

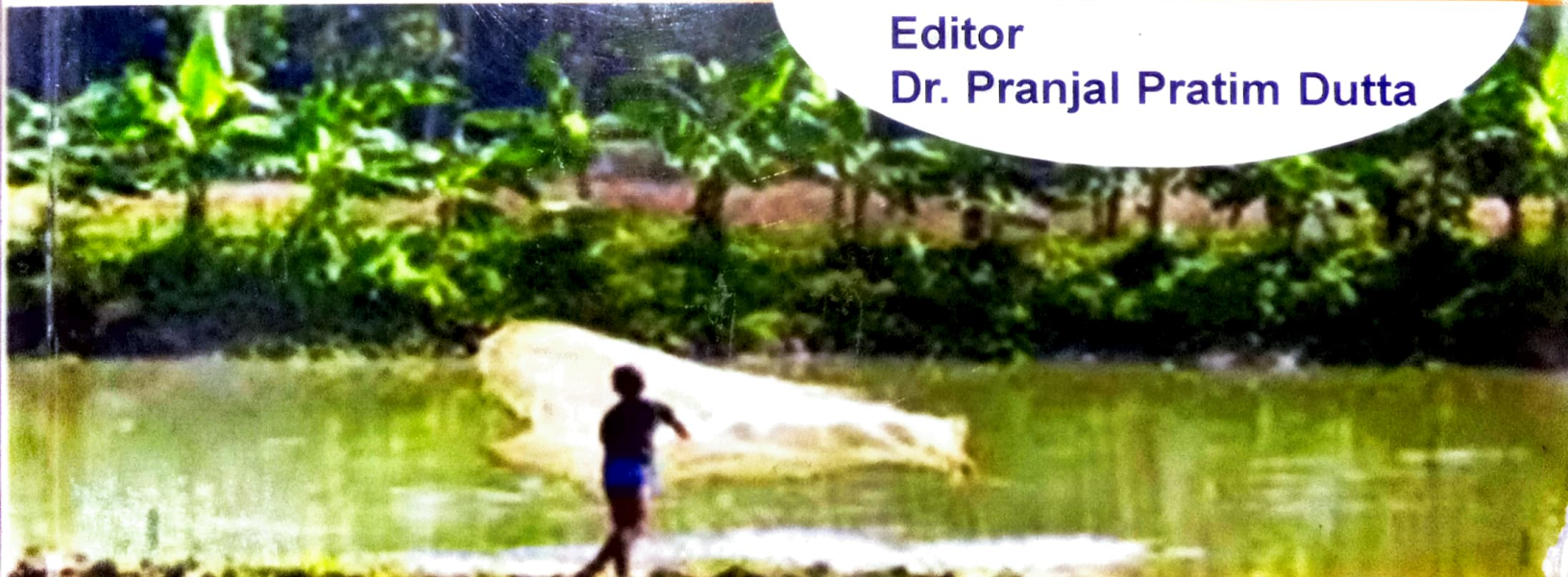
# Rural Financing in North Eastern Region of India

## *Issues and Challenges*



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## RURAL MARKETING IN INDIA : OPPORTUNITIES AND CHALLENGES

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*Rural marketing, in simple words, is planning and implementation of marketing function for the rural areas. It is a two way marketing process which encompasses the discharge of business activities that direct the flow of goods from urban to rural areas (for manufactured goods) and vice-versa (for agriculture produce), as also with the rural areas.*

*This paper tries to give an overview of rural market in India. The main aim of the present study is to observe the opportunities available in Indian rural markets and highlighting key challenges related to rural marketing.*

**Keywords:** Marketing, Rural marketing, Opportunities, Challenges, Consumers.

### I. INTRODUCTION

At least 40 percent of the world's markets are rural markets. They represent more than three billion people whose current consumption is estimated to be at least four trillion dollars per year. Rural markets have been traditionally ignore by most multinationals from advanced countries, as well as by local large-scale manufacturers of packaged branded products, for several reasons like rural market are still mostly served by unbranded local competitors; most consumers are still self produce product and services at home rather than buy them commercially for a variety of historical reasons-lack of modern infrastructure, including roads, electricity, banks and media make accessibility to rural market very difficult and expenses.

The market scenario in the rural areas today is changing very rapidly. In recent years, rural markets have acquired importance, as the overall growth of the economy has resulted into considerable increase in the purchasing power of the rural people and preferences of rural people are also getting changes. Rural markets are growing faster than urban markets and with better profitability, as urban markets have become more mature and intensely competitive, especially after the liberalization of the Indian economy. Rural markets which used to be neglected by branded manufacturers, are now becoming the core of a company's

growth strategy for both multinationals such as Nestle, Colgate and Unilever, and for Britannia biscuits, Titan watches etc. Rural consumers in India today are less resistance to change. In fact, they seem eager to enter the world of modern consumption, especially those for daily use.

## II. OBJECTIVES OF THE STUDY

The following are the important objectives of the present study

1. To understand the rural market.
2. To identify the major opportunities available in the rural market.
3. To study the major challenges faced by marketer in rural market

## III. RESEARCH METHODOLOGY

The present study is descriptive in nature. The data used is secondary in nature and has been collected from various websites, reputed journals and books.

## IV. BRIEF OVERVIEW OF RURAL MARKET OF INDIA

### *MEANING OF 'RURAL'*

The definition of the word, 'rural' in a market like India is very nebulous. There are many versions that are followed by different entities but having the same idea. Even in the rural marketing space, there is not one solid definition. Depending on their requirements, different organizations ascribe different meanings to the term rural.

The Census of India (2001) defines rural as any habitation with a population density of less than 400 per sq. Km, where at least 75 per cent of the male working population is engaged in agriculture and where there exist no municipality or board, as a rural inhabitation. Thus, the rural population consist of 800 million inhabitants, accounting for 70 percent of India's population. Government agencies like IRDA (Insurance Regulatory and Development Authority) and NCAER (National Council for Applied Economics Research) define rural as a village with a population less than 5000 with 75% male population engaged in agriculture, while Hindustan lever, ITC and most FMCG companies define rural as any place with a population below 20,000.

As per the 2011 Census, India has more than 20,000 villages whose population ranges from 5000-10,000. So any population cut-off criteria should definitely include these villages as rural.

Therefore, definition of rural areas for marketing purpose varies from company to company and is also based on the calculation of market potential value (MPV) of a particular area.

### *RURAL MARKETING*

Rural marketing, in simple words, is planning and implementation of marketing function for the rural areas. It is a two way marketing process which encompasses the



discharge of business activities that direct the flow of goods from urban to rural areas (for manufactured goods) and vice-versa (for agriculture produce), as also with the rural areas (Gopaldaswamy, 2005).

As per the National Commission on Agriculture, “Rural marketing is a process which starts with a decision to produce a saleable farm commodity and involves all aspects of market structure or system, functional and institutional, based on technical and economic considerations, and includes pre-and post-harvest operations, assembling, grading, storage, transportation and distribution”.

## V. OPPORTUNITIES OF RURAL MARKETING

The rural market has been growing gradually over the past few years and is now even bigger than the urban market. India’s per capita GDP has grown at a Compound Annual Growth Rate (CAGR) of 12.3 per cent from 2009-10 to 2015-16, contributed by growth in rural sector. The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is expected to cross US\$ 20 billion mark by 2018 and reach US\$ 100 billion by 2025@. Major opportunities available in rural market are as follows:

### 1. Increase in Literacy Rate:

Literacy rate is increasing in rural areas. According to census 2011 it stood at 67.8% (2001 census 58.7%). There are more graduates in rural than in urban India. This brings social and cultural changes in buying behaviour of the rural customers and more aware about national and international brand. Due to increase in literacy rate they get jobs in nearby towns. They earn urban salaries but continue to live in self owned homes in the villages, they have high purchasing power and prefer to buy branded product.

Table-1.1: Increase in Literacy Rate

Literacy Rate	2001	2011	Difference
Rural	58.7	67.8	+9.1
Urban	79.9	84.1	+4.2
India	64.8	73.0	+8.2

Source: Census of India, 2011

### 2. Increasing in disposable income and purchasing power:

Projects from private companies and the rural employment initiatives by the Government like MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) schemes have given the rural population an opportunity to meet their daily needs. Government decided to expand the agriculture loan at lower rate of interest and distribute

million of Kisan Credit Cards, has given a boost to the income level to the rural sector. Companies have the opportunity to enter in this new market and take the advantage of increased disposable income.

### 3. IT Penetration in Rural India:

Today's rural children and youth will grow up in an environment where they have „information access“ to education opportunities, job opportunities, government schemes, and worldwide news and mandi prices. Rural areas offer a great potential for growth in internet usage with the number of claimed internet users in these spaces. As the electronic ethos and IT culture moves into rural India, the possibility of change are becoming visible.

### 4. Increase Population and hence Increase in Demand:

The rural market in India is vast and scattered and offers a plethora of opportunities in comparison to the urban sector. The rural population is very large and its growth rate is also high. With 83, 34, 63,448 people living in rural areas and the increase in income in the villages, this huge population will become an attractive market.

Table-1.2: Population and Decadal change by residence (Persons)

Population 2011			Percentage decadal change 2001-2011		
Total	Rural	Urban	Total	Rural	Urban
1,21,05,69,573	83,34,63,448	37,71,06,125	17.7	12.3	31.8

Source: Census of India, 2011

### 5. Low Penetration Rate:

Penetration rate in rural India is very low. Low penetration indicates the existence of unsaturated markets, which are likely to expand as the income level rise as well as awareness increases. It provides an excellent opportunity for the industry players in form of vastly untapped market.

**Following are some of the major investments and developments in the Indian rural sector.**

- The Ministry of New and Renewable Energy (MNRE) has an annual target of setting up one lakh family size biogas plants to the states and union territories for FY 2016-17.
- Indian Institute of Technology-Madras (IIT-M) has entered into a three-year partnership with Nokia Networks to create technology solutions which will enhance broadband connectivity in rural India.
- Tata Motors, India's biggest automobile company by revenues, plans to aggressively expand its network with a focus on rural markets. The company is aiming to more than



triple its network to 1,500 over the next three years from 460 now, making it the biggest such expansion by a passenger vehicle maker in the country so far.

### Government Initiatives

- ❖ The Government of India has planned various initiatives to provide and improve the infrastructure in rural areas which can have a multiplier effect in increasing movements of goods, services and thereby improve earnings potential of rural areas subsequently improving consumption.
- ❖ Mr Piyush Goyal, Minister of State (Independent Charge) for Power, Coal, New and Renewable Energy, has stated that the Government of India has set a target to electrify all un-electrified villages in the country by the end of 2016.
- ❖ 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.
- ❖ The Union Budget 2016-17 proposed a slew of measures to improve agriculture and increase farmers' welfare such as 2.85 million hectares to be brought under irrigation, Rs 287,000 crore (US\$ 42.5 billion) grant in aid to be given to gram panchayats and municipalities and 100 per cent village electrification targeted by May 01, 2018.
- ❖ Prime Minister Mr. Narendra Modi has launched the National Rurban Mission with the aim of enabling cluster based development and creating smart villages which will complement the smart cities initiative.
- ❖ The Union Government plans to build 2.23 lakh km of roads in the rural areas and has proposed a total spending of Rs 27,000 crore (US\$ 4 billion) until March 2017.
- ❖ E-commerce players like Flipkart, Snapdeal, Infibeam and mobile wallet major Paytm have signed Memoranda of Understanding (MoUs) with the government to reach rural areas by connecting with the government's common service centres (CSCs) being setup in villages as part of the 'Digital India' initiative.
- ❖ With the increasing demand for skilled labour, the Indian government plans to train 500 million people by 2022, and is looking out for corporate players and entrepreneurs to help in this venture. Corporate, government, and educational organisations are joining in the effort to train, educate and produce skilled workers.
- ❖ The Union Cabinet has cleared the Pradhan Mantri Krishi Sinchae Yojana (PMKSY), with a proposed outlay of Rs 50,000 crore (US\$ 7.41 billion) spread over a period of five years starting from 2015-16. The scheme aims to provide irrigation to every village in India by converging various ongoing irrigation schemes into a single focused irrigation programme.
- ❖ The Government of India aims to spend Rs 75,600 crore (US\$ 11.21 billion) to supply electricity through separate feeders for agricultural and domestic consumption in rural

areas. This initiative is aimed at improving the efficiency of electricity distribution and thereby providing uninterrupted power supply to rural regions of India.

- ❖ To promote agriculture-based businesses, the Government of India has started 'ASPIRE' Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE). Under this scheme, a network of technology centres and incubation centres would be set up to accelerate entrepreneurship and to promote start-ups for innovation and entrepreneurship in agro-industry.
- ❖ The Government of India seeks to promote innovation and technology development in the remote rural and tribal areas. The government plans to form a committee to study various innovations and submit their reports to the concerned Department or Ministry. The programme called the 'NavKalpanaKosh' aims to improve rural areas at various levels, such as governance, agriculture and hygiene.
- ❖ Banks are working to set up rural ATMs, which will dispense smaller denomination currency notes. "We have encouraged banks to find a solution for bringing in rural ATMs... banks will have to find an appropriate technology solution for a different type of ATM to care for the needs of the rural people," as per Mr R Gandhi, Deputy Governor, Reserve Bank of India (RBI).

## VI. CHALLENGES OF RURAL MARKETING

The main challenges of rural marketing are:

- a) Transportation Problems
- b) Communication Problems
- c) Warehousing problems
- d) Seasonal demand:
- e) Village Structure in India

### Challenges : The 4a Approach

The rural market may be alluring but it is not without its problems: Low per capita disposable incomes that is half the urban disposable income; large number of daily wage earners, acute dependence on the vagaries of the monsoon; seasonal consumption linked to harvests and festivals and special occasions; poor roads; power problems; and inaccessibility to conventional advertising media.

However, the rural consumer is not unlike his urban counterpart in many ways. The more daring MNCs are meeting the consequent challenges of Availability, Affordability, Acceptability, and Awareness. (the so-called 4 A's).

#### 1. Availability

The first challenge is to ensure availability of the product or service. Availability remains the single largest challenges for marketers. Indian's 640,867 villages are spreads over 3.2 million sq.km (Census, 2001). If the product or services is not available in a market, it



cannot be purchased. Over the years, India's largest MNC, Hindustan Lever, a subsidiary of Unilever, has built a strong distribution system, which helps its brands reach the interiors of the rural market. Coca-Cola, which considers rural India as a future growth driver, has evolved a hub and spoke distribution model to reach the villages. LG Electronics defines all cities and towns other than the seven metros cities as rural and semi-urban market.

## 2. Affordability

The second challenge is to ensure affordability of the product or service. With low disposable incomes, products need to be affordable to the rural consumers; most of them are on daily wages. Some companies have addressed the affordability problem by introducing small unit packs. Godrej recently introduced three brands of Cinthol, Fair Glow and Godrej in 50-gm packs, priced at Rs 4-5 meant specifically for Madhya Pradesh, Bihar and Uttar Pradesh - the so-called 'BIMARU' States. Hindustan Lever, among the first MNCs to realise the potential of India's rural market, has launched a variant of its largest selling soap brand, Lifebuoy at Rs 2 for 50 gm. The move is mainly targeted at the rural market. Coca-Cola has addressed the affordability issue by introducing the returnable 200-ml glass bottle priced at Rs 5. The initiative has paid off: Eighty per cent of new drinkers now come from the rural markets.

## 3. Acceptability

The third challenge is to gain acceptability for the product or service. Therefore, there is a need to offer products that suit the rural market. One company, which has reaped rich dividends by doing so, is LG Electronics. In 1998, it developed a customized TV for the rural market and christened it Sampoorna. Because of the lack of electricity and refrigerators in the rural areas, Coca-Cola provides low-cost ice-boxes - a tin box for new outlets and thermocol box for seasonal outlets. The insurance companies that have tailor-made products for the rural market have performed well. HDFC Standard LIFE topped private insurers by selling policies worth Rs 3.5 crore in total premia. The company tied up with non-governmental organisations and offered reasonably priced policies in the nature of group insurance covers.

## 4. Awareness

Mass media is able to reach only to 57% of the rural population. Creating awareness then, means utilizing targeted, unconventional media including ambient media. For generating awareness, events like fairs and festivals, Haats, etc., are used as occasions for brand communication. Cinema vans, shop-fronts, walls and wells are other media vehicles that have been utilized to increase brand and pack visibility. Innovative media used by personal wash like Lux and Lifebuoy and fabric wash items like Rin and Wheel. Idea was to advertise not only at the point of purchase but also at the time of consumption. Godrej Consumer Products, which is trying to push its soap brands into the interior areas, uses radio to reach the local

people in their language. Coca-Cola uses a combination of TV, cinema and radio to reach 53.6 per cent of rural households.

## VII. CONCLUSION

The market scenario in the rural areas today is changing very rapidly. In recent years, rural markets have acquired importance, as the overall growth of the economy has resulted into considerable increase in the purchasing power of the rural people and preferences of rural people are also getting changes. Rural markets are growing faster than urban markets and with better profitability, as urban markets have become more mature and intensely competitive, especially after the liberalization of the Indian economy. The rural market is very large in comparison to the urban market. Majority of Indian population lives in villages, so rural India is now on the main focus of various companies to sell their products and services. The Rural market is a greater future prospect for the marketers and there are many opportunities available for them in rural markets.

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