TELECOMMUNICATION AND DEVELOPMENT OF RURAL INDIA

(EXISTING AND PROSPECTIVE OPPORTUNITIES IN RURAL MARKET)

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Abstract

India,s telecom sector is witnessing an explosive growth, as falling tariffs and rising incomes are bringing mobile phones within the reach of millions of new customers.

Today the country has become the second largest mobile market in the world with over 300 million telephones and a monthly addition ranging from 8-10 million. The teledensity today stands at an average of 32% as compared to 2 % in 1998.

As more and more region coming under the "mobile umbrella", rural parts of India are no different. The mobile penetration is growing in the world, s fastest growing telecom market.

The best part of the phenomena is that it has the potential to transform the lives of million of poor Indians, especially 70% of our population that lives in rural India. It enhances the ability of people to participate in market economy, which in turn improves their standard of living The paper focuses on what is rural market and why opportunity is perceived in rural India?

The paper discusses the growth of other sectors such as entertainment, medical, banking etc which improves with the growth of telecom sector.

Key Words: Rural, Retail, Retailer.

Introduction

The rise of Middle India. According to the 2008 edition of the RK Swamy BBDO Guide to Market Planning, 51 districts in India have at least one town with a population of more than 500,000. Together, they have twice the market potential of the four metros (Mumbai, Delhi, Chennai and Kolkata) combined.

According to a study this year by the Future Group, an Indian retailer, and the National Council of Applied Economic Research (NCAER), the ratio of spending to earning is higher in Tier II towns such as Nagpur, Jaipur, Surat and Coimbatore than it is in the metros. An earlier NCAER study, in 2004, had shown a higher percentage of the rich in Middle India than in some metros. For instance, the North Indian state of Haryana had a small-town crorepati density of 280.

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There is a substantial increase in the purchasing power of rural India on account of green revolution Percentage of BPL(below poverty line) families declined from 46% to 27%.

Taking into account lower tariffs and thereby affordability, there will be on average 1.5 telephones for every rural household above the poverty line by the end of the 11th Plan. Approximately 195 million rural telephone connections would be required by the year 2012.

The total number of rural households would be around 160 million, assuming five members per household, of which 130 million households would be above the poverty line.

If one telephone for every three households is considered by the year 2012, the number of rural telephones would be around 80 millions

Market analysts point out that stiff competition in the cellular market, which has as many as seven operators, and a saturated urban market is forcing companies to look for subscribers in the rural areas

Some Facts About Rural Market

- There are nearly 42,000 rural haats (super market) in India.
- LIC sells approx. 50% of its policies in rural India.
- 70 million mobile users in villages (out of a total 300 million) compared with 40 million in September 2007 (out of 209 million).
- Nearly 75 per cent of mobile users in villages are now owned by private operators.
- Of two million BSNL mobile connections, 50% are in small towns/villages.
- Of the six lakh villages, 5.22 lakh have a Village Public Telephone (VPT).
- 42 million rural households are availing banking services in comparison to 27 million urban households.
- Investment in formal savings instruments: 6.6 million households in rural and 6.7 million in urban.
- Estimated annual size of the rural market 800 million people.
- Rural India buys products more often in small packs, low unit price more important than economy.
- Number of middle class HHs (annual income Rs 45,000- 2, 15,000) for rural sector is 27.4 million as compared to the figure of 29.5 million for urban sector. Rural incomes CAGR was 10.95% compared to 10.74% in urban between 1970-71 and 1993-94.
- The 30 million kisan credit cards issued to far exceed the 25 million credit-plus-debit cards issued in urban areas.
- Electricity consumption increase from 17.6% in 1980-81 to 20.2% in 1999-2000 the industry share dropped for the same time from 58.4%-34.8%.
- HUL the largest FMCG company in the country more than half of its annual sales of Rs.11700 crore comes from rural India.
- Nearly 70% of mobile users are owned by private operators.
- Once upon a time a shoe company appointed 2 of its employees to study the opportunity of the shoe market in an island.
- Both the employees went to the island ,to their surprise non of the people on the island wore shoes.
- The first employee came back and said there was no market for the shoe since no body wore shoes.
- The second employee came back saying there was absolute new, big market since non of them had shoe to wear.

Oppurtunity in the Rural Market

According to a report jointly released by Confederation of Indain Industry (CII) and Ernst & Young by 2012 rural connections will be 200 million connections at a penetration rate of 25%.

According to Business Monitor International India is currently adding 8-10 million mobile subscribers every month it is estimated that by mid 2012 around half the country’s population will own a phone.

This would translate into 612 subscribers with teledensity of 51%.

Growing at a CAGR (Compound Annual Growth Rate) of 21% India is likely to remain the world,s second largest wireless market after China. The cellular market penetration would rise to 60.7% from 19.8% in 2007. As of March 2007 mobile subscriber base in rural India accounted just 20% of Indian mobile subscriber base it is forecasted to grow at CAGR of more than 47% during 2007-2010.

In a bids received by the Government for its rural mobile project under the Universal Services Obligation fund the telecom service providers and infrastructure providers are ready to go where no operator except state-owned BSNL was ready to go. The private companies are ready to roll out infrastructure in rural areas at nearly 80% cheaper rate than subsidy bechmarked by the goverment.

Department of Telecom had set a benchmark of Rs 4.02 lakh a year for each tower in AP,s East Godavari District, it has got bids for as low as Rs 2.4 lakh from the likes of Reliance Infrastructure and GTL Infrastructure. For the services part of the project, cellular operators have quoted zero amount which means they are willing to offer their services without any subsidy support from the government.

Though the average revenue per user (Arpu) is falling with declining tariffs, telecom companies are still profitable and are expanding their networks largely because teledensity levels are still low (just 18.26 mobiles per 100), with penetration levels of just 13% (rural penetration is 4%). Naturally, while the country boasts over 160 mobile subscribers, there's plenty of scope to grow.

Considering TRAI,s latest report of 25 million customers added in April-June 08 quarter 8 million are from rural areas. Rural India accounts for 30% of new mobile phone users in India. Today the country has become the second largest mobile market in the world with over 300 million telephones and a monthly addition ranging 8-10 million. Teledensity stands at 26.22 per 100 today as compared to 2 per 100 in 1998.

The subscriber base posted a growth of around 25.7% from 2004 to 2006 subscriber base in Indai leaped by 63.5% from March 2006 and further 83% from march 2006 to 2007(according to leading marketing research firm RNCOS). In April 2008 india over took the US market as the second largest wireless market (compiled by global telecoms Business).

Telecommunication and Growth of India

Growth of telecommunication will reduce migration from rural to urban by providing potential for improved employment and livelihood in rural areas through small business and micro enterprise development.

Medical help can be latest as information to the doctor posted in the rural areas would get latest information as to medicines facilities can be made so that doctor can know availability of medicine and other medical facilities in case of referring the patient to a more critical treatment.

At present barely 34% of Indian population is engaged in formal banking. According to a survey by invest India market solution, only half the self employed farmers in India have bank account. The cost of taking bank branches would be very high .There is no need to set up a national network of branches or cash machines. M-banking schemes can be combined with micro finance, loans, extending access to credit. India telecom companies such as Bharti and Reliance are already working in this direction. Bharti has tied up with Western union and intends to leverage its 7 lakh of retali outlets across the country.

What has been done-the RBI has approved M-banking it favors small ticket payment up to Rs. 15000. Other finantial services like insurance can also get boost up with mobile, villagers would pay for life or health insurance premium from the comfort of their homes by way of m-account ans SMS messages (like ICICI prudential m check services).

The government has many rural development programs but most of them suffer from lack of awareness and feedback. Sending SMS both voice and text can solve this problem to some extend. What has been done - Farmers in Haryane are already SMS ing a free government help line for agro related problems. SMS based initiatives are under way in Kerela in relation to E-government and health services for rural areas.

Increasing access to up-to-date market and price information greatly reduces the oppurtunity cost of transactions for farmers and rural based traders. Bharti Airtel and IFFCO Kisan sanchar joint venture, rural "Black Berry" will be useful for information services like mandi prices, pest control farming, weather etc.

Other employments such as rural auto and taxi, vegetable vendors, potters etc can offer their services to people by remaining in contact through mobile. A Havard University economist, Robert Jensen, who studied the impact of mobile telephony on fisher men in Kerela has reported that mobile have not only eliminated the need to dump unsold fish in the sea but also helped fishermen to improve their margin by 8% and reduced price by 4%.

Transistors or radios will be replaced by mobile handset as handset with Indian language interface is being introduced by Nokia, Motorola and will become a complete package of information and entertainment. It is an accepted fact that 1% increase in teledensity results in 3% increase in growth of GDP.

Role of Government and Telecom Operators for the Development of the Rural Market

There is some factor that should be taken care of while formulating the policies of telecom sector. The communication facilities in rural area should be provided such that no person will have more than 1Km. It should be on basis of population distribution as well as density. A low cost options that extend the reach of the global information to under-served rural areas. The communication system should be extremely reliable and hence the technology implemented should be specific for rural application according to the climate and poor availability of facilities.

Facilities in Rural areas should be such so as to provide telephone on demand in rural areas in the future. The network for the villages including the technology should be such that it can be upgraded as and when needed. Tariff rates should be decided so as to encourage more use if possible a discount should be given for tariff rates in villages. The government and operator such jointly attempt at improving the awareness level of the utilization of communication system for various sectors of the society. Acceptance of usefulness of telecommunication should be improved. The requirement of the rural market in regards to the handset should be kept in mind by the marketers "Contrary to the popular belief, price is not the only driver for rural users. They seek a value for money proposition in most cases the demand emerging from the rural market is of sturdy handsets that have strong battery life.

Voice and easy text messaging are other essential features to be included in the handsets and services To reduce the total cost of mobility it is required that manufacturers work together with service providers. Bundling is essential for the rural markets as they would desire a mobile phone with connection and talk time to ensure a complete package. Prepaid services should be encouraged so as to keep the rural market away from the trouble of payment of bills. The awareness or advertising campaign in the rural India should be developed in the regional vernacular languages and set in local culture for easier acceptance and reach.

Besides mass and outdoor media, rural extravaganza like temple festivals, melas and other events where the villages come together can be used for promotion of both handsets and services. One out of every three households below the poverty line would also have a telephone, adding a further requirement of 10 million rural telephone connections, there will be a total requirement of 205 million rural telephone connections. The important things required for a marker to grow are the consumers and income. For the part of consumers the population of India will form the base and the increasing income of the rural house hold solves the problem of purchasing power.

- The population of as of 2008 (Jan) is 1104.7996 million.
- Population of rural India is 742.490639 million.
- Population of urban India is 372.308961 million.
- Average teledensity of the country is 32%.
- Teledensity in rural India is 11%.
- Teledensity of urban India is 74%.

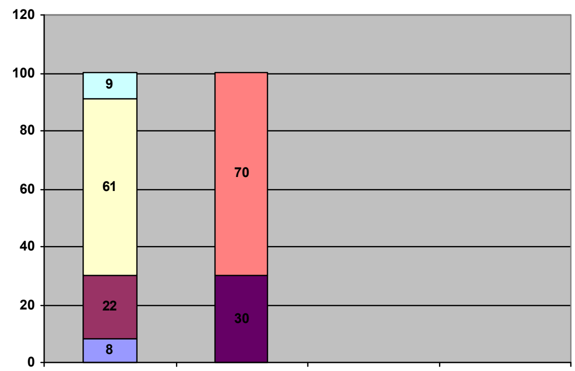
Which means -

- 35353587 people in India use telephones.
- 8167390 people in rural India use telephones.
- 27550790 people in urban India use mobile.

If we consider only the average teledensity of India , rural teledensity should be -23759680.

- The statistics show the clear disparity of teledensity between urban and rural India.
- The teledensity of rural India is much less than average teledensity.
- The median age of an Indian is 25 years.

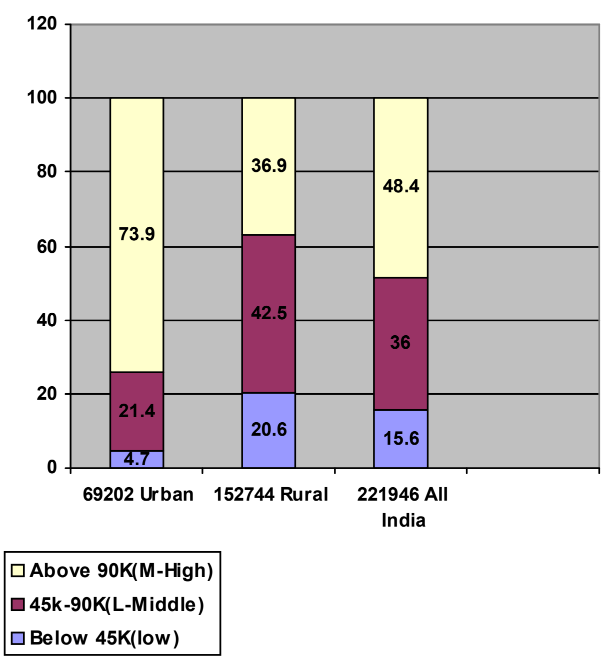
Population and Teledensity



The bar shows –

- 8-uncaptured urban market.
- 22-urban market captured by telecom industry.
- 61-uncaptured rural market.
- 9-rural market captured by telecom industry.
- 30-urban population in India.
- 70- rural population in India.

Distribution of Household by Household Income



The figures in the diagram shows the number of household in urban ,rural and complete India respectively in the year range of 1989-90,2001-2002,2009-2010.

The key statistics are given by NCAER's,there is no link between these numbers and the official poverty estimates.

It can be clearly seen in the graph that the rate of growth of household income of the rural India in the middle is very large and also a growth in the lower middle class of rural India which is reducing the HHs in low class.

With the increase in rural income rural purchasing power would increase which will support the market growth of the product (telephones).