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An Overview of Indian Rural Markets The Opportunities & Challenges

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Abstract : *In this paper I tried to put a light on India rural market, it's opportunities and challenges. India's economic change story of the last twenty years has made as much impact on its rural landscape as it has on its urban landscape. Collectively, all over India's rural heartland and in its teeming cities, India appears to be readying for an even more impressive era of economic growth.*

Today, a staggering 12% of the world's population resides in India's rural areas. There is no question that India's rural markets have become a powerful economic engine. The rural multiplier effect is what excites policy makers and business leaders alike. For every new opportunity for a villager to use his mobile phone to protect his crops, there is a knock-on opportunity for him to purchase a small refrigerator or a motorcycle. There is a growing realization that global investment and growth will increasingly come from rural populations, as their savings translate into consumption. But rural India's contributions to the nation's economic success--and the obvious potential for profitable growth--are just a part of the promise of wholehearted commitment to doing business beyond the city centres and suburbs.

Keywords : *Rural Market, GDP, Procurement Price, NREGS, Macroeconomics, FMCG.*

1. Introduction

The economic dynamics of the surroundings have tilted significantly in the past two decades and their exposure to education, television and the media have served in boosting ambitions. Several market experts have called rural India the future of Indian business and the corporate world's efforts to reach this big but fragmented market have opened the gates of various opportunities for both the urban and rural masses.

Agriculture is no longer a poor man's profession. Factors like globalisation and liberalisation have also stimulated the pace of transformation, often to composite levels. Even in the present context, the agricultural sector hires more than 65 per cent of the national workforce and lends a handsome 23 per cent to the GDP.

2. Some Facts about Rural India

In India, rural markets account for 70% of the entire population in the country (833 million/1.21 billion per 2012 Census). The rural segment of the Indian economy is growing at a pace of 8-10% per annum and expected to add new consumption of USD 90–100 billion over the period 2012-2017 to the current base of USD 240-250 billion. The leading opportunity sectors and growth indicators are listed below.

2.1. Automobiles

Rural India accounts for almost 35% of automobile industry sales.

2.2. Fast Moving Consumer Goods (FMCG)

Higher disposable income in the hands of rural households, along with massive promotions by the market players, will take the rural FMCG market from ₹ 87,900 crore (GBP 1Bn/USD 1.5Bn) to a market size of over ₹ 106,300 crore (GBP 1.2Bn/USD 1.9Bn) by the end of 2012.

2.3. Retail

Organized retail in the country currently stands at about USD 30 billion or 6-7% of total retailing. The total retail market is projected to touch USD 1,250 billion by 2020.

2.4. Healthcare

India's healthcare sector is a USD 50 billion opportunity that will grow at about 10% a year for several years. By 2020, it is expected to reach an opportunity size of USD 280 billion.

2.5. Consumer Durables

India's consumer durables market is set to increase by 40% in 2011-12.

2.6. BPO & IT Services

Rural business process outsourcing (BPO) units account for over USD 10 million towards India's IT-BPO revenues.

2.7. Internet & e-Commerce

In a step to increase Internet penetration in rural India, the Government of India (GoI) will create 250,000 nodes for broadband by 2016 that will serve around 750,000 villages.

2.8. Telecommunications

Rural marketing communication is going to emerge in a big way as the users of smart phones are expected to grow from 50 million now to touch 150 million by 2014.

Some companies rural marketing and activation strategy for existing and new brands and companies considering Indian rural markets in the sectors listed. Some comprehensive list of services include:

- Venture validation and delivery services for rural markets
- Concise business plans and financial cases
- Outline the correct governance, regulatory structure that meets GOI's policy validation
- Identify legal risks and the relevant mitigations from a distribution and quality control perspective
- Provide demographic clarity to ensure well-rounded participation in rural India
- Validation and development of a suitable go-to-market strategy
- Evaluate and develop operational and risk management processes
- Map, evaluate and cost any required solutions development that supports the product-to-consumer journey
- Identify key risks and mitigation plans based on market size, forecast growth, competitive factors, potential for differentiation through technology and potential partners

- Conduct preliminary discussions and identify potential partners to enable preferred relationship structures (joint venture, revenue share, etc.)

3. Scope of Rural Indian Market

The new generation is no longer shying away from agriculture as a career. Many government initiatives like MNREGS and minimum support prices for various agriculture products have also given rural people a healthy income. There is no scarcity of job opportunities for the urban youth as well. In sectors like FMCG, automobile, retail, research and advertising, there are numerous prospects which are available at various levels in major companies having their operations in the rural sector.

Rural BPOs are one of the emerging sectors for rural masses. These ITEs (IT enabled services) are setting up their bases in the hinterlands as the cost of setting up a BPO unit is somewhat lower in these areas. Another reason that has made these companies set up their establishments there is the easy accessibility of workforce in villages.

The incursion of national and local brands into rural areas provides employment opportunities to the masses there. To exist in these markets, companies are coming up with money-spinning business models and are also appealing to the local population, as people in rural areas buy things based on the recommendation of others or those they are comfortable with.

The unappreciated rural story is now fast catching up and has opened the floodgates of prospects for those interested in making careers in this field.

4. Skills

An essential tool to get in touch with the rural audience is through effective communication. The rural audience has experienced enough to understand the communication developed for the urban markets, particularly with reference to FMCG products. Television has been the most important effective communication system for the rural masses and, as a result, companies should make themselves known through their advertisements.

There is a need to mark the brand according to regional differences. The segregation may not necessarily be in terms of product content. It may also be in provisions of packaging, communication or association with the brand. The brand has to be made significant by understanding local requirements. Even presenting the same product in different regions with different brand names could be assumed as a strategy.

5. Various Offerings

The Indian government in the past few years has begun concentrating on providing vocational education to rural men and women. These skill development curricula help them to get employment and many of them, with the help and financial support of the government, start their own small businesses. Many private companies are also training these masses in various fields and later give them jobs in their own organisations. This is helping people in getting employment in their own localities and companies are also gaining as they get this workforce at a very reasonable price. Even the farming community has been endued by many technological inventions, and many private companies have started using mobiles as their means of business.

Tourism is another area that has seen an enormous growth in the past few years. The growth of the Indian middle class has increased the inwards and outward movements of tourists. Many people are coming from big metros to experience the rural lifestyle and this has given the rural masses an opportunity to connect with them in various economic activities that are being generated by tourism spots.

6. Education & Training

The growing requirement of skilled professionals in these markets has led to the outgrowth of rural marketing as a subject and now it is taught in almost all major management colleges in the country. Degree and diploma courses in rural management are offered by numerous management institutes in the country.

The most accepted among them are MBA in Rural Management, Master of Rural Management (MRM), Post Graduate Diploma Programme in Rural Development Management, and Post Graduate Diploma in Rural Marketing. Admission into these courses is through the All-India entrance tests followed by group discussions and a personal interview. The least qualification to appear in these tests is a graduation or an equivalent degree from any recognised institute.

7. Remuneration

A fresher passing out from any rural management institute can expect somewhere around Rs.8000 to Rs.15,000 salary per month. With ample experience, one can expect higher pay packages. Many agencies, run by big corporate houses, offer attractive packages, including extra allowances like house rent and medical expenses. Independent rural managers, running their own NGOs, draw rich dividends in terms of money, popularity, and prestige.

8. Opportunities for Rural Indian Market

India's rural markets present opportunities that companies seeking to become high-performance businesses cannot afford to ignore. But the size and scale of those markets (three-fourths of the country's approximately 1.1 billion people live in villages) have been offset by concerns about the profitability of these markets and the durability of rural demand.

Now, though there is abundant evidence to indicate that businesses are seeing more promise in India's hinterland. There are several strong regional and macroeconomic reasons for greater confidence. And, there is a growing body of statistics to demonstrate that rural markets, fueled in part by rising purchasing power, hold real prospects for profitable growth across a wide range of industry sectors.

Five reasons for greater business confidence in rural India

1. About 55 percent of manufacturing GDP is rural; nearly 75 percent of new factories built in the last decade were in rural areas, and rural factories account for 70 percent of all new manufacturing jobs. Industrial development in rural India has increased household purchasing power and income stability. Rural India accounts for about 50 percent of India's gross domestic product (GDP) and nearly 70 percent of India's population. This enormous opportunity has been clear for a decade or more.
2. The increase in procurement prices (the minimum price that farmers earn on produce sold to the government) is putting more money into the hands of the rural population. A series of good harvests, on the back of good monsoons has accelerated rural employment in agricultural and allied activities.

3. Between 2009 and 2012, rural consumption per person grew at 19 percent per annum, two percentage points higher than its urban counterparts. In incremental terms, spending in rural India during these two years was USD 69 billion, significantly higher than USD 55 billion by urban populations.
4. Policy measures such as the National Rural Employment Guarantee Scheme (NREGS), which guarantees 100 days of employment to one member of every rural household, have helped to reduce rural under-employment and raised wages. The official minimum average per-day wage paid under NREGS has increased from INR65 (US\$1.4) in 2006-07 to INR100 (US\$1.8) in 2011-12 and INR 161 (US\$ 2.47) in 2015-16 with the total outlay increasing from US\$ 2.5 bn in 2006-07 to US\$ 8.91 bn in 2011-12 and for 2016-17 it is about 34699 Cr.
5. The increase in rural purchasing power is reflected in many ways. As incomes rise, rural consumption shifts from necessities to discretionary goods and lifestyle products, including mobile phones, television sets and two-wheelers. According to a research done by National Sample Survey Office, nearly 42 percent of rural households owned a television in 2009-2010, up from 26 percent five years earlier. Similarly, 14 percent of rural households had a two-wheeler in 2009-2010, twice the penetration during 2004-2005.

Rural consumers have been trading up, and their consumption basket is beginning to mirror that of the urban consumer. Premium products are replacing entry-level versions, and commodities are giving way to branded products. Nielsen estimates that the fast-moving consumer goods market in rural India will hit US\$ 100 billion by 2025, up from US\$ 12 billion currently*. Moreover, the government's efforts to improve the efficiency of welfare programs with cash transfers will further boost rural consumption; it plans to deposit US\$ 570 billion in the accounts of 100 million poor families by 2014**.

The macroeconomic data clearly point to the soaring potential of India's nonurban markets. But the statistics do not give clues to how interested business leaders might be in the opportunities at hand. Nor do they say whether companies are prepared to make the kind of investments that are required to unlock long-term value from rural markets.

As a matter of fact when Accenture spoke to over 100 business leaders in various sectors, it discovered that all the persistent structural handicaps which come with rural markets make it a far difficult opportunity to capitalize on than perceived. Issues such as inadequate infrastructure, low literacy, and high levels of poverty raise serious question marks about the sustainability of the rural opportunity.

9. The Challenge for Indian Rural Markets

My earlier text in this paper highlighted opportunities that are prompting companies to go rural. However, as every coin has two sides – the other side of opportunities are challenges. Businesses in India today face a huge dilemma, while it is no revelation that Indian rural markets offer a significant rural opportunity, a cost effective method to tap into these markets has become a significant challenge. There are vast differences between rural and urban markets, including infrastructure, business and social structure, market size and consumer behavior-- to name just a few.

9.1. Some Issues as a Challenge for Rural India

- Issues such as inadequate infrastructure, low literacy, and high levels of poverty raise serious question marks about the sustainability of the rural opportunity.
- Most companies point out lack of proper linkages for roads; railways and telecom infrastructure are big hindrances.
- Some others feel the lack of skilled talent and fragmented demand patterns are the key challenges.
- Other barriers to profitability and scalability include the lack of granular information on rural markets and consumers, and limited access to financing options.
- Timely data collection on demographics and consumption patterns is difficult; data analysis is no easier.

Most companies find the size of the necessary upfront investments as the biggest hurdle towards establishing rural operations. For instance, in the case of rural marketing's most celebrated story ITC's e-choupal, each of the 4,100 kiosks (containing a computer with a V-SAT connection) set up under the scheme cost between US\$3,000 and US\$6,000 to install and about US\$100 for annual maintenance. That translates to an average initial investment of US\$20.5 million and a variable cost of US\$0.4 million each year. Similar concerns are faced by many other sectors esp. consumer products and industrial goods. Among consumer products the cost of setting up infrastructure for sales and distribution itself is a big question mark and varies from region to region. While breaking even for a distributor in urban landscapes could come within a year, in rural it could be a longer period.

Compounding this issue, companies also find that their trained, seasoned staff is very reluctant to relocate to rural areas. One of the sales head at a known FMCG comments: "Most of the young people we interview say they have already done their rural stint and are not keen to spend more time there. We have recently made three offers for the position of rural marketing lead but all three have been turned down." To add to that frontline sales force is also hard to find. Most of the young sales force in rural areas is eventually looking to relocate to the bigger cities thus leading to very high attrition rates and unstable workforces.

A number of companies also believe that inability to create flexible business models as one of the key internal barriers to establishing a successful rural presence. That finding meshes with a recent Accenture research report which concluded that mobile-phone entrepreneurs who have successfully penetrated urban markets are struggling to implement business models that can earn them sustained profits from their rural operations.

Majority of the corporations face major structural roadblocks in setting up efficient rural supply chains, with most citing inadequacies in physical infrastructure, including substandard or non-existent roads, rail and telecom networks. Also half of the businesses face the absence of effective distribution and retail linkages—facilities which, if businesses have to build them, usually involve heavy capital expenditure.

Sixty thousand villages in India have no form of retail outlet, making it very difficult to reach potential customers there. But, three million retail outlets exist in the remaining villages. The challenge is how to get products to those outlets and replenish them consistently and reliably. These factors thus tend to be major deterrents to doing business in rural markets.

While most of these challenges seem to be operational in nature the biggest strategic challenge faced by companies is towards understanding the rural customer. Translating customer

segmentation and analysis into strategies and tactics for reaching them is especially challenging in India's fragmented and unfamiliar rural markets. More so, a number of categories for businesses are yet to be penetrated in rural markets thus adding the challenge of creating usage and thus demand from the rural customer.

To top that, the usage patterns of rural customers are not easy to understand with each region having its own idiosyncrasies. For example every 100 kms the usage of brands completely changes from region to region. While a belt of villages in southern Andhra Pradesh could only be consuming Brooke Bond's Red Label and driving TATA cars, going down 100 kms another belt would be having a majority consumption of '3 roses' and driving Mahindra cars. This is in spite of a common distribution network and mass media reach across the entire region. The reason could vary from distribution set up to word of mouth to simply a complex social referral network and understanding this reason itself tends to be a big challenge.

Yet, a growing number of companies, large and small, are steadily transforming their rural operations into viable profit centres. They have been successful in selling to unsophisticated buyers in geographically dispersed locations using appropriate "reach strategies."

10. Conclusion

It is concluded in the paper that agriculture is no longer a poor man's profession. Factors like globalisation and liberalisation have also stimulated the pace of transformation, often to composite levels. Even in the present context, the agricultural sector hires more than 65 per cent of the national workforce and lends a handsome 23 per cent to the GDP. The rural segment of the Indian economy is growing at a pace of 8-10% per annum and expected to add new consumption of USD 90–100 billion over the period 2012-2017 to the current base of USD 240-250 billion.

Many government initiatives like MNREGS, minimum support prices and *Aajeevika* - National Rural Livelihoods Mission (NRLM) was launched by the Ministry of Rural Development (MoRD), Government of India in June 2011, for various agriculture products have also given rural people a healthy income. There is no scarcity of job opportunities for the urban youth as well. In sectors like FMCG, automobile, retail, research and advertising, there are numerous prospects which are available at various levels in major companies having their operations in the rural sector.

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