

RURAL MARKETING IN INDIA: EMERGING CHALLENGES IN COMPETITIVE ERA

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Abstract: India lives in Bharat (Rural India) are still true. Seventy percent (approx) of the India's population lives in rural areas and accounts nearly for more than half of Indian consumption. As per McKinsey, even with increasing urbanization and migration, it is estimated that 63 percent of India's population will continue to live in rural areas in 2025. World's 12.2 percent population resides in rural India. Many multinational/ Corporate are recognizing enormous opportunity and are stepping up efforts to gain a stronger foothold in the rural markets. due to the technological advancements it is revealed significant rise in the penetration of mobile telephony, direct-to-home (DTH) television services and internet services. Access to technology has transformed the decision-making behaviour of rural consumers. Today, a large chunk of rural consumers is aware, aspirational, and has the ability to pay. The attractiveness of rural India has further increased due to the recent efforts of Indian government towards inclusive growth. Central and State governments have launched several schemes such as Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA), Jan Dhan Yojna, Direct Benefit Transfer (DBT) etc. that have changed the dynamics of rural India. The NDA government led by shri Narendra bhai modi intention to create the JAM (Jan Dhan, Aadhar and Mobile) ecosystem is further going to change the rural landscape in India. Rural markets offer a great scope for a concentrated marketing effort because of the recent increase in the rural incomes. Such incomes will increase faster because of better production and higher prices for agricultural commodities. Rural markets in emerging economies such as India have been seen as both an opportunity and a challenge. The opportunity is based on the sheer population which resides in around 6,38,596 villages in India, and the challenge stems from the fact that reaching out to the consumers in these villages spread across the country is not easy. These villages are inhabited by about 833 million consumers making up for about 68.8 percent of the population (Census of India, 2011). Rural marketing is a developing concept, and the marketers have realized the opportunity of growth in the market recently. Any marketing strategy for these markets should focus on Acceptability, Affordability, Awareness and Availability. This paper discusses the rural marketing and importantly focuses on emerging challenges in the competitive marketing environment of new India

INTRODUCTION

While many in India would assume that rural is almost synonymous to India, on the contrary the top 10 rural markets of the world include 7 countries in Asia and 3 in Africa. It would

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not be wrong to call rural as more of a developing world phenomenon. Interestingly, the top 10 rural markets of the world, (India, China, Indonesia, Pakistan, Bangladesh, Nigeria, Ethiopia, Vietnam, Egypt and the Philippines,) collectively cover two-thirds of the world's rural population about 2.2 billion people. Despite preferences working for urban markets, trends and market estimates spell more optimism around these rural markets by the virtue of their size and steadily increasing indicators that fuel consumer spending and aspirations. The affluence of rural consumer base in these markets and those in Thailand, Myanmar and Bhutan is bringing massive opportunities for the consumer goods businesses across the globe. Considering the potential wealth of the market in rural India, one must acknowledge that it is quite characteristic of its unique trade-offs. The rural phenomenon in India with an evidently astounding 800+ million residents and their rising levels of disposable income along with the growing affinity towards branded goods comes with its own challenges. Even when rural consumption has been growing at 1.5 times of that in the urban market, tricky situations in the form of underdeveloped infrastructure, unreliable communication and electricity, or inadequate distribution networks pose serious threat to the ambitious plans of many business giants including the Tata, ITC, Vodafone, Coca-Cola or the likes. Nevertheless, mixed results in most cases keep encouraging corporations to come up with ruralized stepping-up ideas in search of the real gold. Rural markets account for more than 20 percent of the total revenues for more than 65 percent

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. Prof. C.K. Prahlad (2007) enumerates that the future lies with those companies who see the poor as their customers. He further explains that what is

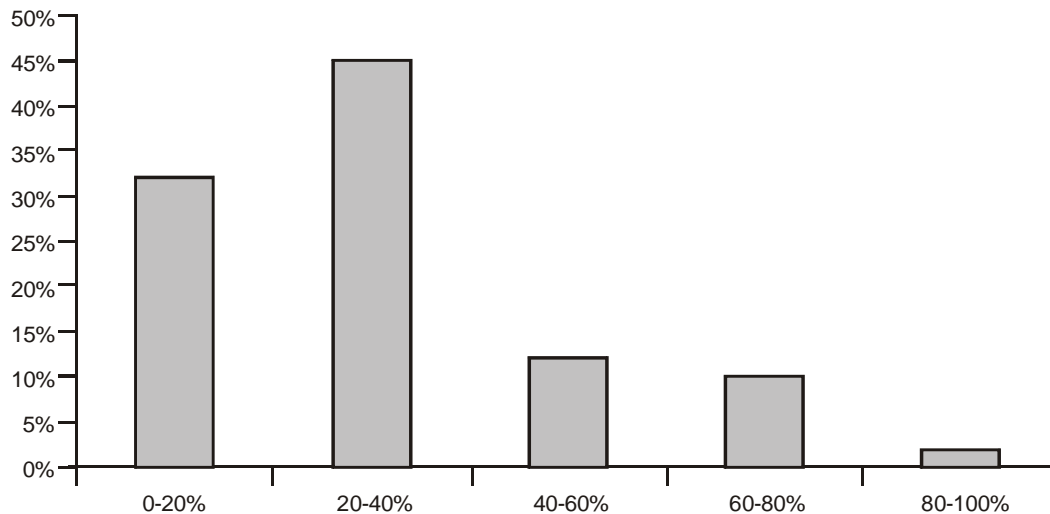


Figure 1: Rural markets' contribution to total revenues

Source: Accenture survey

needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win-win scenarios where the poor are actively engaged and, at the same time, the companies providing products and services to them are profitable. R.V. Badi and N.V. Badi (2004) are of the opinion that Rural market development in India will help the process of activating factors of production leading to higher rate of economic growth, dispersal of economic activities, development of rural and tribal areas, employment opportunities, improvement of living standards of rural masses by empowerment and their active involvement in the process of growth. India's rural market is a gold mine, but largely remains untapped by the Indian corporate sector. During recent times, some companies and organizations have implemented innovative projects to tap the rural market and deliver value added services to the doorsteps of the rural people through Internet-based marketing initiatives." Suvadip Chakraborty, (2010). According to Dilip Bobb (2010) Better prices, enhanced connectivity, proper rural schemes, new crops and technology are among a host of factors which have changed the face of rural India and brought urban life styles and aspirations. Today India is unrecognizable from what it was a decade ago. Awadesh Kumar Singh & Satyaprakash Pandey (2005) feel Indian rural market can be called a "sleeping giant" since it holds vast untapped potential and Rural market environment has changed along with the rural consumer who has become conscious regarding quality and price. The percentage increase in monthly per capita expenditure in rural markets surpassed its urban counterparts during 2009 and 2012, indicating increased consumption in rural markets. Percentage increase in monthly per capita expenditure—Rural and Urban.

The forces of change- ushered in by liberalization and globalization, through media, telecommunications, the information age and increased education have transformed the roles played by traditional influencers in villages as well as led to the birth of new ones. Rural marketing which involves an urban to rural activity, It is characterized by various peculiarities in the terms & nature of the market, products and processes. The rural scene is

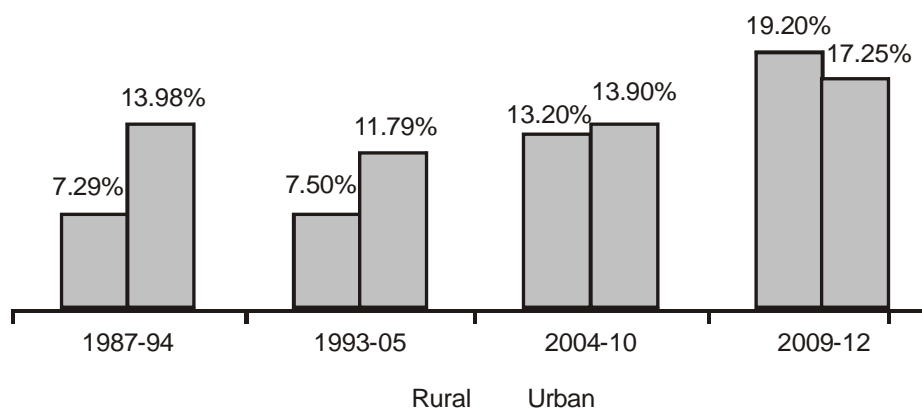


Figure 2: Rural consumption growth is outpacing urban consumption

Source: NOSSO

transforming at an accelerating pace. Organizations aiming to achieve success in the rural market have to research the developments in rural territories. In tapping rural markets, 4As- availability, affordability, awareness and acceptability have to be used as marketing framework with the conventional Mc Carthy's 4Ps. The 4 A's approach presents customized rural marketing mix elements from the customer's perspective and defines the rural consumer's expectations also the role of the organization in delivering the desired results.

Although the rural market does offer a vast untapped potential, it should also be recognized that it is not that easy to operate in rural market because of several problems. Rural marketing is thus a time consuming affair and requires considerable investments in terms of evolving appropriate strategies with a view to tackle the problems. Rural markets remain untapped because of three Ds- "Distance, Diversity and Dispersion" according to D.K. Bose, Vice President, O&M Rural. In words of MART Managing Director, Pradeep Kashyap- "Reaching your product to remote locations spread over 600,000 villages and that too with poor infrastructure-roads, telecommunication etc. and lower levels of literacy are a few hinges that come in the way of marketers to reach the rural market." Clearly the main challenge that one faces while dealing with rural marketing is the basic understanding of the rural consumer who is very different from his urban counterpart. Distribution remains a large problem marketers still face today when it comes to going rural. More than 50 percent of companies have separate rural divisions to manage their rural operations.

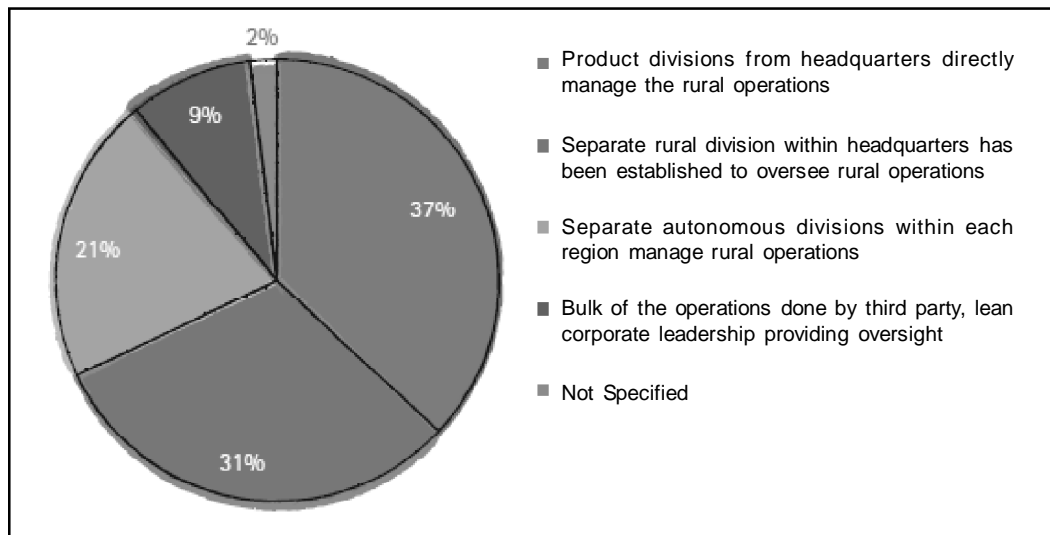


Figure 3: Organizational structures for managing rural operations

Source: Accenture

Interpreting the term “Rural”

What does the term ‘rural’ imply? There is no single answer. Collins Cobuild Dictionary (2001) describes the word as “places faraway from towns or cities”. From the sociological view point, it is defined as a group of people who are traditionalists in outlook, rooted in the land and who resist change. However, the Census of India (2001) defines rural as ‘that what is not urban’. But the term may not satisfy all, especially the marketers, because it does not define rural as what it is, but defines it as that what is not urban. It is also possible that, what is rural to Hindustan Unilever, may not necessarily be rural to Phillips, Electrolux, Godrej or ITC. Hence rural customers can be divided into three broad groups in terms of geographical and sociological characteristics – urban, rural and rurban (Jha, M. (2003). Understanding Rural Buyer Behaviour, *op.ct.* Jha, 2003). Rurban is a continuum from rural to urban. It is the overlap between rural and urban, with assumptions of being closer to urban in physical features, but with deep rural sociological moorings.

Census of India Definition of Rural
<p>Town - Areas which satisfy the following criteria:</p> <ol style="list-style-type: none"> 1. Minimum population \geq 5000 2. Population density \geq 400/sq. km. 3. 75 percent of the male population engaged in non-agricultural activities. <p>Rural - All other areas which can't be defined as a town.</p> <p>Reserve Bank of India Locations with population up to 10000 will be considered rural.</p>

Multinationals have their own way of defining rural markets. They follow the approach which is convenient and suitable for their requirements. Hence, there is a lot of confusion as various public and private agencies have a different definition of rural India. This leads to lack of quality data required to gain consumer insights. There is a need to develop uniform parameters to identify a particular area as rural or urban.

Rural Marketing

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
- The market for agricultural inputs that include fertilizers, pesticides, seeds, and so on.

Broadly rural marketing incorporates the marketing of agricultural products, rural industries products and services of many kinds. The trade channels for different types of

commodities available in rural areas are private, co- operatives, processors, regulated markets and state agencies. In no sense, a social cluster or village economy as a whole can be developed without effective and efficient rural marketing. Very little attention has been paid in the planning era towards the development of rural marketing. In fact marketing is a dynamic state of affairs and is part and parcel of the whole economy. Thus production and marketing are the two facets of a coin. Rural marketing constitutes the nerve centre of rural development activities. Rural marketing is a two way marketing process. The content now encompasses not only marketing of products which flow to rural areas, but also products which flow to urban areas from- rural areas. In addition, it also includes the marketing in the rural areas. As the rural marketing is a two- way process,

Opportunities in Bharat

Rural India accounts for 70 per cent of India's population, 56 per cent of national income, 64 per cent of total expenditure and a third of total savings. Rural India has about 6,38,365 villages spread over 32 lakh sq. km . Rural demand in FMCG, automobile and retail is growing at a faster pace than anticipated due to rise in its consumption patterns which is creating demand and margins for Indian Inc. even as meltdown is getting deeper, says a Study Paper of The Associated Chambers of Commerce and Industry of India (ASSOCHAM) 'The Rise of Rural India, Study of ASSOCHAM adds that FMCG market in India is currently estimated at Rs.200,000 crore. Most of FMCG companies are upbeat about their prospects in rural India as it is contributing a substantial portion to their revenues. Majority of FMCG firms have been recording higher growth rate and sales of their product in rural areas as compared to urban markets.

While addressing a media roundtable in the year 2012, Dr. Siddhartha Roy, Economic Advisor, Department of Economics & Statistics, Tata Group mentioned that rural income is expected to reach \$1.8 trillion by 2020-21 from \$572 billion in 2009-10. The share of non-food expenditure in rural India is also increasing with the rise in income levels. According to Kapur et al. (2014), consumption in rural areas is growing at 1.5 times the rate in urban areas, and consumer goods market is expected to reach \$100 billion by 2025. While urban demand for consumer products in India has been decreasing, rural markets are growing faster than ever. As per AC Nielsen, the FMCG sector in rural and semi-urban India is expected to cross \$20 billion mark by 2018 and \$100 billion by 2025. More than 80 percent of the FMCG products posted higher growth in rural markets as compared to urban ones. The increase in rural consumption has been led by a combination of increasing incomes and higher aspiration levels and there is increased demand for branded products in rural India.

Extreme poverty is waning in rural India. The share of people living under \$1.90 (2011 PPP), the international standard of lower poverty line, fell to 21.2 percent in 2011 from 38.2 percent in 2004 whereas people living under \$3.10 (2011 PPP), the upper poverty line, fell to 58 percent from 73.5 percent during the same period (World Bank, 2015). Some of the key reasons of rising rural prosperity are employment shifts from agriculture to jobs in

construction, manufacturing, services, etc. Remittances from migrant workers and government supported programmes such as MGNREGA are also responsible for rural prosperity. Out of 62.97 million households of India with income level more than 0.5 million per annum, nearly 28.68 million i.e. 46 percent resides in rural India (Misra, S., Chadah, S., Singh, A. K., & Mishra, V. N. (2009). In terms of economic output, rural India accounts for about 48 percent of the country's economy, and rural India has the potential to reach \$500 billion by 2020. The food related expenditure in rural India accounted for 55 percent in 2004-05. Another interesting finding is that increase in monthly per capita expenditure on food was 18.8 percent during the period 1999-2000 to 2004-05, while the increase in non-food expenditure was 53.83 percent. The fastest growing non-food expenditure categories are education, healthcare and consumer durables. As mentioned earlier these opportunities are accompanied by challenges, which are elaborated below.

Emerging Challenges in Rural Marketing

The challenge for marketers is to get products in the rural hinterlands and replenish them reliably and consistently. Lack of retail infrastructure is one of the key challenges. Despite all the development, more than 60,000 villages in India have no form of retail outlet, making it very difficult to reach potential rural customers there, though there are more than 3 million outlets in the remaining villages. Any logistics problem spells out additional costs for both supplier and retail outlets. Key external barriers to expansion in rural markets are:

- a) Inadequate infrastructure (e.g. roads, power, telecom.)
- b) Limited local distribution channel
- c) Lack of information about rural markets
- d) Inadequate access to financing
- e) Cultural and language barriers
- f) Lack of adequate warehousing facility&
- g) Widely dispersed consumers.

Other challenges in rural marketing are the campaigns which have to be tailor made for each product category and each of the regions where the campaign is to be executed. Therefore a thorough knowledge of the nuances of language, dialects and familiarity with prevailing customs in the regions that marketer wants to work for is essential. The fact of the matter remains that when compared to the Indian urban society, which is turning into a consumerism society; the rural consumer will always remain driven by his needs first and will therefore be cost conscious and thrifty in his spending habits. The melting of the urban - rural divide will take a while, this is not for want of the availability of the means but for want of the rural consumer's mindset to change; which has its own logic, which is driven by tradition, custom and values that are difficult to shed. Poor infrastructure, poor media penetration, poor shop availability and poor literacy rate are other major impediments in tapping rural India. It has been acknowledged that reaching out to the rural parts of India is very expensive, and

designing cost effective ways of distribution is the first step in penetrating these markets. Aithal (2012) identified the higher channel length for small retailers in rural India which further validates that reaching out to rural consumers is expensive. Establishing cost-effective ways to reach rural dwellers is the first critical step in penetrating these markets. It was found that smart companies focus on distribution even before identifying and approaching the target customers. Companies use a variety of strategies to reach out to the rural dwellers. Even the best conventional distribution systems have been unable to penetrate beyond about one-sixth of India's rural villages (Kashyap, 2012). An underdeveloped transportation infrastructure, inadequate distribution networks, and widely dispersed consumers make it costly to establish a profitable presence at scale. More than half of companies rated high cost-to-serve as the biggest challenge that they face in selling and distributing in rural markets.

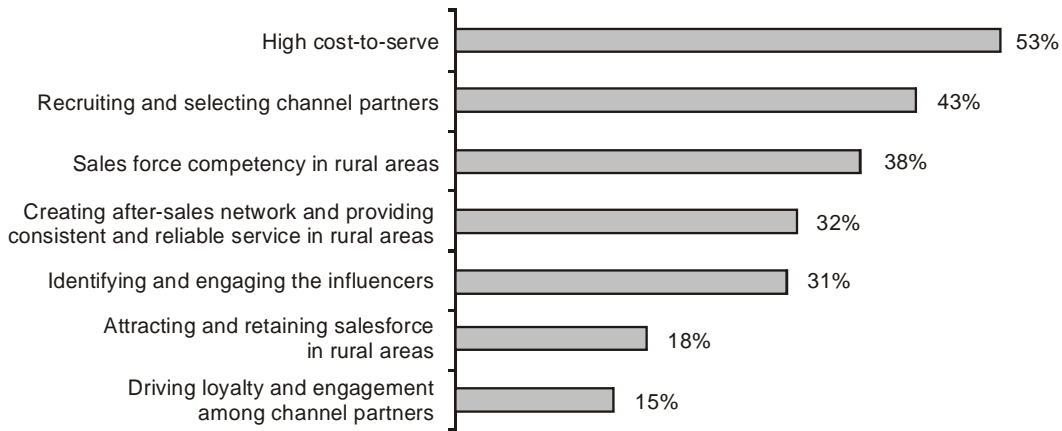


Figure 4: High cost-to-serve is the biggest challenge in reaching rural customers

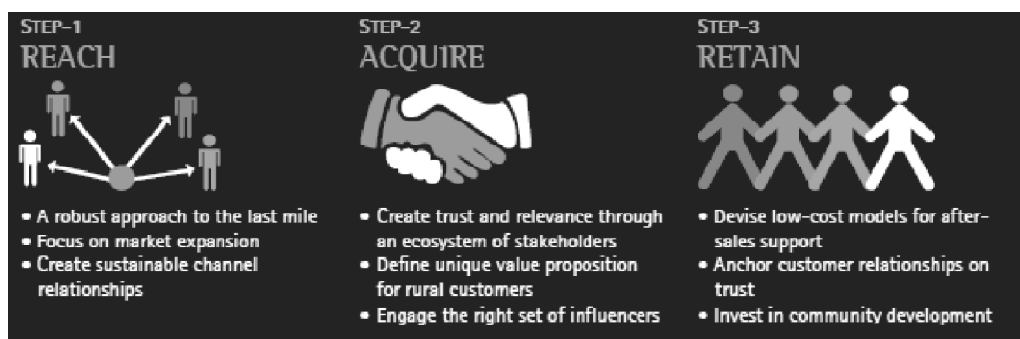
Source: Accenture

CONCLUSION

The economy is vibrant, incomes are rising; and the habits, preferences and attitudes are changing rapidly. In view of the large investments made by the government in rural infrastructure pushing income and demand level, the prospects are seen bright for rural India. With empowerment of rural people with education, employment, higher purchasing power, better media exposure, better connectivity with outside world, they provide a massive unexplored pool of consumers. Further increasing aspiration level of rural consumers with the rise in their income is attracting more and more companies to these markets. But companies are witnessing mixed results. The key reasons are inadequate distribution networks, partners with limited capabilities, long payment cycles and weak marketing channels (Satyam *et al.*, 2017). Also, understanding and meeting the diverse, specialized needs and preferences of rural consumers pose major challenges to companies. Despite having periodic and chronic constraints, there is a need to design innovative strategies to establish sustainable business models to capture rural consumers.

Companies tend to innovate at the product and distribution level to overcome the challenges posed by rural markets in India. Markets are not static entities, and they evolve depending on the needs of the buyers and sellers participating in them, the nature of competitive forces, and the external environment. The case is true for rural markets as well. Organizations often make a mistake by treating rural consumers as a homogeneous market and offering them the same value proposition they offer to the urban markets. To be successful in the rural market, companies will have to be innovative and sensitive while devising marketing strategies. Traditional urban marketing strategies will have to be localized as per the demands of the rural market. Companies need to redefine rural consumer segment. Although companies have started focusing heavily on rural market customer acquisition and reach, they have to further strengthen the customer retention efforts to become much ahead than the competitors who are vying to improve their market penetration.

So the fact remains that the rural market in India has great potential, which is just waiting to be tapped. Progress has been made in this area by some, but there seems to be a long way for marketers to go in order to derive and reap maximum benefits. Moreover, rural India is not so poor as it used to be a decade or so back. Things are sure changing! With increasing rural competition and high cost-to-serve, providing reliable and consistent after-sales service and optimizing the costs of a high-quality experience remain major obstacles. The wide geographic dispersion of a small number of customers drives high sales-service costs, and many businesses cannot provide a dedicated after-sales service network. Therefore, companies need to respond to these challenges to differentiate themselves in the rural marketplace. Success in rural markets in India primarily depends on the performance of companies on two key measures viz. company's growth agenda and rural focused innovation. This would also mean that companies need to help develop these markets rather than just capture the existing markets. Marketers need to research the rural market thoroughly and then customize the marketing mix for the rural market. Rigorous marketing research efforts and investment need to be undertaken to understand the distinct needs of mystic rural market in present competitive era of marketing. Rural Marketers will need to operate & control three steps to achieve profitable and sustainable growth in rural markets —reaching, acquiring and retaining customers (Figure 5).



Source: Accenture

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