ROLE OF MULTI NATIONAL COMPANIES IN THE DEVELOPMENT OF RURAL ECONOMY

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ABSTRACT

Modern Multinational companies (MNC) treat India's rural market as a gold mine. Two-thirds of the country's one billion consumers live in rural India. Nearly half of the national income is generated in Indian villages. Rural market in India is showing upward trend due to increase in income and consumption level of rural people, enhanced budget allocation for rural development by the Indian Government, and improved transport and communication in rural India. Indian companies failed to recognise these opportunities and cater to the needs of rural masses. Some of the large multinational companies after thorough market research have implemented innovative projects to tap the Indian rural market and to provide value added goods and services to the door steps of rural people. MNC products are capturing a sizable portion of rural consumer. Research on spending pattern of rural consumer in 2009 showed that rural consumer spending on MNC shampoos increased to (70%), washing powder (60%) and toothpaste (112%). In the light of above, a detailed study of different MNCs operating in rural India, as a result opportunities and challenges faced by Indian economy is made. Present paper is descriptive in nature, based on secondary data from journals, research reports, magazines and internet sources tries to analyse some of the multinational companies' strategy to penetrate Indian rural market. It highlights initiatives taken by some of the multinational companies to tap Indian rural market and its results. It also tries to discuss problems and prospects for rural population as a result of MNCs operating in rural India and offer suggestions for improvement.

Key words: Multinational Companies, Rural Market, Innovative Projects.

INTRODUCTION

Mahatma Gandhi once said "The true India is to be found not in its new cities but in its seven hundred thousand villages. If villages perish, India will perish too." For Gandhi villages represented true India which has 642,000 villages, some with populations as low as 500. According to the 2011 census, there are 316.5 million people in rural India. Some of them travel to larger towns, even metropolitan cities, to study, and many others, to work. Rural India is a scattered over a large area with different cultural, social, educational and economic development. Research by IMRB International found that some markets in India are big but not affluent such as markets of Uttar Pradesh, Bihar etc. and some markets are affluent but very small like Himachal Pradesh and Goa. Therefore, strategy for development of rural India should be flexible and adaptable. After liberalisation rural India is slowly transforming itself from agriculture-based economy to service-based economy. In other words, non-farm sector is providing employment to rural youth. During 1983 to1993in rural India 6 out of every

10 people were employed in agriculture. Whereas during 1994 to 2004 6 out of 10 people in rural India were employed in non-farm sector.

Indian rural market is increasingly becoming the economic powerhouse of the country. The hinterlands, accounting for about 50 per cent of India's gross domestic product (GDP) and housing nearly 70 per cent of the country's population, are showing remarkable multiplier effect and thereby excite policy makers and business leaders. Moreover, rural areas, where 12 per cent of the world population is residing, are witnessing enormous growth in their incomes and crucial shift in consumer behaviour. Companies have realised this enormous opportunity and are largely tuning their strategies to attract the rural population through their products and services.

Hindustan Unilever Limited (HUL) Chairman, Mr. Harish Manwani, while addressing shareholders at the company's 79th Annual General Meeting (AGM) held at Mumbai spoke about the exciting growth opportunity in Rural India and how it is becoming the epicentre of India's growth story. In the speech titled 'Rural India – An Emerging Powerhouse,' Mr. Manwani said, "It is often said that there are two India's – Bharat which exists in the villages and India which thrives in the urban areas. If our country has to have real progress and make its mark on the global stage, then these two India's must converge. Prosperity will have to come to our villages, towns and cities."

NEED FOR THE STUDY

- Rural India accounts for around 55 per cent of the manufacturing GDP; rural areas were host to nearly 75 per cent of new factories built in the last decade, and rural factories account for 70 per cent of all new manufacturing jobs thereby increasing their income level.
- Rural consumption per person has increased by 19 per cent yearly between 2009 and 2012; two percentage points higher than its urban peers. In incremental terms, spending in rural India during this period, increased by US$ 69 billion, significantly higher than US$ 55 billion by urban populations.

LITERATURE REVIEW

Vladislav valentinov, Sabine Baum (2009) Examined and compared institutional arrangements addressing market failures in rural areas. They found that rural market failures cannot be satisfactorily addressed by profit-oriented trading organisations and stressed the need for third sector organisations such as NGOs, cooperatives and associations. They concluded that further research on developing the institutional economic theory of the rural third sector. Fatimah Hassan, Siti Masayu Rosliah Abdul Rashid (2012) made a study of extent of development of information and communication technology and its contribution to development of rural areas of Malaysia, they also studied challenges faced during the implementation of Information and communication in rural areas. The study concluded that the introduction of information and communication is a driving force to economic development of rural areas, but still these areas were exposed to challenges and constrains. Nicoleta, Paun Ion Otiman, Teodor Mateoc, Camelia Manescu (2013) Studied ageing population in rural areas of

Romania, decrease in birth rate and subsistence on agriculture and scarce income resources and its implication on their quality life. Based on the analyses carried out and on study cases, the authors present the main aspects of the rural areas in the region, pointing out the fact that local authorities should be concerned with the development of their own localities and implement successfully development projects. The authors have reached the conclusion that the development of non-agricultural activities determines the diversification and increase of jobs, increase of life quality in rural communities and Socio-economic aspects development of the rural areas. Beata Skubiak (2013) Studied risk of loss of relationship between urban and rural areas because of growing disproportionate growth in two areas and decreased territorial cohesion. The purpose of the study was to find the reasons for difference in economic and social development in urban and rural areas. They concluded that there is a need to strengthening a strong regional policy to fight these inequalities.

OBJECTIVES OF THE STUDY

- To study the present scenario of MNCs operating in rural areas
- To examine the results of penetration of MNCs in rural areas
- To offer suggestions and recommendations.

RESEARCH METHEDOLOGY

The present study is descriptive in nature. It makes an attempt to study and analyse some of the multinational companies operating in rural India and its results on rural economy. The study uses secondary data. The secondary data was collected from journals, periodicals, electronic data base, published and unpublished research studies.

PRODUCTS SOLD IN INDIAN RURAL MARKETS

TELIVISION SETS

The advent of satellite TV connections has accelerated the spread of television in rural India. For the first time, more than 50% of the increased rural spending is on non-food products and services— and mobile phones and television sets top the list. data from Consumer Electronics and Appliances Manufacturers Association show that as many as 16.4 million television sets were sold in rural India in 2012-13, of which 5.6 million were LCD sets, by 2025, India would rise from the twelfth to the fifth largest position in the consumer durables market in the world; the market is expected to reach USD12.5 billion by 2015. India is set to become the fifth largest consumer durables market in the world by 2020, the electronics market in India is expected to increase to USD400 billion from USD69.6 billion currently India is one of the largest growing electronics markets in the world by 2017. The total number of TV sets sold in rural areas may reach 17 million units by the end of the financial year while LCD units sold are expected to increase to 7.8 million. Recent data shows that Dish T.V Ltd. has 11 million connections, TATA sky Ltd., has 11.5 million subscribers. Of which nearly half are in rural India.

MOBLILE CONNECTIONS

Mobiles are the vehicle for biggest change in Indian consumers. Mobile phone penetration in India is noteworthy, it leaped from 1.4 units per 100 people in 1995 to 51 units currently. According to the Telecom Regulatory Authority of India, as of June, India had 873 million mobile connections. Of these, 522 million were in urban areas, with the remaining 351 million in rural areas. Nokia Company was the leading mobile company till Samsung introduced android software. Rural India now accounts for 40% of Nokia India's US$5 billion annual revenue. But along with Samsung, LG, Sony Ericsson and Motorola, there are a number of handset makers not only from China selling cut-price handsets, but also from India's home-grown companies that are chipping away at Nokia's market share lead with handsets that are cheaper, more practical or both. Mobile producers, in collaboration with various partners are trying to offer mobile banking and other services along with its handsets.

According to Mr. Anupam Vasudev, chief marketing officer of wireless service provider Aircel India Ltd. although rural consumers buy mobile phones largely for communication, they are increasingly viewing these devices as their “window to the world”. Mr. Manu Sharma General Manager, mobile products, Samsung Electronics Co. private Ltd. Explains that Low-cost phones such as Celkon, China Mobiles, Intex and K-Touch are popular in rural markets.

INTERNET FACILITIES

According to the Telecom Regulatory Authority of India, as of June, India had 873 million mobile connections. Of these, 522 million were in urban areas, with the remaining 351 million in rural areas. There are 46 million active Internet users in rural India, according to a report, titled Internet in Rural India, published by lobby group Internet and Mobile Association of India and IMRB, a market research firm. Internet penetration in India is driven largely by mobile phones, with some of the cheapest and most basic hand-sets today offering access to the internet. India has 110 million mobile internet users of which 25 million are in rural India. The growth of internet penetration in rural India is driven largely by the mobile phone; 70% of rural India's active internet population access the web via mobile phones. Forty-two percent of rural India's internet users prefer using the internet in local languages. The high prevalence of content in English is a hurdle for much of rural India.

MARKETING STRATEGY OF SOME OF THE MNC COMPANIES

HINDUSTAN UNILEVER LTD. (HUL)

Hindustan Unilever is one of the India’s largest consumer products companies owned by Anglo-Dutch Uniliver. It penetrated Indian rural market in the year 2001. It started Shakthi project which is a self-help group with network of women members coming from low-income households selling HUL products in baskets from door to door. After 10 years of efforts there were 42,000 women entrepreneurs involved in selling HUL products in more than 100000 villages in 15 states. Now HUL has started selling products in small, cost-effective sachets to rural masses. With 6.3 million retail outlets catering to the needs of rural India accounted nearly half of HUL’s revenue.

Hindustan Unilever Ltd. (HUL)'s decade-old Project Shakthi received a technology boost in 2012. About 40,000 Shakthi Ammas were equipped with a basic Smartphone. These smart phones had specifically designed software enabled them to take and bill orders, manage inventory and receive updates on promotional schemes run by the company. This improved their efficiency The Shakthi workforce rose to 48,000 in 2012, up by around 3,000 from the year before. Project Shakthi equips women with the basic entrepreneurial skills and facilities needed to set up and market FMCG products.

LG COMPANY LTD.

The South Korean LG Company entered rural Indian markets in the mid-1990s when numerous television Companies produced different models of televisions keeping in mind Indian urban population. But LG Company developed two models of colour television sets specially meant for rural market called as Sampoorna means complete in Hindi and Cine Plus. These TV sets were priced slightly higher than black and white televisions became hit with rural India. Realising the potential of rural markets LG produced refrigerators, washing machines and microwave ovens. All the products produced for rural population was a hit and contributed to 40% of its revenue.

DABUR INDIA LTD.

Dabur India embraced the idea of getting rural folk to sample products and experience the benefits for themselves. The idea was to get word-of-mouth advertising of product benefits. The company made the most of fairs and melas during the harvest seasons when purchasing power is high. It also conducted school health camps to boost its toothpaste and chyawanprash portfolio and beauty pageants, to showcase its ayurvedic beauty products. Dabur's rural sales force used mobile phones to report sales. Phones were equipped with maps showing the demographics and market potential of each locality, to improve rural coverage. Over two years, Dabur's rural strategies saw it doubling the villages under its coverage to 30,091.

COCA-COLA AND PEPSI COMPANY

In soft drinks market, 2012 proved to be a year of brand revival, especially among the leading players, such as Coca-Cola and PepsiCo. A revamp of old brands started with Coca-Cola when it revived its Citra brand in lime carbonates. In August 2012 the company also revived its RimZim brand. Similarly, PepsiCo revived its Duke brand in India. Tough competition between Coca-Cola and PepsiCo continued not just in carbonates but in other categories, such as bottled water as well as fruit and vegetable juice. Both companies are strengthening their non-carbonated drinks portfolio as carbonates are slowly losing their market to fruit and vegetable juice in urban India.

Pepsi Company with US $43.2 billion capital came to India 20 years back. There is increase of revenue through sale of soft drinks by 40% and volume by 32%. Because of Indian contribution Out of which Indian rural market contributes 20% for Pepsi companies' business. Pepsi overtook Nestle as the top food and Beverage Company of the country. In order to expand its distribution infrastructure Pepsi Company is planning to invest

US$500 million in the country. To make those investments pay off, Pepsi Company is making all arrangements to enhance marketing of its products in rural market.

HAVELLS INDIA LTD.

Havells India Ltd. marketing electrical appliances projects that housing sector, particularly in rural areas, is set to see a boom in coming years. As higher demand for houses automatically give rise to greater demand for lighting and other domestic electrical goods, the fast-moving electrical goods and power distribution equipment manufacturer plans to enter into rural India market with its newly-launched 'Rio' switches.

HERO MOTORS LTD.

Marketers focussed on the rural markets adopt new and unique approach to reach the rural fragmented markets. They apply various permutations and combinations of strategies to attract the rural consumers. One of the leading two-wheeler manufacturers, Hero Motors added authorised representative dealers to its existing hub-and-spoke network. Appointed by the authorised dealers, the representatives facilitate easy purchasing and servicing of the bikes for locals. This step added more than 5,000 touch points to Hero's channel strategy, enabling the company to extend its reach to 20 per cent of India's 6,00,000 villages.

TITAN COMPANY LTD.

Indian jewellery major-Titan is aiming at ambitious 20 to 25% growth in its rural gold jewellery market in the country. The company plans to touch a turnover of Rs.1,000 crore this year, by promoting the sale of jewellery through its retail gold chain ‘Gold Plus'. Titan, for the first time plans to boost the store sale through extensive mass media marketing. The company intends to promote Gold Plus as a stiff competitor to traditional jewellers in the semi-urban areas of the country. The Gold Plus, being branded jewellery is currently priced above those offered by traditional jewellers. However, the company claims that there are many instances where the local jewellers fail to conform to purity standards. Titan plans to lower the making charges on jewellery, which will make the jewellery less costly and affordable and affordable for general public in India. Earlier, Gold Plus jewellery was 5 to 10% costlier.

SUGGESTIONS

- For the fear of lack of infrastructure many Companies may not enter rural market. To attract MNCs to rural areas Govt. should try to develop basic infrastructure facilities in rural areas.
- Before MNCs entering rural market, care must be taken against environmental pollution.
- MNCs operating in rural India should assure employment opportunities to local rural people.
- Care must be taken against decline of values and culture of that land.

CONCLUSION

Consumer preferences in rural markets have shown a paradigm shift over the last few years. Rural consumers are gradually attracting major MNCs to spread their services even to rural areas also. Their consumption pattern looks very similar to that of urban counterparts. Premium products are replacing basic versions and brands are making their presence felt. Nielsen estimates that the FMCG market in rural India will mark US$ 100 billion by 2025, from the current level of US$ 12 billion. Moreover, the Government's efforts to improve the efficiency of welfare programs with cash transfers will further boost rural consumption; it plans to deposit US$ 570 billion in the accounts of 100 million poor families by 2014. With rural India getting empowered with computers, smart phones, and internet is definitely going to make its way very soon.

Despite their obvious attractions, rural markets pose their own set of challenges, mostly related to distribution and logistics. The initial cost involved in building a presence in rural markets is very high and many companies may not be able to make those investments. According to Mr. Dharma Kriti Joshi, chief economist at Crisil Research, “A sharp increase of 7%-8% in rural wages in the recent past has spurred demand for consumer durables, automobiles, etc.”, Joshi also warned, that if the overall economy doesn’t expand in the near future, “it’s unlikely that rural India will continue to grow as it is not isolated”.

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