



COVER STORY

# Rural customers take brands on a roller coaster ride...

The inflation rate in rural India is reportedly higher than in urban India. In a study on the business scenario in rural markets, Dr Ravi Lalwani traces the sales and marketing initiatives of different brands to have strong presence in rural markets:

**R**ural India has been going through a lot of stress lately thanks to a combination of factors ranging from poor rains and crop failure to low farm incomes. A Crisil report shows that for the last 5 years, inflation in rural India is higher than urban India. Specifically, in the 24 months to June 2016, while urban inflation fell from 9% to 5.3% (compared with 2 years prior), rural inflation declined from 10.1% to 6.2%. In fiscal 2016, rural core inflation was 6.7% compared with

4.8% in urban areas. Fuel inflation in rural areas was 6.8%, more than twice the 2.7% in urban areas.

## SLOW GROWTH, STRATEGY

Mahindra & Mahindra's rural penetration levels are 40% now and the company plans to increase this to 45% by the end of this fiscal. Pravin Shah, President and Chief Executive, Mahindra & Mahindra, outlines the rural strategy: "Bolero, being my king of rural and semi-urban markets,

was impacted in these markets. Yet, things are a lot better this fiscal with the monsoon on time and the prospects for rural India brightening as a result. We have a robust rural strategy in place and we are a lot more ahead (of rivals). We are also moving at a brisk pace and others will take time to catch up with us."

Compared to ASEAN countries, penetration of 2-wheelers in rural regions is still low in India; they account for 100 2-wheelers per 1000 population compared

to 300-400 2-wheelers per 1000 in the ASEAN. Yamaha has sold 60,000 units which it claims is as per its target. In the last two months, the recently launched Saluto RX 110cc has sold 13,000 units averaging sales of 7000-8000 bikes a month. Sanjiv Paul, VP (Manufacturing), India Yamaha Motor, shares his views on low sales in the rural market: "We hope to continue with these numbers. With the monsoon improving, we are bullish about increasing sales in rural India. During the past 2 years, the monsoon was not too good and the rural markets experienced slow growth. Now at the macro level, the situation is improving and we plan to capitalize on it."

He also spoke about the sales promotion campaigns: "In line with this growth strategy, we plan to expand our reach in rural areas in Rajasthan, Madhya Pradesh, Maharashtra, Tamil Nadu and Andhra Pradesh with various sales promotion campaigns including teaching safe riding skills. With an expanded reach, we are optimistic of garnering a larger chunk of Saluto bike sales."

### MARKET FOR BEVERAGES

Manpasand Beverages primarily focuses on mango-based drinks. Mango Sip, launched in 1997, is the company's flagship product, contributing 80% to the revenues in FY16. Mango Sip is strategically focused on semi-urban and rural markets; the company derives 55% of its revenues from rural areas, and remaining 20-22% from railways and urban areas.

Says Dharendra Singh, CMD, Manpasand Beverages: "In terms of strategies, the rural consumers are not very different from urban consumers and with the rising incomes, the gap is slowly diminishing. Keeping this in mind, Manpasand offers fruit drinks in small tetra packs (also known as tetra classic aseptic) of 80-100 ml and pet bottle and tetra pack of 160 ml. The company also invests a lot in maintaining a good relationship with the distributors, who play an important role in promoting the products in the rural and semi-rural markets. We provide



**Sameer Malhotra** advocates direct marketing channels to reach rural customers



**Ashish Agarwal** outlines the company's emphasis on special products to tap the rural market

various schemes for the distributors and retailers, in which they are given company visi-coolers and ice boxes for product marketing. Our pricing is also affordable

to our target customers, and that helps us in acquiring customers and retaining them at a lower price point."

### MOTORCYCLES TO SCOOTERS

In the recent years, there has been major shift in the 2-wheeler market in rural India. Customers there prefer scooters compared to motorcycles. So there is diversification of sales in the overall rural automobile market of India.

Industry representatives admit that there is some substitution happening in the entry segment. Y.S. Guleria, Senior Vice President - Sales and Marketing, Honda Motorcycle & Scooters India says: "The trend is visible. It is not only higher powered-bikes, but also improving penetration of automatic scooters, which is a reason for reducing contribution of entry-level bikes. Due to limited disposable incomes, families in rural areas can't afford multiple vehicles. Hence, an automatic scooter fits well for both male and female members of the family. Also, improving education levels among women and better motorable roads are driving the penetration of scooters in rural areas. However, the rural youth is increasingly looking for stylish and powerful bikes and may shift from 100cc bikes to 125cc or 150cc bikes."

Eric Vas, President-Motorcycles, Bajaj Auto, also acknowledges that some substitution is happening in the entry segment. But, it is incorrect to say that it is due to scooters. According to him, they do not compete with entry-level bikes. "100-cc bikes sell mostly in a particular rural market. Since that market has been under stress, it has impacted the sales of entry-level bikes."

Subrata Ray, ICRA's Group Vice-President, points out that the shift from 75-110cc segment to 110-125cc category is mainly in the urban canterers: "The same has not been significant enough to cause demand pressure in the entry segment which continues to be hurt by weakness in rural demand."

Pradeep Thampy, Commercial Director at Michelin Tyres India, comments on the

change in demand of the rural customers: "In the initial years, there was huge demand for motor cycle tyres in the rural parts of India due to the large presence of motor cycles in the rural market. But this has changed now, due to the good road conditions. There has been rise in demand for scooters and consequently for scooter tyres." He is of the view that the picture of rural India is changing because of the prosperity of agriculturists. He says the company is strengthening its distribution channels in the rural markets.

It is to be seen whether the positive impact of monsoon and new product launches will help revive the segment. Else, a clear signal may emerge on the shift.

### BENEFICIAL COVERS

Bajaj Allianz General Insurance mainly offers crop and livestock insurance products in the rural market. The crop insurance portfolio has grown significantly in the last 3 years, while the livestock portfolio is quite stable. The company has been successfully fulfilling the rural and social sector obligations as per IRDA regulations.

Ashish Agarwal, Head - Agri Business at Bajaj Allianz General Insurance, says: "In FY 2015-16, we covered over 5 lakh social sector members against the obligation of 55,000. As far as rural business is concerned, the premium generated through it was 7.26% of the total business generated by the company, as against the minimum obligation of 7%."

The company is also participating in the newly-launched crop insurance scheme of the central government - the Pradhan Mantri Fasal Bima Yojana - and aims to insure 5 million farmers this year. "We are making farmers aware about the new crop insurance product through personal meetings and print media, radio, hoardings,



### Kamal Nandi reveals the need for necessities and lifestyle enhancement

street plays and local announcements. This would help increase our sales in the rural market apart from ensuring that a large section of farmers is brought under the ambit of insurance" he said.

### DEMAND & PREFERENCES

Shriram Automall, since its inception in 2011, has focused on rural India. With its extensive presence in rural areas, it receives more than 20% of its business from tier 2 & 3 cities. It generates a major chunk of its business in cities like Trichy, Madurai, Pondicherry, Salem, Tirunelveli, Coimbatore, Vijayawada, Warangal, Visakhapatnam, Hubli, Nellore, Patancheru and Rajahmundry. There is good demand for agricultural equipment, passenger vehicles and 2-wheelers in these cities.

Says Sameer Malhotra, CEO, Shriram Automall: "Customers from the rural areas or tier 2 & 3 cities are more rigid on the choice of vehicle they want. They prefer to communicate in their regional language and take time in deciding the vehicle of their choice. They consider price as one of the most important factors before buying a

vehicle. Majority of vehicles they demand are tractors and passenger vehicles."

According to him, direct marketing is one of the most successful ways of reaching people in the rural areas. "Calling them to inform about a bidding event is often a rewarding experience. Our other marketing activities include distribution of company handbills through local newspapers, company promotion through canopy at major markets. Details of the events are communicated through SMS and e-mail to the customers."

According to Kamal Nandi, Executive Vice President at Godrej Appliances, the offtake of premium products will be more this year as purchasing power of consumers is expected to grow. "While the rural market will see consumption of necessities after 2 years of drought, urban areas will see consumption for lifestyle enhancement," says he.

### MOBILE ACTIVE CUSTOMERS

According to NSSO data, people of rural India spend most on the use of mobile phones and telephones among all services, accounting for 25.33%. This is followed by beauty services at 11.07% and other services, including TV and radio services, tailoring, repair and maintenance, etc. Rural domestic households also spend 44.71% of their overall expenditure on consumer durables or vehicles.

In terms of Monthly Per Capita Expenditure (MPCE) also, the highest amount went to communication services - ₹36.35 in rural and ₹102.46 in urban areas. The rural-urban gap has closed when it comes to communication services. While people in the villages spend about 25.33% of their budget on this, urban families are marginally ahead at 26.33%. So brands in India should focus on mobility channels to reach out their customers in rural areas. It will provide them better reach to target their customers.

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