

# Rural retail: To touch \$25 bn by 2020

**Saloni Nangia** December 25, 2010

The rural Indian economy, growing at 8-10 per cent every year, will be adding \$90-100 billion of new consumption in the next five years, over the current base of \$240-250 billion. There are a number of factors supporting this growth: increasing incomes due to good monsoons and government initiatives and schemes; employment opportunities in infrastructure and industry projects across the country and; emphasis on local employability.

Favourable demographics (nearly 300 million people born after 1990 in rural India), emphasis on basic education and a growing connect with the world at large through media and the Internet are further strengthening the case. There are enough challenges, too: a fragmented consumer base, limited infrastructure (power, road connectivity), low unit spending power, a strong regional influence on consumption and communication, reaching out to 600,000-plus villages and centres, among others.

This new consumption will be basic plus, with a high share of packaged foods, personal care, consumer durables and IT products, two- and four-wheelers, and fashion accessories, among others. Over the last five years, some consumer product companies have recognised the potential of rural markets and invested time and resources to tap into this opportunity - understanding and segmenting the consumer, based on their spends and lifestyles.

Some have re-engineered products, pricing and packaging to customise features and value relevant for these markets. For instance, LG has Sampoorna, a customised TV; Godrej soaps has introduced 50-gm packs and Samsung has launched Guru - a mobile that can be charged with solar energy. Some players have developed new communication and distribution channels within the hinterland (HUL's Project Shakti; Tata Tea's 'Gaon Chalo') and some have created completely new products.

This innovation for rural markets has paid off well for some of the FMCG, consumer durables and automobile companies, and will continue to grow as they get closer to their target consumer and refine their business models. Rural India offers a similar opportunity for modern retail as well. The initial set of modern retail initiatives here have been mostly centred around farm equipment and produce, or stripped-down versions of urban concepts. The opportunity is now large enough to develop concepts that are 'Built for Rural India,' where all elements are built around the requirements, challenges and complexities of the market as well as the availability (or lack) of products and services. Players will have to think of suitable segmentations in terms of all the four Ps: product, price, positioning, place and promotions. They would need to rethink their entire supply chain and logistics as well. These formats could be a combination of retail, wholesale and they could also be medium-to largefootprint modern distribution hubs located in the current convergence points.

These points, often known as mandis, are wellconnected and populated rural pockets, offering a range of products, services (finance, telecom, insurance, among others), entertainment and eating options.

These hubs could extend their reach to service the deeper hinterland through a combination of spokes of smaller stores, mobile units, Internet kiosks, mobile commerce, among others. While the players will have an advantage of lowcost real estate, they will need to make investments for creating in-house manpower training centres, power backup facilities, among others Modern retail (\$20 billion, largely urban) over the last decade has grown to a 10 per cent share of the total retail consumption in urban India (\$200 billion). A five per cent share of modern retail in the rural market by 2020 will be another \$25 billion. Are we ready to tap into this opportunity with 'Built for Rural India' retail concepts?

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