

## Emerging Trends in Indian Rural Marketing

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### Abstract

India's urban market is reaching saturation levels. Aspiring to achieve the development goals market is a tough nut to crack. In addition, fierce competition in the market and maintaining their respective firms to increase market share creates an inability on the part of this tempts the businessmen to move to the rural market of India that is showing better growth prospects as India's two-third population lives in rural areas. The demand and the expectations of the rural folks are rising due to the overall economic growth, giving an underexplored opportunity to the business houses to tap the huge potential. Both rural and urban areas of factors that influence the demand structure are a number of differences between both the areas. In order to succeed in these areas before landing to study the dynamics of the rural market needs. This paper intends to the marketing potential, the opportunities and driving forces for the marketers in the rural market. Breaking down growth statistics in real terms, the consumer economy grew at a rate of 5.7 percent annually between 2005 and 2015. Based on this, estimates hold that the annual growth of the consumer market could reach 6.7 percent between 2015 and 2020, and 7.1 percent between 2021 and 2025. This creates a consumer market worth about US \$507.46 billion (Rs 34 lakh crore) for the ongoing financial year, which could expand to US \$746 billion (Rs 50 lakh crore) by the financial year 2021.

**Keywords:** Market; Financial year; Urban market; Rural market

### INTRODUCTION

In the consumer market, such as rural India are in the process of development. From the 1990's began the second phase of consumer market. This phase evolved as result of the steady reforms in the Indian economy, modern marketing has evolved around meeting demand in urban markets. Urban and rural understand the attitude seems to be insufficient to meet the needs of India. A different set of marketing strategies to tap the rural market needs certainty. In the fast moving consumer goods in rural India and rural incomes and FMCG companies in these sectors are pushing the demand for better penetrating the growing account. The FMCG sector in rural areas is expected to grow by 40 percent against 25 percent in urban areas. India's rural market is fascinating and challenging. The rural market in India is growing steadily as compared to urban market which is very competitive. Development of rural marketing definitely leads to the integration of different sectors of economy

such as agriculture, industry, insurance, transport, banking, finance etc. Strict marketing point of view, the market structure in India is dichotomous to rural and urban markets. 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 behaviour<sup>1</sup>. According to the third annual edition of Accenture Research, "Masters of Rural Markets" From Touch points to Trust points - Winning over India's Aspiring Rural Consumers," rural consumers are particularly aspiring or striving to purchase branded, high quality products. Consequently, businesses in India are optimistic about growth of the country's rural consumer markets, which is expected to be faster than urban consumer markets. The report highlights the better networking among rural consumers and their tendency to proactively seek information via multitude sources to be better informed while making purchase decisions, importantly, the wider reach of media and telecommunication services has provided information to India's rural consumers and is influencing their purchase decisions. In line with general trend, rural consumers are evolving towards a broader notion of value provided by products and services which involves aspects of price combined with utility, aesthetics and features, and not just low prices. These consumption patterns in rural areas to urban areas gradually increasingly similar consumption patterns are changing. Some of India's largest consumer companies serve one-third of their consumers from rural India. Owing to a favourable changing consumption trend as well as the potential size of the market, rural India provides a large and attractive investment opportunity for private companies. The rural markets are looking attractive to business firms as the urban markets are not only highly competitive but also becoming saturated and thereby reducing the growth prospects<sup>2</sup>. By 2025, the rural market of India will be larger than the total consumer market in countries such as South Korea or Canada today, and almost four times the size of today's Indian urban market. There is a great enthusiasm among marketers to enter into rural market. There is a difference between an urban and a rural consumer on various attributes which influence the buying behaviour. The strategies that proved successful in the urban markets may badly fail in the rural ones. Today, many business houses by forming their marketing strategies are foraying into India's rural markets for bigger rewards from these areas. Among those that have made some headway are, Hindustan Lever, ITC, HPCL, Coca-Cola, LG Electronics, Britannia, LIC, HDFC Standard Life, ICICI, Philips, Colgate Palmolive and most of the Telecom companies.<sup>2</sup> Conditions existing in urban markets at present can also be analysed 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.

## OBJECTIVES OF THE STUDY

The present study mainly attempts to examine the following issues:

1. To examine the current rural marketing scenario,
2. To identify rural marketing opportunities,
3. To examine the challenges facing the marketers, and
4. To suggest effective strategies for marketing in rural areas.

## RESEARCH METHODOLOGY

The present paper is to assess the potential and dynamics of rural markets in India. Magazines, books, magazines, secondary data from various sources like the Census of India, government reports and websites have been taken to support points. The objective of the study is to weigh the factors that influence the rural demand of India and the growing potentials of this market. It also assesses the opportunities in the rural market in the changing paradigms.

## REVIEW IF LITERATURE

The Consumer market of rural India has grown at a high rate in recent years. It has undergone a significant change for the better in terms of consumption mix too. Many new products have entered the consumption basket of the rural consumer and the relative shares of the different categories have recorded a welcome change. The upper segments, in particular, have been buying and using a variety

of modern products (Ramaswamy, 2010). The rural market is growing at 25 percent whereas urban market is growing only at 7 to 10 percent (Kumar, 2011). Rural India has three times as many people as urban India – 810 million as compared to 280 million in urban India. Therefore, the rural market is larger than the urban market, in many categories (Bijapurkar, 2007). There is a substantial shift of the focus of the marketers from the urban markets to the rural ones. Nearly 70% of the population of India lives in rural areas and rural assets accounts for more than 50% of the tangible wealth of the country providing a big scope to the firms to tap this market (Gupta, 2009).

### MARKET SIZE

India's per capita GDP in rural regions has grown at a Compound Annual Growth Rate (CAGR) of 6.2 per cent since 2000. The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is expected to cross US\$ 20 billion mark by 2018 and reach US\$ 100 billion by 2025.

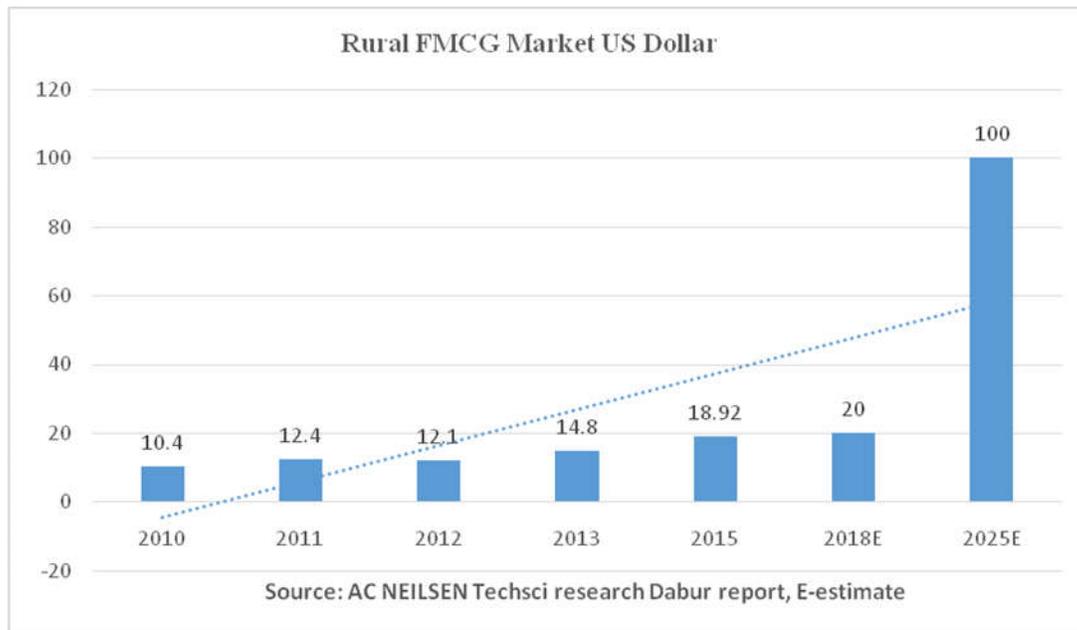


Figure 1: Rural FMCG Market US Dollar

### SIGNIFICANCE OF RURAL MARKETS

The rural markets are estimated to be growing fastly compared to the urban markets. 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.<sup>3</sup>

### GOVERNMENT INITIATIVES

The Government of India has planned various initiatives to provide and improve the infrastructure in rural areas which can have a multiplier effect in increasing movements of goods, services and thereby improve earnings potential of rural areas subsequently improving consumption. E-commerce players

like Flipkart, Snapdeal, Infibeam and mobile wallet major Paytm have signed Memoranda of Understanding (MoUs) with the government to reach rural areas by connecting with the government's common service centres (CSCs) being setup in villages as part of the 'Digital India' initiative. With the increasing demand for skilled labour, the Indian government plans to train 500 million people by 2022, and is looking out for corporate players and entrepreneurs to help in this venture. The scheme aims to provide irrigation to every village in India by converging various ongoing irrigation schemes into a single focused irrigation programme. The Government of India aims to spend Rs 75,600 crore (US\$ 11.34 billion) to supply electricity through separate feeders for agricultural and domestic consumption in rural areas. This initiative is aimed at improving the efficiency of electricity distribution and thereby providing uninterrupted power supply to rural regions of India. To promote agriculture-based businesses, the Government of India has started 'A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship' (ASPIRE).<sup>4</sup>

The Government of India seeks to promote innovation and technology development in the remote rural and tribal areas. The programme called the 'Nav Kalpana Kosh' aims to improve rural areas at various levels, such as governance, agriculture and hygiene. Banks are working to set up rural ATMs, which will dispense smaller denomination currency notes. "We have encouraged banks to find a solution for bringing in rural ATMs banks will have to find an appropriate technology solution for a different type of ATM to care for the needs of the rural people," as per Mr R Gandhi, Deputy Governor, Reserve Bank of India (RBI). Indian markets are consumer driven, and divided into urban and rural markets. Despite India's rural population consisting of 70 percent of the total population, it accounts for only 40 percent of the total consumption of the country. The retail market has so far been unable to penetrate into these local markets due to supply chain inefficiencies, and poor connectivity in the rural areas. This fact is relevant as 53 percent of household sector spending comes from rural India. Indicative of its huge market potential, a report put by AC Nielsen projects showed that the FMCG sector could cross the US \$20 billion mark by 2018 and reach US \$100 billion by 2025 in rural and semi-urban India alone. Leading online commerce companies like Flipkart, Snapdeal, Infibeam and mobile wallet firm Paytm have already signed memoranda of understanding (MoUs) with the government to reach far-flung and rural areas. In terms of infrastructural support, the Ministry of Communications and Information Technology has established 100,000 its common service centres (CSCs) in villages to connect with e-commerce firms and aims to add another 90,000 by the end of March, 2016. Further, the ongoing rural electrification program has been proceeding rapidly and will only expand and diversify the rural market potential.<sup>5</sup>

#### **PATTERN OF SPENDING BY THE INDIAN CONSUMER**

Indian spending can be split into two categories - necessities and discretionary spending. Necessities include basic items like food and clothing, discretionary spending includes all other expenses. Over the years, the pattern of discretionary spending has gradually risen in India's consumer market and is expected to reach to 55 percent of total consumption by 2021. Generally, the maximum consumer spending benefits food, housing, consumer durables, transport, and communication sectors. The FMCG (Fast Moving Consumer Goods) industry is an important contributor to the country's GDP. This industry includes household items, personal care, and food and beverages. Today, it is the fourth largest sector in the Indian economy. The smartphone market has leaped in terms of its growth in India and now ranks second in the world, behind the US. Leading firms like Samsung and Apple are keen on capturing the Indian market while other firms like Lenovo and Xiaomi have successfully tapped into this booming market by reducing costs through local manufacturing. A gradual shift has also been noticed in consumer spending from basic necessities to luxury items, and the luxury market in India could cross US \$18.6 billion by 2016 according to the Associated Chambers of Commerce of India (ASSOCHAM).<sup>6</sup> Finally, forecasts by the Boston Consulting Group (BCG) and the Confederation of Indian Industry (CII) put down India's share of global consumption at 5.8 percent by 2020, having expanded by more than twice the current share.

### EXPLORING NICHE MARKETING FOR RURAL MARKETS

Niches form a small but profitable base of segments to which products and brands and the 'explosion' created by the consumer boom, marketers are exploring ways to capitalise on 'niche' in the market. "Dove" soap of Hindustan Lever and "Colgate Total" from Colgate Palmolive reflect the importance of niche strategies in the Indian context. Niche strategies could be innovatively formulated by combining several marketing mix elements which might appeal to the rural market in India. In a country like India where the customer boom has been penetrated into the rural market, niche marketing could be an altogether different and unique exercise. Given the cultural diversity across the length and breadth of the country, niche marketing could offer a tremendous amount of potential in the rural market. Almost all products and services could be reformulated with a marketing-mix in which the importance given to the elements could vary in accordance with the demographic and psychographic profiles of rural consumers. A branded coffee may require altogether a different advertising theme.<sup>7</sup> It may use the stimulating aspect of caffeine to position itself. Enfield has demonstrated how advertising could be used to pursue a niche, so also Coca Cola with film celebrity Amir Khan. The former conveyed the ruggedness of a motorcycle to withstand rural and condition. Up-market products which have carved a niche for themselves in urban areas may undergo modification to be positioned in the rural markets. Soft drinks, fast foods, and kitchen application etc. may acquire a 'distinctive flavour' in order to obtain a 'rural niche'.

### THE GROWING OPPORTUNITY ONE MAIN DRIVER

The growing opportunity in the rural markets is no doubt the prime factor. The rural demand has been growing rapidly and its composition has been changing for the better in recent years. The increased income/purchasing power of the rural consumer and the improved income distribution have enhanced rural demand for several products. Better access to many modern products/brands have added to this growth.

### RURAL MARKETING DEVELOPMENTS IN INDIA

Considering that the rural markets has been a battle field with national players like HUL, Dabur and even regional players like Ghari looking to penetrate further, P&G has its task cut out. When contacted, Sumeet Vohra, marketing director, P&G India says that the company's endeavour has always been to not only improve lives but also continue to touch as many more lives as possible. "Ours is a consumption driven economy and we are cognisant of the importance of the growing rural segment in that context," says Vohra, adding P&G is constantly evaluating growth opportunities not just in this segment, but across India and will use the right brand portfolio and marketing techniques to do so. The move underscores the point that rural market is important considering rural India comprises 12.2% of the world population.<sup>8</sup> Through this initiative, P&G is attempting to generate user trials for both SKU pack size as well as sachets. While Vohra refused to comment on future plans citing company policy, it is understood that after studying the initial response to the pilot programme, the company is planning to roll the initiative further to cover nearly 5,000 villages across the state of UP. Also, to ride on the demand generated from this exercise, P&G is simultaneously beefing up its distribution network to ensure reach and availability of the products. But P&G's rural march takes on established rivals like Hindustan Unilever that has over the years added to its rural distribution muscle through dedicated programmes like Project Shakti.

Similarly, cigarette major ITC through its echoupal network has been able to create a network to further its FMCG ambition by pushing brands like Superia soaps and shampoos in smaller SKU pack-sizes. Anand Shah, FMCG analyst from Angel Broking says P&G has been a late entrant in the Indian market and it's only in the last two years that the company is looking to probe further. "The company is playing catch up given that rural markets for categories like shampoos has been a huge growth driver," says Shah. Surely, P&G's hoping Sangeeta Bhabhi will tide over the competition. And also keep her head firmly over her shoulders.

## PRODUCT STRATEGIES FOR RURAL MARKET

A prime need for any firm to emerge as a strong player in the rural market is by carefully identifying gaps in the rural market and crafting the right product offering for consumers. Chalking out a product strategy for rural market differs in many aspects when compared to urban counter parts. Needs and demand of rural consumer might be contrasting to that of urban consumer and therefore it's necessary to hit the right chord when entering the rural market. The prime objective is to design products to suit rural requirements. Conventional wisdom on rural marketing states that the needs of the rural consumers are similar to those of the urban consumers. Hence, the products made to urban specifications should suit the requirements of the rural consumers. However, this is not true in many cases, as there is a market difference between rural and urban environments. For instance, Kerosene or LPG gas stoves, where the flame can be controlled, are used for cooking in urban areas, while an open fire or 'Chulha' is used in rural areas. Pressure cookers with handles on one side suit the urban consumers, but not the rural consumers for use on an open fire or a 'chulha'. Perhaps, a wide-bodied cooker within handles on opposite sides may suit rural requirements. Therefore, while designing and developing products, the requirements of the rural consumers are to be considered and rural-specific products developed. During the late eighties, shampoo sales boomed when it was introduced in sachet pack, because it suited the consumers in low income groups. Hindustan Motors (HM) launched a utility vehicle the RTV (rural transport vehicle), aimed at rural market.<sup>9</sup> Hence, product development for rural consumers is necessary. Though marketers are still trying and experimenting ways to successfully tap the rural arena, below are few product strategies which have been widely adopted and have proved themselves to work in the rural landscape:

**Small unit packing:** This method has been tested by products like shampoos, pickles, biscuits, Vicks cough drops in single tablets, tooth paste, etc. Small packing stands a good chance of acceptance in rural markets. The advantage is that the price is low and the rural consumer can easily afford it. Another example is the Red Label tea Rs. 3.00 pack which has more sales as compared to the large pack. This is because it is very affordable for the lower income group with the deepest market reach making easy access to the end user satisfying him. The small unit packing will definitely attract a large number of rural consumers.

**New product designs:** Keeping in view the rural life style the manufacturer and the marketing men can think in terms of new product designs. For e.g. PVC shoes and chappals can be considered suited ideally for rural consumers due to the adverse working conditions. The price of P.V.C items is also low and affordable.

**Sturdy products:** Sturdiness of a product is an important factor for rural consumers. The experiences of torch light dry battery cell manufacturers support this because the rural consumers preferred dry battery cells which are heavier than the lighter ones. For them, heavier weight meant that it has more over and durability. Sturdiness of a product either or appearance is an important for the rural consumers.

**Utility oriented products:** The rural consumers are more concerned with utility of the product and its appearance Philips India Ltd. Developed and introduced a low cost medium wave receiver named BAHADUR during the early seventies. Initially the sales were good but declined subsequently. On consumer research, it was found that the rural consumer bought radios not only for information and news but also for entertainment.

**Brand name:** For identification, the rural consumers do give their own brand name on the name of an item. The fertilizers companies normally use a logo on the fertilizer bags though fertilizers have to be sold only on generic names. A brand name or a logo is very important for a rural consumer for it can be easily remembered.

**Kisan Mandi:** There is a need to promote direct agricultural marketing model through retail outlets of farmer's co-operatives in urban areas. The direct link between producers and consumers would work in two ways: one, by enabling farmers to take advantage of the high price and secondly, by

putting downward pressure on the retail prices. As is the trend with urban India, consumers in the rural regions are also expected to embrace online purchases over time and drive consumption digitally. The rural regions are already well covered by basic telecommunication services and are now witnessing increasing penetration of computers and smartphones. Taking advantage of these developments, online portals are being viewed as key channels for companies trying to enter and establish themselves in the rural market. The Internet has become a cost-effective means for a company looking to overcome geographical barriers and broaden its reach. Market research firm Nielsen expects India's rural FMCG market to reach a size of US\$ 100 billion by 2025. Another report by McKinsey Global Institute forecasts the annual real income per household in rural India to rise to 3.6 per cent 2025, from 2.8 per cent in the last 20 years. Rural markets, as part of any economy, have untapped potential.<sup>10</sup> There are several difficulties confronting the effort to fully explore rural markets. The concept of rural markets in India, as also in several other countries, like China, is still in evolving shape, and the sector poses a variety of challenges, including understanding the dynamics of the rural markets and strategies to supply and satisfy the rural consumers.

### CONCLUSION

The factors discussed above, it is clear that the Indian rural market to marketers who want to achieve in volume is becoming a favourite destination. Even those businesses who find it difficult to survive in the urban market show a glimmer of hope for. But, before venturing into these markets there is an urgent need to thoroughly study the rural dynamics and demographics or the demand influencing factors of the area to be focussed, as whole rural market cannot be taken as a homogenous mass. The paradigms of the rural markets are changing in the 21st century. Corporate Houses must study the needs, culture, behaviour, etc. of the rural people and formulate various innovative strategies to explore the opportunistic and promising market. The success is highly dependent on the long term vision, creativity, innovative strategies and rapid action for early entry means more profits.

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