RURAL MARKETING IN INDIA - CHALLENGES AND OPPORTUNITIES

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ABSTRACT :

The majority of the Indian population resides in the rural areas while the urban areas has been the focus of most domestic and international marketers in the country. Rural marketing in India has inherent challenges and opportunities that need to be overcome so as to realize the market potential of the sector as estimated by private and public players. This paper attempts to review the contemporary developments, initiatives and insights of rural consumer behavior. The initiatives of the Indian Government support the inclusive development policy of the country and the efforts to understand the rural consumer highlight the interest that both domestic and international marketers are taking for rural marketing in India.

INTRODUCTION:

This paper attempts to encapsulate the current scenario of the rural marketing aspects in India. The interest in rural marketing arises from the fact that India has about 650,000 villages that are home to about 850 million consumers comprising approximately 70 per cent of the country's population. The rural FMCG market is expected to expand to US$ 100 billion by the year 2025. The annual real income per household in rural India is expected to increase to 3.6 per cent by the year 2025, from 2.8 per cent in the last twenty years.The bottom of the pyramid comprises of around four billion people who belong to the fourth tier of the world economic pyramid where the annual per capita income, based on purchasing power parity in US dollars, is less than US$1,500. Marketing to the consumers belonging to the bottom of the pyramid is also the need of the hour and the reality in India is that the sector holds immense potential for marketers and institutions that can formulate reach out strategies that can overcome the challenges inherent in such an endeavor. The biggest potential market opportunity is expected to be garnered from encouraging inclusive capitalism where

companies can share their prosperity with the less fortunate on the economic strata in a mutually beneficial way. New business models are required to effectively execute rural marketing strategies that can not only leverage global and local knowledge, but also adapt to local cultures and lifestyles. To take advantage of the consumption potential of India, it is important to formulate an inclusive national development policy that harnesses the efforts of the public and private sector players to develop a holistic approach towards rural development. Four important pillars that are considered important for the commercial infrastructure for approaching the bottom of the pyramid are about improving accessibility, developing localized solutions, influencing aspirations and enabling purchasing power.

India is expected to be the base to the economic pole of global growth in another ten years with an annual growth rate of around 7.7 per cent, outpacing China, according to a recent research at Harvard University. India and Uganda are expected to be among the fastest growing economies by the year 2025, in line with the expectation that emerging markets are likely to grow faster than the advanced economies of the world. New growth hubs are expected to emerge in the Eastern part of Africa and in Southeast Asia across countries like Indonesia and Vietnam (www.ibef.org). Rural India is an important aspect of the Indian growth story. Rural India is a key contributor to almost half of the country's Gross Domestic Product (GDP). Urban consumption patterns are almost being replicated in the rural areas. Around one third of customers of some of the largest Indian consumer companies hail from rural areas.The evolving face of the rural consumption patterns, the growing market potential of the rural sector, heralds a huge investment opportunity for both small and large companies.

Rural marketing is two-way marketing process where there is inflow of products into rural markets for production or consumption and a corresponding outflow of products from the rural areas into urban areas.The urban to rural flow consists of agriculturalinputs, fast-moving consumer goods (FMCG) such as soaps, detergents, cosmetics, textiles etc. The rural to urban flow consists of agricultural produce such as rice, wheat, sugar, and cotton.

There is also a movement of rural products within rural areas for consumption.In the FMCG space, Dabur mobilizes around 40-45 per cent of its domestic revenue from rural areas, while Hindustan Unilever Limited (HUL) has a rural contribution of around 45 per cent to its total sales. Other companies reportedly earn around 30-35 per cent of their revenues from rural sales. The rural sector requires intensive public-private partnership and support.

Since the year 2000, the GrossDomestic Product (GDP) on a per capita basis has reportedly grown at 6.2 per cent compounded annualized growth rate (CAGR) in the rural areas, while the corresponding growth in the urban areas was only 4.7percent. Thus, the rural areas had a higher growth as compared to the urban areas.Studies have also revealed that the rise in the income levels of the rural areas are influencing a corresponding rise in rural spending. From the year 2009 till the year 2012, around US$69billion has been spent in the rural part of the country, while urban India had spent around US$55 billion. Themonthly per capita expenditure in the rural markets during the years between 2009 to 2012 increased by almost nineteen per cent, and may thus is higher when compared to the urban markets by around two percentage points.The Compound Annual Growth Rate (CAGR) of India's per capita GDP for the rural sector has reportedly grown at the rate of almost 6.2 per cent since the year 2000. The fast-movingconsumer goods (FMCG) sector in the rural and semi-urban India is expected to cross US$20 billion by the year 2018 and reach around US$100 billion by the year 2025.

CONTEMPORARY DEVELOPMENTS:

Some of the important developments across the various verticals of the economy that is focused on the rural sector are as follows:

a) *Banking, Financial Services & Insurance (BFSI):*The National Bank for Agriculture and Rural Development (NABARD) has planned to provide around 200,000 point-of-sale (PoS) machines in 100,000 villages and distribute RuPay cards to over thirt-four million farmers across India, to enable farmers to undertake cashless transactions.

Magma Fincorp, a Kolkata-based non-banking finance company (NBFC) plans to expand its operations in South India, with a specific focus on rural and semi-urban markets to help the company grow rapidly.

The United Economic Forum (UEF), an organization that works to improve socio-economic status of the minority community in India, has signed a Memorandum of Understanding (MoU) with the Indian Overseas Bank (IOB) for financing entrepreneurs from backward communities to set up businesses in Tamil Nadu. As part of the agreement, entrepreneurs who have been chosen by the UEF, will get term loan / working capital requirements from the bank. The UEF will appoint mentors to guide entrepreneurs for successful

implementation of the project, with both IOB & UEF periodically monitoring the progress of the project. Airtel Payments Bank (APB) was launched in January 2017 as a joint venture between Bharti Airtel Ltd and Kotak Mahindra Bank Ltd, said it will spend Rs3,000 crore to develop a pan-India banking network and digital payments ecosystem (www.livemint.com). Bharti Airtel had applied for a payments bank license involving Kotak Mahindra Bank as a potential investor in the venture, in a bid to tap significant revenue opportunities from the Reserve Bank of India's financial inclusion initiative. Payments banks are meant to fan out into the rural, remote areas of the country, offering limited but critical services such as money transfers, loans and deposit collection. While banks have the knowhow, telecom companies have the network, making it an ideal match. Airtel Payments Bank (APB) was launched in January 2017 as a joint venture between Bharti Airtel Ltd and Kotak Mahindra Bank Ltd, said it will spend Rs3,000 crore to develop a pan-India banking network and digital payments ecosystem(www.livemint.com)

a) *Infrastructure:*The Ministry of Rural Development is expecting to achieve its annual targeted length of 48,812 kilometers of rural roads by March 31, 2017 under the Pradhan Mantri Gram Sadak Yojana (PMGSY), which has reached a completion stage of 67.53 per cent (32,963 kms) as on January 27, 2017.

b) *Textiles:*The Ministry of Textiles has signed a memorandum of understanding (MoU) with 20 e-commerce companies, that is aimed at providing a platform to artisans and weavers in different handloom and handicraft clusters across the country in helping them sell their products directly to the consumer.

c) *Renewable Energy:*The Ministry ofNew and Renewable Energy (MNRE) has an annual target of setting up one lakh family size biogas plants to the states and union territories for the FY 2016-17.

d) *Automobile:* Tata Motors, India's biggest automobile company in terms of revenues, has plans to aggressively expand its network with a focus on rural markets. The company is aiming to triple its network to more than 1,500 across the next three years - from the present strength of 460, thus making it the biggest expansion by a passenger vehicle maker in the country till date.

- *IT:*Indian Institute of Technology-Madras (IIT-M) has entered into a three-year

partnership with Nokia Networks to create technology solutions which will enhance the broadband connectivity in rural India.

GOVERNMENT INITIATIVES

The Indian Government has given importance to the development of infrastructure in rural areas as there is a likelihood of gaining from a multiplier effect towards enhancing the flow of goods and services which can enhance the economic affluence and consumption potential of the rural consumers (www.ibef.org). Some of the initiatives from the government are highlighted below:

a) The Government of India has allocated ₹187,223 crores (US$ 28.08 billion) forthe rural, agriculture and allied sectors.

b) The Pradhan Mantri Aawas Yojana-Graminbudget is now at an enhanced level of₹23,000 crore (US$ 3.45 billion) for the year 2017-18 , with a target to complete around ten million houses for the homeless by the year 2019.

c) The pace of road construction under the Pradhan Mantri Gram Sadak Yojana (PMGSY) has been enhanced to achieve a rate of around133 kms per day as against an average rate of 73 kms per day that was prevailing between the years 2011-14.

d) The allocation to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is now at an all timehigh level of ₹48,000 crore (US$ 7.2 billion) for 2017-18.

e) Wi-Fi hotspots are being planned for installations in more than one thousand gram panchayats in the country, under the project called 'Digital Village'. The initiative intends to provide internet connectivity usage by the rural masses and alsohelp in providing the delivery of services to remote locations of the country for services like health care and education.

f) In the Union Budget 2017-18, the Government of India has mentioned that it is on track to achieve 100 per cent village electrification by the 1st of May, 2018.

g) The Government of India has sought Parliament's approval for an additional expenditure of ₹59,978.29 crore (US$ 8.9 billion), which will be used to support the Government's scheme for rural jobs, building rural infrastructure, promoting urban

development and encouraging farm insurance.

h) The Government of India plans to integrate villages with country's economic mainstream by purchasing around 80,000 mini-buses, which will connect over 125,000 villages to markets and thereby provide access to better job and education prospects.

i) The National Rurban Mission, launched by the Indian Prime Minister intends to develop the rise of cluster based development towards formation of smart villages that are likely to complement the smart cities initiative.

j) The State Government of Gujarat has plans to encourage promotion of the micro, small and medium enterprises (MSMEs) that includes the development of a separate department for the purpose and also dedicating separate industrial estates for the MSMEs.

k) The Central Government has also expressed the implementation of plans to build almost 2.23 lakh km of roads in the rural areas for which a budget of around₹27,000 crore (US$ 4.05 billion) has been kept.

l) The Government of India has signed Memoranda of Understanding (MoUs) with many e-commerce companies like Flipkart, Snapdeal, Infibeam&Paytmetcto access rural areas by leveraging the common service centres (CSCs) in the villages that are an integral part of the 'Digital India' initiative.

m) There are plans at the Government level to train around 500 million people by the year 2022. Corporate, government and educational companies are being mobilized towards generating skilled workers as a result of such training.

n) The Pradhan Mantri KrishiSinchaee Yojana (PMKSY), has a budget of around₹50,000 crore (US$ 7.5 billion) for a period of five years starting from 2015-16. The scheme is expected to help in enhancing the irrigation infrastructure of the rural areas so as to be able to reach out to every Indian village by consolidating all existing irrigation schemes currently in force as well. It is also expected that the Indian Government will spend around ₹75,600 crores (US$ 11.34 billion) for supplying electricity in rural areas through separate feeders to satisfy both the

agricultural and domestic consumption requirements.Such an initiative can be expected to improve the efficiency of electricity distribution and provide the basis for enabling uninterrupted power supply in the rural hinterlands of the country.

o) 'A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship' (ASPIRE) is aimed towards encouraging agriculture-based industries. The scheme is expected to operate with a network of technology & incubation centersto encourage entrepreneurship and promote start-ups for innovation and entrepreneurship in agriculture focused sectors.

p) The Indian Government is also expected to form a committee, whose aim will be to study various innovations and subsequently report the same to the relevant Department or Ministry in the Government which can subsequently nurture it further towards commercialization and implementation. The 'Nav Kalpana Kosh' initiative intends to improve governance, agriculture and hygiene at multiple levels in the rural sector.

While there are several initiatives that are being undertaken by both the public and private sector for catering to the challenges and opportunities of the rural market, it is imperative to highlight some of the recent studies revealing rural consumer behavior insights that will be beneficial for rural marketers.

FINDINGS OF RURAL CONSUMER BEHAVIOR:

The study of rural respondentsdone by Accenture, comprising of both survey and focus group discussions revealed the following:

a) Seventy one percent of the rural consumers value and buy brands, while around fifty-nine percent find them trustworthy and reliable. During their purchase decisions, rural consumers have reported that they give more than sixty per cent weightage to brand image, functionality and aesthetics.

b) Majority of the rural consumers have revealed that they purchase when the need arises, rather than waiting for a special occasion.

c) More than eighty per cent of the respondents declared that they travel to nearby cities to make their bigger purchases.

d) The local shopkeeper has been found to have a greater influence on rural consumers than the village head, in the previous big-ticket purchase made by the respondents.

e) Around seven per cent of the respondents revealed that television advertisements and celebrity endorsements are likely to influence their purchase decisions.

f) Majority of the rural consumers have expressed their desire to increase their expenditure on education, followed by spending on healthcare.

Rural consumers have been found to be aspirational, networked and discerning.Being aspirational, the consumers in the rural sector are observed to be brand savvy, explorative and have intentions to trade up to better options. They are proactive in seeking information, connected and are thus empowered in making better decisions.Consumers in the rural areas have also been found to be discerning, they are street-smart, and give importance to seeking value in everything including their social interactions.Majority of the rural consumers have expressed their willingness to use digital channels in their purchase journey and almost forty per cent of the respondents agreed that proper guidance detailing the method of use of digital channels could actually motivate their increased usage.

Four distinct consumers that can be identified in the rural space are the traditionalists, the steady climbers, the young enthusiasts and the village elites. The ‘traditionalists’ are rural consumers who are conservative by nature, motivated to purchase out of necessity,and often buy the cheapest offerings available from conventional channels. The ‘steady climbers’ are the second category of rural consumers, who aspire to lead a comfortable lifestyle and desire to increase their social status among their peers by conspicuously using branded products and offerings. The third rural consumer segment, known as the ‘young enthusiasts’, comprises of young consumers in the age group of 18years to 28 years who have been found to be extensively using digital technology and branded products to enhance their social status. The young enthusiasts of the rural areas have also been found to be powerful influencers among other rural consumer segments. The fourth & last category of rural consumers are the ‘village elites’ who desire the best in product quality, features and aesthetics since they are very progressive due totheir high education and awareness levels. Thus, marketers need to determine the suitable offers that can be offered to the four consumer segments with their distinct needs & preferences.

The consumer decision making journey for the purchase of products and services needs to be understood by marketers to leverage the return of investment of resources being deployed in the execution of marketing strategies for the rural market. Marketers need to have the relevant consumer insight so that customer satisfaction and brand loyalty can be achieved. The effort to gain share of wallet among rural consumers, heralds the importance of trust as compared to only contacting customers. The study of Accenture highlights the importance of such contact opportunities with customers as 'trust points' rather than being considered as only 'touchpoints'. Building trust equity with customers may beconsidered to be the most important determinant of customer preference and loyalty. Thus, customer trust points are opportunities that need to be harnessed to their most optimal level so that long term customer-brand relationships can be formed.

The rural consumer purchase journey proceeds from the need recognition stage, to awareness, consideration, purchase, advocacy and finally,the experience stage. The first stage of the rural consumer purchase journey implies developing a deep understanding of the consumer journey, develop suitable offers for the identified consumer segments and ensure that simple, customized and engaging communication can be done with the target market.

To build awareness in the rural market, mobile marketing has a probability of being more effective than traditional media and hence may be explored to a greater extent for gaining deeper insights for execution modalities in marketing to the rural consumers. It is imperative for marketers to make sure that their branded value propositions are created to enhance brand resonance across the diverse milieu of rural consumers and offers are capable to demonstrate results that will inspire trust among consumers. To gain validation of rural consumers, marketers need to be able to connect with relevant influencers and invest monetary and non-monetary resources towards creating informed advisors out of the rural retailers.The purchase stage of the consumer decision making journey is considered to bean important trust point for marketers as it is the culminating point of all the preceding and subsequent trust points in the consumer purchase journey of the rural consumer. Some of the important aspects to influence the purchase trust point with the consumer could be to enhance the in-store experience, provide offline intervention to online channels and providing financial access and payment options. The contemporary marketing challenge is in creating customer advocates and not just either brand loyalists or satisfied customers. Rural marketers also need to encourage

customers to proactively provide feedback and should strive to nurture brand advocates who can influence spreading positive word of mouth about the offer and the brand.The experience trust point in the consumer purchase journey necessitates initiating customer contact and differentiation through service and finally to deliver on the brand promise to win customer loyalty. The experiential trust pointof the consumer purchase journey may lead to either generating a customer who may be delighted to repurchase again, or a satisfied customer who may reconsider the brand in a future repurchase situation. An unsatisfied customer arising from the experience trust point of the consumer purchase journey is likely to either discontinue usage and even forego possible rebuy options in the future.

Over ninety per cent of the rural internet users are men, though the presence of women usersare increasing as well, according to a study done by BCG (www.bcg.com). Majority of the rural internet users have a vintage of less than two years and thus may be considered to be digitally young and immature, who are expected to evolve in their usage pattern with time.It is expected that by the year 2018, more than half of the internet users in India will be over the age of 25 years, and around half of these users are expected to be from the rural areas of the country (ww.livemint.com). By the year 2020 it is expected that rural consumers will make up almost half of all digitally connected consumers in India.

CONCLUSION:

Rural consumers are likely to adopt online purchases with time and drive consumption digitally. Rural areas are witnessing the access of basic telecommunication and penetration of computers and smartphones. Thusonline portals are becoming important channels for companies targeting the rural markets.

Companies are trying to leverage the Internet as a cost efficient channel to overcome geographical barriers and extend the reach of companies into the rural areas.

The opportunity of the rural market arises from the fact that urban markets are reportedly saturating in the demand potential of many products and services. The demand and aspiration levels of the rural folks are also reportedly increasing thus leading many marketers to focus on strategic planning and execution of products & services for the rural areas. Increasing penetration levels of television and internet is enabling flow of information into rural areas leading to increased levels of brand awareness.

The challenges of dealing with the rural markets vary from mobilizing infrastructure to accessing the vast expanse of the geographic spread of the rural areas along with contemplating ways to overcoming linguistic and other physical barriers.

Marketers will need to identify different segmentation variables to effectively identify rural market segments for diverse types of marketing offers. It will also be important to identify the homogeneity aspects of customer segments while appreciating the existence of heterogeneity among segments that would require customizing marketing strategies according to the types of marketing offers. Distribution and promotion schemes customized to local requirements and languages will be required to effectively market to rural areas.

Contemporary government initiatives will also help develop an inclusive growth agenda for the rural areas leveraging public & private synergies appropriately.Companies, NGOs, local, state governments and communities need to work together in this endeavor (Prahalad & Hart 2011).

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