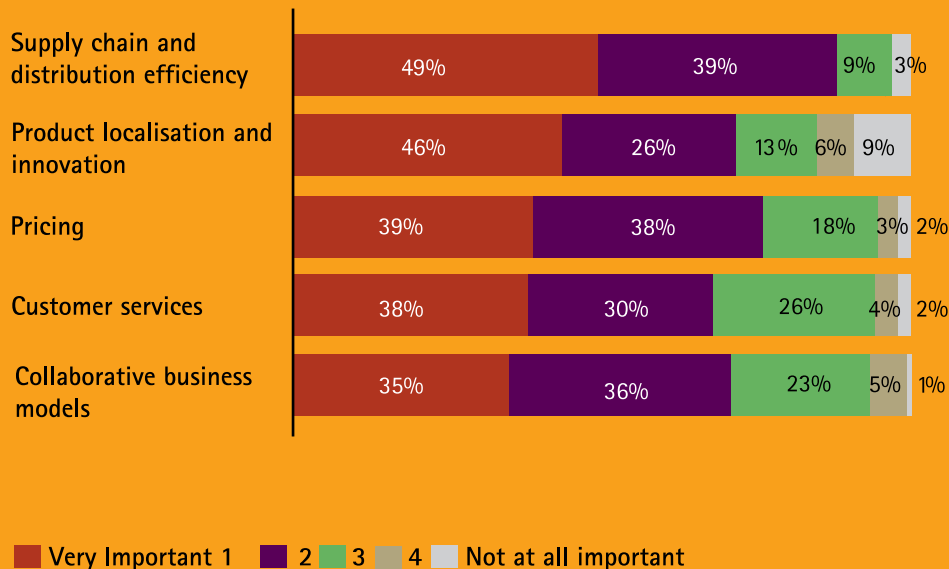
Figure 2.6. Industry classification of business survey respondents





Distinctive capabilities that enable companies to achieve high performance in India's hinterland

Figure 3.1. Key imperatives for profitable and sustainable growth in rural markets (Percent of survey respondents)



A growing number of companies, large and small, are steadily transforming their rural operations into viable profit centers. They have been successful in selling to unsophisticated buyers in geographically dispersed locations using appropriate “reach strategies.”

So what can other organizations seeking to achieve high performance learn from these leaders? And how can they think in terms of applying the lessons learned to other rural markets worldwide? We asked our C-suite respondents to identify the imperatives for profitable growth in rural markets. It quickly became clear that supply chain and distribution efficiency is the most important success factor, followed closely by product localization and innovation (see Figure 3.1).

Essentially, the rural market leaders have mastered product development and pricing, arrived at an optimal channel mix, and set up local partner networks that work well and generate revenue. They

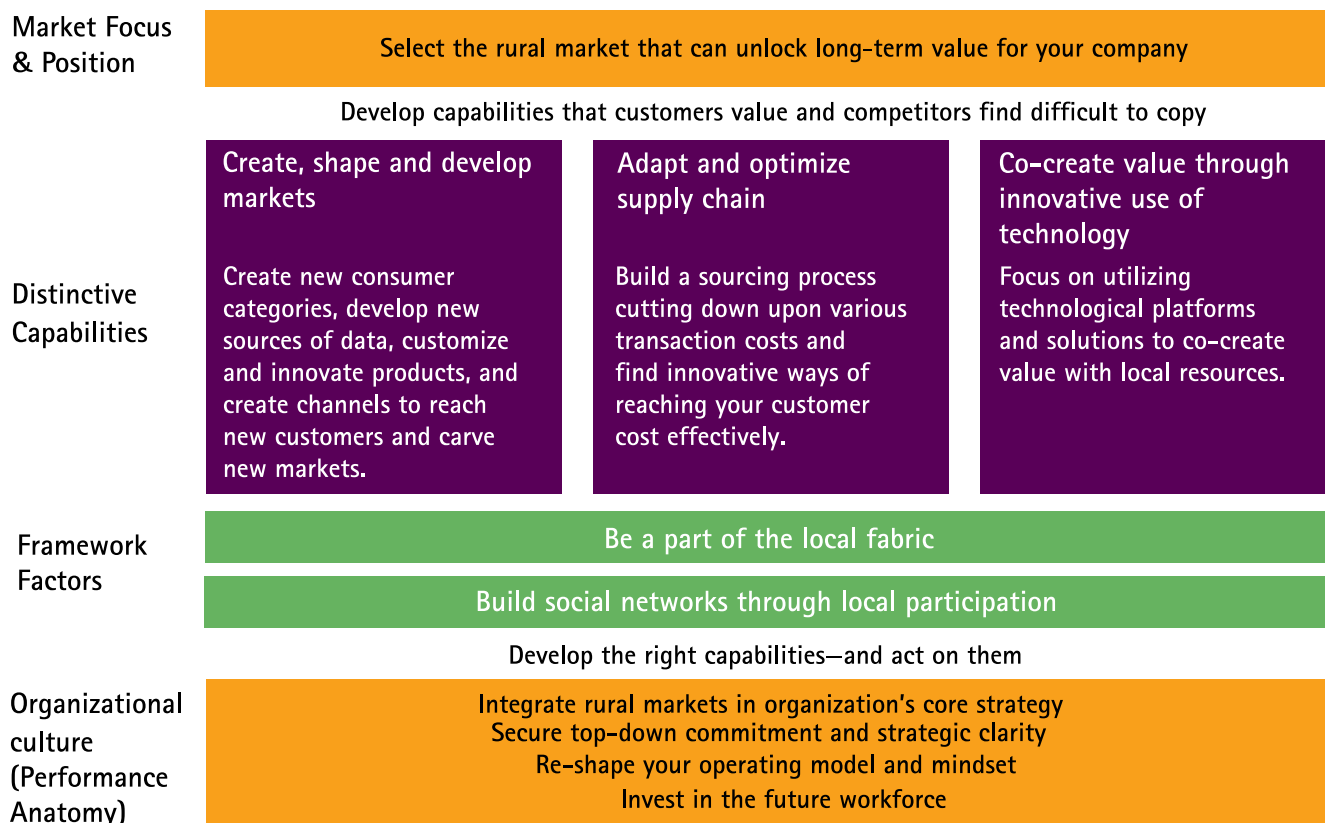
have been able to accelerate the adoption of their products and ensure consistent availability by investing in comprehensive market development and by making their supply chains as efficient as possible. And, they have effectively utilized technology and social networks to achieve the scale necessary to reach diverse consumer segments across rural India. And, in some cases, they are taking lessons learned in India and applying successfully in other emerging markets.

Drawing from the key learnings of our research, Accenture proposes a framework to unlock long-term value from rural markets and become a high-performance business (see Figure 3.2). The framework is headed by market focus and position involving selection of rural markets—a combination of products and geographies, which can best generate long-term value for the company. This decision to invest in rural markets is intrinsic to the core strategy of a company and is best guided by the company's long-term vision and strategic fit.

At the base of the framework are the organizational imperatives that sustain high performance over the long term—what Accenture refers to as performance anatomy. And, at the core of the framework is a set of three distinctive capabilities—the capabilities that customers value highly and which competitors cannot easily copy. The leaders' ability to create markets is foremost; it involves highly effective market analysis, leading to product localization and innovation. Their ability to set up and extract value from supply chains enables them to adapt to the varied and volatile demands of rural markets. And, their understanding and mastery of the enablers of supply chain efficiency is their third key capability.

All three distinctive capabilities are underpinned by the need for organizations to become part of the social fabric of the communities in which they work and to build social networks using local participation. The bulk of the discussion that follows will be about the three distinctive capabilities. Each merits a closer look:

Figure 3.2. Building blocks of high performance



1. Leading companies effectively create, shape and develop markets

Rural lifestyles and behavioral trends are increasingly coming to resemble urban patterns, in both form and variety. Like urban consumers, the rural middle class is buying more fairness creams, whereas many of the rural poor are keen to invest in a mobile phone connection. Growing aspirations are as much a factor in rural markets as price sensitivity and an acute sense of value for money. Success in those markets calls for knowing how to balance those factors.

Creation and development of markets in the hinterland involves building consumer understanding, product customization, relevant pricing, value engineering, and innovative modes of advertising and promotion—all designed to increase consumption and open up new markets. The following activities stand out:

Creating new categories

Businesses may need to develop new products tailored to the unique needs and circumstances of rural consumers. An example: BP Energy India saw an opportunity to offer a cleaner fuel alternative for the traditional charcoal- and wood-fired stoves used in the countryside—a move that the company believed could convert 3.6 billion potential consumers to more environment-friendly energy solutions. The company bought patented technology from the Indian Institute of Science (IISc) that used fuel pellets made from agri-waste to run smokeless stoves; it had successfully sold the pellets to nearly 200,000 households by early 2008¹¹.

Customizing products

Rural consumers typically define value in terms of the functional focus of a product or service—its durability, affordability, and fit for multiple uses. Nokia translated this perspective

into customized mobile phones for the rural market. Sold as a part of the "bundled offers" by different telecom providers, the phones are priced at less than INR2,000 (US\$42) and are feature rich, with multilingual keypads, a built-in flashlight and FM radio.

Setting the right price points

The rural market leaders usually address their customers' price perceptions in two ways: by offering low-priced products in the first place, with a range of even cheaper variants; and by selling products as discrete units rather than in multi-unit packs. Many FMCG companies, selling products ranging from biscuits to shampoos, have introduced smaller pack sizes to increase category penetration. The rural market experts may also practice value engineering, lowering the input costs by using alternative materials for raw materials or as packaging alternatives.



Generating awareness and promoting products through the right media

Since rural consumers typically lack the product awareness of their urban counterparts, consumer education and generation of interest are mandatory first steps for market creation.

Non-conventional and interactive media such as puppet shows, and live demonstrations in haats and rural fairs have proven effective. Hindustan Lever ran a brand awareness exercise called "Operation Harvest" that used the audiovisual media and delivery vans to provide "mobile entertainment" in the form of songs and film sequences, interspersed with the company's ads. The company targeted 30,000 "high potential" villages with at least 2,000 people each and good road connections. The vans traveled to six villages a day, distributing free product samples. The goal was to promote product trials and identify key distribution and retail points based on audience interest¹².

A leading producer of motor oil and lubricants has leveraged similar media to support its field marketing resources: its vans roam the countryside to shape demand and increase penetration of its products among tractor and motorcycle users. The company's demand generation strategy relies in part on promoting a mix of premium and value-for-money brands. It also enlists influencer groups such as well-respected mechanics and retailers to advocate for its brands.

Capturing and analyzing data in novel ways

Detailed information on the rural consumer continues to be elusive because of the dearth of mechanisms for capturing data and analyzing it. Organized retail units typically provide such mechanisms, but they do not usually operate in out-of-the-way communities. Further adding to the challenge is the lack of defining parameters such as income categories and ownership patterns across rural consumer clusters.

However, small, focused initiatives are now under way, using consumer feedback as input for crucial marketing factors such as product design, price points and positioning in the right distribution channels. For example, Godrej tapped into the connections of Swayam Shikshan Prayog, leveraging some of the microfinance institution's customers—local self-help groups (SHGs)—to "co-create" a custom product for the rural market: a mini fridge without a compressor that runs on a battery, weighs less than 8kg, has a top-loading storage system and is priced at only INR3,200 (US\$67). Developed through iterative rounds of consumer feedback, this unique product demonstrates the value of capturing the many nuances of the rural consumer's needs.



LG

Who

Based in Korea, LG is the world's leading manufacturer of consumer electronics. India, the company's largest market in the Asia Pacific region, generated 35 percent of the company's India revenues from rural sales.

Understanding markets and investing in their needs

LG Electronics has seen sustained year-on-year growth in its India business, largely driven by its aggressive marketing and distribution strategy. The company expects future growth to come from the nonmetro market, called the semiurban and rural market. In the company's lexicon, all cities and towns other than India's seven largest cities fall into the semi-urban and rural category. The company decided to focus on two aspects of the value chain to capture this market—understanding consumer needs better and strengthening the distribution and after-sales service reach.

Differentiator

LG set up a lifestyle research team to analyze the needs and preferences of the rural consumer in-depth. Since the price-value tradeoff was a critical purchase determinant and usage satisfier for the rural consumer, the company investigated its various nuances, leading to some innovative product customization. In 1998, LG developed a television brand specifically for the rural market, christening it "Sampoorna". This region-specific branding was unprecedented for a multinational corporation. Further, the product had features that addressed needs revealed by the research: a majority of the semiurban and rural consumers are comfortable with regional languages but have little or no understanding of English, making it impossible for

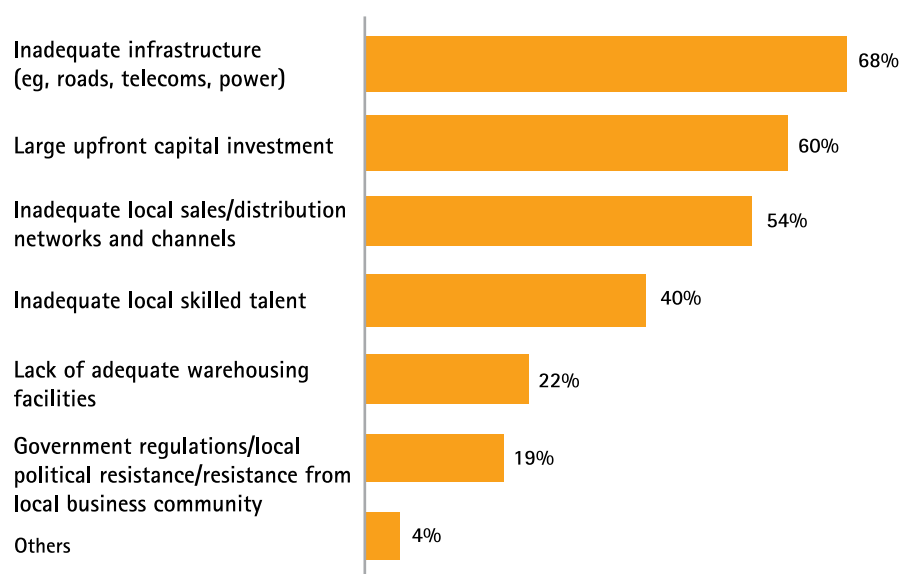
them to read instructions written in English or to operate the product. This need had been overlooked for years, ever since television became accessible in rural homes. LG spent close to US\$50,000 in developing a unit with on-screen display options in the regional languages of Hindi, Tamil and Bengali. It priced the model with rural affordability in mind at INR14,400 (US\$300), still INR2,000 (US\$42) more than equivalent products from other companies. But "Sampoorna", with its customized features that gave the rural consumer ease-of-use, was a complete hit, selling more than 100,000 sets in the first year of its launch.

Building the foundations for growth

LG also invested early in building a strong district networking system to drive its marketing efforts, creating a hierarchy of 45 area offices and 59 rural/remote area offices¹⁴. With the infrastructure in place, LG then mounted a campaign for distribution penetration. Today, the company has more than 9,000 sales and service dealers working through different rural sales channels, close to 1,100 distributors and 40 branch warehouses supplemented by an elaborate customer service initiative. Called the "211" initiative or "Service When You Want", complaint are handled within a maximum of 24 hours. The IT infrastructure for the "211" program currently exists in 100 cities and will soon be extended to 200 more, deepening the company's ability to service its semi-urban and rural consumers¹⁵.

This frontal strategy of insight-based product customization, backed by a strong retail, distribution and service presence, has made the customer's shelf-to-use journey smooth and satisfying. Volume growth, a further goal, can be driven in line with demand generation, creating a strong supply chain backbone for the company.

Figure 3.3. Key barriers to setting up efficient rural supply chains
(Percent of survey responses)



2. Market leaders adapt and optimize their supply chains

Our survey findings show that corporations face major structural roadblocks in setting up efficient rural supply chains, with as many as 68 percent of respondents citing inadequacies in physical infrastructure, including substandard or non-existent roads, rail and telecom networks (see Figure 3.3). Another 50 percent point to the absence of effective distribution and retail linkages—facilities which, if businesses have to build them, usually involve heavy capital expenditure. Sixty percent of the respondents considered these factors to be major deterrents to doing business in rural markets.

Investments in better transportation, warehousing, infrastructure and storage can boost returns over the long term for all participants in the supply chain. Our analysis shows that the specific supply chain functions of sourcing, procurement and distribution offer the most scope for improvement and increasing

profitability in rural marketing. But given the nascent character of the rural market, businesses need to view profitability there in terms of low margins and high volume. They must focus on building their market infrastructure properly from the start, with the right sourcing and procurement features and with supply chain linkages and structures that act as growth multipliers over the long term. Here are some of the most important supply chain activities:

Optimizing sourcing processes

The transformation of farm-to-market linkages holds particular appeal given that India boasts the world's second-largest farm output. Corporations can improve their sourcing processes by using the following initiatives:

Replacing middlemen with direct manufacturer-to-producer linkages:

By replacing the middlemen who had acted as its procurement agents, ITC forged direct links with producers through its e-choupal network, thus

eliminating brokerage costs, better controlling end supplies, and developing its producer base for the long term. The e-choupal network relies on self-driven computer kiosks with VSAT connections, manned by a sanchalak, or conductor. Farmers can use this channel to quote their prices directly to ITC and to close deals promptly, leading to greater transparency and creating a level playing field for all producers. The channel is also used to transfer information that helps farmers earn better returns and survive market fluctuations. There are regular data feeds on crop and region-specific farming methods, weather and real-time crop prices¹⁶.

The e-choupal network has since evolved into a retail format; more than 50 companies use this network to sell products ranging from seeds and fertilizers to bicycles and insurance policies. The e-choupal network relies on self-driven computer kiosks with VSAT connections, manned by a "sanchalak", or a "person in-charge".

Process outsourcing: Contract farming has been steadily expanding in India. A relatively new phenomenon, the practice uses forward contracts between buyers and producers to reduce the risks involved in agricultural activity, guaranteeing timely raw materials at a fair price. Since large corporations dominate contract farming, professional help is readily available to provide seeds, fertilizers and free technical guidance, raising the quality bar and performance levels. The contract farming model also creates a virtual web of inter-relationships with indirect beneficiaries, attracting banks, insurance firms and even storage and equipment companies. Wheat farmers are using contract farming through an association among Hindustan Unilever, Rallis and ICICI Bank¹⁷.

Farm process outsourcing, a variant of the contract farming model, involves a single corporate entity that acts as the buyer, with manufacturers as the customers. The model's strength lies in the market control that such a large buyer acquires, and also in the benefits of outsourcing. Manufacturers can better focus on their competencies. Soft drinks and snacks manufacturer PepsiCo India, for example, acts as a farm process outsourcer, leveraging its experience in contract farming. LT Overseas, a rice miller and owner of the popular Daawat basmati brand, is one of PepsiCo India's clients. With PepsiCo India taking care of its cost, quality and sourcing concerns, LT Overseas is the pre-contracted buyer for more than 4,000 rice farmers across Punjab and Rajasthan¹⁸.

Reaching the customer

Translating customer segmentation and analysis into strategies and tactics for reaching them is especially challenging in India's fragmented and unfamiliar rural markets. Sixty thousand villages in India have no form of retail outlet, making it very difficult to reach potential customers there. But, three million retail outlets exist in the remaining villages. The challenge is how to get products to those outlets and replenish them consistently and reliably. Any logistics problems spell additional costs for both supplier

and retail outlet. We suggest the following approaches to overcome the distribution obstacles:

Leveraging feeder towns, adopting a hub-and-spoke distribution model: Under the traditional dealer-distributor chain model, companies have a direct presence in certain towns, with a distributor/dealer at the district level, and, sometimes, sub-distributors or stockists at the tehsil headquarter level. To increase penetration further, companies have historically relied on wholesalers. Yet within the rural distribution structure, small retailers and consumers use feeder towns (usually large villages) or mandis as sourcing and replenishment points.

Most large companies lack a direct presence in the feeder towns. A possible solution would be to increase sub-distributor and sub-stockist presence lower down the chain, a model that has worked very well for the FMCG industry. To ensure that this model succeeds for other industries too, businesses need to maintain low working capital investments and quick cycle times, resulting in maximum returns for channel partners. Companies could push products deeper into the markets by establishing company-owned outlets in feeder towns and large villages with heavy consumer traffic.

The hub-and-spoke distribution model is another option for reaching customers in remote areas. Coca-Cola uses this model; its products are transported from bottling plants to the hubs or large distributors and from the hubs to the spokes or smaller distributors in semi-urban areas. These small retailers then distribute products to village retailers.

Infrastructure-sharing among non-competing companies: By collaborating with companies that already have a well-entrenched reach, new entrants can quickly scale up and expect quicker returns. The infrastructure provider gains a steady source of revenue at no additional cost. For instance, Samsung has partnered with the Indian Farmers Fertilizer Cooperative (IFFCO) to market its handsets using IFFCO's broad presence

in rural areas¹⁹. Procter & Gamble has agreements with Godrej and Marico Industries, and also with Nirma, to distribute Camay Soaps.

India's postal service, a captive network with a deep rural reach, is the world's largest postal network, with more than 200,000 post offices, almost 89 percent of them outside urban areas. State Bank of India has partnered with India Post to provide banking facilities to the people in rural areas of Punjab. Under this collaboration, India Post will act as a business correspondent of State Bank of India in the unbanked areas²⁰.

Using mobile retailing and distribution options: Delivery vans and sales vehicles can reach the rural interior. Nokia makes contact with its customers in remote villages through its "Care-on-Wheels" program, providing after-sales service, building loyalty and supplementing the company's rapidly growing distribution network in rural India²¹.

Key enablers to enhance supply chain efficiency

The Accenture survey further explored the factors that enhance the efficiency of rural supply chains. Improving infrastructural linkages, training local talent, improved data collection and information on rural markets, and use of technology emerged as key enablers (see Figure 3.4).



Hero Honda

Who

Hero Honda, the world's largest manufacturer of two-wheelers, generates over 40 percent of sales from rural areas.

Acting on the rural "opportunity"

Recognizing the potential of the rural market, the company set up a separate rural vertical in 2007 based on the belief that enhanced rural mobility would be a growth multiplier for the agrarian economy. Hero Honda, in keeping with its strategic vision, undertook a series of initiatives related to product development, consumer understanding, marketing, distribution and after-sales service.

Understanding rural mobility needs

The rural motorbike owner's product expectations differ from his urban counterpart's. Hero Honda knew that fuel efficiency and smaller engine sizes would be the governing characteristics in this market. Yet the company realized there were also finer consumer nuances and stepped up its market research efforts. "Usage and attitude" studies were conducted by the in-house research team and have since become a biannual exercise. These studies capture different aspects of the consumer's life, ranging from brand awareness levels and current modes of transportation to product expectations and potential usage opportunities.

The company also does "rural footprint" studies on a quarterly basis to chart different events taking place in villages. The aim is to understand and map event suitability for promotional drives and increased sales push. They take the brand to the customer when he is in a happy mood, which typically occurs during good harvests, festivals and marriages, when there is cash in hand²².

Differentiator

Hero Honda's consumer research highlighted the power of communities and extended families within the rural context. The company consequently built its rural marketing strategy around the role of influencer groups. Called the "Har gaon, har angan" program, 500 sales representatives were initially hired and given work tasks rather than sales targets. They were required to meet potential customers and opinion leaders in villages. Rural elders and powerful influencers such as teachers and panchayat members were roped in to spread the campaign's message to prospective customers. Since then, Hero Honda has simultaneously been running two-month-long "waves", a kind of marketing campaign, that coincide with the pre-harvest seasons of April and September-October. This gives the company an early start in influencing and forming purchase intent and opinions. Each wave has so far resulted in additional sales of 15,000-16,000 motorcycles. All these "waves" are led by members of the influencer groups²³.

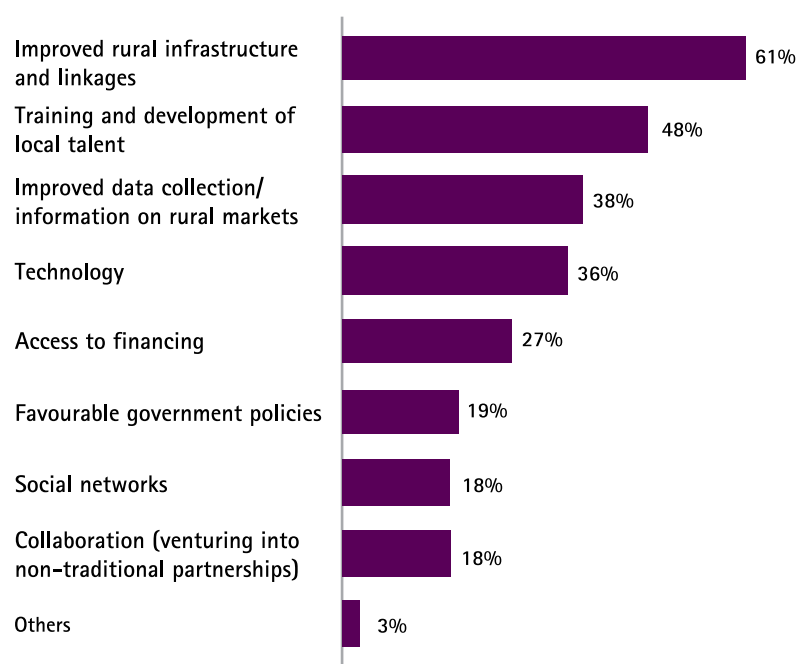
With a focus on building enduring relationships with rural customers, the "Har gaon, har angan" program includes a number of activities with no direct sales outcome. There are free service and check-up camps, consultations for obtaining driving licenses, safe riding educational programs, health check-ups and awareness camps. "Sikhao Baliye," another unique initiative, targets rural women to persuade them to driving motorbikes.

To help increase its reach to 70 percent of India's 6 lakh villages, Hero Honda added a new layer of "Authorised Representatives of Dealers" (ARDs) to its distribution network, similar to the hub-and-spoke model. Within a district, the company's main liaison is located

in the district headquarters. Under him are "authorized representatives"—smaller dealerships where locals can make purchases and also get their bikes serviced. The company recognizes that while someone might be willing to travel 50km to buy a bike, he might not want to travel that distance every time the bike needs servicing. These ARDs are appointed and managed by the dealers through a profit-sharing mechanism. Since Hero Honda avoids directly managing the ARDs, there are no additional investments in the supply chain from its side. The company has quickly ramped up its touch points with customers, increasing its network of showrooms and service centers to around 4,000.

In line with its consumer insight-driven product and marketing strategy, Hero Honda has kept the brand fresh and appealing to rural consumers through product differentiation. The company relies heavily on variants and refreshers which cost much less than creating an entirely new product. It has launched some entry-level products with trimmings tailored to suit the rural consumer, like adjustable suspension, strong headlights and good ground clearance.

Figure 3.4. Key enablers to enhance efficiency of rural supply chains
(Percent of survey responses)



3. High performers co-create value through innovative use of technology

The ability to create and nurture new markets and adapt and optimize supply chains are essential hallmarks to serve the rural markets. But high-performance businesses go beyond this: they employ technological platforms and solutions innovatively to co-create value by actively involving local resources. By utilizing technological platforms to gather authentic data on the customer base—companies actively find ways to improve their reach and scale as well as share the benefits. High-performance businesses also employ innovative approaches to overcome talent deficits. They utilize state-of-the-art technologies to nurture local human resource, thereby reducing their dependency on urban talent pools and parallelly unlock income opportunities in hinterlands.

Tapping rural sources to fill talent needs

Rural youth are often unskilled and have little or no familiarity with computers or with the English language. Trained, urban talent is unwilling to relocate to rural areas, leaving a huge demand-supply gap. Business models adopted by some of the vanguard outsourcing companies offer an interesting insight into bridging that gap. Fosterera, the country's first rural BPO, located in Tamil Nadu, hires poor youth from neighboring areas and trains them to handle customer queries in English, Tamil, Telugu and Kannada. Fosterera provides outsourcing services to telecom companies and banks, managing their help desks and service-related queries. Such BPOs offer an employment and training model that may be a template for entry-level talent development while providing a service platform for other rural-facing industries²⁴.

Using technology as a differentiator

In many instances, companies have already adopted knowledge-based systems to streamline their logistics processes, increase efficiency and lower costs. These companies use a variety of tools to select the best delivery routes and reduce the number of vehicles needed to transport goods. During the next decade, as multinationals begin using the same sophisticated tools in India that they use elsewhere, their suppliers—both international and local—will follow suit.

Meticulous planning must precede any such technology initiative. Before moving to a rural location, the CIO needs to articulate how the company will overcome such basic obstacles as the lack of IT awareness, weak electrical power availability, poor communications connectivity, and lack of trained people. At the same time, it is necessary to keep track of IT assets and manage multiple locations across a large network.



Sumul, a district union that manufactures dairy products for Gujarat Co-operative Milk Marketing Federation, chose a capability-building approach. When Sumul started to computerize, it faced internal resistance complicated by the realization that scaling up and managing would have to be done by its own people since external skilled manpower was scarce. The union chose the “train-the-trainer” approach, starting with a small group of interested employees. Sumul is now working on the Village Connectivity Project, an initiative to connect 1,036 village co-operative societies through wireless and leased-line technologies²⁵.

Tata Kisan Sansar, an umbrella organization that operates franchisee-run centers called Tata Kisan Sansar kendras (TSK), faced a similar problem in running its network of outlets. There are nearly 600 TSKs reaching about 4 million farmers across 22,000 villages in northern and eastern India. Each center acts as a one-stop shop that

offers a wide range of agricultural supplies such as fertilizers, seeds and pesticides, as well as services such as soil testing, crop advisory and foliar applications. The company maintains the PC terminals and provides software and connectivity upgrades across this extensive network. Today, the organization is exploring the option of using handheld devices that can be directly connected to a centralized server; the devices could provide online inventory accounting at every retailing point, print invoices, and give support for accounting and tax-related information. Further, the transaction-related information would be used to build a database of farmers²⁶.



Reuters Market Light

Who

With US\$13.4 billion in revenues, Thomson Reuters is the world's largest multimedia news agency.

Bringing vital information to the hinterland

Thomson Reuters' focus in India was on finding strong and differentiated revenue streams. Spotting a business opportunity in rural markets, the agency decided to launch a personalized information service for farmers. Farming communities in India often cannot access even the most basic information. Typically, small farms are located deep in the rural hinterland and their only source of information was Krishi Darshan on Doordarshan. But this program gave them only a macro view of things. Besides, most farmers relied on intermediaries for local market rates. Since the latter had exclusive access to information, these intermediaries invariably took advantage of the farmers. Lack of proper information about crop-related technology was another huge challenge. Thomson Reuters sensed this as a chance to grow the market and make a social impact.

Mobile phone calls that improve crop yields

Each day, over 100,000 farmers in the states of Maharashtra, Haryana and Punjab receive text messages on their mobile phones, giving them spot prices for their chosen crops from nearby markets, news and crop-related advice for their region or crop, localized weather forecasts, and prices of supplies such as fertilizers, all according to their individual preferences and in a language of their choice. This SMS-based information service, called Reuters Market Light (RML), was launched two years ago. Access to such a range of information has helped farmers improve their crop yields and their productivity for a wide range of produce while also reducing risks.

RML expects to have more than a million subscribers in three years. The subscription can be bought for a period of three, six or 12 months at a price of less than US\$3 per month. Content is available in local languages like Marathi and Punjabi. RML offers information on more than 250 crops, more than 1,000 markets and 1,800 local weather locations. Growth in mobile telephony has been a key enabler, creating a market for value-added services. The market is growing fast, adding more than four million new connections every month in rural India.

Tapping partnerships to source information and increase distribution reach

RML has its own team of reporters who track 600 mandis in the country. It also has content-sharing partnerships with agricultural universities. The information thus gathered is sent out to the farmers over all operators and all mobile phones. Those who want the service need to buy an RML Direct Card available in over 4,000 retail outlets. Then, they make a phone call to RML center specifying the information they need, their geographic location and the crops they grow. The user profile system developed by RML captures such individual farmer details, mobile number and preferences. This is then connected to the mobile delivery platform, which sends the messages based on the user profiles.

Innovative solutions that are profitable, yet socially relevant

Within the first 23 months of its launch, more than 250,000 RML quarterly subscriptions have been bought by over 100,000 farmers across 10,000 villages. The farmers have realized huge financial benefits—ranging from INR500 (US\$10.4) to as high as INR400,000 (US\$8333). In fact, a grape farmer in Nashik recalls how a RML weather alert helped him take action to save his crop, saving him INR200,000 (US\$4167).

For RML, the existing customer base alone turns in revenues worth INR60 million (US\$1.3 million). The cumulative impact across a growing subscriber base can be game changing in terms of both the company's profitability and overall returns to its subscribers. Thomson Reuters estimates that its customers could well save more than US\$5–6 billion²⁷.

The unprecedented and pioneering businesses of RML has been recognized by and is a case study for the UN, the UK government, leading academic institutions like Cambridge University and London Business School, and leading publications such as The Economist and the BBC.



Hindustan Unilever

Who

Hindustan Unilever (HUL) is one of India's largest FMCG companies. About 30 percent of its revenues come from rural sales.

Bringing innovation to the "4th P"

Distribution infrastructure has always been the bugbear for Indian companies targeting the rural market. Distribution channels very often must be built from scratch and their efficacy makes all the difference to a company's success. When HUL identified rural markets as a potential growth target, it knew that success would only come from innovation in all the 4 P's of the marketing mix—product, price, place and promotion. The company decided to increase penetration by extending its reach to villages with populations of 1,000, using new marketing options alongside the traditional distributor-led model.

Helped by the self-help groups

Launched in 2001, "Project Shakti", a key element of HUL's alternate distribution strategy, involved working with self-help groups (SHGs) to educate and train rural women

to become micro-distributors. Shakti grew out of the need to strike the correct balance among return on investments, expanding reach and facilitating volume growth for the company's product categories.

The Shakti network uses women members of existing SHGs working in villages, appointing them as sales persons called Shakti Ammas. These women then become direct-to-home distributors of HUL products in rural markets that would otherwise be difficult to access through traditional networks. The products distributed include a range of mass-market items especially relevant to rural consumers, such as soaps, toothpastes, shampoos and detergents²⁸.

Empowering women consumers

Shakti ammas are small entrepreneurs who invest in their distribution businesses, often using money they receive as microfinance loans. They are specially trained to communicate in social environments such as schools and village get-togethers, and to target non-users. They deliver goods right to the doorstep and service nearby clusters of at least three villages and as many as six. A typical Shakti distributor sells INR10,000–15,000 (US\$208 to US\$312) worth of products each month, earning INR700–1,000 (US\$15

to US\$20) a month on a sustainable basis. This translates into financial independence and social change for women who would otherwise live in poverty. Their new income often goes toward educating their children, and improving their overall quality of life. The Shakti ammas, in turn, become consumers of higher value items such as consumer durables²⁹.

Making a difference to the bottom line

Shakti distributors now account for 15 percent of HUL's sales in rural India. Initially run as a pilot in 50 villages of the Nalgonda district in Andhra Pradesh, the unexpected success of this project has encouraged HUL to expand it to 15 states, creating 37,000 women distributors covering 100,000 villages. By 2010, the goal is to recruit 100,000 Shakti distributors covering 500,000 villages, touching lives of around 600 million people³⁰.

Because other companies are showing interest in using the reach of HUL's Shakti network, the company may find that it has generated an entirely new revenue stream.

Partnerships beyond distribution

In addition to the distribution network, the Shakti project also includes "Shakti Vani" (or the "Voice of strength")—a social awareness program operating in more than 20,000 villages in Madhya Pradesh, Karnataka, Chhattisgarh, and Andhra Pradesh.

"iShakti" is a portal initiated as a part of Project Shakti. "iShakti" provides the rural community with a computer based information portal on key areas such as agriculture, health, vocational training, legal procedures and education. The computers are equipped with the "iShakti" software, which is based on a unique dialogue-interactive technology developed and patented by Unilever. Users can surf across various content areas, accessing information or posting queries which are then answered by experts. Many organisations act as content partners using "iShakti" as a communication channel to rural communities³¹.

Framework factors critical to nurturing distinctive capabilities

Being a part of the local community

To succeed in rural markets, it is important for companies to engage local communities as partners. It has to be a collaborative model with long-term horizons. Rural market leaders such as HUL, ITC and Hero Honda have moved beyond traditional vendor roles to partner with local communities; today, they regularly work to develop skills and to generate employment locally.

If companies are to build and retain public trust and confidence, particularly in rural regions, they must consistently demonstrate that they are genuinely interested in helping solve some of the major issues affecting socio-economic development. For instance, there is no point in businesses waiting for governments to figure out how to fix the region's infrastructure deficiencies—they must make many of those investments themselves.

A core point is that businesses have a moral and ethical responsibility to the communities in which they work. In rural areas, they can make major contributions to employment, education, and health and welfare. Of course, the efforts must not be viewed simply as philanthropy—they should be about harnessing business capabilities to deliver profitable growth and social impact.

Building social networks with local participation

Since rural consumers are unfamiliar with many commercial products, they often look to trusted sources such as friends and family for advice in making purchase decisions. Many companies have developed innovative communication pathways, often borrowing from social marketing models to use word-of-mouth advocacy. Effective social networks build partnerships among NGOs, self-help groups (SHGs), microfinance institutions (MFIs) and local rural populations. These relationships have a business and social use. For example, MFI-SHG combinations in India have access to 50 million consumers over whom they also exert influence.

This makes the MFI-SHG network a powerful distribution and retail channel that combines reach, proximity to the consumer, and access to finance. It is also a high impact, multipurpose channel since it captures and transfers consumer needs and preferences, influences and promotes purchases and helps lower overall distribution costs—and ultimately, grows the market.

Developing the right capabilities— and acting on them

It is one thing to exhibit appropriate capabilities from time to time, or in certain circumstances. But doing so as part of normal working behaviors is a different matter entirely, and is a hallmark of true high performance. Accenture believes that the habitual application of such capabilities requires buy-in from all the relevant players in the organization. When it comes to serving rural markets effectively, it is necessary for everyone across the organization to think and act in concert with those objectives. Here is what is required to promote that mindset:

Integrate rural markets into the core strategy

Treating a rural market foray as an experiment or an exercise in image creation is very unlikely to bring positive results. "The entire organizational philosophy has to be geared towards treating rural markets as a key part of the business," said one executive whose energy company has succeeded in India's hinterland. The company's leadership team must closely match the organization's core growth strategy with the drivers for growth in the rural market. First, the executives need to assess whether the company's core value proposition—its product portfolio, price points, and overall brand image—will appeal to the rural consumer. Once the points of convergence are clear, management must make a strategic commitment to the rural effort, backed by a long-term financial investment and by clear messaging to the entire organization. A senior executive of an FMCG company that now thrives in rural markets noted that, "Any organization wishing to grow in rural must be willing to invest and be patient. It has taken us many years to build this edge."

Secure top-down commitment and advocate constantly

Following the strategic commitment, management must develop clarity on how to proceed, including mapping organizational capabilities and market conditions. Top managers must continue to advocate for rural initiatives, visibly and vocally. Even hugely successful initiatives like e-choupal and Shakti have reached the critical mass of volume only after many years of investment in scale and reach.

Reshape your operating model and mindset

Organizational priorities may need to shift to meet the rural mandate. A business model that has leaned towards higher margins and lower volumes may need to adapt to a low-margin, high-volume approach for the rural business operations, substantially affecting financial planning and organizational culture.

Invest in the future workforce

A long-term rural strategy requires strong capabilities in talent creation, planning and management, both at the top and the bottom rungs of the skills pyramid. A key challenge is that trained staff is reluctant to move to villages while local labor is unqualified for most jobs. This capability gap requires innovative talent-creation models that tap the intrinsic strengths of local labor; it also calls for strong leadership commitment. Top managers can convey the seriousness of their organization's rural commitment by personally serving stints in the hinterland. The top-down message conveyed is that professional growth lies in helping to drive rural market growth.

At the same time, the organization must build its rural workforce carefully. Different skills and competencies are needed, such as cultural congruence and adaptability; employees do need to be willing to live in rural areas and do need to show empathy and sensitivity towards rural consumers and their needs. They also require knowledge of the local language, the ability to handle several product lines, and of course, the creativity and enthusiasm to carry it all through in often adverse circumstances.



Last word

A large number of businesses merely scratched the surface of the potential for profitable growth in rural India. And, they have made only a dent in the social infrastructure challenges that keep so much of India's population in the shadows.

But as Accenture's latest research reveals, there is now real momentum on both fronts. Whether it is LG's impressive market-creation activities, Hero Honda's customer outreach during village festivals or Thomson Reuters' mobile content services helping farmers to protect their crops, there are now abundant stories to demonstrate that businesses can and should make rural markets a central plank of their long-term strategy for growth.

There is ample evidence to indicate that the best businesses help lift up the lives of those less privileged. In a nation where income disparities and differences in living standards are so stark, it is the obligation of those tapping rural markets to help boost education levels, to provide employment, and to think in terms of their long-term involvement in and contributions to the rural communities in which they work.

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.

Notes

1. India Brand Equity Foundation, "Rural Market" dated August 2009, <http://www.ibef.org/economy/ruralmarket.aspx>
2. The National Sample Survey Organization (NSSO) defines rural markets as those areas with fewer than 5,000 residents, a population density less than 400 people per square kilometer and at least 75 percent of the male working population employed as agriculturists.
3. Ministry of Rural Development
4. Economic Survey 2008-09
5. Information Bureau, <http://www.pibaizawl.nic.in/pr/english/e2009/july7.htm>
6. Edelweiss, "Rural Market: Here to Stay"
7. ASSOCHAM, "The Rise of Rural India", published in April 2009
8. As per the Census of India, semi-urban is defined as mid-size cities and towns with population of less than 100,000 but more than 5,000.
9. <http://www.globalenvision.org/library/7/576/>
10. "Wanted: New business models for profitable rural expansion", Accenture Research Report
11. <http://optimistworld.com/PFV.aspx?id=Cooking-to-end-fuel-poverty/>
12. <http://managementarticles.info/distribution-model-of-hul/2009/01/>
13. http://www.accenture.com/Global/Research_and_Insights/Outlook/By_Issue/Y2009/APassageToIndia.htm
14. <http://www.ibef.org/economy/ruralmarket.aspx>
15. <http://www.business-standard.com/india/news/lg-india-will-bring-relevant-products-to-indiafocusrural-markets-after-sales-serviceit/356362/>
16. <http://www.itcportal.com/newsroom/press06june07-a.htm>
17. <http://www.manage.gov.in/pgpabm/spice/March2k3.pdf>
18. <http://business.outlookindia.com/article.aspx?101604>
19. http://www.dnaindia.com/money/report_samsung-ties-up-with-iffco_1167286
20. <http://www.financialexpress.com/news/SBIIndia-Post-tieup-to-provide-banking-facilities-in-rural-Punjab/335652/>
21. http://www.hclinfosystems.com/Investor%20Presentation_FY%2008.pdf
22. <http://www.business-standard.com/india/news/hero-honda-stepsrural-touch-points/368920/>
23. <http://business.rediff.com/slide-show/2009/may/20/slide-show-1-the-secret-behind-hero-honda-success.htm#contentTop>
24. <http://www.krishnagiri.tn.nic.in/fostera.htm>
25. <http://www.prsi.co.in/ict.htm>
26. http://www.tatachemicals.com/farm_centre/overview.htm
27. <http://business.outlookindia.com/article.aspx?261224>
28. <http://indiamicrofinance.com/blog/marketing/rural-marketing-india/marketing-to-rural-india-making-the-ends-meet.html>
29. <http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4172>
30. <http://www.hul.co.in/mediacentre/pressreleases/2007/HUCelebrates75YrsInIndia.aspx>
31. Director's Report in the 75th Annual Report of HLL for the year ending December 31, 2007

*US\$1 = INR48, average exchange rate for the period April 01, 2009 to February 02, 2010

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 176,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$21.58 billion for the fiscal year ended Aug. 31, 2009. Its home page is www.accenture.com.

About the Accenture Institute for High Performance

The Accenture Institute for High Performance creates strategic insights into key management issues and macroeconomic and political trends through original research and analysis. Its management researchers combine world-class reputations with Accenture's extensive consulting, technology and outsourcing experience to conduct innovative research and analysis into how organizations become and remain high-performance businesses.

Copyright © 2010 Accenture
All rights reserved.

Accenture, its logo, and
High Performance Delivered
are trademarks of Accenture.

This document is not intended to
provide specific advice on your
circumstances. If you require advice
or further details on any matters
referred to, please contact your
Accenture representative.

For further information, please contact

Sanjay Dawar

Deputy Lead, Management Consulting,
India and Managing Partner,
Supply Chain Management, APAC
sanjay.dawar@accenture.com

Manish Chandra

Partner, Supply Chain, India
manish.chandra@accenture.com

Core research team

Mamta Kapur, Raghav Narsalay,
Rishabh Bindlish, Vineet Ahuja,
Sharmistha Mallik