Opportunities and Challenges of Rural Marketing in India

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ABSTRACT
Facts state that India's 70 per cent of the population resides in hinterlands and 56 per cent of the overall consumption comes from there. Rural Indians are no more inferior to the country’s urban clan. Increase in incomes, rising non-farm employment opportunities, higher aspirations and the Government’s focus on rural sustainability schemes are major factors that have been driving the rural markets’ growth. Rural spending was significantly higher at Rs. 3,75,000 crore (US$ 67.57 billion) than urban consumption at Rs 2,99,400 crore (US$ 53.95 billion) between 2009-10 and 2011-12; wherein rural consumption per person outpaced its urban counterpart by 2 per cent, according to a study by CRISIL and preliminary data released for 2011-12 by the National Sample Survey Organization (NSSO).

Keywords: Rural marketing, urban marketing, consumption pattern, per capita household income, concept of rural market from marketer’s perspective

1. BRIEF OVERVIEW OF RURAL AND URBAN MARKET OF INDIA

The fact that the majority of South Asia’s population of about 1.5 billion resides in villages points towards the need for marketers to develop a good understanding of rural markets and the rural marketing phenomenon. In numerical terms, India’s rural market is indeed a large one; it consists of more than 740 million consumers. According to the 2001 census of India 73% of India’s total population is rural. Nearly 70% of the country’s population lives in rural areas where, for the first time since Independence, the overall growth rate of population has sharply declined, according to the latest Census. Of the 121 crore Indians, 83.3 crore live in rural areas while 37.7 crore stay in urban areas, said the Census of India’s 2011 Provisional Population Totals of Rural-Urban Distribution in the country, released by Union Home Secretary RK Singh. "For the first time since Independence, the absolute increase in population is more in urban areas than in rural areas. The rural–urban distribution is 68.84% and 31.16% respectively," Registrar General of India and Census Commissioner C Chandramouli said.
The level of urbanization increased from 27.81% in the 2001 Census to 31.16% in the 2011 Census, while the proportion of rural population declined from 72.19% to 68.84%. Facts state that India's 70 per cent of the population resides in hinterlands and 56 per cent of the overall consumption comes from there. Rural Indians are no more inferior to the country's urban clan. Increase in incomes, rising non-farm employment opportunities, higher aspirations and the Government's focus on rural sustainability schemes are major factors that have been driving the rural markets' growth. Rural spending was significantly higher at Rs 3,75,000 crore (US$ 67.57 billion) than urban consumption at Rs 2,99,400 crore (US$ 53.95 billion) between 2009-10 and 2011-12; wherein rural consumption per person outpaced its urban counterpart by 2 per cent, according to a study by CRISIL and preliminary data released for 2011-12 by the National Sample Survey Organization (NSSO).

Rural markets are also very viable targets for marketers as a young population; rising income and low penetration of many consumer durables imply that they are a strong source of demand. Moreover, the consumption pattern in rural areas is witnessing a shift from necessities to discretionary products. The survey has revealed that about one in every two rural households now has a mobile phone and around 42 per cent of rural households owned a television in 2009-10, up from 26 per cent in 2004-05. Another study made by the Boston Consulting Group (BCG) has found that small town consumers (those residing in tier-4 towns) are spending higher on premium products as against their peers in urban lands. India Inc. is definitely determined to tap higher aspirations and the urbanizing consumer in smaller towns.

### 2. UNDERSTANDING RURAL MARKET OF INDIA

According to the Census of India, villages with clear surveyed boundaries not having a municipality, corporation or board, with density of population not more than 400 Sq. Km. and with at least 75 percent of the male working population engaged in agriculture and allied activities would qualify as rural. According to this definition, there are 5,85,764 villages in the country. Of these, only 0.5 percent have a population above 10,000, and 2 per cent have a population between 200 and 1,000, and another 18 per cent has a population less than 200. Interestingly, for FMCG and consumer durable companies, any territory that has between 20,000 and 99,999 population, is rural market. So, for them, it is not rural India which is rural. According to them, it is the Class-II and III towns that are rural. According to the data from the Census of 2011, cities and towns can be broadly classified as:

- * Class I: 100,000 and above
- * Class II: 50,000 to 100,000 people
- * Class III: 20,000 to 49,999
- * Class IV: 10,000 to 19,999
- * Class V: 5,000 to 9,999
- * Class VI: Less than 5,000 persons

Population List

- * >5,000,000-Megacity
- * 1,000,000-4,999,999-Metropolis
- * 500,000-999,999-Sub-Metropolis

According to the 2001 census, there are over 5,161 towns and cities in India. Of these, 35 are metropolitan cities (population of 1 million plus), home to 37% of the urban population or around 108 million people. Next come the 388 large towns or Class I cities with populations ranging from 1,00,000-10,00,000. These are the most populous with around 68.9% of the total urban population. The rest live in the 4,738 Class II towns with population of less than 100,000. According to the 2001 census, there are 4,378 towns and cities in India. Of these 35 are metropolitan cities (population of 1 million plus) that are included in the total of 393 Class I cities with population exceeding 1,00,000. Together they account for 108 million of the urban population of 285 million. The rest live in towns with population of less than 100,000 going down to just 5,000. While urban India as a whole faces huge problems, particularly of infrastructure, to support a burgeoning population, the worse-off are these 4,738 urban centres that have to contend with the absence of basic services, inadequate new investment and entrenched poverty.

### 3. OPPORTUNITIES IN RURAL MARKET OF INDIA

It is not only the size of the population that makes rural markets in South Asia very important for marketers. Rural markets offer immense potential for market expansion and growth. For example, in India, the consumption in rural markets was growing at an annual compounded growth rate of around 4% for the last 20 years; but this is
estimated to grow by over 5% in the next two decades and this is expected to treble by 2025. As per the Mckinsey Global Institute forecasts, spending per household in rural India would reach the 2008 levels prevailing in Urban India by the year 2017.

Latest data from the NSSO’s 66th round of survey on household consumption expenditure has also revealed that the difference between the spending patterns of the urban and rural poor have narrowed down over the last two years with average spending by a rural household in 2009-10 at Rs. 1,053.64 and urban households at Rs 1,984.46. Crisil, in its report, has pointed to a marked shift in spending on discretionary goods by rural households as against only necessities. The report states that more than half of India’s stock of consumer durables and two-wheelers are now in rural India. "Rural consumption has outstripped urban consumption as a result of the government’s strategy of inclusive growth, through programmes like MGNREGA ... The rise in prices of agricultural commodities as well as loan waiver scheme and stimulus packages benefited rural households," said NR Bhanumurthy, professor at National Institute of Public Finance and Policy, adding that the economic slowdown impacted urban incomes more than rural incomes.

In addition to the consumption trends, the market potential of the rural market is considered to be the driver of the future growth by a number of companies.

* The market size for the fast-moving consumer goods (FMCG) in the rural markets in India is estimated to be Rs. 6,500 billion; consumer durables at Rs. 500 billion, agricultural inputs (including tractors) at Rs. 4,500 billion, and automobiles (two-wheelers and four-wheelers) at Rs. 800 billion, totaling to Rs 12,300 billion.

* The rural market for FMCG products expanded by about 30% between 1992-1993 and 1998-1999, and accounted for about 53% of this product category’s total consumption in India. The rural market accounted for a similar proportion for consumer durable products too.

* Market indicators such as size and growth rate for many products and product categories are too attractive for any company to ignore. Another indicator of the future potential can be gauged from the fact that 48% of the rural population is below 20 years of age.

* The price-sensitivity of a consumer in a village is something the marketers should be aware of. Rural income levels are largely determined by the vagaries of monsoon and, hence, the demand there is not an easy horse to ride on. Britannia Industries launched Tiger Biscuits especially for the rural market. It clearly paid dividend. Its share of the glucose biscuit market has increased from 7 per cent to 15 per cent within a very short period.

* One very fine example can be quoted of escorts where they focused on deeper penetration. They did not rely on TV or press advertisements, but rather concentrated on focused approach depending on geographical and market parameters like fares, melas, etc. Looking at the ‘kuchha’ roads of village, they positioned their bike as tough vehicle. Their advertisements showed Dharmendra riding Escort with the punch line ‘Jandar Sawari, Shandar Sawari’. Thus, they achieved whopping sales of 95000 vehicles annually.

* ITC is setting up e-Choupals, which offers the farmers all the information, products and services they need to enhance farm productivity, improve farm-gate price realization and cut transaction costs. Farmers can access latest local and global information on weather, scientific farming practices as well as market prices at the village itself through this web portal - all in Hindi. It also facilitates supply of high quality farm inputs as well as purchase of commodities at their doorstep.

* The heat of competition in the urban market actually serves as the strong driver behind the growing interest of Corporates in the rural market. The fact that the rural market is still largely an untapped and virgin market and the fact that the early entrants can tap it without having to face intense competition as in the case of urban market, makes the rural market all the more attractive to them. For example, penetration level for toothpaste in the urban market has now reached close to 80 per cent. In contrast, it is below 30 percent in the rural market. Obviously, any substantial further growth in the product can come only from the rural market.

* In the FMCG category, half of the revenue of Hindustan Lever and Colgate comes from the rural market. It can also be seen that about one-fifth of Pharma sales occur in rural India. In respect of high-priced durables, about one fourth of the television sales happen in rural India; Kinetic sells about 30 per cent of its scooters, Toyota nearly half of its vehicles and Hero Honda 40 per cent of its bikes.
Shakti is HLL’s rural initiative. It seeks to empower underprivileged women of villages with populations of 2000 or less by providing income-generating opportunities, health and hygiene education through the Shakti-Vani program, and creating access to relevant information through the i-Shakti community portal. Shakti is a pioneering effort from the private sector in creating livelihoods for rural women. Started in 2001, Shakti has already been extended to about 50,000 villages in 12 states – Andhra Pradesh, Karnataka, Gujarat, Madhya Pradesh, Tamil Nadu, Chhattisgarh, Uttar Pradesh, Orissa, Punjab, Rajasthan, Maharashtra and West Bengal (respective state governments and several NGOs are also actively involved in the initiative). For HLL, it is “enlightened self-interest”—creating opportunities to increase the rural family income; putting more money in their (rural people) hands to purchase the range of daily consumption products-from soaps to toothpastes-that HLL makes. It also enables HLL to access hitherto unexplored rural hinterlands (Kamath, 2003).

Contrary to the popular belief, the R-panel found that the rural demand is not overwhelmingly unbranded. In categories such as shaving products, toothpastes, toilet soaps, biscuits, the share of branded products is higher than the unbranded local products.

According to ORG-MARG data 90 per cent of all shampoo and about 65 per cent packaged tea sales in rural areas comes sachets/small packs.

There has been a phenomenal improvement in rural incomes and rural spending power. Successive good monsoon has led to dramatic boost in crop yields. Tax exemption on rural income too has been responsible for this enhanced rural purchasing power.

Rural consumers normally do not make brand discrimination but once induced to buy and use a product, he becomes loyal to the brand provided he is satisfied about its functional utility, such a loyal user may even make efforts to get the whole village use it.

Few business houses like Hindustan Lever, Lipton, ITC, Tatas, Coca-cola, LG etc are capitalizing the marketing opportunities in rural sector.

A survey by NCAER shows that the rural market is growing faster than the urban market in several products. These include packaged tea, detergent powder, washing soap and detergent cake. Growth in motor cycles too has been more in rural market than the urban market.

4. CHALLENGES OF RURAL MARKETING IN INDIA

Although rural markets offer immense potential, marketers need to recognize the fact that there are considerable differences in many respects, including the nature, characteristics buying patterns, and behavior of rural consumers, when compared with their urban counterparts.

While the urban economy thrives mainly on secondary and tertiary activities such as manufacturing and services, the rural economy is driven mainly by primary activities such as agriculture, fishing, and forestry.

The consumer demand and consumption patterns also differ across rural and urban areas. In India, for example, electricity reaches only 57.6% of the rural population and, therefore, the market for household and other electrical equipment such as televisions and fans is also restricted.

Similarly, there are also differences in rural literacy and education levels; in India the rural and urban literacy levels are 58.7% and 79.9% respectively.

Pattern of income levels in rural markets is yet another differentiating factor that affects the buying power and consumption behavior of rural consumers. About 80% of the rural households in India, for instance, have a monthly income of less than Rs. 3000.

In addition, the dispersed nature of the population, the inadequacy of physical infrastructure like roads, the weak banking system, limited availability of credit facilities, and problems of storage infrastructure are additional challenges for marketers. These challenges need innovative solutions.
5. CONCLUSION

It is expected that by the year 2015, about 70% of the villages in India would be accessible by road. The tele-density in the rural areas in India has increased by 174% from 2001 to 2006, and all villages with a population of over 500 people have telephones with subscriber trunk dialing (STD) facility. In addition, investments by the governments in improving farm productivity and generating greater employment opportunities in rural areas have made the rural markets in South Asia more vibrant and prosperous. This has far-reaching implications for marketers. On the one hand, in rural areas the demand for production and consumption of goods such as farm equipment and machinery, seeds, fertilizers, pesticides, banking services, and products for personal and family use has increased substantially. On the other hand, the increased output of the rural economy, namely food grains, fruits, and vegetables, milk, poultry products, handloom and handicraft products need to be marketed to the processing and consumption centers, which are usually in urban areas. As a result, rural marketing that consists of marketing of products to and from rural areas is a vital activity in South Asia.

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