INDIAN RURAL MARKET: OPPORTUNITIES AND CHALLENGES

Dr. Reshma Shrivastava¹, Ram Kumar Sahu², Dr. Imran Nadeem Siddiqui³

¹Professor, MBA (HOD), Disha Institute of Management and Technology, Raipur (C.G.)
²Asst. Professor, Management, Raipur Institute of Technology, Raipur (C.G.)
³Asst. Professor, AMITY University, Raipur (C.G.)

Email: reshma.shrivastava@dishanmail.com, ramminto345@gmail.com, ins.siddiqui@gmail.com

ABSTRACT

The rural market is where the markets of the future are likely to be. Urban markets are becoming increasingly competitive for many products. In some cases they are even saturated. The paper reviews various opportunities and challenges available in the rural market in India. In the present scenario, various development initiatives taken by the government has opened a new gateway of success for companies to penetrate in rural market. Paper highlights the various initiatives taken and what has been the impact on the development of rural market in India. However, Companies face many challenges, on the other hand, rural markets offer growth opportunities. Rural market is the market of the new millennium. Marketers will have to understand the rural customers before they can make inroads into the rural markets. Thus, looking at the challenges and the opportunities, which rural markets offer to the marketers, it can be said that the future is very promising for those who can understand the dynamics of rural markets and exploit them to their best advantage.

1. Introduction

Today Rural Market has become an important avenue for companies as they have realized that rural markets offer significant growth opportunity, a large proportion have remained unsure of the profitability. However, our interactions with company executives revealed that many have not only started earning profits but have also done so relatively quickly. The economic, demographic and cultural drivers that are shaping India’s rural market call for innovative strategies and capabilities. Companies are experimenting with different sales and distribution models to position themselves for the long term. But the results have been mixed, and companies face numerous barriers to efficient sales and distribution. Although many companies are still unsure about how to scale their rural operations, they remain optimistic about the opportunity. To translate that optimism into success, companies will need to join forces with various stakeholders across the rural value chain to create an environment that fosters business expansion. Agricultural development is the demand today and various efforts are required to improve it. If our agricultural growth picks up to 4 percent as envisioned by the Planning Commission, the cascading impact that rural prosperity will have on the national economy could add up to an additional 2 percent to our GDP and enable us to go for double-digits growth. The real income of rural households is projected to rise from 2.8% in the past two decades to 3.6% in the next two. Higher incomes and exposure to urban lifestyles have also raised the aspirations of the rural populace, as they strive to improve their quality of life by gaining access to new technologies, products and services. Rural India consists of 638596 villages that house 742,490,639 people. This figure represents around 70% of the total population of India and 12% of the globe’s population. In fact, as per Mckinsey, despite rising urbanisation, 63% of India’s population will continue to live in the rural areas even in 2025. Further, the number of consumers earning over $5 a day is projected to catapult from 50 million today to 150 million by 2020.
<table>
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<th>Demographic classification</th>
<th>Urban</th>
<th>Rural</th>
<th>Total</th>
</tr>
</thead>
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<tr>
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<td>4.8</td>
<td>1.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Well off (income greater than Rs 0.5m per annum)</td>
<td>29.5</td>
<td>27.4</td>
<td>56</td>
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<tr>
<td>Total</td>
<td>34.3</td>
<td>28.7</td>
<td>63.0</td>
</tr>
<tr>
<td>% of Total</td>
<td>54.4%</td>
<td>45.6%</td>
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Source: Ministry of Communications & Information Technology, India

It is evident from the above figure that both and rural households are increasing at a similar rate. Cut throat competition in urban areas has compelled many companies to look for new, unexploited markets. Rural India has emerged as an answer, owing to lack of strong presence by brands in most sectors as well as a high growth potential. Further, improvement in infrastructure prompted by government initiatives seems to have lowered entry barriers for many companies. Also, rural India is insulated against global economic downturns, which adds to its attractiveness. The Indian rural market with its vast size and demand base offers great opportunities to marketers. Two-thirds of countries consumers live in rural areas and almost half of the national income is generated here. It is only natural that rural markets form an important part of the total market of India. Our nation is classified in around 450 districts, and approximately 630000 villages, which can be sorted in different parameters such as literacy levels, accessibility, income levels, penetration, distances from nearest towns, etc. 70% of India's population lives in 627000 villages in rural areas. According to the NCAER study, there are almost twice as many 'lower middle income' households in rural areas as in the urban areas.

2. Literature Review

Mr. Venkatesa said rural markets could be defined on the basis of their location, but the mind set of the people was very urban. “Contrary to popular perceptions, there is high level of disposable income in rural areas. Although the consumers in urban areas have higher income levels, they have to factor in issues like expenses on account of accommodation, travel and other factor. These factors are not present in rural areas, thus ensuring that there is more disposable income. The presence of large number of youth who prefer our products is another factor that drives the growth for us,”. As per Arshi (2013) Rural India offers huge opportunities which companies can tap for their growth and development. However, Companies face many challenges in tackling the rural markets. 833 million people reside in India. According to Suchi Patel (2013) It can be said that the future is very promising for those who can understand the dynamics of rural markets and make use of them to their best advantage. As per Sudesh et al (2013) looking at the challenges and the opportunities, which rural markets offer to the marketers, it can be said that the future is very promising.

3. Opportunities for Various Industries in Indian Rural Market

Indian rural market has shown tremendous change in recent years. Government initiatives has brought momentum in the rural market. In Indian context we find that there are many industries which has huge potential in the rural market some of the Industries scenario has been discussed.

1. Auto Industry: The Indian auto industry is one of the largest in the world. The industry accounts for 7.1 per cent of the country's Gross Domestic Product (GDP). The Two Wheelers segment with 80 per cent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the
sector. Companies has huge potential in the rural area. Due to infrastructure facility connectivity between rural and urban area has increased. Two wheeler market is increasing day by day as given in the data. Companies need to focus on the marketing in this segment.

2. Consumer Durables: Indian consumer segment is broadly segregated into urban and rural markets, and is attracting marketers from across the world. The sector comprises of a huge middle class, relatively large affluent class and a small economically disadvantaged class, with spending anticipated to more than double by 2025. India hit ten-year high and stood first among the 63 nations surveyed in the global consumer confidence index with a score of 136 points for the quarter ending December 2016. Global corporations view India as one of the key markets from where future growth is likely to emerge. The growth in India’s consumer market would be primarily driven by a favourable population composition and increasing disposable incomes. Increasing electrification of rural areas and wide usability of online sales would also aid growth in demand.

3. Banking Industry: Access to banking system has also improved over the years due to persistent government efforts to promote banking-technology and promote expansion in unbanked and non-metropolitan regions. At the same time India’s banking sector has remained stable despite global upheavals, thereby retaining public confidence over the years. Deposits under Pradhan Mantri Jan Dhan Yojana (PMJDY) have also increased. As on November 9, 2016, US$ 6,971.68 million were deposited, while 255.1 million accounts were opened. As per the Reserve Bank of India (RBI), India’s banking sector is sufficiently capitalised and well-regulated. The Indian banking system consists of 27 public sector banks, 26 private sector banks, 46 foreign banks, 56 regional rural banks, 1,574 urban cooperative banks and 93,913 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control more than 70 per cent of the banking system assets, thereby leaving a comparatively smaller share for its private peers. Banks are also encouraging their customers to manage their finances using mobile phones. Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. All these factors suggest that India’s banking sector is also poised for robust growth as the rapidly growing business would turn to banks for their credit needs.

4. Education Industry: India holds an important place in the global education industry. The country has more than 1.5 million schools with over 260 million students enrolled and about 751 universities and 35,539 colleges. India has one of the largest higher education systems in the world. However, there is still a lot of potential for further development in the education system. Mr Ravi Shankar Prasad, Minister for Law and Justice and Information Technology, has stated that the Government of India will likely educate over 10 million people on e-payments in rural India, through the newly-launched Digi Dhan Abhiyan or digital financial literacy programme. Government has approved ‘Pradhan Mantri Gramin Digital Saksharta Abhiyan’ (PMGDISHA) to make 60 million rural households digitally literate. The outlay for this project is Rs 2,351.38 crore (US$ 353.70 million) to usher in digital literacy in rural India by March, 2019. The Skill India initiative – ‘Kaushal Bharat, Kushal Bharat’ is another initiative of the government. Under this initiative, the government has set itself a target of training 400 million citizens by 2022 that would enable them to find jobs. The initiatives launched include various programmes like: Pradhan Mantri Kaushal Vikas Yojana (PMKVY), National Policy for Skill Development and Entrepreneurship 2015, Skill Loan scheme, and the National Skill Development Mission. PMKVY is the flagship program under the Skill India Initiative. The Union Government plans to set up skill development centres across India with an investment of Rs 12,000 crore (US$ 1.8 billion) to create job
opportunities for 10 million individuals by 2020 under PMKVY, as per Mr Bandaru Dattatreya, Minister of Labour and Employment.

5. FMCG Industry: Fast-moving consumer goods (FMCG) sector is the 4th largest sector in the Indian economy with Household and Personal Care accounting for 50 per cent of FMCG sales in India. Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector. The urban segment (accounts for a revenue share of around 40 per cent) is the largest contributor to the overall revenue generated by the FMCG sector in India and recorded a market size of around US$ 29.4 billion in 2016-17. However, in the last few years, the FMCG market has grown at a faster pace in rural India compared with urban India. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50 per cent of total rural spending. In the Union Budget 2017-18, the Government of India has proposed to spend more on the rural side with an aim to double the farmer’s income in five years; as well as the cut in income tax rate targeting mainly the small tax payers, focus on affordable housing and infrastructure development will provide multiple growth drivers for the consumer market industry. Rural consumption has increased, led by a combination of increasing incomes and higher aspiration levels; there is an increased demand for branded products in rural India. The rural FMCG market in India is expected to grow at a CAGR of 14.6 per cent, and reach US$ 220 billion by 2025 from US$ 29.4 billion in 2016.

6. Healthcare Industry: Healthcare has become one of India’s largest sectors - both in terms of revenue and employment. Healthcare comprises hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. The Indian healthcare sector is growing at a brisk pace due to its strengthening coverage, services and increasing expenditure by public as well private players. Indian healthcare delivery system is categorised into two major components - public and private. The Government, i.e. public healthcare system comprises limited secondary and tertiary care institutions in key cities and focuses on providing basic healthcare facilities in the form of primary healthcare centres (PHCs) in rural areas. The private sector provides majority of secondary, tertiary and quaternary care institutions with a major concentration in metros, tier I and tier II cities. Rural India, which accounts for over 70 per cent of the population, is set to emerge as a potential demand source. A total of 3,598 hospitals and 25,723 dispensaries across the country offer AYUSH (Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homoeopathy) treatment, thus ensuring availability of alternative medicine and treatment to the people. In 2017, the Government of India has provided grant-in-aid for setting up of AYUSH educational institutions in States and Union Territories. To sum up, there are vast opportunities for investment in healthcare infrastructure in both urban and rural India.

7. IT Industry: The global sourcing market in India continues to grow at a higher pace compared to the IT-BPM industry. The global IT & ITeS market (excluding hardware) reached US$ 1.2 trillion in 2016-17, while the global sourcing market increased by 1.7 times to reach US$ 173-178 billion. India remained the world’s top sourcing destination in 2016-17 with a share of 55 per cent. Indian IT & ITeS companies have set up over 1,000 global delivery centres in over 200 cities around the world. The internet industry in India is likely to double to reach US$ 250 billion by 2020, growing to 7.5 per cent of gross domestic product (GDP). The number of internet users in India is expected to reach 730 million by 2020, supported by fast adoption of digital technology, according to a report by National Association of Software and Services Companies (NASSCOM). The public cloud services market in India is slated to grow 35.9 per cent to reach US$ 1.3 billion according to IT
consultancy, Gartner. Increased penetration of internet (including in rural areas) and rapid emergence of e-commerce are the main drivers for continued growth of data centre co-location and hosting market in India. n.

8. Manufacturing Industry: Manufacturing has emerged as one of the high growth sectors in India. Government had launched the ‘Make in India’ program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. India is expected to become the fifth largest manufacturing country in the world by the end of year 2020*. India is an attractive hub for foreign investments in the manufacturing sector. Several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country. The manufacturing sector of India has the potential to reach US$ 1 trillion by 2025 and India is expected to rank amongst the top three growth economies and manufacturing destination of the world by the year 2020. The implementation of the Goods and Services Tax (GST) will make India a common market with a GDP of US$ 2 trillion along with a population of 1.2 billion people, which will be a big draw for investors. With impetus on developing industrial corridors and smart cities, the government aims to ensure holistic development of the nation. The corridors would further assist in integrating, monitoring and developing a conducive environment for the industrial development and will promote advance practices in manufacturing. Looking into various opportunities provided in rural market India is striving hard to develop rural market as business hub for companies. India is a country with huge rural population. The socio economic condition of people has improved and they look for new technologies and they welcome it. Whether it is IT, Education or Healthcare rural market has huge potential. In FMCG sector Unilever and P&G has penetrated deeply into the rural market. As the market is big so it is on the companies to develop new marketing strategies. Every opportunities has to face certain challenges and if these challenges are sorted out rural market in India is the new segment to be tapped.

4. Challenges in Rural Market

The rural market offers a vast untapped potential, it should be recognised that it is not easy to operate in the market, because of several attendant challenges. Rural market remains untapped because of mainly three challenges: distance, diversity, and dispersion. As much as Rural India presents a great opportunity, there are still many challenges that have to be overcome. Dispersed population and trade, large number of intermediaries in the value chains leading to the higher costs, scarce bank and credit facilities for rural customers and retailers, highly credit driven market and low investment capacity of retailers are the other roadblocks. Thus, there are several roadblocks that make it difficult to progress in the rural market. Marketers encounter a number of problems like dealing with physical distribution, logistics, proper and effective deployment of sales force and effective marketing communication when they enter into the rural segments.

1) The large population base and number of households indicates a widely spread out market and it is a challenge for the marketer to service this dispersed market. The number of the villages is more than five lakhs and is not uniform in size. Nearly half of the population lives in middle sized villages which have a population ranging from 1000 to 5000 persons. These types of distribution of population warrants appropriate distribution and promotion strategies to decide the extent of coverage of rural market.

2) The rural per capita income is low as compared to urban area. Low per capita income leads to low purchasing power. This apart, the distribution of income is highly skewed, since the landholding pattern, which is basic asset, is itself skewed. Thus, rural market presents a highly heterogeneous scene. Therefore few challenges arise in this respect, like; off-taking of any product by rural consumer, maintaining of inventory levels, distribution system options, and frequency of distribution. This aspect should be carefully considered by the marketers.
3) There are lacks of proper physical communication facilities in rural areas. Nearly half of the villages in the country do not have all-weather roads. Therefore reaching these villages is very physically taxing. Hence, distribution efforts put up by the marketers prove to be expensive and ineffective.

4) The rural market, by and large, are characterized by underdeveloped people and consequently underdeveloped market. A vast majority of rural people is not financially stable and is tradition-bound, fatalistic, mired in age-old customs, traditions, habits, taboos, and practices. Unfortunately, the impact of agricultural technology has not been felt uniformly throughout the country. The large segments of rural population have remained untouched by technological breakthroughs.

5) There are vast variations in the levels of literacy amongst rural people. Around two-fifth of the rural population is illiterate and only one-fifth holds a matriculate or higher degree. Also, literacy levels vary hugely among different states. These variations pose a challenge to easy and clear comprehension of the message by all sets of rural audience. The limited reach of mass media in rural areas and its regional and state variations pose limitations on a universal approach to communication for rural consumers. Also different perceptions, traditions, and values across states and in some case within a state; are other obstacles in communication development.

6) The distribution of products continues to pose an immense challenge to marketers because reaching of 7.8 million retail outlets spread across 6,40,000 villages and feeding a retail network of villages shops is a distribution nightmare. The challenges for the suppliers is the small size of each villages with low throughput per outlet, coupled with the high cost of distribution since these villages are some distance away from distributors. These factors make high quality distribution unviable. The distribution of any product in the rural areas; agricultural inputs, consumables or durables, should necessarily follow a seasonable pattern. The demand pattern in the rural areas is seasonable. The distributions in the rural areas are frequent and not uniform throughout the year.

The rural market in India is undergoing a massive change. These changes have resulted in shifting the marketable battlefields from urban to rural. Most of the companies treat rural market as a dumping ground for the lower end products designed for urban audience. But, this scenario is slowly changing and importance is given to the need of the rural customer. Considering the emerging issues and challenges, government support is necessary for the development of marketing. The government may adjust suitable budget allocations to rural infrastructure plans, and proper supervision for effective plan implementations. Marketers should understand these challenges and then making strategies in the light of these challenges to face them and to tap the rural Indian market.

5. Development of Strategies

The firms operating in rural markets have to perceive and weigh the opportunities as well threats that exist in this highly heterogeneous and unpredictable market. The large number of geographically dispersed villages presents a major challenge to the marketer in reaching to rural consumer and this requires exploring innovative ways to reach products and services. Occupation and the income stream have major implications for segmentation and targeting rural marketing effort. In addition to offering appropriate price and package size, the channels to deliver the price and products are influenced by both occupation and income. The majority of consumers with limited income suggest a large market for essential product and a value for money propositions. The marketers need to examine the potential of rural market for a separate market offerings and developing the strategies for marketing mix in rural markets on the basis of three important mix:- Product, Pricing, distribution, and promotional strategies:
1) For evolving product strategies, the marketers should think in terms of low unit price and low volume packing’s which convey a perception of sturdiness and utility in the minds of rural consumers. Whenever necessary, redesigning of the product can also be thought of depending on the customs, traditions, taboo and habits, of rural customers. In addition, a brand name or logo or symbol, which conveys the purpose, utility and quality of the product, is essential for the rural customer to identify the product with. Marketers should understand the psyche and needs of the rural customers and then produce accordingly.

2) Pricing strategies are closely linked to the product strategies. The product packaging and presentation also offer scope for keeping the price low to suit the rural purchasing power. The marketers aim to reduce the value of the product to an affordable level, so that a larger segment of the population can purchase it, thus expanding the market. This is the most common strategies widely adopted by the marketers to enter into the rural market.

3) For formulation of distribution strategies in rural areas, it is necessary to keep in mind; the characteristics of the product, consumable and non-consumable, and life cycle and other factors relating to distribution. Marketers should examine carefully the market potential of different villages and target the villages that can be served in a financially viable manner through an organized distribution effort. The marketers may distribute the products through Co-operatives societies and by utilising the services of Public distribution system, utilizing of multi-purpose distribution centres by Petroleum /Oil companies, distribution up to the feeder markets/mandi towns, haats/melas, and agriculture input dealers.

4) The promotional measure or strategies chosen should be cost effective, while consumable products may warrant the use of mass media since the target consumers are sizable, durable products will require personal selling efforts because of smaller size of target. The fewer rural population has access to a vernacular newspaper and size of rural population is illiterate and put up the limitation on print media. The audio visuals must be planned by the marketers for promotional purposes. The traditional forms of promotional measure should be used in promotional strategies.

5. Conclusions

Indian Rural Market play a pivotal role as it provides great opportunities to the corporations to stretch their reach to nearly seventy percent of population. Rural market also benefits the rural economy by providing infrastructure facilities, uplifting the standard, and quality of life of the people resides in rural area. Though the rural market has become a favourite destination for every marketers but it’s important to realize that it has lot of challenges and risk, therefore corporations should assess the obstructions as vigilantly as possible. A thorough understanding of rural markets and systematic move towards are necessary to penetrate rural market. In order to develop marketing strategies and action plans, the corporations need to taken into account the complex factors that influence the rural consumers buying behaviour. The rural market is developed by rising purchasing power, changing consumption pattern, increased access to information and communication technology, improving infrastructure and increased government initiatives to boost the rural economy. The marketers tune to their strategies in accordance to the rural consumer in the coming years. In spite of all complexities involved in the rural marketing, the rural scene of rural environment is changing steadily in India. The biggest challenge today is to develop a scalable model of influencing the rural customer mind over a large period of time and keep it going. Traditional urban marketing strategies will have to be localized as per the demands of the rural markets. It has to reach out to rural consumers and relate to them at an appropriate level, so that it can bring about the desired behavioural change. Government support is necessary for the development of rural market in India to face the emerging issues and challenges in the core areas like; transportation, communication, roads, and credit institutions, crop insurance for better utilization of land and water management. The future no doubt lies in the rural market. In conclusion, the rural markets are enticing and marketing to rural consumers is exciting. However, a clear understanding or the rural consumers and their current and future expectations are the major part of strategies to tap the rural market.
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