

## Exploring rural markets: Be innovative



### Commerce

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### 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. 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.*

### 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.

### Significance 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 companies. 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.

### A number of factors have been recognized as responsible for the rural market boom to come into existence:

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 increasing 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 behaviour.
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 with each other; they just have to be present at the right place.
- \* Many brands are building strong rural base without much advertising support, like Shampoos, detergent 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 figure 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
Total No. of Villages	593,145	100.0

Source: MART

### The figure shows monthly income of rural consumer- state wise Exhibit Number 3: Monthly Income Comparison across States

MHI	% of Total Households in Bihar	% of Total Households in Punjab	% of Total Households in Kerala
Upto 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: Businessworld Marketing Whitebook 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.

#### 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 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. The problems are.

#### Barter system:

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 felt uniformly through out the country. Some districts in Punjab, Hariyana 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 TV 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.

#### 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, animalfeed, 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.

**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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