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## **Commercialization of Rural Market – A bridging the Urban – Rural Gap**

**\*Mr.Amol Murgai**

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### **Introduction to Indian Market**

Globalization and liberalization has greatly influenced the Indian economy and made it a huge consumer market. Post-liberalization many foreign companies have entered into India, dethroning the Indian players and dominating the market. India today has emerged as one of the perfect markets for foreign investors due to its vast market base. More and more foreign companies are investing in the Indian market to get more returns. This in-turn has led to change of policy among Indian players, especially with respect to the quality products that needs to be offered to the domestic customers.

Most of the focus of Indian players has so far been on urban markets, but it was a mistake to neglect the much bigger, almost wholly untapped markets in rural areas, where about 68% of Indians live. 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. Existing rural expenditure on packaged goods is over \$800 million, which actually represents only 1 percent of rural income. Few consumer goods companies have achieved any substantial penetration in rural areas. Heightening this sense of missed opportunity, disposable income in rural India has been steadily rising.

### **The Indian Rural Market**

The rural markets have been burgeoning as a result of rising incomes and demographic pressure. Currently, the rural markets accounts for 53% of the FMCG and 59% of the durable market in India. The rural consumers represent more than 50% of the country's 'consuming classes'. Clearly, rural marketing is an attractive term today as compared to what it was in the mid and late 90s. While rural income continues to rise the rate of growth has slowed down and market is already seeing signs of demand plummeting in urban centers. The rural markets has been growing steadily since 1980s and is now bigger than the urban markets for both FMCG (over 35% share of total market) and durables (over 59% share of total market).

Rural consumers have become the prime target market for consumer durable and non-durable products, food, construction, electrical, electronics, automobiles, banks, insurance companies and other sectors besides hundred per cent of agricultural input products such as seeds, fertilizers, pesticides and farm machinery. The Consumer Market, especially Fast Moving Consumer Goods (FMCG), sector in rural and semi-urban India is estimated to cross \$20 billion by 2018 and \$100 billion by 2025, according to an AC Nielsen survey. Some of the most popular consumer goods included fruit drinks, shampoos and biscuits are among the most bought items in rural and semi-urban India and will continue to be so.

The study was conducted by AC Nielsen across 81 FMCG categories, revealed that \$6 billion were consumed by rural and semi-urban towns of India out of the \$30 billion FMCG sales in 2010. It also revealed that growth in the FMCG sector in rural India increased 3.5 times from 2000 to 2010, as compared to 3.2 times in urban India. The study also showed the 4 prime trends that have led to increased consumption in India, namely, premiumization - customers switching from commodities to brands, going from indulgence to regular consumption and greater acceptability. The survey stated that FMCG sector contributes to 2% of the nation's GDP and is steadily growing; rural and semi-urban markets are growing at the rate of 10 percent annually (about \$1,063 billion by 2012) and account for 60% of the FMCG sales. This growth has been attributed to factors like, increased consumption, rise in income levels, changes in lifestyles and demographic changes of the rural customers.

We have entered the 21st century at a time when the demography of our population is changing significantly to drive organized retail growth. India now has a large young working population with a median age of 24. The number of nuclear families in urban areas is growing fast. Then there is the increase in working women population. Add to these the emerging opportunities in the service sector. Lifestyle habits are shifting from austerity to complete self-indulgence and Indians are now

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\*Assistant Professor, Department of M.B.A, International Centre of Excellence in Engineering and Management, Waluj, Aurangabad.

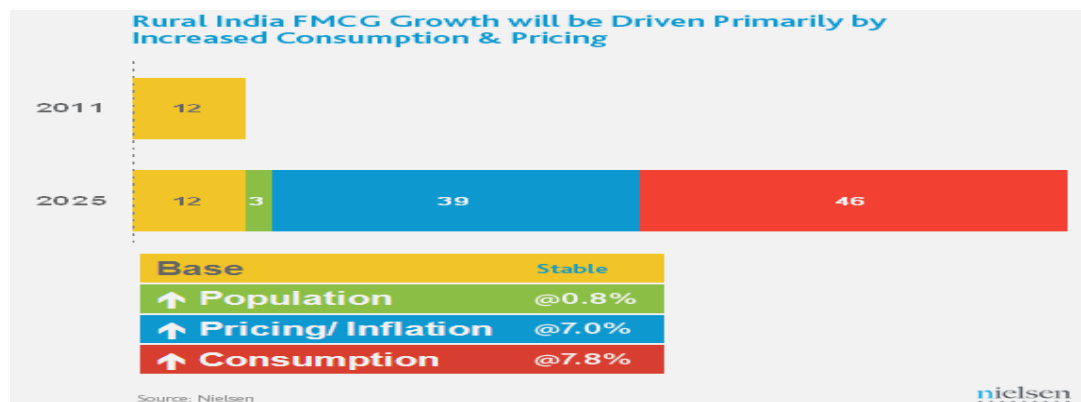
unapologetic about spending lavishly on non-essential goods such as luxury watches, cars, and hi-tech products.

### The Rural Retail Growth Story of India

India can be said to have entered the second phase of retail growth when there is high-speed growth. There are retail chains like Tata's Westside, Pantaloon's Big Bazaar and Rahejas' Shoppers' Stop, to name a few, along with global players such as McDonald's and Benetton, trying to tap country's vast potential.

In India for a long time a large chunk of retail outlets were grocery shop. This pattern had been changing in recent years, in urban and rural markets. Of late, India's largely rural population has also caught the eye of retailers looking for new areas of growth. A slew of supermarket chains, including those of the Tata and ITC, are set to storm the rural areas of the country as corporate realize the huge potential of the untapped market ITC launched the country's first rural mall 'Choupal Sagar', offering a diverse product range from FMCG to electronic appliances to automobiles, attempting to provide farmers a one-stop destination for all of their needs. Companies such as Godrej and DCM Shriram Consolidated have launched 'one-stop shops' for farmers and their communities. Godrej Agrovet, for instance, had already set up 1,000 Aadhar stores across rural India. DCM Shriram also in this fray, has opened up more than 35 rural/semi-urban utility marts. *Today DCM are a full service multi-category retail format with groceries, merchandise, financial services, apparels, consumer durables, mobile connections, farm fuels, etc.* Positioned as a one-stop shop, the Hariyali Kisaan Bazaar Chain caters to a variety of farmers' needs by providing access to retail banking, LPG outlets and even motorcycle showroom. *A typical Hariyali Kisaan Bazaar today operates in a catchment of 25-30 kilometers, and impacts the life of approximately 20,000 households.*

AC Nielsen estimates that by 2025, the fast-moving consumer goods (FMCG) market in rural India will hit \$100 billion and that inflation and pricing will be outstripped by consumption. It was critical that FMCG manufacturers and retailers focused on the unique needs of the rural Indian consumer shopping basket.



### Four Key Trends Forcing Increased Consumption in Rural India

1. **Premiumization** – Indian consumers are upgrading their shopping baskets with indulgent items that cost more. In fact, premium products are contributing the most (+21%) to FMCG growth than other price tiers.

2. **Commodity to Brands** – As rural consumers experiment and adopt, they are switching out everyday commodity products like loose oil for the refined variety, which increased 44 percent every year in two years.

3. **Indulgence to Regular** – What once may have been considered an occasional treat is now becoming routine. The salty snack category is a good example, which grew at a compound annual growth rate of 55 percent from 2009 to 2011 in rural India.

4. **Acceptability** – Increased exposure to the benefits of new products is leading to acceptance and a higher rate of return purchasing patterns.

### Future Trends in Rural Marketing

- In rural marketing, value for money is important. Large packs used for sharing with family and friends are on the rise in rural areas. So the companies should try to offer SKU's that meet rural consumer needs.
- It is a known fact that over one-fourth of rural shopping takes place in the Haat (open-area farmers markets). So the companies must ensure that their brand and message reaches this channel.
- Rural consumers believe copycat "fake" products offer the same benefit at half the price. So the companies should try to create clear product benefits that set their product apart from local brands.
- Creating few rural-urban hubs where every village is within one hour of travel to an urban centre would be transformational. This could ensure that over two-thirds of the rural population has easy access to urban India. These urban hubs will support rural areas and become the big markets of tomorrow.
- Application of value engineering, a technique can be tried to evolve cheaper products by substituting the costly raw material with the cheaper one, without sacrificing the quality or functional efficiency of the product. For example in food industry, 'soya protein is being used instead of milk protein. Milk protein is expensive while soya protein is cheaper but the nutrition value is same.
- Cell phone companies can take initiative by appointing a Sarpanch, as a brand ambassador and give them some incentive for each referral. Once 10% of the population has experienced the product then the critical mass would be created in that locality to make that brand a dominating brand there. Moreover to give a personal touch, the after-sales service requests could be entertained through the Sarpanch by connecting a service center to him rather than connecting the customer directly with the service center.
- A marketer would need to tie up with other rural-focused producers or governmental/non-governmental agencies to create this infrastructure. Onida teaming up with Tata BP Solar to provide TV sets with solar generators would be able to capture the markets. Similarly, water purifier sellers can engage NGOs to develop water table recharge projects in rural areas. This would not only increase the consumption (as opposed to purchase) of their products, but also generate goodwill in the rural market.
- After the cities, insurance companies are moving to the countryside to grab a meaty piece of over Rs 1000 crore untapped rural market pie. After the directive from IRDA to get 18% of their policies from rural India, market leaders in the insurance space like Tata AIG, Birla Sun Life and Bajaj Allianz are looking to tap the market. The regulator has given a go-ahead to companies to tie up with NGOs, self help groups and micro finance institutions to market their products.
- Rural markets are different than the urban. Understanding the rural market is the key point. The companies should reverse-engineer their brand and then come back again to the rural consumers. They should engineer the product and the brand appeal and then get back to him for ratification. This time round as well, going back to the million hearts one should reach out for the first time to. Showing the reverse engineered brand to him, then Getting it ratified, and in this way, insulating the product all from the urban paradigm.
- One of the most innovative models in recent times could be the usage of the postal service by mobile operators to penetrate scratch cards to the rural areas. The Indian Postal Service with 155000 post offices is the largest distribution network in the world, and has all of 120000 outlets in India's villages.

## Conclusion

Over the course of the past decade or so, market experts have observed a few fundamental shifts in Indian marketing. These include rapid growth of services industries, emergence of organized retailing, potential growth in rural India, emerging inter-generation chasm, rise of demanding consumers, India getting globally integrated and the technology revolution which has a large impact on urban and rural consumers alike.

As the purse strings loosen in the Indian consumer's grip, marketers worldwide are privy to a plethora of opportunities in the India's rural markets, a sector that is predicted to have a buying capacity of a mind boggling \$25 billion. Increased levels of media, technology and mobile penetration have caused a shift in the rural consumer's buying pattern. He is far more aware of what he wants and has shifted his focus from shopping only for necessities to discretionary items. In such a scenario it becomes

pertinent for brand managers and advertisers to be aware of how to market their brand to these consumers and reach out to the audience that comprises about 700 million people.

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