

# Rural Retailing

## Abstract

Recently the Indian retail industry is undergoing a major change. Indian retail market is about US \$ 202.6 billion and is expected to grow at a compounded 30% over the next five years as per the AT Kearny report. As per Technopak report, Indian retail market at present is around US\$ 300 billion with rural urban ratio of 55-45. Indian rural market consumes about 53% of FMCG and 59% of the durables now. 74.6 Crore people live in rural areas and rural per capita income would double to 14000 rupees by 2012. KPMG ranked India as second in GRD Index. Corporate eyeing towards rural areas as drives of future growth like Godrej, India Oil Corporation, DCM, ITC and HLL. The winning strategy is to design specific products for the rural economy. Proliferation of spurious products & counterfeits products pose considerable challenges to rural market. The major tasks that need unique handling in rural retailing are STP, sales force management, product management, logistic management and rural communication. For rural retailers it is both complex and difficult but the market size and demand base offers a huge opportunity that retailers cannot afford to ignore.

**Keywords:** Rural Market, Retail, Consumers, GDP, STP

### Introduction

“The future lies with those companies who see the poor as their customers”

**-C.K. Prahalad**

India is a nation of shopkeepers like Britain with over 12mn retail outlets. India has one of the highest densities of retail outlets in the world with one retail outlet for 90 persons. No wonder India is the ninth largest retail market in the world with annual retail sales of USD 215 billion in 2005. However the share of organized trade in India is currently very low estimated just Rs, 35,000 Cr in 2005 (Rs. 28000 Cr in 2004). This accounts for less than 4% of the total retail trade in the country.

India retail industry is undergoing a major change with the word “retail” being considered a mere buzz word does one realize the implication of what the retail industry is all about ? AT Kearny estimates, that India, retail market is about US \$ 202.6 billion and expected to grow at a compounded 30% over the next five years. A couple of factors responsible for the success of retail future, namely availability of good space and good mall management practice and consumer preference. KPMG ranked India as second in a Global Retail Development Index of about 30 developing countries. Organized retail is expected to grow stronger than GDP growth in the next 5 years as per KPMG report. In India retail account for 10% of the countries GDG and 8% of the employment. It is emerged as one of the most fast paced industries with many players entering in the market.

Modern retailing is in urban areas but India is witnessing experiments to tap rural potential. India rural retail opportunity is currently estimated to be in excess of Rs. 1400 billion (approximately 34 billion US\$) the figure is likely to touch Rs 1800 billion (approximately 43 billion US\$) in 2010 and go up to Rs 2400 billion (approximately 58 billion US\$) by 2017 according to CII- YES Bank study on rural retail sector. The total number of rural house hold is expected to rise from 135 billion in 2001-02 to 153 billion in 2009-10 giving a real boost to rural retail opportunity.

As per Technopak report, Indian retail market is at present around US \$ 300 billion with rural-urban split in the ratio 55-45. The rural market consumes about 53% of FMCG and 59% of durable in India.

### Objective of the Study

The study is done due the following reasons.

- 1 To highlight the current scenario of rural marketing in India.
- 2 To identify the problems faced by retailers in rural marketing.

### Rural Marketing in India

About 70% of the Indian population lives in villages. Rural India constitute a sizeable market and marketers have to strive hard for securing



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a share because in India 74.6 crore people live in rural areas. Two third of the middle income house hold are in rural India. Rural per capita income would double to Rs 14000 by 2017 as more families switch from subsistence farming to commercial.

The segment of the population contributes in the economic development of the nation through the production of food grains, vegetables, fruits etc. Huge and bulk markets for agriculture produce result in the generation of capital and earnings of foreign exchange through the export of these economics.

The government is also implementing various policies to uplift the living standards of the rural people. But the living conditions of people in the rural areas and the economic status of the country have not improved significantly owing to the following features of Indian rural markets. They are

### Large and Scattered Market

The rural market of India is large and scattered in the sense that it consists of over 63 crore consumers from 5,70,000 villages spread throughout the country.

### Major Income from Agriculture

Nearly 60 % of the rural income is from agriculture. Hence rural prosperity is tied with agricultural prosperity.

### Low Standard of Living

The consumer in the village area do have a low standard of living because of low literacy, low per capita income, social backwardness, low savings, etc.

### Traditional Outlook

The rural consumer values old customs and tradition. They do not prefer changes.

### Diverse socio-economic backwardness

Rural consumers have diverse socio-economic backwardness. This is different in different parts of the country.

### Infrastructure Facilities

The Infrastructure Facilities like roads, warehouses, communication system, financial facilities are inadequate in rural areas. Hence physical distribution becomes costly due to inadequate Infrastructure facilities.

### Rural Myths

There are some rural myths exists. They are

1. Rural market is homogeneous markets.
2. Purchasing power is very low.
3. Reaching more than 6 lakh villages is a distribution nightmare.
4. Urban ads are equally suitable for rural audience.
5. Individuals decide about purchases.
6. The rural boom is over.

### Evolving Rural Market

Rural market has following attributes and the following facts substantiate this

1. 742 million people
2. Estimated annual size of the rural market

FMCG	Rs. 65,000 Crore
Durables	Rs. 5,000 Crore
Agri-Inputs (including tractors)	Rs. 45,000 Crore
2 / 4 Wheelers	Rs. 8,000 Crore

1. Increase in purchasing power.
2. Increasing brand consciousness.
3. Changing consumption pattern.
4. Rapid spread of communication.

### Organized Retail Market in India

TSMG projects that in the next 10 years, the overall retail market in India is likely to grow at a CAGR of 55% to 1677,000 Crore in 2015. The organized retail market is expected to grow much faster at a CAGR of 21.8% to 2,46,000 Crore in 2015 thereby constituting 15% of the overall retail sales. Based on the projections the top 5 organized retail categories in 2017 would be food, grocery & general merchandise, apparel, durables, fuel services and home improvement.

Retails inspired by the Wal-Mart story of growth in small town American are tempted to focus on smaller town and villages in India. As per NCAER, CSSO, TSMG Analysis population in 2001 was \$87.4 Crore and in 2025 it is expected to reach 115.3 Crore which includes 6 lakh villages.

### Rural Retail

As organized retail in rural India awaits the arrival of Reliance Retail Current majors like ITC, Godrej and DSCL are expanding their retail operation by setting up more stores, entering new states and offering newer product categories. A shift from selling agri inputs will help these stores targeting the non-farming segment. 25% of the rural population is not engaged in agriculture but it earns 50% of the rural income.

When organized retail first made its presence felt in rural India, it was not a pure retailing operation targeting the rural masses. Companies like DSCL and Godrej who had significant agribusiness interests, set them up to meet the needs of farmers in a store catchment area. A typical agri input store would have a catchment area of around 100 villages spread over 20-25 km.

These stores are one stop-shop meant to meet the occupational needs of farmer by providing agri inputs and fertilizers. These stores like DSCL's Hariyali Kisan Bazaar, ITC's Chrupal Sager etc. found to be located in small towns that function as procurement hubs where the farmers come to sell their produce. Their earnings are tapped then and there, by getting them to combine their visit with shopping. These stores tend to target farmers with all sizes of holdings.

While organized retail centered on these stores, organized retail revolves around the local village shop and the haat. Shops are usually present in villages with population of more than 500 people. They stock more product categories than what similar urban shops would, but there is not much variety offered within a category.

Haats are like mobile supermarkets that are spread over 2-3 acres of land with more than 300 stalls, selling any thing from animal feeds to local medicines. In unorganized retail, disappointment is that, the goods sold are often spurious and there is no guarantee of quality for any of the goods being sold. The typical shop is cluttered and congested with limited variety and few national brands, many of the goods are sold at price higher than the maximum retail price with shopkeepers giving goods shortages, transportation costs etc as rationale, what there stores ended up doing.

The earlier focus on agri inputs helped as it created an entry point into other categories as well.

Once the customers began to buy these agricultural inputs and services they develop trust in the process and become natural customers for the other products too. One practical problem they have had to face is the shortage of man power. The long term solution to this could be the training of unemployed youth to man these stores. These stores also have an image problem in that some of them are perceived to be expensive.

#### **Challenges**

Although the rural market does offer a vast untapped potential, it should also be recognized that it is not very easy to operate in rural market because of several problems.

The major problems faced are:

#### **Underdeveloped People and Underdeveloped Markets**

The underdeveloped people and consequently underdeveloped market by and large characterize the rural markets. Vast majorities of the rural people are tradition bound, fatalistic and believe in old customs, traditions, habits, taboos and practices.

#### **Lack of Proper Physical Communication Facilities**

It is found that nearly 50% of the villages in the country do not have all weather roads. Physical communication of these villages is highly expensive. Even today most villages in the eastern parts of the country are inaccessible during the monsoon.

#### **Media for Rural Communication**

Among the mass media at some point of time in the late 50's and 60's radio was considered to be a potential medium for communication to the rural people. Another mass media is television and cinemas. Statistics indicate that the rural areas account for hardly 2000 to 3500 mobile theatres, which is far less when compared to the number of villages.

#### **Many Languages and Dialects**

The messages have to be delivered in the local languages and dialects. Even though the number of recognized languages is only 16, the dialects are estimated to be around 850.

#### **Dispersed Market**

Rural areas are scattered and it is next to impossible to ensure the availability of a brand all over the country. Seven Indian states account for 76% of the country's rural retail outlets, the total number of which is placed at around 3.7 million.

#### **Low Per Capita Income**

Even though about 33-35% of gross domestic product is generated in the rural areas it is shared by 74% of the population. Hence the per capita incomes are low compared to the urban areas.

#### **Low Levels of Literacy**

The literacy rate is low in rural areas as compared to urban areas. This again leads to problem of communication for promotion purposes. Print medium becomes ineffective and to an extent irrelevant in rural areas since its reach is poor and so is the level of literacy.

#### **Prevalence of Spurious Brands and Seasonal Demand**

For any branded product there are a multitude of 'local variants', which are cheaper, and, therefore, more desirable to villagers.

#### **Different Way of Thinking**

There is a vast difference in the lifestyles of the people. The kind of choices of brands that an urban customer enjoys is different from the choices available to the rural customer. The rural customer usually has 2 or 3 brands to choose from whereas the urban one has multiple choices. The difference is also in the way of thinking. The rural customer has a fairly simple thinking as compared to the urban counterpart. Thus the rural market is having many problems and to achieve a success, a marketer has to grasp these problems and provide innovative solutions to them.

Rural Marketing Mix Rural marketer has to have different marketing mix as the target market is totally different. So it should have different product, price, distribution and promotion mix.

#### **Product Mix**

As the per capita income is very low it is imperative that any product meant for rural area should be available in small packaging and should also be affordable. A majority of rural people would require low cost products. Thus there is an urgent requirement of appropriately designed product that suit the requirements of rural consumers.

#### **Price Mix**

The price of the product should be affordable. The pricing strategy should suit the quantum and frequency of the income receipt of rural people, which is different from that of their urban counterparts.

#### **Distribution Mix**

The distribution cost to serve rural market tend to be high due to a number of factors like poor communication facilities, less off take and highly scattered distribution outlets. So big retailers can have a tie up with co-operative institutions which are deep rooted in the villages. The rural credit Survey observed that "the co-operative is the only medium through which the last man in the last villages can be reached"

#### **Promotion Mix**

As about 80% of the geographical coverage has been achieved through television networks, television is a powerful medium to expose products to ruralites. As the literacy level is low, advertisements in the print media will have lesser effect. However publicity through special shows, film with the help of mobile vans, etc are still considered to be good method of promotion.

#### **Innovation in Rural Retailing Model**

1. Chaupul Sagr by ITC.
2. Haryali Kissan bazaar by DCM Sriram Consolidated Ltd.
3. Project Skti by HLL.
4. Project Bharat By HLL.

#### **Recommendation**

The rural retailing models can be successful only when there is integration between the profit and social motive is apparent. The social angle needs to be pronounced for it to be accepted.

The model should empower the rural consumers in terms of economic power, purchasing power and knowledge and information dissemination. After some time they should take the advantage of

P: ISSN NO.: 2394-0344

E: ISSN NO.: 2455-0817

this empowerment through creation of demand for their own products.

There is lot of money in rural India. But lots of limitations are there. Marketers are yet to understand the rural consumer behaviors. So marketer should understand the behaviors and then venture in to the market.

#### **Conclusion**

Thus looking the opportunities and challenges, which rural market offers to the marketers it can be said that the future is very promising for there who can understood the dynamics of rural markets and exploit them to their best advantage.

A radical change in the attitude of marketers towards the vibrant market is required. By this the 230 million rural consumers spread over 6 lakh villages in rural India can be taped.

For rural retailers it is both complex and difficult but the market size and demand base offers a huge opportunity that retailers cannot afford to ignore.

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Vol-II \* Issue- XII\* May- 2016

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