

Changing Landscape of Rural Retailing with Special Reference to Odisha

Dr. Nihar Mohapatra
Dr. Chinmaya Ku Dash

Inspector of Supplies, FS& CW Department, Government of Odisha
Prof (Marketing), ADMAS University, Kolkata

Abstract

Historical Indian retail market consisted of weekly markets, village fairs and melas and the 19th century gave birth to the retail outlets which took the form of convenience stores, Mom and Pop stores/ kirana stores. This helped the consumers on to stick to a particular store for their day to day requirements and also avail the credit purchasing facility. In the 1980's people have seen the new formats like supermarket, departmental stores and discount stores entering into the Indian retail space. In less than a decade hypermarkets have gained all the applause of the retail market and stood above all the other formats by bringing in the concept of "one stop shopping." This stood as an opening door for the new generation of the retail industry. And very soon the malls became the trend setters in the new millennium. This has coined the term of "shoppertainment" (shopping and entertainment) which can be attributed to the changing life styles of the people. Rural markets are relatively virgin markets, which have evolved on their own with very little direct contact with them by the corporate world, but their size is attractive. Retail sector offers opportunities for exploration and investment in rural areas, with corporate and entrepreneurs having made a foray in the past.

Key words: Rural markets, Rural marketing, Rural retailing, satellite distribution & syndicated distribution.

Introduction

A debate continued for a long time amongst the Indian marketers, both practitioners and academicians, on the justification for existence of the distinct discipline of rural marketing. Consequently, two schools of thought emerged. The first school believed that the products/ services, marketing tools and strategies that are successful in urban areas, could be transplanted with little or no modification in rural areas. It perceived rural India as a poor extension of the urban India, and suggested a different approach, skills, tools and strategies to be successful in rural markets. But the recent successes and failures of the corporate world in the rural market have clearly demonstrated that the rural market is a totally different proposition and not just a poor extension of the urban market. What differentiates the two markets is not mere income, but a host of other infrastructural and socio-cultural factors. Thus the rural market cannot be tapped successfully with an urban marketing mindset and would definitely require its thorough understanding. India is a land of diversity and about 69% of the Indian population lives in villages. These villages contribute in the economic development of the nation through the production of food grains, vegetables, fruits, etc. Export of these agricultural commodities result in the generation of capital and earnings of foreign exchange. There are 600,000 villages in India. 25% of all villages account for 65% of the total rural population. So we can contact 65% of 833 million population by simply contacting 150,000 villages; which shows the huge potential of this market. Indian rural market has a vast size and demand base. What does the term "Rural" imply? There is no single answer to this question as different experts and organizations have divergent views on what constitutes the term 'Rural'.

Rural market is getting an importance because of the saturation of the urban market. As due to the competition in the urban market, the market is more than or as saturated as most of the capacity of the purchasers has been targeted by the marketers. So the marketers are looking for extending their product categories to an unexplored market i.e. the rural market. 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. To expand the market by tapping the

countryside, more and more MNCs are foraying into India's rural markets. Among those that have made some headway are Hindustan Lever, Coca-Cola, LG Electronics, Britannia, Standard Life, Philips, Colgate Palmolive and the foreign-invested telecom companies.

Rural Retail System

India's largely rural population has caught the eyes of retailers looking for new areas of growth. Of the 33 lakh retail outlets in India in 1999, the majority 2.1 million were in the rural area. Market structure in India is dichotomous having rural and urban markets. Retail outlets have sprung up practically in all the villages. In interior villages retailing is a part time chore unlike the case of the retailer in town. In a part of their house, the villagers make retail counter. The maintenance costs for retail outlets in interior villages are also low with most of the cost spent on travelling and transportation.

Rural India accounts for 65 percent of retail outlets in the country. But the logistics of feeding the 35 lakh retail outlets spread over 6 lakh villages is a daunting task indeed. The high distribution costs due to geographical spread and volumes per outlet act as a deterrent to the entry of products in rural markets. A village shopkeeper operates under a number of infrastructural constraints like lack of proper storage systems, lack of sufficient space, inadequate power supply and financial constraints. The maintenance cost of retail outlets in interior villages is negligible; expense is mainly on travel and transportation. This suggests that if the product can be delivered to the outlet, it will save not only transportation cost and travel time to the nearby town, but also that the retailer would prefer to stock door delivered products. Rural retail outlets are more generalized in nature. Three out of four shops in a village are small pan/bidi shops or stores selling consumer products like soap, washing powder, biscuits, etc. It is only in villages close to urban areas or in very large feeder villages that one sees shops like chemists, textile stores, equipment repair shop. As consumer durables, jewellery and clothes are bought once in a while on special occasions like weddings, festivals, or after the harvest, rural consumers prefer to buy from a nearby town or city as the bigger shops offer a wider variety and a better choice of products. One of the principal reasons behind the explosion of retail outlets and its fragmented nature is that retailing is probably the primary form of disguised unemployment/ underemployment. The overcrowded agricultural sector, stagnating manufacturing sector, the hard nature of jobs and low wages in both virtually force many Indians to the service sector. So, it is almost a natural decision to open a small shop or store depending on the available means and capitals due to the lack of opportunities. This phenomenon explains the million of kirana shops and small stores.

Organised Retailing in Rural India

An overwhelming proportion of the Rs. 400,000 crore Indian retail markets are unorganized. In fact, only a mere Rs. 20,000 crore segment of the market is organized. The presence of the organized retail format is limited to metro cities only. In terms of physical size, 96 percent of the 5 million plus outlets are smaller than 500 square feet in area. India's per capita retailing space of about 2 square feet is the lowest in the world.(KSA Technopak (i) pvt. Ltd.). Given the size and diversity geographical, cultural and socio-economic of India, there is no role model for Indian retailers to follow or adapt in their attempts to expand into rural markets. Urban centres already have a well –defined retail network and international retail models are adapted after relevant contextual changes have been incorporated. In rural India haats, mobile traders and village shops from the traditional retail network. In such conditions, marketers are trying to experiment with new models such as Self-Help Groups by HUL and ITC's Choupal Sagar to serve end consumers in rural markets. The government has also established some good rural retail networks such as the public distribution systems (PDS), khadi and village industries commission (KVIC), rural banks and Indian Farmers Fertilizer Co-operative Limited.(IFFCO). Post liberalization, a few corporates have taken initiatives of set up organized retail formats in rural. ITC was the first to take such an initiative and launched the country's first rural mall in Madhya Pradesh, signalling the arrival of organized retailing in rural India. The mall, christened Choupal Sagar, offers a diverse product range, including soaps, detergents,

toothpastes, televisions, DVDs, sewing machines, grinders, etc., in an attempt to provide farmers a one stop destination for all their needs. There has been yet another initiative by the DCM Sriram Group called the Hariyali Bazaar that has initially started off by providing farm related inputs and services but plans to introduce the complete shopping basket in due course. Other corporate bodies include Escorts and Tata Chemicals (with Tata Kisan Sansar) setting up agri-stores to provide products/services targeted at the farmer in order to tap the vast rural market. Retail sector offers opportunities for exploration and investment in rural areas, with Corporate and Entrepreneurs having made a foray in the past. India's largely rural population has caught the eye of retailers looking for new areas of growth.

Opportunities and Challenges in Rural Retailing

The rural Indian economy, growing at 8-10 per cent every year, will be adding \$90-100 billion of new consumption in the next five years, over the current base of \$240-250 billion. There are a number of factors supporting this growth: increasing incomes due to good monsoons and government initiatives and schemes; employment opportunities in infrastructure and industry projects across the country and; emphasis on local employability. Favorable demographics (nearly 300 million people born after 1990 in rural India), emphasis on basic education and a growing connect with the world at large through media and the Internet is further strengthening the case. There are enough challenges, too: a fragmented consumer base, limited infrastructure (power, road connectivity), low unit spending power, a strong regional influence on consumption and communication, reaching out to 600,000-plus villages and centres, among others. This new consumption will be basic plus, with a high share of packaged foods, personal care, consumer durables and IT products, two and four wheelers, and fashion accessories, among others. Over the last five years, some consumer product companies have recognised the potential of rural markets and invested time and resources to tap into this opportunity, understanding and segmenting the consumer, based on their spends and lifestyles.

Some have re-engineered products, pricing and packaging to customize features and value relevant for these markets. For instance, LG has Sampoorna, a customised TV; Godrej soaps has introduced 50-gm packs and Samsung has launched Guru a mobile that can be charged with solar energy. Some players have developed new communication and distribution channels within the hinterland (HUL's Project Shakti; Tata Tea's Gaon Chalo) and some have created completely new products. This innovation for rural markets has paid off well for some of the FMCG, consumer durables and automobile companies, and will continue to grow as they get closer to their target consumer and refine their business models. Rural India offers a similar opportunity for modern retail as well. The initial set of modern retail initiatives here have been mostly centered around farm equipment and produce, or stripped down versions of urban concepts. The opportunity is now large enough to develop concepts that are "Built for Rural India", where all elements are built around the requirements, challenges and complexities of the market as well as the availability (or lack) of products and services. Players will have to think of suitable segmentations in terms of all the four Ps: product, price, place and promotions. They would need to rethink their entire supply chain and logistics as well. These formats could be a combination of retail, wholesale and they could also be medium to large footprint modern distribution hubs located in the current convergence points. These points, often known as mandis, are well connected and populated rural pockets, offering a range of products, services (finance, telecom, and insurance, among others), and entertainment and eating options. These hubs could extend their reach to service the deeper hinterland through a combination of spokes of smaller stores, mobile units, Internet kiosks, mobile commerce, among others. While the players will have an advantage of low cost real estate, they will need to make investments for creating in-house manpower training centres, power backup facilities. The challenged faced by the companies are:

Distribution and Logistics

Infrastructure continues to be a challenge in rural India. Moreover, the lack of an efficient distribution network prevents penetration of products/services into rural India. One of the most innovative models in recent times has been the usage of the postal service by mobile operators to penetrate scratch cards to the villages. The Indian Postal Service with 155000 post offices is the largest distribution network in the world, and has all of 120000 outlets in India's villages.

Payment Collection

The majority of the rural population is still unbanked. Clearly, non-cash collection becomes rather unlikely. Cash collections, on the other hand, are messy and difficult to monitor, especially since cash cards or technology-enabled centralized POS (like Suvidha or ItzWorld) have still not reached rural areas. The time-tested manufacturer-distributor-retailer network has been the only real success so far but setting up such a structure is rarely feasible. Partnering with MFIs comes to mind but often, the MFIs don't cater to the relatively more privileged/affluent segments of the rural economy who are likely to be early adopters.

Pricing

While Sachet pricing may have worked very well for Chik shampoo, the overheads involved in payment collection do not always allow easy execution of sachet pricing. It is easier to collect in larger amounts as every instance of collection and carrying of cash has associated costs. Disposable income, though, isn't always high since the bulk of rural India is agricultural and income cycles in agricultural are very erratic and not as predictable as in the case of us salaried individuals.

Scaling Across Geographies

If India is a land of many cultures, the contrast becomes that much starker in the case of rural India. Setting up operations on a pan-India level presents different types of hurdles in different states ranging from political juggling to downright local factors. Any model where scalability involves scaling on ground operations (and not merely an increase in downloads) is bound to run into myriad issues as we move from one state to the next. Addition to that there is greater differences in consumer tastes and behaviour across geographies than in the relatively more cosmopolitan urban population.

Developing Inorganic Scale

Developing synthetic scale through partnerships typically results in larger overheads in the rural context. Finding the right partner with reach and presence in villages is difficult to start with. More importantly, there are very few players who are strong on these counts across multiple geographies. Hence, a pan-India rollout typically requires multiple partnerships resulting in higher partner management overheads.

Social and Cultural Challenges

The cyber cafe (or kiosk) model has not worked in many parts of rural India due to socio-cultural issues. One of the reasons for the failure of the kiosk model in Kuppam (HP's i-community) was the lack of usage by women which was largely due to their discomfort in going to kiosks run by men.

Distribution Medium in Rural Retail

Distribution is the most important variable in the marketing of most consumer goods manufacturers, because managing such a massive sales and distribution network as rural retail is in itself a huge task. With the spread of consumers across various population categories, marketers face the problem of accessing these markets. Apart from ensuring the reach of their product to retail outlets, marketers also need to motivate retailers to stock their product or brand. The strategies available are as

1. Coverage of villages with up to 2000 and above population could be the breakeven point for a distribution setup. By doing so the percentage of villages covered comes to only 10% of all the villages but the rural population covered will be substantial.
2. Co-operatives have an arrangement for centralized procurement and distribution through their respective state level federation. Such state level federations can be motivated to procure & distribute consumable items and low value items to the members of the society for selling to the rural consumers.
3. The PDS in the country is fairly well organized, whose effective utilization should be explored by the manufacturing and marketing men. Its purpose is to make available essential commodities like food grains, sugar, kerosene etc. to the consumers at a reasonable price. Fair price shops are run by the state civil supplies corporation, co-operatives etc. Who have an arrangement for centralized for procurement and distribution.
4. Petroleum/oil companies have evolved a concept of multipurpose distribution centres in rural areas. These outlets can be profitably used for selling consumable & durable items. In addition to petrol, diesel etc. fertilizers, seeds, etc. can be stocked at these outlets.
5. Keeping in view the hierarchy of markets for the rural consumers, the feeder markets and the mandi towns offer excellent scope for distribution. From the feeder towns and the mandi towns the stockist or the wholesaler can arrange for distribution to the village shops in the interior places.
6. These are the places where the consumers congregate as a rule. Shandies/Haats are held on a particular day every week, Jathras and Melas are held once or twice a year for longer durations, normally timed with religious festivals.
7. Fertilizers should be made available to the farmers within the range of about four to five km. from their residence, as per the essential commodities Act. There are about 2 lakh fertilizer dealers in the country both in co-operative & private sector. Varana-Nagar in Maharashtra, where sugar & milk co-operatives have totally changed the life styles of people. The supermarket in Varana-Nagar caters to exclusively to rural consumers.

Distributing products across the rural market segment holds the key to how most corporations will sustain themselves over the next few years and in the longer run. Some other models in rural retailing are:

Satelite Distribution Model

A concept known as 'Satellite Distribution' can be tried in developing a distribution channel in the rural market. Under this system, the firm appoints stockist in feeder towns, who take care of financing, warehousing the goods and sub-distribution of goods. The firm also appoints a number of retailers in and around the feeder towns and attaches them to the stockist. The goods are supplied to the stockist either in cash or credit or on consignment basis. The sales volume of the retailers will vary depending on the potential of the area covered and the capacity on the dealer concerned. The main advantage of this system is that it facilitates market penetration in the interiors of market. However, the firm must ensure is that it facilitates market penetration in the interiors of the market.

In this model the companies have to choose one feeder town where the warehouse will be located. From this feeder town the company will supply to these Rural Retail Hubs which will be primarily located on the weekly markets and in some cases the nearest small town. The locations will be fixed depending on the population density and the locations should have all weather road connectivity. The companies can design their retail outlets for grocery items in rural markets according to this model.

Syndicated Distribution Model

Channels of distribution are a major problem for a new company targeting the rural market for the first time. The biggest problem a new company faces is that there are too many levels

in the channels (multiple tier), and settings up a distribution channel for rural markets is a costly proposition. Small companies cannot afford to buy another company for distribution. The solution for small companies: tie up with a leading company that already has a presence in the rural market to distribute products through its distribution network. The golden rule is the small companies should not deal in the same product that the leading company sells. A successful model of syndicated distribution is P&G using the rural distribution network of Marico to sell Ariel, Tide, etc. In the initial stages, CavinKare uses the distribution network of Amrutanjan Pain Balm for its Chik shampoo.

Retailing in Rural Orissa

According to a CII and Images study on "East India Retail: 2010 & Beyond, ORGANISED retail in the eastern parts of the country is projected to cross Rs 10,000 crore. According to the study, Rs 4,500 crore will be invested in the region's retail sector over the next five years. This will help in the setting up of over 100 shopping and leisure centres offering 20 million sq. ft. of space for 10 hypermarkets, 75 department stores, 150 supermarkets and over 1,000 other new outlets. Retail sales in the region during 2003-04 stood at Rs 1.99 lakh crore with a share of about 67 per cent of the region's total private consumption expenditure (PCE) that was about Rs 2.98 lakh crore. The study predicts that retail development will expand in the next five years to cover cities such as Jamshedpur, Cuttack, Puri, Asansol, Shillong, Jorhat and Dimapur. The food and grocery sector presented the most significant potential, accounting for 51 per cent of the total PCE in the region compared with 43 per cent for the country as a whole. According to Associated Chambers of Commerce and Industry of India (Assocham) Eco Pulse (AEP) report, the per capita income of Orissa stood at Rs. 14,795 in the year 2006-07 with an increase in 11.50%. This is due to utilization of vast mineral resources of Orissa.

The distribution of rural population has not followed the same pattern all through the state. On one hand the costal and northern Orissa is heavily populated on the other hand the western and southern districts are sparsely populated. In Orissa rural retail is taken as a part time job due to agricultural economy and daily labourers. The retail industry in rural Orissa is mostly unorganized in nature. The shop opens in morning and evening to cater the needs of the local people. The shops are generally small in area and product assortment is very low, generally small pan / bidi shops or provisions store selling consumer products like soap, washing powder, biscuits, etc. The other form of rural retail store found in the haats or villages close to the urban market or large feeder villages like chemist, equipment repair shop, small cloth stores.

As most of the villages are not connected by all weather roads, retailers often find it difficulty in carrying goods from the market to their respective shops. Since their orders are generally small with respect to the shops located in the urban areas, these shopkeepers often visit the wholesale market more than twice a week, as they do not have a proper storage system within their shops. The fear of pilferages and damaging the goods forces these retailers to purchase smaller amounts of goods from the wholesale market thereby increasing their carrying cost to many folds. A proper storage system can be installed within the village. The storage system can be shared by all the retailers of the village thereby minimizing the cost and maintenance of the same. Another characteristic of rural retail in Orissa is the demand of the credit by the consumer. As most of the income is generated by agriculture and daily wages the consumer's demand credit facility. Sometimes to repay the credit, the consumers take months of time.

Conclusion

Rural markets are relatively virgin markets, which have evolved on their own with very little direct contact with them by the corporate world, but their size is attractive. Retail sector offers opportunities for exploration and investment in rural areas, with corporate and entrepreneurs having made a foray in the past. India's largely rural population has caught the eyes of retailers looking for new areas of growth. The Indian retail scenario is poised for a quantum leap. Not only are newer names set to dot the retail landscape but also new and emerging

retail formats especially in rural sector retailing will drive the diversity of the fast-changing retail backdrop. Organized Retail means Big Stores a common myth...nothing can be further than the truth. In its very essence, organized retailing is about "aggregating value" and what shape, size and configuration your customer facing entity takes is largely a function of your offer and proposition. A growing population, a young workforce and zooming consumer confidence will fuel the expansion of the retail sector.

The retail revolution in urban India has encouraged a few corporate to venture in to the rural sector with large-format stores as forward integration strategy. Some of the investment and retail infrastructure is already in place and large part is in pipeline for future. This is a big change from the time when rural consumers were served from the tiny and dingy dukans (retail outlets) with almost no additional or value added facilities. The retail stores set up by corporate sector are banking on the strategy to present their stores as a solution to the problems associated with the traditional distribution channel. Looking at the challenges and the opportunities, which rural markets offer to the marketers, it can be said that the future is very promising for those who can understand the dynamics of rural markets and exploit them to their best advantage. A radical change in attitudes of marketers towards the vibrant and burgeoning rural markets is called for, so they can successfully impress on the 230 million rural consumers spread over approximately six hundred thousand villages in rural India.

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