

## Rural Engagement: Organised Retail

**AJAY S SHRIRAM**

*Chairman and Senior Managing Director,  
DCM Shriram Consolidated Limited*

That India's future may lie in its villages has never rung more true. That rural households comprise just over 70 per cent of total households in India (National Council of Applied Economic Research [NCAER]) reveals the enormous potential of this segment. Add to this the fact that spending and consumption patterns in this category are on a steady incline, and it becomes evident that the rural market is no longer a marginal category in the retail game. The global economic crisis of 2008, which slowed down consumption by the urban middle class, played a role in turning attention to the rural markets. Some analysts call this a re-balancing of market focus away from the big cities; others see it as fortune at the bottom of the pyramid.

At the outset, it is critical to understand that rural retail is directly connected to the state of agriculture primarily because it is the main source of livelihood for the majority in rural India. The impact of agriculture is visible at two levels: first, rural incomes are dependent largely on the state of agriculture and, second, unlike urban retail, rural retail has to give primary importance to agriculture in terms of merchandise (as, for example, fertilisers, seeds, farm equipment) and also help in increasing farm productivity and profitability through extension work. Hence, improving the supply chain, distribution, storage and sale of farm produce become some of the necessary objectives of organised rural retail.

But, before we discuss the opportunities and challenges for rural retail in India, we should understand the developments in agriculture which seem to have facilitated its entry. The primary factor has been the rise in rural incomes over a period of time. This rise is evidenced by the National Sample Survey Organisation (NSSO) data, which shows a decrease in the levels of poverty after the mid-1970s.

While the overall growth of the Indian economy has had a positive impact on the rural economy, there have been, over time, a number of factors which can be said to have had a direct impact:

- **Green revolution:** The serious economic and political crisis of the mid-1960s triggered a complete restructuring of agricultural policy in India—institutional reforms, expansion of irrigation, and technological innovations in the form of new agricultural technologies imported from abroad. The introduction of high-yielding varieties of seeds along with technological infusion (a slew of programmes which together came to be termed the green revolution) not only augmented the production of key foodgrains such as rice, wheat and pulses, but also resulted in an expanding market for non-agricultural products and services, ensuring, in turn, the rapid development of the non-agricultural sector.
- **Irrigation:** The unplanned tubewell revolution also impacted rural incomes positively. In the rain-fed regions, farmers began to grow high-yielding varieties of wheat instead of *rabi* crops (such as pulses) in the winter season, and high-yielding rice varieties during the monsoon months. Thus, a highly productive double-cropping system was established in major parts of rural India, especially in the Indo-Gangetic basin.
- **Government interventions:** More recently, the Rs 50,000 crore-plus spent by the government under the Mahatma Gandhi National Rural Employment Guarantee Act has also helped boost rural incomes. As the Act guarantees 100 days of manual labour to each rural household across the

**Table 1**  
**Net Domestic Product: Rural and Urban (at current prices)**

	Rural					Urban				
	1970-71	1980-81	1993-94	1999-2000	2004-05	1970-71	1980-81	1993-94	1999-2000	2004-05
Net domestic product at factor cost (Rs crore)	22,937	65,004	378,791	769,967	1,269,717	13,850	45,336	319,201	830,966	1,376,653
Population (million)	434	522	655	726	778	107	157	236	275	311
Per capita NDP (Rs) at current prices	529	1,245	5,783	10,606	16,327	1,294	2,888	13,525	30,217	44,223
CAGR-per capita NDP at current prices for the intervening period (%)		8.94	12.54	10.64	10.36		8.36	12.61	14.34	10.65

Source: National Accounts Statistics.

**Table 2**  
**Foodgrain Production in India, 1950–51 to 2008–09**  
**(along with % coverage under irrigation)**

Year	Area (million hectare)	Production (million tonne)	Yield (kg per hectare)	% coverage under irrigation
1950–51	97.32	50.82	522	18.1
1955–56	110.56	66.85	605	18.5
1960–61	115.58	82.02	710	19.1
1965–66	115.1	72.35	629	20.9
1970–71	124.32	108.42	872	24.1
1975–76	128.18	121.03	944	26.5
1980–81	126.67	129.59	1,023	29.7
1985–86	128.02	150.44	1,175	31.4
1990–91	127.84	176.39	1,380	35.1
1995–96	121.01	180.42	1,491	40.1
2000–01	121.05	196.81	1,626	43.4
2005–06	121.6	208.6	1,715	45.5
2006–07	123.71	217.28	1,756	NA
2007–08	124.44	230.67	1,854	NA
2008–09	NA	234.47	NA	NA
2009–10	NA	218.2	NA	NA

**Source:** *Agricultural Statistics at a Glance, 2009*, Ministry of Agriculture, Government of India.

**Note:** Foodgrains include rice, wheat and coarse grains.

country, a large component of the total outlay has been given as wages to workers, resulting in increased rural purchasing power. Similar has been the impact of the massive agricultural loan waiver of more than Rs 60,000 crore announced by the government in 2008.

- The minimum support prices (MSP)<sup>1</sup> of crops have risen over the years—prices went up by 10–15 per cent CAGR (compound annual growth rate in 2005–08 compared to 2.5–4 per cent in 2002–05. This too has led to more money in the hands of the rural people, thus boosting their purchasing power. During 2004–10, the minimum support price of wheat and paddy increased by approximately 75 per cent. Even sugarcane farmers got the highest-ever price for their cane in last year’s crushing season.

**Table 3**  
**Minimum Support Prices, 2009–10 to 2010–11**

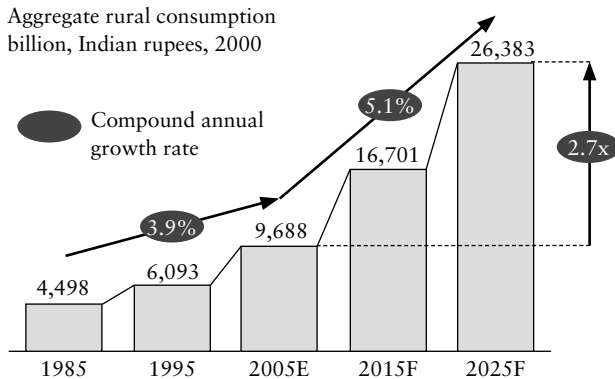
Commodity	MSP fixed for 2009–10 season (Rs/per quintal)	MSP approved for 2010–11 season (Rs/per quintal)	Change in MSP over 2009–10 season (Rs/per quintal)
Wheat	1,100	1,120	20
Barley	750	780	30
Gram	1,760	2,100	340
Masur (lentil)	1,870	2,250	380
Rapeseed/mustard	1,830	1,850	20
Safflower	1,680	1,800	120

It is easy to understand rural India's desire for increased consumption—in turn, the consumption needs of the rural population provide an enormous opportunity for Indian industry.

## II

Traditionally, retailing in rural India has been characterised by multiple channels of distribution, high costs and inefficiencies, low density and uneven concentration of shops per village. Poor communications infrastructure results in a lack of awareness of

**Figure 1**  
**Rural Consumption**



Sources: MGI India Consumer Demand Model, v1.0.

the available products, and hence poor quality products (mostly locally made) and counterfeits largely dominate the market. With a low capacity for investment, village retailers have a limited range and quantity of products. It is, therefore, not surprising that the sales volume per rural outlet is low when compared to their urban counterparts. Periodic *haats* or *bazaars*, temporary markets with around 200–300 stalls spread over 2–3 acres of land, selling miscellaneous products is another feature of conventional rural retailing.

The other aspect of traditional rural retailing has to do with the fact that over 7,000 Agriculture Produce and Marketing Commission (APMC) *mandis*, which work through a series of commission agents and middlemen, control almost all purchase and sale of farm produce across the country—pulses, oilseeds, fruit, vegetables, meat, fish, dairy products and forest produce. An analysis of prices in Delhi's vegetable markets by Global AgriSystem, a Delhi-based farm marketing consultant, found that 60–75 per cent of the retail price is cornered by middlemen, implying that the farmer gets only 25–40 per cent.

By and large, fast-moving consumer goods (FMCG) companies have been at the forefront of an aggressive foray into rural markets. Over the years, these companies have mastered product development and pricing, and setting up local partner networks that work well not only for the rural consumers, but also help the companies achieve good profit margins. Some of the innovative techniques used by companies such as Hindustan Unilever and Tata Tea to garner a considerable rural market share include innovative packaging sizes, lower priced products and use of local languages in promotional campaigns. Coca-Cola and PepsiCo have trained thousands of small retailers to display and sell their products across the hinterland.

However, such initiatives remained limited to only one aspect of the rural retail conundrum. A successful strategy for rural retail has to be structured for the long term and should take into account the specifics of the rural situation, weaving in a supply chain that caters to the existing realities. Organised retail should not only address the changing consumption patterns and aspirational demands of rural India, but should also become a critical link in facilitating

market access for farmers. This is the veritable two-way street. Facilitating market access for farmers puts more money in their pockets. Rising rural incomes create a bigger consumer market, thus putting money in the pocket of industry which, in turn, leads to a sturdier economy—what some have called the virtuous cycle of higher income, higher productivity and higher consumption.

The key advantages of such a strategy are:

1. Farmers' earnings go up by as much as 20–60 per cent in net terms. When farmers have the opportunity to sell their produce to multiple potential buyers, the price realisation usually increases. It also has a direct impact on the quality of produce being generated, since better quality produce potentially yields better prices.
2. Organised retail can facilitate better farm practices and access to technology to ensure better productivity: essentially a win-win situation for both parties. As an example, tomato farmers in Indonesia saw their net profit increase by more than 30 per cent when they collaborated with supermarket channels rather than continuing with traditional markets.
3. The inherent supply chain problems—low density of shops, sub-standard products, uncompetitive prices, lack of transparency, and so on—can be effectively taken care of by organised rural retail.
4. Modern retail is one of the most proven sectors for large-scale employment generation; rural retail chains can thus provide large direct /indirect employment opportunities.
5. Modern retail in rural areas can drive interventions aimed at financial inclusion, health and vocational education as part of community development. This has been borne out by the experience of rural retailers like Choupal Saagar and Hariyali Kisaan Bazaar, which have demonstrated the benefits to local communities.

### III

Across most of the developing world, a 'supermarket revolution' has been underway since the early 1990s. Supermarkets, which

include chain stores of various formats, have now gone beyond the initial upper and middle class clientele in many countries to reach the mass market. Organised retail markets in the developing regions of Africa, Asia and Latin America are growing at a spectacular rate, far faster than those countries' gross domestic product growth rates.

The large rural population of the country has drawn the attention of organised retailers looking for new areas of growth. Recognising the huge potential of this untapped market, a slew of supermarket chains, including those from top business houses such as the Tata group, ITC and DCM Shriram Consolidated Limited (DSCL) have set up shop. With home-grown chains such as Reliance Fresh and Spencer's buying farm produce directly from farmers (and even multinational chains such as Walmart, which has entered India through its tie-up with Bharti Enterprises), Indian farmers can now hope for a better deal.

The future lies in the long-term strategy of first understanding the dynamics and then developing this market—becoming somewhat of a catalyst of social change in the process. And, to develop the market, one has to service the needs of the rural agrarian customer. Since the bulk of the rural population is engaged in agriculture, it is not surprising that most of their needs concern their livelihood. Focused agricultural extension programmes help understand the problems and challenges faced by farmers as also their requirements for agricultural products. Such a rural retail format works at addressing the needs and concerns of the rural population in general and the farmer in particular, with the initial thrust on meeting the agricultural and daily needs of the farming community (farm inputs, agronomy services, finance, and output linkages). A study conducted by the International Food Policy Research Institute in rural areas of Uttar Pradesh shows that modern input retail, that is, rural business hubs (RBH) such as Hariyali Kisaan Bazaar or Choupal Saagar of ITC, have much more input inventory diversity than traditional and local stores. Very often, farmers are sold products for which the traditional retailer gets a higher margin rather than what the farmer actually needs for his crop. RBHs also



fill the knowledge gap by offering specific extension advice and demonstrations to farmers. Once established, such a format can be extended to offerings beyond agri-inputs: FMCG, apparel and consumer durables.

The experience of rural retail in India, as well as in economies like China and Australia, has demonstrated that modern retail in rural markets is potentially viable only if it combines marketing of agri-inputs and services for farmers, while also catering for non-farming households. Hence, quality extension work (advice and inputs), multi-brand agri-inputs such as fertilisers, seeds, pesticides, farm implements and tools, veterinary products, animal feed, irrigation items at fair prices become essential. In addition, farm output services, such as farm produce buy-back opportunities, access to new markets and output related services also become essential.

To give some examples, let me start with DSCL. In 1997, DSCL initiated an agricultural extension programme in north India. Trained agronomists covered more than 100 villages to address problems faced by sugarcane farmers and, eventually, farmers asked the company to ensure supplies of quality fertilisers. As a result of experiences such as this, Hariyali Kisaan Bazaar was launched to address the occupational and daily requirements of farmers: farm inputs, agronomy services, finance and output linkages. It was subsequently extended beyond agri-inputs to include FMCG, apparel and consumer durables.

ITC has taken the farmgate presence of e-Choupal further with rural marketing hubs called Choupal Saagars, which are located in close proximity to the e-Choupal centres and their user communities. Choupal Saagar is a rural retail hub in the format of shopping centres and carries a wide range of products. They too focus on delivering a host of farm-related services: training, soil testing, product quality certification, medical and clinical services, cafeteria and fuel station.

Tata Kisan Sansar is an agri-rural retail store which offers end-to-end solutions for farmers in the form of products and services like seeds, pesticides and fertilisers, and also rents out farm equipment and implements. With the focus on increasing the productivity of

the farmer, Tata Kisan Sansar also provides credit to the farmers and insures crops.

## IV

The initial success notwithstanding, a number of challenges have to be addressed if this model is to be successfully scaled up. Some of these are: lack of accurate and updated information about consumers and the competition; absence of any comparable benchmark for rural retailing; complex legal processes; the scattered nature of the market when compared to the urban market; and the role of intermediaries in the supply chain connecting farmers with consumers/processors. A report (*Rural Retail: The Next Phase of Retailing*) prepared by the Confederation of Indian Industry and YES Bank noted that diverse population, inadequate infrastructure, seasonal demand, multifaceted buying behaviour and price predisposition are the main challenges that companies projecting to enter rural retail need to overcome. It also highlights that once the segment develops there would be a lot of constructive propositions.

Further, given the wide range of languages and cultures prevailing across the country, the retailer needs to understand regional aspirations, buying habits and brand preferences before replicating the model across regions. Besides varied agricultural practices, each state has its own economic nuances, attitudes and practices that need to be taken into consideration. In the northern state of Punjab, for example, 90 per cent of agricultural purchases are made on credit. Similarly, for the model to be successfully replicated in south India, the supply chain for horticulture products and spices, which constitute a major percentage of the agricultural products traded in that region, have to be analysed carefully.

The government needs to supplement private efforts with more public investment to improve farmers' access to assets, services, training and information. The government must frame guidelines for retailer-supplier relations so as to promote fair commercial practices, wholesale market upgradation, and creation of physical infrastructure such as cold chains, logistics, and uninterrupted supply

of electricity. There are approximately more than 30 government permissions required to set up an organised rural retail chain; this needs to be simplified to make entry into the segment easier.

Besides the enabling policy environment, companies looking to expand into the rural market need to build collaborations with non-competing companies already present in that space. That will provide them the opportunity to quickly scale up and get quicker returns. For instance, consumer electronics company Samsung has partnered with the Indian Farmers Fertiliser Cooperative to market its mobile phones, leveraging the latter's presence in rural areas. The Multi-Commodity Exchange and state-owned Bank of India have partnered with India Post, the biggest postal network in the world, to bring value to rural consumers through a new business model.

Innovating models will remain the key for this market. A case in point is Reuter Market Light (RML). Within two years of its launch, it had sold more than 2.5 lakh quarterly subscriptions to more than 1 lakh farmers across 10,000 villages. RML provides farmers with a text message service through which they are given daily information on spot prices, region-specific crop related advice along with news and weather forecasts.

These individual cases apart, this format has enormous potential in enabling service delivery across the rural hinterland. Banks and other institutions, which face high costs of last mile delivery to the vast rural population, can make use of the infrastructure of organised retail to access this segment. With the use of technology, the model can also be used to offer services such as education and healthcare.

The Department of Industrial Policy and Promotion's discussion paper proposing a range of safeguards, including restricting entry of foreign direct investment (FDI) to cities with a population of over 1 million, would deprive lakhs of smaller towns from benefiting from modern retail. FDI should be allowed in rural retail as it would help integrate the agriculture-driven economy of rural India with urban markets and assist in improving the rural supply chain which is in dire need of upgradation and modernisation.

The penetration of organised retail is particularly low in rural India: out of 600,000 villages in India, only around 10,000 have access to organised retail services. Dismal though this scenario may seem, the huge market potential is indisputable.

## NOTE

1. MSP is the price at which government agencies such as Food Corporation of India buy foodgrain from farmers across the country. This mechanism ensures that farmers do not resort to panic selling because of higher production.