

A Week in Retail & Consumer

July 16 to 20, 2012



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Executive summary

Rural retailing: Opportunities abound!

India's rural population of 700 million presents an opportunity that R&C companies cannot ignore. The agriculture sector has been witnessing record foodgrain output, giving a boost to agro-industries and rural incomes. But penetration levels for several products, such as personal care, hair care, skin care, consumer durables and electronics are low in rural India. Yet, R&C companies, who are localising products for the Indian market (price points, packaging, SKU size, promotion, etc.), will succeed.

This issue discusses in detail

- *The push and pull factors for investing in the rural segment*
- *Challenges*
- *Select success factors*



Rural retailing: Opportunities abound!

The Indian retail sector is estimated to be 450 billion USD with the rural market accounting for nearly 50% of the market. In 2021, approximately 67% of India's population will still live in rural areas. This poses unique marketing, sales and distribution challenges for companies. Many big players have already started formulating or strengthening their strategies for tapping the rural segment. Even though the rural segment offers big opportunities, in-depth understanding of the consumer profile, consumer preferences and operational environment are critical for success.

Pull Factors

- Increasing rural population with increasing per capita income, grown by nearly 50% in the last 10 years: According to the 66th round of the household consumption expenditure survey of the National Sample Survey Office released in July 2011, the monthly per capita expenditure in rural India was 953.05 INR in 2009-10, an increase of 64.6% from 2004-05.*
- Growing number of financing schemes: With a larger number of public and private banks offering financing schemes, the rural population is becoming more empowered.
- Development of basic infrastructure: Road connectivity, power, telecom services, etc. are on an improvement trend in rural India.
- Growing awareness: Imported goods brought home by a large number of Indians based outside of rural areas and increasing exposure to the media is increasing the consumer awareness and the reception of modern goods.

Push Factors

- Saturated urban market: With the entry of new players, e-commerce and the aggressive expansion of malls, the urban consumer is flooded with options.
- Matching competition: As an increasing number of companies take effective measures to tap the rural segment, it becomes an imperative competitive parameter.
- CSR initiative: Companies are fulfilling their corporate responsibility by setting up business in rural areas, thereby providing employment, developing basic infrastructure and upgrading local life standards.

*Source: <http://www.livemint.com/2012/03/06210445/Rural-consumers-aspire-for-mor.html>

Market observations

- Indian logistics firms grew at over 25% in fiscal 2011-12 led by a large-scale outsourcing of logistics services by manufacturing and services sectors and a steady rise in rural consumption.
- Nearly 1% increase in India's rural income translates to a large buying power of 1.79 billion USD.
- Nearly two-thirds of all middle-income households in the country are in rural India.
- The rural segment comprises more than 50% of consumers constituting a prime market for consumer goods. In fact, 35 to 40% of the 1.6 trillion INR consumer packaged goods industry's revenue comes from rural India.

Source: <http://www.ibef.org/>

Challenges

Heterogeneous consumer profile

- High degree of economic variation: Though the major occupation in the rural belt is agriculture, there is high variation in income levels and hence the save-and-spend patterns there are different from those of their urban counterparts. Customer preferences vary from region to region. There are pockets of prosperous villages where consumer demands and preferences are similar to those of urban consumers. In contrast, there are areas where consumer demands are limited to basic needs only.
- Cultural variation: Due to vast difference in lifestyle and limited availability of products, the rural consumer has relatively simple demands.

Operational challenges

- High initial investment: Setting up business in rural markets requires high initial investment and a relatively longer gestation period
- Setting up robust infrastructure and distribution channels can be a challenge.

Rural retailing: Opportunities abound!

Key success factors: Innovation!

In addition to offering optimised pricing, innovation in types of distribution channels, product categories and attributes and promotion strategy is vital to attract rural consumers and sustain the business.

Role of technology

IT is playing an increasingly important role in rural business models. Use of technology will help retailers understand consumer analytics as well as derive meaningful results out of available data. This will help create efficiencies across the value chain and meet the critical demand and supply issue, thereby benefitting all stakeholders.

Efficient distribution channels

Considering the large number of villages spread across the country, a robust supply chain system is important in order to ensure that products are available to consumers even in remote locations. Investing in logistics, infrastructure and storage will be vital in setting up sustainable business. Collaboration with companies that have well-established infrastructure will help scale up operations and reduce distribution costs significantly. Collaboration of Samsung with Indian Farmers Fertilizer Cooperative (IFFCO) to market its handsets is one such example.

Price, promotion and product strategy

Price: Considering the low and volatile income of rural consumers, product pricing needs to be optimised. Companies can address this in two ways:

- Offering cheaper variants
- Smaller pack sizes

Promotion: Increasing product awareness among rural consumers requires the use of non-conventional methods, something consumers can relate to. Mass media like television and radio are the most powerful to acquire consumer mind space. However promotion via puppet shows, live demonstration in fairs, distribution of free samples are also useful in rural areas. Whatever be the form of media used, the message needs to relate to specific problems, unmet needs as well as the aspirations of rural consumers.

Product: Developing products to cater to rural demands and price points is vital. Companies need to invest in the selection of appropriate consumer feedback processes to understand consumer demands.

ChotuKool by Godrej is a good example. This is one of the most economical, eco-friendly products for refrigeration. Godrej went through a series of feedback sessions with potential consumers in order to finalise the product.

In addition, investing in efficient customer service will help win consumer trust and aid long-term relationships.

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