

**Rural Market in India: Some Opportunities and Challenges.****\* Anil Kumar S. Hagargi****Abstract**

Management Guru Mr.C.K Pralhad's thought – fortune lies at the bottom of the pyramid is very true when it comes to exploring the rural markets and grabbing an opportunity to expand the market. The FMCG sector in India is the fourth largest in the economy, with a market size of over Rs 110,000 crore (around \$22 billion) and is estimated to grow to over Rs 185,000 crore (around \$37 billion) by 2014. None of the FMCG companies present in India would like to miss this opportunity. Rural markets offer immense growth opportunities like untapped market, large population, first mover advantage, huge scope for penetration etc, at the same time these markets poses some challenges also. Rural markets are an important and growing market. And it has become an important one specially for telecom operators in India. Though characteristics features such as thin population situated at distance from one another, heterogeneity, low literacy rate limited purchasing power, cyclical cash flows of rural consumers make them less attractive, but suitable marketing strategy such as bottom of pyramid, 4A's mode-availability, acceptability, affordability, and awareness, and adopting some innovative marketing strategies there by creating a win-win situation, can help companies in tapping the vast rural market. Rural markets are volume game rather than value game. This Paper tries to understand what rural markets are? Their traits, importance and challenges faced by the companies while penetrating these markets. This article also glimpses the study of some of the innovative practices undertaken by FMCG companies.

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**Introduction:**

From the strict marketing point of view, 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. The concept of Rural Marketing in India Economy has always played an influential role in the lives of people. In India, leaving out a few metropolitan cities, all the districts and industrial townships are connected with rural markets.

The rural market in India is not a separate entity in itself and it is highly influenced by the sociological and behavioral factors operating in the country. The rural population in India accounts for around 627 million, which is exactly 74.3 percent of the total population.

The rural market in India brings in bigger revenues in the country, as the rural regions comprise of the maximum consumers in this country. The rural market in Indian economy generates almost more than half of the country's income. Rural marketing in Indian economy can be classified under two broad categories. These are:

- The market for consumer goods that comprise of both durable and non-durable goods

**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. 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. However, the demand in urban areas would be the key growth driver over the long term. Also, increase in the urban population, along with increase in income levels and the availability of new categories, would help the urban areas maintain their position in terms of consumption. 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. 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 crore 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.

The rural markets are growing with speed and steady compared to the urban markets which are attaining a point of saturation. As once the market reaches the height one or the other day it would tend to decline. The potentiality of rural markets is said to

be like a '**woken up sleeping giant**'. These facts are substantiated in a study of market growth conducted by various researches. In recent years, rural markets have acquired significance in countries like China and India, as the overall growth of the economy has resulted into substantial increase in the purchasing power of the rural communities. On account of the green revolution in India, the rural areas are consuming a large quantity of industrial and urban manufactured products. In this context, a special marketing strategy, namely, *rural marketing* has taken shape. Sometimes, *rural marketing* is confused with *agricultural marketing* – the later denotes marketing of produce of the rural areas to the urban consumers or industrial consumers, whereas rural marketing involves delivering manufactured or processed inputs or services to rural producers or consumers.

Rural market has following arrived and the following facts substantiate this.

- 742 million people
- Estimated annual size of the rural market
- FMCG Rs 65,000 Crore
- Durables Rs 5,000 Crore
- Agri-inputs (incl. tractors) Rs 45,000 Crore
- 2 / 4 wheelers Rs 8,000 Crore

**Factors which have been recognized as responsible for existence in the boom of rural market:**

1. Increase in population and hence increase in demand.
2. A marked increase in the rural income due to agrarian prosperity.
3. Standard of living is also growing up in rural areas.
4. Large inflow of investment for rural development programmes from government and other sources.
5. Increased contact of rural people with their urban counterparts due to development of transport and wide communication network.
6. Increase in literacy and educational level and resultant inclination to sophisticated lives by the rural folks.
7. Inflow of foreign remittances and foreign made goods into rural areas.
8. Change in the land tenure systems causing a structural change in the ownership patterns and consequent changes in the buying behavior.

9. Rural markets are laggards in picking up new products. This will help the companies to phase their marketing efforts. This will also help to sell inventories of products out dated in urban markets.

**What Rural India buys:**

- \* Products more often (mostly weekly).
- \* Buys small packs, low unit price more important than economy.
- \* In rural India, brands rarely fight/compete with one another; they just have to be kept at the right place.
- \* Many brands are building strong rural presence without much advertising support, like Shampoos, detergent, talcum powder and beauty cream etc.
- \* Fewer brand choices in rural areas; number of FMCG brands in rural areas is half that of urban.
- \* Buys value for money, not cheap products

**What Constitutes the Rural Market?**

The census of India defines rural as any habitation where the population density is less than 400 per sq. km, and where at least 75 per cent of the male working population is engaged in agriculture, and where there isn't any municipality or board having said that, there are about 600,000-odd villages in India. Leaving aside Hindustan Lever and ITC, most FMCG Sector would define rural as any place with a population below 20,000.

**The Table shows number of Villages, their population and percentage to the total villages across India**

**Exhibit Number 1: Number of Villages in India**

Population	No. of Villages	% of Total Villages
Less than 200	92,541	15.6
200-500	127,054	21.4
501-1000	144,817	24.4
1001-2000	129,662	21.9
2001-5000	80,813	13.5
More than 5000	18,758	3.2

<b>Total No. of Villages</b>	<b>593,145</b>	<b>100.0</b>
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Source: MART

**The Table shows monthly income of rural consumer- state wise**

**Exhibit Number 3: Monthly Income Comparison across States**

<b>MHI</b>	<b>% of Total Households in Bihar</b>	<b>% of Total Households in Punjab</b>	<b>% of Total Households in Kerala</b>
Up to Rs.3000	85.1	52.4	71.9
Rs.3001-6000	10.6	38.7	21.8
Rs.6001-10,000	3.3	6.5	5.3
Rs.10,001-15,000	7.7	1.7	0.9
Rs.15001-20,000	0.3	0.5	0.2
Rs.20,000+	0	0.1	0

Source: Business world Marketing White book 2005

**What makes Rural Markets Attractive?**

Rural market has following arrived and the following facts substantiate this.

- 742 million people
- Estimated annual size of the rural market
  - FMCG Rs. 65,000 Crores
  - Durables Rs. 5,000 Crores
  - Agri-inputs (incl. tractors) Rs. 45,000 Crores
  - 2 / 4 wheelers Rs. 8,000 Crores
- 41 million Kisan Credit Cards issued (against 22 million credit-plus-debit cards in urban) with cumulative credit of Rs. 977 billion resulting in tremendous liquidity.
- Of 20 million Rediffmail signups, 60 % are from small towns. 50% transactions from these towns on Rediff online shopping site
- 42 million rural House Holds availing banking services in comparison to 27 million urban House Holds.

- Investment in formal savings instruments: 6.6 million House Holds in rural and 6.7 million in urban
- 53% of FMCG sales happen at Rural India.
- Talcum powder is used by more than 25% of rural India.
- Lipsticks are used by more than 11% of the rural women and less than 22% of the urban women.
- Close to 10% of Maruti Suzuki's sales come from the rural market.
- Hero Honda, on its part, had 50% of its sales coming from rural market in FY'09.
- Rural India has a large consuming class with 41% of India's middle-class and 58% of the total disposable income accounting for consumption.
- By 2010 rural India will consume 60% of the goods produced in the country.
- In 20 years, rural Indian Market will be larger than the total consumer markets in countries such as South Korea or Canada today, & almost 4 times the size of today's urban Indian market
- 46% of the soft drinks sales happen in the rural areas.
- Rural India accounts for 49% of motorcycle sales.
- Rural India accounts for 59% of Cigarettes sales.

### **Opportunities:**

- Rapid improvement in Infrastructure is attracting companies to shift focus from urban to rural market
  - In 50 years only 40% villages connected by road, in next 10 years another 30%.
  - More than 90 % villages electrified, though only 44% rural homes have electric connections.
  - Rural telephone density has gone up by 300% in the last 10 years; every 1000+ pop is connected by STD.
- Social Indicators have improved a lot between 1981 and 2001
  - Number of "pucca" houses doubled from 22% to 41% and "kuccha" houses halved (41% to 23%)
  - Percentage of BPL families declined from 46% to 27%
  - Rural Literacy level raised from 36% to 59%

- Low penetration rates in rural so there are many marketing opportunities.
- Marketers can make effective use of the large available infrastructure
  - Post offices - 1, 38,000
  - Haats (periodic markets) - 42,000
  - Melas (exhibitions) - 25,000
  - Mandis (agri markets) - 7,000
  - Public distribution shops - 3, 80,000
  - Bank branches - 32,000

The above facts emphasizes the change in the thinking of some the FMCG companies who are late to the party. The companies which have been reluctant to realize the potential of rural markets has no other way, but to make strategies to enter rural markets at an earliest. The mantra for success can be further augmented by the Four A Framework (Affordability, Acceptability, Accessibility & Awareness). These factors will go a long way in providing the company with market value coverage along with a steady source of revenues. The companies which are going to keep in mind the above stated factors are sure to emerge as winners in the rural markets.

#### **Problems & Challenges of rural markets:**

The rural market offers a vast untapped potential; it should also be recognized that it is not that easy to operate in rural market because of number of problems such as improper infrastructure and transportation would lead to time delay and high cost on transportation could lead to weak logistics and distribution also. Thus Rural marketing is a time consuming affair and requires considerable investments in terms of evolving appropriate strategies with a view to encounter the problems. The problems are.

#### **Barter system:**

This system is practiced In the developing country like India, even today the barter system i.e., exchange of goods for goods exists. This is a major obstacle in the way of development of rural marketing.



**Underdeveloped people and underdeveloped markets:**

The agricultural technology has tried to develop the people and market in rural areas. Unfortunately, the impact of the technology is not experienced uniformly throughout the nation. Some districts in Punjab, Haryana or Western Uttar Pradesh where rural consumer is somewhat comparable to his urban counterpart, there are large areas and groups of people who have remained beyond the technological breakthrough. In addition, the farmers with small agricultural land holdings have also been unable to take advantage of the new technology.

**Lack of proper physical communication facilities:**

Nearly 50 percent of the villages in the country do not have all weather roads. Physical communication to these villages is highly expensive. Even today, most villages in eastern part of the country are inaccessible during monsoon season.

**Inadequate Media coverage for rural communication:**

A large number of rural families in own radios and television sets there were also community radio and T.V sets. These have been used to diffuse agricultural technology to rural areas. However the coverage relating to marketing is inadequate

**Many language and Dialects:**

The number of languages and dialects vary from state to state region to region. This type of distribution of population warrants appropriate strategies to decide the extent of coverage of rural market.

**Market organization & staff:**

The size of the market organization and staff is very important, to manage market system effective control. However the existing organizational setup particularly at district and block level needs to be strengthened in order make the services on various aspects available to the farmers timely and also easily accessible to them.

**Other influencing factors in Rural Marketing**

Natural calamities and Market conditions (demand, supply and price). Pests and diseases, Drought or too much rains, Primitive methods of cultivation, lack of proper storage facilities which exposes grain to rain and rats, Grading, Transport, Market Intelligence (up to date market prices to villagers), Long chain of middlemen (Large no. of intermediaries between cultivator and consumer, wholesalers and retailers, Fundamental practices (Market Dealers and Commission Agents get good part of sale of receipts).

**Challenges Faced by Marketers in Rural Market**

- \* Low literacy rate.
- \* Traditional outlook of rural consumers due to which they are resistant to change. Their buying decision is low and delayed.
  
- \* Demand in rural market depends on the agricultural situation as it is the main source of income. Again agriculture depends on monsoon. So buying capacity of rural consumers varies and it becomes difficult to predict demand.
  
- \* Lack of infrastructure facilities.
  
- \* Retailers pushing imitation or fake products in place of branded ones for better commission.
  
- \* Communication problems.
  
- \* Problems related to distribution and channel management

**Innovative Practices adopted by companies:**

FMCG and consumer durables companies have in the past tried tinkering with all the four 'P's — product, pricing, promotion and place— of the marketing mix. Hindustan Lever is among India's largest FMCG companies. It has been highly successful in marketing in rural India and has been a pioneer in reaching out to the smallest of villages with innovative products such as single-use packets of shampoo that sell for a penny. (The rural consumer uses shampoo on rare occasions; she does not want to invest in a bottle.) Independent agencies run media vans that show movies in distant villages. They have live promotions and demonstrations during breaks.

The area where innovation has moved to center stage is in the fourth P — place (or distribution). Infrastructure has always been the bugbear of the Indian marketer. Distribution channels can make or break a company's rural marketing efforts. To sell in villages, products must be priced low, profit margins must be kept to the minimum and the marketing message must be kept simple.

**The Annapurna Salt Story:**

Hindustan's Lever Ltd. (HLL) technological innovation, Annapurna salt with stable iodine, demonstrates how one nonprofit and profit organization can bridge the gap between. Annapurna salt is being marketed by in two phases:

1. The first message is for poor class i.e. to spread the awareness that iodized salt prevents IDD and goiters.
2. For upper market Annapurna Salt continues to emphasize that Annapurna's Iodine is different and its communication campaign highlights, Iodine makes brain sharper.

**Amul:** Amul is considered to be a movement more than a dairy cooperative in India, has introduced quality ice-cream at much affordable rate (less than Rs. 6/-). Amul offers this milk-made product not only as a delicious ice cream but that also in reasonable rates.

**Godrej Consumer Products-Project 'Dharti':** The hair colours and soaps major,

intends to increase its contribution from rural sales to 50 per cent in one year, from 38 per cent right now. We are going to focus strongly on rural sales. Currently, rural sales make up around 38 per cent of our turnover. Company intends to take it to 50 per cent within a year. Godrej has implemented a special project to penetrate rural markets exclusively - project 'Dharti' for rural India which is presently covering 17,000 villages. Soon company intends to take it to cover 50,000 villages. This also means that the 4,000 sub-stockiest in rural India would be more than doubled, creating more employment opportunities.

**Hariyali Kisaan Bazaar:** Was set up by **DCM Shriram Consolidated Ltd.** to facilitate sale of agri-inputs such as fertilizers, pesticides, farming equipment, seeds, animal feed, etc.

**TRIVENI KUSHALI Bazaar:** A rural agri-inputs store run by **Thriven Engineering Industries Ltd.** in the sugarcane belt of U.P., is also used to sell cement and FMCG products.

**HUL's Project SHAKTHI:** Through the state governments and NGOs involved in micro-finance, women entrepreneurs in villages are identified to act as local distribution and sales point for HUL products.

### **Empowering Women Consumers:**

Hindustan Lever Company's Project Shakti (its name means "strength") was born out of this realization, and it has become a case study for business schools and evolved beyond its original goals. "The objectives of Project Shakti are to create income-generating capabilities for underprivileged rural women by providing a small-scale enterprise opportunity, and to improve rural living standards with greater awareness of health and hygiene," says Dilip Sehgal, executive director of the Shakti initiative.

Hindustan Lever's drive into rural India was prompted in part by growing competition. When the Indian economy opened up in early 1990s, multinationals such as Procter & Gamble stepped up their activities, forcing Hindustan Lever to seek higher revenues and growth by reaching into villages with 1,000 or fewer residents. Launched in 2001, Project Shakti was an important part of this strategy. It involved working with rural

self-help groups (SHGs) to educate rural women, while also making them part of the company's marketing network. "Women from SHGs become Shakti entrepreneurs — direct-to-home distributors [of Hindustan Lever products] in rural markets," says Sehgal. "This micro-enterprise offers low risks and high returns. The products distributed include a range of mass-market items especially relevant to rural consumers," such as soap, toothpaste, shampoo and detergent.

### **ITC's eChoupal Initiative**

Another innovator in rural distribution — the \$3.6 billion, Calcutta-based tobacco-to-hotels conglomerate ITC — has also been trying to build a platform that others can use. At a recent seminar on rural marketing, ITC chairman Y.C. Deveshwar outlined plans to create a trust that could work as an agency through which companies — both private and public — could market goods and services to Indian farmers. The trust route would hopefully make other companies more willing to sign up with their offerings. ITC has the right credentials to launch this trust. Like Hindustan Lever's project Shakti, its eChoupal venture has been the subject of several case studies.

ITC's foray into an enhanced distribution network came from the recognition that the existing agri-produce distribution channels were inefficient. The company exports various agricultural products — soybean, rice and wheat, to name a few. It needs to source them from farmers.

"In 2000, ITC embarked on an initiative to deploy technology to reengineer the procurement of soybeans from rural India," says S. Sivakumar, CEO of ITC's agri-business division. "Kiosks — called eChoupals — consisting of a personal computer with Internet access were set up at the villages." He explains that soybean farmers could access this kiosk for information on prices, but had the choice to sell their produce either at the local market or directly to ITC at their hub locations. A hub location services a cluster of eChoupals. By purchasing directly from the farmer, ITC significantly improved the efficiency of the channel and created value for both the farmer and itself.

“While the eChoupal network was initiated to facilitate more efficient and effective procurement, the connectivity — both physical and informational — between the farmer and the market that it facilitated has allowed ITC to use it for distribution of goods and services from the market to the farmer,” says Sivakumar. It has thus evolved into a business platform.

**The eChoupal infrastructure consists of:**

- \* A kiosk with Internet access in the house of a trained farmer, called a Sanchalak. This kiosk is within walking distance of target farmers.
- \* A warehousing hub managed by the former middleman, called a Samyojak. This is within a tractor-driveable distance of target farmers. (The former middlemen were given a role to avoid resistance to the project. They joined because they could see that their traditional business was in jeopardy.)
- \* A collaborative network of companies orchestrated by ITC with a pan-India presence.

The benefits to the farmer are obvious. And ITC itself gains. Apart from the more efficient channel, there is money to be made from the reverse flow. In 2005-06, ITC generated \$23 million selling chemicals and fertilizers. That may not sound like much, but it's early yet. In a recent move, ITC has set up its first urban outlet, the other end of the eChoupal chain, to retail fresh fruit and vegetables.

**Micro-finance and SHG's in rural sales:**

In dry and dusty fair in Osmanabad, a small town tucked away in the Marathwada region of Maharashtra, Godrej & Boyce's nano refrigerator- chotu kool is making in roads. It is not a regular fridge, it specially developed by the company to meet and suit need the of rural consumer. An Microfinance institution called Swayam Shikshan Prayog has given valuable inputs to this design. It dose not have compressor, it runs on a battery. Utensils and bottles need to be loaded into this 43-liter cool box from the top. It weighs only 7kg and costs Rs.3200/-.

Women who are associated with this project convinced Godrej to cut the price of chotukool to Rs.3200/- to Rs.3700/-. Women earn Rs.150 commission for every choutkool. Godrej has junked the traditional model of a proprietary channel with sales force and a distributor-dealer chain. Instead, it has joined hands with MFIs to create a new distribution system.

**Conclusion:**

There is no doubt that the rural India offers tremendous opportunity for any company to tap. However, companies face many challenges in tackling the rural markets. Some of the important factors being an understanding of the rural customers' needs, a reliable distribution channel, and an effective marketing communication strategy to put their message across to the rural consumer. Coming up with some innovative techniques in distribution, and marketing of products in rural India, can make these companies to earn greater profits, market share etc.

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