



## **UNDERSTANDING RURAL MARKETS – A STUDY OF POTENTIAL OPPORTUNITIES AND CHALLENGES**

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### **Abstract:**

Around the world, four billion people lives in poverty and marketing firms are still struggling to turn them into customers. For the past decade, business visionaries have argued that these people, dubbed the “Base of the Pyramid”, make up an enormous, untapped market. Some of the world's biggest, savviest corporations have aimed to address their basic needs — by selling them everything from clean water to electricity and from FMCG to consumer durables. “Improving the lives of billions of people at the bottom of the economic pyramid is a noble endeavor. It can also be a lucrative one. Fast pace of technology advanced every sphere of social, economic, political cultural life, produce, reduce costs, distribute, and expect higher profits. The focus is on tapping the rural markets. Urban markets have saturated lied to look rural markets. This paper presents a review of rural markets” environment, Problems and strategies in India. Rural marketing has become the latest mantra of most corporate even MNCs are eyeing rural markets to capture the large Indian market. This throws an open ground challenge to the marketers in a country with multi-cultural, multi-lingual varsity. This paper is an attempt to provide some mettle solutions to these challenges as it studies and follows some successful rural marketing strategies of modern times.

**Key Words:** Base of the Pyramid, Rural Marketing, Rural Markets, Multi-Cultural, Multi-Lingual Varsity, Business Visionaries & FMCG

### **Introduction:**

The market structure in India is dichotomous having rural and urban markets. But many do not concur with this view as they contend that consumer everywhere is a consumer and hence their needs, aspirations, beliefs and attitudes will also be the same. The fact, however, remains that there are certain unique characteristic features which call for separate marketing strategies to be distinctively developed to suit the rural and urban market behavior. Conditions existing in urban markets at present can also be analyzed in this context. First, the urban markets have almost reached a saturation level that further tapping them with a high profit margin has become difficult. Secondly, competition is becoming tough in urban markets compelling many firms to incur heavy costs in promotional expenditure. Thirdly, the awareness level of urban consumers is high and hence product features have to be changed often. Needless to say this process needs a huge investment which will have a negative impact on profitability. Thus, except perhaps for easy reach the urban markets have become as oasis.

### **Importance of Rural Markets:**

With the presence of 12.2% of the world population in the villages of India, the Indian rural FMCG market is something no one can overlook. Increased focus on farm sector will boost rural incomes, hence providing better growth prospects to the FMCG sector. Better infrastructure facilities will improve their supply chain. FMCG sector is also likely to benefit from growing demand in the market. Because of the low per capita consumption for almost all the products in the country, FMCG companies have immense possibilities for growth, at present 53 per cent of all FMCGs and 59 per cent of all consumer durables are being sold in rural India. The biggest FMCG Company in India HLL derives more than half of its Rs. 12,000 crores revenues from the rural markets. The rural market is an enigma for the companies. Due to the lack of deeper insights into the psyche of the rural consumers, companies are hesitant to explore this territory. But local brands, like “Ghadi” detergent in Kanpur, have been able to successfully tap the opportunities presented by rural market. And if the companies are able to change the mindset of the consumers, i.e. if they are able to take the consumers to branded products and offer new generation products, they would be able to generate higher growth in the near future. It is expected that the rural income will rise in 2010, boosting purchasing power in the countryside. At present, urban India accounts for 66% of total FMCG consumption, with rural India accounting for the remaining 34%. However, rural India accounts for more than 40% consumption in major FMCG categories such as personal care, fabric care, and hot beverages. In urban areas, home and personal care category, including skin care, household care and feminine hygiene, will keep growing at relatively attractive rates. Within the foods segment, it is estimated that processed foods, bakery, and dairy are long-term growth categories in both rural and urban areas.

### **Factors Which Have Been Recognized as Responsible for Existence in the Boom of Rural Market:**

- ✓ Increase in population and hence increase in demand.
- ✓ A marked increase in the rural income due to agrarian prosperity.
- ✓ Standard of living is also growing up in rural areas.

- ✓ Large inflow of investment for rural development programmes from government and other sources.
- ✓ Increased contact of rural people with their urban counterparts due to development of transport and wide communication network.
- ✓ Increase in literacy and educational level and resultant inclination to sophisticated lives by the rural folks.
- ✓ Inflow of foreign remittances and foreign made goods into rural areas.
- ✓ Change in the land tenure systems causing a structural change in the ownership patterns and consequent changes in the buying behavior.

#### **Objectives of the Study:**

- ✓ To understand the rural market.
- ✓ To unleash the potential of rural market.
- ✓ To assess the paradigm shift from urban to rural market.
- ✓ To analyze the various parameters of potential of rural market.
- ✓ To offer the conclusions.

#### **Understanding the Potential of Rural Market:**

- ✓ **Large Population:** 742 million Indians constituting 138 million households reside in 6,38,365 villages (Census, 2001). The size of rural market itself speaks of its potential
- ✓ **Growth in Market:** The market has been growing at 3-4% per annum adding more than one million new consumers every year. Consumer is brand loyal and understands symbols better. View it as you may, few people dispute that the rural market is massive. According to Singh, 12.2% of the world's consumers live in India. "Rural households form 72% of the total households. This puts the rural market at roughly 720 million customers." Gupta of TSMG extrapolates the Census 2001 numbers and comes up with an estimate of 790 million. "Total income in rural India (about 43% of total national income) is expected to increase from around US\$220 billion in 2004-2005 to US\$425 billion by 2010-2011, a CAGR of 12%," he says.
- ✓ **IT Penetration in Rural India:** Today's rural children and youth will grow up in an environment where they have 'information access' to education opportunities, exam results, career counseling, job opportunities, government schemes and services, health and legal advice and services, worldwide news and information, land records, mandi prices, weather forecasts, bank loans, livelihood options. If television could change the language of brand communication in rural India, affordable Web connectivity through various types of communication hubs will surely impact the currency of information exchange. As the electronic ethos and IT culture moves into rural India, the possibilities of change are becoming visible.
- ✓ **Impact of Globalization:** The impact of globalization will be felt in rural India as much as in urban. But it will be slow. It will have its impact on target groups like farmers, youth and women. Farmers, today 'keep in touch' with the latest information and maximize both ends. Animal feed producers no longer look at Andhra Pradesh or Karnataka. They keep their cell phones constantly connected to global markets. Surely, price movements and products' availability in the international market place seem to drive their local business strategies. On youth its impact is on knowledge and information and while on women it still depends on the socio-economic aspect. The marketers who understand the rural consumer and fine tune their strategy are sure to reap benefits in the coming years. In fact, the leadership in any product or service is linked to leadership in the rural India except for few lifestyle-based products, which depend on urban India mainly
- ✓ **Increasing Income and Purchasing Power:** The agricultural development programs of the government have helped to increase income in the agricultural sector. These in turn have created greater purchasing power in rural markets.
- ✓ **Accessibility of Markets:** The attraction of a market depends not only on its potential but also on its accessibility. The road network has facilitated a systemized product distribution system to villages. An increasing number of companies are supplying village markets directly. Increasing direct contacts to villages helps product promotion and availability of the product in the village shop.
- ✓ **Consumer Behaviour Changes:** Increased literacy and greater awareness in rural markets create new demands and discriminating buyers. This is observed more in the younger generation. In villages today, this segment of buyers consumes a large variety of products, both durables and non-durables. There is a visible increase in the consumption and use of a variety of products, which is easily observed.
- ✓ **Competition in Urban Markets:** Intensified competition in urban markets increases costs and reduces market share. The rural markets are therefore increasingly attractive in relation to urban markets. The automobile market brings this out clearly. Rajdoot motorcycles, Bajaj scooters or Ambassador Cars find ready acceptance in rural markets as compared to urban markets where there is a proliferation of brands.

- ✓ **New Employment Opportunities:** Government schemes like IRDP (Integrated Rural Development Programme), JRY (Jawahar Rozgar Yojana) and TRYSEM (Training Rural Youth for Self Employment) have created new employment opportunities in Rural India. Co-operative banks and Public sector banks are extending loans to rural people, thereby creating job opportunities for them. As a result very few rural people are now flocking to urban centres
- ✓ **Green Revolution:** The vision of Dr. Swami Nathan, the father of the green revolution to achieve self-sufficiency in food grain production in 1995, gave a major breakthrough in food grain production by the use of scientific methods in agriculture. At present, Rural India generates 299 million tons annually.
- ✓ **Various Government Policies:** The government's stress on self-sufficiency resulted in various schemes like Operation Flood (White Revolution), Blue Revolution, Yellow Revolution, etc. resulted in the production of 15 million tons of milk per annum.
- ✓ **Better Credit Facilities through Banks:** With co-operative banks taking the lead in the rural areas, every village has access to short, medium, long-term loans from these banks. The credit facilities extended by public sector banks through Kisan Credit Cards help the farmers to buy seeds, fertilizers and every consumer goods on installments.
- ✓ **Green Card / Credit Card for Farmers:** The government initiated credit cards for farmers through public sector banks. Canara bank and Andhra bank were the pioneers in the launch of the Kisan Credit Card. The farmer had a choice to take short or medium term loans through these credit cards to buy seeds, fertilizers, etc. This enabled him to produce more and thereby increase his income.
- ✓ **Improved Exports Due to Export Policy:** The new Export Policy 2000 paves the way for open market (OGL- Open General License System) status for agriculture. The World Trade Organization's (WTO) Policy for agro-exports has increased exports of Indian agricultural produce thereby increasing incomes of the rural population.
- ✓ **Remittances from Indians Working Abroad:** These remittances are a sizeable contribution to growing rural income & purchasing power.
- ✓ **Political & Social Changes Through Favourable Government Policies:** The Indian Government launched a number of schemes like IRDP (Integrated Rural Development Programme) and REP (Rural Electrification Programme) in the 1970's, which gave a boost to the agrarian economy. This resulted in changes in people's habits and social life. REP gave impetus to the development of consumer durable industry.
- ✓ **Media:** Mass Media has created increased demand for goods and services in rural areas. Smart marketers are employing the right mix of conventional and non-conventional media to create increased demand for products. The role cable television has been noteworthy in bringing about the change in rural people's mindset and influencing their lifestyles.

#### **Scope of the Study:**

As rural markets dominate Indian marketing scene and they need special attention for the expansion of marketing activities. Over the past few years rural India has witnessed an increase in the buying power of consumers, accompanied by their desire to upgrade their standard of living. The paper tries to highlight the impact of a host of projects, such as NREGA, ITC's echaupal, HLL's project Shakti, and retail hubs like Kisan Sansar (Tata), Haryali Kisan Bazar (DMC), both from the government and the private companies, and how they have changed the rules of the marketing game in rural India. The paper also discusses the profile of the rural Indian customer and analyses the characteristics of the diverse and scattered rural market. Despite the irregular buying capacity of rural markets, the taboos and traditions it is steeped in the rural market in India is a highly lucrative one. The paper goes on to explore how some companies have been able to have an impact in the rural segment through effective marketing strategies. The paper studies the changing paradigm of the Indian rural markets and suggests some ways in overcoming the roadblocks in rural selling. A new rural marketing mix is suggested with special emphasis on the marketing communication mix. This can also be viewed as part of an organizations corporate social responsibility for providing better life and welfare to the rural people. Rural marketing and urban marketing are very similar with regard to the basic marketing structure and marketing strategy. However, rural markets and rural marketing have special features and dilemmas as compared to urban markets. The rural markets offer a great scope for a concentrated marketing effort because of the recent increase in the rural incomes and the likelihood that such incomes will increase faster because of better production and higher prices for agricultural commodities.

#### **Literature Review:**

In the Indian rural marketing context the dominant literature is on marketing of agricultural products to the urban areas. We also have indigenous rural marketing literature which primarily deals with other side of rural marketing, namely selling to rural areas. Salal Kumar Velayudhan, in his book "Rural Marketing" targeting the non urban consumers, Sage Publications, gives a detailed profile of the rural consumer. He also propagates the relevance of haats and melas and highlights their underutilization. He also highlights various emerging channels to access the rural markets. Prof Ramkishan Y. In his book ' New Perspective in Rural and

Agricultural Marketing: Case Studies' discusses through various case studies, product lifecycle of rural product and how they differ from urban products. He has also discussed standardization and grading systems in India and their relevance in rural markets. An in-depth analysis on the telecom sector, conducted by Kurian and Tiyama brings out the shift if rural population towards use of technology and modern means of consumers. Researchers have also proposed a number of theoretical frameworks for understanding the reasons for success and failures of rural projects. While researchers have explored in detail the existing marketing strategies and success stories, few discuss and recommend the future course of action. This paper attempts to bridge that gaps and challenges in rural markets.

The rural markets are full of challenges because of its characteristics like illiteracy, distances, vast markets potential, communication, rail and road transportation, distribution of products and services, understanding consumer behavior, socio- cultural factors, languages, lack of infrastructural facilities etc. The rural market is so wide, distant and vast that it is difficult to cover and reach. One segment is totally different from other segments. Every district, region and state is different from others. The whole India is different in itself and even then it is an ideal example of a country having different cultures. It is incredible India. Knowing Rural India is a very difficult task, its spirit, feelings, warmth, distinctness, shyness, innocence and beyond that. If marketing / sales men try to play tantrums or cheat them, they feel disgusting and try to make distance from these people. Next most important point is that many marketing men still don't know real needs of rural consumers. Designing wrong products, services and poor strategy without knowing rural India where their own consumer in the villages lives. It is also difficult to get skilled sales person conversant with rural culture. Though, marketing heads are educated from abroad and top institutions of the country but poor in knowing their consumer. There is gap in their knowledge what they know and what is in the reality about rural consumers. That is why many products have witnessed failures in rural markets.

**Research Methodology:**

The present study is descriptive in nature. The data used is secondary in nature and has been collected from various websites and reputed journals. Rural India has a population of 83.3 crore (Table: 1) spread across 6, 38,000 villages. The rural urban distribution ratio currently is 68.84% and 31.16% respectively.

Table 1: Share of Rural in Total Population

	2001(In Crore)	2011(In Crore)	Difference (Crore)
India	102.9	121.0	18.1
Rural	74.3	83.3	9.0
Urban	28.6	37.7	9.1

The above table shows that the share of rural in the total population of India. Rural population has been increased by 9% from 2001 to 2011 and comprises of 833 million people as compare to 377 million people in urban area which shows greater opportunities for marketers. What constitutes rural market? The Census of India defines rural as habitation where population density is less than 400 per sq. Km, and where at least 75% of the male working population engaged in agriculture, and where there is not any municipality or board. Planning Commission of India defines rural as a town having population up to 15,000. The difference between rural and urban consumers always exists in India. Most of Indian rural consumers are illiterate and poor. Illiteracy leads to inability to identify brand differences and read basic text on packages. Moreover products are sold loose, giving high competition to branded sealed products. Irregular income, induce the rural consumers to buy in small quantities. It is important for rural marketers to provide products in small quantities as well as good credit system for larger products. Rural market status the market scenario in the rural areas today is changing very rapidly. Rural consumers demand branded products mainly because of increase in disposable income and literacy level. Rural families do not like to cut their expenditure on weddings, pilgrimages, constructions and consumptions. Rural consumers have more aspirations, today this segment of buyers consumes large variety of products, both durable and non-durables and willing to pay right price for right products. Pardeep Kashyap, CEO, MART, says "The rural India has cash in hand and is not bound by EMIs or loans, with the majority of our population based in tier III, tier IV cities and villages. It is right time to penetrate into rural market."

**Importance of Rural Marketing:**

Rural market is getting importance because of the saturation of urban market. So the marketers are looking for extending their product categories to an unexplored market i.e. the rural market. According to the Nielson's survey the rural market for FMCG (Rs. 65,000 crores), durables (Rs. 5,000 crores) and clothing and footwear (Rs. 35,000 crores) was as large as Rs. 1, 05,000 crores in 2008. Certainly the size is much bigger now. According to Nielson by 2025, the rural FMCG sale is estimated to be \$ 100 billion from the current \$ 12 billion. This has also led to the CSR activities being done by the corporate to help the poor people attain some wealth to spend on their product categories. Here, we can think of HLL initiatives in the rural India. One of such product is project Shakti, which is not only helping their company attain some revenue but also helping the poor women of the village to attain some wealth which is surely going to increase their purchasing power. Rural market is mystery for the companies. Due to lack of dipper insights into the psyche of the rural consumers, companies are hesitant to explore this territory. But local brand like "Ghadi" detergent in Kanpur have been able

successfully tap the opportunities presented by rural market. Rural India offers sustainable sales and profit for growth. Growth of rural market is possible due to green revolution and white revolution, which results into substantial wealth generation in rural area. In recent years, rural markets have acquired significance in the country like China and India as the overall growth of the economy has resulted into substantial increase purchasing power of rural communities. Due to green revolution in India, consumption pattern of rural people are changed.

**Conclusion:**

An income dispersal projection by NCAER based on a 7 percent GDP growth (assumption) shows that the number of poor households will shrink by more than half to 28 million, from currently 61 million, where as the middle income households will double and rich households will treble over the decade in rural India. This upward push, taking rural people from poverty to prosperity, will lead to increasing purchasing power. Today's non-consumers comprising the rural poor will enter the market as the first time buyers in large numbers. Getting a larger share of the growing rural pie, this will call for a radical shift in management thinking, from gross margin to high profit, from high value unit sales to a game of high volumes, capital efficiency and from the one-solution-fits-all mentality to market innovation. Companies are taking specific initiatives to succeed in the dynamic rural market. The major segmentation of mass population is located in rural area. The market potential is huge in rural areas. It is this market strength in rural area that needs to be tapped. Now days even the educational Institutions are concentrating on rural marketing, have developed special management programs to cater to rural marketing and are doing market research in rural places. Rural markets are rapidly growing in India but have often been ignored by marketers. The following statistics is enough to throw light on the relevance of rural markets: 46 percent of soft drinks are sold in rural markets, 49 percent of motorcycles and 59 of cigarettes are also consumed by rural and small town consumers. Apart from this 53 percent of Fast Moving Consumer Goods and 59 percent of consumer durables have market in the rural belts. There are nearly 42,000 rural haats (markets) in India. LIC sells more than 50 percent of its policies in rural India. Of the 20 millions who have signed up for Rediff mail, 60 percent are from small towns These statistics clearly show a trend where the rural consumers are not only buying to fulfill their bare necessities but are also taking care of higher needs of comfort and socialization. Moreover they have turned highly technology savvy as demonstrated through the success of ITCs echaupals and Rediff's rural success. The next big revolution could happen in the rural sector. When it happens the marketers should have already studied the lay of land and thought of the strategies and tactics for victory. The only way for existence is application of Darwin Principal: survival of the fittest. The time to prepare tomorrow is today.

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