

# The Globe



## Unlocking the Wealth in Rural Markets

How the most successful companies are finding and serving India's hard-to-reach customers *by Mamta Kapur, Sanjay Dawar, and Vineet R. Ahuja*

**W**hile urban demand for consumer products remains sluggish worldwide, rural markets are growing faster than ever in some of the largest emerging economies. Rising wages are creating a growing middle class, and in such countries as China, Mexico, and South Africa, rural residents report being more optimistic about future wage increases than their urban counterparts. In China, demand in the countryside has already begun to outstrip demand in the cities.

Nowhere is this phenomenon more evident than in India. From 2009 to 2012, spending by India's 800+ million rural residents reached \$69 billion, some 25% more than their urban counterparts spent over the same period. And projected growth

rates are simply astounding: According to recent Nielsen estimates, consumption in rural areas is growing at 1.5 times the rate in urban areas, and today's \$12 billion consumer goods market in rural India is expected to hit \$100 billion by 2025.

What's more, rural Indians are trading up. Commodities are giving way to branded products, and more-expensive goods are replacing entry-level versions, as consumers gain more disposable income. Their increased purchasing power is largely due to the steady migration of manufacturing jobs to the countryside. Credit Suisse estimates that nearly 75% of the factories that opened in India in the past decade were built in rural areas; they now account for almost 55% of the country's manufacturing GDP and

**ABOVE** Three-wheelers like this deliver goods to remote parts of India.

70% of all new manufacturing jobs. As a result, per capita GDP in the countryside has grown at a compound annual rate of 6.2% since 2000, eclipsing the 4.7% urban growth rate.

Many corporations are recognizing this enormous opportunity and stepping up efforts to gain a strong foothold in India's rural markets. But they are meeting with mixed results. An undeveloped transportation infrastructure, unreliable telecommunications and electricity services, inadequate distribution networks, and widely dispersed consumers make it costly to establish a profitable presence at scale. And finding partners to help identify, sell to, and service rural customers is no simple matter either.

To better understand the challenges in rural India, we undertook a three-year study in which we surveyed 70 businesses and interviewed more than 40 executives in nine different industries. From these efforts and from secondary research into the rural sales and distribution strategies of another 100 companies, we identified a group of market leaders—companies that are tak-

ing innovative steps to gain profitable rural market share and reporting higher revenue growth in rural markets than in urban ones.

What sets these organizations apart is their superior understanding of how to forge viable distribution paths into the countryside, identify profitable new customer segments, earn the loyalty of channel partners, and create durable ties with customers to build a strong first-mover advantage.

### Developing a Distribution Strategy

Establishing cost-effective ways to get goods to India's rural dwellers is the critical first step in penetrating these markets. Smart companies have found that they need to focus on distribution even before making the seemingly commonsense moves of identifying and approaching target customers.

Companies are using a variety of strategies to extend their distribution networks into the countryside (see the exhibit "Sales and Distribution Approaches: Pros and Cons"). The most successful companies,

though, have adopted a multipronged approach. The \$7 billion conglomerate ITC, for instance, has added three layers to its urban food distribution network, which conforms to the conventional distributor-stockist (wholesaler)-retailer model. In rural areas with populations of 10,000 to 20,000, where there's adequate transportation infrastructure but not enough demand to support a traditional distributor, ITC relies on smaller-scale subdistributors who carry a narrower assortment of products geared to local tastes.

More sparsely populated areas (5,000 to 10,000 people) with good roads are served by vans that bypass distributors and supply ITC's products to retailers directly. The retailers use mobile technology to order appropriate stock for their local customers, and the vans make regular visits up to three times a week.

Still smaller and less accessible micro markets (with populations below 5,000 and no paved roads) are served by two- or three-wheelers. The drivers deliver one, two, or three times weekly to retail kiosks that generally carry ITC's goods in small

## SALES AND DISTRIBUTION APPROACHES: PROS AND CONS

	Extension of Existing Network	Hub-and-Spoke Model	Local Influencer Model	"Feet on Street" or Village Entrepreneur Model	Piggybacking on or Collaborating with Other Networks
PROS	<ul style="list-style-type: none"> <li>• Easy to execute</li> <li>• Does not require the creation of new distribution channels</li> <li>• Can launch quickly</li> </ul>	<ul style="list-style-type: none"> <li>• Introduces flexible options for channel structure</li> <li>• Allows opportunities to aggregate demand and stock a wide variety of goods</li> </ul>	<ul style="list-style-type: none"> <li>• Involves little dependence on existing network</li> <li>• Brings elements of trust and local relevance</li> <li>• Distributors become extended brand ambassadors</li> </ul>	<ul style="list-style-type: none"> <li>• Gives deepest reach possible</li> <li>• Creates loyalty in markets sensitive to word of mouth</li> <li>• Can work as a long-term option</li> </ul>	<ul style="list-style-type: none"> <li>• Requires low investment; fixed cost is shared</li> <li>• Ideal for seeding the product in rural markets</li> </ul>
CONS	<ul style="list-style-type: none"> <li>• Requires additional investment from existing network</li> <li>• Existing issues with distribution remain</li> <li>• Incremental approach</li> </ul>	<ul style="list-style-type: none"> <li>• Requires additional investment</li> </ul>	<ul style="list-style-type: none"> <li>• Takes time to become productive</li> <li>• Can pose potential channel conflict</li> <li>• Needs careful monitoring and support to avoid misrepresenting company brand and operations</li> </ul>	<ul style="list-style-type: none"> <li>• Needs a high level of micromanagement</li> <li>• Managing large-scale operations is a challenge</li> <li>• Available talent may be scarce</li> </ul>	<ul style="list-style-type: none"> <li>• Focus gets diluted</li> <li>• Requires aligning company goals with those of partners</li> <li>• Not a long-term option</li> </ul>

sizes for lower prices. ITC thus gains exposure for its products in highly remote areas and seeds demand.

Tata Motors, India's largest automaker, has added two indirect channels to augment its existing dealer network (which focuses on urban and semi-urban towns with populations greater than 100,000). Since 2010 the company has hired and trained local residents to become Tata Motors *gram mitras* ("village advisers"), who work on commission to generate leads for existing dealers' sales teams. In addition, Tata Motors has formed partnerships with local gas station owners, who similarly earn commissions by feeding leads from their customers to the automaker's dealer network. Supplementing its direct dealer channel in these ways has increased sales of Tata Motors' small commercial vehicles (SCVs) by 20%. After piloting the program in six states, the company is now rolling it out nationally and expecting to sell an additional 70,000 vehicles in rural markets annually, bringing in \$500 million in revenue.

Other companies, such as the telecom service provider Idea Cellular, have found cost-effective ways to build entirely separate rural sales forces. To replicate its urban direct-distribution model, Idea has recruited and trained some 4,000 youths (dubbed "sons of the soil") who reside in the villages near its cell towers. To extend its reach even further, Idea supplements these local workers with traveling *grameen pratinidhis* ("village representatives") who need extra income and are already visiting remote villages on business of their own.

Some companies have adopted the village entrepreneur model, partnering with (and sometimes helping establish) independent businesses. Vodafone India has set up a network of mini stores known as *laal dukaan*, or "red stores," for the color of Vodafone's logo. The shops are run by locals who've invested Rs 35,000 to Rs 50,000 (around \$580 to \$830) to open them. They are designed to meet all the telecom needs of customers within an 18- to 32-kilometer radius, from sales to connectivity to technical support. The

## When Tata Motors interviewed rural users of its small commercial vehicles, it discovered three new customer segments.

network has been so successful that the 94 million rural subscribers served by nearly 5,500 red stores now constitute 60% of Vodafone's customer base.

In a similar way, the banking services firm FINO PayTech has established a network of more than 38,000 self-employed *bandhus*, or banking correspondents. FINO provides them with appropriate technology and pays them a fee to take over banks' front-end operations—to perform the due diligence in such services as lending money, opening accounts, and providing insurance and remittances for rural customers. On average, the *bandhus* earn Rs 2,000 to Rs 3,000 (\$33 to \$50) a month in supplemental income while serving more than 76 million customers in 26 states.

### Identifying Prospective Customers

Once they've forged a distribution path into a region, leading firms focus on expansion by targeting clusters of villages within the region. A few large clusters in four or five big states could have the same market potential as a large number of villages scattered across the country, while being far more cost-effective to serve. Companies are investing considerable resources in detailed market surveys to identify promising clusters with enough demand to generate profits quickly.

In the process, they are discovering novel customer segments. For example, when the automaker Maruti Suzuki India initiated its rural foray, in 2007, it identified several distinctive clusters for potential car sales—including turmeric farmers in Tiruchengode (a town in Tamil Nadu) and

apple growers in Himachal Pradesh. Today these segments consistently yield sales of 35 to 50 vehicles in most months, with that number doubling during harvest season.

Similarly, when Tata Motors interviewed more than 2,000 rural users of its SCVs in its target areas, it discovered three new customer segments: underemployed and unemployed 21- to 30-year-olds, who see owning and operating an SCV as a viable means of self-employment; families involved in large-scale agriculture who seek additional income; and shopkeepers, small businesses, and schools looking for local transport for students and supplies.

Many leading firms are using sophisticated technologies to build a comprehensive and multidimensional picture of likely markets. GIS mapping, for example, makes it possible to combine and analyze a wealth of information: demographic data from government sources and private vendors; physical indicators of community wealth, such as post offices, bank branches, schools, and hospitals; and data on different groups' values, attitudes, and behavior.

Dabur, the world's largest alternative and natural health care company, used GIS tools to identify 287 prosperous districts in 10 states as potential markets. After establishing a foothold in an area, in a test-and-learn approach to building scale, Dabur uses GIS maps integrated with economic data to identify a fresh cluster for its distribution network each month, deploying route-planning software to optimize deliveries. In this way, Dabur has scaled up quickly and exceeded its original goal of serving 30,000 villages within 18 months. Sales growth is now 42% higher in its rural markets than its urban ones, even as overall gross margins have improved.

### Forging Tight Bonds with Channel Partners

As competition intensifies in rural markets, building relationships with capable channel partners becomes more important. Savvy engagement helps the most successful companies develop valuable partners, retain them, and keep them motivated.

Idea Cellular, for instance, is able to compete for sales talent with higher-margin auto dealers and product manufacturers by granting its sons of the soil larger territories, consisting of villages clustered near its cell towers. Distributors who previously earned an average of Rs 4,000 (\$66) a month with other companies can earn Rs 10,000 (\$166), even as they lower Idea's selling costs.

Many companies underestimate the time, financial resources, and management attention that are required to build truly symbiotic relationships with channel partners. Coca-Cola, however, understands the importance of this activity. To build loyalty by increasing its partners' skills, the firm set up its Parivartan ("Improvement") program, aimed at teaching India's rural retailers to manage shops, stock, customers, financials, and merchandizing. The training is delivered in classrooms and through Coca-Cola University on Wheels—customized buses that travel the hinterlands to reach mom-and-pop retailers.

As a follow-on, Coca-Cola launched a training program for the owners and managers of small roadside eateries, teaching them about hygiene, customer satisfaction, branding, and more. The pilot sessions for this program have been carried out in four cities, and there are plans to extend it in the next few months.

Coca-Cola has also equipped many rural retailers with large, bright-red solar-powered coolers sporting the familiar company logo. These are a boon in areas with nonexistent or unreliable power supplies, where merchants cannot otherwise keep drinks cold. The provision of solar coolers has led to a fivefold increase in Coca-Cola's rural retail sales.

### Creating Durable Ties with Customers

To a large degree, rural residents base their purchase decisions on personal bonds and mutual trust. In this respect, rural markets are different from more transactional urban ones, and they demand strategies that integrate companies and their offerings into the social fabric.

## Smart companies determine which stakeholders are likely to be the most influential and then find ways to earn their loyalty.

**Building trust through an ecosystem of stakeholders.** The most successful firms have engaged with a wide set of community members to build a reputation for caring about consumers' needs, rather than just corporate profits. Through its Arogya Parivar ("Healthy Family") initiative, Novartis has created just such a cohesive ecosystem. In urban markets Novartis is India's leading provider of pharmaceuticals connected to pain management, organ transplants, immunology, cardiovascular disease, and oncology. Arogya Parivar, by contrast, focuses on health issues affecting rural women and children—primarily clean water and sanitation, undernourishment, iron deficiency, vaccinations, tuberculosis, and diabetes.

To teach rural residents about these issues, Novartis recruits and trains traveling health educators. Visiting two villages a day, on foot or by bike, these educators are usually local women trusted by the community. They build lasting bonds with their neighbors because they address the most common health threats—not just those for which Novartis provides remedies.

To sell its products, Novartis employs a separate sales force of health supervisors. They ensure that the company's pharmaceuticals are available in the most remote locations by conducting itinerant "health camps" that bring together the services of pharmacies, doctors, and hospitals to treat villagers and provide preventive care.

With 530 educators and supervisors working in 10 states, Arogya Parivar is now the largest private health care initiative in India. The health educators have reached

into 33,000 villages, where they have helped millions of people. The supervisors have distributed pharmaceuticals—not only Novartis's own drugs but also generics, vaccines, and over-the-counter remedies—to almost 39,000 doctors and more than 29,000 pharmacies. Despite its complexity, the program broke even in 30 months, and Novartis estimated its 2013 revenue at \$4.8 million. Encouraged by Arogya Parivar's success in India, Novartis has expanded the concept to other emerging markets, including Kenya, Indonesia, and Vietnam.

**Engaging influencers.** In rural India, word of mouth plays a strong role in building brands, far more so than in urban areas. Gaining the trust of respected teachers, health care professionals, and others with high standing in the community can reinforce marketing messages.

Smart companies determine which stakeholders are likely to be the most influential and supportive, and then they find ways to earn their loyalty. Tata Motors, for instance, has tapped local teachers, health professionals, and mechanics to refer potential customers to its dealers, furnishing them with detailed product manuals and shingles they can place outside their homes designating them as *motor dadas* ("auto experts"). Another automaker, Ashok Leyland, engages truck drivers by asking their opinion on vehicle designs. The outreach makes the drivers feel important, empowered, and favorably disposed toward the Ashok Leyland brand. The company capitalizes on this goodwill with a program called Ban Jao Maalik ("Become an Owner"), which helps drivers achieve self-employment by buying their own vehicles. In addition, Ashok Leyland trains mechanics on new products, provides tools, and certifies participants.

**Retaining customers.** As companies deepen their penetration into rural markets, they must bolster customer retention efforts. Leading firms are doing so by providing reliable, consistent, and cost-effective after-sales service and by investing in the longer-term welfare of their customers.

## Organizing to Serve Rural Markets

Companies successful in reaching, acquiring, and retaining rural customers tend to have certain organizational and management practices in common.

### Dedicated divisions

An organizational structure with either a central unit or regional units dedicated to rural sales ensures a sharp focus on rural business and commitment of the needed resources.

### Mechanisms to garner employee support

Highlighting rural initiatives in internal newsletters, at conferences, and in the broader media signals the importance of rural markets to the company. The most successful companies also take care to develop local talent and to recognize the individual contributions of frontline employees, offering them unique

rewards such as invitations to company headquarters and direct recognition by top management.

### Clearly defined roles

To encourage cooperation and avoid conflicts with independent channel partners, it's important to make clear who will be responsible for taking which products to which rural markets and who in the corporate hierarchy will monitor each partner. Dabur, for instance, which has three divisions—home and personal care, health care, and foods—uses a single distribution network in rural areas. To leverage the advantage of scale and optimize market servicing

costs, it employs dedicated rural sales managers to oversee the network, and it mandates that rural superstockists supply substockists only through transaction software provided by the company.

### Coordination through technology

Tablets and mobile phones are commonly used to gather and distribute sales status updates; POS data are used to predict customers' future behavior. Some companies have integrated their tracking systems with those of their channel partners to better forecast demand and manage the sales pipeline.

After-sales service is critical in rural markets. A product that breaks and can't be fixed is tantamount to a promise made and broken. In rural communities, that may permanently lose you an entire village, since word of mouth carries so much weight. While most firms depend on their sales staff to assist rural customers after a purchase, the market leaders are building dedicated service infrastructures by hiring locals to furnish no-frills support in their villages and by taking innovative approaches to lowering the costs of delivering service.

Idea Cellular, for instance, relies on mobile vans, which it previously used for marketing purposes, to provide customer service. Each van typically carries a photocopy machine, a camera, and a representative to help villagers with documentation verification. If, say, a SIM card is not working or gets locked, customers can go to these mobile vans to have the problem resolved.

In addition to paying careful attention to fulfilling their brand promises, leading firms are sustaining the trust of rural populations by aligning their long-term interests with the development of local communities in both small and large ways. Part of Ashok Leyland's driver care program, for instance, is a medical center set up in the city of Hosur, in Tamil Nadu, where drivers can get free checkups and consultations. Another initiative is "All the Best," a scholarship program for top-performing children of drivers. Launched in 2010, this scheme has benefited 650 deserving children in two states so far.

In 2007 the vehicle manufacturer Mahindra began its Samridhhi ("Prosperity") initiative to deepen the relationships between its tractor dealers and customers. With an initial investment of \$4,850 from each dealer, Mahindra upgraded the dealer infrastructure to provide farmers with a host of services and information on

topics including the weather, pests, crop prices, soil and irrigation-water testing facilities, and farm productivity. Through 162 Samridhhi centers, Mahindra has already helped more than 300,000 farmers; it aims to increase that number to one million by 2020.

In 2006 Tata Global Beverages established a nonprofit project called Gaon Chalo Abhiyan ("Let's Go to the Villages") with the dual purpose of marketing tea in rural areas and supplementing the incomes of small-business owners and vulnerable members of the community. Tata Global Beverages provides the tea at a cost that will yield an attractive margin to shopkeepers and to disadvantaged people selling door-to-door: single mothers, physically challenged individuals, unemployed youths, widows, retirees, and others. Piloted in a few districts of Uttar Pradesh, it has since been extended to eight more states.

**POOR ROADS;** fragmented markets; skeptical, demanding, idiosyncratic customers; a paucity of skilled salespeople; underdeveloped banking and credit systems—overcoming barriers like these requires determination. That's why it isn't surprising to find that success hinges on the degree to which a company considers rural markets to be strategically important for its growth, and the level of innovation in its product, packaging, pricing, distribution, and operating models.

As challenging as it is to reach rural consumers, just getting to them will not be enough to prosper. More than ever, companies need transformational strategies to thrive in these markets. And they need to move quickly. Early entrants who can secure a differentiated position for themselves stand to gain a significant advantage over competitors who wait. ♣

HBR Reprint R1406J

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