Undiscovered country:

harvesting India's rural telecoms opportunity

India's operators take note – **the grass really is greener** on the other side. With 70 percent of the country's population living outside cities, **successfully targeting rural subscribers** can be a major growth driver. But finding the right services is just the start – operators also need to implement **six essential success factors** in order to reap the rewards.

> "India remains a predominantly rural society. It is imperative that operators understand this developmental dynamic and adapt their strategies accordingly"

▶ **DESPITE THE RAPID GROWTH** of the country's cities, India's demographics remain tilted towards non-urban areas. In fact, the most recent national census shows that an estimated 70 percent of the population is found in these locations [1]. Figure 1 highlights the principal characteristics of the rural market from a telecoms point of view. But when operators view this potential growth opportunity through the lenses of price and usage, rural customers often look distinctly unappealing.

There is a common perception that rural customers are less likely to spend money, are not keen on data services and prefer to give missed calls in order to receive incoming calls. In addition, based on insights Ericsson gained from one major operator, the subscriber acquisition cost for a customer in a remote area can be 50 percent higher than for an urban acquisition due to higher distribution payouts. On average the monthly servicing cost for a rural user is around 25 percent higher than for an urban one [2].

However, for the foreseeable future India's operators will be bound to a volume-based business model. This is a simple consequence of operating in such a cost-conscious market, which gives little room for maneuver when it comes to pricing. As a result, operators have no option but to innovate with their services offering in order to boost revenues and margins.

Since the majority of India's population is still rural-based, services targeting the rural segment will therefore be vital for the country's operators as they look to thrive – or simply survive – in one of the world's toughest telecoms markets. The following sections will analyze the services that are most relevant to rural India and propose six key success factors for operators looking to tap into this still-underexploited opportunity.

FURROWED BROWS
First of all, though, operators must confront the significant – and often unique – challenges posed by the rural Indian market. These can be divided into four principal categories:

I.   People
II.   Infrastructure
III.   Hyper-competition
IV.   Policy volatility

   I.   People
The linguistic and socio-developmental diversity of India's 1.2 billion people may be remarkable, but it can be a bane for an operator. Even though Hindi and English are both relatively widely spoken, there are 30 other languages – and many more dialects – that are spoken across the length and breadth of the country to varying degrees.

This poses a major challenge to operators looking to develop both accessible mass-market services and customized local content. With literacy rates at just 69 percent in rural India [3], operators also face difficulties in raising awareness amongst rural subscribers about various services, given that the lack of literacy dilutes campaign effectiveness in many media.

II.   Infrastructure

All-weather roads and electricity connections have yet to reach many Indian villages. This affects operators' ability to scale and reach out to potential rural customers. Expanding distribution networks to cover a country the size of India could also add significant cost to running operations.

III.   Hyper-competition

The number of operators in the Indian market is high, and the cost to a consumer of switching operators is very low. The acquisition cost for an operator is almost five times higher than the retention cost. Operators therefore have very little flexibility with respect to pricing of tariff plans and services.

IV.   Policy volatility

India is the largest democracy in the world; however, until recently the country has been characterized by policy instability and even policy paralysis. The retrospective tax on Vodafone in 2012 exemplifies some of the issues operators have to contend with. The then-ruling government made a proposal to amend the IT Act to cover all overseas transactions involving domestic assets, meaning that capital gains tax from such transactions was liable for income tax in India. As a result, Vodafone was hit with a retrospective tax bill of around 30,000 crore Rs (USD 490 million).

SOWING THE SEED

The potential of these challenges to restrict operators' success in the Indian rural market are not to be underestimated. Most can only be addressed through a concerted, long-term effort at the highest political level. But assuming the challenges can be resolved, or at least effectively mitigated, which operator-provided services could be most relevant to rural consumers, and where should operators therefore focus their efforts?

Agriculture

Agriculture is today the predominant occupation amongst the populace in India. At the same time, the world's population is expected to grow by 750 million in 2020, and demand for food will increase 70 percent by 2050 [4]. Much of this increased yield will have to be achieved in emerging economies such as India, with research indicating a potential USD 138 billion addition to developing world farmers' incomes by 2020 [5].

However, many farmers in India operate on a small scale and are highly exposed to crop failure and adverse commodity price movements. The
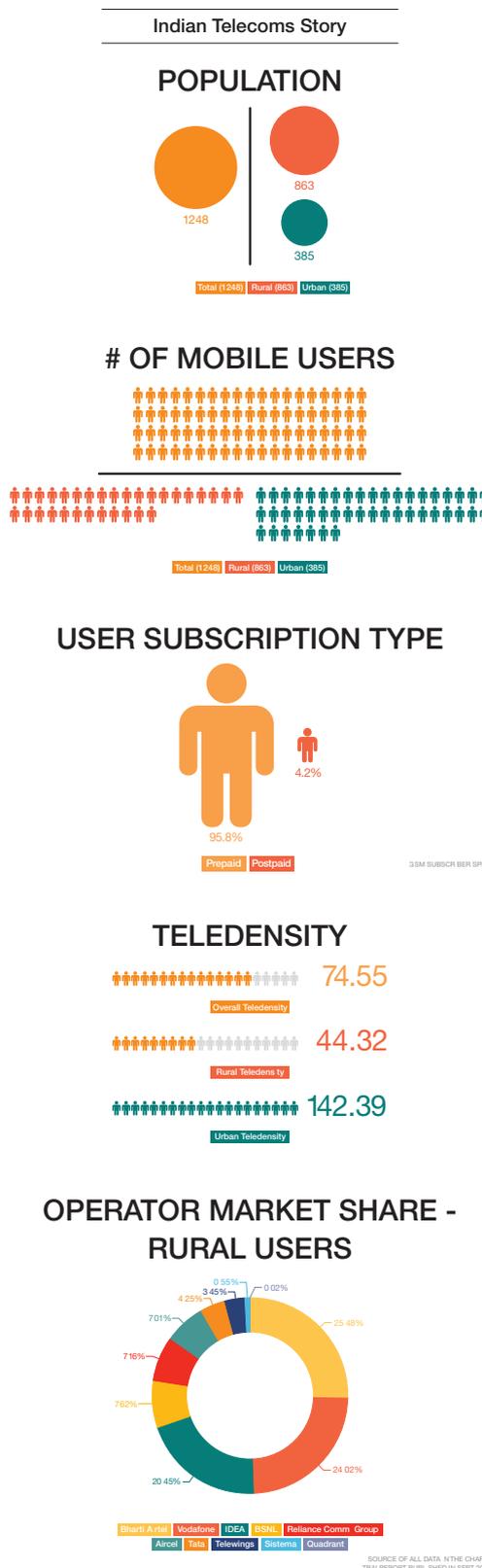
Figure 1: The Indian telecoms story so far.

> "Which operator-provided services could be most relevant to rural consumers, and where should operators therefore focus their efforts?"

presence of middle-men also means farmers face difficulties in getting the right price for their crops, while too many overheads and the lack of an efficient process in the current public distribution system makes the farmers' position vulnerable.

As a result, there is an opportunity for operators to offer mobile services that enable farmers to reach out to the right people who can provide practical information and a fair price for their crops. Partnerships with non-governmental organizations can enable farmers to be remotely connected with agricultural subject-matter experts who can support them in producing the best yield. For the operator, services related to agriculture can also be an effective path to market penetration and increased adoption and consumption of services.

Education

By 2020, India will have the world's youngest population, with a median age of just 29 years [6]. This unique demographic dividend presents an opportunity platform to become a true economic superpower – but only if all people have access to quality education.

Currently, access levels to education for children in rural areas are low. Where schools exist, infrastructure is poor and the number of teach-

ers is limited.

Operators can help provide the scale and reach to ensure rural children have access to better-quality education. To give an example, Airtel has launched a mobile education portfolio that offers a wide array of services, including English language instruction, exam preparation and ask an expert features, and scholarship alerts, to name just a few. These services are provided in formats such as Interactive Voice Response, with prices varying from 30 Rs to 100 Rs (USD 0.5 to USD 2) per month based on the service offering.

Health care

Rural areas face the biggest shortages of health care capacity in India. Although over two-thirds of the population lives in rural areas, only 24 percent of villages in India have health care facilities compared with 88 percent of towns, and only 34 percent of medical professionals are in rural areas [7]. The infrastructure needed to provide quality health care is non-existent in many parts of the country, requiring people to travel long distances to check the status of their health. In addition, the lack of a viable economic model is a deterrent for hospital conglomerates to invest in providing quality rural health care.

This situation presents a perfect opportunity for collaboration between operators and health

care providers. By implementing a community-based strategy, operators can become an aggregator/integrator between players across the health care domain to ensure rural India has access to quality health care. One example of this approach is the Aircel and Apollo Hospitals tie-up. Through tele-medicine and tele-triage services, patients can get medical advice and manage symptoms via a mobile phone interaction with a qualified clinician.

Banking

Currently, 45.6 percent of people in rural India lack bank accounts [8]. In response, the government has launched Pradhan Mantri Jan Dhan Yojana, an initiative to issue bank accounts to economical weaker sections of Indian society, primarily based in rural areas. However, ensuring the economic viability of banks in rural areas can be difficult.

Operators can leverage their reach and achieve economies of scale that banks are not able to. Regulators increasingly see the potential of this approach and are developing a framework within which operators can function as payment banks. Meanwhile, the country's central banking institution, the Reserve Bank of India, wants to scale the use of mobile for financial transactions to ensure wider service reach. With successful implementation and effective transaction safety guarantees, mobile-money services provided through operators could become business as usual in India within a short timeframe.

MAKING HAY

As noted above, some Tier 1 operators have already introduced services in these sectors at various points in time. Figure 2 shows the timeline of the more significant rollouts. Based on the results of these early deployments, along with analysis of the ongoing telecoms market development in India, it is possible to identify six key success factors for any operator looking to crack the country's rural market.

i.) Simplicity has to be the name of the game
Rural consumers want understandable services and devices that are inexpensive and easy to operate. Ensuring simplicity in all offerings is critical for successful adoption and consumption of services in the rural context. A successful example is how Airtel leverages the affordable Re 1 tag to simplify data services for customers and encourages take-up of mobile internet among first-time users through their Re 1 entertainment store.

ii.) Basic services are key in the near future
Operators need to generate short-term revenues through voice and more basic value-added services, rather than getting too far ahead of their customers and spending money on high-end services or content that require expensive fees to be paid to content owners or developers, and which have minimal relevance to the daily lives of rural communities.

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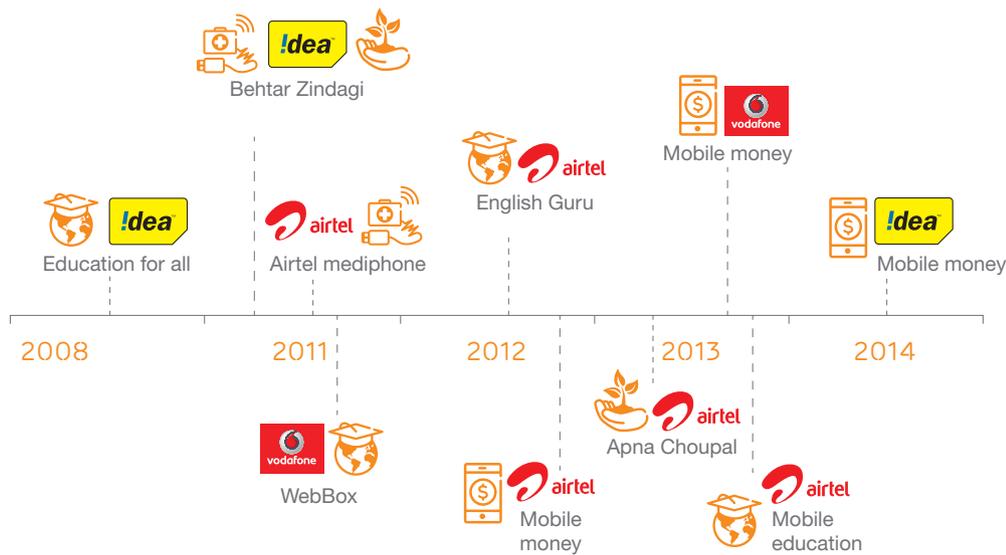

Figure 2: Timeline of major operator rollouts for rural-focused services.

iii.) Get the price right

Even though the pressure is on to deliver higher revenues and margins, operators must accept that in rural India, the service offering needs to be priced low, or adoption will definitely fail.

iv.) Ensure low cost of operation after subscription

Rural consumers are more concerned about the ongoing costs of using a mobile connection than the initial fixed costs of getting a subscription. Operators' business models therefore need to focus on providing packages of voice and value-added services that are appealing to rural consumers in the long term, not just in the beginning of the customer relationship.

v.) Drive profitability through effective cost management

In the rural environment, which has relatively low average revenues per user, profitability will be driven by effective cost-management capabilities, at least in the short term. A better understanding of customer needs, preferences and barriers to purchase will be essential in reducing marketing and after-sales costs. Effective collaboration between operators or other ICT industry players can also ensure costs are kept in check, especially in areas where the market share of an operator is low. For example, Airtel and IBM engaged in a strategic outsourcing contract in which IBM was the technology partner while Airtel focused on service offerings through a revenue-sharing agreement. This model dates back to 2004, and remains very valid today.

vi.) Reduce churn with better customer service

Globally, the voluntary subscriber churn rate varies between 10 percent and 67 percent for telecom operators. Surveys have shown that a recurring factor in the decision to switch operators is dissatisfaction with customer service [9]. With cost of portability between operators being low in India, this has to be a focus area for operators if they are to be in a position to make long-term investments in rural services. Good customer service, coupled with network performance and competitive tariff plans, can tie a customer to an operator for life. This – rather than chasing new customers – should ultimately be the focus for India's operators.

UNDISCOVERED COUNTRY

Despite the astonishing expansion of its cities in recent years, India remains a predominantly rural society. As operators look to grow in a ferociously competitive business environment, it is imperative that they understand this developmental dynamic and adapt their strategies accordingly. The vast potential of India's rural market is still largely untapped, and the operator who successfully delivers relevant rural services – while addressing the six success factors described above – will be in a strong position to secure healthy revenues and margins for many years to come. ●

ABOUT THE AUTHOR

▶ **ARUN KUMAR V** is Manager in Ericsson's Consulting & Systems Integration Eminence team, Global Services India. He joined Ericsson in 2013 with 10 years of telecoms experience, including roles in delivery, consulting and product management. He has an MBA from the S.P. Jain Institute of Management & Research in Mumbai, India.

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