

Economic Skip: Rural India is now an attractive market for innovators and product companies

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ABSTRACT

Indian rural population armed with higher disposable income has now greater access to new age technologies and innovation. A pure shift in consumer behaviour is now being observed with the rural population inclined for high-end product and services leaving aside the base level offerings. This is a huge economic leapfrog enabled by easy money, innovation, rapid growth of rural infrastructure, improved social connection, education and health care and overall change of consumer mind-set and behaviour pattern.

The paper finds out the transformation in rural economy which has skipped several steps of economic and technical evolution through which their urban counter part has gone through and what opportunity it bring to the investors, entrepreneurs and start-ups who are finding a new market that will justify their increasing research, innovation and sophisticated product development costensuring better return on investment (ROI), early break-even and improved sustainability with competitive product pricing.

Keywords:Economic Skip, Economic Leapfrog, Return on Investment (ROI), Compound Annual Growth Rate (CAGR), Gross Value Added (GVA), Foreign Direct Investment (FDI), Monthly Per Capita Consumption Expenditure (MPCE)

Introduction

The Global economy has entered in to a new phase of rapid development, fuelled by innovation and implementation of new ideas across sector. Extra ordinary easing of monetary policy has helped developed markets to overcome their stressed assets and allowed the enterprises with easy credit for business diversification and product innovation. With increase in credit growth there is a growing demand in workforce. With job markets improving demand in workforce is spilling to the rural market. The modernization of rural infrastructure along with the increase in literacy rate among the rural mass has created a social framework and a work force which can meet the growing demand. Companies started setting up their factories and warehouses closer to the source of raw material which has increased the scope of employment among the rural mass. An expanded job market has created disposable income and more spending power with the rural population who are now more eager than ever to taste the latest product offering which can meet their growing need. This is a huge

economic lift and shift for rural India which till few years back was struggling with power crisis, improper road and health condition and isolation from the mainstream economic happenings.

Economic development in Rural India

Mahatma Gandhi once said that “The future of India lies in its villages”. Gandhi rightly envisaged the manpower of rural India as the driver of the new prosperous India. In the economic sphere the rural India experienced a steady transformation, its economic self-sufficiency was dissolved. The influx of modern industrial goods into the village progressively undermined the village artisan industries. The old self-sufficient economy based on an equilibrium between the village agriculture- and the village artisan industry was thus disrupted (A. R. DESAI, 1961). Still today after nearly 70 years of independence 68% Indians still stay in a village (Indian, 2015), Indian villages are primary source of the agricultural economy, including fisheries and forestry. Statistics shows that in India agriculture is still the primary livelihood of rural people, 58% of whom are still indirectly or directly dependent on agriculture as the source of primary earning (Sector-wise contribution of GDP of India, 2017). Agriculture has major contribution towards country’s economic foundation and holds the key for the economic progress of the country. According to CIA Factbook sector wise composition of Indian GDP in the year 2014 estimated to be, Agriculture (17.9%), Industry (24.2%) and Services (57.9%). The total production of agriculture sector in 2014 was \$366.92 billion, which makes India the second largest producer of agriculture product globally. It’s an interesting fact that India accounts for 7.68 % of total global agricultural output (Damodaran, 2014). On the other hand a NITI Aayog paper reveals that between the year 1970-71 and 2011-12, the share of rural areas in output of manufacturing sector doubled from 25.8% of Net Domestic Product (NDP) to 51.3% exceeding the manufacturing production in urban areas (Ramesh Chand, Changing Structure of Rural Economy of India Implications for Employment and Growth). A recent report on June 2018 from India Brand Equity Foundation shows that Indian manufacturing sector’s Gross Value Added (GVA) at US\$ 388.01 billion in 2017-18E and have grown at a compounded annual growth rate (CAGR) of 4.34 per cent between financial year 2012 and 2018.

Year	Agriculture		Manufacturing		Construction		Services		Non-agri.	
	NDP	Emp.	NDP	Emp.	NDP	Emp.	NDP	Emp.	NDP	Emp.
1970-71	96.2	96.8	25.8	51.5	43.2	64.6	32.8	42.1	32.4	47.3
1980-81	94.9	95.9	31.8	48.1	45.6	58.8	34.0	41.7	35.0	44.9
1993-94	93.9	95.8	29.8	51.3	45.1	57.2	33.6	42.3	34.8	46.6
1999-00	93.2	96.6	41.6	51.5	43.3	57.6	27.1	40.7	31.8	45.8
2004-05	94.1	96.1	42.5	49.6	45.5	64.4	32.7	41.9	36.7	47.2
2011-12	95.1	95.9	51.3	47.4	48.7	74.6	25.9	39.6	35.3	48.7

Note: Emp.: Employment, Non-agri. Includes manufacturing, construction, services and other sectors

Fig: Share of Rural areas in total NDP and workforce across different sectors (Ramesh Chand, Changing Structure of Rural Economy of India)

2nd International Conference on Multidisciplinary Research (ICMR-2018)

Mahratta Chamber of Commerce, Industries and Agriculture, Pune (India)



08th - 09th September 2018

www.conferenceworld.in

ISBN :978-93-87793-45-3

Greater exposure raises rural aspirations for a better quality of life and arouses appetite for consumer goods. A 2012 data show that rural monthly per capita consumption expenditure (MPCE) grew at a rapid 5.5 per cent a year between 2009–10 and 2011–12 (NSSO 2012). While average rural MPCE remains about half of urban, the growth in rural income and expenditure is reflected in a sharp drop in rural poverty to less than 26 per cent from 34 per cent in just two years. With its growing purchasing power, the rural market is no longer a residual retail market. Products are being designed to cater specifically to rural demand. Rural India is making its presence felt (IDFC Rural Development Network, 2012-2013). Another striking growth is in the area of Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India which is expected to cross US\$ 20 billion mark by 2018 and reach US\$ 100 billion by 2025 (Indian Rural Market, 2017). Overall the Indian rural economy has experienced a stupendous growth during the last couple of years, an Indian Brand Equity Foundation report shows Compound Annual Growth Rate (CAGR) of Indian Rural economy stands at 6.2 per cent since 2000.

Catalyst for Economic growth in Rural India

It's interesting to analyse the characteristic features of today's rural economy. Few catalyst for such unprecedented growth has been discussed below:

- 1) **Commercialization of Agriculture:** Access and Implementation of modern technology and techniques, like hi-tech agricultural equipment, satellite based weather forecast has yielded high productivity and better gains which has made agriculture a profitable proposition.
- 2) **Financial restructuring:** The Government of India has taken several rural finance projects during last couple of years to improve the quality and reach of financial services in rural India. RBI has given license to the Post offices which has extensive village network to setup payment banks. Mobile banking has substantially increased in rural areas, NPCI (National Payments Corporation of India) has launched a new in-store payment solution that will enable customer payments via Unified Payments Interface (UPI) platforms like BHIM.
- 3) **Improvement in Educational facilities:** Educational facilities of rural India has considerably increased in the last 5 years. With the implementation of mid-day meal many poor students are now getting attracted to the school. Increase rail and road connectivity with the urban has created scope of the rural youth to travel to urban areas for higher studies. Spur of coaching classes and eLearning mediums has encouraged rural students to pursue high studies.
- 4) **Massive expansion of Rural Infrastructure:** Massive expansion of road transport has drastically improved rural and urban connectivity and people's mobility. Rivers are being connected to improve water availability throughout the year for improvement in agriculture. Highways are being built to connect the rural areas with cities. Many power grids are installed across rural areas improving the Power situation in villages, along with education and health services. Several water treatment plants has been setup in villages to improve the drinking water quality. Overall living qualities in villages are in a much better shape which is a definite trigger for economic development

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- 5) **Development of regulated markets, cold storage and distribution centers:** With involvement of multinationals and major retail giants village market is much regulated now. With the ease inflows of foreign direct investment (FDI) and improve credit behaviour retailers are setting up distribution center which is close to the agricultural place and they are purchasing directly from the villagers in a fair price. Industries are setting up cold storage and processing plants which are becoming sources of employment for rural youths.
- 6) **Mobility and Internet access:**Rural India has experienced stiff rise in Mobile phone usage. A study in October 2016 shows that total mobile connections in India reached 1078.42 million. Out of which, Urban India, which has witnessed a monthly growth rate of 2.97 percent had a total of 621.77 million subscriber, while rural mobile connections increased by 2.40 percent and had a total of 456.66 million(Staff, 2017). There is also a rapid increase in number of internet user in rural India in last 10 years. A survey shows that between 2012 and 2015, the number of internet user has increase heavily in rural area. Rural India, which had 28% of total internet user in 2012 has experience a tremendous rise to 39% share of internet user in 2015(Prabhudesai, 2018).
- 7) **Television and social media:** In a Study conducted by Broadcast Audience research council India (BARC),as per Census 2011, there has been a 75% growth in the proportion of TV households in rural India, compared to 2001. For urban households, this growth stands at 20%.(bureau, 2015). With data getting cheaper villagers are increasingly interacting with the outside world through social media accessing product and services from the website.
- 8) **Rapid Social and cultural change:** The fast development of rural life has drastically affected the behaviour pattern of rural living along with values, norms and ideologies. It has resulted in rise of new middle class who are educated, open minded, mobile, more tech savvy and accepting changes in otherwise conservative rural society. A social mix with urban culture is transforming the rural society towards a fast forward life and offering to the latest technological and social advancement.
- 9) **Rural Household income:** It has been observed that the rural India's share of national income and expenditure is above the half mark during the year 2014. The ICE 360o Survey (2014) reveals that rural India contributes over half of India's income (55.4%) and the best part is it has a share of 56.1% of consumption expenditure. Also the rural 179.5 million households have a share of 52.3% of the country's surplus income(Shukla, 2015).
- 10) **Pollution, availability of cheaper land and better living condition:** The green revolution in villages has a positive impact on environment as a whole. More awareness in the areas of harvesting, poultry, dairy and fisheries has improved the basic quality of food supplied. Today's village mass is equipped with knowledge of better pesticides and scientific use of vaccination and hormonal treatment. Usage of coal and wood as a means for cooking has substantially reduced as cooking gas are readily available in villages today. In a land of 1.3 billion people availability of a cheaper land is always a problem especially in the urban areas. This has encouraged several corporates to build their manufacturing and processing center in village areas where land is still available in a cheaper prise. These industries and conglomerates are not only focusing on their business objective but also taking several initiatives to improve the quality of life of the people around their production unit. Many villages are getting adapted by the corporate houses and eminent personalities which has experience amenities and infrastructure for smart living without changing the basic nature of a rural life.

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The great Economic skip

Several economic indicators depicts how rural is closing its gap with urban and catching up very fast, so fast that it has skipped several steps of technological development and economic revolution through which the urban population has already gone through. It's amazing to see how fast rural has adapted the current technology advancement bypassing several intermediaries. Below are few areas where Rural has experience unprecedented growth, leapfrogging several stages of technology advancement.

Mobile Phone and Internet user: Mobile phone was a distant concept to the rural population leave alone the Mobile internet. In the year 2000 hardly 2-3% user of Mobile phone were from rural and the June 2016 data shows that out of the mobile internet users nearly 30% are from rural (Eric Bellman, 2009). The veracity with which the rural population has adapted mobile phone and mobile internet clearly indicated rapid change of rural consumer behaviour. Another interesting fact is, while the urban has gone through several stages of technological development in mobile space starting from cordless devices, basic feature phone, blackberries, basic smart phone, touch phone and retina enabled devices the transition from basic to high end smart phone is quite swift for rural with many of the new users entering directly into the advanced stage of smart devices. This is indeed a best example of rural economic skip.

Manual banking to digital banking skipping plastic money: In financial sector the technology innovation has reached the bottom most level of the pyramid very fast. It is imperative that country's payment system needs to pass the litmus test of safety, security, soundness, efficiency, and accessibility. In order to address all these, payment systems have evolved from barter to currency, to digital systems (CS, May 2017). Unlike the urban India, which slowly drifting from cash to plastic to mobile payments mode, Indian rural population has virtually skipped the intermediate stages of plastic money and jumped into digital banking transaction. In November 2016, Indians had 2.70 crore credit cards and 7.6 crore debit cards, with a month-on-month growth rate of only 1.7 per cent and 2.2 per cent, respectively, which is very small compared to the growth of the mobile wallet. During the same period, mobile wallets numbered 20 crore grew at a rate of 9.5 per cent month-on-month, and poised to grow to 65 crore by 2020. In terms of value, mobile wallet transactions are estimated to leapfrog from Rs 5,500 crore in 2015-16 to Rs 30,000 crore in 2022. This is indeed a big lip for an economy of 130 crores people 70% of which are still staying in village (PANDIT, 2017).

Analog to Digital TV – Rural leading: It's indeed surprising to find the Digital TV's penetration in rural India is three time higher than its urban counterpart based on a report shared by the Indian Readership Survey (IRS) on the pay TV sector (Mukherjee, 2013). It is interesting to find that though about 80% of the households in urban has TV set which is nearly double the size of penetration in Rural which has nearly 38% coverage, but the technology penetration in rural is much higher. Hard to believe but the fact is nearly 34 per cent in Rural has digital TV as opposed to just 11.9 percent in urban. This clearly indicates that the rural India might be a late adapter but they prefer the latest of the inventions as their choice.

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Change in Retail Behaviour: With increase in rural household income and improvement of infrastructure Indian retail companies are taking no opportunity to setup smart shops in rural India introducing them with several new SKUs. A recent example is the future group's initiative with Rajasthan Government where Future group has converted the fair price shops to small retail shops called Annapurna Bhandar which sophistications like smart checkouts, biometric checks, over the phone order replenishment and a structured distribution network. Villagers are getting attracted to several products like ketchups, hair oils, shampoos which were unknown to them few years back. This is indeed an economic lift. These villagers who were comfortable shopping in akirana store are getting expose to the smart shops like Annapurna Bhandar. It's imperative that with the response and growing demand from the customer these Annapurna Bhandars will soon be converted in to hypermarkets like Big Bazaar, Home town with extended product varieties. A data from 2016 shows that 1200 multipurpose outlets in rural sector has been establishes like DCM Haryali, ITC Chaupal, Tata Kisan Kendra, Aadhar etc. with the sole purpose to unlock the value and potential of rural economy (Siddiqui, 2016).

Conclusion

Rural India is no longer a self-contained economy isolated from the outside world. With technological advancement and infrastructure development in villages happening in a rapid pace the gap between urban and rural is closing fast. The disruptive innovation in the space of digitization has made the access to the world of internet much easier. Data is becoming cheaper so is the improvements in browsing speed and the social media experience. Indian rural educated mass is taking no time to pick up new means to connect with the outside world. Improved demand has created several job opportunities in the rural India and the disposable income for the rural mass has substantially increased. This has changed the spending behaviour and consumption pattern of the rural mass making them an attractive market for the growing retailers, start-up venture or Indian and foreign multinational. Rural market has thus become a powerful economic engine and attractive investment opportunity for private companies. Especially for the product companies for which the cost of innovation is so high and the product life cycle got drastically reduced. Unless the rural India is made a party to the journey, reaching breakeven in short term seems a distant possibility.

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