

# Rural Marketing

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## DMGT509

Edited by:  
Dr. Anand Thakur



**L** OVELY  
**P** ROFESSIONAL  
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# **RURAL MARKETING**

Edited By  
Dr. Anand Thakur

Printed by  
**EXCEL BOOKS PRIVATE LIMITED**  
A-45, Naraina, Phase-I,  
New Delhi-110028  
for  
Lovely Professional University  
Phagwara

## SYLLABUS

### Rural Marketing

**Objectives:** To provide an overview of rural markets and emerging perspectives of rural marketing, thus imparting managerial initiatives and relevant frameworks used by business managers for rural markets.

S. No.	Description
1.	A Conceptual Framework, Nature & Characteristics of Rural Market. Challenges & Opportunities, An Overview of Indian Rural Market
2.	Rural Marketing Model, Rural Marketing Environment
3.	Rural Consumer Behaviour, Characteristics of Rural Consumer, Consumer Behaviour Roles, Factors influencing Purchase of Products in Rural Market
4.	Rural Marketing Research, Process of Research in Rural Markets, Sources and Methods of Data Collection, Data Collection Approaches in Rural Markets
5.	Segmenting, Targeting and Positioning, Conditions for Effective Market Segmentation, Approaches for Segmenting the Rural Market, Rural Market Segmentation Tools
6.	Product & Pricing Strategies for Rural Markets
7.	Promotion & Distribution Strategies for Rural Markets
8.	Principles of Innovation for Rural Market, Need for Innovation in Rural Market, Role of Government & NGOs in Rural Marketing
9.	Rural and Urban Markets: A Comparative Analysis, Parameters Differentiating Urban & Rural Markets, Similarities and Differences in Consumer Behaviour in Rural & Urban Markets
10.	Marketing of Agricultural Produce and Inputs, Regulated markets, Cooperative Marketing & Processing Societies, Corporate Sector in Agri-Business : Cultivation, Processing & Retailing, Rural Marketing of FMCGs, Durables & Financial Services

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## Unit 1: Rural Marketing – An Introduction

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Introduction

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### Objectives

After studying this unit, you will be able to:

- Define Rural Marketing.
- Discuss about the Nature and Characteristics of Rural Market.
- Describe the Challenges and Opportunities of Rural Market.
- Explain the Overview of Indian Rural Market.

### Introduction

The question being asked by even some senior marketers in India is, "Why rural marketing, when there is enough business available in the urban markets even today?" People are afraid of the unknown elements of the rural markets and they feel that different marketing theories and principles would be required in rural marketing.

## 1.1 Why Rural Marketing?

The following areas are the commonest of the worries that trouble the urban marketers, when they even think of rural markets:

1. The first source of worry is the product price and affordability in the rural markets. With low income levels, the rural buyer is almost considered a non-buyer, and yet the sales being made in rural markets by certain companies defies the logic.
2. The next source of worry is the needed distribution patterns with problems arising out of lack of proper transportation, bad roads adding to the irksome "product availability situation".
3. Reaching out to the rural customer through advertising poses a major problem due to illiterate population and lack of media reach.
4. Most importantly, however, it is rural mindsets that create a barrier of significant magnitude to put off several prospective rural marketers.

As the sellers plan rural marketing, a few strange situations come to their minds as given below:

The seller wants to see the demand pattern of rural markets to become equal to the urban demand. However, the rural buyer behaviour is considered to be entirely at variance with the urban mindset. The paradox is compelling the seller into planning severely different marketing plans for the rural markets. The basic fact that consumers need motivation for buying a particular product, a specific brand, involves learning the psychographic understanding of the buyers and not just for the rural urban divide.

The other disturbing factor is the total denial of the rural presence in the geography of the country. The pristine natural unpolluted air, the beauty of the rural scene is totally lost to the urban soul. Naturally, the rural tragedies, happiness and the entire rural ethos are alien to the urban mind. The result can be seen in few reference points available that can benchmark the stimuli levels needed for the rural buyers. The urban generation of today has no links at all with the village and its life. The urbanisation of the mindset is total, complete.

The senior generation still believes that the villages are yet enjoying the pastoral bliss, whereas the villagers enjoy daily dose of Hindi films, either on the TV or in makeshift halls. Village still gets reflected in the help elders provide to the children in writing school essays on village life. However, the topic of village has always a short life as it can never sustain a long discussion or enquiry.

Indians consider the villages to be still living in prehistoric times with people having primitive passions that evoke fear amongst the urban population, the fear of the unknown. They consider the village to be "the other India" quite different from the urban India. The village, the urbanite believes, can be presented as a source of amusement in a reality TV show. The implications of these urban understandings of the villages are given below:

1. Urban mind has distanced itself from the rural market through the belief that rural marketing needs specialisation for success.
2. The entire village scene has been stereotyped with the belief that they are all the same in the entire country.
3. There is yet no attempt at understanding the village buyers and their buying motivations and this fact is most evident when the rural advertisements are viewed, for e.g., the way Dhanno sings about her happy life and people in panchayats talking about the new road likely to come to the village soon and the advent of village fairs with nautankis.

As any marketer of repute will tell, this situation needs to be changed and changed with immediate effect.

India is a country where the majority population, almost 76%, lives in villages. There are 627000 villages in the country spread across its length and the breadth. The village people are poorer than the city folks as the village contributes less than 50% to the total country's income. However, now the situation is gradually changing for the better.

There are 25 official languages and some four hundred dialects spoken in the country. Most world religions have their adherents here.

In the first half of the twentieth century, village people were using *neem* or *babul* tree twig for cleaning their teeth. Today, they are using tooth powder or toothpaste. Instead of groundnuts the children are asking for chocolate candies. Face cream or lotions have replaced besan (chickpea flour) as a face cleanser.

Appreciating the size and business potential of the rural market, major companies, including, Hindustan Unilever, P&G have made special strategies for targeting rural markets.



*Did u know?* According to Indian Market Demographics 2004, approximate size of Rural Market ranges from 300-500 million.

## 1.2 Nature and Characteristics of Rural Market

There goes a saying that the proof of the pudding lies in the eating. So also the proof of all production lies in consumption/marketing. With the speedy pace of technological development and augment in peoples buying capacity, more and better goods and services now are in constant demand. The liberalization and globalization of the Indian economy have given an added advantage to sophisticated production, proliferation and mass sharing of goods and services.

Taking these into deliberation, the question may arise whether marketers should concentrate their activities in urban India consisting of metros, district headquarters and large industrial townships only, or extend their activities to rural India. Rural India is the real India. The bulk of India's population lives in villages. In terms of the number of people, the Indian rural market is almost twice as large as the entire market of the USA or that of the USSR.

- Agriculture is main source of income.
- The income is seasonal in nature. It is fluctuating also as it depends on crop production.
- Though large, the rural market is geographically scattered.
- It shows linguistic, religious and cultural diversities and economic disparities.
- The market is undeveloped, as the people who constitute it still lack adequate purchasing power.
- It is largely agricultural oriented, with poor standard of living, low-per capital income, and socio-cultural backwardness.
- It exhibits sharper and varied regional preferences with distinct predilections, habit patterns and behavioral characteristics.
- Rural marketing process is both a catalyst as well as an outcome of the general rural development process. Initiation and management of social and economic change in the rural sector is the core of the rural marketing process. It becomes in this process both benefactor and beneficiary.

### 1.3 Challenges and Opportunities

- More than 750 million people.
- Estimated annual size of the rural market.

**Table 1.1: Pros and Cons of Client-Side Programming Tools**

FMCG	₹ 70,000 Crore
Durables	₹ 5,500 Crore
Agricultural-Inputs (including tractors)	₹ 48,000 Crore
2/4 Wheelers	₹ 8,400 Crore

- In financial year 2001-02, LIC sold more than 50% of its policies in rural market.
- 42 million rural households (HHs) are availing banking services in comparison to 27 million urban HHs.
- Investment in formal savings instruments is 6.6 million HHs in rural and 6.7 million HHs in urban.
- In last 50 years, 45% villages have been connected by road.
- More than 90% villages are electrified, though only 44% rural homes have electric connections.
- Government is providing subsidies to the villagers to use other source of energy like Solar System and is now being used in large amount.
- Number of “pucca” houses increasing day by day.
- Rural literacy level improved from 36% to 59%.
- Percentage of BPL families declined from 46% to 25%.
- Out of two million BSNL mobile connections, 50% are in small towns/villages.
- 41 million Kisan Credit Cards have been issued (against 22 million credit-plus-debit cards in urban), with cumulative credit of ₹ 977 billion resulting in tremendous liquidity.



*Tasks*

1. Make a list of popular brands and rate them.
2. Find out differentiated products, which have been introduced in the market.

#### Challenges in Indian Rural Markets

Rural markets, as part of any economy, have untouched potential. There are several difficulties confronting the effort to fully explore rural markets. The concept of rural markets in India is still in evolving shape, and the sector poses a variety of challenges. Distribution costs and non-availability of retail outlets are major problems faced by the marketers. The success of a brand in the Indian rural market is as unpredictable as rain. Many brands, which should have been successful, have failed miserably. This is because most firms try to extend marketing plans that they use in urban areas to the rural markets. The unique consumption patterns, tastes, and needs

of the rural consumers should be analyzed at the product planning stage so that they match the needs of the rural people.

Notes

Figure 1.1: Rural India - Challenges and Opportunities



Therefore, marketers need to understand the social dynamics and attitude variations within each village though nationally it follows a consistent pattern. The main problems in rural marketing are:

- Understanding the Rural Consumer
- Poor Infrastructure
- Physical Distribution
- Channel Management
- Promotion and Marketing Communication

There has been a considerable amount of discussion on rural India of late and the opportunity it presents and one almost gets tired of the rate at which CK Prahlad is being quoted these days. Rural India definitely does present immense opportunity but for everyone trying to make millions out of it, there are a few words of caution on the challenges that the landscape presents.

1. **Distribution and logistics:** Infrastructure continues to be a challenge in rural India. Moreover, the lack of an efficient distribution network prevents penetration of products/ services into rural India. One of the most innovative models in recent times has been the usage of the postal service by mobile operators to penetrate scratch cards to the villages. 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.
2. **Payment collection:** The majority of the rural population is still unbanked. Clearly, non-cash collection becomes rather unlikely. Cash collections, on the other hand, are messy and difficult to monitor, especially since cash cards or technology-enabled centralized POS (like Suvidha or ItzWorld) have still not reached rural areas. The time-tested manufacturer-distributor-retailer network has been the only real success so far but setting up such a structure is rarely feasible. Partnering with MFIs comes to mind but often, the MFIs don't cater to the relatively more privileged/ affluent segments of the rural economy who are likely to be early adopters.

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3. **Pricing:** While Sachet pricing may have worked very well for Chik shampoo, the overheads involved in payment collection do not always allow easy execution of sachet pricing. It is easier to collect in larger amounts as every instance of collection and carrying of cash has associated costs. Disposable income, though, isn't always high since the bulk of rural India is agricultural and income cycles in agricultural are very erratic and not as predictable as in the case of us salaried individuals.
4. **Scaling across geographies:** If India is a land of many cultures, the contrast becomes that much starker in the case of rural India. Setting up operations on a pan-India level presents different types of hurdles in different states ranging from political juggling to downright local factors. Any model where scalability involves scaling on-ground operations (and not merely an increase in downloads) is bound to run into myriad issues as we move from one state to the next. Add to that the greater differences in consumer tastes and behavior across geographies than in the relatively more cosmopolitan urban population.
5. **Developing inorganic scale:** Developing synthetic scale through partnerships typically results in larger overheads in the rural context. Finding the right partner with reach and presence in villages is difficult to start with. More importantly, there are very few players who are strong on these counts across multiple geographies. Hence, a pan-India rollout typically requires multiple partnerships resulting in higher partner management overheads.
6. **Social and cultural challenges:** The cyber café (or kiosk) model has not worked in many parts of rural India due to socio-cultural issues. One of the reasons for the failure of the kiosk model in Kuppam (HP's i-community) was the lack of usage by women which was largely due to their discomfort in going to kiosks run by men.

**Self Assessment**

Fill in the blanks:

1. Developing synthetic scale through partnerships typically results in larger overheads in the ..... context.
2. The majority of the rural population is still .....
3. The time-tested manufacturer-distributor-retailer network has been the only real success so far but setting up such a structure is rarely .....
4. The dependence of villagers on farm income that varies with the fluctuations in rainfalls so vitally required for .....
5. The government has enacted laws against child marriages and .....
6. .... and roads have been given priority in the government's planning process.

**1.4 Rural Products**

Most products required in cities are also needed in the rural markets (with few exceptions), as given below:

1. FMCG products like cosmetics, food items, cooking oil, kerosene, and medicines
2. Consumer durables like refrigerators, stoves, motor cycles
3. Farm products like tractors, harvesters, seeders, seeds, fertilizers, and diesel, water supply for household use including drinking purposes and for watering farms

4. Services like, health clinics, water supply, electricity, eateries, inns
5. Housing

Notes

Pricing in rural markets is tricky because the companies spend more on transporting the products as compared to transporting them to the cities. However, the paying power in rural areas is much less. Companies can, therefore, plan to have low cost packaging with a bit of attractive glitter while keeping the product unchanged in most cases. The companies can work out the rural customers MTBP (Mean Time Between Purchase). They will find that the rural customer will stretch the purchase time much longer. This would be true for most FMCG products. Food items, however, would be needed as per household requirements. The business, however, will snowball because of the sheer numbers of buyers in villages.

### **1.5 Product Promotion in Rural Markets**

Products are kept for sale at the grocers' shops, diesel/kerosene dealers, and tractor repair shops. Besides, companies sell through mobile vans that cover the villages mostly on the days of their weekly markets. These vans carry advertising materials, audio-visual equipments for showing movies besides company's advertisements and the products for sale, and also samples like shampoo sachets for test marketing of the products.

Product promotion in rural markets is done through the vans. Besides, the radio, which has a wide coverage as it covers the entire country geographically, is used. Television reach has increased of late and with better electricity availability it has become a good option, more especially because of its universal appeal. Pamphlets, loudspeaker announcements during weekly markets, mostly on roaming rickshaws, and banners on elephants and camels are used in many areas.

Villages need schools, as the literacy levels are still low. Technical and computer education is becoming increasingly important even in villages. There is a great need for libraries, bookstores and newspapers, magazines in local languages.

Income levels in the rural India can be described as follows:

1. High in certain areas for rich land owning farmers
2. Low for farmers with small lands
3. Very low for farm hands and migratory farmers

Village industries, specially cottage and small scale industries, handlooms, milk farming, and sheep rearing need governmental support or infusion of cooperatives in these areas. The Amul example must be replicated in other parts of the country. The village *Bania*, who has been the proverbial loan shark, is fast disappearing as a tribe and yet the rural banking needs much more thrust. A number of banks have started branches in villages, though they are affected by non-availability of collaterals for giving loans to farmers. Farm insurance would go a long way in settling this problem it is hoped. Bad crops further derail the interest payments leading to bad debts that retard the progress for which the banks have been setup.

### **1.6 Strategic Challenge – Understanding Customers Needs**

Customers have needs, which are obvious, like the need for food, clothing, and shelter. Some of these needs are explicitly mentioned like the need of a house. However, what is real is the need of the house in a locality close to the farm, school and shopping area. Besides, the unstated need could be of a pucca brick house.

**Notes**

Firms face the challenges of new competition, both local and global, and of new technologies as they cater to consumers in business-to-business areas and as individuals. In order to ascertain the product needed by the consumers, market research is undertaken, which offers information about the product, price, placement, i.e., distribution system needed and the methods of communicating information about the product to, the consumers, i.e., by advertising and promotion, that are among the famous 4 Ps of marketing.

In order to prepare the right 4 Ps, firms define their market segment in which the product would be best accepted. The firms try to understand the exact needs of the segment in order to be able to meet the same. In order to build loyal customers firms are trying relationship marketing, to ensure that consumers feel obligated to buy the same product again and again. Quantity discounts, free gifts are some of the means to build relationships with the consumers. Since the competition is doing exactly the same, it is the firm with better strategy, which wins. Changes from the earlier concepts of production orientation, to product orientation and later on to market orientation has helped firms in fine tuning their marketing strategies to suit the consumers from their chosen market segment. The concept of providing socially acceptable products, which do not affect the biodiversity, and which are not ecologically degrading the environment is gaining ground rapidly.



*Caselet*

### **Bharat Strategy: An attempt to win Rural India**

**T**wo major telecom companies of the country, Reliance Communications and Idea Cellular entered into two unusual partnership - Krishak Bharati Cooperatives Ltd. and the department of Posts. While Kribhco's 25,000 co-operatives will market RCom's telecom products and services, the post offices in Kerala will sell Idea's specially designed stamp sized recharge vouchers.

A few months earlier, Airtel entered into a joint venture with the Indian Farmers Fertilizers Cooperatives Ltd. (IFFCO) to offer specifically designed products and services. The target consumers are the 55 million farmers under Iffco's fold. Airtel has already enrolled over 60,000 farmers under this scheme.

Mobile phone manufacturer Nokia, which had earlier launched a basic handset with a torch and a alarm clock, has now gone a step further with Nokia.

Life Tools - a range of agriculture, education and entertainment services designed especially for consumers in small towns and rural areas. The life tools provide basic information on weather, mandi prices and crops.

The efforts of Indian telecom companies to woo Bharat have finally started bearing fruits. Airtel gets more than half of its new subscribers from rural and semi urban areas. Similarly with Vodafone - Essar (50 percent), Idea Cellular (56 percent) and Reliance Communications (50 percent). The Indian telecom sector adds an average 10 million subscribers every month, of which rural areas account for over five million.

And Nokia sells over 1.6 million phones yearly in rural areas.

As per an Assocham Report on rural consumption, in three years the per capita income in rural areas will double. Considering that rural households form 72 per cent of the total, the rural market roughly comprises 720 million customers. The Indian telecom market woke up to the potential about three years ago and the moves are paying off now. Airtel's president, Atul Bindal said, the company was finally seeing its rural strategy yielding

*Contd...*

handsome results. Apart from the tie-up with Iffco, the company has set up Airtel Services Centres in rural areas to provide services and handle customer queries and complaints, eliminating the need of call centres. The company has also tied up with Nokia to launch an educational initiative in order to give rural users a live experience on mobility services, that include hands on training on making the first phone call and sending SMS with localised content.

But still selling phones in the rural areas is not a easy job. It is not easy to convince and sell products and services. Idea Cellular Managing Director Sanjeeva Aga agreed. “Providing telecom services in rural India is not an easy affair. Companies have to overcome many constraints, like electricity (causing infrastructural issues) and topographical and logistic (distribution) issues, among others. Moreover, rural India’s income is dependent on harvest, monsoon and many other factors. The companies have hardly any option, as metros and major cities are saturated. The immediate benefits are low and would initially drain the operators’ overall revenues, rural markets are lucrative in the long run. Look at the FMCG industry, where most of the majors are now focusing on rural areas.

#### Question

Analyse the caselet and discuss the case facts.

### 1.6.1 Marketing Relativity through Competition

Companies do not operate in vacuum; they have to face and deal with the competitive forces operating in the market. It is, therefore, of paramount importance for companies to know the exact competitive situation, their moves, their strengths and weaknesses, pricing and promotion strategies, channels they use for distribution and their reaction time to the company’s strategic moves like price modifications, introduction of new channels of distribution and advertising thrusts.

Companies face competition from different sources as given below:

1. Firms selling similar products in same volumes to same customers for giving satisfaction of a similar nature.
2. Firms likely to offer alternate solutions for similar problems (the airlines meeting the fare structure of railways is a case in point).
3. Firms getting their R&D operations to bring out innovative uses of existing products or developing new better products giving superior satisfaction to the buyers.

Companies must plan to have a covert intelligence network that is legal and yet provides them with competitive information. Once collected the information must be sifted and the unnecessary data should be deleted while the good data disseminated to those concerned. Companies should get the customer’s perspective regarding competitive product’s value to the customers, how they perceive its benefits as compared to the benefits offered by the company’s products.

Companies with the largest market share are the market leaders, belonging to the Star quadrant in the BCG Matrix. To stay on the top, companies have to keep enlarging their market base, retain their existing customers and get some non-users to become users as well as take customers from competition. This involves price reductions; besides better market management including training of selling team and promotion plans with increased advertising efforts. These activities take a sizable amount of finances reducing the profits earned by the company.

Companies that have lesser share of the market attempt to increase the same with bigger thrust on marketing efforts. They try product innovations and differentiations, price penetrations, lower costs of manufacturing through higher scales of manufacture and experience curve along

**Notes**

with speedier reach to the market place. They also get into a niche market where their product has the best acceptance. In their niche market they can communicate with the customers in a language most easily understood by them.

Competitive understanding should be achieved by a comparison of the market share of competitors and the status of different players in the industry. Competitive information can be gathered through market surveys, interaction with channel members and industry publications. Competitors' balance sheets too provide information about competition. Such information collected from different sources should then be collated, analysed and the results disseminated to the concerned persons.

Market leaders can at times become low profit entities and the second and the third level players can take the leadership position if they find it attractive enough for their products. These companies use penetrating pricing policy, attractive promotion plans, low cost production and product differentiation. However, a cost-benefit analysis must be undertaken before attempting increase in market shares.

The companies having low market share could be making good profits compared to high share companies because they are not investing in marketing expenses to that extent. They could be claiming better-personalized service and tailor-made solutions to their customer's problems or product needs. "We are second and we strive harder for your satisfaction should be their punch line". These companies could cater to niche markets better as they understand its needs better.



*Caution* Before a company considers entering the rural market, understanding the types of products and packages that rural Indians typically use is crucial. By taking into account the low disposable incomes and the unique product and package needs of this market, consumer products that are designed and packaged for this market have great potential.

## **1.7 Unique Selling Proposition**

Companies do a cost benefit analysis before planning marketing communication as the advertising, promotion and personal selling revolve around the USP. A single product benefit well advertised can capture the customers' imagination and get firmly planted in their psyche. Attitudes, beliefs and purchase decisions are taken due to such mindsets. However, at times multi-benefit communication can be used to further focus the product into the psyche. Products need to be differentiated for achieving distinctive competitive advantage. The differentiation can be made in product itself, and in the following areas:

1. Product features
2. Service, both sales service and after sales service
3. Quality, both static structure and dynamic specifications
4. Consistency of quality
5. Reliability of product and service
6. Availability of spares and repair facility
7. Customer training in proper use of the product
8. Channel members personnel
9. Advertising campaigns

Bajaj Auto has quietly launched the Boxer 150 in India. The Boxer BM150 is powered by a 150cc engine (no DTSi or the likes here) and tuned for more torque, rather than outright power. Priced at ₹ 42,000/- (ex-showroom, Pune), the Boxer's only USP is its loading carrying capacity. All drum brakes, electric start and an analog speedometer adorn this 'Bharat' bike. The Boxer is designed for use and abuse in all kinds of terrain. The Boxer's 150 cc engine produces 12 PS of power and 12.26 Nm of torque, almost 50% more than the standard 100 cc bikes. Bajaj claims that the Boxer features a rugged frame, swing arm and chassis. The all metal body parts, twin spring SNS suspension, bigger tyre and a heavy duty carrier ensure the Boxer is at home in most terrains.

Figure 1.2: Boxer is Aimed at the Rural Market and is a Tractor on 2-wheels according to Rajiv Bajaj



The differentiation in any or several of these areas needs to be highlighted for the customer to take notice. Products have to be categorized as distinctive, affordable, showcasing buyers' life style as an intelligent and experienced buyer.

Companies need to plan marketing strategies all through the product life cycle, at the introductory stage, at early growth, late growth, maturity and finally at the decline stage. In India most products are in growth stage as the economy of the country is poised for growth with continuous increase in its GDP and GNP. However, products such as VCR have reached the decline stage because of the big increase in satellite channels available on the TV. Introductory stage gives big profits for the first arrivals on the scene as with no competition skimming prices can be charged. The selling power devolves around the channel members, as they are closer to the customers than the new players. Product specifications are also in a fluid state waiting for total customer acceptance. Companies, however, need to have a cautious approach as when others see large profit margins, they too jump in the fray, creating competition. In growth stage competition increases while the selling power starts shifting to the manufacturers from the channel members because by this time the brand gets established and companies start having direct bonding with the customers with their promotional plans. In the maturity stage, price wars start, brands sell and promotions become commonplace. Some late entrants with little foothold in the market

**Notes**

may quietly slip out of it, leaving a bigger cake for the remaining players. In decline stage several players close shop and the one's remaining can plan niche marketing and harvesting the balance business. Others can hang on to the product as it might be used for bundling with other fast selling products to make offers more attractive.

**Self Assessment**

State whether the following statements are true or false:

7. Companies with the largest market share are the market leaders, belonging to the Star quadrant in the BCG Matrix.
8. Companies do a cost benefit analysis before planning marketing communication as the advertising.
9. Firms getting their R&D operations to bring out innovative uses of existing products or developing new better products giving superior satisfaction to the buyers.
10. Secondary Stage gives big profits for the first arrivals on the scene as with no competition skimming prices can be charged.
11. Production in rural markets is tricky because the companies spend more on transporting the products as compared to transporting them to the cities.

**1.8 Market Evolution**

In the beginning of the time, people lived in caves, hunted for food and searched for edible roots, fruits. The division of work or of labour started with more proficient hunters going for the beasts while others kept the search for vegetable foods. Next, minerals were found. The women were engaged in preparing food for eating and shaping the animal hides for wearing and using minerals as cosmetics. We can consider the women as manufacturers of that time.

Later, people found that they had a little surplus of a few items of food or clothing while they needed some other items. This led to persons going with their wares to neighbouring areas to barter their products with those of the areas they were visiting. These persons were the first salesmen. As the commerce increased, it became necessary for some people to precede the salesmen and could talk about the products. Thus started the profession of advertising.

Still later, the community heads, the warriors and others who had nothing to sell, and yet they wanted to buy, needed an item, which they could give in exchange of goods. The currency, and monetary systems can find their genesis from this point.

From such beginnings, we have reached the world of supermarkets, and Internet sales with highly competitive products coming out in the market on a continuous basis. This has led to organized market research into the needs of the customers, and research and development for developing the needed products, besides other innovative products which find market eventually, like the cell phone, through diverse and complex distribution systems. The government of the country - its monetary systems, money supply organizations together with greater awareness of products and their needs among the customers, has made the market place complex as also rewarding.

The sequence of market development can thus be shown as given below.

Later periods saw the burgeoning Distribution Channels, rise of Middleman, the Agency System, Credit Sales, and Hire-Purchase.

Over a period of time the concept of just selling got converted into the Grand Marketing Phenomenon.

Tracing back the evolution of commerce, we find that after the age of barter and beginning from the last decade of the nineteenth century, sales became an important discipline in business. During that time Industrial Revolution had started in Europe, followed by Mass Manufacturing Techniques the Assembly Line Operation, which as per experts was propagated by Henry Ford of the Ford Motor Company. The result was increased production of Quality Goods. Hence for most products, the supply exceeded demand. It was natural, under the circumstances that the manufacturers had to resort to hard sell, or power selling techniques. Salesmanship became an extremely valued profession. Successful salesmen believed that salesmen are born and people cannot be trained to become good salesmen. And yet training for salesmanship started in right earnest at about that time, that is in the early twentieth century.

## **1.9 Market Scenario in India**

Changing scenario in the twenty-first century for India is due to:

1. Opening of country's economy
2. Global competition
3. Better quality products
4. A large variety of models of same products
5. High-tech products
6. New channels of distribution
7. New channels/media for advertising
8. Educated well informed customers, who are aware of their rights
9. Complaint redress forums

In 1991, the Government of India changed the rules of the business game as follows:

1. Removal of license to manufacture for most products
2. Foreign equity allowed in industries
3. Lower rates of import duty
4. Partial convertibility of rupee
5. Lowering of importance of government/public sector business

The above resulted in several global players getting into the country with massive investments. Later changes in governments, led to slowing down of economy and reforms and in many cases foreign firms found that the large investments have not borne the expected results e.g. Daewoo Motors. However with a large purchase group of some two hundred million people, the foreign firms believe that they can yet make a profit by just persevering in India.

Lowering import duty has helped in exports as export related manufacturers could get their raw materials imported without any problem. This has also helped foreign firms in getting their products for Indian market, giving Indian customer the choice of a variety of goods, of better quality.

Partial convertibility of Rupee has helped exporters in more than one way, specially by allowing them unrestricted imports.

The public sector or government owned firms have lost their importance over the years and now the government has put quite a few of them for disinvestments. The fact that there was a

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Ministry of Disinvestments in the center shows the importance the government of India places on disinvestments.

### **1.10 Agricultural Scenario in India**

Indian farmers toil throughout the year but their rewards are meagre. Their share of the consumer's money paid for purchase of farm produce is less than 20%. US and Thailand farmers get almost 33% of the final selling price. The rest of the money goes to the numerous middlemen, transport companies, wholesalers, retailers, that is mainly those bringing the farm produce to the market. International horticulture trade has got a big boost due to rising incomes and consumer preference for a variety of fresh fruits and vegetables. India is one of the largest producers of fresh fruits accounting for 11 per cent of world vegetable produce and 15 percent of fruit production. India remains a low cost producer having less than half the production cost of other nations. In spite of these favourable factors our share of the world market is infinitesimally small, a mere 1.7 per cent of the global trade in vegetables and 0.5 per cent in fruits. A recent World Bank survey has concluded that the problem of India's farm sector lies outside of it rather than within.

Basically there are three major factors that are derailing India's potential for reaching the supermarkets across the globe which are given below:

1. High cost of delivery from farm to the markets eats away the benefits of a low cost producer. The example of grapes can be cited. The transportation of grapes from India to Netherlands is three times more than that for grapes from Chile although Chile is twice as far from the destination than India. India's transport costs are, on an average 20 to 30 per cent higher than those of other countries mainly due to fragmented Supply Chain which results from policies inhibiting investment, integration and competition in transport sector, storage and distributions. As a consequence, India's largest buyers of horticulture exports are middle and south Asian countries.
2. Secondly, according to the World Bank survey there exists a huge disparity between the exacting requirements in health, safety, and quality standards needed by foreign governments and buyers, especially from richer countries. Consumers from these countries are imposing high level of quality standards even if their governments may not be involved in these regulations. It may be of great significance that soon even Indian consumers will be making for such stringent quality standards demands and then the Indian farmer may not be able to compete even in India.
3. Thirdly, foreign trade operations are not transparent and often are complex and have deceptive forms of protection of their own farmers as given below:
  - (a) Discrimination against efficient delivery.
  - (b) Quotas that impose harsh tariffs on imports above certain levels.
  - (c) A system of special safeguards that is a source of great uncertainty for successful exporters.
  - (d) Preferential access schemes such as from Turkey to the EU, Mexico to the US discriminate against imports from other countries.
  - (e) Tariff escalation clauses further discourage the export of processed fruits by imposing higher tariff on products that have been through more advanced stage of processing.

These three factors have much greater effect than their sum total. Poor logistics creates delays and wastage and takes away farmers incentive for improving quality of their produce. Since

standardisation is only to a limited extent, physical inspection becomes a must. When a domestic market is protected by the government it increases the transport costs for exporters because low imports would mean that exporters must not only, bear the cost of outward journeys but also the unutilised capacity on the way into the country. High delivery costs increase the burden of foreign tariff because they are imposed on the final product price.

The World Bank has proposed two major reform priorities that should raise the farmers' incomes, lower retail prices and improve the international competitiveness of Indian agriculture. These are:

1. Create an integrated and competitive domestic agriculture market.
2. Improve communication, transport, storage, distribution and agriculture support services.

It may be debatable but removal of bottlenecks from farm to market is a higher priority than increasing farm productivity. Once the farm yield goes up by 20 percent it would reduce the final price by less than three percent points. However, a twenty percent reduction in transport costs alone will reduce final prices by as much as ten percentage points. It must be understood that without better logistics, increasing production through subsidised credit, power and fertilisers would only lead to gluts that hurt rather than help the farmers.

One area that needs drastic and radical reforms is of providing farmers better access to services, from transport to distribution and these will increase the economic gains and strengthen the political case of agriculture trade liberalisation. These reforms on our own trade regime, coming out of subsidising inefficient intermediaries and not so much the farmers, are bound to make India present its case more forcefully in the WTO negotiations. India can then effectively secure lower level of foreign protection, but also greater transparency, simplicity and predictable foreign trade regimes.

Former RBI Governor Y V Reddy feels that because of the Global warming and climate uncertainties, farm production has become erratic. As a consequence farm produce pricing is going to be problematic and a fresh look needs to be taken on farm produce pricing and their inventory built-up as a part of the public policy. He asserts that the impact of food grain shock is going to be larger than the shock of fluctuating oil production worldwide and its pricing, because our demand in the globally traded part is going to be large.

While the Industrial Revolution had started in Europe in the eighteenth century it did not touch India till the period after country's independence in 1947. After 1947, the first Prime Minister Pundit Jawaharlal Nehru and the Government of India made the country a socialist republic, with emphasis on government's role in business and industry. A large number of Public Sector Undertakings were formed with government funding and management. Private sector companies were considered as dishonest and therefore there was a lot of government control with license and permit Raj. Without the approval of the government officers the private entrepreneur could not do any business. This led to rampant corruption and bribery as a means of getting things done speedily in the government offices. A new breed of Power Brokers emerged as go-betweens between business and the government. The only concession to private business was for the small-scale sector. Business suffered as the Public Sector firms could not bring about the needed economic growth due to lack of accountability for these firms and private sector was already handicapped.

There were a few exceptions though, like the Bajaj group, the Reliance group, who forged ahead despite the hurdles. The early big names of Tata, Birla, Modi, Singhanian, Bangur, to name a few, kept the struggle going.

It was only in 1991, that the government found itself on the back foot with regard to its Foreign Exchange reserves, which had reached an all time low. On the request of the government of

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India, the World Bank and IMF agreed to provide loans on the condition that India opens its business boundaries to international players. This resulted in the economic reforms stated above.

Rural market environment is changing fast because of the Government of India's initiatives as given below:

Government has organised a Ministry of Panchayat Raj on 22nd May 2004 to provide dedicated and focussed attention for operationalising the mandate for Panchayat Raj. In pursuance of the national consensus arrived at, the ministry releases unties monetary assistance to the state governments for 250 identified backward districts.

There are centrally sponsored schemes to finance the panchayat sector of the rural India however it has been found that the state governments are not coming out with the Activity mapping. Some state governments have started District planning committees and the rest need to follow suit. State governments are to facilitate and empower panchayats to raise 20 percent of their budget as their own revenue. These initiatives are expected to bring in the Panchayats into the country's main stream of activities.

Only then can India claim to have striven towards Gandhiji's goal of "Poorna Swaraj through Gram Swaraj"- total independence through freedom of the Villages.

Now the present scene in India can be described as follows:

1. A good number of MNCs have started operating in the country.
2. Some Indian business have obtained foreign technology and finance.
3. Market growth has slowed down worldwide and more so in India.
4. Stock market has been giving shocks with fluctuations and scams.
5. Terrorists have further down swept the market.
6. Advertising and almost continuous promotion has become omnipresent.
7. Job market has slowed down both in India and elsewhere.
8. IT Industry has had a set back.
9. Many firms are busy in down sizing/right sizing their operations.

What the future holds is difficult to predict. One thing, which can be said with certainty, is that while specialists will give way to generalists, innovation and quality will play a vital role in the success of any firm.

India is a vast country with lots of diversities. Punjab and Andhra are known as the granaries of India. Farm labour during harvesting season migrates to Punjab from Bihar. Bihar is a rich state in minerals including iron and coal. It boasts of large steel plants and yet it has remained largely under developed. Youths have taken to guns and there are a lot of Mafia gangs operating in Bihar. West Bengal and Kerala have had Marxist influence. West Bengal has suffered from labour unrest resulting in migration of industries from there, which was, at a time the industrial capital of the country. Kerala has the highest literacy rate in the country. Uttar Pradesh, Bihar and Madhya Pradesh were three largest states and now they have been bifurcated. Hopefully, this will help them in becoming better managed. Mumbai has emerged as the commercial capital and Bangalore as the IT capital of the country. Bangalore is a cosmopolitan city with good climate through out the year.

India has large disparities as far as personal incomes are concerned. More than seventy percent of the population lives in villages, with farming as their source of income. With increase in

population the land size per family gets smaller ever so often, resulting in migration from villages to towns. In metros like Delhi and Mumbai population increase has taken its toll on the civic services, which keep crumbling. With better health facilities, average age has increased and now India has a large population of senior citizens. Teen population has also increased with improved health care.

India has seen social evolution of women who are now taking active part in various activities. They can be seen in offices, politics, and defense services, that is practically in every sphere of human endeavour.

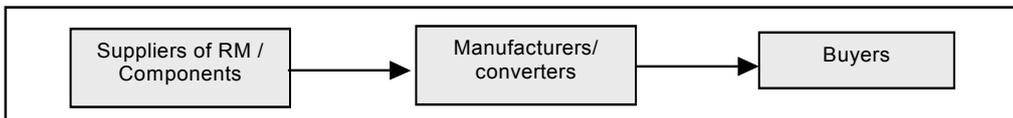
### **1.11 Market and Manufacture**

In the beginning, the producers or manufacturers were small, they sold their wares in local areas, and once the demand for the product got established, the buyers used to throng around the manufacturers to pick up the product:

In India till the first half of twentieth century, it was totally a sellers market; whatever the manufacturer produced was easily sold. The emphasis was on production and quality was not of much importance. The main reason for the situation was lack of competition and near monopoly situation for almost all the products.

Later on as the competition started seeping into most businesses it became imperative that sales people coordinate with manufacturing team, to give them the idea of demand and the volumes or numbers of product which can be sold, to enable them in production planning. The stress so far stayed on manufacturing. A good firm was one, which had always a few more orders than the quantity, which could be produced in the given time. This put pressure on manufacturing to produce more goods, further putting product quality on the back burner.

As manufacturing needs raw materials they are buyers of the same plus they buy certain components made by others, and some consumables, like power, water, and at times certain gases. Hence, the picture looked as given below:



Later still, people started just buying/selling and became vendors or middleman.

It was from 1991, that India opened its door to foreign players and competition became a major force to reckon with by the businessmen of India. Following types of products became available in the market:

1. Consumer durables could be as varied as cars, air conditioners, vacuum cleaners, washing machines and computers.
2. FMCG (Fast Moving Consumer Goods) products include soaps, shampoos plus food items.
3. Industrial capital goods are the product manufacturing machines like sugar mills, textile mills.
4. Raw materials are iron, steel, rubber, wood and others.
5. Industrial consumables include water, power, gases, which are consumed in the manufacturing process. They do not become part of the product.
6. Service includes the hotel industry, airlines, hospitals, insurance.

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As for each product there is a distinct customer group, they need different types of selling efforts. The common factors remain as given below:

1. Knowledge of market segment
2. Knowledge of competition
3. Business environment
4. Product life cycle

Manufacturing units are established for making those products, which can be sold by the sales department, and therefore manufacturing and sales need to work in close coordination. In actual practice, most manufacturers are essentially assemblers of components, which they purchase.

Sales organization is designed to sell the products made by the manufacturing unit. However, it is found that once the sales set up is in place, they can sell a lot more products, which have common customers. Bata sells shoes and besides they also sell shoe polish, brushes, laces and socks as these products complement the sale of shoes. They also sell track suits, cardigans, T-shirts and a host of other clothing. Hence manufacturing plans of firms differ quite a lot. These depend on the market situation as also on the following points:

1. Plant location
2. Competitive strength
3. Availability of finance
4. Access to raw materials
5. Access to the distribution channels

When a new entrepreneur wants to set up a competitive plant, these factors provide entry barriers to him.

The success of any venture depends on the marketability of its products. Hence, it is of utmost importance that before selecting the product for manufacture and sale, thorough Marketing Research is conducted.

Imagine a firm, which has the best of technology, location of the factory, financial resources, manpower but no market/sales. You can imagine the fate of such a firm. Sooner than later, there will be big lock on its doors and it will go into liquidation.

Production in a one-man shop is ideal as it is hand crafted and made exactly to customer requirements. It is like tailor-made suit. In such a case, the production is limited to the capacity of one person. Handicraft, expensive jewelry, and designer clothes belong to this category of products.

In order to reach a large number of customers, Mass Production Techniques are used, like the Assembly line production. This was introduced by Henry Ford in his car-manufacturing factory and has since become the well-tested technique for large-scale manufacture.

The latest trend however is of fast changing customer needs. It is therefore necessary to have as much flexibility built in the manufacturing process as possible to take care of changing trends and demands of the customers. This is more important in areas where the rate of obsolescence is high and cost of replacing the product with other not so high.

**Branded and Generic Products:** Most marketers want to sell branded products. Even commonplace items like wheat flour; salt and sugar have become branded products now, as

branding enables the buyers to be selective in buying a particular brand after comparing it to other brands. It helps sellers in highlighting the virtues of their products to catch more business. However, over a period of time even brands become generic names, as Bata is synonymous with shoes, Mobil oil with engine oil, and Dalda with vanaspati ghee. Heavy advertising effort establishes the brand though this can backfire too, if the brand gets to be accepted as a generic name rather than the brand of a firm. Care needs to be taken in this regard for avoiding such a situation.

**Patents and Patent Laws:** If the manufacturer is making a product for which he has a Registered Patent under the country's Patent laws, then he can feel secure that other competing firms will not be able to use the same design in their manufacturing process and the firm can enjoy monopoly situation at least till the expiry of the Patent. However, firms should take care of getting the Patents renewed much before the expiry date to avoid any embarrassment on account of getting caught by competition that comes with a copied product. Such copies are usually a shade better and lower in cost because the firm has not spent any money in developing the same except spending on copying costs, which is also known as Reverse Engineering.

**Brands:** Any firm, which becomes a market leader normally, has at least one Lead Brand. The firm tries to sell its other products under the umbrella of that brand. Sometimes, firms use the popular brand to sell other products, either bundled with it or by way of promotion of lesser-known product in coordination with the main brand. Computer sellers are known for selling bundled products so that they can sell slow moving products along with fast moving ones. Brand image or brand equity is perhaps one of the two most important aspects of any business, the other being market share.

Once a firm has established one of its brands as a leader it diversifies to include complementary products. This helps in increasing turn over, and profits of the firm. However, if the new products clash with the existing ones, or their quality can be suspect in the beginning, such products could do harm to the established product. It is, therefore, necessary to consider remaining supplier of only Specialized Products about which the firm is sure on quality and which enjoy a good brand image. Firms can also provide quality service for these special products, which will lead them to improve increasing brand image/equity and profitable sales. Thus there is always a dilemma of having specialized product or generic mass-produced ones. Today, firms are trying to customize mass produced products to gain customer goodwill. For example, you can get a Maruti car from the manufacturer with customized seats.

However, nothing can take the place of good service given by the seller for the product to the customer for increasing business and thereby increasing profits. Availability of reliable service and genuine spare parts can surely increase business as these ensure longer usage of the product, which make them cost effective to the buyers.

Today in most consumer products, which are not health related, there are three-quality categories:

1. Top quality, for the rich and discerning buyers, sold through Super markets and boutiques.
2. Second quality for the middle income buyers sold through utility stores and bargain counters.
3. Third quality for the working class buyers sold through bargain stores and small shops. These are also considered suitable for the rural markets.

In case of health related and food products, there are Government regulations, which control the quality standards of the products.

As can be seen, manufacturing function is meant to create a product, which can be used by the buyers. It therefore, becomes a conversion process, as there are a number of sub-products or

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components and raw materials, which go in to the manufacture of any product. Home cooking is a good example of food manufacture. The cook buys meat, vegetables, cooking oil, condiments and stoves and then he goes through a process to convert the ingredients in to edible food. It is difficult to imagine any one person who can grow his own vegetables, keep his poultry and manufacture a stove for cooking. Cooking therefore is a conversion process.

As there are many other manufacturers in each area, it is important that the manufacturer keeps his cost of manufacture as low as possible without compromising on his quality standards.

**Quality Standards:** Firms, find out through market surveys the correct specification of the product they plan to make. These specifications are then converted to manufacturing standards and firms have to keep meeting these specifications for each unit produced by them. For exporting to Europe and other places, the foreign buyers now want that Indian firms follow ISO 9000 STANDARDS. These standards help firms in maintaining their specifications and assist in tracing causes of deviations if there are any. These standards are meant to keep a check on the manufacturing process.

For Product standardization each country has its own body, mostly Government owned, which defines standards for various products. While mostly it is not mandatory for firms to conform to these specifications, nevertheless it helps to have products with these specifications in product marketing to an extent.

**Market Share:** In order to improve market share, firms have to fight competitive forces. This can be done by different means; some of them are as follows:

**Differentiation:** As customers are always looking for products, which are different from other similar products, sellers try to give a little modification in the product or service, or distribution to make a marked change from the run of the mill operations. These differences should be cost effective, noticeable and acceptable to the customers.

**Cost leadership:** Product manufacturing cost have a major bearing on how well it can be sold in the market. If all competitive products are equally acceptable to the customers, the firm with lower cost will gain advantage over competitors. Cost leadership is obtained by either achieving economies of scale of manufacture when the firm is able to reduce unit fixed cost. For reducing variable cost firms have to look for experience curve.

Quick response to market demand and needs can also provide definite competitive advantage to firms as it helps them to catch the customers with a product they are waiting for.

**Self Assessment**

Multiple Choice Questions:

12. Cost leadership is obtained by either achieving economies of scale of manufacture when the firm is able to reduce unit:
  - (a) variable cost
  - (b) fixed cost
  - (c) multiple cost
  - (d) production cost
13. Any firm, which becomes a market leader normally, has at least one:
  - (a) lead brand
  - (b) secondary brand
  - (c) primary brand
  - (d) multiple brand

14. Once a firm has established one of its brands as a leader it diversifies to include complementary:
- (a) price (b) products  
(c) sales (d) value
15. .... manufacturing cost have a major bearing on how well it can be sold in the market.
- (a) goods (b) cost  
(c) credit (d) product

Notes



Case Study

### Farm Cooperatives

The cooperative movement in the U.S. has been strongest in rural areas. Farmers have formed cooperatives for many purposes, as given below:

1. Marketing of produce,
2. Purchasing of production and home supplies,
3. Provision of credit.

Farm marketing associations are the most important type of agricultural cooperative. Farm purchasing cooperatives rank second in importance. The modern farmer-member who depends increasingly on off-farm products, can realize maximum savings by ordering goods through cooperatives. Regional cooperatives order some items from manufacturers and produce others in their own plants. The most important manufactures of these cooperatives are feed, fertilizer, and petroleum products; other cooperatively produced items include paint, lumber, and farm equipment. The cooperative petroleum industry is one of the most complex of the industrial enterprises; it includes oil wells, refineries, pipelines, storage facilities, and service stations.

Trends in agriculture since World War II have vastly increased the size of farmer investments in land, buildings, and equipment and, therefore, the need for farm credit. A cooperative farm-credit system satisfies this need through land banks, production credit associations, 12 district banks and 1 central bank for cooperatives, and rural credit unions, all of which furnish loans and credit to farmers. Passage by the U.S. Congress of the Farm Credit Act of 1916 created the 12 federal land banks, the first credit program established by the federal government and the forerunner of what has become the largest cooperative credit system in the world, the cooperative Farm Credit System. Initially capitalized by the federal government, the entire system has been owned by its borrowers since December 31, 1968. The Farm Credit Act of 1971 expanded the percentage of long-term loans to 85 percent of market value, broadened coverage to include rural homes owned by non-farmers and ranchers, and allowed the production credit association to provide credit to commercial fishers and to farm-related businesses. The Farm Credit Administration, a government agency, regulates the banks and associations of the system in the public interest, and the borrower ownership of the system has no effect on that responsibility.

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In the mid-1980s, as the economic situation of the nation's farmers worsened, the Farm Credit System incurred steadily growing losses, necessitating further federal assistance. Successive farm credit legislation enacted in 1985, 1986, and 1987 provided this assistance along with authority to reorganize the system. Of 13 banks for cooperatives, 11 have since merged into the National Bank for Cooperatives (CoBank). The federal intermediate credit banks and federal land banks have also merged in each district, as have many production credit associations and federal land bank associations.

**Producers' and Consumers' Cooperatives**

Producers' cooperatives have been formed within the fishing industry for purposes of marketing, purchasing marine gear, providing miscellaneous services (dock maintenance, unloading), and bargaining collectively. In the retail food industry, consumer-goods societies provide goods and services for more than half a million members. Grouped around a core of supermarkets, in many areas, are substantial furniture, pharmacy, hardware, optical, and service-station operations. Most of the local consumer-goods cooperatives obtain their supplies from full-line cooperative grocery wholesale warehouses. These warehouses, in turn, buy from a central purchasing, manufacturing, and merchandising service owned by and operated for the wholesale cooperative associations throughout the United States, Canada, and Puerto Rico.

Housing cooperatives classified with consumer goods, own some developments with individual houses that may be new or rehabilitated, but most holdings are large apartment developments. Members of the housing cooperative actually own a share of the cooperative corporation. That share gives the member the right to occupy a particular unit. The cooperative corporation, however, is the legal owner of the property, and is responsible for meeting financial obligations such as blanket mortgage payments, property taxes, and management costs. The members determine how the corporation will fulfil these responsibilities through participation in membership meetings. According to the U.S. Census Bureau, in 1990 about 630,000 housing units in cooperatives provided shelter for 1.5 million people. Housing cooperatives formed to develop housing are of two types, sales and management. The sales type constructs dwellings but dissolves on completion and sale of dwellings to individual owners; the blanket mortgage insured by the Federal Housing Administration is replaced by individual mortgages as each unit is sold. The management type continues in existence for the purpose of managing the property after construction is completed. Most housing cooperatives today arise out of sponsoring organizations. The areas of land purchase, architectural design, financing, incorporation and construction are too specialized for families to master on their own. Sponsoring organizations include churches, trade unions, veterans' groups, private foundations and other cooperatives.

**Cooperative Service Organizations**

Credit unions, group health plans, cooperatively oriented insurance companies and memorial (funeral) societies are some of the important types of cooperative service organizations. Credit unions act as savings institutions and provide loans at favourable rates to their members; in 1990 membership was about 55 million and total assets exceeded \$198 billion at U.S. federally-insured institutions. Group health plans, including those sponsored by communities, consumers, unions, and employers and employees jointly, provide millions of people with needed health care every year.

Among other cooperative associations formed to meet special needs are rural electric and rural telephone cooperatives and day-care and cooperative schools. Student housing

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associations provide room and board, books, and social activities for students who belong to cooperatives in university centres. These are concentrated most heavily on the Pacific coast and in the Midwest.

### **Affiliation Systems**

Efficiency and economy in the operation of cooperative enterprises are generally achieved by a system of affiliation and centralization. Local cooperatives are served and supplied by state or regional organizations. In many fields, the regional bodies are united in national organizations, which, in turn, are federated into still larger national organizations, such as the American Institute of Cooperation, the National Council of Farmer Cooperatives and the National Cooperative Business Association (NCBA). The NCBA provides a government lobby for the cooperative movement. Systems of affiliation are characteristics of the movement in all countries and international affiliation coalesces around the International Cooperative Alliance, with headquarters in Geneva, Switzerland. In addition to cooperative effort within their own operations, cooperatives in the U.S. are assisting more cooperative development among low-income peoples at home and abroad. They have helped to form commercial fishing cooperatives, provide sewing machines, establish credit unions, set up programs for loans and life and savings insurance, found cooperative housing, and couple economic-development projects with member-education programs. Some of these programs have been aided substantially by contracts from the U.S. government and by grants from foundations.

### **Question**

Compare the rural cooperatives of the US and India. What can Indian cooperatives learn from their counterparts?

## **1.12 Summary**

- The green revolution was the result of the government's policy of research on agriculture.
- Brand image or brand equity is perhaps one of the two most important aspects of any business, the other being market share.
- Developing synthetic scale through partnerships typically results in larger overheads in the rural context.
- Pricing in rural markets is tricky because the companies spend more on transporting the products as compared to transporting them to the cities.
- The demographic changes include diversity in the professional profile of the village folks.
- Firms face the challenges of new competition, both local and global, and of new technologies as they cater to consumers in business-to-business areas and as individuals.
- The market is undeveloped, as the people who constitute it still lack adequate purchasing power.
- Rural markets, as part of any economy, have untouched potential.
- The government has enacted laws against child marriages and dowry.
- Companies that have lesser share of the market attempt to increase the same with bigger thrust on marketing efforts.

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- Rural electrification and roads have been given priority in the government's planning process.
- Infrastructure continues to be a challenge in rural India.
- Companies must plan to have a covert intelligence network that is legal and yet provides them with competitive information.

### 1.13 Keywords

**Brands:** Any firm, which becomes a market leader normally, has at least one Lead Brand. The firm tries to sell its other products under the umbrella of that brand. Sometimes, firms use the popular brand to sell other products, either bundled with it or by way of promotion of lesser-known product in coordination with the main brand.

**Cost Leadership:** Product manufacturing cost have a major bearing on how well it can be sold in the market. If all competitive products are equally acceptable to the customers, the firm with lower cost will gain advantage over competitors.

**Differentiation:** As customers are always looking for products, which are different from other similar products, sellers try to give a little modification in the product or service, or distribution to make a marked change from the run of the mill operations.

**Patents and Patent Laws:** If the manufacturer is making a product for which he has a Registered Patent under the country's Patent laws, than he can feel secure that other competing firms will not be able to use the same design in their manufacturing process and the firm can enjoy monopoly situation at least till the expiry of the Patent.

**Payment Collection:** The majority of the rural population is still unbanked. Clearly, non-cash collection becomes rather unlikely. Cash collections, on the other hand, are messy and difficult to monitor, especially since cash cards or technology-enabled centralized POS have still not reached rural areas.

**Quality Standards:** Firms, find out through market surveys the correct specification of the product they plan to make. These specifications are then converted to manufacturing standards and firms have to keep meeting these specifications for each unit produced by them.

### 1.14 Review Questions

1. What are the nature and characteristics of Rural Market?
2. Discuss the Business Environment in Rural India.
3. What do you know about product promotions in Rural Market?
4. Describe the challenges in Indian Rural Market.
5. Explain the Unique Selling Proposition.
6. Explain the product promotion in Rural Markets.
7. Describe the Rural Markets.
8. Describe the challenges and opportunities in Rural Market.
9. What do you know about cooperative service organizations?
10. Describe the marketing relativity through competition.

**Answers: Self Assessment**

**Notes**

- |             |                          |
|-------------|--------------------------|
| 1. Rural    | 2. Unbanked              |
| 3. Feasible | 4. Farming               |
| 5. Dowry    | 6. Rural Electrification |
| 7. True     | 8. True                  |
| 9. True     | 10. False                |
| 11. False   | 12. (b)                  |
| 13. (a)     | 14. (b)                  |
| 15. (d)     |                          |

**1.15 Further Readings**



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**Notes**



*Online links*

[ezinearticles.com/? Successful-Sales-Promotions-](http://ezinearticles.com/? Successful-Sales-Promotions-)  
[www.rmai.in](http://www.rmai.in)  
[www.world-agriculture.com/...marketing/rural\\_marketing.php](http://www.world-agriculture.com/...marketing/rural_marketing.php)  
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[www.oppapers.com/.../rural-marketing-review-of-literature-page](http://www.oppapers.com/.../rural-marketing-review-of-literature-page)  
[www.cks.in/html/cks\\_pdfs/Rural%20Marketing%20Practices.pdf](http://www.cks.in/html/cks_pdfs/Rural%20Marketing%20Practices.pdf)  
[www.remax-cornwall.ca/post/2009/09/17/rural.aspx](http://www.remax-cornwall.ca/post/2009/09/17/rural.aspx)  
[www.financialexpress.com/news/The...of-rural-marketing/407101/](http://www.financialexpress.com/news/The...of-rural-marketing/407101/)

## Unit 2: Rural Marketing Environment

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### Objectives

After studying this unit, you will be able to:

- Define Rural Marketing Environment.
- Discuss the Features of Indian Rural Markets.
- Describe the Changing Profile of Rural Marketing
- Understand the Factors Contributing to the Growth of Rural marketing.

### Introduction

The emergence of an active cash economy is bound to create a strong rural demand and promote rural consumption. The traditional growth and dominance of urban industrial centres is undergoing rapid changes. A more equitable distribution in rural areas would also help in slowing down the rapidly increasing influx of people from rural to urban areas.

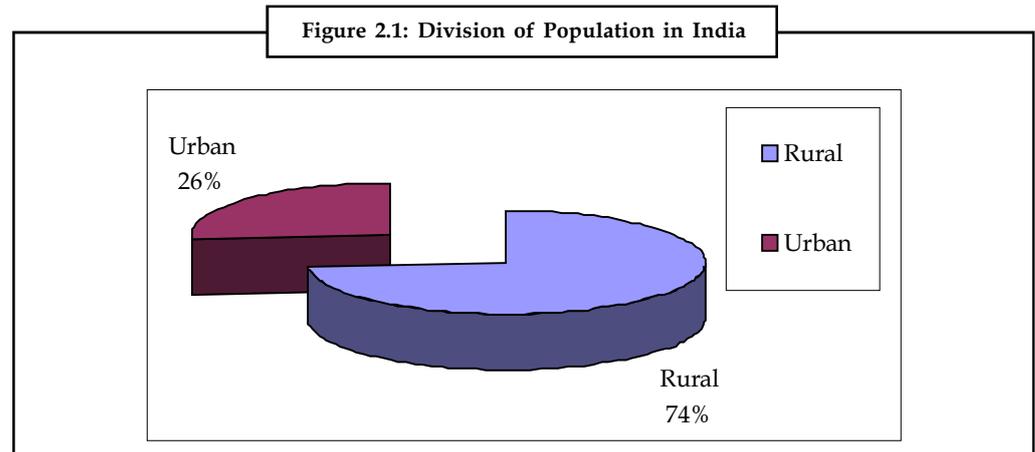
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### 2.1 Rural Population

There are two sections of rural population:

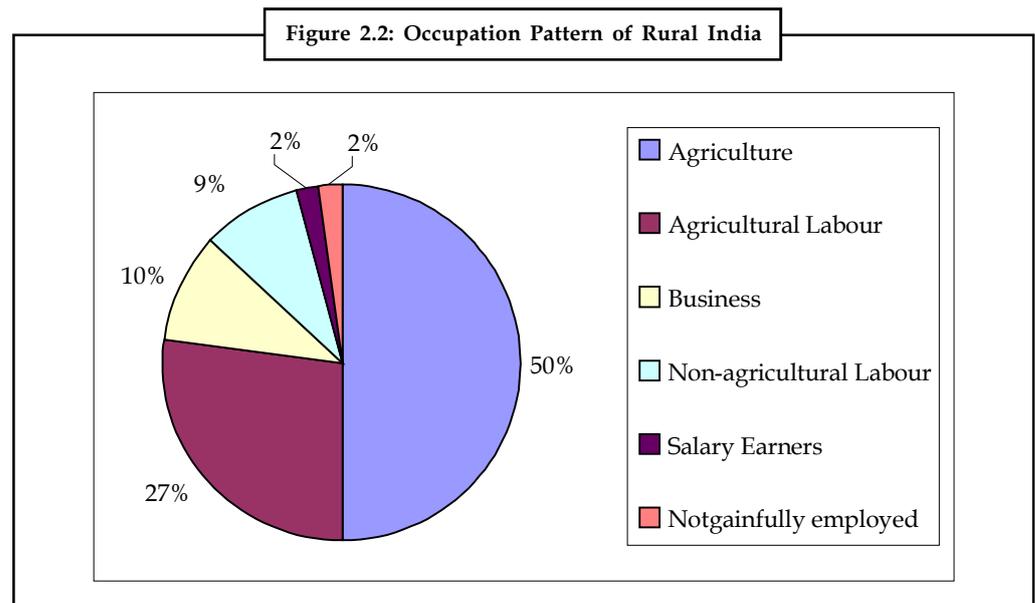
- A large portion has a low income and low consumption levels;
- The rest are rural rich.

The rural population forms a major portion of the Indian population as seen below:



About 75% of the Indian people reside in rural areas. In other words, for every consumer in the urban area, there are three of them in the rural areas. Though the proportion of rural population is showing a slight decrease over the years, but in absolute numbers, the rural population is growing at a higher rate than the urban population. This large population will require a wide range of consumable and durable goods and services. At the same time the need of the rural areas does not automatically guarantee a market, unless it is backed by income and the resultant purchasing power.

For a vast majority of the rural population, the main occupation is agriculture and allied activities. The graph below gives the distribution of rural population as per their occupation pattern.



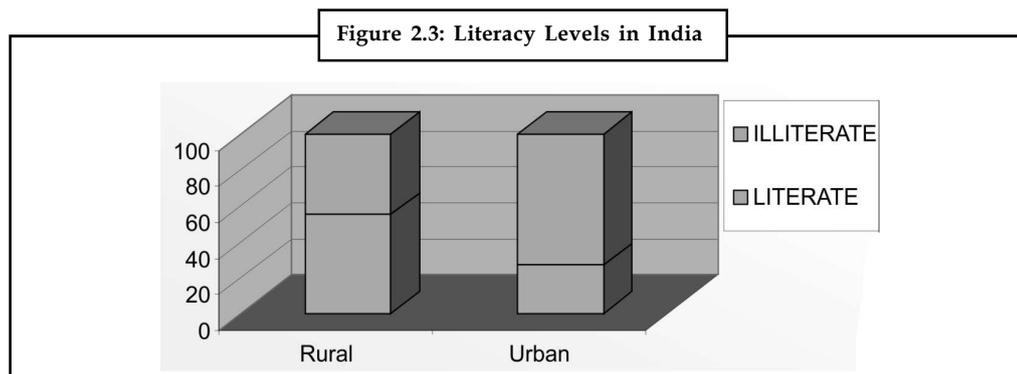
About half of the rural population own or lease land to cultivate it for their livelihood. Another 27% are dependent on these cultivators for their jobs as agricultural labourers. Thus, a total of 77% of rural population depend on land only for their living and land is their source of living.

There are others, constituting small proportions, who are engaged in business like petty shopkeepers or merchants and salary earners like teachers, health workers and village level officials. The implication of this is that the income generation in rural areas entirely depends on how the land is used, what crops are cultivated, how much is marketed, how much is consumed and the marketing arrangements for the production. If rainfall is adequate, weather conditions are favourable and appropriate technology is available, the rural areas prosper as it has happened in the states of Punjab, Haryana and Western Uttar Pradesh. So the disposable income in the hands of the rural people is very much conditioned by the status of agriculture and other allied activities. This also indicates that major part of income generated is a source of agriculture. 75% of income generation in rural areas is from agriculture and agriculture-related activities.

One of the deterrents for marketers to exploit the rural market potential has been the vastness of the rural market in terms of areas covered and the location of the rural population. It is much easier to cater to the needs of the urban population because of their concentration, but it is very difficult in the case of rural population because of their widespread nature.

The villages are also not uniform in size. Nearly 48% of the villages have a population of less than 500 persons or about 100 households, which is probably of no consequence to marketers. This may be acceptable since the proportion of population covered by these 48% of villages account for only 12% of the total population. Yet it should be borne in mind that the people of these villages also have land and cultivate and generate some income.

Thus the location and size of population of villages throw a challenge to marketers. This phenomenon is not true for the whole country and there are wide variations among the different states. In states with high irrigation and fertile lands, the concentration of population is more when compared to states with low irrigation facilities and lack of arable land.



Given the distribution of rural and urban population, it can be seen that the number of literates in rural areas are more than in urban areas. It is an interesting note that has been a considerable increase in the number of literate persons in rural areas since the last two decades. This has its implications in communicating with the rural population. It appears to prove that communication should not prove to be such a big hurdle. Today, television has proved to be an effective medium for communication with the rural masses. The telecasting network in the country today covers about 93% of the population.

**Notes**

Assuming that the entire urban population is covered by the television but the television, which is only 23%, then nearly 67% of the rural population will be covered by television. Thus, television reaches a larger segment of the rural population than any other form of mass media. Though radio is also very popular, people like to see to believe.

The above factors point that the potential for marketing of goods and services depends heavily on agriculture, since it is the main occupation in rural areas. The market for agricultural inputs – fertilizers, pesticides, insecticides, tractors, irrigation equipment and seeds – has been expanding over the years in rural areas as the Indian farming is fast becoming market-oriented. But the rural market has remained a dark area for those manufacturing and marketing consumables and consumer durables. To successfully exploit the potential offered by the rural market, there is a need to first understand the rural market in terms of the characteristics mentioned above. Only a few established companies - HUL, Lipton, Brooke Bond, TOMCO, and P&G – have been tapping the potential of the rural market for a long time.



*Did u know?* In 20 years the rural Indian market will be larger than the total consumer markets in such countries such as South Korea or Canada today, and almost four times the size of today's urban market. The estimated size of rural market will be USD 577 billion - McKinsey Global Institute, May 2007.

## **2.2 Rural Marketing Model**

Companies work marketing models before entering any market. They approach different models to reach the target market. They work in a organised way which gives the step by step process to implement. Depending upon the market the model may get slight change but the steps may remain same. The process help the companies to analyze the real market and launch their business. There should be a clarity in this so as to reach the success in the rural market. Rural Marketing Model is explained in unit 3.

### **2.2.1 Rural Marketing Environment**

#### **Concept of Environment**

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is “the aggregate of all conditions, events and influences that surround and effect it”.

#### ***External Environment:***

1. Socio-cultural
2. Economic
3. Technological
4. Political & Legal

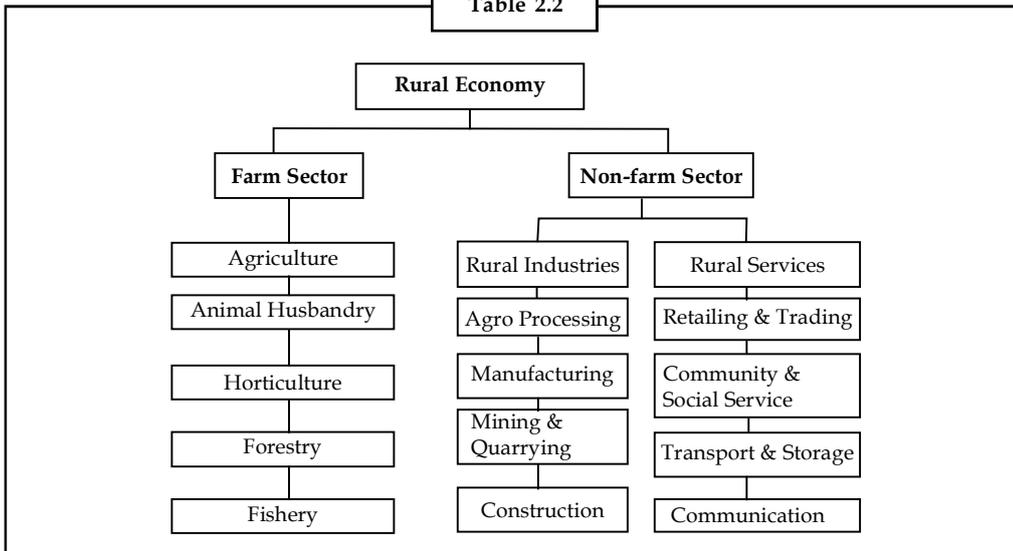
Notes

**Table 2.1: Some Important Variables in Mega Environment**

Economic	Technological	Political & Legal	Socio-cultural
<ul style="list-style-type: none"> <li>▪ GDP trends</li> <li>▪ Interest rates</li> <li>▪ Inflation</li> <li>▪ Type of economy</li> <li>▪ Income</li> <li>▪ Disposable income</li> <li>▪ Wage-price control</li> <li>▪ Money supply</li> </ul>	<ul style="list-style-type: none"> <li>▪ Spending by govt on R&amp;D</li> <li>▪ Industry spending on R&amp;D</li> <li>▪ Focus of technology</li> <li>▪ Patent protection</li> <li>▪ Productivity</li> <li>▪ Communication &amp; Infrastructural</li> <li>▪ New products</li> <li>▪ Commercialization of technology</li> </ul>	<ul style="list-style-type: none"> <li>▪ Type of Govt.</li> <li>▪ Tax Laws</li> <li>▪ Foreign trade regulations</li> <li>▪ Constitutional framework</li> <li>▪ Anti trust litigation</li> <li>▪ Labor laws</li> <li>▪ Attitude toward foreign co.</li> <li>▪ Stability of govt</li> </ul>	<ul style="list-style-type: none"> <li>▪ Life-Style</li> <li>▪ Religion</li> <li>▪ Language</li> <li>▪ Customs</li> <li>▪ Age distribution</li> <li>▪ Languages</li> <li>▪ Growth rate of population</li> </ul>

### 2.2.2 Rural Economic Environment

**Table 2.2**



#### Jajmani System

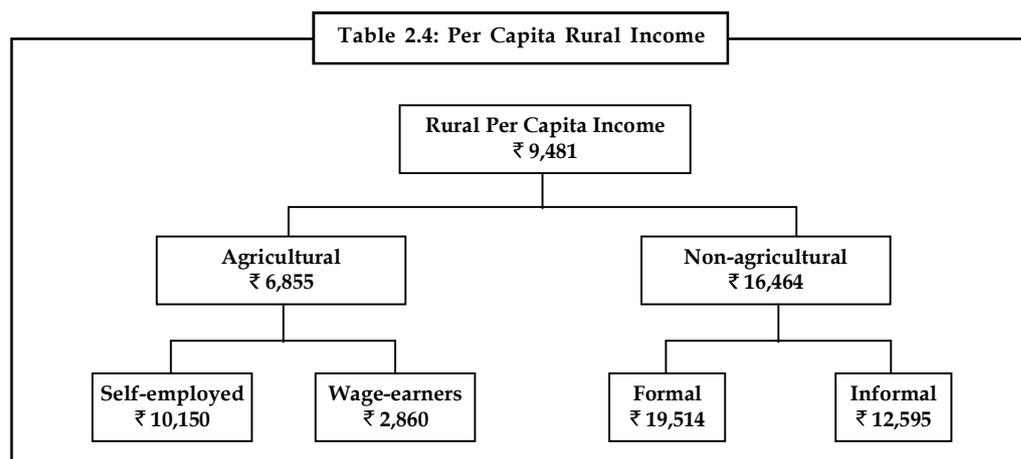
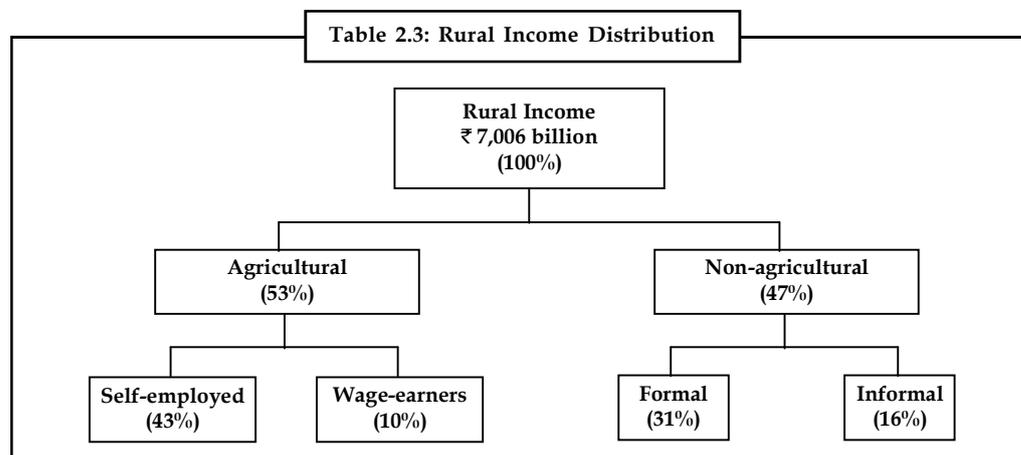
1. A self-sufficient economy system
2. Revolved around the farmers who owned land
3. 'Specialist castes' who provided services to the farmers and to each other
4. System under threat due to urbanization that provided relief from exploitation.

#### Sources and Patterns of Income

1. Primary source is agriculture
2. No regular income throughout the year (Seasonality)
3. Cash only at the time of harvest

Notes

4. Marketers should notice of time of year when incomes are due
5. Crop patterns vary, and time of cash surpluses from harvests vary geographically
6. Cash crops and services leading to stable cash flows throughout the year.
7. Remittances from outside.



**Table 2.5: Distribution of Rural Household by Income**

Annual Income (₹)	Income class	1989-90	1998-99
at 1998-99 prices		(%HHs)	(%HHs)
<=35000	Low	63.7	47.9
35001-70000	Low Middle	23.9	34.8
70001-105000	Middle	7.1	10.4
105001-140000	Upper Middle	1.2	3.9
>140000	High	0.5	3
Total		100	100

## 2.2.3 Rural Socio-cultural Environment

### Rural Socio-cultural Scenario

1. Religious bent of mind.
2. Social customs.
3. Caste system.
4. Gender Discrimination.
5. Literacy.
6. Cultural diversity.
7. Group influence on behavior.

### Caste System

1. Brahmins at top, then kshatriyas, vaishyas, and the shudras at bottom.
2. Each have their sub castes.
3. Shudras suffered from entering places visited by top.
4. Change in zamindari system helps in abolition.
5. Marketers have to be sensitive on this issue.

**Table 2.6: Demographic Environment**

	1981	1991	2001
Total population (million)	683.3	848.3	1026.9
Rural population (million)	524.0	628.8	741.6
Rural proportion to urban pop (%)	76.7	74.3	72.2

**Table 2.7: Household Types in India**

Types of household	Definitions	Rural	Urban
Single member	Single member	5.15	7.91
Nuclear pair	Head and spouse	4.91	5.20
Nuclear	Head and spouse with unmarried children	37.88	41.57
Broken nuclear	Head and spouse with or without unmarried children but with other relations who are not currently having spouse	4.58	4.24
Supplemented nuclear	Head and spouse with or without unmarried children but with other unmarried or separated or divorced or widowed relations	16.81	15.44
Supplemented broken nuclear	Head without spouse with or without unmarried children but with other unmarried or separated or divorced or widowed relations	5.76	5.13

Notes

Table 2.8: Rural Housing Pattern

House type	1981	1991	2001
Pucca	22	31	41
Semi-Pucca	37	36	36
Kuccha	41	33	23
Total	100	100	100

## 2.2.4 Rural Political Environment

### Political Environment

1. Historically controlled by upper castes (panchayat & village pradhan)
2. Then Panchayati raj system came into effect in which all government departments, such as; education, health, agriculture, development etc. form an integrated approach for the development of rural areas.

### Panchayati Raj Institutions

1. Provide 3 tier system to panchayati raj for all the states population exceeding 2 mn.
2. To hold panchayat elections regularly every 5 years.
3. To provide reservations for SC/ST/Women at least 33%
4. To appoint a state finance commission.
5. Preparation for economic development & social justice
6. To collect taxes, duties, tolls & fees.

## 2.2.5 Rural Technological Environment

Figure 2.4: Enhancing the Skills of Rural Youth through Vocational Training



## Technological Environment

## Notes

It is triggered by three main revolutions:

1. Green revolution
2. White revolution
3. Introduction of non-govt. agencies in the development sector.

### *Green Revolution*

1. Period under 1967-1978 aimed to improve in food self sufficiency.
2. Introduction of mechanization first time.
3. Increase in farm production also introduced mechanized processing spurring growth of manufacturing sector.
4. Boosted farm productivity, employment creation, standard of living changes.

### *White Revolution*

1. Aims for achieving self sufficiency in milk products by the govt.
2. Develops linkage between rural producers & urban consumers.
3. Formation of producers cooperatives which institutionalizing & producing processing milk.
4. Milk production increases almost 5 folds (from 1950 to 2001)
5. Areas effected Gujarat, Punjab, Haryana, U.P.

### *NGO Movement*

1. Provide numerous services for up gradation of rural sector.
2. Helps in providing assistance of technological extensions in rural areas.
3. Also providing basic health and child care services education training opportunities which helps in development.

## Self Assessment

Fill in the blanks:

1. The emergence of an active cash economy is bound to create is bound to create a strong rural demand and promote ..... consumption.
2. The biggest thing is that there is lack of any research into the ..... behavior of the rural areas.
3. The ..... population of India is concentrated in 3200 cities and towns and the rural population is scattered over 6, 38,365 villages.
4. One of the deterrents for marketers to exploit the rural market ..... has been the vastness of the rural market in terms of areas covered and the location of the rural population.
5. Rural consumers have diverse ..... backwardness.

## 2.3 Features of Indian Rural Markets

1. **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.
2. **Major Income from Agriculture:** Nearly 60 % of the rural income is from agriculture. Hence rural prosperity is tied with agricultural prosperity. Roughly speaking, a location is defined as "rural", if 75 per cent of the population is engaged in agriculture related activity. In India, close to 70 per cent of the population is agrarian and contributes to about one-third of India's GNP.
3. **Low Standard of Living:** The consumers in the village area do have a low standard of living because of low literacy, low per capita income, social backwardness, low savings, etc.
4. **Traditional Outlook:** The rural consumer values old customs and tradition. They do not prefer changes.
5. **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, and financial facilities are inadequate in rural areas. Hence physical distribution becomes costly due to inadequate Infrastructure Facilities.

## 2.4 Profile of the Rural Consumer

1. **Size of rural consumer population:** The size of India's rural consumer group can be understood from the details provided in the following table:

Table 2.9

	1971		1981		1991	
	Population in crores	Percentage to total	Population in crores	Percentage to total	Population in crores	Percentage to total
Rural Population	43.90	80	50.20	76.3	64.1	76
Urban Population	10.91	20	15.62	23.7	20.3	24
Total Population	54.81	100	65.82	100.00	84.4	100

The table shows that now 76% of India's total population is rural. If we consider the state level picture, in several states like Uttar Pradesh, Madhya Pradesh, Rajasthan and Kerala, the rural population constitutes more than 80% of the total population. And there are also states like Bihar and Orissa where as much as 90% of the total population is rural.

2. **Significant Aspects of Rural Consumer Profile:** Coming to consumer characteristics, it can be seen that in general sense, low purchasing power, low standard of living, low per capita income, low literacy level and overall low economic and social position are the traits of the rural consumers. By and large, the rural consumers of India are a tradition

bound community; religion, culture and even superstition strongly influence their consumption habits.

Colgate Herbal's priced at ₹ 12 for a 50 gm, ₹ 22 for a 100gm and ₹ 41 for a 200 gms tube is an attempt to sell value added toothpaste at the lower end, where the Indian brands are hoping to shut the multinationals. This is a variant for the boring white Colgate cream, which is used over the years by the rural people. Also, since the literacy level is low it's advertising campaign never gave emphasis to the same old calcium content rather this time more over giving importance to the latest technology and the natural qualities that are well defined by the character "Billoo" in the advertisement.

3. **Location Pattern of Rural Consumers:** Whereas the urban population of India is concentrated in 3,200 cities and towns, the rural population is scattered over 5,70,000 villages. Statistics show that out of 5,70,000 villages only 6,300 have a population of more than 5,000 people each. More than 3 lakh villages or more than 55% of the total number of villages are in the category of 500 people or less and more than 1.5 lakh villages or 25% of the total are in the category of 200 people or less. The inference is clear; rural demand is scattered over a large area, unlike the urban demand, which is highly concentrated.

Take the case of Colgate again. Why is it the leader in the dental care products? It did not even leave the rural area with minimal of 200 people per village as compared to the heavily populated area with an average population of 5000 people per village. Now, it has established itself in such a way that people accept Colgate as the tube with red and white box. Hence, they haven't changed the color of the box for say a decade and a half.

4. **Literacy Level:** It is estimated that rural India has a 23% literacy rate compared with 36% of the total country. The adult literacy program launched by the government in the rural areas are bound to enhance the rural literacy rate in the years to come. Two aspects need to be specially emphasized: (1) In absolute numbers, there are 11.5 crore of literate people in rural India compared with 12 crore in urban India, and (2) Every year 60 lakh is getting added to the literate population of Rural India.

Looking at the second point there's something for the company for the taking. Coco Care had a brilliant strategy to market itself in different Indian villages, depending on the most spoken language over there. Say in Maharashtra it had flyer distribution done in Marathi as a medium of communication.

5. **Rural Income:** An analysis of the rural income pattern reveals that nearly 60% of the rural income is from agriculture. Evidently, rural prosperity and the discretionary income with the rural consumer is directly tied up with agricultural prosperity. Anything that contributes to agricultural prosperity will directly result in increase income for the rural population and the consequent increase in their spending capacity. The pre dominance of agriculture in the income pattern has one more significance i.e., rural demand is more seasonal.
6. **Rural Savings:** Statistics reveal that in recent years, rural consumers have been drawn into the saving habit in a big way. The commercial banks and the co-operative have been marketing the saving habits in rural areas for quite some years. Today, as much as 70% of the rural house hold are saving a part of their income. The habit is particularly widespread among salary owners and self employed non-farmers.

Since the major income in the rural areas is from agriculture the demands turns out to be seasonal. Take the example of Hero Honda Splendor; it had a major promotion done in the crop-cutting season, as this being that golden season for the farmers.

Notes

**Potential and Changing Pattern of Rural Marketing**

Consumer products where rural consumption is more than urban consumption are:

Bicycles	80% Rural	20% Urban
Safety razor blades	67% Rural	33% Urban
Silk Clothing	59% Rural	41% Urban
Books & Stationery	55% Rural	45% Urban
Woolen Clothing	53% Rural	47% Urban
Other Consumables	53% Rural	47% Urban
Generators	95% Rural	05% Urban

Products where rural consumption growth rates are higher as compared to urban markets are as follows:

1. Packed Tea
2. Alcoholic Beverages
3. Tobacco Products
4. Medicines
5. Detergent Powder
6. Soap Cake/Bar
7. Detergent Cake/Bar
  - (a) Due to television the rural consumer is aware of international products.
  - (b) Literacy has brought about a change with respect to the rural outlook.
  - (c) New employment opportunities due to change in government policies has resulted in round the year income for at least a certain section of the rural population.
  - (d) Green Revolution and after the Indian farmer has become prosperous.
  - (e) The savings pattern of rural India has resulted in better buying power for the rural consumer.



1. Discuss the changing profile of the rural marketing now a days.
2. Discuss the factors contributing to Rural Marketing.

**Self Assessment**

State whether the following statements are true or false:

6. The urban population of India is concentrated in 3200 cities and towns and the rural population is scattered over 6, 38,365 villages.
7. The Urban consumers have been drawn into the saving habit in a big way.
8. The personalised banks and the co-operative have been marketing the saving habit in the rural areas for quite some years.

9. It is estimated that there are 78% literate in rural India as compared with 365 of whole country.
10. The biggest thing is that there is lack of any research into the consumer behavior of the rural areas
11. The predominance of agriculture in the income pattern has one more significance-rural demand is more seasonal.

## **2.5 Understanding Rural Markets**

There has been always a vast difference between the two markets for a long time now. The difference is not only between urban and rural but also within the rural areas - between regions, states and districts. There is a difference in the media reach, the education levels, in the culture and the type of products that the two markets are exposed to and this leads to a difference in the two markets.

The difference is in things like - how do you celebrate New Year, how do you celebrate birthdays? Small things like these are celebrated in a completely different manner when the rural and the urban customers are concerned. There is a vast difference in the lifestyles of the people in the two regions. The kind of choices of brands that an urban customer enjoys is different from the choices available to the rural counterparts. 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. But with technology coming in, mass media reach and the literacy levels going up - this divide is expected to reduce.

The biggest thing is that there is lack of any research into the consumer behavior of the rural areas. There is considerable amount of data on the urban consumer regarding things like - who is the influencer, who is the buyer, how do they go and buy, how much money do they spend on their purchases, etc. but on the rural front - the effort has started to happen now. So there is a need to understand the buyer.

There is no collective effort. Some people have spent time in the rural markets, carried out studies and have understood the rural behavior, but their works have not been passed or known to the rest of the industry. So, an in depth understanding of the consumer is one key area that the industry needs to work on.

There are vast differences in the rural areas as well. There are some 5, 60,000 villages and some 525 districts and each one is different from the other. The geographical spread is not as homogeneous as it is with the urban areas owing to vast cultural differences. So an in depth understanding of the areas is what is required.

The field of rural marketing has been witnessing a lot of action from both the fast moving consumer goods (FMCG) sector and consumer products manufacturers but, there has been little success in the manner in which rural research is carried out.

The limitation lies in the inadequate or unavailability of appropriate tools to evaluate the rural market behavior. The problem arises because of general lack of education resulting in low awareness about the products and hence the inability to respond to the queries of the researcher in these areas. Conventional research tools do not work in these markets, as these are difficult to comprehend for the illiterate and semi-literate rural people.

The typical research scales used are for ranking, rating and attitude measurement, limiting the research questions to simple yes/no kinds that do not bring the true essence of the research process. In an effort to look in to this issue two students from Management Development

**Notes**

Institute, Gurgaon along with Pradeep Kashyap, director of Marketing and Research Team (MART) tried working out on some possible solutions to this problem. The limitation of conventional research tools during the research project prompted them to look at alternative sources to solve this problem and the results were favorable.

Colors are very strong indicators, and forms, of expressing the feelings in the rural areas and there are tools devised with colors that represent and reflect the right answer to the researchers' queries. The selection of colors is done on the basis of the association of rural people with these colors. For instance, it has been observed that dark green represents a good crop or 'Haryali' (as they call it) and hence represents prosperity and is considered to be the best. Light green represents not very good crop and stands next to dark green color.

Yellow represents dry sand or a dry field and hence comes next. Orange is the color of the setting sun and represents the end of the day and hence is placed after yellow and just before red, a color that represents danger to them. Such hypothesis has been working well, according to MART, and it has incorporated these tools in its research projects.

This is probably the beginning to a new form of research and analysis that might change the paradigm of rural marketing research and, who knows, one might just see this field blossom into a specialized research activity. If a simple ranking and rating is achieved, a lot can be explained about the rural preferences and behavior providing the marketers and manufacturers of goods specific to the rural markets get that meaningful insight to be able to help grow the markets in these areas.

## **2.6 Changing Profile of Rural Marketing**

The position in the rural market was totally different some twenty years ago. At present there is a demand for certain articles like T. V., fans, radio, engine oil, readymade garments, detergents, medicines, etc. New product like toiletries, baby care products and consumer durables are now getting good support in the rural market.

Parle Agro is marketing 80% of its sale in the rural areas. Batliboi and Co. Ltd. is a leading marketer in agricultural implements. Hindustan Lever sells its products like soaps, shampoos, face cream, etc. in all rural markets on a large scale.

Kirloskar and Crompton are leading rural marketers in diesel engines and agricultural machinery. In the service sector the Central Bank and Canara Bank are the largest banks in rural India. More and more manufacturers are turning towards rural markets because the urban are getting saturated. The Indian rural markets have turned out to be gold mine for the marketers in the nineties.

## **2.7 Factors Contributing to the Growth of Rural Marketing**

1. ***New Employment Opportunities:*** The income from new employment and rural development efforts launched in the rural areas has increased the purchasing power among the rural people. Self employment policy with the assistance from the bank has become a great success in the rural areas.
2. ***Green Revolution:*** A technological break through has taken place in Indian agriculture. Rural India derived considerable benefit from green revolution. Today, rural India generates 185 million tonnes of food grains per year and substantial output of various other agricultural products.
3. ***Expectation Revolution among Rural Masses:*** More than the green revolution, the revolution of 'rising expectation' of the rural people influenced the marketing environment

of rural India. It brought about a powerful change in the environmental dynamics. It enlarged the desires as well as the awareness of the rural people.

Notes

Figure 2.5: Employment Opportunities in Rural India



4. **Favorable Government Policies:** As a part of the process of planned economic development, the government has been making concerted efforts towards rural development. The massive investment in the rural India has generated new employment, new income and new purchasing power. In the recent years as a part of new farm policy, high support prices are offered for farm products. Various measures like tax exemption in backward areas, subsidy, concessions, incentives, assistance, literacy drive in rural areas has brought rapid growth of rural markets.
5. **Literacy Growth:** The literacy rate is on the increase in the rural areas. This brings about a social and cultural change in the buying behaviour of the rural consumer. They are exposed to mass media which create new demand for goods and services.
6. **Growth in Income:** The rise in the income resulting from the new farming strategy is adding meaning and substance to the growing aspirations of the rural people. Remittances from Indians working abroad have also made a sizeable contribution to the growing rural income and purchasing power.
7. **Attraction for Higher Standard of Living:** The rural consumers have been motivated to change their consumption habits enjoy a higher standard of living by the growing awareness about better living and easy availability of information about the goods.
8. **Marketing Efforts:** Firms like Bajaj, HUL, etc., have started penetrating the rural market realizing the rising expectations and the demand revolution in the rural India.



*Notes* Kirloskar and Crompton are leading rural marketers in diesel engines and agricultural machinery. In the service sector the Central Bank and Canara Bank are the largest banks in rural India. More and more manufacturers are turning towards rural markets because the urban are getting saturated.

Notes

Self Assessment

Multiple Choice Questions:

- 12. Self employment policy with the assistance from the bank has become a great success in the ..... areas.  
(a) villages (b) rural  
(c) Urban (d) city
- 13. Remittances from Indians working abroad have also made a sizeable contribution to the growing rural income and ..... power.  
(a) production (b) financial  
(c) distribution (d) purchasing
- 14. The literacy rate is on the ..... in the rural areas.  
(a) increase (b) decrease  
(c) average (d) low
- 15. Kirloskar and Crompton are leading rural marketers in diesel engines and ..... machinery.  
(a) agricultural (b) business  
(c) unit (d) firms



Case Study

**Emancipation of Rural India - The Amul Saga**

The success story of Amul dates back to the pre-independence days of India. Its founder Mr. V. Kurien is acclaimed as a man with a vision the world over today. He has been asked by several countries to help them replicate the success story that has become a household name in India today, the Amul Saga.

A lot of people give the advertising pangs of Amul the credit for making it a top level brand in the country. However, Kurien begs to differ; while he agrees that the "Taste of India" campaign has been highly successful, he also believes that there is more to Amul than just the campaign.

**Brand versus Contracts**

Amul has tens of thousands of contacts everyday. The brand Amul has established itself so well that it is the brand that has substituted the written contract. The success of brand as contract has been possible because in the last fifty years Amul has honoured all its contracts. With the brand substituting the contracts there is a daily renewal of the contract, as transactions take place every hour or even every minute. The grandchildren of the first Amul customers have the same faith in the brand as it received in its initial years. Amul butter, cheese, baby food, chocolates, ice creams and other super products from the Amul organisation have become household names not only in India but elsewhere too, for e.g. the US, West Asia and wherever the Indian community is looking for the Taste of India.

Contd...

The Amul brand has been converted into the Amul contract due to certain specific well designed and executed plans that have become the talking points in the corporate circles as well as in the Business Schools. The conversion process is discussed below:

### **Brand-Contract-Quality**

Amul has been maintaining a strict vigil on the following three areas in its domain:

1. Hygiene standards
2. Bacteriological standards
3. Organoleptic standards
4. Good taste

By observing the rigid quality standards, the Amul brand has rendered itself to reach the heights that it can replace the daily contract between the buyers and suppliers associated with Amul. The quality assurance given by the brand is sufficient for both the buyers and the suppliers who all are ready to vouch for the brand and all the products coming under the umbrella.

### **Brand-Contract and Product Pricing**

In daily FMCG product purchase, the buyer looks for a 'Value for Money' product for which they are ready to pay a reasonable amount of money if it delivers the benefits promised by it. Amul has to strike a fine balance between reasonable price to the customers and a fair return to its owners, the farmers of Gujarat. Even at times when Amul faced adverse conditions with reduced supplies for products like butter, price rise was not resorted to; the management resisted it. Retail trade was not favoured at the cost of the farmer owners of Amul.

### **Brand-Contract-Availability**

Amul has organised the country's finest distribution network that covers hundreds of cities and towns through a cold chain that ensures that the products are available all over the country and at the same product quality. As the products belong to food group, Amul takes special care to see that no non-standard product ever goes into the market. This is further strengthened by the top quality service provided by Amul.

### **Brand-Contract-Service**

Amul exemplifies itself as, arguably the best food product provider in the country. However, in case of any complaint from a customer, the company makes certain that the customer gets full satisfaction with the service they provide.

It can be stated without any contradiction that Amul Contract is based on its brand, which spells success because of the following major initiatives:

1. Quality standards
2. Value for money products
3. Availability of same top quality product all over the country
4. Service for redressing complaints should they ever arise

### **Genesis of Amul**

The origin of Amul can be traced back to the period just prior to India's independence. On the 4th January 1946, a meeting was arranged of the farmers of Samarakha village in district Kaira Gujarat. It was on the initiative of Sardar Vallabh Bhai Patel that Morarji

*Contd...*

**Notes**

Desai organised the meeting. It was Patel's vision to organise farmers to enable them to gain control over the activities directly related to their livelihood, which were:

1. Production
2. Procurement
3. Marketing

Patel wanted that these activities should be under the direct control of the farmers but he also wanted experts in each area to take full responsibility of these functions. This was to ensure that no middlemen gained from the transactions, as so far, it was these middlemen who had been exploiting the farmers for their personal gains.

June 1946 saw the formation of milk producing cooperatives in villages and the apex body at the district level, the District Union, made these cooperatives its members. The first task they got was to operate the government owned Bombay Milk Scheme.

In December 1946 the Kaira District Cooperative Milk Producers Union Ltd. was registered. Soon the Gujarat Cooperative Milk Marketing Federation was set up as the sole marketers of Amul Products.

As can be seen the name Amul comes from the Hindi word Amulya meaning Priceless!

Amul brand came about in 1955. Today Amul denotes a quality product that is available at a reasonable price, all around the country and at the same top standards of quality and service.

**Special Mention**

1. Amul brand name represents two million farmers from 10,000 village Dairy Cooperative Farms throughout Gujarat.
2. Today, 173 million producers cooperative unions, 22 federations supplies Amul products in 1000 cities in India.
3. Amul has the brand contract with both producers and the consumers.

Amul hopes to be playing a much bigger role in making India a land of our dreams.

Imagine going for a morning walk in the wee hours to a park, making a brief stopover and coming back home with a belly-full of tasty flavoured milk and hot pizza topped with cheese! Defeats the purpose of the walk, but may make you feel on top of the world. Now, imagine the CEO of a dairy company saying, "Ours is not a food company, it is an IT company in the food business. The most efficient way of building links between milk producers and consumers so as to provide the best returns for both is through IT and innovation." Or better still, imagine a cooperative movement that has delivered a ₹ 2746 crore turnover and has been planning actively to take it up to the 10000 crore mark. AMUL INDIA limited, and its team of energetic professionals have planned to take on HUL in ice-creams, Cadbury in chocolates, and NDDB in a verbal duel to uphold the cooperative movement. On top of all this, they plan to set up a retailing network that would be the toast of the town. Thankfully, the management flatly denied plans of launching kadhi and raita.

B M Vyas, MD of Gujarat Cooperative Milk Marketing Federation (GCMMF) had estimated in late 2001 that the contribution from value added products like pizza, lassi and flavoured milk would double from 15 per cent to 35 per cent. Of the entire milk procured, approximately

*Contd...*

40 per cent is sold as liquid milk and 60 per cent is converted to value added products. Pizzas had been estimated to sell 100,000 pieces a day. Flavoured milk and ice-cream continued to be touted as success stories. Plans for a nationwide launch of soups had also been announced. Ahmedabad was reportedly selling 5000 litres of lassi a day. How much true were those claims? It turned out that the initial enthusiasm over value added products was misplaced. The outlets offering the pizzas did not know how to serve them. R S Sodhi, GM Marketing said, "Pizzas by themselves were a small category than even namkeens. All we wanted to do was promote the consumption of mozzarella cheese which we succeeded in doing." The ice-cream venture was a little more successful, given that Amul could price it really well. However, there were other strong players who could gear up for competition. Mother Dairy Foods, the marketing subsidiary of the National Dairy Development Board (NDDB) had signed agreements with other state cooperative milk marketing federations, to set up joint venture companies and market their produce, including ice-creams, under the mother dairy brand. Right into Amul native markets! To top it all, worms were found inside Amul spray baby feed. The Maharashtra FDA ordered immediate withdrawal of the product from Mumbai. One brand and so many brand extensions, Amul claimed that its extensions had not been costing too much money, as the marketing effort was minimal. The name Amul was good enough to sell whatever it endorsed. But whenever a brand launch is declared unsuccessful, it does not reflect well upon the company. Where is the company headed, and more importantly, should it be headed there?

The story of Anand Milk Union Limited began way back in 1946 as an offshoot of the freedom movement with an aim to do away with the exploitation of middlemen in milk collection and give the villagers the best returns for milk. AMUL began the dairy cooperative movement in the country and formed an apex cooperative organization, Gujarat Co-operative Milk Marketing Federation Ltd. (GCMMF), which is jointly owned by some 2.2 million milk producers in Gujarat. Now, not only has the milk collection and the number of co-operative members increased but AMUL was also giving a stiff challenge to the multinationals.

Consider this; AMUL was a leader in baby food, dairy whiteners, cheese and ice creams. It held an 86 per cent market share in butter. Exports of milk and milk products were ₹ 80 crore per annum. This was certainly a giant leap when one considered that in 1946 when it began, it had only two village societies and a collection of 247 litres of milk daily. The primary goal of Dr. V. Kurien, Chairman GCMMF, the "Milkman of INDIA", had been to build a strong Indian society through an innovative cooperative network, to provide quality service and products to end-consumers and good returns to the farmer members. Kurien averred, "We have traversed a path that few have dared to. We are continuing on a path that still fewer have the courage to follow. We must pursue a path that even fewer can dream of pursuing. Yet, we must. We hold in trust the aims and aspirations of millions of our countrymen." During 2001-02, GCMMF's member unions put together procured 45.87 lakh litres of milk per day (LLPD), with the leading contributor being Mehsana (11.15 LLPD). Kaira (6.88 LLPD), followed by Banaskantha (6.86 LLPD), Sabarkantha (6.18 LLPD), Surat (5.29 LLPD), Baroda (2.44 LLPD), Panchmahal (2.01 LLPD), Valsad (1.83 LLPD), Ahmedabad (1.15 LLPD), Gandhinagar (1.05 LLPD), Rajkot (0.81 LLPD) and Bharuch (0.24 LLPD). In addition to the well-thought out cooperative movement, information technology (IT) had played a significant role in developing AMUL brand. The logistics behind coordinating the collection of some 6 million litres of milk per day from 10,755 separate Village Cooperative Societies throughout Gujarat and then storing, processing and producing milk products at the respective 12 District Dairy Unions, were awesome. The installation of 3000 Automatic Milk Collection System Units (AMCUS) at Village Societies

*Contd...*

Notes

to capture member information, milk fat content, the volume collected and amount payable to each member proved invaluable in ensuring fairness and transparency throughout the AMUL organization.

In value added products AMUL had humble yet solid beginnings. From milk alone, the portfolio had expanded to include some very marketing-intensive products AMUL commissioned IMRB to do a study on what products the customers expected from its stable. Butter and ghee were the old success stories. Flavoured milk under the brand name 'Kool' has also been accepted as a success story. Over time, AMUL expects to collect sufficient data to validate the same. Says R S Sodhi, "We have been trying to figure out how we can dispose off the milk procured. It's 52 lakh litres a day, so how does one maximize returns on it? Hence the foray into value-added products." AMUL outlined its advantages as follows:

1. Cost-effective production including primarily, procurement of milk from over two million dairy farmers, which, in turn, assures poor farmers reasonable prices.
2. Climbing up in the value-chain by diversifying in value-added products, such as milk sweets, ice creams, pizzas, confectioneries, truly as a food company rather than as one merely selling milk, and to be known only as an organized milk-vendor.
3. Sustained building of loyalty of customers, not by promoting individual products, but all its products under the umbrella of its premium brand AMUL, and by investing a good 40 per cent of its ad budget towards brand promotion.
4. Facilitating reach to customers throughout the country by a strong chain of distribution outlets. AMUL reached out to five lakh retail outlets and had 2,600 distributors under its fold, and a well-established cold chain. The investment in relationship with business partners, both farmer-based co-operatives and distribution networks for purchasing and selling functions respectively, enables AMUL to enter into any food category without much time or investment.

The key categories were chocolates, ice creams, soups and retail initiatives.

1. **Chocolates:** GCMMF, which had been lying low for a while with its generic chocolate variants such as Fruit & Nut and Milk, intended segmenting its chocolates, catering to different age groups and categories that were likely to consume its brand. Sanjay K. Panigrahi, General Manager, GCMMF, said, "We intended to take advantage of our already existing cold chain to get more active in the growing market of moulded chocolates and confectionery." Having launched an occasion-related sub-brand of "Nuts 'bout U" on the eve of Valentine's Day and Kite Bite for the kite flying festival in Ahmedabad, it was decided to segment the market with brands catering to the 'impulse' and 'teen' segments as well as having brands catering to different occasions.
2. For its ice-cream and milk business, GCMMF had invested in increasing its milk capacity. It firmed up plans to invest ₹ 100-120 crore to expand this from 1.1 million litres a day to 1.8 million litres a day at its Gandhinagar factory. The cooperative also planned to expand its production facilities beyond Gujarat to service other regions. GCMMF bought an ice-cream manufacturing unit in Nagpur and installed a dairy unit alongside. Through this unit, AMUL extended its milk supply to over 10 cities spread over Rajasthan, Madhya Pradesh and Maharashtra.

It also focused on its supply system. Efforts were on to ensure greater availability of AMUL ice-cream at pushcarts and small outlets. The company felt that availability was the most important factor in ice cream sales. Thus, AMUL ice-cream could be found in 'just around the corner shops,' local STD booths, local kirana shops, and chemists and bakers,

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## Notes

who stocked the ice-cream in deep freezers. Both AMUL and Hindustan Lever's (HUL) Kwality Walls claimed to be the largest selling ice-cream brands in the country. While HUL quoted a market research study by AC Nielson, which put Kwality Walls at the No 1 spot, an independent study by Ahmedabad-based Consumer Education and Research Society (CERS) ranked AMUL as No 1, followed by Kwality Walls (among four brands including Vadilal and four loose samples) on various parameters of taste, melting quality, weight, fat and sugar content. AMUL ice-cream was positioned as 'real ice-cream' made from real milk cream, while HUL's Kwality Walls was made from vegetable oil and its items were dubbed Frozen Deserts. There was also stiff competition from the other cooperative, NDDDB in the form of Mother Dairy Ice Creams. AMUL sold its Ice Cream in New Delhi, country's biggest Ice Cream market, where its anti-compete agreement with Mother Dairy had expired. AMUL had been sourcing its entire Ice Cream requirement for the northern market (including Delhi) from its Gandhinagar plant.

AMUL introduced ready-to-use (just pour and heat) soups branded 'Masti' in tetra packs of one litre. To begin with, they were introduced in two flavours, 'Hot 'n' Sour' and 'Tomato'. Said Sodhi, "It was a test marketing drive in Gujarat and in a month or two it would be introduced all over the country. And there wasn't much competition for there were not many companies that sold ready-to-use soups. Soup is a milk product, and that's a secret. You will come to know only when you consume it." Keeping the ingredients a closely guarded secret, the company stated that one of the reasons to launch soups was to utilize the already installed equipment for tetra packaging.

The retailing initiative included not only milk booths, but also restaurants. Amul had also taken the initiative to set up 100 of its own brand retail parlors under the name 'Utterly Delicious', an initiative which would give it a retail edge, compared to its competitors such as HUL and Cadbury. Panigrahi estimated a ₹ 100 crore turnover in the three years after launching the 'Utterly Delicious' parlors. As an extension of this retail initiative, Amul also test-launched a restaurant chain under the "Utterly Delicious" brand at Vashi in Navi Mumbai. Amul wanted to open more of such eateries in Mumbai soon, which would dish out ready-to-eat stuff like parathas, lassi, buttermilk, sandwiches and pizzas, using ingredients from Amul and also vending the products already available under the Amul franchise like soups, butter, ghee etc.; GCMMF also inaugurated an Amul Shoppe inside Ahmedabad Urban Development Authority (AUDA) garden premises at Vishramnagar, a short distance from Memnagar. Not leaving any stone unturned for a successful launch of milk booths, GCMMF hired experts of the National Institute of Design (NID), to specially design these eye-catching shops. The Amul project had another unique side to it too; the shops would work to improve Ahmedabad's ecology and health. Said Vyas "Amul products seek to maintain a high standard. We have done production, processing and marketing. We have dealers but not many retailers. We would want Amul products to come face to face with the masses. Probably, dearth of adequate retailers was one of the reasons for the not so good performance of its frozen pizzas."

GCMMF's tussle with NDDDB was over ownership of the Mother Dairy trademark. This move would question the *raison d'etre* of NDDDB's thrust into the realm of marketing, as it is under the Mother Dairy brand that it had routed various businesses and achieved volumes close to ₹ 1,000 crore. According to available information, GCMMF had applied for the ownership of the Mother Dairy brand on August 1, 2000 with the Registrar of Trade Marks, Government of India. Against this, the NDDDB application made for the same was put up only on August 14, 2000. And the 13-day lapse of time would prove to be a debilitating one in this war of nerves between two of the premier names in dairy business in the country.

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**Notes**

The high-voltage spat between the heads of the two organizations, Dr. Amrita Patel and Dr Verghese Kurien, had not been constructive at all. In Patel's view, marketing of milk, and not so much its production, would be the biggest challenge for co-operatives in the future and that the JVs with other state cooperatives were a step in the right direction. She felt that such efforts were necessary as there had been a growing gap between milk production and its marketing. Dr Kurien questioned the NDDDB's expertise in marketing merely on the strength of hiring a couple of hands from MNCs at senior levels even as the entity, per se, remains unaltered. He was apprehensive that the marketing functions of the State federations would eventually find their way into the hands of MNCs such as Cadbury and Nestle. He felt that this amounted to back-door privatization at a time when similar efforts with PSUs were attracting much deliberation by the policy-makers and the elected representatives. Vyas also reiterated that the Mother Dairy brand should belong to the farmers and not to the NDDDB, which is a body set up by the Government, adding that just as the farmers' control on procurement and processing of milk is sacrosanct, so it should be in the case of marketing. How could the Mother Dairy come and take away only marketing, the most lucrative part of the milk chain? Likewise, the powers that be at the National Dairy Development Board (NDDDB), the apex body set up in 1965 and declared an institution of national importance by an Act of Parliament in 1987 for replicating the success across the country, were convinced that it was only by strengthening the marketing strength of these co-operative federations that they would survive the onslaught of the private sector, and had taken upon themselves the onus to do so. As this turf war of the co-operative brands continued to rage, it could turn out that the MNC brands, which were otherwise being priced out of the market, would walk away with the Indian cream.

Kurien averred, "It is one thing for the multinationals to want in when the country has emerged as the world's leading milk producer, but quite another if they are allowed to walk away with the hard-earned prize of the Indian farmer under the pretext of profitable marketing of milk and milk products."

Experimentation, coupled with competition and its tussle with NDDDB have put the company in a unique position. The Federation's focus right from the inception has been to give best quality with latest technology, value-for-money and work on economy-of-scales. Little wonder then that officials claimed that only one percent of the total expenditure was spent on advertisements. Revenue growth has been steady. The latest feather in the cap was doubling of the capacity of the Mother Dairy plant, one of the largest in Asia, in Gandhinagar. The state-of-the-art project with an initial investment of ₹ 110 crore was upped to ₹ 150 crore with the inclusion of ice cream and long life milk processing to its product range. However, the hitch is that production of raw material is never the same as converting it into a value added product and then marketing it. The corporate machinery needed to do both and they are very different from each other.

**Questions**

1. Is there a problem of absurd assumption of competencies that is being faced by the company? (We know the raw material, so we know the market!)
2. Is the right kind of brand building emerging through these efforts? How far can you stretch a brand across categories?
3. In the case of ready-to-eat pizza in particular, is it the execution that failed the company or the plan to enter value-added services in a big way that caused its failure? Please analyse the success formula of Amul by understanding the product, competition, business general and competitive environment. Give your recommendations for ensuring continued success of the brand.

## 2.8 Summary

- About 76% of the Indian people reside in rural areas.
- The Infrastructure Facilities like roads, warehouses, communication system, and financial facilities are inadequate in rural areas.
- A more equitable distribution in rural areas would also help in slowing down the rapidly increasing influx of people from rural to urban areas.
- The biggest thing is that there is lack of any research into the consumer behavior of the rural areas.
- The limitation lies in the inadequate or unavailability of appropriate tools to evaluate the rural market behavior.
- A technological break through has taken place in Indian agriculture. Rural India derived considerable benefit from green revolution.
- The limitation lies in the inadequate or unavailability of appropriate tools to evaluate the rural market behavior.
- Parle Agro is marketing 80% of its sale in the rural areas. Batliboi and Co. Ltd. is a leading marketer in agricultural implements.
- The commercial banks and the co-operative have been marketing the saving habit in the rural areas for quite some years.

## 2.9 Keywords

**Attraction for Higher Standard of Living:** The rural consumers have been motivated to change their consumption habits enjoy a higher standard of living by the growing awareness about better living and easy availability of information about the goods.

**Green Revolution:** A technological break through has taken place in Indian agriculture. Rural India derived considerable benefit from green revolution. Today, rural India generates 185 million tonnes of food grains per year and substantial output of various other agricultural products.

**Growth in Income:** The rise in the income resulting from the new farming strategy is adding meaning and substance to the growing aspirations of the rural people.

**Literacy Growth:** The literacy rate is on the increase in the rural areas. This brings about a social and cultural change in the buying behaviour of the rural consumer. They are exposed to mass media which create new demand for goods and services.

**Marketing Efforts:** Firms like Bajaj, HUL, etc., have started penetrating the rural market realizing the rising expectations and the demand revolution in the rural India.

## 2.10 Review Questions

1. What are the features of Indian Rural Markets?
2. Describe the profile of the rural consumer.
3. What are the factors contributing to growth of rural marketing?
4. Explain the changing profile of rural marketing.

**Notes**

5. Explain the term "Green Revolution".
6. Describe the Rural Population in India.
7. Explain the Literacy Level in Rural Markets.
8. Describe the occupation pattern of Rural India.
9. Explain the Genesis of Amul.
10. Discuss the literacy level in India.

**Answers: Self Assessment**

- |                   |              |
|-------------------|--------------|
| 1. Rural          | 2. Consumer  |
| 3. Urban          | 4. Potential |
| 5. Socio-Economic | 6. True      |
| 7. False          | 8. False     |
| 9. False          | 10. True     |
| 11. True          | 12. (b)      |
| 13. (d)           | 14. (a)      |
| 15. (a)           |              |

**2.11 Further Readings**



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## Unit 3: Rural Marketing Model

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### Objectives

After studying this unit, you will be able to:

- Define Rural Marketing Model
- Discuss the significance of Rural Markets.
- Describe what makes Rural Markets Attractive?
- Explain the Problems related to Indian Rural Markets.

### Introduction

Companies work marketing models before entering any market. They approach different models to reach the target market. They work in a organised way which gives the step-by-step process to implement. Depending upon the market the model may get slight change but the steps may remain same. The process help the companies to analyze the real market and launch their business. There should be a clarity in this so as to reach the success in the rural market.

### 3.1 Rural Marketing Model

The step-by-step process is research, segmentation, lifestyle analysis, profile study, defining needs, developing specific profile, target market, market mix, implementation and control.

So, if these steps are followed like a model then the company can attain the success in the market.

1. **Research:** A Research should be conducted before launching the business. The research may be primary or secondary one. If it is primary then it sounds good, as there will be more clarity about the business and opportunities. This is about studying the market before entering.

2. **Segmentation:** The most important factor is the segmentation, as the rural market consists of different groups and socio economic class. They have different lifestyles, cultures, economy and demography backgrounds. So the company should think of this and make the segmentation in a perfect manner. Depending upon the product and business the company should keep some parameters to make the segmentation. The parameters should be selected in such a way that its effects the demand of the product.
3. **Lifestyle Analysis:** The people will be from different cultures and demographic background. So they will be having different lifestyles and needs. Depending upon their way of thinking and lifestyle the company need to understand to think of their product. The lifestyle of the consumer makes an impact on the demand of the product. So by the analysis the company can draw their strategies to market the product.
4. **Profile Study:** The Company should develop a profiler for the rural consumers. The profile helps the company while designing the marketing mix. The profile should be in a proper manner which impacts the designing and marketing of the product. For developing such profiles local organizations can help out.
5. **Defining Needs:** The main theme of the company should look for the needs of the consumer. As from the above factors the marketer can be able to identify the needs which are suitable to their lifestyles. After that they should define the exact need of the customer. In general terms they should define the needs so as to work out on the target market.
6. **Target Market:** After so many steps of work flow process the company can easily identify that their product is going to match or not that is the way of matching in their marketing mix. With the rural market. So by doing all this the company can target a market from the segmented market. So by selecting a segment they can target the group with their strategies and marketing mix.
7. **Marketing Mix:** As we know that marketing mix of the company is the main component to reach the customers. As there is heterogeneous lifestyles and geographically diverted market so the company should design or modify the mix depending upon the customer needs. There should be a proper work out of 4A's of Marketing Mix. From the above steps the company can easily identify and can design their marketing mix to reach the market. So by doing this the company can attain the success.
8. **Implementation:** Most of the companies feel that implementation is the major problem in rural market., due the factors influences the market. So for Implementation the channel players are important. They reached the last mile of rural market. So for the implementation there should be a full focus from the organization point of view. The planning and working should be in parallel, by which the implementation cannot be a failure.
9. **Control:** Last but not least, the important factor to think for the model. As there is a huge competition in the market, it will grow in a speedy manner. So there will be a lot of things that companies should always get to update. The R&D should be strong for those areas. There should be systematic process for the up to date communications. So that they cannot miss the feedback from the customers and work on those things. The timing for the analysis and action is very important here. The regional and local players can easily move in the market and modify their strategies. So that is why companies need to be with their channel partners to work their strategies. If they can implement it and control the things than the company can reach the customers easily and can attain the success rate.

So from the above steps if the company does a work out on each step and implement perfectly than they can mark their success in the rural market.

Notes



*Did u know?* More than 90 % villages electrified, though only 44% rural homes have electric connections. Rural telephone density has gone up by 300% in the last 10 years; every 1000+ pop is connected by STD.

### 3.2 Significance of Rural Markets

The rural markets are estimated to be growing fastly compared to the urban markets. The potentiality of rural markets is said to be like a 'woken up sleeping giant'. These facts are substantiated in a study of market growth conducted by various researches. 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. On account of the green revolution in India, the rural areas are consuming a large quantity of industrial and urban manufactured products. In this context, a special marketing strategy, namely, *rural marketing* has taken shape. Sometimes, *rural marketing* is confused with *agricultural marketing* – the later denotes marketing of produce of the rural areas to the urban consumers or industrial consumers, whereas rural marketing involves delivering manufactured or processed inputs or services to rural producers or consumers.

A number of factors have been recognized as responsible for the rural market boom to come into existence:

1. Increase in population and hence increase in demand.
2. A marked increase in the rural income due to agrarian prosperity.
3. Standard of living is also increasing in rural areas.
4. Large inflow of investment for rural development programmes from government and other sources.
5. Increased contact of rural people with their urban counterparts due to development of transport and wide communication network.
6. Increase in literacy and educational level and resultant inclination to sophisticated lives by the rural folks.
7. Inflow of foreign remittances and foreign made goods into rural areas.
8. Change in the land tenure systems causing a structural change in the ownership patterns and consequent changes in the buying behaviour.
9. Rural markets are laggards in picking up new products. This will help the companies to phase their marketing efforts. This will also help to sell inventories of products out dated in urban markets.

### **Self Assessment**

Fill in the blanks:

1. A ..... should be conducted before launching the business.
2. The most important factor is the ....., as the rural market consists of different groups and socio economic class.
3. The people will be from different cultures and ..... background.

4. The Company should develop a profile for the ..... consumers.
5. The main theme of the company should look for the ..... of the consumer.
6. Most of the companies feel that ..... is the major problem in rural market.
7. The rural markets are estimated to be growing fastly compared to the ..... markets.
8. A marked increase in the rural ..... due to agrarian prosperity.

Notes

### 3.3 What Makes Rural Markets Attractive?

Rural market has following arrived and the following facts substantiate this.

- 742 million people
- Estimated annual size of the rural market
  - ❖ FMCG ₹ 65,000 Crores
  - ❖ Durables ₹ 5,000 Crores
  - ❖ Agri-inputs (incl. tractors) ₹ 45,000 Crores
  - ❖ 2/4 wheelers ₹ 8,000 Crores
- In 2001-02, LIC sold 55 % of its policies in rural India.
- Of two million BSNL mobile connections, 50% in small towns/villages.
- Of the six lakh villages, 5.22 lakh have a Village Public Telephone (VPT).
- 41 million Kisan Credit Cards issued (against 22 million credit-plus-debit cards in urban) with cumulative credit of ₹ 977 billion resulting in tremendous liquidity.
- Of 20 million Rediffmail signups, 60 % are from small towns. 50% transactions from these towns on Rediff online shopping site
- 42 million rural HHs availing banking services in comparison to 27 million urban HHs.
- Investment in formal savings instruments: 6.6 million HHs in rural and 6.7 million in urban.

#### Strategies

Dynamics of rural markets differ from other market types, and similarly rural marketing strategies are also significantly different from the marketing strategies aimed at an urban or industrial consumer. Rural markets and rural marketing involve a number of strategies, which include:

**Client and Location specific promotion** involves a strategy designed to be suitable to the location and the client.

**Joint or co-operative promotion** strategy involves participation between the marketing agencies and the client.

**'Bundling of inputs'** denote a marketing strategy, in which several related items are sold to the target client, including arrangements of credit, after-sale service, and so on.

**Management of demand** involves continuous market research of buyer's needs and problems at various levels so that continuous improvements and innovations can be undertaken for a sustainable market performance.

Notes

**Developmental marketing** refers to taking up marketing programmes keeping the development objective in mind and using various managerial and other inputs of marketing to achieve these objectives.

**Media**, both traditional as well as the modern media, is used as a marketing strategy.

**Unique Selling Propositions (USP)** involve presenting a theme with the product to attract the client to buy that particular product. For examples, some of famous Indian Farm equipment manufactures have coined catchy themes, which they display along with the products, to attract the target client, that is the farmers. English version of some of such themes would read like:

- The heartbeats of rural India
- With new technique for a life time of company
- For the sake of progress and prosperity

**Extension Services** denote, in short, a system of attending to the missing links and providing the required know-how.

**Ethics in Business** form, as usual, an important plank for rural markets and rural marketing.

**Partnership for sustainability** involves laying and building a foundation for continuous and long lasting relationship.

**Selection of sales force:** The salesman in rural markets should be selected from the educated unemployed villagers, trained well and appointed as salesmen. The town-to-villages shuttling salesmen are to be replaced by stationary salesman in villages.

### 3.4 Opportunities

- Infrastructure is improving rapidly.
  - ❖ In 50 years only 40% villages connected by road, in next 10 years another 30%.
  - ❖ More than 90% villages electrified, though only 44% rural homes have electric connections.
  - ❖ Rural telephone density has gone up by 300% in the last 10 years; every 1000+ pop is connected by STD.
- Social Indicators have improved a lot between 1981 and 2001
  - ❖ Number of “pucca” houses doubled from 22% to 41% and “kuccha” houses halved (41% to 23%)
  - ❖ Percentage of BPL families declined from 46% to 27%
  - ❖ Rural Literacy level improved from 36% to 59%
- Low penetration rates in rural so there are many marketing opportunities.
  - ❖ Durables Urban Rural Total (% of rural HH)
    - ◆ CTV 30.4 4.8 12.1
    - ◆ Refrigerator 33.5 3.5 12.0
  - ❖ FMCGs Urban Rural Total (% of rural HH)
    - ◆ Shampoo 66.3 35.2 44.2
    - ◆ Toothpaste 82.2 44.9 55.6

- Marketers can make effective use of the large available infrastructure
  - ❖ Post offices - 1, 38,000
  - ❖ Haats (periodic markets) - 42,000
  - ❖ Melas (exhibitions) - 25,000
  - ❖ Mandis (agri markets) - 7,000
  - ❖ Public distribution shops - 3, 80,000
  - ❖ Bank branches - 32,000
- Proliferation of large format rural retail stores which have been successful also.
  - ❖ DSCL Haryali stores
  - ❖ M & M Shubh Labh stores
  - ❖ TATA/Rallis Kisan Kendras
  - ❖ Escorts rural stores
  - ❖ Warnabazaar, Maharashtra (annual sale ₹ 40 crores)



*Task* Discuss the influencing factors in Rural Marketing.

### 3.5 Problems Related to Rural Marketing

The rural market offers a vast untapped potential; it should also be recognized that it is not that easy to operate in rural market because of several problems. Rural marketing is thus a time consuming affair and requires considerable investments in terms of evolving appropriate strategies with a view to tackle the problems. The problems are:

#### **Barter System**

In the developing country like India, even today the barter system i.e., exchange of goods for goods exists. This is a major obstacle in the way of development of rural marketing.

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

The agricultural technology has tried to develop the people and market in rural areas. Unfortunately, the impact of the technology is not felt uniformly through out the country. Some districts in Punjab, Hariyana or Western Uttar pradesh where rural consumer is somewhat comparable to his urban counterpart, there are large areas and groups of people who have remained beyond the technological breakthrough. In addition, the farmers with small agricultural land holdings have also been unable to take advantage of the new technology.

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

Nearly 50 percent of the villages in the country do not have all weather roads. Physical communication to these villages is highly expensive. Even today, most villages in eastern part of the country are inaccessible during monsoon season.

Notes

### **Inadequate Media Coverage for Rural Communication**

A large number of rural families in own radios and television sets there were also community radio and T.V sets. These have been used to diffuse agricultural technology to rural areas. However the coverage relating to marketing is inadequate.

### **Many Languages and Dialects**

The number of languages and dialects vary from state to state region to region. This type of distribution of population warrants appropriate strategies to decide the extent of coverage of rural market.

### **Market Organization & Staff**

The size of the market organization and staff is very important, to manage market system effective control. However the existing organizational setup particularly at district and block level needs to be strengthened in order make the services on various aspects available to the farmers timely and also easily accessible to them.

### **Other Influencing Factors in Rural Marketing**

Natural calamities and Market conditions (demand, supply and price). Pests and diseases, Drought or too much rains, Primitive methods of cultivation, lack of proper storage facilities which exposes grain to rain and rats, Grading, Transport, Market Intelligence (up to date market prices to villagers), Long chain of middlemen (Large no. of intermediaries between cultivator and consumer, wholesalers and retailers, Fundamental practices (Market Dealers and Commission Agents get good part of sale of receipts).

### **Major Losers**

*Small and marginal formers*, 75% villagers are illiterates or semiliterate, they facing difficulties like proper paper procedures for getting loans and insurance. The farmers facing high interest rates for their credits (Local money lending system). Most of the credit needed for agricultural inputs like seeds, pesticides, and fertilizers.

### **Major Weaknesses and Challenges**

- Traditional mind not to react new ideas.
- Agricultural income mostly invested in gold ornaments and weddings.
- Low rural literature.
- Not persuading new thinking and improved products.



*Notes* India is the second largest producer of fruits and vegetables in the world with an annual production of more than 110 million tones of fruit and vegetable only 1.3 percent of the output is processed by the organized sector commercially.

### 3.6 Emerging Trends in Markets

Notes

Most of the dealers have direct touch with the local farmers; these farmers need awareness about pests, disease, fertilizers, seeds, technology and recent developments. For this information, farmers mostly depend on local dealers.

#### Online Rural Market (Internet, Nicnet)

Rural people can use the two-way communication through on - line service for crop information, purchases of Agri-inputs, consumer durable and sale of rural produce online at reasonable price. Farm information online marketing easily accessible in rural areas because of spread of telecommunication facilities all over India. Agricultural information can get through the Internet if each village has small information office.

Figure 3.1: Online Rural Market



#### Information through Local Agriculture Input Dealers

For development of rural farmers the government may consider effective channel and keep information at dealers, for farmer education hang notice board and also train the dealer recent changes and developments in agriculture.

National Chain Stores: large number of stores set up in different rural areas throughout the country by the same organization for marketing its products. Thus national chain stores can serve large number of customers in rural area.

#### Cost Benefit Analysis

Cost benefit can be achieved through development of information technology at the doorsteps of villagers; most of the rural farmers need price information of agri-produce and inputs. If the information is available farmers can take quick decision where to sell their produce, if the price matches with local market farmer no need to go near by the city and waste of money & time it means farmers can enrich their financial strength.



*Caution* Most of the dealers have direct touch with the local farmers; these farmers need awareness about pests, disease, fertilizers, seeds, technology and recent developments. For this information, farmers mostly depend on local dealers.

Notes

**Self Assessment**

State whether the following statements are true or false:

9. Unique Selling Propositions (USP) involve presenting a theme with the product to attract the client to buy that particular product.
10. The buyer in rural markets should be selected from the educated unemployed villagers, trained well and appointed as salesmen.
11. Urban marketing is thus a time consuming affair and requires considerable investments in terms of evolving appropriate strategies with a view to tackle the problems.
12. Vertical communication to these villages is highly expensive.
13. The size of the market organization and staff is very important, to manage market system effective control.

**3.7 Need Based Production**

Supply plays major role in price of the rural produce, most of the farmers grow crops in particular seasons not through out the year, it causes oversupply in the market and drastic price cut in the agricultural produce. Now the information technology has been improving if the rural people enable to access the rural communication, farmers awareness can be created about crops and forecasting of future demand, market taste. Farmers can equates their produce to demand and supply, they can create farmers driven market rather than supply driven market. If the need based production system developed not only prices but also storage cost can be saved. It is possible now a days the concept of global village.

**Market Driven Extension**

Agricultural extension is continuously going through renewal process where the focus includes a whole range of dimensions varying from institutional arrangements, privatization, decentralization, partnership, efficiency and participation. The most important change that influences the extension system is market forces. There is a need for the present extension system to think of the market driven approach, which would cater the demands of farmers.

**Processing Industry**

India is the second largest producer of fruits and vegetables in the world with an annual production of more than 110 million tones of fruit and vegetable only 1.3 percent of the output is processed by the organized sector commercially, the reason higher consumption in fresh form. However, as the packaging, transportation and processing capacities increase, the market for processed fruits and vegetables is projected to grow at the rate of about 20 % per annum. 100 % export oriented units (EOU) and Joint venture units required improving the processing industry.

**Apanamandi/Kisan Mandi/Rythubazaar**

There is a need to promote direct agricultural marketing model through retail outlets of farmer's co-operatives in urban areas. The direct link between producers and consumers would work in two ways: one, by enabling farmers to take advantage of the high price and secondly, by putting downward pressure on the retail prices.

**Rural Agri-Export**

Notes

Rural produce, raw fruits and vegetable, processing goods, have the potential market in Asian, Europe and western countries. Particularly Saudi countries have commendable potential for Indian rural produce.

**Self Assessment**

Multiple Choice Questions:

14. Rural produce, raw fruits and vegetable, processing goods, have the potential market in Asian, Europe and ..... countries.
- (a) eastern (b) western  
(c) european (d) rural
15. Supply plays major role in price of the ..... produce.
- (a) rural (b) urban  
(c) high (d) low



Case Study

**Sale of Seeds**

**F**loral seeds has evolved from a modest operation to becoming the fastest growing production and marketing company in India. This remarkable pace has been the result of putting together a management team of veterans in seed sales, marketing and production with over 22 years of rich and healthy experience. This team of seeds men brought together the chemistry of four careers that were built on customer service, technical knowledge and a constant search for innovative products designed to enhance consumers profitability.

The quality and infrastructure give us an edge compared to our competitors in all the standards of production. The company's collection, processing, storing, testing and breeding facility takes place in different climatic zones across the nation to match the climate, soil and land of the client's country.

The BioAgri sector in 2005-06 has registered 81 percent growth over that in the previous year to record ₹ 598 crore in revenues. The sector's performance has been driven by Bt Cotton. The Bt Cotton seeds business alone has generated ₹ 495 crore in revenues registering close to 115 percent growth compared to that the previous year. In fact, Rasi Seeds, the second company in India to make commercially available Bt cotton, became the largest seller of Bt Cotton seeds. It clocked ₹ 309.5 crore in revenues, registering over 250 percent growth. Rasi Seeds in 2004-05 reported total Bt cotton seeds sales of ₹ 86.9 crore. Mahyco was the second largest contributor with ₹ 117.6 crore in sales. Nuziveedu Seeds and Ankur Seeds were the other two companies that were permitted to sell Bt Cotton, with Nuziveedu Seeds ending the year at ₹ 62.52 crore.

A total of 31.30 lakh packets of seeds containing 450 grams were sold. The "Bollgard" Bt cotton seeds were sold in nine states, namely, Andhra Pradesh, Tamil Nadu, Karnataka, Gujarat, Madhya Pradesh, Maharashtra, Haryana, Punjab, and Rajasthan.

Contd...

**Notes**

While the Bt Cotton seeds sales accounted for bulk of this market, bio- pesticides, biofertilizers and markers accounted for the rest. International Panacea, Multiplex Biotech and Biotech International were the other major companies in the bio-pesticides and biofertilizers category. International Panacea reported sales of ₹ 21.17 crore in 2005-06 compared to ₹ 17 crore in 2004-05, while Multiplex Biotech's sales stood at ₹ 11.7 crore.

Monsanto's technology is still the dominant Bt technology used in India. Each of the seed companies paid Monsanto Biotech about ₹ 1,200 per packet as royalty and on account of this fee, Monsanto Biotech's revenues stood at ₹ 391.25 crore. This figure has not been considered for the industry sizing.

Today, approvals have been given to 16 major seed companies in India i.e. Mahyco (MECH, MRC), Rasi (RCH), Ankur Seeds (Ankur), Nuziveedu Seed (NSC), JK Seeds (JKCH), Nath Seeds (NCEH), Ganga Kaveri Seeds (GK), Tulasi Seeds (Tulsi), Ajeet Seeds (ACH), Emergent Genetics (Brahma), Vikki Agrotech (VICH), Vikram Seeds (VICH), Pravardhan Seeds (PRCH), Krishidhan (KDCHH), Prabhat (PCH) and Vikram (VICH) seeds.

According to ISAAA, in 2005, six new varieties of Bt cotton hybrids were approved first time for commercial cultivation in Northern zone. In addition, eight new Bt cotton hybrids were approved for Central zone and five Bt cotton were approved for Southern zones in 2005. As a result, farmers had more choices to grow Bt cotton hybrids.

India experienced the highest proportional growth for any biotech crop globally in 2005 with Bt cotton cultivation soaring 160 percent according to ISAAA. Around 13,00,000 hectares of cotton land were planted with Bt cotton hybrids by more than one million farmers in Northern, Central and Southern cotton growing zones in 2005.

The major states growing Bt cotton in 2005 were Maharashtra (ranked first with 590,000 hectares) followed by Andhra Pradesh with 280,000 hectares, Gujarat with 150,000 hectares, Madhya Pradesh with 145,000 hectares, Northern States with 60,000 hectares, Karnataka with 30,000 hectares and Tamil Nadu with 25,000 hectares for a national total of 13,00,000 hectares.

The GEAC has approved around 38 new varieties of Bt cotton hybrids for commercial cultivation in 2006 season in addition to the 20 Bt cotton hybrids approved for sale in 2005. This brings the total of Bt cotton hybrids to 58.

Interestingly, the GEAC has also approved three new events of biotech cotton in 2006. One developed by JK Seeds Pvt Ltd containing the Cry 1Ac gene known as (Event 1) sourced from IIT Kharagpur, India; Second one developed by Nath Seeds Pvt Ltd containing fusion genes (cry 1Ab and cry Ac) known as (GFM event) sourced from China and, the third developed by Mahyco containing stacked Cry X (Cry I Ac and Cry 2 Ab) genes (Event MON 15985 or BG-II) sourced from Monsanto.

Clearly, there has been a surge in the demand for Bt Cotton and now there is a pressure on Monsanto to bring down the royalty fees from ₹ 1200 to ₹ 750 per packet. This year would be another landmark year for Bt cotton in India.

**Question**

Discuss the basic objective of seed marketing with your recommendations as how the idea can be developed for the benefit of the farmers.

**3.8 Summary**

- A Research should be conducted before launching the business.
- The Company should develop a profiler for the rural consumers.

- The main theme of the company should look for the needs of the consumer.
- Most of the companies feel that implementation is the major problem in rural market.
- The rural markets are estimated to be growing fastly compared to the urban markets.
- Rural markets are laggards in picking up new products.
- The agricultural technology has tried to develop the people and market in rural areas.
- A large number of rural families in own radios and television sets there were also community radio and T.V sets.
- Cost benefit can be achieved through development of information technology at the doorsteps of villagers.
- The most important change that influences the extension system is market forces.
- India is the second largest producer of fruits and vegetables in the world with an annual production of more than 110 million tones of fruit and vegetable.

### 3.9 Keywords

***'Bundling of Inputs:*** It denotes a marketing strategy, in which several related items are sold to the target client, including arrangements of credit, after-sale service, and so on.

***Developmental Marketing:*** It refers to taking up marketing programmes keeping the development objective in mind and using various managerial and other inputs of marketing to achieve these objectives.

***Ethics in Business:*** Form, as usual, an important plank for rural markets and rural marketing.

***Extension Services:*** It denotes, in short, a system of attending to the missing links and providing the required know-how.

***Management of Demand:*** It involves continuous market research of buyer's needs and problems at various levels so that continuous improvements and innovations can be undertaken for a sustainable market performance.

***Media:*** Both traditional as well as the modern media, is used as a marketing strategy.

***Partnership for Sustainability:*** Involve laying and building a foundation for continuous and long lasting relationship.

***Selection of Sales Force:*** The salesman in rural markets should be selected from the educated unemployed villagers, trained well and appointed as salesmen. The town-to-villages shuttling salesmen are to be replaced by stationary salesman in villages.

***Unique Selling Propositions (USP):*** It presents a theme with the product to attract the client to buy that particular product. For examples, some of famous Indian Farm equipment manufactures have coined catchy themes, which they display along with the products, to attract the target client, that is the farmers.

### 3.10 Review Questions

1. Describe the Rural Marketing Model.
2. What are the problems related to rural marketing?
3. What are the significance of Rural Markets?

Notes

4. Explain the online Rural Market.
5. What is cost benefit analysis?
6. Define Barter System.
7. What does make Rural Market Attractive?
8. What are the emerging trends in Rural Marketing?
9. What do you mean by developmental marketing?
10. Explain the Lifestyle Analysis.

**Answers: Self Assessment**

- |                |                   |
|----------------|-------------------|
| 1. Research    | 2. Segmentation   |
| 3. Demographic | 4. Rural          |
| 5. Needs       | 6. Implementation |
| 7. Urban       | 8. Income         |
| 9. True        | 10. False         |
| 11. False      | 12. False         |
| 13. True       | 14. (b)           |
| 15. (a)        |                   |

**3.11 Further Readings**



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## Unit 4: Rural Consumer Behaviour

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### Objectives

After studying this unit, you will be able to:

- Define Rural Consumer Behaviour.
- Discuss the Buying Process.
- Describe the Consumer Behaviour Roles.
- Explain the Characteristics of Rural Consumer.

### Introduction

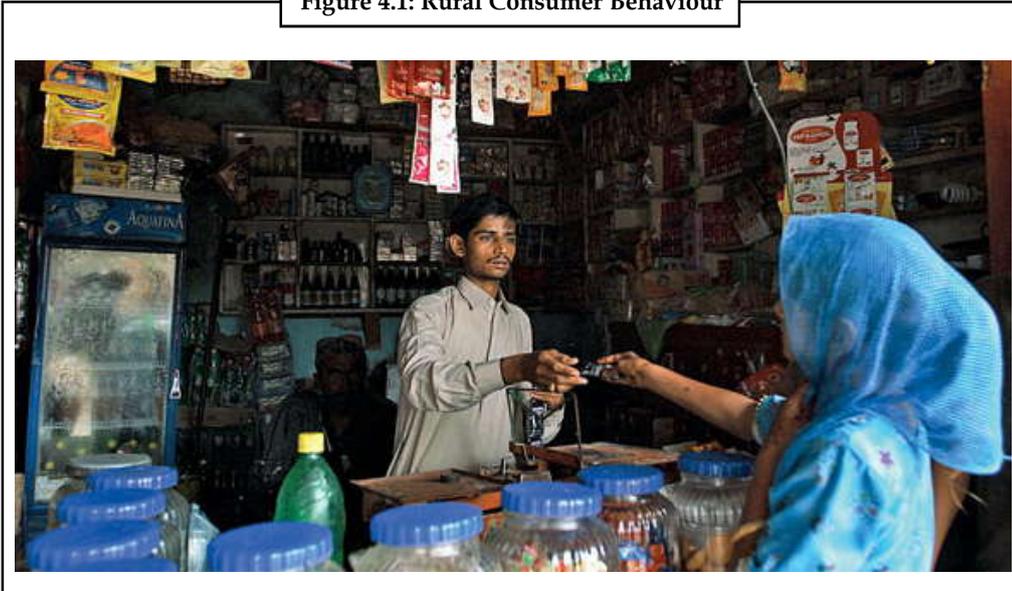
While analysing the purchase process in rural areas, we come to know that rural buyers need to be made aware of products through concept selling. Rural marketing involves bringing the fruits of development to the villagers, besides building relationships with them. The product demand is low per capita and hence the marketers must look for volume business. The demand is met by the unorganised sector to start with and by those adventurous marketers who venture into the rural domain. Consumers of rural markets are spread throughout the country side with low income levels, lack of education where income comes in seasonal spurts during harvesting time. Villagers are by and large content lot with fewer needs. They are also scared to try out new or innovative products. For high tech products

village buyer finds it difficult to understand its usage, is in awe of the technology and buys only after peers who have seen the product in action buy the same. Because of low income, price becomes extremely important and rural demand is highly price sensitive. Companies use the village Bania shops to sell, whose proprietor is dealing with supply of kerosene oil and whose role as a money lender is still undisputed, in most areas. Marketers use meals, weekly haats, festival, fairs and publicity vans for demonstrations, advertising and for sales. These vans carry movie equipment and show regional language films to the villagers. Products are mostly bought in assemble times when ready cash available, especially during festivals and harvesting season. Indian festivals coincide with the harvest times in most places. TV has become a popular entertainment media in villages and hence it is also an appropriate vehicle for product advertising. Radio, newspapers in local languages, wall hoardings, pamphlets cover most advertising media. Promotion of sales is done through gifts and price discounts.

#### 4.1 Rural Consumer Behaviour

Consumer Buyer Behaviour refers to the buying behaviour of final consumers – individuals and households who buy goods and services for personal consumption. All of these final consumers combined make up the consumer market.

Figure 4.1: Rural Consumer Behaviour



The consumer market in this case is Rural India. About 70% of India's population lives in rural areas. There are more than 600,000 villages in the country as against about 300 cities and 4600 towns. Consumers in this huge segment have displayed vast differences in their purchase decisions and the product use. Villagers react differently to different products, colours, sizes, etc. in different parts of India. Thus utmost care in terms of understanding consumer psyche needs to be taken while marketing products to rural India.

Thus, it is important to study the thought process that goes into making a purchase decision, so that marketers can reach this huge untapped segment.

### 4.1.1 Factors Influencing Buying Behaviour

The various factors that effect buying behaviour of in rural India are:

1. **Environmental of the consumer:** The environment or the surroundings, within which the consumer lives, has a very strong influence on the buyer behaviour, e.g.. Electrification, water supply affects demand for durables.
2. **Geographic influences:** The geographic location in which the rural consumer is located also speaks about the thought process of the consumer. For instance, villages in South India accept technology quicker than in other parts of India. Thus, HMT sells more winding watches in the north while they sell more quartz watches down south.
3. **Influence of occupation:** The land owners and service clan buy more of Category II and Category III durables than agricultural laborers/farmers.
4. **Place of purchase** (60% prefer HAATS due to better quality, variety & price) Companies need to assess the influence of retailers on both consumers at village shops and at haats.
5. **Creative use of product:** For example, Godrej hair dye being used as a paint to colour horns of oxen, Washing machine being used for churning lassi. The study of product end provides indicators to the company on the need for education and also for new product ideas.
6. **Brand preference and loyalty** (80% of sale is branded items in 16 product categories).

### 4.1.2 Cultural Factors Influencing Consumer Behaviour

Cultural factors exert the broadest and deepest influence on consumer behaviour. The marketer needs to understand the role played by the buyer's culture. Culture is the most basic element that shapes a person's wants and behaviour.

In India, there are so many different cultures, which only goes on to make the marketer's job tougher. Some of the few cultural factors that influence buyer behaviour are:

1. **Product** (colour, size, design, shape): There are many examples that support this point.  
  
For example, the Tata Sumo, which was launched in rural India in a white colour, was not well accepted. But however, when the same Sumo was relaunched as Spacio (a different name) and in a bright yellow colour, with a larger seating capacity and ability to transport good, the acceptance was higher.  
  
Another good example would be Philips audio systems. Urban India looks at technology with the viewpoint of 'the smaller the better'. However, in rural India, the viewpoint is totally opposite. That is the main reason for the large acceptance of big audio systems. Thus Philips makes audio systems, which are big in size and get accepted in rural India by their sheer size.
2. **Social practices:** There are so many different cultures, and each culture exhibits different social practices. For example, in a few villages they have common bath areas.  
  
Villagers used to buy one Lifebuoy cake and cut it into smaller bars. This helped lifebuoy to introduce smaller 75-gram soap bars, which could be used individually.
3. **Decision-making by male head:** The male in Indian culture has always been given the designation of key decision maker.

For example, the Mukhiya’s opinion (Head of the village), in most cases, is shared with the rest of the village. Even in a house the male head is the final decision maker. In rural areas, this trend is very prominent.

4. *Changes in saving and investment patterns* From gold, land, to tractors, VCR’s, LCV’s.

**Table 4.1: Differences in Buyer Behaviour**

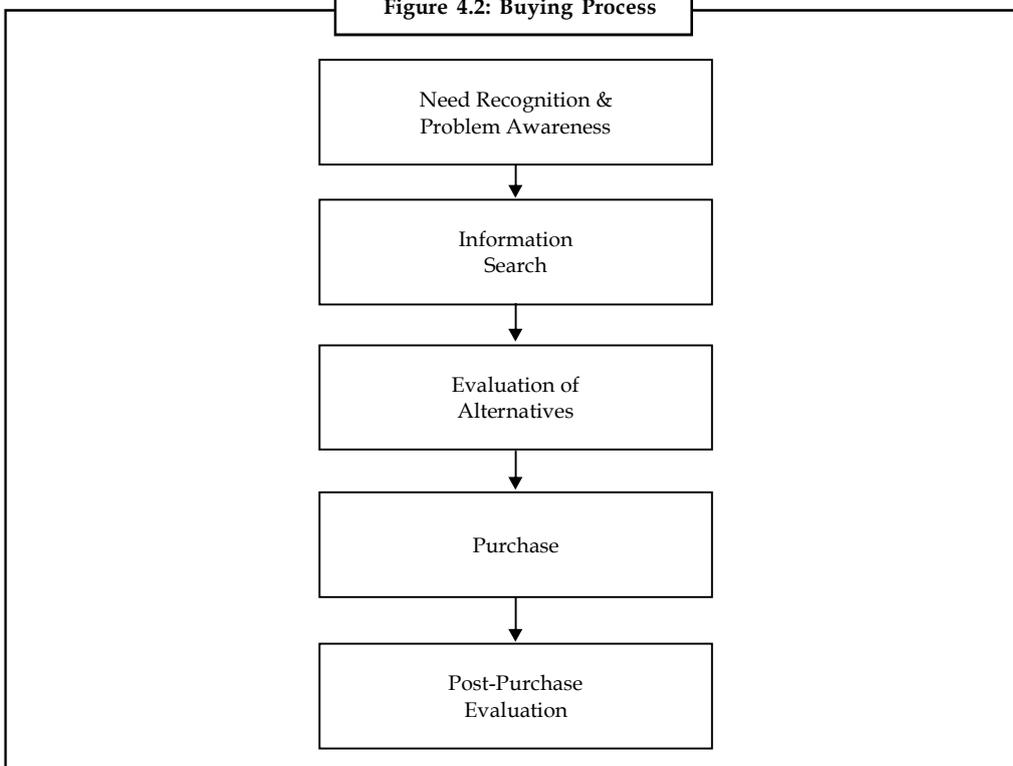
Rural	Urban
Conservative	Innovative
Values, aspirations, needs - traditional and based on culture, social customs, beliefs	Follow trends (including International)
Eldest Male Member KDM	Varies
Collective Sanction	Unheard

## 4.2 Buying Process

The most effective and therefore usual buying process involves the following areas:

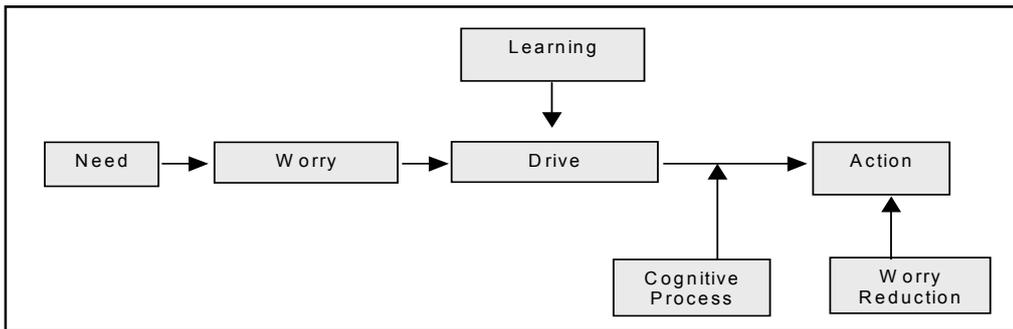
1. Problem recognition
2. Information search
3. Evaluation of alternatives
4. Purchase decision
5. Post purchase behaviour

**Figure 4.2: Buying Process**



Notes

1. **Problems Recognition:** Problem recognition is defined by obvious or inherent need of the consumer. The major aim of rural marketing research rests upon in trying to find out which are the key products of basic needs that the rural consumers are willing to purchase but facing problems to buy it.
2. **Information search:** The marketing information search process is almost the same as for the urban markets as for the rural markets. It includes:  
*Personal sources:* Family, friends, neighbours  
*Commercial sources:* Advertisements, Salespersons, Dealers, Packages, Displays  
*Public Sources:* Mass media, Consumer rating organizations  
*Experiments self:* Handling the product, experiments, using samples of products like shampoo sachets.
3. **Evaluation of Alternatives**  
*Problem:* purchase of a tractor  
The decision criteria could be identified as follows:
  - (a) Price
  - (b) Manufacture/Model
  - (c) Support
  - (d) Repair record
  - (e) Warranties
  - (f) Reliability
  - (g) Multiple uses*Weightage to criteria allotted by consumer:* Price 70, Manufacture/Model 60, Support 40, Repair record 75, Warranties 50, Reliability 70.  
*Alternate choices:* Escorts, Same, Ferguson, Local Assembly.  
Now for each of these tractor put weight.  
*Escorts:* Price 30, manufacture/model 50, support 40, repair record 60, warranty 40, reliability 60.  
As can be seen price weightage is inversely proportional to price. In other words higher the price, lower the weightage.  
Usually the customer selects the one where the numbers add up to highest total. Then the decision is made and the purchase done.
4. **Purchase Decision:** Generally rests upon a number of factors including motivation and nature of their needs. The purchase decision of a consumer is also affected by changing nature of his goals and needs. When a particular goal or need cannot be fulfilled, a substitute goal emerges.  
**Purchase Behaviour of Customers:** Motivation is the inner urge, which propels people to act. Seeing and smelling food gets people motivated to eat even if they may not be hungry. Graphically this process can be shown as on below.



When the need is felt and till the time it is not fulfilled, the person suffers from anxiety and worry which forces him to understand the nature of the need and its fulfillment propelling him in to purchase action, which reduces his worry.

People have two types of needs; physiological, i.e. requirements of their bodies and psychological needs of the mind. Food, water, clothing and shelter are the primary physiological needs, and needs of power, self-esteem, affection love are the secondary ones. A house may be the primary need but a bungalow where you can entertain guests becomes psychological secondary need.

Similarly, after fulfillment, a new goal or need arises. In any case needs can never be fully satisfied. When a person becomes Vice President of a firm, he changes his goal to becoming the President. Product updates, newer technologies help the firms to use this urge as a spring board for launching innovative products. Villagers use wood or coal for cooking purposes. However, once they get to use cooking gas or LPG their need changes and they would be ready to buy electric stove once electricity reaches the village in full measure.

Once the basic needs are fulfilled, people want to achieve higher goals. After getting a good house to live, people would like to be known as community leaders.

As the saying goes, "Nothing succeeds like success." Success gives extra fillip to people for going to higher level goals. Failure, on the other hand make people redefine their goals, by either lowering the standard or taking a different road altogether.

Goal substitution occurs on non-attainment of goal. If you can not buy a motorcycle you buys a cycle. Some people go into a dream world devoid of reality. Non-achievement causes people to go in to depression, which can result in behavioural changes like sulking, going into a shell, or feeling anger. Rationalization of failure is also bad as it makes a person complacent, and frustrated.

Behaviour is oriented towards achieving personal goals. People have general types of goals and then they have product-oriented goals. The statement "We will travel to the town once I purchase my Ford tractor" becomes a product and action oriented goal. It is clear that everyone has rational and emotional motivations, with purely objective or subjective criteria.

5. **Post Purchase Behaviour:** Post purchase behaviour comes from satisfaction, use and disposal after use. It may be based upon the consumer's own satisfaction arising due to his preference for a particular more profitable option of the available alternatives. Sometimes motivational research is conducted psychoanalysis of the consumer's mind to understand, the sometimes not so apparent reasons for their motives and post purchase behaviour.

- (a) *Baking:* It conveys motherhood, femininity, love and caring; subconsciously the baking process is a substitute for the childbirth process.

**Notes**

- (b) Ice cream is subconsciously associated with love and affection.
- (c) Home maintenance kit defines the man and machismo.
- (d) Beer represents active, alive people.
- (e) In villages the chaupal represents the collective consciousness of the village.

Personality is the sum total of individual traits of character, bearing and behaviour.

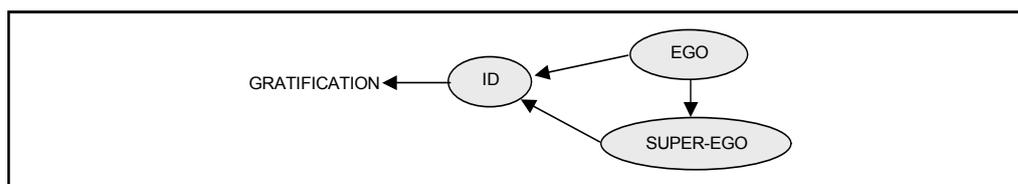
It allows us to fine tune the differences among various people. With effort people can change their personality; from introverts they can become extroverts, from careless types they can become caring types.

Sigmund Freud developed the psychoanalytical theory of personality. He says that human personality consists of three overlapping areas - Id, Super ego and ego.

Id is the primitive animal like instinct, which drive a person's hunger thrust and sex urges. A lot of advertising is based on using this animal force to advantage, and that is why the female form is used to attract the males and vice-versa.

Super ego is the mind's control on Id, the animal instincts, so that people can live within social norms.

Ego is the balancing force between Id and super ego helping people to keep to the right path between Id's drive and societal norms.



Freudian theory and brand/product personality: Some products are best represented by a celebrity; for instance Shah Rukh Khan can be called Mr. SANTRO, the car he is successfully advertising. He can also be named as Shah Rukh Mayur Khan when he personifies Mayur Suiting. Customers tend to associate the brands with the brand personality. Hence marketers need to use a personality who can be fully identified with the product. Hritik Roshan is promoting Coke, and yet as there have been many coke promoters, it is difficult to name Hritik as Mr. Coke.

Personality theory of post-Freud period. Unlike Freud, other social scientists felt that motives cannot be confined to basic and sexual instincts. Social interaction and lifestyle too gives motivation to people to act.

There are four types of personalities as follows:

1. Thinking and sensing types are rational logical, objective and quick decision-makers.
2. Feeling and sensing types believe in their own selves, are subjective and they consult others during decision-making.
3. Thinking and intuiting types take broad view, look for wider range of options and take decisions for a long range of time.
4. Feeling and intuiting types are people oriented to take broad view subjective decisions for long range of time.



*Did u know?* ITC's e-Choupal and the Lintas Media Group have launched a live rural data collection methodology called Bharat Barometer. This is an initiative to uncover facts about rural consumers in an efficient way.

### Personality Types

Karen Horney proposed that people can be classified in three personality types.

1. Compliant types who seek company, want love and appreciation
2. Aggressive types go against others and try to excel to gain admiration
3. Detached types who remain away, want independence from interference and are keen to be solo winners

Let us discuss consumer materialism and compulsive buying. Materialistic people enjoy buying valuable goods and showing them off, which makes them egocentric and self centered. They believe that their possessions would project their lifestyle and yet no possession gives them real satisfaction because the more you have the more you want and there is no end to wanting. "My Swiss villa proves that I am a successful person", is the thinking of a materialistic consumer.

Pepsi has been positioned as a drink for the youth and to counter it. Coke is positioned there too. Maruti 800 is positioned as the common man's car while Honda City has the slot of upper class car. Raymond Suiting is in the top position for the elite while Mayur Suiting is for the middle class.



*Task* Discuss the purchase motivation among your friends.

### 4.3 Factors Affecting the Purchase Decision of the Rural Consumer

The rural consumer enquires more about the price and quality of a product before taking a final decision to buy it. He also takes into account the prospective use and utility out of the transaction he would make.

#### Price and Quality

There may be rural consumers with unique personalities. But mostly rural consumers prefer to experiment and than buy a particular product, especially, the products like. Computer note pads, palm top computers electronic goods, etc.

Some rural customers may be of dogmatic type with rigid behaviour pattern. They will remain stick to their special choice of brand. It is difficult to canvass on persuade then to buy new product.

Open-minded consumers in the villages take to new products easily.

*Social "typesets"*: Self centered persons look for answers within themselves while extroverts are ready and at times eager to find out what their peers and seniors have to say, (who says what becomes important and a significant purchase decision tool).

Notes

**Stimulation**

Stimulation levels are important guides for consumer behaviour study. Some rural consumers lead a sedate life and minimum level of curiosity arousal is enough for them to become interested in the product. There are hard-core consumers who look for being shaken out of their slumber and for them heavy dosage of stimulation is needed. These persons can practically psyche themselves into the purchase mood.

Attitudes are predisposition levels that people have towards a product or an idea. These positive or negative attitudes are based on, earlier experience, or odd remarks heard from known or even unknown persons, or from persons like salesmen connected to the product, and the environment or mood in which the message about the product was given to the consumer.

Attitudes are normally consistent for a particular product. If a thing is not liked then it is not to be purchased. Housewives may not even think of purchasing a twin drum-washing machine with the known benefits of single drum machine. At times attitudes change for reasons like, "let us economize" or non-availability of favourite brand in the shop visited and imminence of need. "Let us buy Godrej soap as Lux is not in stock." Such decisions for FMCG purchases are taken easily as the cost of replacement/ or repurchase is not heavy, unlike a consumer durable product like a car or TV, which cannot be purchased, everyday.

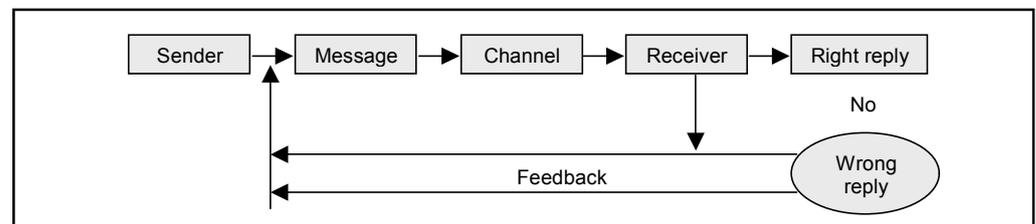
**Self Assessment**

Fill in the blanks:

1. .... is defined by obvious or inherent need of the consumer.
2. .... comes in the form of personal influence of some person who counts.
3. .... are predisposition levels that people have towards a product or an idea.
4. .... have to position their products in the right market segment to ensure that positive mental image is formed and that it stays there.
5. The ..... search process is almost the same as for the urban markets as for the rural markets.
6. .... levels are important guides for consumer behaviour study.

**Communication Process**

Communication Process is planned taking into account the target market segment and the mind set of the people of the segment. One communication model is given below.



In communications the credibility of source, or who is communicating, matters a lot. A firm's brand equity can authenticate what is being put in the advertisements. Most firms use endorsers to talk about their products, which make the target segment believe in the product. Wrong endorsers can cause harm to the product or can have no impact rendering the advertisement

useless. A top heroine endorsing washing powder may not have any impact as people know that she does not wash her clothes at all. When she endorses a beauty cream people believe her.

Sender or source's credibility is important as it defines how or how much the receiver is going to believe the communication. "Let us take it with a pinch of salt can be the response of a consumer." Such negative impressions come with unreliable senders of information. Use of endorsers becomes necessary in such cases. Source or sender has its own need for sending the message. How right is that need? For example, many firms resort to having yearly sale of their products. People want to know if it is a genuine sale, and if yes, then why the firm is selling good products at heavily discounted prices? Is it that they have odd sizes of unsold products, a heavy inventory as their export order got cancelled, or, is it that the discounted prices are in fact the same as the original? The firm increased the prices first and then declared the sale. Increase of prices was of 20% and discount offered is 17%. Such types of sales lose their impact in no time and bring bad name to the sale and to the seller.

Personal involvement is the key factor that influences the interest the customer is going to have in understanding and correctly interpreting the message. Sachin Tendulkar will like to go through the exact specifications of the cricket bat, while a non-playing cricket TV commentator may just take no notice of the bat.

Moods of persons at the time they are receiving the message govern how well they will receive and accept the message. Watching a tragic sob story movie on TV would make people less willing to accept the positive aspects of a product. It calls for proper selection of media; sitcoms, news bulletins, and movie-based programmes are viewed generally on TV with a happy frame of mind.

In order to monitor customer response to a message, its media pre-testing is done in which the advertisement is shown to a select group of the market segment to gauge their reaction and get their feedback. In case of poor response, corrections in message and media can be made.

After the advertisement has been released, post testing is done to find out how effectively the advertisement has met its objectives.

### **Persuasion Strategy**

For proper impact of the message, selection of the market segment to be catered to; creativity in the advertisement and objectives associated with the communication are key elements of strategy. Some examples are given below:

1. Housewife, family income ₹ 20,000 pm, urbanite, graduate would be reading, Femina, Cosmopolitan, Star Dust magazines, watching afternoon soap operas like, Saans, Santa Barbara, Dynasty.
2. College student's family income ₹ 40,000 pm would be reading sports, motorcycle and car magazines, listening to FM Radio.
3. Achiever's family income ₹ 80,000 pm, would be reading Business magazines like Business India, Business Today, Financial national and international newspapers and watching news on Star TV.
4. Senior citizen's family income ₹ 20,000 pm would be reading Health and investment magazines, watching travel related TV programmes for enjoying vicarious adventure and thrills.
5. Computer addicts would be surfing the Internet and the best media for communicating to them about software updates would be the web.

**Notes**

6. There is always crossover in segments. For instance, for a person with monthly income of ₹ 10,000, a woolen suit worth ₹ 5000 may be out of reach. However, he may buy it at least for his wedding.

Persuasion comes in the form of personal influence of some person who counts. In daily life we communicate with other persons in social political or business situations. A good communicator listens more than he/she speaks. When in doubt, we seek advice, or sometimes we get advice totally unasked for. In both cases, it is stored in the brain from where it can be restored at the time of purchase decision-making. We normally go to people whom we consider as more knowledgeable than us. These people are the opinion leaders. Buying a set of golf clubs it is best to ask the golf champion, rather than a layman. For cameras and films, the professional photographer, not the camera sales person would be the best bet.



*Notes* The rural markets as highly untapped potential emphasizes the need to explore them. The concept of Rural Marketing in India Economy has always played an influential role in the lives of people. Rural marketing in India is often been found to form ambiguity in the minds of people who think rural marketing is all about agricultural marketing.

#### **4.4 Opinion Leaders**

The villagers often take advice of some senior or educated person, who has knowledge about the product and its market and they take his opinion or advice to be dependable. Such person may be expert in a particular line. So he can be trusted to give correct opinion on their choice of subject. Marketers, on the other hand would invariably give only the positive aspects of their products. In rural India the Sarpanch or Mukhiya or Pradhan is usually considered to be the opinion leader.

Several times customers seek only information, and sometimes they ask for advice. Can we trace which of the following statements of opinion leaders is information and which is advice?

1. Which is the best Gent's shoe for formal wear? "In my view, Bata is still the best".
2. How to use the vacuum cleaner? "I use it once a week to clean the carpet, the curtains, the floors and the ceiling. You could do the same".
3. Where to take my Maruti for servicing in Delhi? "There is no better place than Competent Motors, my dear".
4. Where can I get a gift for my girl/boy friend? "Try Giggles in CP and you will not go wrong".

As can be seen Opinion-leaders are mostly "product" specific. Similarly, their decision may vary from products to product. You will not ask your milkman where to buy computer software. In case of doubt, people take second or even third opinion until they are satisfied with the opinion. People with set ideas, often stop after they have got an opinion, which agrees, to their own thinking. Such subjective opinions can be misleading resulting in wrong decisions.

Advertisers extend the theory of opinion leadership in advertising by using the leaders as product endorsers.

## Self-image

## Notes

Self-image is the some total of a person as he thinks about himself and it is a guiding factor in purchase decision along with wisdom of opinion leaders. A person may have the following feeling in his mind while making a decision to purchase a particular item, like, What type of person am I? What image do I project to outsiders? How do people view my personality?, etc. The answers to these questions make for the self-image. There are several types of self-image:

1. How people view themselves?
2. How they want others to view them?
3. How they would like to seen in the future?

Self-image and products purchased have an interesting connection. The industrialist buys Mercedes to project the self-image of a successful person. Actors and actresses want to look good and attractive to their fans and their clothes, makeup is meant to focus on that image. Marketers take advantage by using this concept while communicating to them.

## Consumer Perception

Consumer Perception is the consumer's view of the things including messages and stimuli seen/focused on him. These perceptions are given or acquired by visual stimulus, like seeing pictures of products in advertisements, hearing about the products from friends and looking through retail shops, Point of Purchase (POP) material that create a visual impact.

To heighten the impact advertisers use sensational gimmicks including adventure sports, and pretty women as sex objects to make the impact. The level of minimum stimulation, which can attract is called the threshold level. For two different stimuli the minimum difference, which becomes noticeable is known as JND, or Just Noticeable Difference.

Weber has given the law, which stipulates that, "an additional stimulus equal to JND must be added for majority of people to perceive a difference between the resulting stimulus and the initial stimulus."

Car polish makers add some ingredients in the product that it keeps the lustre for a week as compared to competitive product where the shine lasts for four days. The danger in making it better, to the extent that the shine lasts for a month or even a fortnight, would increase the gap between purchases. Marketers and advertisers use the JND to good use in their product development and advertising strategy.

Subliminal perception works even below the JND stimulus as psychologists have found that even such stimulus leaves an impression on the subconscious level and while it remains dormant it may manifest itself at the right time when product purchase is being considered. Years before a friend had said that the best TV set is from Sony and today while finalizing the purchase it comes as bolt from the blue and the decision is made in its favour.

Hence there are a number of factors that affect the purchase decision of the rural consumer. Thus, the purchase decision process is based on the complex nature of human insights, which the marketers find ways to stimulate and bring to surface in their favour.

## Self Assessment

Fill in the blanks:

7. A company may launch its new product to meet the needs and requirements of the ..... customers.

Notes

8. The ..... of raw materials is derived from the plan of manufacture of products, which use the material.
9. .... takes into account the features, which are unique to the product.
10. .... are the people who place the requirement of the product before the firm's authorities.
11. .... are the authorized people who can decide spending of money for making the purchase.

### **4.5 Market Segmentation to the Lure Rural Customer**

Marketing and communicating to the target market segment, of new innovative product calls for sustained efforts of advertising, personal selling and word of mouth appreciation of product over a period of time.

A company may launch its new product to meet the needs and requirements of the rural customers.

These Consumer based new products are the one's which the consumers find totally new. These innovative or the new products are seen by the firm as new to it. The firm may ignore the fact the product may not be new to the market as competitors may already have introduced the same.

Product innovation takes into account the features, which are unique to the product. One refrigerator manufacturer is claiming novel door cooling system, not available in other refrigerators.

The new product development can be on a continuous basis or on one-off base. Telephone industry has had both types of innovations.

Consumers look for relative advantages in each product. Also the expense of making change and product's compatibility with other products with the consumer too plays an important role in buying new products. For example, the modem, and printer should be able to work with the computer before they are purchased.

### **4.6 Organizational Buying Behaviour**

Villages too have manufacturing units either in small sector or even as cottage industry. For organizations involved in manufacturing goods purchase, raw materials and components needed in the manufacturing process. They also buy consumables like electricity, water and gasses, which are consumed, in the manufacturing process. Such purchases by the firms have the following characteristics:

1. Fewer buyers but large quantity buyers
2. Close supplier and buyer relationship
3. Geographic concentration of buyers
4. Derived demand
5. Inelastic demand/Fluctuating demand
6. Professional purchasing
7. Several buying influences

Firms produce large volumes of products and hence need large quantity of materials. An individual will buy a TV picture tube as a replacement only, if his TV set's picture tube has become defective. A TV set manufacturer will be buying picture tubes in thousands for putting them in the TV sets. Yet as compared to individual buyers, TV set manufacturers will be far less in number.

In most cases industries are established near the source of one or two major raw materials needed for manufacture. Hence, most industries are concentrated in that area. Gujarat has lot of cotton, which accounts for large number of textile mills in that region. Villages too have handloom operators.

The demand of raw materials is derived from the plan of manufacture of products, which use the material. The tyre sale is dependent on the number of cars manufactured in a particular period.

For such intermediary products the demand remains inelastic over long periods of time with only marginal changes. However, it could also be grammatically changed in case the buyers find different usages of the product when the demand will increase. If the product becomes obsolete, the demand could just disappear, as happens often in fashion garments.

Purchase in such cases becomes a professional discipline. Depending on the value in money terms and also in availability terms, the importance is given to purchase decisions.

Buying situations can be classified as follows:

1. First buy is when a new firm makes the purchases or an old firm tries out a new product.
2. Re-buy takes place when a satisfied buyer buys the product again. This happens when besides the product other factors like firms after sales service, satisfies the buyer and the buyer accepts behaviour of its sales people.
3. Modified re-buy is made when the manufacturer accepts customer's suggestions and product is suitably modified to suit the firm.
4. New task purchase depends on the launch of new products and is planned accordingly.

System for buying in the organizations consists of the following persons:

**Initiators** are the people who place the requirement of the product before the firm's authorities. In most firms they would be either R& D persons or purchase executives.

**Users** are the people who define the product with specifications and would ultimately use it. They would be R&D engineers, production engineers etc.

**Influencers** are the people who influence the purchase decision, or e.g. which brand or model to buy, and from which dealer. These could be R&D Managers, or consultants.

**Deciders** are the authorized people who can decide spending of money for making the purchase. They are of the rank of General Managers.

**Approvers** are the people with power of approving the purchase like Chief Executive Officers and Managing Directors.

**Gatekeepers** are those who filter information and see to it that only relevant information reaches the decision-makers about the product. These could be receptionists, purchasing agents etc.

Consumer behaviour in organizational buying therefore becomes complex, with a number of persons involved in the decision-making. Therefore unlike in consumer products the role of advertisement in organizational buying is limited to, (a) image building of the firm and (b) providing detailed information to the buyers about the products.

Notes

Environmental factors are also major influencers in organizational buying as follows:

Environmental factors	Organizational factors	Interpersonal factors	Individual	Business buyer
Level of demand	Objectives	Interests	Age	-do-
Economic outlook	Policies	Authority	Income education job position	-do-
Interest rate	Policies	Authority	-do-	-do-
Risk of technical changes	Procedures	Status	Personality	-do-
Political and regulatory developments	-do-	-do-	Attitude for risks	-do-
Competitive developments	Organizational structure	Empathy	-do-	-do-
Social	Systems	Persuasiveness	Culture	-do-

*Environment factors* like market demand of the product influences the quantity of purchase as also purchase frequency.

*Economic outlook* of the country gives the information on the money supply situation, interest rates for leasing and it has influence on purchase decisions.

If the firms know that a new technically superior product is going to be available in the near future, they would not risk large purchased of materials.

*Political environment* deals with the political will which allows or restricts trading, like the anti-dumping laws of the USA.

If the market is swaying towards a better competitive product, the firm may make only cautious purchases.

If the sociological changes force the market towards decline then also purchases get reduced. With the availability of packed wheat flour no one is buying wheat and getting it ground in a mill.

*Organizational policy changes*, changes in hierarchy levels, promotions, procedural changes and systems could alter the purchase pattern of the firm.

Factors connected to individual members of a firm like inter-personnel relations, people’s authority, personal interests, empathy with suppliers and persuasiveness of marketers are important for purchase decisions.



*Caution* The rural market is a fast growing one and has a huge population with a great level of disposable income. To encash this, products have to be specifically developed to meet the needs of rural markets. Sometimes, existing products might have to be modified to suit these markets too accordingly.

### 4.7 Consumer Behaviour – Positivism and Interpretivism

Attitudes play an important role in purchase actions and it is necessary to understand as to how they are formed.

1. Direct experience from using the product, “The soap is to hard.”
2. Influence of family and friends, “Son, buy only Honda motorcycle, it is the best value for money.”

3. Direct marketing, Eureka Forbes salesman in your house, "See for yourself how easy it is to use the vacuum cleaner, Sir."
4. Exposure to advertisements, wife to husband, "See the mixer grinder ad on the TV and you would agree it is the best value for money."
5. Personality factor, "I cannot buy a motorcycle, only a car would do for me."

Attitudes has four functions:

1. Utilitarian function or brand utility
2. Ego-defensive function in which product enhances self concept
3. Value expressive function where consumer values, lifestyle are reflected
4. Knowledge function that fulfills need to know

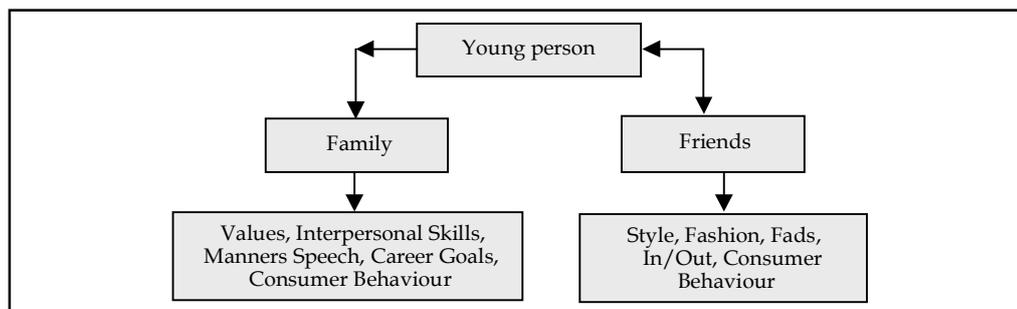
Also, there can be a combination of several of these functions.

The task before buyers is one of resolving conflicting attitudes as given below:

- Tasty v/s healthy food, pizza or fruit cream
- Quality v/s price, Wipro PC or the assembled one
- Sturdy v/s elegant, jeans or silk

The decisions are taken on purchases on the following considerations:

- The Family
- Economics
- Emotional support
- Lifestyle
- Family socialization through adoption of manners, values, goals



### Family Consumer Roles

- Husband/wife
- Children
- Teens

Family lifecycle, where lifestyle keeps changing as can be seen from the following:

1. Bachelor - mostly carefree
2. Honeymooners - need affordable luxuries

**Notes**

3. Parents - young children - need baby products
4. Parents - teenage children - need teen fad products, like FM Radio
5. Parents with children away from home, need health care products
6. Dissolution - old age homes

**Feeling and Emotions**

These can be measured on a scale. Let us try out a skin cream and get reactions of women after they have used the cream on a scale as follows:

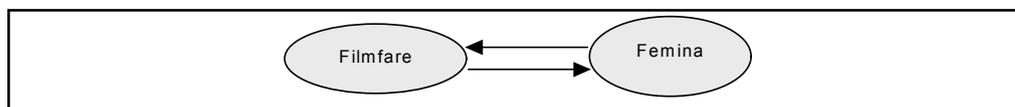
A-Like it very much-B-like it-C-nothing special-D-do not like-E-do not like it at all.

The survey can be done on the following parameters:

Skin felt	A	B	C	D	E
Relaxed					
Beautiful					
Tight					
Smooth					
Supple					
Clean					
Refreshed					
Oily					
Pampered					

**Designing Persuasive Communication**

1. Proper market segmentation
2. If product transcends segmentation give umbrella messaging for all audience
3. Good PR
4. Media plan, in which consumer profile should match with media audience profile
5. Each media is effective for some products, audiences and advertising objectives
6. WWW
7. Overlapping audience



Some customers read Filmfare others read Femina and yet others read both.

In advertising copy, it is important to think of the following:

1. Copy appeal
2. Copy length
3. Endorsements
4. Visuals

5. Time limit offers
6. Free trial offers
7. Pricing

**Example:** You are the Marketing and Advertising Manager of Advance Stereo Systems with five competitors, Philips, Videocon, BPL, AIWA and Sony. Your market share is 3%. You have to increase it to 5% in one year. Discuss the following questions about market and its behaviour:

1. What cultural, social, personal and psychological factors influence the buyers most? What sort of research should be undertaken to know the buyer’s attitude and behaviour?
2. What factors should Advance focus on in their marketing plan?
3. What kind of marketing activities should Advance plan to coincide with each stage of consumer buying process?



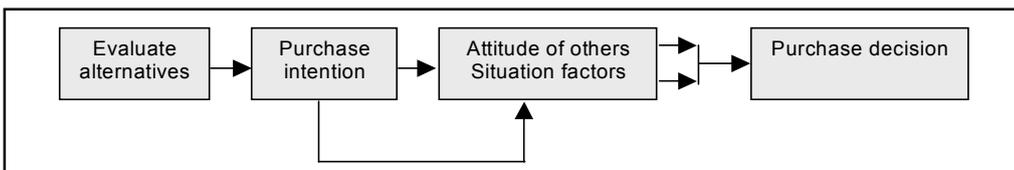
*Task* Plan your target market in Delhi, and look at the marketing mix factors to give your recommendations to Advance MD.

**Purchase Decisions Plan**

1. Problem recognition when the need tends to become acute.
2. In rural markets the opinions of elders, those who have travelled outside counts a lot.
3. **Information search:** The sources are personal family, friends, neighbours, acquaintances, commercial-advertising, salesmen, dealers, packaging, displays, public source, consumer rating organizations, experiential-handling, or by examining, and using the product.
4. Evaluation of alternative brands with weight - age given on parameters decided by you, for e.g.
  - (i) Cameras – size weight, auto-focus, zoom, speed, price,
  - (ii) Hotels – location, cleanliness, atmosphere and price.
5. **Purchase Decision:** There can be a situation where after deciding to buy you delay or even cancel the purchase. Sometimes if people close to you have a negative attitude towards the product you may not buy it. Secondly, there may be a change in situation.

**Post Purchase Decisions**

1. The product could satisfy you.
2. If you are not satisfied then you could try to reverse the purchase action, or sell off the product.



Let us discuss the Indian buyer’s purchases of some common FMCG products.

1. Washing powder sells about 30% less than washing soap cakes.

**Notes**

2. Toilet soap sells about 50% of washing soap cakes.
3. Electric bulbs sell six times than the tube lights.
4. Nail polish sells about the same as lipsticks.
5. Leather shoes sell 50% than the casual shoes.

Product penetration in urban and rural India is as follows:

S.No.	Products	Urban%	Rural%	Total%
1.	Tooth care	90	50	60
2.	Washing powders	100	90	98
3.	Tea	90	70	80
4.	Milk powder	9	3	5
5.	Butter	10	2	4
6.	Salt	100	95	97
7.	Chocolates	10	2	4
8.	Ice cream	25	10	14
9.	Shampoo	25	9	13
10.	Hair oil	90	85	87
11.	Wrist watches	45	20	28
12.	Talcum powder	45	25	30
13.	Lipsticks	22	12	15
14.	Nail polish	40	30	32

S.No.	Religion	%
1.	Hindus	81
2.	Muslims	12
3.	Christians	2
4.	Others	5

**Self Assessment**

Multiple Choice Questions:

12. Goal substitution occurs on non-attainment of:
  - (a) Target
  - (b) Goal
  - (c) Customer
  - (d) Promotion
13. Ego-defensive function in which product enhances:
  - (a) Knowledge
  - (b) Speed
  - (c) Self Concept
  - (d) Confidence
14. A company may launch its new product to meet the needs and requirements of the:
  - (a) Rural Customers
  - (b) Urban Customers
  - (c) Hitech Customers
  - (d) Loyal Customers
15. Self-image is the some total of a person as he thinks about himself and it is a guiding factor in purchase decision along with wisdom of opinion leaders.
  - (a) Opinion Leaders
  - (b) Group Leaders
  - (c) Judge
  - (d) Common People

## 4.8 Role Play Module

The company CEO discusses product planning with his team.

*CEO:* "We are interested in starting rural marketing and hence would like to know from you regarding the suitability of our detergent powder Sirf. What do you have to say?"

*Marketing Director:* "Since we enjoy a good market share in the urban markets, I am sure the rural customers must have heard about our Sirf. However, I am not confident that the rural buyers can afford our Sirf."

*Finance Director:* "Sir, may be the marketing director is right, but there is no way we can even think of reducing the product price. As you are fully aware our margins have been totally eroded since the competitors introduced the Blue band in the market."

*HR Director:* "My cousin who lives in the nearby village of Shapur is using the Blue Band and the competitors have already gone into the village markets."

*CEO:* "See if a new comer can do it why cannot we do the same or even better? You need to look at the price structure, especially the packaging element and the transportation costs. Find out how the Blue band is doing in these two areas."

*Marketing Director:* "Sir, they are using low cost but attractive cardboard box for packing and they are using their contract carriers. If we also hire carriers on hire and plan a low cost but attractive package we should get a good market share even though we are starting a little later than our major competitors."

*CEO:* "This time I will accept your suggestions and I am giving you the green signal. In future, please be alert to market opportunities to take advantage of the same, before competition does it. In other words please be proactive rather than remain in the reactive mode to competitive action."

The meeting ended on the decision taken by the CEO.

Plan a similar dialogue that focuses on the point of entry in the rural markets, with regards to product selection.



Case Study

### Empowering Rural India

India's President has shown his anxiety as well as satisfaction on the developmental activities connected with the country's rural development. Given below is what he had to say on the various pertinent issues.

The country is facing immense growth in the economic areas and foreign exchange reserves. With reduction in inflation rates, India is being recognised as a technically competent country. It has the energy of 540 million youth, 20 million NRIs, and the interest of developed countries in investing in Indian engineers and scientists and our research laboratories. The President wants scheme that would bridge the urban rural divide and these schemes have been designated PURA (putting rural on equal footing as urban India).

The government has planned growth at the rate of 7-8 percent annually to increase the welfare of farmers, workers with entrepreneurs and engineers going full steam for progress. He believes that the time has come to bridge the urban-rural divide. The President wants to empower rural India. President's approach is divided in five parts:

Contd...

**Notes**

1. The first part is for urban India's experiences with the Knowledge Centres.
2. The second part is for village knowledge centres.
3. The third part is dealing with PURA in action.
4. The fourth part presents the working domain services for effective knowledge acquisition to the PURA complexes.
5. The fifth part is a consolidation of data needed for farmers, fishermen and the entire rural population in an integrated way for sustainable development.

The President has given examples of the following villages:

1. Nagapattinam which has a Village Resource Centre.
2. Ettimadi Coimbatore that has six Village Resource Centres inaugurated by the President.
3. Mellur Taluk that has centre for providing knowledge connectivity to the villages.

It is a pity that even after nearly sixty years of independence and with several laudable schemes the villages of the country have remained poor, uneducated and without basic facilities like medical care and drinking water. What happens between the sanction and disbursement of funds and the implementation of the schemes? Is the bureaucracy, the middlemen or just inadequate funding to be blamed.

**Question**

Look for any lacunae in the schemes and suggest remedial actions for them to succeed. How the government can empower the villagers is the vital question. Can it be done through Panchayats or through the government machinery's Block Development Organisation?

## **4.9 Summary**

- Problem recognition is defined by obvious or inherent need of the consumer.
- Goal substitution occurs on non-attainment of goal.
- Behaviour is oriented towards achieving personal goals.
- Post purchase behaviour comes from satisfaction, use and disposal after use.
- Sigmund Freud developed the psychoanalytical theory of personality
- Feeling and sensing types believe in their own selves, are subjective and they consult others during decision-making.
- Some rural customers may be of dogmatic type with rigid behaviour pattern.
- Attitudes are predisposition levels that people have towards a product or an idea.
- Communication Process is planned taking into account the target market segment and the mind set of the people of the segment.
- Computer addicts would be surfing the Internet and the best media for communicating to them about software updates would be the web.
- Villages too have manufacturing units either in small sector or even as cottage industry.
- Consumer behaviour in organizational buying therefore becomes complex, with a number of persons involved in the decision-making.

## 4.10 Keywords

**Approvers:** These are the people with power of approving the purchase like Chief Executive Officers and Managing Directors.

**Consumer Perception:** Consumer Perception is the consumer's view of the things including messages and stimuli seen/focused on him. These perceptions are given or acquired by visual stimulus, like seeing pictures of products in advertisements, hearing about the products from friends and looking through retail shops, point of purchase (POP) material that create a visual impact.

**Deciders:** These are the authorized people who can decide spending of money for making the purchase. They are of the rank of General Managers.

**Gatekeepers:** These are those who filter information and see to it that only relevant information reaches the decision-makers about the product. These could be receptionists, purchasing agents etc.

**Influencers:** These are the people who influence the purchase decision, or e.g. which brand or model to buy, and from which dealer. These could be R&D Managers, or consultants.

**Initiators:** These are the people who place the requirement of the product before the firm's authorities. In most firms they would be either R& D persons or purchase executives.

**Interpretivism:** Understanding the stimulus needed to achieve purchase activity.

**Positivism:** Rationale of customers purchase activities.

**Users:** These are the people who define the product with specifications and would ultimately use it. They would be R&D engineers, production engineers etc.

## 4.11 Review Questions

1. What are the factors Influencing Buying Behaviour?
2. Describe the cultural factors influencing consume behaviour.
3. Discuss the Buying process.
4. Explain the purchase Behaviour of Customers.
5. What do you know about compulsive Buying Behaviour?
6. Describe the communication process.
7. Explain the persuasion strategy.
8. Describe the opinion Leaders.
9. Discuss the buying action. Differentiate between rural and urban buyers.
10. Discuss the role of endorser in buying decision.

### **Answers: Self Assessment**

- |                          |                |
|--------------------------|----------------|
| 1. Problem Recognition   | 2. Persuasion  |
| 3. Attitudes             | 4. Marketers   |
| 5. Marketing Information | 6. Stimulation |
| 7. Rural                 | 8. Demand      |

Notes

- |                       |                |
|-----------------------|----------------|
| 9. Product Innovation | 10. Initiators |
| 11. Deciders          | 12. (b)        |
| 13. (c)               | 14. (a)        |
| 15. (a)               |                |

### 4.12 Further Readings



Books

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## Unit 5: Rural Consumer

Notes

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Objectives

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- 5.1 Lifestyle of Rural Consumer
- 5.2 The Elusive Average for Rural Consumer
- 5.3 Influence of the Larger Environment on Rural Consumers
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- 5.5 Place of Purchase Variations
- 5.6 Social and Behavioural Influences
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- 5.8 Brand Preference and Loyalty
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- 5.10 Segmentation Opportunity
- 5.11 Summary
- 5.12 Keywords
- 5.13 Review Questions
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### Objectives

After studying this unit, you will be able to:

- Discuss the Lifestyle of Rural Consumer.
- Describe the Heterogeneity of Rural Consumers.
- Explain the Occupation and Consumer Pattern of Rural Consumers.
- Describe the Elusive Average for Rural Consumer.

### Introduction

The focus of this unit is on the buying behaviour of rural consumers. It covers the lifestyle, behaviour variations and influences on rural consumers. Variations in lifestyle indicate opportunity for the marketer. Examining the lifestyle of the rural consumer helps to understand the consumption pattern and the influence of the environment on consumer behaviour. It has been found that products developed to meet the needs of the rural consumer are more widely accepted than products developed for urban markets. The influence of geography and occupation on consumer behaviour patterns is also examined. The rural consumer's place of purchase and product-use is diverse and also does not necessarily reflect the behaviour seen among urban consumers. Influences on rural consumer behaviour include environment, cultural practices, perceptions and attitudes. The variations reflected in the design of product and messages are the result of strategic marketing decision-making.

## 5.1 Lifestyle of Rural Consumer

The popular image of a rural consumer is of one who has limited educational background, is exposed to limited products and brands, chooses price over quality, and is influenced by word-of-mouth communication. There is also the view that a rural consumer is no different from his urban counterpart. Changing consumption patterns reflect the evolving lifestyle of rural consumers. The increase in the purchase and use of products was noted in the previous chapter while examining the growing importance of rural markets. The influences on the behaviour of the rural consumer are also changing. The lifestyle of rural consumers is influenced by:

1. Increasing incomes and income distribution.
2. Marketers' efforts to reach out and educate potential consumers.
3. The situation in which the consumer utilises the product.

This last point is usually an overriding factor. Understanding the product-use situation creates opportunities for marketers. This is because the rural environment does not have the infrastructure facilities available in urban areas, which affect the consumption of both durable and non-durable products.



*Did u know?* In the first half of the last century companies in India found competition of low level or even non-existent. Whatever was produced was sold at a good profit and therefore the stress was on increasing production. From 1991, competition started raising its head in practically every business area, leading companies to start focusing on markets rather than just production.

## 5.2 The Elusive Average for Rural Consumer

Since a stereotype of the rural consumer or of rural consumer behaviour is absent, it creates problems as well as opportunities for the marketer. Variations in behaviour reflect geographical, demographic and behavioural influences on lifestyle, which provides marketers with options to segment the market. The creative use of products suggests possibilities for market development. Behavioural bases for segmenting could be socio-cultural or consumer perceptions and attitudes.

### **Geographic and Demographic Influences on Behaviour Variations**

To understand rural buying behaviour, a marketer must first understand (a) the factors that influence buying behaviour and (b) the variations in behaviour. These help to generate information upon which a marketer can create bases to segment the rural market taking the following factors into consideration:

1. Environment of the consumer
2. Geographical influences
3. Influence of occupation
4. Place of purchase
5. Creative use of products

The behaviour variations that are unique to rural markets are influenced by the place of purchase and occupation and sometimes get reflected in the creative application or use of products.



*Task* Discuss the changing pattern of Rural Consumers.

## Self Assessment

Fill in the blanks:

1. .... in the twenty-first century actually means marketing in an open market situation or in the global market economy.
2. .... based customer data, buying trends, segmentations and peripheral segments need careful attention.
3. Companies' have to use their core competencies, resources, talents and communications to the customers keeping the marketing opportunities in .....
4. .... wants the product he has used earlier, or as he wants if it is a research project.
5. .... Manager wants to buy the traditional product to avoid inventory problems.
6. One important link in the ..... process is the role of influencers and veto-ers.

## 5.3 Influence of the Larger Environment on Rural Consumers

A villager's needs are different from those of an urban consumer. The environment is a critical influence in shaping the needs of rural consumers. Products made to urban specifications may be impractical in rural settings. An excellent example is that of electrical and electronic goods. Virtually all radios, cassette players and television sets are made to urban power supply specifications. In many villages, particularly in power-strapped states, voltages fluctuate wildly, making electrical products susceptible to frequent breakdowns. Rural consumers may not mind paying more for products like the television or radio if they can withstand frequent voltage fluctuations.

### Geographical Variations in Market Behaviour

The rural market is not a homogeneous one. Variations in economic development and in consumer willingness to accept innovations are evident in rural markets. Geographical variations in exposure to urban centers and variations in development have resulted in tremendous heterogeneity even within a state, for example, the difference between parts of western and eastern Uttar Pradesh (UP) is extreme. Differences exist between western UP and eastern UP for bullock cart tyres. While bullock carts in western UP are smaller vehicles with single buffaloes, in eastern UP, they are bigger vehicles pulled by two bullocks. In western UP, villagers speak Hindustani whereas in eastern UP they speak Bhojpuri. These have implications for product and promotion decisions (Rajan, 2005). It has been observed the upper reaches of Himachal Pradesh have a matriarchal society as against parts of the state adjoining Haryana and Punjab, where males are considered supremo. Variations in consumer behaviour due to geographical locations are also reflected in the variations in their innovativeness. LML found that the south was more receptive to its scooters than the north. In the words of their Marketing Manager, Rakesh Jayal, 'People in the south are more willing to accept a high-tech product than in the north. They are more brand conscious, more educated' (Das Gupta and Menon, 1990). A variation in the behaviour of buyers of watches between rural areas of the north and of the south is also evident.

Notes

Figure 5.1: Geographical Variations in Market Behaviour of LML Scooters



*Notes* In running contracts, the DGS&D (Director General of Supply and Disposals) floats the tender and on receipt of offers negotiates with firms for a rate and quantity for the product along with other terms of business for a period of time and the offices of the government can then place direct orders on the vendor on those prices and terms. For this purpose the government office has to register itself with the DGS&D as a Direct Demanding Office.

#### 5.4 Occupation and Consumption Pattern

The perception that the rural consumer is either a farmer or an agricultural labourer restricts marketing effectiveness. In fact, there are other groups of consumers with different needs and behaviour and having significant purchase volumes. Indian Readership Survey (IRS), '98 (see Table 5.1) has chosen the occupation of the chief wage earner as a basis to define the rural consumer. Occupation profiles of owners of three popular consumer durables indicate that the nonagricultural occupation groups of shopkeepers or traders and those employed in service (government administration jobs, banks, teachers, other professionals, etc.) are the high consumption segment. Television owners in the service class constitute 43 per cent, which means one in two persons owns a television set. In the case of the other non-agricultural group, the shopkeepers and traders, one in three owns a television.

Land-owning farmers comprise a mere one-third of rural households (their estimated number being 43.2 million households) and own one-third of the stock of these durables. Shopkeepers and the service occupation, on the other hand, together account for just 21 per cent of the rural households (their estimated number is 26.8 million households), but between them own a disproportionately higher number (between 45 and 60 per cent) of televisions, two-wheelers and refrigerators. To put this group in perspective, they are 27 million households in number, which is more than half of all urban households (see Table 5.1).

Notes

Table 5.1: Occupation and Consumption Patterns

Occupation Category (Wage Earner Occupation)	% wt. in Rural Households	% Contribution to TV Ownership	% Contribution to Rural 2 Wheeler Ownership	% Contribution to Rural Refrigeration
Owner farmer	34	33	33	31
Shop keeper/trader	8	14	16	20
Service (total)	13	31	39	40
Inside village	5	11	15	15
Outside village	8	20	24	25
Agricultural worker	20	6	3	2
Unskilled non-agricultural labour	17	9	4	5
Artisan	6	6	4	2
Rest (leased farmers, livestock, poultry, fishery, milkman)	2	2	1	1

Source: Bijapurkar and Murthy, 1999.

## 5.5 Place of Purchase Variations

Not all rural consumers buy from the same location. It is also true that the same consumer could buy from different locations depending on the product and the need. A study on *haats* indicates that, despite the same product being available in the village shop, 58 per cent of the rural consumers visiting the *haats* preferred to buy these from a *haat* because of better prices, quality and variety (Kashyap, 1998).

Rural consumers do not rely on the local outlets and *haats* alone, as some of the purchases are made in the urban areas This is because:

1. There are a few product categories where rural distribution is still comparatively low and therefore the consumer buys from towns. It was observed that for certain categories of FMCG, the rural consumers made as high as 50 per cent of their purchases from the urban markets. In the case of products where the rural dealer penetration is low, the purchase from the urban centers is high. Shaving cream has a low dealer penetration and 37 per cent of the purchase is from urban centres. Tea has a high dealer penetration of 65 per cent in rural markets and in this case 25 per cent of the purchases made by rural consumers are from the urban markets (ORG-MARG, 2000).
2. In certain cases, the consumer seeks variety. In the case of toilet soaps and washing powder, the range in villages may be perceived as limited by the consumers.

## 5.6 Social and Behavioural Influences

The rural consumer is influenced by the environment and also by his or her wants and perceptions. Understanding the social and attitudinal influences on rural consumer behaviour is important to the marketer, as these serve as a guide to decisions on product offering, pricing, distribution, media and message; in effect forming the 'rural marketing strategy' The social-cultural influences on behaviour need understanding for developing an effective marketing strategy.

Notes

**Social Influence: The Role of Relevant Others in Purchase and Use Behaviour**

The relevant others include family members, members of the social groups and retailers. The influencers vary according to the type of product purchased. Youth and children influence purchases in rural areas. Youth in the age group of 15 to 25 years influence purchase in rural areas. Children in the age group between 8 and 15 years also influence most purchases. This is largely because children tend to retain messages and often playback these messages to others. Also, children are sent by their mothers to purchase something without specifying a brand. They ask for products they have seen or heard on radio or TV (Khatri, 2002).

The influence of children on choice is mostly for personal care products. For other products, the rural consumer gets information from multiple sources, including children, but opinion leaders have a substantial influence on the decision-making process of a rural consumer. The influencing members in the community include the village elders as also the educated youth of the village (Rajan, 2005).

Retailers also influence consumers in rural markets. An important reason for this is the credit that the retailer extends to many of his customers. This is true for FMCG purchases where the *sarpanch* and other senior leaders have little or no influence (Khatri, 2002).

**Cultural and Social Practices and Consumer Behaviour**

The cultural and social practices have a major influence on the behaviour of the rural consumer. The widely dispersed villages and limited communication helped preserve traditions in the rural markets. Increasing access to urban areas and information dissemination possibly reduces the influence of traditions.

Till such time that cultural influences persist the marketer has to:

- Develop products that suit the cultural practices of the rural consumer.
- Identify a suitable target audience and design media and message that reflect the social behaviour.
- Design the distribution to reach the places or outlets from where the consumer has been traditionally making his purchase.

The influence of culture reveals itself in consumer preferences for product features, product size, shape and colour. For instance, the preference for large audio equipments is a reflection of this influence. The information source is also influenced by social practices. Since villages have common washing areas, purchases like toilet soap and toothpaste, which are usually private in an urban household, are known to all. It provides immense status to brush your teeth with a toothpaste or use a detergent to wash clothes (Joshi, 1991).

In typical farming communities, it is the men who do the purchasing – women are not often allowed to step outside the home. Since men usually spend most of their days working in the field, they find it convenient to do their shopping for nondurables like soaps and detergents and commodities like edible oils and sugar once a week at the nearest *haat*. Items like clothing and durables are usually purchased on an annual basis at a *mela* (Ghosh, 1994). *Melas* are a prominent feature of Indian rural life, held periodically or annually to commemorate important events or to honour a deity. Farmers, flush with funds after harvest, frequent *melas* with their families. Women, who are ordinarily restricted from moving out of the village, have universal social sanction to visit the *mela*.

Figure 5.2: Farmers Usually do their Shopping in the Nearest Haat



Notes

A marketer's response to the influence of cultural and social practices is in the areas of product and of promotion. Marketers design products to reflect the social and cultural influences.

### Perception and its Influence on Product Design and Message

The marketer who seeks to modify the behaviour of the rural consumer needs to influence the consumer's perception and attitude. It is here that the marketer has to be careful in designing products and developing message for the rural market. The decision variables of product and message are critical to marketing effectiveness in rural markets as the colour, shape and actions that hold meaning for rural consumers are different from those held by the urban consumers.

Consumer's interpretation of product and promotion contribute to creating the position for the product. The interpretations of the rural consumer differ from those of the urban consumers. Colours are interpreted differently, so are sizes and shapes. The lower literacy levels in the rural markets increase the importance of the perceptual influences. In interior markets, brand identification is through visual patterns—a red soap cake signifies Lifebuoy soap. The strong influence of perceptions on rural consumers provides a good reason for the marketer to develop separate marketing strategy for the rural market.

### 5.7 Attitude to Quality and Price

Conventional wisdom on rural marketing believes that the villager craves, but can't afford the products his city cousin consumes. As a result, companies usually try to reduce the prices of their products either by creating smaller pack sizes, or by compromising on quality. This works sometimes, and with some products. Small pack sizes get acceptance in markets that can pay only a small price because of the nature of income receipts. A landless labourer may get a small sum of money every day, so he buys his provisions daily and does not have a big sum to spend. He will therefore buy something that has a small unit price. The introduction of the sachet pack, for instance, led to a boom in shampoo sales during the Eighties. Hindustan Lever (now known as Hindustan Unilever Limited) found that retailers in villages were cutting its large 100 gm soap into smaller pieces and selling these, so it introduced a small 75 gm soap ( Joshi, 1991).

The rural consumer is a very careful buyer. He is very conscious about getting value for money. He does not like to pay extra for frills he cannot use (Rajan, 2005). However, it is not true that only cheap brands sell in rural markets. Usha found that the sale of its economy models was

**Notes**

falling sharply in rural areas. Farmers preferred Usha's premier 'Century' brand, though it was priced 20 per cent higher (Das Gupta and Menon, 1990).

**The Buying Process**

The rural consumer has a very high involvement in any product purchased, especially when he decides to buy high-end products which cost a few hundreds or thousands of rupees. He has his daily routine, and there is no sense of urgency in his lifestyle. He understands symbols and colours better, and looks for endorsement by local leaders or icons (Rajan, 2005).



*Caution* Companies should draw up pricing formula based on their revenue objectives, price and volume relationships and marketing expenses. Companies have to understand competitive pricing formula, costs, product specifications and market segment.

**Self Assessment**

State whether the following statements are true or false:

7. Big volume buyers usually call the three to four short-listed vendors for final negotiations on price and terms of business.
8. Industrial sales or B-to-B sales can be long drawn out processes as the money value of orders is large, and the buyers want the best deal.
9. Industrial buying is mostly directly from the manufacturers but in case of raw materials and components, the sellers use the services of distribution channels.
10. In India, there are two types of tenders, running contracts and rate contracts.
11. Home buyers prefer to buy a large range of products from one source and hence number of sellers tie up for providing turn key solutions.

**5.8 Brand Preference and Loyalty**

A marketer does not perceive an opportunity in rural market when he or she thinks that the rural consumer buys only unbranded items. It is useful to have a good understanding of the purchase behaviour of the consumer in order to guide decisions in the rural markets. In as many as 10 product categories, national brands account for more than 90 per cent of the sales. The attitude of the rural consumers favours quality products and brands, but brand pricing has to take into account both the income level and income flow of the consumers. Rural consumers, as seen earlier, are not homogenous. There are consumers who can afford high priced brands. A group of rural consumers can not only afford but are also willing to buy high priced brands.

**Brand Loyalty**

Multi-brand strategies and entry for new brands in rural markets are possible, even though it is perceived to be a highly brand loyal market. The rural consumer is willing to consider alternatives. The loyalty of rural consumers to a brand varies according to product categories. It has been seen that loyalty is low in toilet soaps, toothpaste, batteries and washing cakes but high in home insecticides, *chyavanprash*, shaving preparations and skin cream. Brand loyalty is possibly lower in product categories where there is choice and not much brand building.

## 5.9 Heterogeneity of Rural Consumers

It is well established that consumers in rural areas are different from consumers in urban areas. The rural market itself is diverse with vastly different behaviour across different geographical locations or across buyer groups. The rural consumers have their share of the rich and poor. Their purchases reflect their incomes, physical environment, cultural and social practices, perceptions and attitudes. The place-of-purchase of a product and products age vary according to consumers, products, and situations and add to the complexity in the behaviour of the rural consumer. The sophistication in approach to the rural markets is clearly a necessity and starts with the recognition of the non-existence of the average rural consumer.

## 5.10 Segmentation Opportunity

The heterogeneity among rural consumers is an opportunity for the marketers to identify possible ways of segmenting this market. Variations in behaviour and the benefits sought are important variables to segment the market. A simple and very relevant variable for segmenting the market is the economic well-being of households. The five categories identified by the NCAER survey (Natrajan, 2002) uses economic well-being as the basis for their categorisation. The five categories are:

1. **The Affluent/very rich:** Households owning personal car/ jeep and other products.
2. **The Well-off:** Households owning any/all of these – air conditioners, motor cycle, scooter, washing machine, refrigerator, colour television with other durable products but not car/ jeep.
3. **The Climbers:** Households owning any/all of these – moped, VCR/VCP, mixer grinder, sewing machine, audio equipment (two-in-ones, etc.), black & white television, geyser with other durable products but not those mentioned under the first two categories.
4. **The Aspirants:** Households owning any/all of these – bicycle, electric fans, electric iron with other durables but not mentioned under the first three categories.
5. **The Destitute:** Households other than those classified under Categories 1 to 4 above (owning any/all/none of these – wristwatches, pressure cooker, mono cassette recorder, transistor/radio).

The rural markets have almost the same number of households in the 'well-off' category as in the urban markets even though it is a smaller segment within the rural market. The number of households in the category of 'well-off' in the urban market is 29.45 million and the number of households in this category in the rural market is 27.36 million (NCAER, 2003).

The above categorization of the market has the advantage that it captures the variations in the consumption pattern and that it is a basis of segmenting both the urban and rural markets. This assists the marketer in developing and comparing the marketing strategy in both these markets. The very advantage of ability to compare can be seen as a disadvantage by marketers who see this common classification as resulting in inadequate appreciation of the peculiarities of the rural markets. Some rural marketers have applied a segmentation method developed for the rural markets.

A popular approach to segmenting the rural markets is the 'Socioeconomic Classification'.

Socio-economic Classification (SEC) approach to segmentation used by certain marketers also indicates that a large percentage of consumers are in the lower segments of the SEC. All the same, about 9 million households belong to the affluent class. The type of segmentation to be used differs even within rural markets depending on the product, competition, characteristics of

**Notes**

the company and consumer behaviour variations. This calls upon the marketer to invest time and effort to understand the rural consumer.

Research on specific markets of interest is required for meaningful marketing decisions. In addition to the segmenting decisions, the understanding of the consumers and regular monitoring of consumer purchase and use behaviour is critical to avoid surprises.

The creative use of products in rural markets can be an opportunity and, therefore, use behaviour needs to be monitored.

**Creative Use of Products**

The marketer will find it fruitful to keep track of the different ways in which the product is used by the rural consumers. This is because the product use could differ and may not be as envisaged by the marketer. Even for the experienced marketer surprises never cease. Market development is achieved by being alert to the new and creative uses for the product.

**Self Assessment**

Multiple Choice Questions:

- 12. .... promotion is an offer of direct money saving to the customer without diluting product's brand equity.  
(a) Product (b) Sales  
(c) Government (d) Price
- 13. Special ..... cost packs are offered as promotion to encourage trial.  
(a) low (b) high  
(c) average (d) big
- 14. Buyer's loyalty is limited and can be enhanced with active participation of .....  
(a) distributors (b) dealers  
(c) retailers (d) wholesalers
- 15. Sales promotion takes up to ..... % of total marketing budget and hence it is a major factor.  
(a) 89 (b) 87  
(c) 69 (d) 70



Case Study

**Unilever in India - Rural Marketing Initiatives**

**U**nilever Lever Ltd. Case Study will help students to know importance of rural marketing. Unilever took its initiative in Rural Marketing concept and introduced various distribution channels to understand the need of rural consumers. 70% of the Indian population lives in rural areas. This segment, commonly referred to as the 'bottom of the pyramid', presents a huge opportunity for companies. Unilever's Indian subsidiary, Hindustan Lever Ltd (HLL), considered one of the best-managed companies in India, understands the importance of rural marketing.

Contd...

## Unilever Lever Ltd.

## Notes



## Hindustan Unilever Limited

The trigger point came when a local firm Nirma, through its new product formulation, pricing and distribution challenged HLL's detergent business. Nirma's attack from below made HLL realise its vulnerability as well as identify a new opportunity. Since then, HLL has launched various initiatives to reach out to the rural consumer. It has changed its product formulations and deliveries.

It has begun a number of initiatives in terms of widening distribution reach through traditional as well as unconventional channels. HLL has also empowered rural women by assisting them in obtaining financial assistance through its project shakti.

*Everybody wants brands. And there are a lot more poor people in the world than rich people. To be a global business and to have a global market share you have to participate in all segments.*

*– Keki Dadiseth, Erstwhile Chairman, HLL.*

*The basic objective of Project Shakti is to economically empower underprivileged rural women by creating income-generating capabilities and providing a sustainable micro-enterprise opportunity in addition to improving rural living standards through health and hygiene awareness.*

*– Sharat Dhall, Marketing Manager-Rural, HLL*

NCAER projections indicated that the number of "middle income and above" households was expected to grow to 111 million in rural India by 2007, compared to 59 million in urban India. Gone were the days when a rural consumer had to go to a nearby town or city to buy a branded product. The growing power of the rural consumer was forcing big companies to flock to rural markets. At the same time, they also threw up major challenges for marketers. Servicing rural markets involved ensuring availability of products through a sound distribution network, overcoming prevalent attitudes and habits of rural customers and creating brand awareness. Price-sensitivity was another key issue.

Rural income levels were largely dependent on the vagaries of monsoon, and demand was not easy to predict. Thanks to TV, consumer awareness in rural areas had increased.

Rural expenditures on Fast Moving Consumer Goods (FMCG) were growing at an impressive rate of 20-25%. Several companies were taking rural marketing seriously, one of them being Hindustan Lever Ltd (HLL), Unilever's Indian subsidiary.

In 2004, HLL was India's largest FMCG company, with 30 power brands (Exhibit: I), turnover of over ₹ 10,000 crores and 40,000 employees. HLL derived around 50% of its sales from rural areas. HLL's rural marketing initiatives began way back in 1988, when the company had launched 'Wheel' for the rural and lower income urban consumer.

These efforts had intensified since the late 1990s when HLL like many other companies faced flat growth in the urban markets. In early 2004, as it reviewed its past performance, HLL realized that bulk of its future growth was likely to come from rural areas. The challenge for HLL was to exploit this opportunity in a profitable manner.

*Contd...*

Notes

**Background Note**

HLL's history could be traced back to 1885 when the Lever Brothers set up "William Hesketh Lever", in England. In 1888, the company entered India by exporting 'Sunlight', its laundry soap. In 1895, the Lifebuoy soap was launched in India followed by 'Pears' in 1902, 'Lux' flakes in 1905 and 'Vim' scouring powder in 1913. In 1930, the company merged with 'Margarine Unie' (a Netherlands based company which exported vanaspati to India), to form Unilever. In 1931, Unilever set up its first Indian subsidiary, the Hindustan Vanaspati Manufacturing Company for production of vanaspati...

**Reaching Out the Rural Consumer**

Prior to the late 1990s, HLL like any other company had used traditional modes of reaching out to the rural consumer - wholesalers and retailers...

**Product Development**

HLL's experience with rural consumers dated back to the mid-1980s, when Nirma had been a serious threat to HLL's detergent business. Nirma's success demonstrated that rural India did have the money and willingness to buy packaged goods...

**Communication**

Mass media reached only 57% of the rural population. HLL realized that it had to use unconventional media to enhance awareness. In late 1999, HLL engaged Ogilvy Outreach, to take care of its rural communication campaign...

**Looking Ahead**

India's rural population comprising 12% of the world's population presented a huge, untapped market. HLL had signaled its commitment to the rural market in various ways.

Management trainees had to begin their career with the company by spending a month or two in a rural village. Senior managers continued to emphasize the importance of rural markets.

Various innovations in the marketing mix had been introduced, with the requirements of the rural markets in mind...!

**Question**

Analyse the case and discuss the case facts.

**5.11 Summary**

- The popular image of a rural consumer is of one who has limited educational background, is exposed to limited products and brands.
- To understand rural buying behaviour, a marketer must first understand (a) the factors that influence buying behaviour and (b) the variations in behaviour.
- A villager's needs are different from those of an urban consumer.
- Variations in economic development and in consumer willingness to accept innovations are evident in rural markets.
- The rural consumer is influenced by the environment and also by his or her wants and perceptions.

- The influence of children on choice is mostly for personal care products.
- The cultural and social practices have a major influence on the behaviour of the rural consumer.
- A marketer's response to the influence of cultural and social practices is in the areas of product and of promotion.
- Consumer's interpretation of product and promotion contribute to creating the position for the product.
- A marketer does not perceive an opportunity in rural market when he or she thinks that the rural consumer buys only unbranded items.
- The heterogeneity among rural consumers is an opportunity for the marketers to identify possible ways of segmenting this market.

### 5.12 Keywords

**Brand Loyalty:** Multi-brand strategies and entry for new brands in rural markets are possible, even though it is perceived to be a highly brand loyal market. The rural consumer is willing to consider alternatives. The loyalty of rural consumers to a brand varies according to product categories.

**Buyer's Loyalty:** Buyer's loyalty is limited and can be enhanced with active participation of retailers. Since competitors are doing exactly the same, one has to be on the constant look out for better and more rewarding promotional plans both customers and retailers.

**Forward Vertical Integration:** In which the vendor can start to manufacture the product it was selling, for example the cloth-maker starts to make readymade garments, or the television picture tube maker starts making television sets. In such case there is loss of a customer.

**PR:** Public Relations plays a great role in building company's brand image.

**Promotion:** Promotion tries to generate immediate consumer response with respect to company's overall marketing strategy. While advertising builds long term customer awareness and attitudes, promotional plans are meant to have a short-term influence on the customers.

### 5.13 Review Questions

1. Explain the Lifestyle of Rural Consumer.
2. What are the geographic and demographic influences on behaviour variations?
3. Describe the influence of Larger Environment on Rural Consumers.
4. Discuss the occupation and consumption pattern of Rural India.
5. Explain the Social and Behavioural influences on Rural Consumer.
6. Describe the Brand preference and Loyalty of Rural Consumers.
7. Discuss the heterogeneity of Rural Consumers.
8. What do you mean by Brand Loyalty?
9. Explain the Buying Process.
10. Describe the perception and its influence on product design and message.

Notes

Answers: Self Assessment

- |              |             |
|--------------|-------------|
| 1. Marketing | 2. Computer |
| 3. Mind      | 4. User     |
| 5. Purchase  | 6. Decision |
| 7. True      | 8. True     |
| 9. True      | 10. True    |
| 11. False    | 12. (b)     |
| 13. (a)      | 14. (c)     |
| 15. (d)      |             |

**5.14 Further Readings**



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Notes



Online links

[ezinearticles.com/? Successful-Sales-Promotions-](http://ezinearticles.com/? Successful-Sales-Promotions-)  
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## Unit 6: Rural Marketing Research

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### Objectives

After studying this unit, you will be able to:

- Define Rural Marketing Research.
- Discuss the Process of Research in Rural Markets.
- Describe the Methods of Data Collection.
- Explain the Data Collection Approaches in Rural Markets.

### Introduction

For the students of Marketing it is important to understand the theory and practical applications of Market Research. This material will provide the students an insight into the vital aspect of Market Research (MR) in easy to simple language without the clutter of MR jargon. With a view to making reading interesting, several examples have been included.

MR is associated with primary research for most beginners. However as we know, MR starts with secondary research, which can be conducted by looking at an immense amount of data already available somewhere and we need to locate it. Secondary data can provide valuable information regarding market size historically and future growth patterns.

Qualitative Research is an integral part of MR. It helps in product development, design and modifications. It also can assist in locating the right market segment for the products, as qualitative research directs us towards the customer's mindsets.

This course consists of studying the subject in the real life corporate world.

## 6.1 Market Research

Notes

Before the student starts learning Market Research, it may be useful to have a recap of Marketing Mix Factors. Marketing has become an all pervasive discipline, in as much that no business, industry can remain untouched by marketing. In the good old days, when there were only a handful of manufacturers of a product, competition was limited or just not there. Marketing as we understand it today was a luxury as it was not considered essential. Manufacturers made the products and sold it in the market. The stress was on Sales. In India even up to sixties, in the twentieth century, manufacturers were confident of selling their products at a profit without the fear of some body under cutting them as there was enough business for all. Competition increased, especially after India liberalized its economy, and the flood gates of international players were opened. Now, the competition has become a vital force the business has to reckon with.

Figure 6.1: Market Research in Rural India



With increased competition, firms need to play their cards according to the competition and market condition. Hence, the need to systematically understand competition and market conditions and of Market Research.

Let us take an example. When you want to buy an expensive thing like a Motorcycle, how would you decide to go about it? Most likely you will take some of these steps.

1. Check out on the different brands available by visiting motorcycle dealers.
2. Compare the prices, specifications like HP, after sales service, and dealer's attitude towards customers.
3. Ask your relations, friends, and colleagues who own bikes about their experiences, views about different bikes.
4. Look for the advertisements in different media like newspapers, magazines, and TV to get as much information as you can get about competitive bikes.
5. See your budget and then take a decision based on the gathered facts.

In a similar way, to a seller it is important to know what product the buyer wants, where he wants it, what price he is ready to pay for the product, and how would he like to pay for it, by credit card, cash, cheque, or by some hire-purchase arrangement? Getting the answers to these questions is the task before MR.

Let us examine what constitutes marketing in the twenty-first century. To start with let us again understand the Marketing-Mix factors as given below.

1. Market Research (including market survey, and analysis). This factor, as will be seen is used for virtually all other Marketing Mix factors.

**Notes**

2. Product
3. Brand
4. Packaging
5. Trademark
6. Logo
7. Label
8. Price
9. Placement or simply, distribution
10. Promotion or sales promotion
11. Advertising
12. Credit and its control
13. Personal selling
14. Training of marketing personnel of the firm and retailers

Items 3 to 7 are directly related to the product.

As already stated Market Research (MR) can be undertaken for any of the above stated factors. Besides, MR is conducted to get the total market potential, its possible growth, and strengths and weaknesses of competition with respect to the marketing mix factors.

Starting with the Product, MR can be conducted to get information or trends in the following areas.

1. Is there a demand for the product?
2. If yes, in which market segment?
3. What is the level of demand?
4. Is there a demand in peripheral segments? If yes, then what is its level?
5. Is the product acceptable to the market as it is, or would any modification be necessary?
6. Are the product package, brand, trademark, label and logo eye-catching enough?
7. Is the package size acceptable?



*Did u know?* Primary MR or Market Survey is conducted by collecting data or information directly from the consumers. Before launching on a full scale survey which entails heavy expenditure, it is advisable to conduct a Sample survey where the survey is conducted in a limited area to test the methods used.

## **6.2 Marketing Research Objectives**

From the view point of Marketing Manager, the most useful role of MR is in the area of market demand and supply, in ever changing, mostly growing market and increasing competition.

It is important to define MR objectives as the starting point of MR. The accuracy of the objective definition would be the key factor in the accuracy of MR findings. The main objectives of MR are as follows:

1. Demand projection for the product in a given area for an acceptable period like one year. This takes into account the historical demand of past years, market dynamics and changing business environment.
2. Competitive activities, product differentiation, entry barriers.
3. Competitive market share.
4. Brand positions.
5. Competitive prices vis-à-vis brand equity.
6. Advertising and promotional strengths of competition.

The next range of MR objectives are in the area of customers needs, as given below.

1. The product benefits customers are seeking.
2. Product usage with different customer groups, light or heavy usage.
3. Top of the mind recall.
4. Price and quality perceptions.
5. Purchase decision procedures, and the persons involved in it.
6. Reasons for brand preferences.

Let us see the types of MR being conducted.

1. Exploratory research is conducted to confirm thoughts and ideas. Since these are conducted in small areas, they are low in cost and they take less time.
2. Statistical research deals with frequency of events like the purchase action. Such research provides inputs for analysis, as the variables for the research are pre-decided, for e.g. as how often are car batteries changed in Maruti cars, time, and brand of batteries being the variables.
3. Casual research is conducted on case to case basis, like effect of price changes on product sales.

### **6.3 Market Survey**

Primary MR or Market Survey is conducted by collecting data or information directly from the consumers. Before launching on a full scale survey which entails heavy expenditure, it is advisable to conduct a Sample survey where the survey is conducted in a limited area to test the methods used. Both Qualitative and Quantitative information can be gathered through market surveys.

The survey can be conducted in several ways.

#### **Observation Method**

Ideally observations can be made in closed conditions like an auditorium, laboratories to get the real motivation that making people buy or reject a product. In labs, scientists can simulate conditions you may or may not encounter in real life, thereby making your observations really authentic and for improving the success rate. If you want to know the number of vehicles polluting the atmosphere in Delhi, you could stand near congested crossing and observe the vehicles which are polluting, for a month or so which would give you enough information as sample survey. More detailed information would take much more time, many more crossings

**Notes**

and persons observing the polluting vehicles. Cameras and other signal gathering devices can be used like the smoke detectors, speed sensors for knowing the average speed of vehicles passing through a particular point.

**Personal Interviews**

In this method you with your team meet a number of users personally, ask them questions as per a predetermined questionnaire and get first hand information from them. The information collected is then used to extrapolate for the entire customer group to get the real answers. These surveys are time consuming and expensive, but more accurate. These Questionnaire methods will be discussed at length later on.

Mail surveys are conducted by sending the questionnaire to a number of customers with request for filling them and returning to the surveyor. The method is not expensive, but it may not give accurate results as the rate of getting replies from the customers is poor. Also the information which comes in may be skewed as people when replying to such questionnaires, tend to give inflated figure.

Telephone surveys are a low cost easy method of gathering information. The problem in such surveys is the fact that people replying to the call may not be the right persons.

**Marketing Research Methods**

There are two basic methods of doing Marketing Research

1. Primary Research
2. Secondary research

As normally secondary research is done first, we will discuss it first. Sources of secondary data are as follows:

1. Firm's internal source, include, P/L Statements, inventory levels, sales visit reports, previous MR Reports.
2. Incoming staff members who may be coming from competitive firms.
3. Government publications and notifications, like from Directorate of audio visual publicity, Research organizations.
4. Trade publications; each trade has its own journals which carry information about the historical business and projections. Magazines on Computers, IT, Electronics, Cinema, TV, Agriculture, Science and Technology, Dress designing, Interior Decoration, practically every possible area of business are in the market.
5. Competitors balance sheets.
6. Publications of Industry Associations like FICCI, CII, ASSOCHAM.
7. All India Management Association journal.
8. Trade and Business newspapers and magazines like Financial times, Business Today, Business India.
9. Internet.
10. Market Research Organizations, like ORG-Marg, who sell MR Reports at a price.
11. Sales statistics of product's dealers.
12. Publications of Reserve Bank of India; Financial Institutions like, IFCI, IDBI, ICICI, UTI.

13. Foreign Government Data, International publications: These help in the area of international business as also at the introductory stage of products as they can tell about the rate of product penetration in other countries as a bench mark for India. Of course other economic parameters, which may be differentiating the countries, will have to be kept in mind.

Secondary data as the name itself suggests, is the data for which some body else has done the job of collecting the information as Primary data.

At this stage it may be a good idea for the students to get some secondary Market Survey data, by gathering information from libraries, where old copies of newspapers, magazines and other publications are available. (You may also list down as many secondary sources as possible from where you can get the data). Please collect information about any one of the following:

1. Mid-size car price variation in the last three years.
2. Washing powders, introduction of several new brands in the last three years.
3. New distribution systems in the area of consumer durables.

To get an idea about the objectives let us take Surf Excel as the product. You can find out the following from your respondents (persons you are going to talk about the product).

1. Reasons why housewives prefer the product.
2. What types of housewives are likely to use the product?
3. In a given area how many would be using the product?
4. How many more would use it if a cheaper package is used to sell to another segment at a lower rate?
5. Besides package and price what are other factors, which help the buyer to decide in favor of the product?

Once the objectives are well defined, it is important to go to get the source of data.

Focus group research is conducted by inviting some ten/twenty persons from the market segment of the product, to get to know from them their views about the product, its price, and channels of distribution. The expert conductor of the meeting will ask them, "What do you think about the quality of Surf Excel."

With free and easy dialogue, and without the burden of family presence, persons come out and give their frank opinions.



Tasks

1. Discuss the marketing research methods.
2. Develop a questionnaire for the organizations for the EPABX survey.

### Questionnaire Method

Questionnaire consists of questions, which are of the closed type, where options are provided and the respondent has to just give his choice from among the options. It consists of relevant questions, which the respondents can easily answer. It is the most common and effective way of getting the answers as it means direct contact with the user and gets the replies to the problems baffling the marketer.

**Notes**

The questions can be asked in the following manner:

1. Yes/No type: Did you personally select the product? Yes/no.
2. Multiple choice: Who helped you in the selection- brother/sister/uncle/friend?
3. Answers are given on a five-point scale.
  - (a) I like the Surf Excel very much
  - (b) I like it all right
  - (c) I barely like it
  - (d) I do not like it
  - (e) I do not like it at all.

**Questionnaire - 1**

It can be used for collecting information in the case of Surf Excel.

The first part of the questionnaire consists of demographic information about the respondent. A sample is given below.

Name

Address Phone/fax/e-mail

Age below 25/25-40/41-60/60+

Income level/pm; below ₹ 5000/5001-15000/15001-30000/30001-50000/50001-80000/80001 +

Family size; below 3/3-5/6-9

People find it easier to give a range for age, income rather than giving accurate figures, as it could be less embarrassing.

Questionnaires should be carefully developed, tested through a sample test, modified as required and then used for gathering information.

Questions can, at times, influence the answers. Hence to make them totally objective, they should be carefully prepared.

Close ended questions, like giving answer choices guide the respondent into the area with which the researcher is familiar.

Open-ended questions get the respondents to use their own words and individualistic replies come from such questions. Such questions are useful in exploratory type of MR. However, if time is an important factor, it is better to ask closed questions, which can be answered in lesser time.

Open-ended question could be, "What is your opinion about Surf Excel as a detergent powder?"

Or, "What is the first name which comes to your mind when you think of detergents?"

Or, The interviewer shows the respondent, an extra clean used shirt and asks, "What does the shirt remind you of?"

Or, The interviewer shows the respondent a picture of Surf Excel and asks, "What can it do for you?"

Questions should be as simple as possible, direct to the point, and with no possibility of any ambiguity.

The questions should follow a pattern, and a logical sequence.

It is time that the students prepare a questionnaire for conducting MR for any one of the following products:

1. A car
2. Cosmetics
3. Readymade garments

The student can select a brand and build the questionnaire around that brand.

Testing the questionnaire needs to be done next. For the purpose a small sample is adequate. It should be from the market segment for which the product is meant. If any question is found to be difficult, or objectionable it should be modified or removed. A mix of 20-25 respondents should be normally sufficient for the test purposes.

A sample questionnaire is given below.

Sir/Madam,

This is a survey of households with respect to TV purchase. We request you to kindly help in filling the questionnaire giving your ideas, as we attach great value to your judgment in this regard. We thank you in anticipation of your cooperation.

1. Do you have TV? yes/no.
2. If yes, please tell its model and make.
3. If no, then please go to the last question.
4. Buying the TV, what were you looking for?
5. What is your opinion on the features of TV listed below?  
(Since this is only a sample many questions have been left out)  
A-Extremely Important, B-Important, C-Somewhat Required, D-May Be Required, E-Not Needed at all
6. How do you rate the price of TV, is it, high, medium, low for the car? Did you get value for money?
7. Did you make outright purchase or took the hire purchase option? If you bought the TV under H/P, which company offered the loan?
8. Who all helped you in deciding about the TV? Rate the following as per their importance:
  - (a) Wife/husband
  - (b) Sons/daughters
  - (c) Other relatives
  - (d) Neighbours
  - (e) Colleagues
9. Did you see any advertisement of the TV prior to purchase and if yes, did it help in  
Income level/pm; below ₹ 5000/5001-15000/15001-30000/30001-50000/50001-80000/80001  
+ Family size; below 3/3-5/6-9

People find it easier to give a range for age, income rather than giving accurate figures, as it could be less embarrassing.

**Notes**

Questionnaires should be carefully developed, tested through a sample test, modified as required and then used for gathering information.

Questions can, at times, influence the answers. Hence to make them totally objective, they should be carefully prepared.

Close ended questions, like giving answer choices guide the respondent into the area with which the researcher is familiar.

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Or, The interviewer shows the respondent a picture of Surf Excel and asks, "What can it do for you?"

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The questions should follow a pattern, and a logical sequence.

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1. A car
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A sample questionnaire is given below.

Sir/Madam,

This is a survey of households with respect to TV purchase. We request you to kindly help in filling the questionnaire giving your ideas, as we attach great value to your judgment in this regard. We thank you in anticipation of your cooperation.

1. Do you have TV? yes/no.
2. If yes, please tell its model and make.
3. If no, then please go to the last question.
4. Buying the TV, what were you looking for?
5. What is your opinion on the features of TV listed below?

Notes

Features	A	B	C	D	E
Design					
Availability of colors					
Channels					
After sales service					
Available sizes					
Compatible with VCD or DVD					
Remote Features					
Service facilities					

(Since this is only a sample many questions have been left out)

A-Extremely Important, B-Important, C-Somewhat Required, D-May Be Required, E-Not Needed at all

6. How do you rate the price of TV, is it, high, medium, low for the car? Did you get value for money?
7. Did you make outright purchase or took the hire purchase option? If you bought the TV under H/P, which company offered the loan?
8. Who all helped you in deciding about the TV? Rate the following as per their importance:
  - (a) Wife/husband
  - (b) Sons/daughters
  - (c) Other relatives
  - (d) Neighbours
  - (e) Colleagues
9. Did you see any advertisement of the TV prior to purchase and if yes, did it help in decision-making?

### Self Assessment

Fill in the blanks:

1. .... projection for the product in a given area for an acceptable period like one year.
2. .... is conducted by collecting data or information directly from the consumers.
3. Time and money spent should be ..... with the objective of the research.
4. .... questions get the respondents to use their own words and individualistic replies come from such questions.
5. The population/universe is divided into mutually exclusive groups such as, age, income and then ..... samples are taken from each group.

### 6.4 Sampling Techniques

Now it is time to understand, which market we are going to survey. Who are our target audience? Defining the market segment, the right geographic area, gives us the parameters, along which we have to organize the survey. We call it the Universe or the population. For the purpose of the MR, the universe, or the total population for Surf Excel would be the entire middle and high-income group of a town.

## Notes

Organizing a Market Survey for the entire universe can, and usually is, a time consuming, expensive process. It may take so much time meeting and asking questions from a million people, that by the time the results appear the product itself may become obsolete. Therefore, the Survey is done on the basis of a sample of the universe, which is made using well-established techniques.

### Sample Size

The larger number of the people to be interviewed, the better or more reliable the result. However, in practice, it is better to cover a much smaller sample, may be one percent of the universe to get reasonably good results, in lesser time and money. It really depends on how the sample gets selected.

### Sample Selection

There can be two ways of selecting a sample.

1. **Probability Sample:** It ensures that each of the members of the universe have equal chance or probability of being selected for the survey. It helps in understanding the levels of errors on account of the sample selected. There are three ways of probability sampling.
  - (a) *Simple random sample:* Every member has an equal opportunity of being in the survey.
  - (b) *Stratified random survey:* The population/universe is divided into mutually exclusive groups such as, age, income and then random samples are taken from each group.
  - (c) *Cluster sample:* The population is divided as per geographic divisions, like for example Delhi could be divided into, north, south, east west and central zones and sample taken from each zone on random basis.
2. **Non-probability sample:** As the cost and time involved in probability sample surveys is quite high, MR people use non-probability sample. This can be done in three ways.
  - (a) *Convenience sample:* The research person selects the persons most easily met for the MR.
  - (b) *Judgment sample:* Researcher uses his judgment about the sample, which would provide the most accurate answers.
  - (c) *Quota sample:* The researcher meets with a set of persons in each category.

As an example, in sampling methods, if one person is not available then no one else takes his place except in quota sample method where the researcher has to find out another person in the same category and meet him.

At times even with proper sampling, errors creep in to the collected data. The reasons of such errors are given below.

1. A portion of population may have been omitted.
2. People not included in the sample may differ widely from those interviewed.
3. Substitute interviewees may not be right ones if you are not able to meet the person in the sample.
4. The respondents find the questionnaire difficult.

5. Respondents may not have enough information on the subject or they may not like to reveal it for some reason.
6. Some questions in the questionnaire may have a bias or slant towards one answer.
7. Interviewer may not be fully qualified to take up the job of getting respondent's opinion.

Notes

The researcher must take these in to account when analyzing the collected data.

When the sample is systematically drawn, it helps as, data collection becomes lower in cost, and it is easy to control.



*Notes* MR Managers must take a close look at the assumptions made by the marketing personnel, as they may be lopsided.

## 6.5 Planning Samples

Let us plan a sample for EPABX of large size say which cater to 1000 lines. Who would be interested in the EPABX?

1. Industrial units, MNCs, large Indian firms, public sector companies
2. Government departments and offices
3. R&D Labs in private and government sector
4. Banks, Indian and foreign, Financial institutions
5. Universities and educational institutions like IITs and IIMs

As a starting point let us get list of all the organizations in the population group with a turnover of ₹ 50 crores.

Pick up 100% of organizations with turnover of ₹ 500 crores.

Select 20 units from the organizations with turnover of more than ₹ 100 crores but less than ₹ 500 crores.

Select 15 units with turnover of less than ₹ 100 crores

Pick up all the government departments and their head offices.

Likewise select some units from each of the other categories.

To sum up the sampling technique for EPABX 1000- can be as follows:

1. Defining the population
2. Sampling unit would be the firms and offices having population needing about 800 phones.
3. Sample size could be 400.

As per Philip Kotler, the marketing guru, there are certain characteristics of a good Market Research. These are:

1. **Scientific method:** Effective MR, is conducted on scientific lines, with formulation of hypothesis, theory, testing and results.
2. **Creativity:** A teenage clothing firm gave video cameras to several young persons, who were asked to film the discos restaurants where the teenagers went most of the time.

Notes

3. **Multiple methods:** To increase credibility marketing people use several methods together.
4. **Value and cost of information:** Marketing persons have to find out the cost to value ratio of the MR. For example, if the MR is to find the extra sale on decreasing the price to some extent, and it is found that the cost of research outweighs the profit benefit, such MR should not be undertaken. For example, if the increase in sales is likely to bring extra profits of rupees ten lacs, and the research is going to cost twelve lacs, it is not worthwhile to conduct the MR.
5. MR Managers must take a close look at the assumptions made by the marketing personnel, as they may be lopsided.
6. MR should not use the survey, to sell the product.

Managers are sparsely using Marketing Research because of the following reasons:

1. When marketing team has a problem with some options and Market Research cannot pin point a solution it makes MR of not much use. Only with a well-defined problem can the MR provide the right answers.
2. When MR personnel are not fully qualified to do the job, they will not be able to get the right answers.
3. MR takes time to be complete in all respects to give valuable market insight. When time is not enough MR may not give correct results.
4. Market research reports sometimes give only indications, trends and not concrete facts, which is not appreciated by the marketing team.

Students should plan Market Research objectives in view of the above and develop a questionnaire for the same.

## **6.6 Discussions in a Tractor Firm**

Given below is an imaginary discussion between the Managing Director and Marketing Manager of a tractor manufacturing company, who are scanning the Indian market to enter the same after achieving big success in the western markets like Europe and the USA.

MM, "We have seen the growth of Indian's tractor market. In the last three years it has been growing at a steady rate of five per cent, which is much better than the growth of negative two percent in the developed world. However, like us, a number of MNC's are in the field. Now we have to plan our strategy for entering this growing yet difficult market. What are your ideas on the matter."

MD, "I believe there is still big room for players like us who believe in their product and customized service which no one can provide. You should be trying for at least seven per cent market share in the second year of our operation."

MM, "I would like to organize a market survey to know what the market wants and who would buy our rather higher priced products."

MD, "By all means get your market information updated, keep me informed and let us plan our marketing strategies based on your information. Please organize MR, and send your recommendations within a period of three months, covering the North Indian markets."

The MR report says:

1. Tractor manufacturers, are coming out with latest innovations and they try to educate the buyers about the same. Most of the time the customers are unaware of the benefits the

innovations provide and may have a little reluctance purchasing such difficult to use products.

2. The buyers commonly understand quality as usability without breakdowns.
3. Price, warranty, after-sales service, play an important role in purchase decisions.
4. Psychological aspects such as, looks, foreign collaboration, brand equity too have their value.

Since the price of tractors is quite high, its purchase is a high involvement purchase. Opinions of other users, friends, neighbours, colleagues, and sometimes the tractor dealers are sought. With some twenty brands and each brand having four to six models, the task of decision-making is rather onerous one.

The following features of tractors were tested of a scale of one to five in several areas in the northern India and the results obtained are given along side.

Features	Mean Score	Position
Road grip for bad roads	5	1
Oil consumption	5	2
Trolley available	4.9	3
Service facility	4.2	4
Spare parts	3.8	5
Cost of parts	3.3	6
Resale value	3	7
Good for family outings	3	8
Trained service staff	3	9
Ease of diesel buying	2.8	10
Multiple use in the fields	2.8	11

As can be seen the customers place a good deal of importance on quality, followed by after-sales service and price. Distinct features do play a role in purchase decisions, but it seems that their relative importance is less due to the latent fear in the minds of buyers that they may be paying high price for features they may not be able to use due to their being too high tech. Hence, the conclusion can be drawn that while new features will bring more business as they would certainly differentiate the products, a lot of concept selling as also, training in the usage would be required, before the benefits can be cashed in.

Advertising for creating and enhancing brand equity is a must, as brand plays a major decisive role in purchase actions of the customers.

Areas like built-in stabilizers are not in consideration at all as most tractors have the feature. In the same way trolley feature has become common and hence it ceases to be a differentiating point.

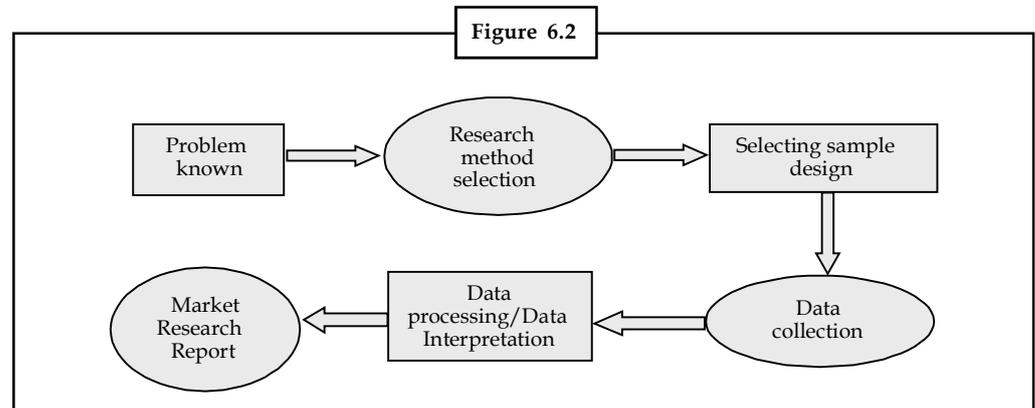
Advertising too, has become the done thing and at best, it is a negative factor. In other words, less or no advertising would mean poor quality marketing effort.

Market Research should be avoided if enough time cannot be given for the research. Also, if budget does not permit thorough enquiry, or information possible is not going to be sufficient, MR can be avoided. If marketing people want to get the research done only for having their decisions endorsed it need not be undertaken.

**Notes**

On the contrary, marketing people can get valuable inputs from MR, like demand forecasting, product specifications, advertising and promotion plans endorsement, locating new markets, market segments, and finalizing distribution channels for optimizing their effectiveness. MR can also help in making strategic plans for the firm.

The MR Process can be shown in graphic form as given below:



For instance if management problem is of poor market image, or low brand equity, MR would find out. “What is the exact brand equity of the firm with the target market segment?”

If the management wants to know if the advertising budget is adequate or not, MR would try to find out, “the effectiveness of advertising.”

And if the marketing team wants to know who are the customers of the product, the MR would find out “the target customers of the segment.”

If sales are stuck in recession, MR would “Find out the price elasticity of the product in the selected segment.”

For new product development, MR would, “Find out if new product needs to be developed. And if yes, then with what specifications.”



*Caution* The objectives of advertising have been discussed earlier. With the changing business environment, product life cycle shifts, the objectives keep moving too. The DAGMAR theory needs constant updating and vigilance to be of real value.

**6.7 Data Processing and Analysis**

In data analysis, it is important to understand that based on application the scale of measurement is made. For instance, when you apply, classification of sex, geographic area, or social class, where objects are either identical or different, nominal scale is used.

If ranking or preferences, class standing are the applications then objects could be smaller or larger. In this case Rank order scale is used.

For altitude measurements, temperature scales, when intervals between adjoining ranks are equal, interval scale is used.

For sales, income, units made, the ratio scale is used.

## 6.8 Advertising Research and DAGMAR

We have seen that in order to be focused on firm's overall goals, marketing department has to play a vital role as the revenue earnings of the firms are mainly from selling of products. Hence, once the firm's goals have been formulated the marketing and advertising people set their own goals and objectives.

Colley found that a relationship between advertising and marketing goals should be considered and his theory says, that advertising efforts can bring results which can be measured.

DAGMAR's full form is, "Defining Advertising Goals for Measured Advertising Results."

An example would make the theory simple to understand.

"There are 20 million scooter owners in India. Out of them only three million accept that four stroke scooter engine would be more power and fuel efficient. In two years time through advertising, this figure has to be increased to seven million."

The simple job of advertising is to:

1. Inform the customers about the firm's products.
2. Focus on the benefits the customers would derive from using the product, in order to motivate them into buying the same.
3. To ensure that the firm's customers stay true to the firm for repeat purchase, advertising is done to remind the customers.

The objectives of advertising have been discussed earlier. With the changing business environment, product life cycle shifts, the objectives keep moving too. The DAGMAR theory needs constant updating and vigilance to be of real value.

Hence, DAGMAR becomes effective only when continuous Advertising Research is conducted as per requirement.

### **Self Assessment**

State whether the following statements are true or false:

6. Judgment sample is when you decide the sample members on the basis of their value to the research.
7. Advertising research is a part of marketing research, confined to development of advertising plan.
8. Segregating the universe geographically could make cluster sample.
9. The DAGMAR theory needs constant updating and vigilance to be of future value.
10. Marketing research tells the advertisers about the type of creativity.

Multiple Choice Questions:

11. A firm planned to start manufacture of Fax machines in India in:
 

(a) 1985	(b) 1980
(c) 1988	(d) 1990
12. Selecting research sample needs knowledge of market, the universe and quantitative:
 

(a) techniques	(b) rule
(c) format	(d) respondent

**Notes**

13. Testing research methods is done by having a:
- (a) primary Research
  - (b) secondary Research
  - (c) preliminary research
  - (d) advertising research
14. The research should make you aware of consumer's behaviour towards competitive:
- (a) product
  - (b) market
  - (c) value
  - (d) data

**Guidelines for Making a Questionnaire**

Ask basic questions about respondents name, address. While asking his age and income, give a range, age between 18-30, 31-45, 46-60, 61 and above.

1. Income between Rupees 3000-7000, 8000-15000, 16000-3000.
2. *Question with possible two answers:* Did you buy the watch yourself? Yes or no?
3. *Multiple choice questions:* Who advised you to buy the watch, your father, uncle, sister or cousin?
4. *Likert scale questions:* The watch is considered best value for money; tick one you consider right- a/strongly disagree, b/disagree, c/neutral, d/agree, e/strongly agree.
5. *Differential scale:*  
The hotel is large ..... small  
Modern ..... outmoded  
Hotel staff experienced ..... inexperienced  
Courteous ..... disinterested

Questions on importance of the product can be put on extremely important, very important, important, and not very important, to not at all important.

Intentions to buy can be asked on a rating scale as sure to buy, perhaps, may not, will not and will never buy.

Open-ended questions like, "what do you think of our hotel?" Can be answered by the respondents in any way they like? Associations can tell you about the aided recalls, like

Welcome

Hotel

Travel

**Role Play**

*CEO-* In today's meeting, I want to make sure that we do not miss out on any opportunity that the rural markets present.

*Marketing Director:* We are planning to organise a market research in the rural area selected by us to avoid such an eventuality from happening.

*CEO:* What is it you want to know from the research?

*Finance Director:* Please tell us the time frame and the funds required for the research.

**Marketing Director:** We need at least three months to get the results. Besides we have to locate interviewers who are well versed in the local dialect as otherwise we will never get the right answers.

**Production Director:** We have to keep on hold the new product packaging plan for now.

**CEO:** Yes but go ahead and select the package quickly. Place the order only as the research answers start coming to us.



Case Study

## National Agricultural Insurance Scheme

The government of India has launched this scheme for the following objectives:

1. To provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests and diseases.
2. To encourage the farmers to adopt progressive farming practices, high value inputs and higher technology in agriculture.
3. To help stabilize farm incomes, particularly in disaster years.

The scheme covers the farmers including those who have taken loans (compulsory) as well as the others, who have not taken loans (optional). The assured sum extends to the threshold produce of the area insured. It covers the food crops, cereals, millet, pulses, oil seeds, and commercial horticulture crops and six crops i.e. sugarcane, potato, chillies, ginger, onion, and turmeric. Premium rates are as follows:

Bajra-3.5%

Oilseeds-3.5%

Kharif crops-2.5%

Wheat-1.5%

Other rabi crops-2%

In case the rate worked out on the basis of actuarial data is less than prescribed rate, the lower rate will become applicable. However, for commercial and horticulture crops, the actuarial rates are charged.

The scheme takes care of small and marginal farmers who are provided with 50% subsidy on the premium. This subsidy will be phased out gradually over a period of 5 years.

### **Assistance Pattern**

Expenses on account of indemnity claims, Corpus Fund, A & O Expenses, publicity, premium subsidy to small and marginal farmers are shared between Central and State Governments on a 50 : 50 basis initially.

Central Government is the policy-making authority for the scheme. Presently, General Insurance Corporation of India (GIC) is the Implementing Agency. The activities relating to the implementation of NAIS are carried out through GIC, rural financial institutions, State Governments/UT Administration and farmers.

*Contd...*

Notes

At the beginning of each crop season, the State Govt./UT Administration in consultation with GIC notifies the crops and defines the areas that will be covered under the scheme during the season. The monthly crop-wise and area-wise details of crop insurance with premium are remitted to the nodal points and nodal point on receipt of such inputs from various loan disbursing points, scrutinizes and transmits them to GIC on monthly basis as per cut-off dates fixed. The non-loan farmer who desires to join the scheme fills up the proposal form of NAIS and submits the same along with premium in the village branch of commercial bank or Regional Rural Bank or PACS of Cooperative Bank. It is the responsibility of the branch/PACS to verify the particulars of sum insured, the maximum limit etc., while accepting the proposal. The particulars then, are consolidated and sent to the respective nodal points for onward transmission to GIC State Level Crop Insurance Cell before the dates specified in the notification of the Government.

**Question**

Develop plans for comprehensive insurance coverage for the rural masses to enable them become better farmers and therefore better buyers.

## 6.9 Summary

- The accuracy of the objective definition would be the key factor in the accuracy of MR findings.
- Demand projection for the product in a given area for an acceptable period like one year.
- Ideally observations can be made in closed conditions like an auditorium, laboratories to get the real motivation that making people buy or reject a product.
- Mail surveys are conducted by sending the questionnaire to a number of customers with request for filling them and returning to the surveyor.
- Telephone surveys are a low cost easy method of gathering information.
- Secondary data as the name itself suggests, is the data for which some body else has done the job of collecting the information as Primary data.
- Research budget need careful analysis.
- It may be apt to spend some amount of money when the decision to be based on the research is for large sums of money and it includes avoidance or limiting risk for the firm.
- Naturally for simple problems, many times previous experience is the best guideline for decision-making and no research need to be conducted.

## 6.10 Keywords

**Cluster Sample:** The population is divided as per geographic divisions, like for example Delhi could be divided into, north, south, east west and central zones and sample taken from each zone on random basis.

**Convenience Sample:** The research person selects the persons most easily met for the MR.

**Creativity:** A teenage clothing firm gave video cameras to several young persons, who were asked to film the discos restaurants where the teenagers went most of the time.

**Judgment Sample:** Researcher uses his judgment about the sample, which would provide the most accurate answers.

**Multiple Methods:** To increase credibility marketing people use several methods together.

**Primary Research:** where customers are asked directly about their choices and preferences about products.

**Quota Sample:** The researcher meets with a set of persons in each category.

**Sampling:** Deciding the number of person to be interviewed from this entire market segment.

**Scientific Method:** Effective MR, is conducted on scientific lines, with formulation of hypothesis, theory, testing and results.

**Secondary Research:** Where data is located and collected which exists things same each.

**Simple Random Sample:** Every member has an equal opportunity of being in the survey.

**Stratified Random Survey:** The population/universe is divided into mutually exclusive groups such as, age, income and then random samples are taken from each group.

**Value and Cost of Information:** Marketing persons have to find out the cost to value ratio of the MR. For example, if the MR is to find the extra sale on decreasing the price to some extent, and it is found that the cost of research outweighs the profit benefit, such MR should not be undertaken.

## 6.11 Review Questions

1. Sampling method is important in advertising research. Discuss some methods for planning the sample.
2. Besides questionnaires, there are other methods for gathering information. Discuss.
3. What type of methodology should be adopted for advertising research?
4. Describe some possible objectives of advertising research.
5. Explain the Marketing Research methods.
6. Explain the Advertising Research.
7. Explain the DAGMAR Approach.
8. What are the steps involved in market Survey?
9. Describe the marketing Research objectives.
10. Describe the different sampling techniques.

### **Answers: Self Assessment**

- |                 |                  |
|-----------------|------------------|
| 1. Demand       | 2. Market Survey |
| 3. Commensurate | 4. Open Ended    |
| 5. Random       | 6. True          |
| 7. True         | 8. True          |
| 9. False        | 10. False        |
| 11. (b)         | 12. (a)          |
| 13. (c)         | 14. (a)          |

Notes

## 6.12 Further Readings



Books

Awadesh Kumar Singh, *Rural Marketing: Indian Perspective*, New Age International  
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## Unit 7: Segmenting, Targeting and Positioning

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### Objectives

After studying this unit, you will be able to:

- Define Targeting and Segmentation.
- Discuss the Market segmentation.
- Describe the Rural Marketing Segmentation Tools.
- Explain Approaches of Segmenting the Rural Market.

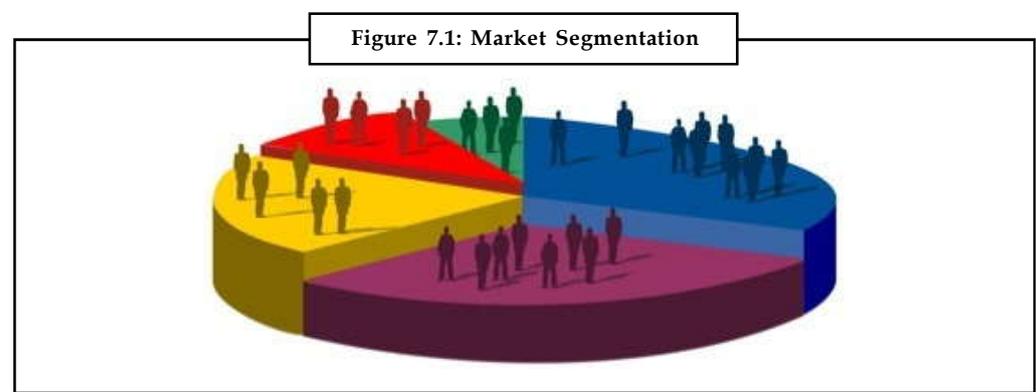
### Introduction

Market segmentation involves grouping your various customers into segments that have common needs or will respond similarly to a marketing action. Each segment will respond to a different marketing mix strategy, with each offering alternate growth and profit opportunities.

## 7.1 Market Segmentation

Some different ways you can segment your market include the following:

- Demographics which focuses on the characteristics of the customer. For example age, gender, income bracket, education, job and cultural background.
- Psychographics which refers to the customer group's lifestyle. For example, their social class, lifestyle, personality, opinions, and attitudes.
- Behaviour which is based on customer behaviour. For example, online shoppers, shopping centre customers, brand preference and prior purchases.
- Geographical location such as continent, country, state, province, city or rural that the customer group resides.



### Targeting

After segmenting the market based on the different groups and classes, you will need to choose your targets. No one strategy will suit all consumer groups, so being able to develop specific strategies for your target markets is very important.

There are three general strategies for selecting your target markets:

- **Undifferentiated Targeting:** This approach views the market as one group with no individual segments, therefore using a single marketing strategy. This strategy may be useful for a business or product with little competition where you may not need to tailor strategies for different preferences.
- **Concentrated Targeting:** This approach focuses on selecting a particular market niche on which marketing efforts are targeted. Your firm is focusing on a single segment so you can concentrate on understanding the needs and wants of that particular market intimately. Small firms often benefit from this strategy as focusing on one segment enables them to compete effectively against larger firms.
- **Multi-segment Targeting:** This approach is used if you need to focus on two or more well defined market segments and want to develop different strategies for them. Multi segment targeting offers many benefits but can be costly as it involves greater input from management, increased market research and increased promotional strategies.

Prior to selecting a particular targeting strategy, you should perform a cost benefit analysis between all available strategies and determine which will suit your situation best.

## Positioning

Notes

Positioning is developing a product and brand image in the minds of consumers. It can also include improving a customer's perception about the experience they will have if they choose to purchase your product or service. The business can positively influence the perceptions of its chosen customer base through strategic promotional activities and by carefully defining your business' marketing mix.

Effective positioning involves a good understanding of competing products and the benefits that are sought by your target market. It also requires you to identify a differential advantage with which it will deliver the required benefits to the market effectively against the competition. Business should aim to define themselves in the eyes of their customers in regards to their competition.



*Did u know?* The MICA Rural Market Ratings (MRMR) has been developed by the Mudra Institute of Communications, Ahmedabad (MICA) in association with ML Infomap Pvt. Ltd., New Delhi. MICA is the premier institute for training communications professionals and ML Infomap is a specialist IT consulting company.

## Self Assessment

Fill in the blanks:

1. .... involves grouping your various customers into segments that have common needs or will respond similarly to a marketing action.
2. .... should aim to define themselves in the eyes of their customers.
3. .... is developing a product and brand image in the minds of consumers.
4. Effective positioning involves a ..... understanding of competing products.
5. .... targeting offers many benefits but can be costly as it involves greater input from management, increased market research and increased promotional strategies.

## 7.2 Conditions for Effective Market Segmentation

Effective market segmentation takes effort. It is not something that comes easily for any business. It requires a great deal of skilled research and effective implementation of segmentation strategies. Mindful monitoring of marketing strategy performance and adjustment to the segmentation system is also necessary to maintain the effectiveness of the strategies that have been employed.

This is the reason that marketing is a highly valued profession and on in which most businesses hire a skilled professional to manage and implement any strategies that will be employed.

For small business owners and operators, the process of implementing marketing strategies is often a task that falls squarely on their shoulders. There simply aren't the resources to hire a big marketing team to handle these functions. As such, you may be looking for ways to increase your own market performance and may see market segmentation as a means for achieving your goals.

**Notes**

Market segmentation is a process through which businesses identify if different market groups seem to be good ventures. It looks at whether these groups are:

1. Easily identifiable
2. Measurable
3. Accessible
4. Responsive
5. Can be sustained

If you have any product that has more than one customer, then you have the potential to implement successful market segmentation strategies. Doing so means that you need to have a means of tracking your customers, identifying information about them - like their interests, how often they buy, whether they are loyal to your product, etc. You also need to be able to predict that they will remain customers and will be interested in the marketing information or new products that you try to peddle to them. One of the best ways to do this is through customer surveys and consistently strong customer service review techniques, during which you can gauge the degree of interest and loyalty your customers have for your new products and your business in general.

The requirements for effective market segmentation are as follows:

1. **Measurable:** The size, needs, purchasing power, and characteristics of the customers in the segment should be measurable. Quantification should be possible.
2. **Divisible:** The segments should be differentiable. There must be clear-cut basis for dividing customers into meaningful homogeneous groups. They should respond differently to different marketing mixes. There should be differences in buyer's needs, characteristics and behaviour for dividing in groups.
3. **Accessible:** The segment should be reachable and serviceable. It should be accessible through existing marketing institutions, such as distribution channels, advertising media and sales force. There should be middlemen to distribute the products.
4. **Substantial:** The segment should be substantial. It should be large enough in terms of customers and profit potential. IT should justify the costs of developing a separate marketing mix.
5. **Actionable:** It should be actionable for marketing purposes. Organizations should be able to design and implement the marketing mix to serve the chosen segment.



*Task* Explain different rural market mapping databases available to guide the selection of target market in the rural areas.

## 7.3 Approaches for Segmenting the Rural Market

### 7.3.1 Based on Size of Village Population

The size of population residing in a village is a significant factor which determines the overall potential demand for a product or service in that village

Population	No. of Villages	% of Total Villages	Notes
Less than 200	114,267	17.9	
200-499	155,123	24.3	
500-999	159,400	25.0	
1,000-1,999	125,758	19.7	
2,000-4,999	69,135	10.8	
5,000-9,999	11,618	1.8	
10,000 & above	3,064	0.5	

### 7.3.2 Based on Location with Respects to Nearby Town

1. Villages Near Urban Centers.
2. Villages in Developing Districts
3. Immobile and self sufficient Asiatic Villages

### 7.3.3 Based on Size of Farmland

1. Marginal Farmer : holding up to 1.0 hectare
2. Small Farmer : holding 1.0-2.0 hectare
3. Semi-medium Farmer : holding 2.0-4.0 hectare
4. Medium Farmer : holding 4.0-10.0 hectare
5. Large Farmer : holding 10.0 hectares and above

### Self Assessment

State whether the following statements are true or false:

6. Effective market segmentation takes effort.
7. The MICA Rural Market Ratings (MRMR) has been developed by the Mudra Institute of Communications.
8. Effective positioning involves a good understanding of competing products and the benefits that are sought by your target market.
9. There must be clear-cut basis for dividing sellers into meaningful homogeneous groups.
10. Market Targeting is a process through which businesses identify if different market groups seem to be good ventures.
11. Business should aim to define themselves in the eyes of their customers in regards to their product.

## **7.4 Rural Market Segmentation Tools**

1. Thompson Rural Market Index.
2. Mica Rural Market Rating
3. Linqest
4. Indian Market Demographic
5. Business Intelligence Unit
6. Lincompass
7. ARCVIEW



*Notes* 13% of villages falling in the last three categories account 50% rural population and 60% rural wealth.

### **7.4.1 Thomson Rural Market Index**

This index takes the distinct as basic unit. This study is projected as a relative indicator of the overall economic or market potential. Three hundred and Eighty Three districts are covered under this study. The data are presented against 23 indicator.

The value of agricultural output, available for most of the districts and considered to be an overall indicators of the rural Economy has been adopted as a parameter for compelling the index. The presentation is done systematically within the zones and for the states in that zone. For this purpose the markets have been classified under five different categories.

### **7.4.2 Mica Rural Market Rating**

The MICA Rural Market Ratings (MRMR) has been developed by the Mudra Institute of Communications, Ahmedabad (MICA) in association with ML Infomap Pvt. Ltd., New Delhi. MICA is the premier institute for training communications professionals and ML Infomap is a specialist IT consulting company, with several digital map products to its credit. The result of this joint effort is an exciting and outstandingly useful marketing tool. For the senior marketing executive, or media planner, or even an NGO involved in rural development work, this could be the perfect tabletop multimedia guide to rural India. And all this has been delivered on one CD and presented in colorful maps using digital mapping technology from MapInfo Corporation.

MICA, in its continual effort to serve the advertising and marketing community, developed a rural market index, to indicate the rural market potential of all the districts of India. This exercise was based on stringent research and analysis of forty-two variables.

An interesting aspect of the project is that instead of ending with just presenting this research, great value has been added through several interesting features. For one, the data is available only on electronic media and so can be observed and presented in several different ways just by the click of the mouse. For another, the results of this research are presented on maps. For this, ML Infomap's proprietary product, The Standard Digital map of India TM has been used. Shaded district maps indicate the level of market potential. Since the results are seen on a map, clear patterns of market potential can be 'seen'. Then, clicking with the information tool on a district, one can immediately see important facts relating to it. These relate to bank advances, demographics, infrastructure, and more.

Figure 7.2: Mica Rural Marketing Ratings



*Caution* Effective market segmentation takes effort. It is not something that comes easily for any business. It requires a great deal of skilled research and effective implementation of segmentation strategies.

### 7.4.3 Linquest

Initiative Media developed Linquest, a software package that provides marketers with data on rural India. The data can be sorted based on five parameters:

1. Demographic
2. Agricultural
3. Income
4. Literacy
5. Civic Amenities

Depending on the product being launched, marketers will be interested in certain parameters such as literacy levels, male-female ratios, bank deposits, income levels, accessibility, dispensaries, schools and distance from the nearest town.

### 7.4.4 Indian Market Demographic

Demographics refers to physical characteristics of people such as sex, age, ethnicity, income, family size, occupation, education, marital status, social class, and stage of the family life cycle.

### 7.4.5 Business Intelligence Unit

The term Business Intelligence (BI) represents the tools and systems that play a key role in the strategic planning process of the corporation. These systems allow a company to gather, store, access and analyze corporate data to aid in decision-making. Generally these systems will illustrate business intelligence in the areas of customer profiling, customer support, market research, market segmentation, product profitability, statistical analysis, and inventory and distribution analysis to name a few.

### 7.4.6 Lincompass

Lintas has developed a specialised Rural marketing division named linterland and it also has developed a software tool that does the mapping of the rural market named lincompass. Software has calculated a fixed market potential for the district .The geographical information based software has data on 6,26,000 villages all over the country barring Jammu and Kashmir. Each of these districts can be analysed with 256 parameters of which 32 are considered key to avoid overlaps.

### 7.4.7 ARCVIEW

This knowledge based intelligence system depicts the 5,87,962 villages as digitized points on the maps depicting the market potential of an area as a cluster. It generated maps of different kinds: agricultural maps, Socio-cultural maps, national and state highway maps and river maps.

The tool can be used for optimal decisions for logistics and distribution applications, territory planning and dealer development. It identifies potential markets from state to district to village or town. It also analyses accessibility, coverage and penetration enabling cost effective transportation planning.

### Self Assessment

Multiple Choice Questions:

12. The term ..... represents the tools and systems that play a key role in the strategic planning process of the corporation.  
(a) potential Market (b) business intelligence  
(c) dealer development (d) penetration
13. .... has developed a specialised Rural marketing division named linterland.  
(a) Logistics (b) Territory  
(c) Lintas (d) Transportation
14. The result of this joint effort is an exciting and outstandingly useful ..... tool.  
(a) rural (b) segmentation  
(c) geographical (d) marketing

15. The geographical information based software has data on ..... villages all over the country barring Jammu and Kashmir.
- (a) 5,34,000 (b) 6,26,000  
(c) 6,45,000 (d) 6,34,000

Notes



Case Study

## Fertilizer Sales

### Toronto

The CEO of Canada's biggest fertilizer company is eyeing good growth for years to come as population and wealth increases in India and China create an even greater demand for agricultural products.

"It is an exciting time for Potash Corp and our industry," William Doyle, CEO of Potash Corp. of Saskatchewan (TSX:POT) said during the BMO Global Fertilizer Conference in Toronto.

"Our growth potential in potash comes from the expanding GDP (gross domestic product) in offshore markets. With accelerating income growth, the rising populations of these countries want more and better food," he said. "Meanwhile, per capita land available for agriculture is decreasing."

China, whose consuming middle class is around 200 million people and which is under pressure to increase imports to reduce trade deficiencies, is leading the increase in global agricultural trade, he said.

India is a close second with a consuming middle class of 250 million, which could triple by 2010.

"The spike in wealth is pulling potash consumption with it," Doyle said.

And while consumption has been steady in mature North American markets for the past two decades, South America is another growth area. Brazil, for instance, needs potash because it is producing soybeans for China and India, he said.

"In addition to providing growth, these markets produce a diverse customer base and protect against a short-term shock in any one region," Doyle said.

Mike Wilson CEO of Agrium Inc. (TSX:AGU), the country's second-biggest fertilizer producer, said his company is continuing to focus on South America after strengthening its position in Chile and Argentina through retail acquisitions.

Agrium also acquired U.S. rival Royster-Clark Ltd. (TSX:ROY.UN) after a sweetened \$616-million-Cdn offer in February.

The deal, which turned the Calgary-based company into the largest agricultural supplies retailer in the United States, is expected to produce \$30 million US in cost savings and margin improvements by next year.

"It's a very good strategic fit; it gives us size and critical mass that no one else has, and our synergies and margin improvements are significant," he said.

Agrium's distribution in North America, he added, is now approaching four million tonnes.

Contd...

Notes

“We are a good North American nitrogen company,” he said, adding that a lot of its growth has also stemmed from sales of nitrogen outside North America.

“With our ESN (ESN Smart Nitrogen, a patented coated fertilizer) business, with our potash expansion and with our retail expansions and with speciality expansions, the business is going to continue to grow.”

Agrium is one of North America’s biggest fertilizer companies, with operations in Canada, the United States and South America.

Last month, it posted record annual profits of \$283 million US and nearly \$3.3 billion in sales, crediting revenue and profit growth in its existing retail, seed, chemicals and fertilizer businesses.

Saskatoon-based Potash Corp. has 5,000 employees in five countries around the world and accounts for one-quarter of the global production capacity for potash. It produces three nutrients, potash, nitrogen and phosphate products, but its biggest focus and profits are on potash.

**Question**

What lessons can the Indian fertilizer industry learn to help Indian agriculture grow rapidly for Indian needs and for exports as well?

## 7.5 Summary

- Market segmentation involves grouping your various customers into segments that have common needs or will respond similarly to a marketing action.
- Positioning is developing a product and brand image in the minds of consumers.
- Effective positioning involves a good understanding of competing products and the benefits that are sought by your target market.
- Effective market segmentation takes effort.
- Market segmentation is a process through which businesses identify if different market groups seem to be good ventures.
- An interesting aspect of the project is that instead of ending with just presenting this research, great value has been added through several interesting features.

## 7.6 Keywords

**Accessible:** The segment should be reachable and serviceable. It should be accessible through existing marketing institutions, such as distribution channels, advertising media and sales force. There should be middlemen to distribute the products.

**Concentrated Targeting:** This approach focuses on selecting a particular market niche on which marketing efforts are targeted. Your firm is focusing on a single segment so you can concentrate on understanding the needs and wants of that particular market intimately.

**Demographics:** It focuses on the characteristics of the customer. For example age, gender, income bracket, education, job and cultural background.

**Psychographics:** It refers to the customer group’s lifestyle. For example, their social class, lifestyle, personality, opinions, and attitudes.

**Substantial:** The segment should be substantial. It should be large enough in terms of customers and profit potential. IT should justify the costs of developing a separate marketing mix.

**Undifferentiated Targeting:** This approach views the market as one group with no individual segments, therefore using a single marketing strategy. This strategy may be useful for a business or product with little competition where you may not need to tailor strategies for different preferences.

## 7.7 Review Questions

1. Define Market Segmentation.
2. What are the conditions for Effective Market Segmentation?
3. What do you know about Thomson Rural Market Index?
4. Describe the MICA Rural Marketing Rating.
5. Explain the Rural Market Segmentation Tools.
6. Describe the approaches for segmentation of Rural Marketing.
7. Explain the conditions for effective market segmentation.
8. What do you mean by Business Intelligence Unit?
9. Explain the Indian Market Demographics.
10. Define Undifferentiated Targeting.

## Answers: Self Assessment

- |                        |             |
|------------------------|-------------|
| 1. Market Segmentation | 2. Business |
| 3. Positioning         | 4. Good     |
| 5. Multi Segment       | 6. True     |
| 7. True                | 8. True     |
| 9. False               | 10. False   |
| 11. False              | 12. (b)     |
| 13. (c)                | 14. (d)     |
| 15. (b)                |             |

## 7.8 Further Readings



### Books

Awadesh Kumar Singh, *Rural Marketing: Indian Perspective*, New Age International  
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## Unit 8: Rural Product Strategy

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8.4 Rural Product Classification

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8.7.1 Product Line

8.7.2 Product Mix Decisions

8.8 Product Life Cycle Strategies in Rural Markets

8.9 Product Branding in Rural Markets

8.10 Building Brands in Rural India

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8.12 Fake Brands

8.13 The Fakes Market

8.14 Packaging for Rural Markets

8.15 New Product Development in Rural Markets

8.16 Summary

8.17 Keywords

8.18 Review Questions

8.19 Further Readings

### Objectives

After studying this unit, you will be able to:

- Understand the Classification of Products in Rural Markets.
- Build and Manage the brands in Rural Markets.
- Understand the Role and Elements of Packaging Products for Rural Markets.
- Recognize the Role and Importance of After Sales Service.
- Discuss the Relevant Product Decisions and Product Strategies.

## Introduction

The product, from a marketing point of view, is a *batch of benefits* that a company offers to its customers in order to satisfy their needs and requirements (the product is not just the metallic or non-metallic material assembly). The product is approached from the customers' satisfaction point of view, considering that they buy satisfaction, not just material objects.

### 8.1 The Product Concept

The product concept proposes that consumers will prefer products that have better quality, performance and features as opposed to a normal product. The concept is truly applicable in some niches such as electronics and mobile handsets.

Two companies which stand apart from the crowd when we talk about the product concept are Apple and Google. Both of these companies have strived hard on their products and deliver us feature rich, innovative and diverse application products and people just love these brands.

One problem which has been associated with the product concept is that it might also lead to marketing myopia. Thus companies need to take innovations and features seriously and provide only those which the customer needs. The customer needs should be given priority.

In the past several of Microsoft's product have been brought under the hammer with people feeling more and more disgruntled with the operating systems because of lack of innovation and new features. Each Microsoft operating system appears almost similar with just few tweaks.

On the other hand, innovating too soon becomes a problem. Several innovative products are marked as experimental in the market instead of being adopted as a result of which these products have less shelf life and might have to be taken off the market.

Thus companies following the product concept need to concentrate on their technology such that they provide with excellent feature rich and innovative products for optimum customer satisfaction.

The product is the offer of a company, addressed to the market in order to captivate their interest so that the customers purchase it, use it or consume it for a specific need or desire. Therefore, the products can be *material goods, services, persons, organizations, places, ideas*. In order for the product to be better understood, it needs to be analyzed on more levels, beginning with its essence to all the other features that can be added to the product so that it generates a maximum satisfaction.

A **3 level product analysis** reveals the following aspects:

- The product **essence** is the benefit that the product provides
- The **actual product** consists in the tangible and intangible features of the product, that can also meet customers' needs
- The **completed product** has a series of extra intangible traits, that influence the purchasing decision and contribute to customer satisfaction (extra services, brand image, strong customer support)

Considering the various classification criteria, a product typology can be made:

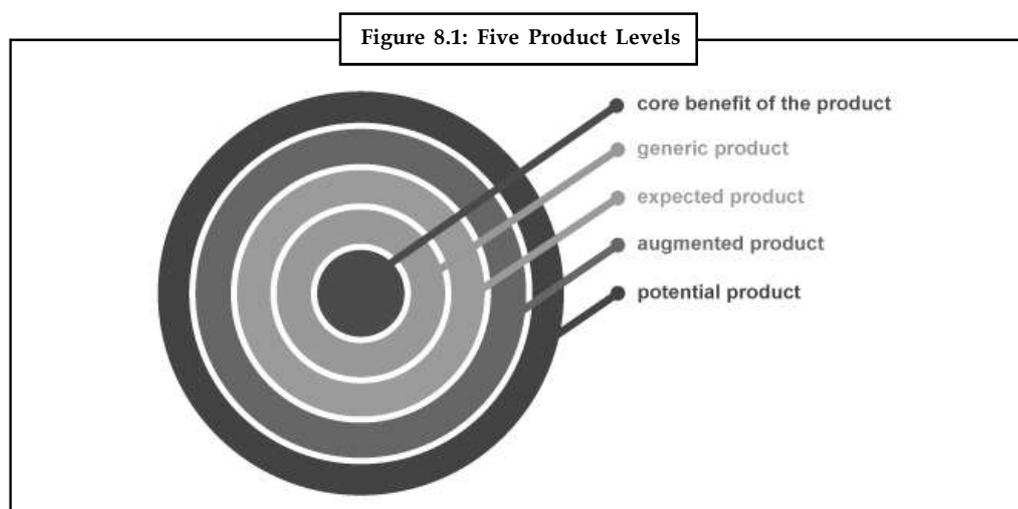
1. Classification regarding the **destination**
  - ❖ *Individual consumption*
  - ❖ *General use products*

- ◆ *Basic products* (bread, basic foods, toothpaste, soap, clothes)
  - ◆ *Extra products* - unplanned purchases, caused by impulse and a momentary encounter with a limited offer (sweets near the cash register, ice cream and fresheners in crowded places)
  - ❖ *Special products (luxury)* - have unique features and the buyers are ready to make effort in order to buy them so that they can make a display of a certain social status
  - ❖ *Industry consumption*
    - ◆ Raw materials
    - ◆ Subassembly
    - ◆ Investment goods
    - ◆ Commercial services
2. Classification regarding the **durability**
- ❖ *Short usage goods* - are consumed at the first usage (foods, drinks, fuel)
  - ❖ *Long usage goods* - are used for longer periods of time (buildings, furniture, clothes)
  - ❖ *Services* - activities conducted to satisfy needs that do not require possession over the product (are intangible).

## 8.2 Levels of a Product

In the 1960's, the economist Philip Kotler changed the perception of marketing. He described what marketing is rather than what marketers do, thereby changing marketing from a departmental specialisation into a corporate wide doctrine. For Kotler, marketing was a 'social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others'.

For him, a product is more than physical. A product is anything that can be offered to a market for attention, acquisition, or use, or something that can satisfy a need or want. Therefore, a product can be a physical good, a service, a retail store, a person, an organisation, a place or even an idea. Products are the means to an end wherein the end is the satisfaction of customer needs or wants.



Notes

Kotler distinguished three components:

- **need:** a lack of a basic requirement;
- **want:** a specific requirement for products or services to match a need;
- **demand:** a set of wants plus the desire and ability to pay for the exchange.

Customers will choose a product based on their perceived value of it. Satisfaction is the degree to which the actual use of a product matches the perceived value at the time of the purchase. A customer is satisfied only if the actual value is the same or exceeds the perceived value. Kotler defined five levels to a product:

1. **Core Benefit:** The fundamental need or want that consumers satisfy by consuming the product or service.
2. **Generic Product:** A version of the product containing only those attributes or characteristics absolutely necessary for it to function.
3. **Expected Product:** The set of attributes or characteristics that buyers normally expect and agree to when they purchase a product.
4. **Augmented Product:** Inclusion of additional features, benefits, attributes or related services that serve to differentiate the product from its competitors.
5. **Potential Product:** All the augmentations and transformations a product might undergo in the future.

Kotler noted that much competition takes place at the Augmented Product level rather than at the Core Benefit level or, as Levitt put it: 'New competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value.'

Kotler's model provides a tool to assess how the organisation and their customers view their relationship and which aspects create value.

### 8.3 Product Life Cycle

**The Product Life Cycle (PLC)** is based upon the biological life cycle. For example, a seed is planted (introduction); it begins to sprout (growth); it shoots out leaves and puts down roots as it becomes an adult (maturity); after a long period as an adult the plant begins to shrink and die out (decline).

In theory it's the same for a product. After a period of development it is introduced or launched into the market; it gains more and more customers as it grows; eventually the market stabilises and the product becomes mature; then after a period of time the product is overtaken by development and the introduction of superior competitors, it goes into decline and is eventually withdrawn.

However, most products fail in the introduction phase. Others have very cyclical maturity phases where declines see the product promoted to regain customers.

#### **Introduction**

The need for immediate profit is not a pressure. The product is promoted to create awareness. If the product has no or few competitors, a skimming price strategy is employed. Limited numbers of product are available in few channels of distribution.

## Growth

## Notes

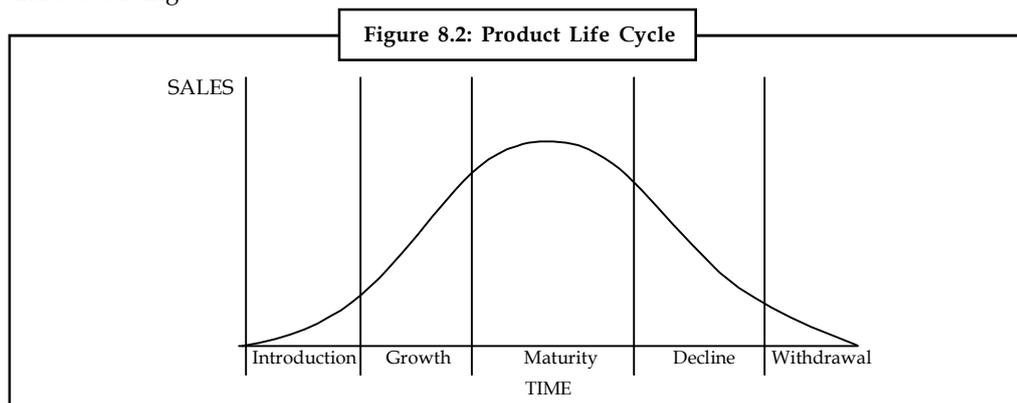
Competitors are attracted into the market with very similar offerings. Products become more profitable and companies form alliances, joint ventures and take each other over. Advertising spend is high and focuses upon building brand. Market share tends to stabilise.

## Maturity

Those products that survive the earlier stages tend to spend longest in this phase. Sales grow at a decreasing rate and then stabilise. Producers attempt to differentiate products and brands are key to this. Price wars and intense competition occur. At this point the market reaches saturation. Producers begin to leave the market due to poor margins. Promotion becomes more widespread and use a greater variety of media.

## Decline

At this point there is a downturn in the market. For example more innovative products are introduced or consumer tastes have changed. There is intense price-cutting and many more products are withdrawn from the market. Profits can be improved by reducing marketing spend and cost cutting.



## 8.4 Rural Product Classification

Rural Products can be classified into four broad categories: Fast moving consumer Goods, Consumer Durables, Services and Agricultural Goods.

**Figure 8.3: Nokia Introduces Nokia 2323 Classic and Nokia 2330 Classic as its first Handsets for the Emerging and Rural Markets**



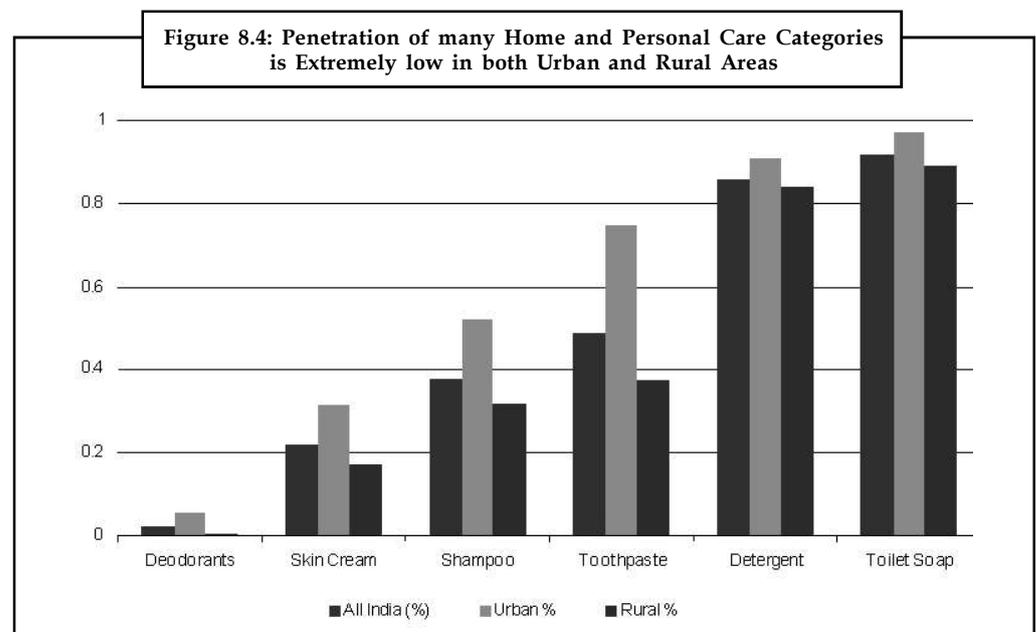
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**Fast-moving Consumer Goods**

Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer packaged goods. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals. The most common in the list are toilet soaps, detergents, shampoos, toothpaste, shaving products, shoe polish, packaged foodstuff, and household accessories and extends to certain electronic goods. These items are meant for daily or frequent consumption and have a high return.

The Indian FMCG sector with a market size of US\$14.8 billion is the fourth largest sector in the economy. The FMCG market is set to double from USD 14.7 billion in 2008-09 to USD 30 billion in 2012. FMCG sector will witness more than 60 per cent growth in rural and semi-urban India by 2010. Indian consumer goods market is expected to reach \$400 billion by 2010. Hair care, household care, male grooming, female hygiene, and the chocolates and confectionery categories are estimated to be the fastest growing segments. At present, urban India accounts for 66% of total FMCG consumption, with rural India accounting for the remaining 34%. However, rural India accounts for more than 40% consumption in major FMCG categories such as personal care, fabric care, and hot beverages. In urban areas, home and personal care category, including skin care, household care and feminine hygiene, will keep growing at relatively attractive rates. Within the foods segment, it is estimated that processed foods, bakery, and dairy are long-term growth categories in both rural and urban areas. The growing incline of rural and semi-urban folks for FMCG products will be mainly responsible for the growth in this sector, as manufacturers will have to deepen their concentration for higher sales volumes.

Major Players in this sector include Hindustan Unilever Ltd., ITC (Indian Tobacco Company), Nestlé India, GCMF (AMUL), Dabur India, Asian Paints (India), Cadbury India, Britannia Industries, Procter & Gamble Hygiene and Health Care, Marico Industries, Nirma, Coca-Cola, Pepsi and others. As per the analysis by ASSOCHAM, Companies Hindustan Unilever Ltd, Dabur India originates half of their sales from rural India. While Colgate Palmolive India and Marico constitutes nearly 37% respectively, however Nestle India Ltd and GSK Consumer drive 25 per cent of sales from rural India.



Source: United Nations, Credit Suisse

A rapid urbanization, increase in demands, presence of large number of young population, a large number of opportunities is available in the FMCG sector. The Finance Minister has proposed to introduce an integrated Goods and Service Tax by April 2010. This is an exceptionally good move because the growth of consumption, production, and employment is directly proportionate to reduction in indirect taxes which constitute no less than 35% of the total cost of consumer products - the highest in Asia.. The bottom line is that Indian market is changing rapidly and is showing unprecedented consumer business opportunity.

### Consumer Durables

India's rural consumer durable market will witness an annual growth of 40 per cent in the next fiscal 2011-12, as against the current growth rate of 30 per cent owing to the change in lifestyle and higher disposable income of rural India which has fascinated the consumer durable market according to a study "Rise of Consumer Durables in Rural India" undertaken by the Associated Chambers of Commerce and Industry of India (ASSOCHAM).

"Around 35 per cent of the total sales of consumer durable items come from rural and semi-urban markets, which will grow by 40 to 45 per cent in the near future. The consumer durable industry is growing at a fast pace and sees a strong demand in the coming period with the growing affordability of products as well as general buoyancy in the economy", said Mr. Dilip Modi, President of ASSOCHAM.

The market for consumer durables is estimated at ₹ 300 billion and is expected to reach ₹ 500 billion by 2015. The urban consumer durables market is growing at an annual rate of nine to 12 per cent, the rural durables market is growing at 30 per cent annually. Some high-growth categories within this segment include mobile phones, TVs (LEDs) and music systems (IPODs).

He said the rural market in is growing faster than the urban market and the urban market has now largely become a product replacement market. The consumer durables industry in rural and semi-urban areas has witnessed a considerable change during the last few years. The consumer durables sector is characterized by the emergence of MNCs, exchange offers, discounts and stiff competition in the market to attract the growing middle class.

With being the second fastest growing economy with a rate of more than 9 per cent, with a huge consumer class nearly 70 per cent in rural areas, consumer durables have emerged as one of the fastest growing industries in especially in rural. Now the consumer durable industry is paying more attention to attract rural community by promoting their products and services in their local languages.

The consumer durable sector which contributes around 8 per cent in the Index of Industrial Production (IIP) and which provides jobs to professionals, skilled, semi skilled and unskilled workers, particularly women in the rural and semi-urban areas every year. The segment improves the quality of life of people by providing entertainment/information/education/comfort and also helps to reduce daily chores. But the importance of the sector in national economy remains unnoticed.

The consumer durable market is set to grow by up to 45 per cent in rural and semi-urban India in the next fiscal, thanks to the changing lifestyle and higher disposable income among the rural people, as per a study by Assocham.

According to a study 'Rise of Consumer Durables in Rural India' by the industry body, the rural durables market is growing at 30 per cent annually while the urban consumer durables market is growing at 9 to 12 per cent every year.

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**Agricultural Goods**

*Marketing functions:* In modern marketing the agricultural produce has to undergo a series of transfers or exchanges from one hand to another before it finally reaches the consumer. This is achieved through three marketing functions (a) assembling, (b) preparation for consumption and (c) distribution. Concentration pertains to the operations concerned with the assembly and transport from the field to a common assembly field or market. The produce may be taken direct to the market or it may be stored on the farm or in the village for varying periods before its transport. It may be sold as obtained from the field or may be cleaned, graded, processed and packed either by the farmer or village merchant before it is taken to the market. Some of the processing is done not because consumers desire it, but because it is necessary for the conservation of quality. At the market the produce may be sold by the farmer direct to the consumer or more usually through a commission agent or a broker. It may also be purchased by traders, wholesalers or retailers. The transactions may be carried out by direct negotiation or through middlemen, by barter or cash, by open or under cover auction, on the spot or in future markets. The transactions take place at one or more levels in the primary, secondary or terminal markets or all three. Distribution (dispersion) involves the operations of wholesaling and retailing at various points. By a series of indispensable adjustments and equalising functions, it is the task of the distribution system to match the available supplies with the existing demand.

**8.5 Product Decisions and Strategies**

Product related decisions form one of the 4Ps of marketing mix. These decisions include introduction of new products, Improvement of existing products, planned elimination of obsolete products and, packaging and branding. In this unit, we will discuss the framework within which these decisions are taken. Starting with identifying various types of products, we will introduce new terms like product line and mix. Most product decisions are taken in the context of the overall strategy of an organisation. This strategy may also include important areas of diversification. We will discuss Some of the important alternatives for diversification.

**Types of Products**

Let us now analyse the different types of products we come across. Generally products are classified into two types, namely.

1. Consumer Products and
2. Industrial Products.

***Consumer Products or Goods***

Consumer goods are those which are used by ultimate consumers or households and in such form that they can be used without further commercial processing. Consumer goods can be divided into:

1. Convenience Goods;
2. Shopping Goods,
3. Durables or Durable Goods, and
4. Non-durables or Non-durable Goods.

1. ***Convenience Goods:*** These are goods which consumers generally purchase frequently without making an effort or as a habit. The purchase is almost spontaneous and the person

has already a predetermined brand in mind. These convenience goods include soaps, newspapers, toothpastes, toiletries, cigarettes, etc. Often convenience goods are bought impulsively or spontaneously. For example, when a person goes shopping around and see a product which attracts his eyes, he buys it on impulse. Such goods are not purchased on regular basis.

2. **Shopping Goods:** These are goods which are purchased after going around shops and comparing the different alternatives offered by different manufacturers and retailers. In this case, emphasis on quality, price, fashion, style, etc. are of great importance. A common example, in the Indian context, would be the purchase of sarees by ladies. Generally, ladies go looking around from shop to shop before they make their final selection. Hence, the expression 'shopping' goods. These also include durables such as furniture and refrigerators. That is why a large variety of goods offered at a retail outlet increases sales of this type of goods. A manufacturer should also attempt to have his product properly displayed and offered at most retail outlets.
3. **Durable Goods:** These are goods which are 'durable' or which last for some time. Examples of such goods would be electric irons, refrigerators, television sets, etc. This type of product requires more selling effort from the salesman. The question of after sales service and repairs is also of importance as 'selling points' or 'benefits' which the customer would like to have. Therefore, in case of refrigerators, the number of years of guarantee, particularly for the compressor, is an important consideration when a consumer makes his final selection.

In case of certain types of durables, after sales service is very essential. If a customer purchases a cyclostyling machine or duplicating machine, it is necessary for the salesman to 'follow through' and visit the customer to see how it is installed and used. Very often this product is operated by 'peons' who may not know how to do so. This results in poor duplication and copies look unattractive and the consumer gets the impression that the fault lies with the machine. So, while marketing such a product, it is important to guide the actual user of machine.

4. **Non-durable Goods:** These are goods which get depleted on consumption. For example a bottle of soft drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the goods are consumed very fast. The advantage of these goods is that they are purchased very often and therefore there are many repeat purchases once the customer is satisfied with one product. Therefore, one must ensure quality and appropriateness of price. These are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty.

**Services:** Services are specially mentioned here (although they do not constitute products) because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products. For example, courts offer a service. So are hospitals, the fire department, the police and the post office. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticised; the fire departments generally praised; the post office criticised for delays; the hospitals perhaps criticised for negligence and exorbitant rates and so on. It is obvious that controlling the quality of service is important for building its image.

Apart from government or public sector undertakings, there are 'non-profit' organisations such as museums and charities. Although non-profit, they also have to provide the best form of service for their popularity. The business and commercial sectors which includes airlines, banks,

**Notes**

hotels and insurance companies, and the professionals such as chartered accountants, management consulting firms, medical practitioners etc. need marketing.

**Industrial Products**

These are products which are sold primarily for use in manufacturing other goods or for rendering some service. These include items like machinery, components and raw materials which form the bulk of industrial goods. Raw materials are sold in a different way from normal consumer products like chocolates, which require no personal selling. Raw materials on the other hand require a certain amount of technical knowhow on the part of the seller. The same would apply to component parts also.

Machinery is also sold generally through the sales force, particularly if it is of the heavy type. It is obvious that the latter cannot be stocked in retail outlets. The type of product determines the type of marketing mix which has to be adopted.

Industrial goods also include supplies and services. Supplies may be like lubricant and oil or typing paper in connection with the office. Supplies are similar to convenience goods. They are purchased with very little effort and repurchased once the consumer is satisfied. They are also marketed through retail outlets. Industrial services include maintenance and repairs. For example, persons having typewriters naturally want them to be looked after on a regular basis generally by the same (regular) maintenance person who is normally an outsider. Similarly, after purchasing a computer, service is necessary. These services are often provided by small producers or by the manufacturer of the original equipment itself.



*Did u know?* Micromax Mobile, launched in 2008, targeted the rural Indian Consumer with its feature-packed, economically priced handsets. The USP of Micromax X1i, the first handset to be launched was the 30 Day Battery Back up. Priced at INR 1,250 this model was a huge success in Rural India.

**8.6 Individual Product Decisions**

We will focus on the important decisions in the development and marketing of individual products and services. These decisions are about product attributes, branding, packaging, labeling, and product support services. Companies have to develop strategies for the items of their product lines. Marketers make individual product decisions for each product including: product attributes decisions, brand, packaging, labeling, and product-support services decisions. Product attributes deliver benefits through tangible aspects of the product including features, and design as well as through intangible features such as quality and experiential aspects.

A brand is a way to identify and differentiate goods and services through use of a name or distinctive design element, resulting in long-term value known as brand equity. The product package and labeling are also important elements in the product decision mix, as they both carry brand equity through appearance and affect product performance with functionality. The level of *product-support services* provided can also have a major effect on the appeal of the product to a potential buyer.

**Individual Product Decisions**

**Product Attributes:** Developing a product or service involves defining the benefits that it will offer. These benefits are communicated to and delivered by product attributes such as quality, features, style and design.

1. **Product Quality:** Quality is one of the marketer's major positioning tools. Product quality has two dimensions – level and consistency. In developing a product, the marketer must first choose a *quality level* that will support the product's position in the target market. Here, product quality means *performance quality*—the ability of a product to perform its functions beyond quality level, high quality also can mean high levels of *quality consistency*. Here, product quality means *conformance quality*—freedom from defects and *consistency* in delivering a targeted level of performance. All companies should strive for high levels of conformance quality.
2. **Product Features:** A product can be offered with varying features. A stripped-down model, one without any extras, is the starting point. The company can create higher-level models by adding more features. Features are a competitive tool for differentiating the company's product from competitors' products. Being the first producer to introduce a needed and valued new feature is one of the most effective ways to compete.

How can a company identify new features and decide which ones to add to its product? The company should periodically survey buyers who have used the product and ask these questions: How do you like the product? Which specific features of the product do you like most? Which features could we add to improve the product? The answers provide the company with a rich list of feature ideas. The company can then assess each feature's *value* to customers versus its *cost* to the company. Features that customers value little in relation to costs should be dropped; those that customers value highly in relation to costs should be added.

3. **Product Style and Design:** Another way to add customer value is through distinctive *product style and design*. Some companies have reputations for outstanding style and design. Design is a larger concept than style. *Style* simply describes the appearance of a product. Styles can be eye catching or yawn producing. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product *perform* better. Unlike style, *design* is more than skin deep—it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks. Good style and design can attract attention, improve product performance, cut production costs, and give the product a strong competitive advantage in the target market.

### Self Assessment

State whether the following statements are true or false:

1. Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer Finished goods.
2. The Indian FMCG sector with a market size of US\$14.8 billion is the fourth largest sector in the economy.
3. The consumer durable market is set to grow by up to 45 per cent in rural and semi-urban India.
4. Raw materials are sold in a different way from normal consumer products like chocolates, which require no personal selling.
5. Quality is one of the marketer's major degrading tools.

## **8.7 Product Line and Mix Decisions**

### **8.7.1 Product Line**

#### **Product Line Strategies**

We have looked at product strategy decisions such as branding, packaging, labeling, and support services for individual products and services. But product strategy also calls for building a product line. A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. For example, Nike produces several lines of athletic shoes and Motorola produces several lines of telecommunications products. In developing product line strategies, marketers face a number of tough decisions.

The major product line decision involves product line length—the number of items in the product line. The line is too short if the manager can increase profits by adding items; the line is too long if the manager can increase profits by dropping items. Company objectives and resources influence product line length. Product lines tend to lengthen over time. The sales force and distributors may pressure the product manager for a more complete line to satisfy their customers. Or, the manager may want to add items to the product line to create growth in sales and profits. However, as the manager adds items, several costs rise: design and engineering costs, inventory costs, manufacturing changeover costs, transportation costs, and promotional costs to introduce new items. Eventually top management calls a halt to the mushrooming product line. Unnecessary or unprofitable items will be pruned from the line in a major effort to increase overall profitability. This pattern of uncontrolled product line growth followed by heavy pruning is typical and may repeat itself many times.

The company must manage its product lines carefully. It can systematically increase the length of its product line in two ways: by stretching its line and by filling its line. Product line stretching stretches its line downward, upward, or both ways.

Many companies initially locate at the upper end of the market and later stretch their lines downward. A company may stretch downward to plug a market hole that otherwise would attract a new competitor or to respond to a competitor's attack on the upper end. Or it may add low-end products because it finds faster growth taking place in the low-end segments.

#### **New-product Development**

Given the rapid changes in consumer tastes, technology, and competition, companies must develop a steady stream of new products and services. A firm can obtain new products in two ways. One is through acquisition—by buying a whole company, a patent, or a license to produce someone else's product. The other is through new-product development in the company's own research and development department. By new products we mean original products, product improvements, product modifications, and new brands that the firm develops through its own research and development efforts. In this chapter, we concentrate on new-product development. New products continue to fail at a disturbing rate. One source estimates that new consumer packaged goods (consisting mostly of line extensions) fail at a rate of 80 percent. Moreover, failure rates for new industrial products may be as high as 30 percent. Why do so many new products fail? There are several reasons. Although an idea may be good, the market size may have been overestimated. Perhaps the actual product was not designed as well as it should have been. Or maybe it was incorrectly positioned in the market, priced too high, or advertised poorly. A high-level executive might push a favorite idea despite poor marketing research

findings. Sometimes the costs of product development are higher than expected, and sometimes competitors fight back harder than expected.

Because so many new products fail, companies are anxious to learn how to improve their odds of new-product success. One way is to identify successful new products and find out what they have in common. Another is to study new-product failures to see what lessons can be learned. Various studies suggest that new-product success depends on developing a unique superior product, one with higher quality, new features, and higher value in use. Another key success factor is a well defined product concept prior to development, in which the company carefully defines and assesses the target market, the product requirements, and the benefits before proceeding. Other success factors have also been suggested – senior management commitment, relentless innovation, and a smoothly functioning new-product development process. In all, to create successful new products, a company must understand its consumers, markets, and competitors and develop products that deliver superior value to customers. So companies face a problem – they must develop new products, but the odds weigh heavily against success. The solution lies in strong new-product planning and in setting up a systematic new-product development process for finding and growing new products. Eight major steps in this process are:

- (a) **Idea generation:** New-product development starts with idea generation – the systematic search for new-product ideas. A company typically has to generate many ideas in order to find a few good ones. Major sources of new-product ideas include internal sources, customers, competitors, distributors and suppliers, and others. Using internal sources, the company can find new ideas through formal research and development. It can pick the brains of its executives, scientists, engineers, manufacturing, and salespeople. Some companies have developed successful “entrepreneurial” programs that encourage employees to think up and develop new-product ideas. Good new product ideas also come from watching and listening to customers.

The company can analyze customer questions and complaints to find new products that better solve consumer problems. The company can conduct surveys or focus groups to learn about consumer needs and wants. Or company engineers or salespeople can meet with and work alongside customers to get suggestions and ideas. Finally, consumers often create new products and uses on their own, and companies can benefit by finding these products and putting them on the market. Customers can also be a good source of ideas for new product uses that can expand the market for and extend the life of current products. Competitors are another good source of new-product ideas. Companies watch competitors’ ads and other communications to get clues about their new products. They buy competing new products, take them apart to see how they work, analyze their sales, and decide whether they should bring out a new product of their own. Finally, distributors and suppliers contribute many good new-product ideas. Resellers are close to the market and can pass along information about consumer problems and new-product possibilities. Suppliers can tell the company about new concepts, techniques, and materials that can be used to develop new products. Other idea sources include trade magazines, shows, and seminars; government agencies; new product consultants; advertising agencies; marketing research firms; university and commercial laboratories; and inventors. The search for new-product ideas should be systematic rather than haphazard. Otherwise, few new ideas will surface and many good ideas will sputter in and die. Top management can avoid these problems by installing an *idea management system* that directs the flow of new ideas to a central point where they can be collected, reviewed, and evaluated. In setting up such a system, the company can do any or all of the following:

- ❖ Appoint a respected senior person to be the company’s idea manager.

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- ❖ Create a multidisciplinary idea management committee consisting of people from R&D, engineering, purchasing, operations, finance, and sales and marketing to meet regularly and evaluate proposed new-product and service ideas.
- ❖ Set up a toll-free number for anyone who wants to send a new idea to the idea manager.
- ❖ Encourage all company stakeholders – employees, suppliers, distributors, dealers – to send their ideas to the idea manager.
- ❖ Set up formal recognition programs to reward those who contribute the best new ideas.

The idea manager approach yields two favorable outcomes. First, it helps create an innovation oriented company culture. It shows that top management supports, encourages, and rewards innovation. Second, it will yield a larger number of ideas among which will be found some especially good ones. As the system matures, ideas will flow more freely. No longer will good ideas wither for the lack of a sounding board or a senior product advocate.

- (b) **Idea Screening:** The purpose of idea generation is to create a large number of ideas. The purpose of the succeeding stages is to *reduce* that number. The first idea-reducing stage is idea screening, which helps spot good ideas and drop poor ones as soon as possible. Product development costs rise greatly in later stages, so the company wants to go ahead only with the product ideas that will turn into profitable products. As one marketing executive suggests, “Three executives sitting in a room can get 40 good ideas ricocheting off the wall in minutes. The challenge is getting a steady stream of good ideas out of the labs and creativity campfires, through marketing and manufacturing, and all the way to consumers.”

Many companies require their executives to write up new-product ideas on a standard form that can be reviewed by a new-product committee. The write-up describes the product, the target market, and the competition. It makes some rough estimates of market size, product price, development time and costs, manufacturing costs, and rate of return. The committee then evaluates the idea against a set of general criteria such as these: Is the product truly useful to consumers and society? Is it good for our particular company? Does it mesh well with the company’s objectives and strategies? Do we have the people, skills, and resources to make it succeed? Does it deliver more value to customers than do competing products? Is it easy to advertise and distribute? Many companies have well-designed systems for rating and screening new-product ideas.

- (c) **Concept Development and Testing:** An attractive idea must be developed into a product concept. It is important to distinguish between a product idea, a product concept, and a product image. A *product idea* is an idea for a possible product that the company can see itself offering to the market. A *product concept* is a detailed version of the idea stated in meaningful consumer terms. A *product image* is the way consumers perceive an actual or potential product. Concept testing calls for testing new-product concepts with groups of target consumers. The concepts may be presented to consumers symbolically or physically. For some concept tests, a word or picture description might be sufficient. However, a more concrete and physical presentation of the concept will increase the reliability of the concept test. Today, some marketers are finding innovative ways to make product concepts more real to consumer subjects. For example, some are using virtual reality to test product concepts. Virtual reality programs use computers and sensory devices (such as gloves or goggles) to simulate reality.

(d) **Marketing strategy Development:** The next step is marketing strategy development, designing an initial marketing strategy for introducing this car to the market. The *marketing strategy statement* consists of three parts. The first part describes the target market; the planned product positioning; and the sales, market share, and profit goals for the first few years. The second part of the marketing strategy statement outlines the product's planned price, distribution, and marketing budget for the first year. The third part of the marketing strategy statement describes the planned long-run sales, profit goals, and marketing mix strategy.

(e) **Business Analysis:** Once management has decided on its product concept and marketing strategy, it can evaluate the business attractiveness of the proposal. Business analysis involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives. If they do, the product can move to the product development stage.

To estimate sales, the company might look at the sales history of similar products and conduct surveys of market opinion. It can then estimate minimum and maximum sales to assess the range of risk. After preparing the sales forecast, management can estimate the expected costs and profits for the product, including marketing, R&D, operations, accounting, and finance costs. The company then uses the sales and costs figures to analyze the new product's financial attractiveness.

(f) **Product Development:** So far, for many new-product concepts, the product may have existed only as a word description, a drawing, or perhaps a crude mock-up. If the product concept passes the business test, it moves into product development. Here, R&D or engineering develops the product concept into a physical product. The product development step, however, now calls for a large jump in investment. It will show whether the product idea can be turned into a workable product.

The R&D department will develop and test one or more physical versions of the product concept. R&D hopes to design a prototype that will satisfy and excite consumers and that can be produced quickly and at budgeted costs. Developing a successful prototype can take days, weeks, months, or even years. Often, products undergo rigorous functional tests to make sure that they perform safely and effectively. The prototype must have the required functional features and also convey the intended psychological characteristics.

(g) **Test Marketing:** If the product passes functional and consumer tests, the next step is test marketing, the stages at which the product and marketing program are introduced into more realistic market settings. Test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction. It lets the company test the product and its entire marketing program—positioning strategy, advertising, distribution, pricing, branding and packaging, and budget levels. The amount of test marketing needed varies with each new product. Test marketing costs can be enormous, and it takes time that may allow competitors to gain advantages. When the costs of developing and introducing the product are low, or when management is already confident about the new product, the company may do little or no test marketing. Companies often do not test market simple line extensions or copies of successful competitor products.

(h) **Commercialization:** Test marketing gives management the information needed to make a final decision about whether to launch the new product. If the company goes ahead with commercialization—introducing the new product into the market—it will face high costs. The company will have to build or rent a manufacturing facility. The company launching a new product must first decide on introduction *timing*. Next, the company must

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decide *where* to launch the new product – in a single location, a region, the national market, or the international market. Few companies have the confidence, capital, and capacity to launch new products into full national or international distribution. They will develop a planned *market rollout* over time. In particular, small companies may enter attractive cities or regions one at a time. Larger companies, however, may quickly introduce new models into several regions or into the full national market.

**Speeding Up New-product Development**

Many companies organize their new-product development process into the orderly sequence of steps starting with idea generation and ending with commercialization. Under this sequential product development approach, one company department works individually to complete its stage of the process before passing the new product along to the next department and stage. This orderly, step-by-step process can help bring control to complex and risky projects. But it also can be dangerously slow. In fast-changing, highly competitive markets, such slow-but-sure product development can result in product failures, lost sales and profits, and crumbling market positions. “Speed to market” and reducing new-product development cycle time have become pressing concerns to companies in all industries.

In order to get their new products to market more quickly, many companies are adopting a faster, team-oriented approach called simultaneous (or team-based) product development. Under this approach, company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness. Instead of passing the new product from department to department, the company assembles a team of people from various departments that stay with the new product from start to finish. Such teams usually include people from the marketing, finance, design, manufacturing, and legal departments, and even supplier and customer companies.

Top management gives the product development team general strategic direction but no clear-cut product idea or work plan. It challenges the team with stiff and seemingly contradictory goals—“turn out carefully planned and superior new products, but do it quickly”—and then gives the team whatever freedom and resources it needs to meet the challenge. In the sequential process, a bottleneck at one phase can seriously slow the entire project. In the simultaneous approach, if one functional area hits snags, it works to resolve them while the team moves on.



*Notes* HUL launched its operation Bharat in 1997 to create awareness about its rural brands. The strategy also involved promoting the sales of its “special packs” for rural areas. HUL provided hampers at discounted prices. Consumers were also made aware of the benefits of using HUL products and the affordability of the pack sizes on offer.

**8.7.2 Product Mix Decisions**

“The set of all product lines and items that a particular seller offers for sale”

A company product mix has four important dimensions (i) width (ii) length (iii) depth and (iv) consistency.

- (i) Width Product mix width refers to the no. of different product lines the co. Carries. E.g. Procter & Gamble consisting of may product lines, paper, food, household, cleaning, medicinal, cosmetics and personal care products.

- (ii) Length Product mix length refers to the total no. of items the Co. carries within its products lines. Procter & Gamble typically carries many bands within each lines, for example, it sells eleven laundry detergent, eight hand soap, six shampoo and four dishwashing detergent.
- (iii) Depth Product mix depth refers to the no. of versions, offered of each product in the line. Thus Procter & Gamble's Crest Tooth Paste comes in three size and two formulation (paste & Gel)
- (iv) Consistency of product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

## 8.8 Product Life Cycle Strategies in Rural Markets

Every living thing and those which are created by a living being has a life span. Entire life span of the creation (Product) is divided into a number of stages - Introduction, Growth, Maturity and Decline as in the case of human being - child, adolescent, adult and aged. The time span of the product in each of these stages will differ from product to product depending on various factors. Analysis of these stages of the product is technically known as "Product Life Cycle". The present paper is an attempt to analyze the product life cycle in the Rural Market.

For the purpose of analyzing the concept of product life cycle in rural market the rural market segment is to be divided in to three viz., developed, developing and under developed rural segments. This is because rural is not a single homogeneous market, it is scattered and a product which is at its introduction stage in underdeveloped market may be at the growth stage in the developing market and at the saturation stage in the developed market. This classification is highly significant as the marketing manager can plan marketing strategy for each segment depending on the stage of PLC. Many products that enter rural markets without serious planning die out either soon after the introduction or during the growth stage, e.g. AIM tooth paste from HLL or Ruf-n-Tuf ready to stitch Jeans. Only companies that focus on brand building and those that continue to innovate constantly can sustain themselves in the rural markets.

### **Product Life Cycle – Some Cases in the Rural Market**

A product is normally developed for urban market and then pushed to the rural market. Recently companies have recognized the importance of rural market and started customizing products for rural markets. Some examples are LG's Television, Philip's hand-wound free power radio and Dabur's Red Tooth Paste. It has also been observed that Product life cycle in the rural market is often longer than it is in the urban market. All stages - of introduction, growth, maturity and decline - last for longer periods in rural markets due to multiple challenges involved in the distribution, communication and adoption of the product.

### **Product Life Cycle of Wheel**

**Introduction Stage:** The Product was in the introduction stage from 1987 to 1994 and the company was adopting various strategies to establish its product in the rural market.

1987: Wheel launched in 1987 against Nirma with the Slogan "Maine maangi thi safaai, aur tu ne di haathon ki jalan" The term "Wheel" was not strategic; rather it was a matter of compulsion. HUL wanted Wheel to be a stand alone business of its own to dominate the low price segment.

1988-1990: Wheel's Marketing Strategies: Compared to other high end detergents low Price, low urban focus, and attractiveness of package just sufficient to promote the product in the market, mass media advt. was the lowest and door to door programme was used for promotion of the product in the villages.

**Notes**

1991-1994: Wheel faced Competition with Local Player. By establishing Rural Distribution Center the product built strong customer base in Maharashtra and MP.

**Growth Stage:** Having established its product in the market from 1995 onwards the company adopted various strategies to improve the turnover and profitability and till 1997 it was able to sail without much problem and growth was visible. During the years 1998-2000 the company was able to face the challenges related to infrastructure and distribution network so as to maintain its growth flow.

1995-1997: 34,000 distribution outlets were opened in 34,000 villages and achieved 25% of HUL's total sales in volume. Established sales channels through thousands of small storefronts and achieved better return than higher-end cleaning products. Strong hold at Karnataka, Bihar, MP, Maharashtra, Part of Gujarat.

1998-2000: Project Streamline Challenges of Infrastructures and Distribution network were suitably handled and achieved 37% of HUL's total market in volume.

**Decline Stage:** The product phased its decline in 2001 and the company was able to face the stage by relaunching the product with modification and upgradation and was able to feel the signs of revival by the beginning of 2005.

2001 'Power' brand strategy: HUL's net sales growth rate fell and the product was relaunched - 'Best clean with less effort'.

2002-2003: Ranked at number 21, the product was the largest brand in HLL.

2004: Wheel Active, has been introduced to upgrade consumers to a higher order product.

**Growth Stage:** The product indicated signs of growth from 2005 onwards by reading the pulse of the market in a better way and adopting suitable and varied marketing strategies in time.

2005-2007: Wheel continued to grow strongly with turnover exceeding 8 lakh tones.

2008: Achieved sales value over 2000 cr

2009: MRP of Wheel Active Powder brought down from ₹ 75 to ₹ 67 on a 2 kg pack.

₹ 10 pack of Wheel Active has been raised to 275 gm from 250 gm.

275 gm and 560 gm Wheel Green detergent powder to 300 gm and 600 gm.

## **8.9 Product Branding in Rural Markets**

A brand is a name that distinguishes a product from others. It has its own identity in the market with its symbol and tagline. When we talk about brands in rural markets some of the names which come to our mind are Rajdoot Bikes, Ghari Detergent, Dolly TV and chic shampoo etc. Findings indicated that good quality, value for money and sense of identity with brand were likely to act as key determinants of a FMCG brand in rural India. Better finish and good looks, recommendations from retailers were found to be key determinants of a consumer durable brand in rural India. Let's throw some light on agro inputs also like pesticides, fertilizers, manure, seeds, tractors, harvesters, pumps and threshers etc. In this regard marketers are following market specialization strategy. HYV seeds are also becoming popular among the farmers.

It is a known fact in rural areas that price plays an important role in rural markets for purchasing the products. Now the New Era of marketing is changing the scenario of the Rural India. With Cola companies penetrating these markets with low prices (chota coke) the rural consumer has now realized the benefits of branding. However, no data is available to establish a relationship of the extent of branding and the consumer acceptance with reference to research

publications. Keeping this in view, the present study was undertaken and the results have been presented.

Indian Marketers on rural marketing have two understanding (I) The urban metro products and marketing products can be implemented in rural markets with some or no change. (II) The rural marketing required the separate skills and techniques from its urban counterpart. The Marketers have following facilities to make them believe in accepting the truth that rural markets are different in so many terms.

The rural market has the opportunity for:

- (i) Low priced products can be more successful in rural markets because of the low purchasing powers in rural markets.
- (ii) Rural consumers have mostly homogeneous group with similar needs, economic conditions and problems.
- (iii) The rural markets can be worked with the different media environment as opposed to press, film, radio and other urban centric media exposure.

### Realities before the Marketers

Seventy per cent of India's population lives in 627000 villages in rural areas. 90% of the rural population is concentrated in villages with a population of less than 2000, with agriculture being the main business. This simply shows the great potentiality rural India has to bring the much-needed volume-driven growth. This brings a boon in disguise for the FMCG Company who has already reached the plateau of their business urban India.

As per the National Council for Applied Economic Research (NCAER) study, there are as many 'middle income and above' households in the rural areas as there are in the urban areas. There are almost twice as many 'lower middle income' households in rural areas as in the urban areas. At the highest income level there are 2.3 million urban households as against 1.6 million households in rural areas. According to the NCAER projections, the number of middle and high-income households in rural India is expected to grow from 80 million to 111 million by 2007. In urban India, the same is expected to grow from 46 million to 59 million. Thus, the absolute size India is expected to be double that of urban India.

Figure 8.5: Small Sachets of Detergents for Rural Markets



HUL chairman MS Banga Says, "This exercise may not pay in the immediate future, but will definitely give long-term dividends. Incidentally, over 50 percent of the sales of HUL's fabric

Notes

wash, personal wash and beverages are in rural areas. And we see a future in going rural in a major way”.

**Industry's role in building market linkages:** To make an effective market linkage, industries have to play as an engine of market, which can generate a brand image of the rural products. This initiative of industries will also strengthen the backward and forward linkages of the rural market, besides, accelerating the innovations of the rural products. Definitely, this strategy will also give a remarkable dividend to the industries & profit making companies. In micro level, it is observed that to create a sustainable market linkage for rural products, industries can develop an ecosystem of Self Help Groups (SHGs) by involving the local communities through village level empowerment. It is nothing less than the next phase in the democratization of commerce. Under this paradigm, industries can create a network with viable marketing channels covering all the linkages from villages to the global level. This architecture provides the right value of procurement through the village procurement centres and rural entrepreneurs can sell their products faster with better price realization. This model is also capable of generating a consumer business and an output business in a win-win scenario, where rural producers can get a wide marketing horizon and the industries shall get a new, lower cost 'sales force'. Another role of industries in building market linkages for agro-based rural products can be the 'dynamic contract farming'. If a conventional industry can kick off a contract farming business, and export niche horticulture crops like cucumbers, the small and marginal farmers who could grow these small cucumbers would make ₹ 30,000 in profits in a year. KRBL, one of India's largest basmati exporters, has contract farming agreements with 24,000 farmers; Global Green buys from about 12,000 farmers. Moreover, in the current era of information technology, industry and private companies can also creatively use ICT for building sustainable marketing linkages. This approach creatively leverages information technology (IT) to set up a meta-market in favour of small and poor producers/rural entrepreneurs, who would otherwise continue to operate and transact in 'unevolved' markets where the rent-seeking vested interests exploit their disadvantaged position. ITC eChoupal is the best example in this context. Through creative use of Information Technology, ITC eChoupal has been creating sustainable stakeholder value by reorganizing the agri-commodity supply chains simultaneously improving the competitiveness of small farmer agriculture and enhancing rural prosperity. eChoupal also sidesteps the value-sapping problems caused by fragmentation, dispersion, heterogeneity and weak infrastructure. ITC takes on the role of a Network Orchestrator in this meta-market by stitching together an end-to-end solution. It eliminated the traditional 'mandi' system which involved lot of middlemen as a result of which farmers failed to get the right value for their produce. The solution simultaneously addresses the viability concerns of the participating companies by virtually aggregating the demand from thousands of small farmers, and the value-for-money concerns of the farmers by creating competition among the companies in each leg of the value chain.

**Scope & opportunities:** The basic scope of this novel initiative will be the mutual benefits of the rural entrepreneurs and industries. The entrepreneurs - primary beneficiaries, SHGs - bridge with the community, participating companies/industries and rural consumers have befitted through a robust commercial relationship. These models of marketing linkages demonstrate a large corporation which can play a major role in reorganizing markets and increasing the efficiency of a rural product generation system. While doing so it will benefit farmers and rural communities as well as shareholders. Moreover, the key role of information technology - provided and maintained by the industry/company for building linkages, and used by local farmers - brings about transparency, increased access to information, and rural transformation. Besides, this strategy of market linkage, addresses the challenges faced by rural entrepreneurs due to institution voids, numerous intermediaries and infrastructure bottlenecks. Moreover, the prime scope of this model is the creation of opportunities for the rural entrepreneurs for product differentiation and innovation by offering them choices. Because of this sustainable

market linkages, rural producers can participate in the benefits of globalization and will also develop their capacity to maintain global quality standard. Nonetheless, it creates new stakeholders for the industry sector. And subsequently, they become part of the firms' core businesses. The involvement of the private/industry sector at the rural product and market development can also provide opportunities for the development of new services and values to the customers, which will find application in the developed markets. It will be worth mentioning that building a sustainable market linkage through industry's intervention will also empower the rural mass (producers, farmers & entrepreneurs) to cope with socio-economic problems in the rural society and will ensure economic self-reliance.

## 8.10 Building Brands in Rural India

In a market where life has revolved around deep rooted community values, joint families, and social customs and taboos (women, for example, are not allowed to wear trousers), marketers realize that the traditional routes of market entry and brand building employed in urban India are often not feasible. As Adi Godrej, Chairman of the Godrej Group, says, "The challenge [for brands] is to understand the [psyche] of the rural consumer, create better distribution, and [appreciate] the heterogeneity."

Figure 8.6: Medimix Building Brand in Rural India



In recent times, rural India has witnessed a wave of change. Dinesh Malhotra, general manager of Linterland (rural arm of Lintas), points out, "With media exposure and increasing literacy levels, people in rural India are now demanding a better lifestyle." The educated "rural yuppie" (males in the 15-34 age group) is moving out to work in nearby towns and cities, and sending money home to his family. This has created an indirect increase in disposable incomes and a surge in demand for consumer goods. The rural youth are slowly evolving as "opinion leaders" in influencing brand and product decisions in a market that was swayed by village elders for centuries.

When building a brand in rural India, word-of-mouth is a huge motivator. Focused brand-building initiatives—like participation at community events such as "melas" (village fairs), "haats" (markets), street theater, van campaigns, and puppet shows—generate positive word-of-mouth and influence buying decisions.

Cholayil Ltd., a purveyor of the herbal soap "Medimix," campaigned in mobile vans to promote its brand. "We run a van campaign which visits the interior villages where there are no distributors. We halt the van at specific points [where village folks congregate and watch videos shown on these vans] and give out product samples." However, contrary to claims of Medimix's success, Malhotra believes that "van campaigns can be very expensive. [Alternatively, promoting one's brand] in large congregation points like village markets and fairs has a far wider reach, and is more cost effective."

Direct media promotions have helped build knowledge of product categories and change long-entrenched living habits. Colgate-Palmolive, a leading oral hygiene product manufacturer, entered the rural market at a time when "Neem" twigs (the Neem tree has herbal properties)

**Notes**

and non-dentifrice products like ash, charcoal, or salt were the norm for brushing teeth (in fact in some rural pockets, this tradition still continues). In 2001, Colgate-Palmolive launched "Operation Jagruti" to educate villagers about oral hygiene and its benefits vis-à-vis traditional products like "Neem." Through product trials and free samples, the company was able to generate awareness in this new market. On a similar note, CK Ranganathan, managing director of Cavin Kare, notes, "When we entered the rural areas in South India, people used to wash their hair with soap. When we launched the 'Chik' brand of shampoo we educated the people on how to use it through live 'touch and feel' demonstrations and also distributed free sachets at fairs. This strategy worked wonders in the rural areas of Tamil Nadu and Andhra Pradesh – two important states in India."

Colgate and Cavin Kare have shown that communication is key when it comes to building brands in rural markets. As R. V. Rajan, managing director of the Anugrah Advertising Agency, adds, "To communicate effectively, it is important to understand the fears, aspirations, and hopes of the rural consumer." Not to mention the traditions and stereotypes that have governed their lives for centuries.

Affordability of the product is also a critical success factor when building brands. A spokesperson from Tata Group, which retails the Sonata brand of watches to rural India, says, "[rural folks] think of a purchase in terms of how it serves their needs and how well it suits the family, rather than the individual." Products must be affordable and immensely practical. Furthermore, since the rural consumer often survives on daily wages, he engages in daily purchases. Several companies like Cavin Kare, Godrej, and Dabur adopted the "single use" sachet strategy, which has worked in their favor. As Byas Anand, Senior Manager, Corporate Communications, Dabur India, claims, "We introduced one-rupee sachets (2.5 cents) for Dabur Vatika shampoo which resulted in doubling of volumes in the rural market."

Though pricing is important, rural consumers favor quality as well. For rural consumers, a purchase is a bigger investment than it is for the urban, veteran consumer. Hence, a particular brand will be rewarded only if it earns the rural consumer's trust through consistent product quality. As R.V. Rajan says, "the rural consumer is conscious of value for money, and it might be difficult to convert him to a new brand. However, once converted he is fiercely loyal to the brand." This issue will be a challenging one for corporations when they strategize their brand entry and decide how to balance pricing with brand quality.

In short, customized and affordable products, effective distribution, and focused marketing initiatives are essential factors in building credibility for a brand in rural India. Brand awareness and trust will play a key role in combating the blitz of local copycat brands that are formidable competition. If marketers tailor make their brand building initiatives according to the dynamics of the rural market, it may no longer come as a surprise to see the rural Indian consumer sitting before a Samsung television, enjoying a bag of Frito-Lay potato chips, and drinking a bottle of Coke.

### **8.11 Brand Loyalty versus Brand Stickiness**

Marketers in the rural scenario often confuse Brand stickiness with Brand loyalty.

Brand loyalty is the consumer's commitment to repurchase the brand and they often help in a lot of positive word-of-mouth for the brand.

Brand stickiness on the other hand is the repurchase behavior shown by the customers due to the absence of viable alternatives or due to the fear of trying a new brand.

This is often the case of a rural consumer who does not easily switch brands due to the fear associated with it and hence marketers should carefully decode the spurious loyalty from the

actual loyalty and work towards ensuring that the customers are not sticking to the brand but are actually loyal.

Brand Stickiness is the repurchase behavior shown by the customers due to the absence of a viable alternative. Viable alternative implies that either other brands are unaffordable (Price), unavailable or risk associated with the brand is too high. A great example of brand stickiness is éclairs. In organized urban market éclairs is produced by major giants like Cadburys, Nestle etc., but in the rural market éclairs is produced by unorganized players. The market share of these unorganized players is as high as 27%. Availability as I have already mentioned is the reason for the brand stickiness. According to figures released by market researcher AC Nielsen, demand for personal care products grew faster in rural areas than urban areas during the period April-September 2009.

Several FMCG companies such as Godrej Consumer Products, Dabur, Marico and Hindustan Unilever (HUL) have increased their hiring in rural India and small towns in order to establish a local connect and increase visibility.

GlaxoSmithKline Consumer Healthcare (GSK) and Nestle and are now launching products specifically for rural markets. Anand Ramanathan, an analyst from KPMG, said, "Till recently, most FMCG companies used to treat rural markets as adjuncts to their urban strongholds and rural consumers as a homogeneous mass without segmenting them into target markets and positioning brands appropriately."

The dynamics of brand stickiness governs by the fact of compatibility. Although most marketers believe that change is the only constant thing in the world. But they failed to realize that the change should take place sometimes in both ends as well. Thus the marketer's offerings should be compatible with the target market and they must be able to diffuse the innovation among them. Otherwise the change may backfire.

Brand Loyalty, on the other hand, is the consumer's commitment to repurchase the brand and they often help in a lot of positive word of mouth for the brand. Most of us are clear about brand loyalty. But the problem is sometimes we believe we can make people brand loyal by changing price or affordability. But the fact is the concept of brand loyalty is making the customer addicted by making them positioned in the minds of the customer as a higher perceived valued product.



*Caution* A study conducted by AC Nielson, a research agency reveals that FMCG industry loses around 2500 crores annually to counterfeits and pass-off products. According to Ashok Chhabra, Executive Director, P&G the fake products are affecting the sales of leading brands to the extent of 20 to 30 percent. Another recent survey conducted by AC Nielson reveals that top brands in India are estimated to lose up to 30 percent of their business to fake products.

## 8.12 Fake Brands

Daily Milk, Lifebody soap and Fair & Lonely. These are popular brands in the hinterlands of India. Don't they sound familiar to daily brands Dairy Milk, Life Buoy & Fair & Lovely. Well, they not only sound but also look similar to the original brands. These brands are created by manufacturers producing cheap versions of the original brands.

Fake brands are identified under two broad categories, namely:

**Counterfeit products:** These are fake products that bear identical name of product/ packaging/ graphics/colour scheme and even same name and address as the genuine manufacturer. They look exactly like real products other than the legal owner of the real products & trademarks.

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Example: 'Ponds' talcum powder; 'Clinic Plus' shampoo

**Pass-off products:** Such products have a similar sounding name or have a similar spelling with similar looking packaging and design. These products are meant to mislead the consumers who are illiterate or in a hurry to purchase goods.



Example: 'LUK' for 'LUX'; 'Head & Shower' for 'Head & Shoulders'

Fake brands exist in rural as well as urban locations. But the problem is more acute in rural areas especially the deep pockets which are less accessible and people have very little knowledge about the original brands. "Most people in rural India can recognize alphabets but not complete words, so during a research, we found a whole lot of samples of fake Clinic Plus shampoo sachets where the visual was similar to the original brand but the name was changed to 'Clinton' as Bill Clinton was to arrive soon in the country. During another such raid, we collected about 99 variants of Fair & Lovely cream including Fair&Lonely, Far & Lovely etc.", said Mr. Pradeep Kashyap, president, Rural Marketing Association of India (RMAI) and CEO, MART while sharing an interesting incident in past.

The Indian rural landscape being scattered in smaller villages, gaining access in all of them is a tedious task for brands. Also, most of the FMCG brands have not been able to set up an efficient distribution network in such areas. The local entrepreneurs are well aware of these challenges. Hence, take advantage by manufacturing cheap substitutes of original brands, misleading the rural consumers. These manufacturers have an advantage of being local and thus reach the shops before the original brands do.

Such counterfeits piggy back on huge marketing budgets of FMCG companies. The rural consumers are aware of the brand owing to ads broadcasted on radio & television channels. But on time of purchase, the consumers tend to pick their fake counterparts due to unavailability of original product or get fooled by the retailers who on purpose sell cheap products for higher margins.

Over the time the share of fake products in the FMCG market has grown to 10- 15% causing a deep hole in the pockets of the FMCG companies. A study conducted by AC Nielson, a research agency reveals that FMCG industry loses around 2500 crores annually to counterfeits and pass-off products. In another recent survey conducted by AC Nielson reveals that top brands in India are estimated to lose up to 30 percent of their business to fake products. Besides the loss of revenue, the leading companies also bear the damage to brand image and brand loyalty of consumers.

On a whole, the brands not only suffer in terms of revenue but also have to compromise on the brand image which in no case can be tolerable. Therefore, various brands have come up with unique strategies to overcome their shortcomings in the rural markets and curb the growth of fake brands in rural areas.

Companies like Coca-Cola have set up an elaborate system to curb the menace of duplicate manufacturers, offering incentives to informers. It has 48 consumer response coordinators across the countries who work with their teams and redress consumer complaints directly, including overcharging and spurious bottling. Besides, it has a large network of route salesmen who have a one-to-one relationship with the retailers on their beat and keep their ears to the ground. When they spot suspicious activity, they inform company officials. So though it is impossible to stop counterfeiters totally, it is possible to minimize the damage they cause.

Upgrading the product packaging periodically or launch product variants so that the manufacturers of counterfeits find it difficult to copy their products. Hindustan Lever has initiated

special tamper-proof packs for its deodorant spray 'AXE', whose nozzle can't be detached from the body while Procter and Gamble uses special labels for its Vicks Vapo Rub which does not peel off even if soaked overnight in water. This makes it difficult for spurious goods makers to imitate.

Stopping the counterfeits market is a long process but it's more important for companies to create awareness among the consumers about the ill effects about such fake products and the hazards they pose.

### 8.14 The Fakes Market

#### 1. *Look-alikes:*

- ❖ The Colour scheme on packaging material closely resembles that of a popular Brand.  
E.g.: Shagun for Lifebuoy and Lalita Amla for Dabur Amla

#### 2. *Spell Alikes:*

- ❖ Names are subtly and cleverly misspelt  
E.g.: Paracute for Parachute  
Pome"s for Ponds

#### 3. *Duplicates:*

- ❖ Exact Replicas of Original Brand

Fake products are increasingly contaminating the ₹-1 lakh crore (₹ 1-trillion) fast moving consumer goods market. They harm one's health and also cost the exchequer nearly ₹ 2,700 crore (₹ 27 billion) annually, say analysts.

Almost 15 per cent of consumer goods sales in India is estimated to be of fake products.

In value terms, it stands at about ₹ 15,000 crore (₹ 150 billion). At an 18 per cent tax rate, the loss to the exchequer is ₹ 2,700 crore (₹ 27 billion).

Despite efforts to curb counterfeiting of FMCGs, it remains rampant, especially in rural areas, where consumer awareness is low and the ability to track shipments is poor.

Table 8.1: Comparison of Different Categories of Fakes

FEATURES	DUPLICATES	SPELL-ALIKES	LOOKALIKES
Brand Name	Original	Misspelt	Different
Pack appearance	Replica	Identical	Similar
Manufacturer's address	Original	Incomplete	Own Nam
Price	M.R.P	40% low	10-15%
Margins	200-300%	100-150%	60-70%
Quality	Very poor	poor	Reasonable
Intention of retailer	To cheat	To mislead	To freeload
Consumers	unaware	unaware	Want cheaper products
Consumers	none	Only literate	Majority
Other	none	discounts	schemes

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This has prompted FMCG players to devise ways to act on units that manufacture these products. Emami, for instance, has a separate cell headed by an ex-assistant commissioner of police, whose job is to investigate leads provided by the in-house sales force on places where counterfeit products of its popular brands are made.

Once these are identified, the team and local authorities raid these factories. "On an average, we do at least two to three raids per month," says Aditya Agarwal, director.

Figure 8.7: Some Common Fakes Found in Rural Market



**Strategies for Counter Fakes for Chocolate/Toffee Companies in Rural Marketing**

**Product:** Without compromising on quality, the leading chocolate companies can reduce their size to match the rural demand.

**Pricing:** As the rural consumers are bothered about economy pricing the leading chocolate companies can follow the strategy of "penetration pricing".

**Promotion:** The traditional method of promotions has to be changed by the MNCs and National Companies in attacking the fake products. A portion of the ad budget can be allocated for retailers' margin. Through ad campaigns, the companies can also create awareness among consumers regarding the evils of fake products.

**Physical Distribution:** Sales professionals of the local region who have familiarity in the local (regional) language can be appointed to look after the sales of rural areas, so that they can easily converse with the retailers and can build goodwill.

**8.14 Packaging for Rural Markets**

Lower prices/smaller packaging has been the most common strategies adopted by FMCG companies to penetrate rural markets. HLL initiated Operation Bharat to tap rural market by rolling out low priced sample packets of its toothpaste, fairness cream, shampoo, cream and other products. Similarly LPG companies have introduced small sized cylinders ensuring that price remains in the affordable range for its rural consumers. When developing products in any category, marketers must identify the typical rural specific needs. Urban products cannot be dumped into rural markets without modifications. The rural audience better receives tailor-made products as the consumers feel empowered and tend to identify with the offering. For instance, shampoos or soaps with distinctive, strong rose or jasmine perfumes are very with the rural women in South India. The urban women do not identify as strongly with these perfumes.

**Packaging Material**

**Refills/Reusable Packaging:** The refill packs benefits the consumers in terms of price. Such measures can have significant impact too, since the price can be reduced to the advantage of

rural consumers. In addition the packaging material used should be reusable in rural areas. Most fertilizers companies pack fertilizers in LDPE or HDPE sacks which can be washed & reused, which are in demand by the farmers.

Figure 8.8: Chik's Sachet Revolution in Rural Market



**Pack Size and Convenience:** The total market has expanded from US\$ 17.6 billion in 1992-93 to US\$ 22 billion in 1998-99 at current prices. Rural demand constituted around 52.5 per cent of the total demand in 1998-99. Hence, rural marketing has become a critical factor in boosting bottom lines. As a result, most companies' have offered low price products in convenient packaging. These contribute the majority of the sales volume. In comparison, the urban elite consume a proportionately higher value of FMCGs, but not volume.

The report further adds that by the early nineties FMCG marketers had figured out two things one that Rural markets are vital for survival since the urban markets were getting saturated and Rural markets are extremely price-sensitive. Thus, a number of companies followed the strategy of launching a wide range of package sizes and prices to suit the purchasing preferences of India's varied consumer segments. **Hindustan Lever**, a subsidiary of Unilever, coined the term nano-marketing in the early nineties, when it introduced its products in small sachets. Small sachets were introduced in almost all the FMCG segments from oil, shampoo, and detergents to beverages. Cola major, Coke, brought down the average price of its products from around twenty cents to ten cents, thereby bridging the gap between soft drinks and other local options like tea, butter milk or lemon juice. It also doubled the number of outlets in rural areas from 80,000 during 2001 to 160,000 the next year, thereby almost doubling its market penetration from 13 per cent to 25 per cent. This along with greater marketing, led to the rural market accounting for 80 per cent of new Coke drinkers and 30 per cent of its total volumes. The rural market for colas grew at 37 per cent in 2002, against a 24 per cent growth in urban areas. The per capita consumption in rural areas also doubled during 2000-02.

### Packaging Aesthetics

Lower literacy levels in rural market

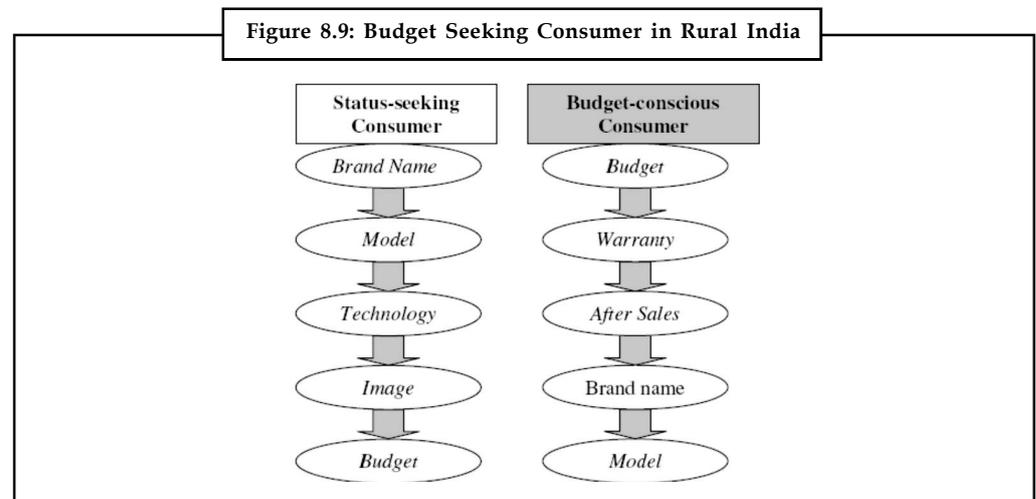
- Consumers appreciate bright colours

E.g.: Lifebuoy identified as red soap

Parachute is premium edible grade coconut oil, a market leader in its category. Synonymous with pure coconut oil in the market is positioned on the platform of purity. Parachute thus enjoys tremendous equity, trust with every passing generation and loyalty in the urban as well as rural sectors of India. Innovations in the packaging whether from the aspect of user-friendliness or aesthetics have and continue to help Parachute grow.

**Product Warranty and After Sales Service**

A significant portion of the rural population is paid in daily wages. Daily wage earners tend to have little stock of money, and therefore tend to make purchases only to meet their daily needs. The implication is that pack sizes and price points are critical to sales, and importantly, that rural consumers view the purchase-tradeoff dilemma across a much wider range of product categories. As a result, the nature of competition is much greater; a beverage manufacturer is not only competing with other manufacturers in its category, but also other products that consumers may consider one-off luxury purchases such as shampoo. So marketer will have to examine method by which he can make the product more affordable. In the case of consumer durable one way is to work through rural bank and offer higher purchase terms to consumer. In short, the Value for money is the most important concept that will differentiate the successful brand from the rest



As explained in Figure 8.9, a budget seeking consumer in the rural India, takes into consideration first of all the budget available to him and then warranty and after sales service before settling on the brand name and model. Thus, the concept of the product fitting into one’s budget is most important consideration while making a purchase decision.

**8.15 New Product Development in Rural Markets**

One important aspect of designing products for rural markets is the product fit with the rural lifestyle and environment. It is easier for marketers to relate the product to themselves in the urban context since they belong to urban areas and are familiar with the environment.

Companies like Dupont and Godrej had adopted the Unique approach of Rural Immersion Programmes which provide a platform for new product Idea Generation through an exploration of and immersing within rural markets thereby taking forward the product Innovation agenda.

Based on this idea, once a concept is developed, it must be tested in the market. Concept Testing in rural market needs to be done in different regions, as needs change from area to area depending upon the characteristics of a particular region.

After the concept testing, another crucial step is the final product Development. Since the rural market is becoming the next big thing, many companies have started addressing it through a new approach vis-à-vis product development, that is, reverse innovation or frugal engineering.

Market Testing of any new product is the most important aspect, and it decides the failure or success of that product. It becomes critical in the rural context as the chances of failure are really

high. Most companies ignore the fact that the cost of Market tests is insignificant in comparison to the total project cost.

### Self Assessment

Fill in the blanks:

6. .... development starts with idea generation—the systematic search for new-product ideas.
7. .... gives management the information needed to make a final decision about whether to launch the new product.
8. A significant portion of the ..... population is paid in daily wages.
9. Market Testing of any new product is the most important aspect, and it decides the failure or success of that .....
10. Marketers in the rural scenario often confuse Brand stickiness with .....



Case Study

### Branding in Rural India - The Rules of Marketing

**F**or any Business to survive today, it has to remember one Golden Rule: The Business is only that much successful as it is remembered amongst people. This, in simple words, is the Brand of Business. It will be from the Name, Logo, symbol, Slogans to even Colours of its products. But the big question today CMOs & CEOs of various companies from FMCG to Consumer Durables are facing is: How to create this Brand in Rural Market? Is it actually possible to do so? How to get a share of the pie of this underutilized and mostly under-penetrated market? After all, they know- for most of their products, it will be their Brand which will be the important factor in deciding on how well they perform in this market.

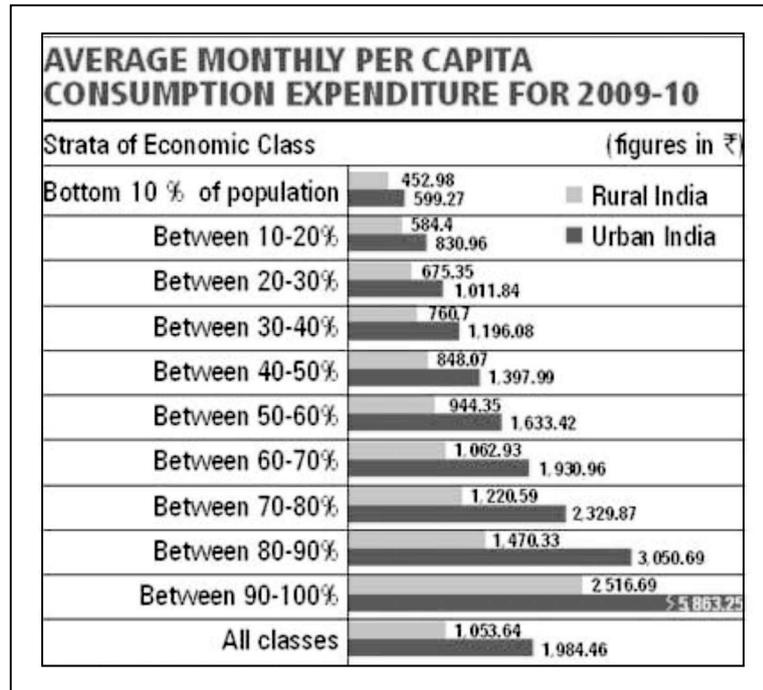


While there are sceptics about pay-offs from building brand for Rural India, the marketers cannot deny the facts: nearly 136 Million households still reside in rural areas even by broadest classification- which comes to more than 800 Million population. Total income in rural India (about 43% of total national income) is expected to increase from around US\$220 billion in 2004-2005 to US\$425 billion by 2010-2011, a CAGR of 12. The market penetration is still significantly low in rural areas and there is increasing Brand Awareness

*Contd...*

Notes

in Rural Markets. As seen from the chart above, there is a huge population out there in India, who has buying power- with higher untapped potential compared to Urban India.



Source: National Sample Survey Office

As Dinesh Malhotra, GM of Rural arm of Lintas points out: "With media exposure and increasing literacy levels, people in rural India are now demanding a better lifestyle." The Rural lifestyle is changing. The educated "rural yuppie" (males in the 15-34 age group) is more educated now- they often send money to their families home from the cities they work in. This also has created "Bandwagon Effect" to some extent - often these people, when come back to villages, are the new role models of other population in the villages. With their Brand conscious consumption, they also have a deep impact on the villagers. Word of mouth publicity is after all, most effective publicity in building brand in rural areas.

Because his cousin from city purchases the same, a consumer from rural areas will go to local kiriyana shop and demand Head & Shoulders - and not Shampoo. He will ask for Medicare or Lifebuoy - not just a low-priced soap. This shows that the Branding campaigns of these companies did actually have its impact. When urban consumers are using Shampoo sachets, they forget that these sachets were introduced first for penetration and increasing Sales & Awareness amongst Rural India.

In Rural areas, the strategy for a firm to create its own brand is significantly different than in urban areas. This is not just due to income level- though that plays an important part in it- but also due to the fact that this is the market where life has revolved around deep rooted community values, joint families, and social customs and taboos. Here, marketers need to understand that the traditional routes of market entry and brand building employed in urban India are often not feasible. From the size of products in case of shampoos, to its pricing strategy to its position- all or some have to be tweaked to get in this market. In fact, some companies enter with totally different product for rural markets - like Neem by Colgate-Palmolive. Here, the company tried to create Brand awareness of it by combining

Contd...

the traditional norm of brushing teeth in villages in form of twigs of Neem with its toothpaste.

While creating a Brand, the company needs to consider some of the following aspects:

- For a rural customer, a branded product is bigger investment than their urban counterparts. They expect value for money- hence the company should try to exceed their perceived expectations in quality of Product.
- The biggest influencing factors of Advertisement for Rural consumers are often: Word of Mouth, Advice of retailer/distributor, Hoardings and Road-shows, TV and Radio Ads. Depending on product and consumer demographics, this may vary- but company should try to achieve maximum *effective* coverage through this mediums.
- Like in case of Shampoos, companies should try to make their products available at affordable rates or sizes to the rural consumers. E.g.: *Chhota Coke*, Single use products like Razors.
- For consumer durables, Aesthetics, warranties and recommendations of Shopkeeper plays a huge role on consumer decisions.
- Rural households are prone to be more swayed by Brand Ambassadors like Amitabh Bachchan or Sachin Tendulkar compared to urban households.
- While positioning a product, one has to try to use local beliefs, culture or traditions to one's advantage or at least special attention should be given that it is not in conflict with them.

Thus, while a company might face number of obstacles in creating a successful brand in rural market, the benefits it will receive in long term will often outweigh the efforts. Also, one has to take care that after Branding, availability of the product and satisfaction of consumers are next important steps it fulfils. The Brand Creation in Rural India for most companies- but especially FMCG will determine where they will stand in next 5 years. After all, in immortal words of David F. D'Alessandro:

*"A business based on brand is, very simply, a business primed for success"*

#### Question

Analyse the case and discuss the case facts.

Source: <http://www.mbaskool.com/business-articles/marketing/910-branding-in-rural-india-the-rules-of-marketing.html>

### 8.16 Summary

- The product concept proposes that consumers will prefer products that have better quality, performance and features as opposed to a normal product.
- In the 1960's, the economist Philip Kotler changed the perception of marketing.
- Kotler's model provides a tool to assess how the organisation and their customers view their relationship and which aspects create value.
- The Product Life Cycle (PLC) is based upon the biological life cycle.
- Products become more profitable and companies form alliances, joint ventures and take each other over.

Notes

- Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer packaged goods.
- Product related decisions form one of the 4Ps of marketing mix.
- The company can analyze customer questions and complaints to find new products that better solve consumer problems.
- Test marketing gives management the information needed to make a final decision about whether to launch the new product.

### 8.17 Keywords

**Augmented Product:** Inclusion of additional features, benefits, attributes or related services that serve to differentiate the product from its competitors.

**Convenience Goods:** These are goods which consumers generally purchase frequently without making an effort or as a habit. The purchase is almost spontaneous and the person has already a predetermined brand in mind.

**Durable Goods:** These are goods which are 'durable' or which last for some time. Examples of such goods would be electric irons, refrigerators, television sets, etc.

**Expected Product:** The set of attributes or characteristics that buyers normally expect and agree to when they purchase a product.

**Generic Product:** A version of the product containing only those attributes or characteristics absolutely necessary for it to function.

**Industrial Products:** These are products which are sold primarily for use in manufacturing other goods or for rendering some service.

**Test Marketing:** If the product passes functional and consumer tests, the next step is test marketing, the stages at which the product and marketing program are introduced into more realistic market settings. Test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction.

### 8.18 Review Questions

1. Explain how packaging can make a product appealing in Rural Markets.
2. Briefly describe various product decision strategies using relevant examples.
3. What are the key elements in brand building in rural markets? Discuss.
4. Critically analyse the issue of fake products in Rural Markets.
5. What are the different strategies that a rural Marketer should adopt to handle this issue?
6. Discuss the Product Life Cycle Strategies in Rural Markets.
7. Describe the product decision and strategies.
8. Discuss the FMCG goods in Rural Markets.

### **Answers: Self Assessment**

- |          |         |
|----------|---------|
| 1. False | 2. True |
| 3. True  | 4. True |

- |                   |                   |       |
|-------------------|-------------------|-------|
| 5. False          | 6. New-product    | Notes |
| 7. Test marketing | 8. Rural          |       |
| 9. Product        | 10. Brand loyalty |       |

## 8.19 Further Readings



### Books

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### Online links

[ezinearticles.com/? Successful-Sales-Promotions-](http://ezinearticles.com/? Successful-Sales-Promotions-)

[www.rmai.in](http://www.rmai.in)

[www.world-agriculture.com/...marketing/rural\\_marketing.php](http://www.world-agriculture.com/...marketing/rural_marketing.php)

[www.martrural.com](http://www.martrural.com)

[www.oppapers.com/.../rural-marketing-review-of-literature-page](http://www.oppapers.com/.../rural-marketing-review-of-literature-page)

[www.cks.in/html/cks\\_pdfs/Rural%20Marketing%20Practices.pdf](http://www.cks.in/html/cks_pdfs/Rural%20Marketing%20Practices.pdf)

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Notes

## Unit 9: Pricing Strategies

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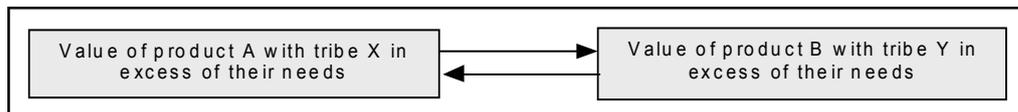
### Objectives

After studying this unit, you will be able to:

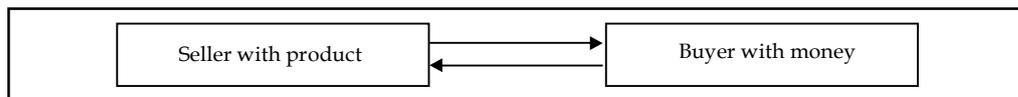
- Define Product and Pricing Strategies for Rural Market.
- Discuss the Production Costs.
- Describe the Finalization of Price.
- Explain the Economies of Scale of Manufacture.

### Introduction

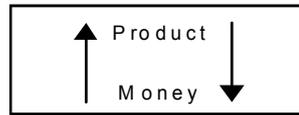
In the pre-industrial revolution era, the tribe centred political entities believed in barter system as a means of commerce in which two tribes swapped their produce as per the value each had for each other's products.



For example if tribe X has excess of cotton and tribe Y has excess of wheat they would exchange the products to satisfy their respective needs.



Then came the industrial revolution with mass production techniques and emergent market for the products, which was far flung in area. It is believed that the money system started in China and it gave commerce the much-needed fillip. Now people could buy and sell products as per their requirements for a larger variety of things.



Till that time there were only a few manufacturers of a product and competition was not known as a business reality. With industrial revolution came the affluence in the society and demand for most products started increasing. With demand increase came competition. Today we see the competition as a multi-headed dragon swallowing up lesser products or brands or poorer managed firms.



*Did u know?* With urban market showing signs of saturation, companies are excited about the potential of rural India. Some major companies that have focused in the rural sector are Philips, Parle, Proctor & Gamble, Colgate-Palmolive, Godrej Soap, Bajaj Auto, TVS, Atlas Cycle and HUL.

## 9.1 Pricing Elements

Product pricing in highly competitive world has assumed unprecedented importance in the management of rural markets for firms' profitability.

The following are the elements considered while prices are fixed:

1. Production unit cost
2. Expected units sales in a given period like one year
3. Profit plans
4. Brand image or equity
5. Seasonality of business
6. Market segment
7. Competition
8. Product life cycle stage
9. Guaranty/warranty offered
10. Payment methods and terms
11. Discounts/special offers
12. Range of products with the firm
13. Product launches
14. Product value and utility for the customers

It is pertinent to note here that in rural markets, the MTBP - Mean Time Between Purchase becomes eminently vulnerable with price.

**Notes**

There are usually three types of market situations and each gives pricing opportunities in different ways:

1. Monopoly market
2. Oligopoly market
3. Perfect competition

In case of monopoly, which are a rarity today in the country, there is only one supplier of the product and in such cases the firm has the following options:

1. Charge premium or skimming price
2. Keep cost plus, pricing, where the company adds its planned profit margin to the unit cost of sales.

In oligopoly situations, there are just a few suppliers, say four to five. In such cases, customer's purchasing power governs the price. In some cases, the firms join hands to form price cartels with a view of keeping prices high for all the firms. In many countries, including India, cartel formation is considered illegal.

Perfect competition means having a large number of suppliers of the product. These could be of same type and size or could belong to different categories like the small scale unorganized sector or large scale organized sector. In between there are medium scale sectors, government companies, multinational companies, and joint ventures. Unorganized sector have much lower overheads, for at times they avoid paying taxes and hence can price their products quite low. However, compared to monopoly's skimming prices, perfect competition usually brings about penetrating prices.

Hence, the first price formula could be shown as follows:

Selling price =  $\alpha \phi$  (manufacturing cost + profit), where  $\alpha$  is the effect of competition on price and  $\phi$  denotes function.

With competition becoming severe, its role in pricing has increased which can be shown as given below.

Selling price =  $\beta \phi$  (competition), where  $\beta$  represents the manufacturing cost and  $\phi$  denotes function.

Let us consider bulk sale of product. In most of these cases the price is negotiated between the seller and the buyer. For products for mass consumption, with mass production techniques, costs can be brought down and lower price can be the result. Products for mass consumption are becoming brand managed and customers and brand conscious. Firms can put higher prices on their products than competition and still keep their market share mostly in urban markets, for the following reasons:

1. Better brand equity
2. Better distribution network
3. Loyal customers
4. Complete range of products
5. Better service to customers
6. Differentiated product
7. Better delivery periods

8. Better payment terms
9. Comprehensive longer guaranty and warranty
10. Better value for money
11. Better sales team
12. Tailor made products or customization of products

It must be clearly understood that the customer's don't pay for the product alone. They pay for the value or the benefit the product is going to provide them. It is the customer's perception of products value to them, which justifies the price.

Price and product quality gets firmly established in the minds of the customers and many times, lowering of prices to increase market share becomes counterproductive as the customers feel that there has been a lowering of quality in the product which has caused the price reduction.

The price, which is fixed for a new product, is based on the following:

1. Price of competitive product, if any
2. Cost to manufacture
3. Market segment for the product
4. Product position in the market place
5. Hierarchy of distribution network, it determines the total sales commission to be paid to the channel members
6. Product itself, its uniqueness as compared to competition
7. Transportation costs: It becomes important in rural markets with long distances, bad roads and having at times difficult accessibility.

As soon as competition forces its way in the market the firm has to decide to have one of the following price methods.

For top quality product, skimming price or top price, should be chosen which will place the product in the elitist market segment and generate good profits. The high price can be sustained because of high brand value.

For top quality product a medium price, will give good value for money to the customers and place the product in select market.

For top quality product a low price or penetrating price, will would place the product at the lower end of the segment and increase firms market share. It will act as an entry barrier for new players.

For medium quality product a top or skimming price would provide extra profits, and also invite competition.

For medium quality product a medium price will give the customers value for money and place the product in select market segment.

For medium quality product a low or penetrating price would place the product at lower end of the segment, give value for money, increase market share and profitability and increase barriers for new entrants.

For low quality product a top or skimming price would work only during monopoly regime. Otherwise, it will lower market share and invite competition. For low quality product a medium price will place the product in select market segment and invite competition.

**Notes**

For low quality product a low or penetrating price would place the product at lower end of the market segment, increase market share and become a price barrier for entry of new players.

In rural markets this pricing policy will pay dividends.

Hence, considering the quality of the product, its position in the life cycle, and market share, a pricing strategy has to be evolved by the firm. Firms must understand the price-demand pattern for the product based on the selected market segment. The demand and price ratio varies with products; in some the demand remains inelastic irrespective of price while for some products even a slight change in product price changes the demand pattern drastically. The change in demand is also dependent on the market segment being catered to, by the product.

It can be seen that the demand of high end products like Mercedes car, air travel in the first class, five star hotel rooms and some of the essential items of daily needs like food, the demand remains near constant with price changes as given below.

For consumer durables products like refrigerators, ovens, fans the price is a major factor in purchase decisions.

Products, which can show unique features, have not many known substitutes, and which have low maintenance costs are less price sensitive.

As cost of manufacture does affect the final price, let us discuss what the cost is made of. There are fixed costs, the overheads and variable costs, which constitute the total manufacturing cost. Fixed costs remain unchanged with the volume of production, like the interest the firm pays the salaries, power, and telephone and rental bills. In fact even if there is no manufacturing these payments have to be made. Variable costs depend on the volume of production like the cost of material, labour, etc.

## **9.2 Pricing Strategies**

1. **Low cost/ cheap products:** This follows from the product strategy. The price can be kept low by low unit packaging like paisa pack of tea, shampoo sachets, vicks 5 grams tin, etc. this is a common strategy widely adopted by many manufacturing and marketing concerns.
2. **Refill packs / Reusable packaging:** In urban areas most of the health drinks are available. The containers can be put to multipurpose uses. Such measures can a significant impact in the rural market. For example, the rural people can efficiently reuse the plastic bottle of hair oil. Similarly the packages of edible oil, tea, coffee, ghee, etc., can be reused. Pet jars free with the Hasmukh Rai and Co Tea, Ariel Super Compact.
3. **Application of value engineering:** In food industry, Soya protein is being used instead of milk protein. Milk protein is expensive while Soya protein is cheaper, but the nutrition content of both is the same. The basic aim is to reduce the value of the product, so that a larger segment can afford it, thus, expanding the market.
4. **Large volume-low margins (Rapid or slow penetration strategy):** Marketers have to focus on generating large volumes and not big profit margins on individual products. If they price their product at a level which can lead to good volumes, then they can still generate good returns on the capital employed.
5. **Overall efficiency & passing on benefits to consumers:** For rural products, the strategy should be to cut down the production, distribution and advertising costs and passing on these benefits to the customers to further increase the turnover. Most often, it has been observed that advertising has less to do with product sales in the rural areas. If an organization gets the price point right, then it can work in rural market.

6. **Low volume-low price strategy:** This strategy of reducing prices by reducing the package size in order to make it appear more affordable, is delivering very good results for a large number of FMCG product categories, in the rural markets of India. In categories where maintaining the price point is extremely critical, this strategy is delivering very good results.
7. **Ensuring price compliance:** Rural retailers, most of the times, charges more than the MRP. The manufacture has to ensure price compliance either through promotional campaigns, as was done by Coca Cola, or by ensuring the availability of products at the retail outlets directly.



*Task* Plan increase or decrease in Sales Volume with force changes of FMCG selected product.

### 9.3 Production Costs

Total cost = fixed cost + variable cost.

Suppose for manufacturing 5000 computers, the fixed cost is rupees 30 million and variable cost rupees 20 million then the total cost would as following:

Total cost for 5000 computers = (30+20) = 50 million rupees

Fixed cost works out to rupees 6000 and variable cost rupees 4000 per computer.

Fixed cost per computer =  $30000000/5000 = ₹ 6000$

Variable cost per computer =  $20000000/5000 = ₹ 4000$

Total cost per computer =  $₹ 6000 + 4000 = ₹ 10,000$

Let us see what happens when the firm doubles the production to 10000

The fixed cost gets reduced as now the total fixed cost is divided by 10000 as follows.

Fixed cost =  $₹ 30000000/10000 = ₹ 3000$

### Self Assessment

Fill in the blanks:

1. .... in highly competitive world has assumed unprecedented importance in the management of rural markets for firms' profitability.
2. Firms resort to penetrating pricing in order to increase their .....
3. Firms strive for achieving cost leadership by means of manufacturing to achieve economies of scale and providing the desired experience to the .....
4. .... subsidy is actually the money given as share of common advertising by the firm and the channel member.
5. Advertising subsidy is actually the money given as share of common advertising by the firm and the ..... member.

Notes



*Notes* The position in the rural market was totally different twenty years ago. At present there is a demand for products like TV, fans, oil engines, readymade garments, medicine, etc. New products like toiletries, baby care products and consumer durables are now getting good demand.

## 9.4 Finalization of Price

The following attributes are taken into consideration at the time of price finalization:

1. Price and quality perceptions of the target market customers. In many products, price and quality do get interlinked and any lowering of price or keeping price lower than competition has a definite effect on customer's mindset, as they believe lower price could mean lesser quality product too.
2. Brand equity.
3. Advertising penetration and effect on the customers.
4. Price of other products of the firm in relative terms of their importance to the customers.
5. International farm produce prices could depend on the relative balance of payment situation with a particular country, as well as currency exchange rates and tariffs. (It would be of interest to the students to know that during the existence of the USSR, India's trade with it was known as rupee trade, as both the countries were short of hard currency, the dollars. Needless to add that the USSR had no need of our rupee and we had none of their Money, it was in true sense a barter arrangement where each country could sell to the other some useful but mostly useless items to the other country).
6. It could also be in two parts, one barter and the other could be cash payment. It can be said that the firms need to have information on competition and the customer's psychology before the price can be fixed correctly. As the markets are dynamic entities, pricing mechanism also has to be kept in readiness for changes as per market needs and firms own objectives.

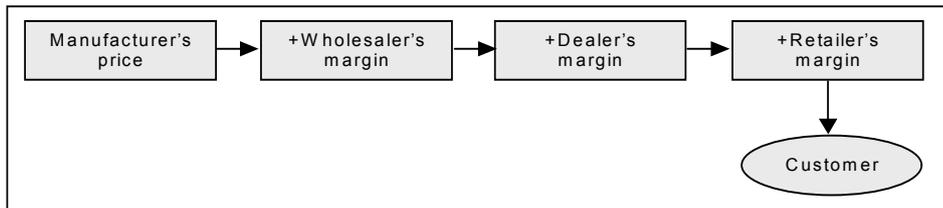
As most consumer and several industrial products are sold through distribution channels, their price must take in to account the margins to be offered to the channel members or their possible mark-ups, in the event that they are given one price by the manufacturer and asked to add their profits or mark-up on to the price. Hence the retail price could be made up of the following two different offers as follows:

1. Technical bid giving the product's technical specifications, capabilities and conformance to the specifications needed by the buyer.
2. Commercial bid giving the price and other terms of business.

The sealed bids are opened on a designated date, time and place in front of the bidders. First the technical bids are seen and those not meeting with the desired specifications are excluded from the tender.

Next, the commercial bids are opened and the buyer decides on its basis the firm/s on whom the order is to be placed.

## Notes



When the firm offers its price to the customer as Maximum Retail Price (MRP), it includes the margins of the channel members, which could be as shown above or differently. Besides, the firms offer, cash discounts if the channel members pay cash. Discounts on offer could be in the following situations:

1. Cash discount on cash purchases.
2. Turnover discounts given on the basis of the channel member achieving a given and accepted turn over in product sale.
3. Inventory clearing discount is given when the firm has large inventory and the discount acts as incentive for the dealer to buy more.
4. Quantity discount is offered for purchase of a minimum specified quantity.
5. Advertising subsidy is actually the money given as share of common advertising by the firm and the channel member.
6. Off-season discount for buying the product when it is not needed like buying woollens during summers and air conditioners during winters. (In fact, for air conditioners there is, at times a premium during summer).

Prizes for super achievers among the channel members are offered to those dealers who have at the end of the year done remarkably well. It could be a gift or a free trip to some exotic location at the firm's expense.

Price changes can be made due to special circumstances also. At times, firms want to generate extra cash and they off-load products at a much lower price, often even at a loss. In exhibitions, melas in rural India special prices are offered to exploit the buying mood of the people visiting these places. Cash discount to the channel members can be extended further to the customer/user, which would ultimately reduce stocks in the distribution channel, and the firms can then have additional sales.

A major cost related incentive offered these days is low cost finance to the buyer, who can buy the product on borrowed money and pay to the financier in installments. In rural India, tractors, seeders, harvesters are bought on financing basis. Cars, houses and several consumer durables are being sold in large quantities, which have affected the sale of second-hand goods in India. Extra help can be provided by way of extended payment terms making buying easy and with no worry for making early payments.

Service marketing offers different types of challenges to the sellers. For example, a hotel or an inn may get two types of customers.

1. One person who comes alone, stays for a day in one year and spends about ₹ 5000.
2. Another person comes three times in a month, brings three to four colleagues with him and spends about ₹ 500000 per annum.
3. It is said that the customer is the King. Can we say that the second customer is definitely the King? What about the first one? Is he only a prince? Maybe he will become a King in time.

**Notes**

Most service industry therefore needs to do a Customer Value Analysis (CVA). For a star hotel the following matrix needs to be completed to give a proper designation to each customer/customer group.

**Table 9.1**

	Room type/ordinary. Deluxe/suite	Health club usage	Restaurant/bar usage	Business centre usage
Tourist solo				
Tourists in groups				
Small businessman				
Senior executives				
MNC Executives				

Each customer is rated between 1-5 and then only the hotel can decide about the true value of a particular customer to them.

Coming to pricing the following elements go into hotel room pricing:

1. CVA
2. Competitive pricing
3. Cost to sell the room
4. Seasonality
5. Location of the hotel



*Caution* Companies that have figured this out are doing better in the villages than in the cities. Soft drinks giant Coca-Cola is growing at 37% in rural markets, compared with 24% in urban areas. According to Hansa Research, a market research firm that has published a Guide to Indian Markets 2006, the penetration of consumer durables has risen sharply in India's villages between 2000 and 2005.

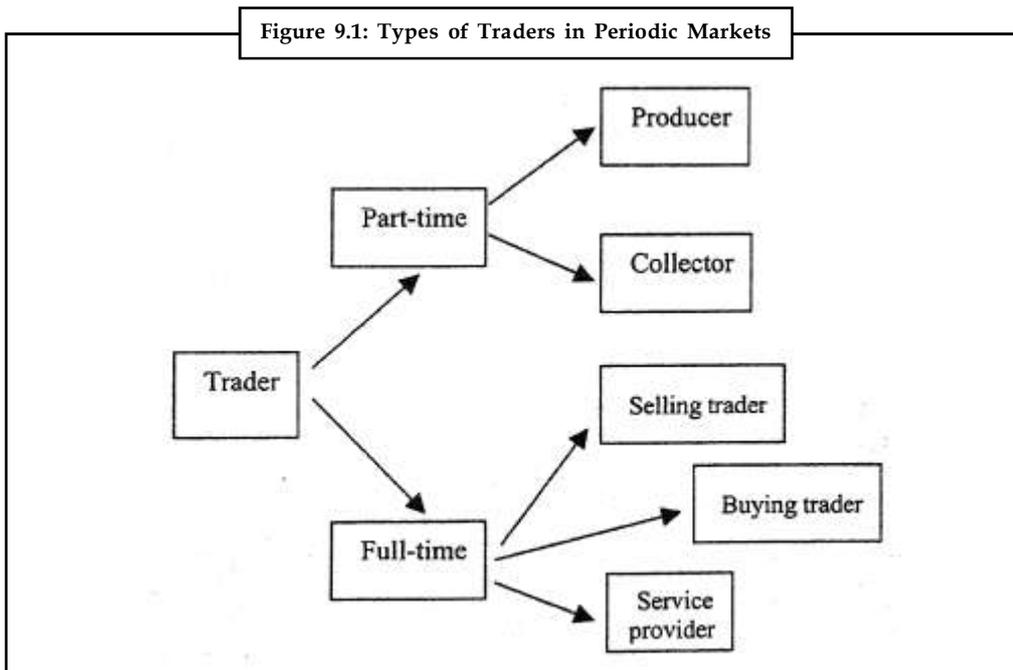
### **9.5 Rural Pricing Strategies**

One of the key aspects of rural pricing is the distribution cost that adds to the overall cost of the product. Marketers on the other hand have felt that the rural markets will fetch them lower prices. Between this dilemma rural marketers have always looked at offering. Those products to the consumers which offer more value at a lower cost. On the other hand, marketers have also being making attempts to help consumers in rural markets switch to their products with better price offer than their competitors or the nearest local version of the product. But before we dwell on this issue further, it will be critical to evaluate some fundamental price structures that exist in rural markets.

## Notes

Rural markets usually work on two different price levels for similar products.

1. When the product is distributed from company sources at the rural retail markets, the price structures include the cost of distributing right at the retail or distributor level.
2. Alternatively, in other cases, the local retailer also visits the nearest distributor/dealer at the nearest town or district to collect his stocks, and there the retailer adds his own cost of distribution to the product.



The above Figure 9.1 is a broad indication of the kind of retailers we are referring to in point (2).

At both these levels the pricing structures are very different owing to the nature and amount of logistics cost incurred being different. In some instances where marketers are not able to approach certain markets for absence of proper infrastructure (primarily roads), the local retailers take the onus of approaching the nearest distributor/dealer/stockiest. On the other hand, the local haats and fairs also offer products at the best deal and so the third pricing structure though more a part of promotional pricing strategy, also coexists along with the first two.

With different price structures, very often, for the same products rural marketers find it difficult to ensure the sustainability. Sustainability also refers to maintaining similar price levels. If the monsoon season leads to bad road conditions and the local retailer incurs a higher cost of reaching the goods to his village, the final product price will also vary substantially. However, as mentioned earlier, due to usage occasions and usage amount of average FMCG products being less than urban markets, price differences in aggregate terms are not usually varying. Sachets, one of the most successful forays in rural markets are usually low in amount and cost. The price differentials are also at times affordable from the consumer's perspective. The retailing comparison as shown in Table explains the differences between urban, semi-urban and village markets with regard to pricing issues. Product and Pricing Decisions for the Rural Markets.

Notes

Retailer	Products	Promotion	Role and Influence	Price
Urban* (city or town)	Global and national brands. Few local brands	Wide range. Intensive	Informative and suggestive. Help identify alternatives	MRP. One price for all. Select discounts at the local retail level usually on informal basis. Packaging, billing and other related
Semi-urban (small towns) feeder points for villages	National and local brands. Few global brands and large number of unbranded products.	Limited. Mostly POP, discounts and incentive offers,	Informative and suggestive. Help identify alternatives	MRP in case of branded products, improper display of prices for essential commodities. Products sold in local packaging too, referred to as loose sales. Weights and measures less accurate. Selective credit policy.
Rural (village selling points)	Largely local and unbranded products	Marginal. Mostly POP and road signage	Helps in purchase decisions	Mark-up on all items. No display of prices. Different prices to different customers based on customer knowledge and type of purchase (barter or cash). Improper weights, adulteration.

Source: Rural Marketing by C.S.G. Krishnamacharyulu and Lalitha Ramakrishnan, Pearson Education, 2002

**Self Assessment**

State whether the following statements are true or false:

6. Haats and melas form an integral part of the rural consumer's shopping patterns.
7. Marketers on the other hand have felt that the rural markets will fetch them higher prices.
8. International farm produce prices could depend on the relative balance of payment situation with a particular country.
9. A key concern facing marketers in respect of Urban pricing is issue the branded versus unbranded goods.
10. Inventory clearing discount is given when the firm has large inventory and the discount acts as incentive for the dealer to buy more.
11. Firms resort to penetrating pricing in order to increase their market share.

**9.6 Pricing and Income Levels**

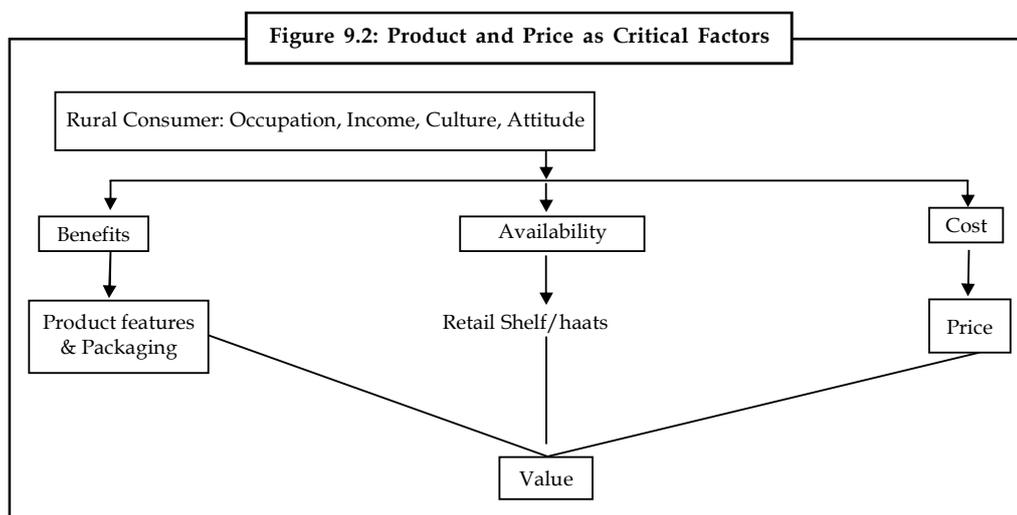
Another issue critical to the rural markets is the large income disparity that results in the consumption patterns being not so regular. In fact, between the urban and rural consumers the income disparity is fairly large and hence prices for average products remain different. As a result the basic price differentials are fairly large between these markets. Per capita income in rural India (₹ 9481 per annum) is almost half of that of urban India (₹ 19,407 per annum) indicating the level of income disparity between urban and rural areas.

While the highest percentage of aspirants are in the rural sector, the urban sector has the highest number of well-off, which in practical term refers to middle and upper middle. With aspirants and climbers forming a substantial part of the market, the value sought from the product will be higher and marketers need to trudge this path very carefully. It does not have any easy correlation to selling cheap and stripped down versions of the products, but offering the best value. Small pack sizes will get easy.

A key concern facing marketers in respect of rural pricing is issue the branded versus unbranded goods. Rural consumers are aware of the branded product vis-a-vis price as a critical aspect of branded goods consumption. The local and spurious product will continue to exist alongside the branded products. It does become difficult for consumers to choose at times, considering the price disparities and the income scarcities. The spurious products are very common in the rural settings where close imitation of a popular brand, with similar packaging could outsell the original simply because it is sold at a far lower price, sometime a differential of 50%. AC Nielson through a study conducted in rural markets were able to establish that sales of spurious Vicks equaled that of the original brand.

### Promotional Discounts/Promotional Pricing

Having discussed some of the basic issues in pricing for rural markets, this section looks at some of the pricing strategies actually adopted by marketers, which are usually covered in the rural markets. Though the remaining pricing strategies are also adopted by the rural markets, promotional pricing is usually the preferred route. Geographical pricing and product mix pricing are also adopted by marketers for any given market. LG's Sampoorna range of TV was launched exclusively for the suburban and rural markets, which was a stripped down version of the core product, eventually meeting with little success in the rural markets. The critical point for rural markets are products focusing on needs of the consumers or the other alternative is to look at low-priced products targeted at the price sensitive rural markets. The choice will purely be on the organisation's objective to meet consumer demand effectively.



The figure above represents the product versus pricing issue, which will be critical to consider for organisations entering rural markets. It is always not be true that only the cheap products will sell in the rural markets. 'Usha found that the sale of its economy models were falling sharply in rural areas. Farmers preferred Usha's premier Century brand, though it was priced 20% higher, as they found the value proposition of the latter, more in keeping with their perception of value.

**Notes**

Promotional pricing in the rural markets may involve introductory price offers targeted at promoting trial, free samples or quantity discounts to ward off competition. The following table summarizes the type of price discounts that are in unusual practice.

**Table 9.2: Promotional Pricing: Price Discount**

Types of Discount	Objectives
1. Volume discounts	To encourage consumer to buy larger volumes and avail of much lower prices. May succeed at post harvest, festival or pre marriage seasons.
2. Trade discounts	To motivate channel members to service customers effectively. Usually given at the time of special schemes or product introduction or new model introduction.
3. Seasonal discounts	To stimulate demand in lean periods and to smoothen wide fluctuations in demand. Usually offered in periods preceding and following peak demand periods.
4. Promotional discounts	To stimulate channel members to make special efforts to promote demand. Usually for a limited period.

*Source:* Adapted from Rural Marketing by CGS Krishnamacharylu and Lalita Ramkrishnan, Pearson Education 2002.

A key consideration is also the sources of income in the rural sector, which affect consumption patterns. With harvest season, disposable income goes up and farmers have a tendency to experiment with purchases. The synchronising of price offers and assortment offers to such patterns is referred to as "income stream and consumption basket offering". This in effect means that the price and positioning decision is therefore influenced not just by the income received but also on when it is received and how it is allocated among different needs.

Haats and melas form an integral part of the rural consumer's shopping patterns. Owing to the nature of such fairs and timings purchases are usually varied and even made in bulk. For instance, the Sonapur Cattle Fair, finds buyers and sellers for not just cattle but as a variety of other elements are also dovetailed onto the fair, it witnesses all kinds of purchases and bargains beyond cattle. Naturally, price will be the key differentiator for most purchases. The Kumbh Mela, the annual ritual of the Hindus, also witnesses a large number of visitors from the rural countryside. Marketers encash every opportunity to offer the best deals and product, on such occasions, to take advantage of the heightened purchase intention.

### 9.7 Competition and Pricing

You are aware that apart from the costs of a product and the consumers capacity to pay, the third leg of the pricing decision tripod is the competition, In any competitive category, prices need to be responsive to competition's price points as in price elastic and value for money kind of market scenario, small differentials in seemingly similar product offers could see you lose market to your competitors. The rural markets represent situation where competitor presence may be thin at present but as more and more organisations warm to the emerging potential of rural markets, the pricing decisions would need to be very sensitive to what the competition offers. Competitive pricing offer takes the form of price reduction, package size reduction accompanied by price reduction or offering more volume for the same price. Price setting becomes an issue when your competitor either reduces his price or initiates a price increase. While your final decision on price fixation under such situations may rest on an analysis of the price sensitivity of the consumer and your own costs, certain generalisations can indicate direction towards appropriate strategy. A price rise by the competitor should be matched in a period of

## Notes

growing demand or rising costs. If you can manage to control your costs to existing level, and are in highly price conscious market, market advantage is likely to occur when you maintain your prices while the competition initiates a price increase. If economies of scale or technology enable you to get a clear cost advantage, you could benefit significantly in actually lowering prices even if it means narrower margins because you could preempt or oust competition from the market.

Figure 9.3: LG's Sampoorna TV Launched Exclusively for Rural India



Rural markets have been shown to be highly price conscious markets, specially when the brands are perceived to be more or less similar. When the competition introduces a price reduction on his products, you may need to carefully consider the price maintenance option. Not reducing the price may mean loss of consumer franchise in extremely price conscious markets. On the other hand, if the market is more value conscious and has displayed brand loyal behaviour, reinforcing the value proposition of your brand may allow you to retain your position even in the face of price reduction. Matching the price cut initiated by the competition is indicated when the market is, as noted above, very price conscious and does not display any notable brand preference or loyalty to your brand. A strategy to counter direct price cut is to offer more affordable, but smaller package sizes. Dr. Shiva Kumar, GM, Marketing (Personal) Products, FILL, stressed that while all Ps apply in the hinterland, price is the single most important determinant. Product and package innovations however can be used to gain instant success as value proposition can be built around smaller sized, specially designed offers for the rural market as demonstrated by Brooke Bond's Al, Wheel, Kissan, Lipton Tiger etc. Following the reduction in excise duties for tooth powder, Colgate Palmolive, in a bid to convert rural non users to users, has reduced prices even further and introduced a special 50 gram pouch and even a ten gram pouch, priced at ₹ 6 and ₹ 1.50 respectively. This has been done with an objective of initiating usage of tooth powder among all the members of the family as well as to preempt competition.

### Self Assessment

Multiple Choice Questions:

12. Haats and melas form an integral part of the rural consumer's ..... patterns.
 

(a) shopping	(b) design
(c) working	(d) sales
13. Rural markets have been shown to be highly ..... conscious markets.
 

(a) brand	(b) price
(c) product	(d) quality

Notes

14. A price rise by the competitor should be matched in a period of growing ..... or rising costs.
- (a) significance (b) production  
(c) price (d) demand

### 9.8 Role Play Module 3

The CEO of the company wants to finalise the price of the product and he gets his team to discuss the same.

**CEO:** "Gentlemen, since we have decided to launch the product, let us finalise its price today."

**Finance Director:** "I believe the rural market is ready to pay the same price as we charge the urban buyer. Therefore I think we should keep the same price all over the country."

**Marketing Director:** "Oh come on! the rural buyers do not have that kind of money and the urban prices will score the rural buyers away and we would have a non starter launch."

**HR Director:** "Rural markets are ready for the product but they cannot pay the urban market prices. Let us see how we can reduce the prices even as we keep the product's quality the same."

**CEO:** "What about making certain changes in the product and keep it of slightly lower standards for rural markets?"

**Marketing Director:** "I believe the answer lies in planning for a new low cost package and supplying the same product. This will help in cultivating the rural buyers as they will endorse the high quality of the product."

**Operation Director:** "May be we should give the idea a try. I will get our R&D team to work on a low cost attractive package."

**CEO:** "Please see that we get the final package in a week's time to ensure we are able to stick to our launch schedule."



Case Study

#### ITC Rural Initiative

**I**TC started as a tobacco product company. It has since forayed into several of the key developmental areas in the country, an important one being that of rural development. ITC has the following story to tell on this issue.

Agriculture is vital to India. It produces 23% of GDP, feeds a billion people, and employs 66% of the workforce. Because of the Green Revolution, India's agricultural productivity has improved to the point that it is both self-sufficient and a net exporter of a variety of food grains. Yet most Indian farmers have remained quite poor. The causes include remnants of scarcity-era regulation and an agricultural system based on small, inefficient landholdings. The agricultural system has traditionally been unfair to primary producers. Soybeans, for example, are an important oilseed crop that has been exempted from India's Small Scale Industries Act to allow for processing in large, modern facilities. Yet 90% of the soybean crop is sold by farmers with small holdings to traders who act as purchasing agents for buyers at a local, government-mandated marketplace, called a mandi. Farmers have only an approximate idea of price trends and have to accept the price offered to them

Contd...

at auctions on the day that they bring their grain to the mandi. As a result, traders are well positioned to exploit both farmers and buyers through practices that sustain system-wide inefficiencies.

ITC is one of India's leading private companies, with annual revenues of US\$2 billion. Its International Business Division was created in 1990 as an agricultural trading company; it now generates US\$150 million in revenues annually. The company has initiated an e-Choupal effort that places computers with Internet access in rural farming villages; the e-Choupals serve as both a social gathering place for exchange of information (choupal means gathering place in Hindi) and an e-commerce hub. What began as an effort to re-engineer the procurement process for soy, tobacco, wheat, shrimp, and other cropping systems in rural India has also created a highly profitable distribution and product design channel for the company, an e-commerce platform that is also a low-cost fulfillment system focused on the needs of rural India. The e-Choupal system has also catalyzed rural transformation that is helping to alleviate rural isolation, create more transparency for farmers, and improve their productivity and incomes. This case analyzes the e-Choupal initiative for soy; efforts in other cropping systems (coffee, wheat, and shrimp aquaculture), while different in detail, reflect the same general approach.

### **Business-Model**

A pure trading model does not require much capital investment. The e-Choupal model, in contrast, has required that ITC make significant investments to create and maintain its own IT network in rural India and to identify and train a local farmer to manage each e-Choupal. The computer, typically housed in the farmer's house, is linked to the Internet via phone lines or, increasingly, by a VSAT connection, and serves an average of 600 farmers in 10 surrounding villages within about a five kilometer radius. Each e-Choupal costs between US\$3,000 and US\$6,000 to set up and about US\$100 per year to maintain. Using the system costs farmers nothing, but the host farmer, called a sanchalak, incurs some operating costs and is obligated by a public oath to serve the entire community; the sanchalak benefits from increased prestige and a commission paid him for all e-Choupal transactions. The farmers can use the computer to access daily closing prices on local mandis, as well as to track global price trends or find information about new farming techniques, either directly or, because many farmers are illiterate, via the sanchalak. They also use the e-Choupal to order seed, fertilizer, and other products such as consumer goods from ITC or its partners, at prices lower than those available from village traders; the sanchalak typically aggregates the village demand for these products and transmits the order to an ITC representative. At harvest time, ITC offers to buy the crop directly from any farmer at the previous day's closing price; the farmer then transports his crop to an ITC processing center, where the crop is weighed electronically and assessed for quality. The farmer is then paid for the crop and a transport fee. "Bonus points," which are exchangeable for products that ITC sells, are given for crops with quality above the norm. In this way, the e-Choupal system bypasses the government-mandated trading mandis.

Farmers benefit from more accurate weighing, faster processing time and prompt payment, and from access to a wide range of information, including accurate market price knowledge, and market trends, that help them decide when, where, and at what price to sell. Farmers selling directly to ITC through an e-Choupal typically receive a higher price for their crops than they would receive through the mandi system, on average about 2.5% higher (about US\$6 per ton). The total benefit to farmers includes lower prices for inputs and other goods, higher yields and a sense of empowerment. The e-Choupal system has had a measurable impact on what farmers chose to do: in areas covered by e-Choupals, the

*Contd...*

**Notes**

percentage of farmers planting soy has increased dramatically, from 50 to 90% in some regions, while the volume of soy marketed through mandis has dropped as much as half. At the same time, ITC benefits from net procurement costs that are about 2.5% lower (it saves the commission fee and part of the transport costs it would otherwise pay to traders who serve as its buying agents at the mandi) and it has more direct control over the quality of what it buys. The system also provides direct access to the farmer and to information about conditions on the ground, improving planning and building relationships that increase its security of supply. The company reports that it recovers its equipment costs from an e-Choupal in the first year of operation and that the venture as a whole is profitable.

In mid-2003, e-Choupal services reached more than 1 million farmers in nearly 11,000 villages, and the system is expanding rapidly. ITC gains additional benefits from using this network as a distribution channel for its products (and those of its partners) and a source of innovation for new products. For example, farmers can buy seeds, fertilizer, and some consumer goods at the ITC processing center, when they bring in their grain. Sanchalaks often aggregate village demand for some products and place a single order, lowering ITC's logistic costs. The system is also a channel for soil testing services and for educational efforts to help farmers improve crop quality. ITC is also exploring partnering with banks to offer farmers access to credit, insurance and other services that are not currently offered or are prohibitively expensive. Moreover, farmers are beginning to suggest, and in some cases, demand, that ITC supply new products or services or expand into additional crops, such as onions and potatoes. Thus farmers are becoming a source of product innovation for ITC.

The e-Choupal system gives farmers more control over their choices, a higher profit margin on their crops, and access to information that improves their productivity. By providing a more transparent process and empowering local people as key nodes in the system, ITC increases trust and fairness. The increased efficiencies and potential for improving crop quality contribute to making Indian agriculture more competitive. Despite difficulties from undependable phone and electric power infrastructure that sometimes limit hours of use, the system also links farmers and their families to the world. Some sanchalaks track future prices on the Chicago Board of Trade as well as local mandi prices and village children have used the computers for schoolwork, games, and to obtain and print out their academic test results. The result is a significant step towards rural development.

The e-Choupal model demonstrates that a large corporation can play a major role in recognizing markets and increasing the efficiency of an agricultural system, while doing so in ways that benefit farmers and rural communities as well as shareholders. The case also shows the key role of information technology, in this case provided and maintained by a corporation, but used by local farmers, in helping to bring about transparency, increased access to information and rural transformation. Critical factors in the apparent success of the venture are ITC's extensive knowledge of agriculture, the effort ITC has made to retain many aspects of the existing production system including maintenance of local partners, the company's commitment to transparency and the respect and fairness with which both farmers and local partners are treated.

**Question**

Discuss the plan and find out the improvements possible in the plan.

## 9.9 Summary

Notes

- Product pricing in highly competitive world has assumed unprecedented importance in the management of rural markets for firms' profitability.
- There are usually three types of market situations and each gives pricing opportunities in different ways.
- In case of monopoly, there is only one supplier of the product.
- In oligopoly situations, there are just a few suppliers, say four or five. Perfect competition means having a large number of suppliers of the product.
- In most of these cases the price is negotiated between the seller and the buyer.
- The price of a new product, is based on the price of competitive product, cost to manufacture, product position in the market place and product itself, its uniqueness as compared to competition.
- Firms must understand the price, demand pattern for the product based on the selected market segment.
- The demand and price ratio varies with products; in some the demand remains inelastic irrespective of price while for some products even a slight change in product price changes the demand pattern drastically.
- Rural markets have been shown to be highly price conscious markets.
- A key consideration is also the sources of income in the rural sector, which affect consumption patterns.

## 9.10 Keywords

**Experience Curve Effect:** With experience in manufacture over a period of time, the workers improve their skills and human error losses get reduced. This reduction directly reflects in lowering of variable costs and this is known as the Experience Curve Effect.

**Promotional Discounts:** To stimulate channel members to make special efforts to promote demand. Usually for a limited period.

**Seasonal Discounts:** To stimulate demand in lean periods and to smoothen wide fluctuations in demand. Usually offered in periods preceding and following peak demand periods.

**Trade Discounts:** To motivate channel members to service customers effectively. Usually given at the time of special schemes or product introduction or new model introduction.

**Volume Discounts:** To encourage consumer to buy larger volumes and avail of much lower prices. May succeed at post harvest, festival or pre marriage seasons.

## 9.11 Review Questions

1. Explain the Economies of Scale of manufacture.
2. Describe the Finalization of price.
3. Explain the Promotional Pricing.
4. Explain the types of traders in periodic markets.

**Notes**

5. Explain the Rural Pricing Strategies.
6. What do you know about promotional discounts?
7. Explain the Experience Curve Effect.
8. Describe the pricing elements.
9. Explain the competition and pricing.
10. Define Trade Discounts.

**Answers: Self Assessment**

- |                    |                 |
|--------------------|-----------------|
| 1. Product Pricing | 2. Market Share |
| 3. Workers         | 4. Advertising  |
| 5. Channel         | 6. True         |
| 7. False           | 8. True         |
| 9. False           | 10. True        |
| 11. True           | 12. (a)         |
| 13. (b)            | 14. (d)         |

**9.12 Further Readings**



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Online links

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[www.rmai.in](http://www.rmai.in)

[www.world-agriculture.com/...marketing/rural\\_marketing.php](http://www.world-agriculture.com/...marketing/rural_marketing.php)

[www.martrural.com](http://www.martrural.com)

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Notes

## Unit 10: Distribution Strategies for Rural Market

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- Objectives
- Introduction
- 10.1 Distribution Patterns for Consumer and Industrial Goods
- 10.2 Customer Convenience Buying
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- 10.6 Role play
- 10.7 Summary
- 10.8 Keywords
- 10.9 Review Questions
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### Objectives

After studying this unit, you will be able to:

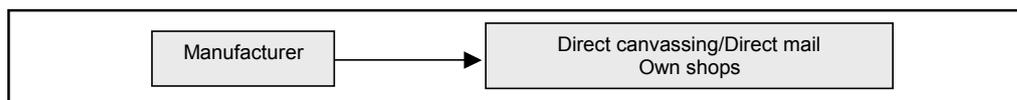
- Define Distribution Strategies.
- Discuss the Distribution Pattern for Consumers and Industrial Goods.
- Describe the Consignment Agents.
- Explain the Overview of Leasing and Hire Purchase.

### Introduction

Once the firm has completed Marketing Research and decided about the product/s they want to introduce in the market having selected the niche market, the firm needs to ensure that its customers and prospective customers are aware of the product and their usage, and the product is available to them at convenient shops. The first objective of communicating with customers is done through personal selling and advertising. The second is done through organizing proper distribution system. In this unit we are discussing the distribution methods available for firms. The firms can choose the method best suited to their needs taking the product, and its service requirements into account.

For the manufacturer of a product there are two basic distribution systems.

The first one is as given below:



In the above method the manufacturer, sells by personal selling, through direct mail or from firm's own shops (like Bata shops).

In the second method there can be a number of intermediaries as given below:

Notes

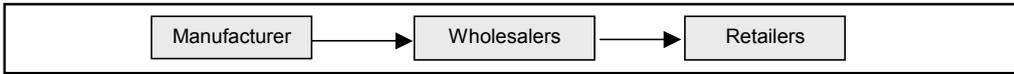


Figure 10.1: Bata Selling Products through Personal Selling



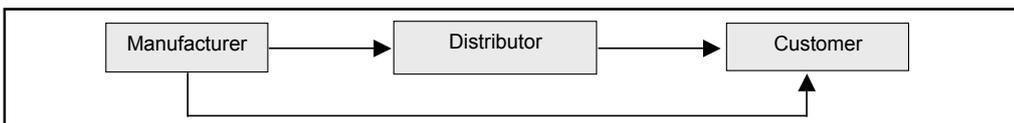
In the indirect method the simple method starts from manufacturers who sell the product to wholesaler, who in turn sells it to retailer, for sale to the ultimate customer. At each step, some amount of money as profit is given, which adds to the selling price of the product to the customer. In most cases the manufacturer follows the set pattern of product distribution as per trade practices, or how the competitors are distributing their products. However, blindly following competition is not the answer, as competitors may be having different scales of production or any other basic difference with the firm. Innovations in distribution methods are taking place and firms should take advantage of the new methods.

Let us examine the two broad categories of products and their presently accepted distribution patterns.

### 10.1 Distribution Patterns for Consumer and Industrial Goods

In case of sale of raw materials and components the manufacturers sell through a distributor network, the size of which is finalized taking the geographic area, which needs to be covered, by the manufacturer.

#### Industrial Goods



As can be seen, in industrial goods, the sale is made either directly to the customer or through a distributor. Capital goods sale is usually made directly to the customer, because of the following reasons.

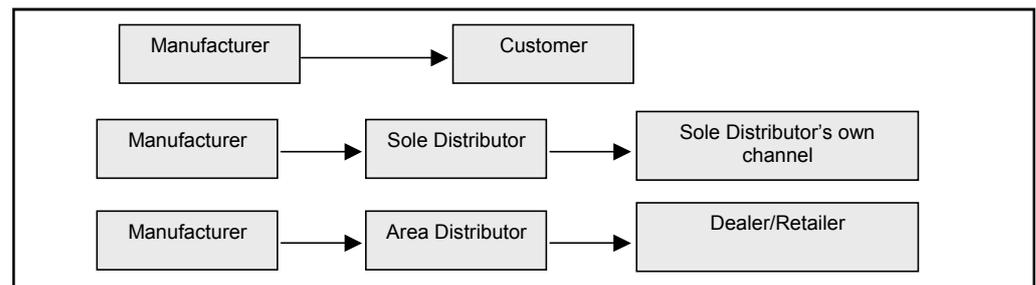
1. Technicalities have to be explained to the customer, which are best done by the manufacturer.

**Notes**

2. Mostly large sums of money are involved and the customer wants the best price without middleman's commission.
3. Installation and commissioning of the equipment is involved, best done by the manufacturer's engineers.
4. After-sales service is complicated.

**Consumer Goods**

These are usually sold through the distribution channels as follows:



Very small firms, who have limited market, like bakeries may resort to direct selling to their customers. Very large firms have sole distributors with their own network of dealers and retailers. We will discuss the merits and demerits of each of the methods of distribution and some other methods as well.

Other distribution methods include the following:

***Own Shop***

Many manufacturers like Bata; Usha and Singer have their own i.e. company owned sales outlets (shops). These shops ensure that the products are available to the customer in good quantity, of right quality, and at the right price. Besides, as the shops sell products of the firm only, the control on sale can be more effective as compared to the sales being made through dealers and retailers who handle competitive products as well. The above mentioned firms realized the great assets they had in their own shops and as the firms had only a limited range of products, the shops, mostly in prime locations were not being fully utilized. These firms, therefore added complementary products and made their shops as sales outlets for a complete range of products in their particular fields.

***Franchise Outlets***

The manufacturers give legal rights to an independent business entity to run franchiser's business (under some controls by franchiser, like quality control). The franchisees help the manufacturers to add to their business, have bigger geographic coverage and increase their market share. McDonald's, and Pizza Hut are two examples of manufacturers who have used franchise system effectively.

***Mail Order***

Some products like Readers Digest magazine are sold through Mail Order. Customers are requested to send their orders directly to the publishers, who send the product directly to the customers.

### ***Catalogue Sales***

Notes

These are a variant of mail order, as here the firms dealing with a number of products get colourful attractive catalogues made describing the products. These catalogues are then sold or distributed to a large number of prospective customers, who select products from the catalogue and place order on the firm. The firms have to ensure that the quality of the product sold is the same as mentioned in the catalogue; otherwise, the negative publicity with bad product sold will spoil the firm's business.

### ***Web Marketing***

The spread of computers and Internet has opened the doors for marketing or selling on the Internet. Pick up any channel on the net and you will find a number of advertisements. The customers can place orders on the net itself and give their credit card number. The sellers will surely dispatch the product against the order. Since there are no expenses on shops, effective reduction in prices can be made. The only danger of these types of sales is that the customer does not get to see the product before they get the same.

### ***Agency Operation***

Agents are independent businessmen who help manufacturers in selling their products. The agents obtain orders from the customers, which they forward to the manufacturers. On the conclusion of the transaction, the agent gets an agency commission for his efforts in getting the orders. Agents can be both for buying and selling products. They have long-term agreements with the manufacturers and they operate within the terms and conditions of the contract. Their task includes negotiating the sales contract with the buyers on behalf of the manufacturers for which they have the authority. They build long-term relationships with the buyers who benefit as they get consistently good products at uniform prices.

### ***Stockists***

Manufacturers some times appoint stockists who are businessmen with storage space. The stockist's job is to keep stocks on behalf of the manufacturer and dispatch the same to distributors and retailers on receiving instructions from the manufacturer. For the use of their storage space and their efforts in making dispatches they get a commission from the manufacturers. Normally they are not involved in actual selling effort of the firm.

### ***Consignment Agents***

These businessmen are required to keep stocks of manufacturers' merchandise on their behalf and as and when they are able to sell the products they send the money received to the manufacturer. For their efforts they are paid a commission on sales. These types of agents are especially needed when a product is introduced in the market and the channel members are not sure of its saleability.

Unlike in the first half of the twentieth century, when the manufacturer as per his convenience decided the channel, now the channel selection depends mainly on market survey report, which tells the manufacturer, how the customer wants to buy the product.

Main criteria can be summed up as follows:

1. Customer reach for the channel
2. Customer convenience of buying

Notes

3. Service facility needed by the product and its availability with the channel
4. Number of products available from one manufacturer for the channel

**Customer Reach:** Sales orientation of the first half of twentieth century was mainly on manufacture. Once the product is in the market it was sold. Competition was almost absent in most products. In some products there was total monopoly and the manufacturer could set his terms of sale. In majority of products however, there were a few manufacturers. In other words there was oligopoly and the manufacturers could join hands and control market prices. Later on in order to avoid the situation of cartel formation the Government of India set up Monopolies And Restrictive Trade Practices Commission (MRTPC).

Today in the beginning of the twenty-first century, manufacturers are facing severe competition in practically all the products and the manufacturer who can place his product within easy reach of the buyer definitely gains advantage over other competitors.

Taking this view Eureka Forbes has started personalized selling of their products, which include Consumer durables like Vacuum Cleaners, Water Purifiers. The sales are made by firm's salespersons visiting the homes and offices of prospective customers with sample of the product, when they can give live demonstration to convince the customers and obtain an order.

Many retailers have resorted to home delivery systems, including for consumer durables. The customer can buy a product by telephone order or through Internet purchase and the product is delivered to his home. Such purchases are paid for by either cash or through credit cards.



*Did u know?* Rural India is sparsely populated and so it is obvious that the distribution costs are high. Here, one needs to deploy innovative approaches in order to bring down the costs.

## 10.2 Customer Convenience Buying

In every residential locality Convenience stores or retail outlets have come up. These shops keep stocks of a variety of products of daily needs, which the residents buy. As the shops keep competitive products they sell the products as per the following plan:

1. Brand as per customers demand.
2. Brand on the basis of sales commission they get from the firm. If the customer has no choice the shopkeeper will try to sell such a product where he gets maximum profit.
3. In case the shop does not have the customer demanded brand it will try to convince the customer first to buying the brand in stock.

No manufacturer can afford to avoid the retail shops, which cover the convenience criteria for the customers.

### **Sales with Service**

Several consumer durable products require service to be provided to the product on either periodic basis like automobiles or once in a while basis like air-conditioners. Retailers who can provide such service should sell all such products, which need regular service. Maruti car dealers are selected only on the condition that they can provide proper service to the sold cars. In fact Maruti provides technical training to the engineers of their dealers. The dealers have to maintain stocks of spare parts and accessories, which enables them to provide timely proper service.

## Self Assessment

## Notes

Fill in the blanks:

1. The manufacturers give legal rights to an ..... business entity to run franchiser's business.
2. .... sales are a variant of mail order, as here the firms dealing with a number of products get colourful attractive catalogues made describing the products.
3. The spread of computers and Internet has opened the doors for ..... or selling on the Internet.
4. .... are independent businessmen who help manufacturers in selling their products.
5. Manufacturers sometimes appoint ..... who are businessmen with storage space.
6. .... orientation of the first half of twentieth century was mainly on manufacture.

### 10.3 Multiple Product Manufacturers

When one manufacturer can supply a variety to products needed by one type of customers for e.g., Hindustan Lever then they need to have distributors who can invest in inventories and prime location for their retail sales outlets.

We will discuss the value of wholesalers in the distribution system. Manufacturers need retailers most, as they are the link between the manufacturer and the consumer. However, manufacturers find it difficult to sell to retailers directly, as they need small quantity of products only. Selling to numerous retailers would involve huge amount of billing action, and several dispatches to a variety of locations needing enormous manpower. Wholesalers buy in bulk and hence selling to wholesalers reduces these activities. Bulk packing can be used for large consignments. Wholesalers are also called distributors and perform the following functions for the manufacturer:

1. Buy in bulk.
2. Making "small customer size" packages.
3. Buying variety of products and making matched sets as required by the customers, like soap and soap dish, tooth paste and tooth brush.
4. Stocking products in large quantities and ensuring that the dealer is never out of stock without having to invest in large inventory himself.
5. Low cost transport to retailers can be provided as for small quantities they need not hire trucks. They can use tempos, three wheelers and hand trolleys.
6. Provide information regarding competitive activities, new products in the market, change in prices; they can be virtual market surveyors for the firm.
7. Provide credit, loans and leasing facility (either themselves or through a leasing agency) to the customers.
8. Share in advertising and promotion arranged by the firm.

As many firms are resorting to direct selling to the retail trade and sometimes to the customers, wholesalers may become obsolete in the future.

**Notes**

Wholesalers have been performing important role in the business of the manufacturers, most important being that of making bulk purchases. It is for this reason that the wholesalers prefer to sell products of only one manufacturer. They may take up sale of other manufacturer if there is no competition involved. Furthermore, wholesalers take up products from other manufacturers if they complement their main product either as an accessory or original component. The exclusivity of product sale is legally not appropriate under the MRTP Act. Most firms however keep the exclusivity clause in the agreement as unwritten.

In order to survive in the distribution race, wholesalers/distributors, have started to re-focus their strategies as under:

1. Distributors/wholesalers divest themselves of small jobs and concentrate on the distribution as their main line of business. It provides the required focus to the task of distribution.
2. Distributors/wholesalers take up product servicing as per standards laid by the manufacturers. They invest in service equipments, service consumables and stock of spares required for providing quality service to the customers.
3. Distributors/wholesalers take up other customer oriented activities like providing leasing options to the customers, through their retailers.
4. Distributors/wholesalers get their persons trained in servicing of product and in sales techniques. They impart this training to the sales and service people of retailers to enhance value addition to the products.
5. Distributors/wholesalers help the manufacturers in meeting their sales targets.



*Task* Take one FMCG one consumer durable company and analyse the effectiveness of their distribution system. Try to suggest improvement in the same.

## **10.4 Retail Business**

It has really come of age in the last decade of twentieth century. Retail shops have grown from being mere storage depots of the first half of twentieth century to a chain of super markets. In rural India there is usually a grocer's shop which sells a variety of products.

Historically, retailing started as sales by pushcart carrying products of daily use. The cart puller was also the salesman who vended the product in residential areas. In the morning the housewife found the bread and butter seller at her doorstep. These salesmen, on earnings saved, hired or purchased shops in the same localities where they were selling on the carts. While they lost on mobility, they gained in larger product range, and bigger clientele. Some shops became almost like morning clubs where friends would meet for making purchases and exchanging gossip and news. Despite the entry of super market chains, these shops have survived as they do provide a service to the local customers. In fact even handcarts have also remained as retail links and a large variety of products are still sold on the carts for e.g. vegetables.

At present too retail has not lost its importance, at all. In fact, there have been maximum innovations in the retail business as shown below.

1. Super markets, the one-stop shops. These shops are really multiple shops under one roof with a large variety of products, sometimes complementary and sometimes totally dissimilar in nature and use. The common factor in all shops remains the type of customer

who visits the shops. Now, the shoe shops sell sports wear, woolens, leather garments besides shoes. Gasoline stations have general merchandize shops from where patrons who come for filling their cars can purchase gift items, food products, and novelties to name a few products. Service centers have restaurants where the persons coming to get their car serviced can spend their time having a meal or snacks. Big departmental stores too keep small eating areas and toilets for the shoppers. They have also added children centers for the kids to have a good time while their parents do the shopping.

2. Discount stores are coming up for several manufacturers. Products, which, have some small defect are sold at a discount at these shops. Manufacturers use these stores to fight competition. While heavy discounts can be offered on practically good products, no price war can be started on this basis.
3. Boutiques have sprung up in most cities to cater to the elite of the town. These shops keep the latest fashion garments and other accessories. The products are high priced, as the customers are not price conscious, they are looking for some thing unique as status symbols.
4. Super store chains have come up to provide the same range of products, at the same prices and similar selling techniques. Normally, the customer has one such store near his house and he does not have to travel long distance to his super market for shopping. Marks and Spencer and C&A in the UK are such chains. Now, Delhi too has its own Marks and Spencer shop. With large volume business they offer competitive prices to the customers. The small shopkeeper with low volumes finds it difficult to compete with these giants. These chain stores dictate their terms to manufacturers as they hold large volume business. They at times, get the manufacturers to supply the product in their own brand name, rather selling the product with manufacturers brand.
5. Shop-less shops sell products to customers through television shows, computer advertising and telephone marketing. Television has time slots during which products are shown and their use demonstrated. The customer is then requested to place his order on telephone for delivery to his for cash payment. Internet too is used to give product demonstration and orders are solicited through Internet only, with payment to be made via credit cards. Telephone calls are used by tele-marketers, who give their sales pitch on telephone to carefully selected, likely customers. These calls are followed by visit of salesman to procure the order on the basis of telephone calls, which have, to an extent conveniences the customer in to buying the products. With low overheads these sellers can offer low prices and one wonders if the days of Super markets are numbered.
6. Retailers are now using the latest electronic products like computers for billing, inventory control, building customer database, and electronic anti-theft and surveillance devices. Bank retailing has gone to the extent of salesman less sales through Automatic Teller Machines or the ubiquitous ATMs.
7. Manufacturers' own shops as a retail system has been tried by several manufacturers in India, like Usha, Bata and Singer. These shops have the advantage of providing the genuine products at company prices. Customers can get the entire range of products, as well as full variety. However, if the manufacturers range of product is not large enough, the shop will not be a success as the customers visits shops for a range of products where they get to see the full variety. A manufacturer of only toothpaste, handkerchief or boot polish cannot sustain to run a shop just for a single product. Specially for this reason, Usha, Bata and Singer have all started to sell a complete range of products even on buy-sell basis. Shops diversify their product range by adding similar products/products which go as accessories with their main products to take the synergic benefit of add on products.

**Notes**

It can be seen that each type of distribution method has some advantages and some disadvantages. Depending on the product range, product market segment, product stage in its life cycle and capacity of manufacturer to produce, the channel is selected.

Sole distributor work on volumes of business with low margins of profit, and their market penetration is low as they depend on their retailers. With a large operational area they tend to lose grip on the market.

Area distributor cover certain geographic areas and sell through dealers and retailers operating in their area. Usually area distributors work for one manufacturer only. At least they do not deal in competing products. A major problem in case of such distributors comes from area limits, as sales in other close by distributor's area is affected by several distributors, which gives rise to conflict between the distributors.

Non-exclusive distributors deal in products of a number of manufacturers but they avoid having competing products.

Stockists keep manufacturer's stocks for giving to the dealers or retailers against authority from the manufactures. For this purpose they are paid a commission. Stockists help the manufacturers in faster supplies of products to retailers, as they are located near the markets, while manufacturing units could be quite far off.

Consignment sale stockists sell the product to the retailers after receiving the goods from the manufacturers without paying for the goods. Once they sell the goods they send the payment to the manufacturers.

To sum up, the distribution method choices are as follows:

1. Sole Distributor ..... Dealer ..... Retailer ..... A
2. Sole Distributor ..... Retailer ..... B
3. Stockist ..... Retailer ..... C
4. Consignment Agents ..... Retailer ..... D
5. Agents ..... Retailer ..... E
6. Direct Mail ..... F
7. Internet ..... G
8. Catalogue Sales ..... H
9. Franchisee ..... I
10. Own Shop ..... J

We will now attempt to give weightage to each of the above stated distribution methods on the following basis:

1. Coverage of the designated area
2. Concentration possible in the area
3. Control of the manufacturer on the method
4. Cost to the manufacturer

The following table gives some idea of these factors, although they may vary from product to product and area to area.

Distribution	Coverage	Concentration	Control	Cost
A	Wide	High	Low	High
B	Medium	Medium	Low	Medium
C	Medium	Low	Low	Medium
D	Medium	Medium	Medium	Medium
E	Wide	Low	Medium	Medium
F	Wide	Medium	Low	Low
G	Medium	Low	Low	Low
H	Low	High	Low	Low
I	Medium	Medium	Low	Low
J	Low	High	Top class	Medium

These values keep on changing and marketers have to understand the market dynamics before finalizing their distribution method.

In several product groups and markets, with the help of direct selling catalogue and Internet sales the middlemen as these intermediaries are called have been eliminated. They are supposed to be, by a section of society and business community considered to be only money-making bodies that do not perform any worthwhile task. The distribution chain adds to the costs of sale, which, ultimately the customer has to bear. As most middlemen do not perform any value addition function these could be reduced if not totally eliminated.

However, it must be understood that to remain in competitive market, the middlemen have learnt to provide value added services to the customers, like leasing, hire-purchase options, product servicing. Thus, they give the manufacturer chance of concentrating on production, product development and innovation, advertising and sales promotion.

It is therefore important for each manufacturer to weigh each of his concerns and then opt for a particular method of reaching his product to the people for whom they are meant and are produced in the first place, the customers.

Manufacturers like Eureka Forbes have eliminated the middlemen altogether, while others with the similar product ranges are still using the time-tested methods. Personal selling like what is done by Eureka Forbes helps in building relationships, but it calls for huge investments in manpower, their training and area coverages.



*Notes* Today in the beginning of the twenty-first century, manufacturers are facing severe competition in practically all the products and the manufacturer who can place his product within easy reach of the buyer definitely gains advantage over other competitors.

## Self Assessment

State whether the following statements are true or false:

- Low cost transport to retailers can be provided as for small quantities they need not hire trucks.
- Shopkeepers have been performing important role in the business of the manufacturers, most important being that of making bulk purchases.

**Notes**

9. Distributors/wholesalers take up other customer oriented activities like providing leasing options to the customers, through their Dealers.
10. Boutiques have sprung up in most cities to cater to the elite of the town.
11. Shop-less shops sell products to customers through television shows, computer advertising and telephone marketing.

### **10.5 Leasing and Hire Purchase**

Twenty-first century has seen great revolution in television and information technology in India. This has led to much greater awareness of consumer products among the people. They are thinking of buying high cost products, which they may not be able to afford. Consumerism, keeping up with the neighbours is the trend today. Manufacturers and sellers both not only encourage the trend as it helps them sell more, they also facilitate the buyers by giving them deferred payment options. For financing purchase by customers, the sellers are taking the help of finance leasing firms. Now buyers can buy cars, houses and other luxuries without having ready cash for the purchase. They can get the money from the leasing firms, on interest. The advantages of lease purchase are given below.

1. As no money is to be paid, or only a token amount is to be paid, the buyer tends to buy more, many times he buys things, which he really does not want.
2. The buyer buys larger quantity than what he needs.
3. Buyer can possess items much beyond his capacity to purchase and feel good.
4. Buyer can make payments for the purchase as per his capacity to pay on a monthly basis.
5. Products with low brand awareness get sold.

The disadvantages of lease purchase are given below.

1. Buyer buys products he does not want/can not afford.
2. Monthly payments can become a big dent in buyer's pocket.
3. Sellers may sell to a buyer who does not have the money to pay or may not have intentions of making the payments. In such a case the seller has to run after the buyer and he may have to resort to legal action to claim the amount, which is not good for business of the seller.

As in the West, especially in America leasing and hire purchase has become a norm, it is expected to take further roots in India also.

Firms, who have selected sales through channels rather than their own, salespersons may face the following situations.

#### **Exclusive Dealer/Distributor**

Dealer/distributor should be selling only their products exclusively. In such an event the dealers are not allowed to sell competitive products. These dealers, therefore, expect the seller to be also totally loyal to them and not sell their products through any other dealer or channel. The dealer expects the seller to remain competitive in the market and for this purpose he wants matching prices, discounts and other terms of business as compare to what the competitors are offering to their dealers. The seller has to remain vigilant in such situations as mostly the dealer tries to exaggerate the terms of competition for the better, which may not always be true. Seller needs to verify these statements from independent sources too.

## **Exclusive Areas**

## **Notes**

Dealers want the sellers to offer the products only to them in their designated area. The dealer also gets bound to sell the products in his area only. In case the seller finds the dealer is not selling as per his expectations, he has to either cancel the dealership as per the agreed terms or consider appointing other persons to sell in the same area. To avoid any conflict the dealership agreement should have a clause, which allows the seller to appoint more dealers.

## **Product Bundling**

Many sellers try to sell their less selling products together with the fast moving one's. They sell the package deal or bundled products (popular name for computer software combinations). The dealers can object to such deals.

Monopolies and Restrictive Trade Practices Act (MRTP) as it is popularly known forbids the sellers to have such agreements and dealers can take recourse against any such practice by writing to MRTP. However, in practice, most such deals are done in full cooperation of the dealers and dealer agreements have only an unwritten clause for such activities.

We can summarize the activities of Distributors/Wholesalers as follows:

1. Give large volume business to the manufacturers; operate through dealers and retailers to cover the geographic area assigned to them. Sell small number of items only. Sell to the second level of the distribution chain, that is the dealer or the retailer as also to bulk industrial buyers.
2. Purchase goods for resale from manufacturers in India or through imports.
3. Some have their own retail outlets also.
4. Have technical knowledge required to sell the product. Can provide product service to the customers.
5. Make profits on large turnover even with low margins.

Similarly the activities of retailers can be summed up as given below:

1. Sell a large variety of multi-brand products.
2. Sell in low volumes for each product as compared to the distributor of the product, who handles a large number of retailers.
3. Sell to customers/consumers.
4. Purchase goods from wholesalers.
5. Location of retail shop, its facade, inner displays, window displays, salespersons and shop ambience are extremely important for the success of the shop.
6. Profit margins for each product are higher than those of distributor.
7. Product mix, product shelf life are major considerations.

With Internet marketing, telemarketing and tele-shopping networks, which sell through television the established channel of distribution, may be threatened in the near future.

Notes

**Self Assessment**

Multiple Choice Questions:

- 12. Purchase goods for resale from manufacturers in India or through.
  - (a) exports
  - (b) imports
  - (c) sales
  - (d) supply chain
  
- 13. .... keep manufacturer's stocks for giving to the dealers or retailers against authority from the manufactures.
  - (a) stockists
  - (b) distributor
  - (c) shops
  - (d) wholesaler
  
- 14. .... margins for each product are higher than those of distributor.
  - (a) loss
  - (b) average
  - (c) breakeven
  - (d) profit
  
- 15. .... want the sellers to offer the products only to them in their designated area.
  - (a) distributors
  - (b) farmers
  - (c) dealers
  - (d) sellers



*Caution* Rural marketing requires the understanding of the complexities and this article reviews some of the key issues. Indian agricultural industry has been growing at a tremendous pace in the last few decades. The rural areas are consuming a large number of industrial and urban manufactured products. The rural agricultural production and consumption process plays a predominant role in developing the Indian economy.

**10.6 Role Play**

*CEO:* "Today I want to ask you all to give your ideas on the ideal distribution network for the rural markets."

*Marketing Director:* "I think we should use the existing network as our competitors are using- the local grocers shop."

*HR Director:* "I believe HUL is sending their publicity vans with their products as well on the weekly bazaar days. We should try it out too."

*Finance Director:* "We are not as big as HUL and we do not own a van yet. If desired we can hire a van to start with and then eventually buy one."

*CEO:* "Please put in the next purchase budget the purchase of three vans initially and let us all start thinking RURAL from now onwards. The meeting is over."



Case Study

## **Coco-Cola In India: Innovative Distribution strategies with 'RED' Approach**

Over the years, CCI had built its strong distribution system consisting of company-owned, franchised and contract manufacturers and distributors. With its focus on effective execution, in 2006, CCI introduced 'Right Execution Daily' (RED), a distribution plan which boosted the sales of its products in urban markets through efficient brand displays and visibility programs. India, being a predominately rural economy and all major MNCs targeting the potential rural markets with their products, CCI was no exception. It made its presence felt in the rural markets of India with its unique marketing and distribution strategies. It further plans to implement RED in these markets. However, the question to be answered is-what are the challenges that the company might face in reaching out to the customers in Indian rural markets and how far can RED be extended to rural India?

Coca-Cola, the world famous and best tasting cola product originated as soda fountain beverage in 1886, in Atlanta, US. TCCC is the largest beverage company in the world with its operations spread in more than 200 countries. It leads the beverage markets in the world benefitting from its broad reach and scale. It markets nearly 500 global brands such as Coca-Cola, Sprite, Fanta, Maaza, etc., and more than 3,000 beverage products including sparkling cola drinks, juices, sports drinks and energy drinks. With the largest product portfolio, Coca-Cola allows the people across the globe to enjoy its beverages for about 1.6 billion times a day. The company has been able to create a global reach with local focus through its 'Coca-Cola System' strength, consisting of the company, bottling partners and customers (Exhibit I). Coca-Cola manufactures the concentrates, beverage bases and syrups and sells them to the bottling partners. It owns the brands and focuses on marketing the brands to reach the consumers. It works with around 300 bottling partners ranging from international, regional to family-owned operations, responsible for producing, packaging, distributing and merchandising its products worldwide forming the world's largest beverage distribution system. Its customers are retail stores, restaurants, drug stores, etc., who in turn sell its products to end consumers.

### **Pedagogical Objectives:**

- To understand the wide spectrum of Coca-Cola India's distribution strategies vis-à-vis its target segments and explore if it has adopted different distribution strategies for different target segments
- To understand Coca-Cola India's 'Right Execution Daily' (RED) and analyse how its effectiveness has become fundamental to Coca-Cola India's growth
- To debate on the challenges Coca-Cola India might face in reaching out to the Indian rural markets.

Even though India has one of the fastest growing economies and continues to move forward with market-oriented economic reform, it is constrained by inadequate infrastructure, a cumbersome bureaucracy, corruption, labor market rigidities and regulatory and foreign investments.

Coca-Cola is the most valued brand name on the face of earth according to Daniel Workman. Interbrands Global Brand Scorecard for 2003 ranked Coca-Cola the number one brand in

*Contd...*

**Notes**

the world and estimated its brand value at \$70.45 billion and with India trying to bring economic success to their country, what better way than to welcome Coca-Cola.

Coca-Cola has made significant investments to build and continually improve its business in India, including new production facilities, wastewater treatment plants, and distribution systems and marketing equipments. In December 2006, Coca-Cola India launched a housing project for rehabilitation of Tsunami victims in Collachal, Kanyakumari in partnership with Indian Red Cross Society. During the past decade, Coca-Cola has invested more than \$1 billion US dollars in India, making Coca-Cola one of the country's top international investors, with another pledge to invest \$100 million more in its operations in India.

Through all the goods and services required to produce and market Coca-Cola products Coca-Cola has indirectly created employment for over 125,000 people in India and directly employs approximately 6,000 people. Its operations in India consist of 25 company-owned bottling operations and 24 franchisee-bottling operations.

Currently India is the 12th largest economy in the world and one of the fastest growing economies. With over one billion plus population, and over 58 percent is under the age of 20, the India market presents a lucrative and diverse opportunity for Coca-Cola. India is a key emerging market for Coke, containing roughly a sixth of the world's population. The soft drink sector is growing between seven and eight per cent per year.

**Question**

Analyse the case and discuss the case facts.

*Source:* [http://www.ibscdc.org/Case\\_Studies/Marketing/](http://www.ibscdc.org/Case_Studies/Marketing/)

## **10.7 Summary**

- The main task of distribution of goods is to ensure convenient and timely supply to the customers.
- In B to B marketing mostly sales are made directly to the buyer.
- In consumer goods, sales are made through the middle men, the distribution channel members, including sole distributor, agents, dealers, franchisers, retailers and internet.
- Agents are independent businessmen who help manufacturers in selling their products.
- Manufacturers like Eureka Forbes have eliminated the middlemen altogether, while others with the similar product ranges are still using the time-tested methods.
- Boutiques have sprung up in most cities to cater to the elite of the town.
- Retailers are now using the latest electronic products like computers for billing, inventory control, building customer database, and electronic anti-theft and surveillance devices.
- Agents are independent businessmen who help manufacturers in selling their products.
- The spread of computers and Internet has opened the doors for marketing or selling on the Internet.
- The agents obtain orders from the customers, which they forward to the manufacturers.

## **10.8 Keywords**

*Boutiques:* They have sprung up in most cities to cater to the elite of the town. These shops keep the latest fashion garments and other accessories. The products are high priced, as the customers are not price conscious, they are looking for some thing unique as status symbols.

**Bundling of Products:** Where a product selling less is given alongside a fast moving product at a reduced price.

**Discount Stores:** These are coming up for several manufacturers. Products, which, have some small defect are sold at a discount at these shops. Manufacturers use these stores to fight competition. While heavy discounts can be offered on practically good products, no price war can be started on this basis.

**Franchise Operations:** Manufacturing company or service company can give legal right to a business organisation to run their business, by using their trade name. Mc Donalds is one such example.

**Retailers:** These are now using the latest electronic products like computers for billing, inventory control, building customer database, and electronic anti-theft and surveillance devices. Bank retailing has gone to the extent of salesman less sales through Automatic Teller Machines or the ubiquitous ATMs.

**Shop-less Shops:** They sell products to customers through television shows, computer advertising and telephone marketing. Television has time slots during which products are shown and their use demonstrated.

**Super Store Chains:** They have come up to provide the same range of products, at the same prices and similar selling techniques. Normally, the customer has one such store near his house and he does not have to travel long distance to his super market for shopping.

## 10.9 Review Questions

1. Discuss the role of wholesalers, distributors and retailers in India Rural context.
2. What are the best distribution methods for rural markets?
3. Discuss the role of retailing in rural India.
4. Describe the Multiple Product Manufacturers.
5. Explain the Leasing and Hire Purchase.
6. What do you mean by catalogue sales?
7. Explain the term "Web Marketing".
8. Define the term Product Bundling.
9. Explain the term "Agency Operations".
10. Explain the distribution pattern for consumers and Industrial Goods.

### **Answers: Self Assessment**

- |                |              |
|----------------|--------------|
| 1. independent | 2. catalogue |
| 3. marketing   | 4. Agents    |
| 5. Stockists   | 6. Sales     |
| 7. True        | 8. False     |
| 9. False       | 10. True     |
| 11. True       | 12. (b)      |

Notes

13. (a)  
15. (c)

14. (d)

### 10.10 Further Readings



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[ezinearticles.com/? Successful-Sales-Promotions-](http://ezinearticles.com/? Successful-Sales-Promotions-)

[www.rmai.in](http://www.rmai.in)

[www.world-agriculture.com/...marketing/rural\\_marketing.php](http://www.world-agriculture.com/...marketing/rural_marketing.php)

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[www.cks.in/html/cks\\_pdfs/Rural%20Marketing%20Practices.pdf](http://www.cks.in/html/cks_pdfs/Rural%20Marketing%20Practices.pdf)

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## Unit 11: Promotion Strategies for Rural Market

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### Objectives

After studying this unit, you will be able to:

- Define Promotion Strategies.
- Describe the Advertising Mix Factors.
- Explain the Product Strategy for Rural Markets.

### Introduction

Sellers need to communicate to their target rural markets to inform them about the products they sell and to influence their behaviour for the products and they use the following techniques for the purpose:

1. Advertising
2. Sales promotion
3. Publicity/public relations
4. Personal selling or direct marketing like Eureka Forbes does.

The company uses the above in different permutations and combinations to plan its persuasion strategy. These help in stimulating product demand as the marketing manager uses these to fulfil company's short-term and long-term goals that are in line with its overall business strategy.

## **11.1 Advertising**

Advertising campaigns are planned to achieve certain communication objectives in a given timeframe in line with overall product, pricing and distribution policies of the company. The role of advertising in today's severely competitive environment is to differentiate the product from other products in the market. Advertising campaigns become successful once such a differentiation becomes evident. Customer go through stages of information processing before they take the final purchase decision, like awareness of the product, learning about its benefits, formation of an attitude towards the product, and then the actual purchase action is followed by post purchase experience about the product. Advertising is used to build the company's image according to the perception of the company in the public mind.

Promotion tries to generate immediate consumer response with respect to company's overall marketing strategy. As advertising builds long-term customer awareness and attitudes, promotional plans are meant to have a short-term influence on the customers. Promotional plans can become counter productive in the long-term perspective as when the promotion is withdrawn the sales may start dipping. Promotion can help build brand equity and awareness both for long-term and short-term gains. However, promotion does help in improving sales in the short term. They are better methods as compared to price reduction since price reduction becomes a long-term loss in revenue while promotional plans can be withdrawn once the target for which they were made has been achieved.

Advertising often grips people's minds, their psyche, in a way that a make believe world, a virtual world, gets created. So, what exactly is advertising? Who wants it, for whom is it created and how? These and several such questions we will answer in this and following chapters. How the advertiser can hit the bull's eye of consumer psyche every time!

Advertising Management today has become an important area of business and that is why, even common man, laypersons are quite aware of the subject. However for a professional, it is essential that not only the subject is learnt thoroughly but even subtle nuances are understood so that the person becomes comfortable with it. With practice expertise can be gained to strengthen the skills. Advertising is a fast moving, glamorous discipline and yet without proper concepts it can become quite banal. Kotler says a satisfied customer does the best advertising!

Students of advertising management should learn the steps needed for making an effective advertising campaign. Sales promotion public relations and publicity are the other methods used for increasing sales, brand awareness and related customer loyalty.

Advertising planning starts with setting sales objectives as also, advertising goals like improving the top of the mind recall. Next advertising budget has to be formulated that takes in to account, the stage of the product in the Product Life Cycle, market share, competition's share of the market, frequency of advertising effort and the cost of alternate product (cost of product switching). The students must become familiar with the different media available with their costs to help them select the best possible media for the campaign. They need to know the media reach, impact, and frequency. Besides they should know the major media available, specific media for the campaign, and geographical media coverage. Next, they should learn the methods of message generation, and evaluation and selection of the message along with the social acceptability of the message. Lastly, the advertising effectiveness measurement must be planned in relation to the objectives selected for the campaign.

It must be clearly understood that there is a direct relationship between customer awareness level of the product and customer readiness for product trial. It can be seen that when the advertising frequency is increased it creates better product awareness that leads to larger trials by the customers.

Advertising texts have given a few definitions of Advertising. With the thrust of media variants, i.e. several new media being available, the definition can now be modified. First we take the most popular definition, which is as follows.

AMA (American Marketing Association), defines advertising as, "Any paid form of non-personal presentation and promotion of ideas, goods and services of an identified sponsor."

1. The communication is non-personal, as nobody has personally conveyed it. What we witness in retail shops when the salesman talks to us to sell a product is that he is personally communicating with us and hence by the definition it is not Advertising.
2. The presentation is for promoting ideas, goods and services to create awareness and assist in selling the product.
3. A known person or firm does the advertising. This becomes essential to avoid wrong messages being advertised, or sometimes the message becoming useless, as the potential buyer would not know to whom to approach for buying the product, idea or service advertised if advertiser is unknown.

Advertising can be considered as the soul of marketing in today's world of complex and severe competition. Or it can be a substitute elder brother who helps in taking purchase decisions.

**Advertisement for target audience:** It is important that the people who are likely buyers see the advertisement message. Hence advertisers cater to different market segments with the help of separate media and also with target-specific message. Advertisement for Toyota car would not have any takers in a slum cluster; advertisement for low cost clothing material would be of no use to the wealthy elite. Rural marketers would do well to understand the rural culture of how they use their time to create advertising campaigns most suited to them. The differences need to cover the following areas:

1. Print advertising to restrict itself to local press, pamphlets, hoardings like wall paintings, audio-visual vans, local cinema, outdoor media like camels, elephants, balloons and product displays, and merchandising.
2. Language used should be easily understood by the local population.
3. Timing should be just before the festive and harvest seasons.
4. The art should be simple, easily understood by the rural masses.

### 11.1.1 Consumer Advertising

Consumer advertising deals with the actual buyers and users from the market segment and therefore uses a language and a medium best seen by the target segment. Market segment of rural India would have the rich farmers, middle level, the poor and the very poor.

### 11.1.2 Business Advertising

Business advertising converging on target segment has to be in magazines seen by purchase and technical persons of firms. For instance an advertisement for TV picture tubes would be best seen in magazines of TV trade.

Geographic area coverage of media assists in focusing on the target segment where the firm believes there is maximum business potential. A firm wanting to distribute its products on all India bases would have to look at national press, magazines with national circulation and readership, and national TV, including satellite and cable TV channels.

**Notes**

Similarly, firms wanting to do business internationally would select the right media; satellite TV, Internet or national press of the defined countries where the firms want to do business.

Hence, it can be surmised that Advertising plays multifaceted roles in Business. Not only it informs the target segment of customers but persuades them too to buy the product or service offered by the Advertiser.

Since the communication is non-personal, the one drawback remains as no immediate and direct reaction or response is available to the sponsor of the advertising.

**Personal Selling**

In case of consumer goods, Personal Selling effort is 20% and advertising backup support is 80%.

In case of Industrial products, personal selling is 80% and advertising support is 20%.

	Personal selling	Advertising
Consumer products	20%	80%
Industrial products	80%	20%



*Did u know?* Advertising Management today has become an important area of business and that is why, even common man, laypersons are quite aware of the subject. However for a professional, it is essential that not only the subject is learnt thoroughly but even subtle nuances are understood so that the person becomes comfortable with it.

**11.2 Advertising Mix Factors**

Advertising is one of the Marketing Mix Factors. Let us analyze Advertising Mix Factors. There are six sides to Advertising in totality. They are given below:

1. Advertiser
2. Advertising Agency
3. Media
4. PR Consultants
5. Ancillary Services
6. Freelance Services

Advertisers can be categorized as Profit Making Organizations and Non- Profit Making Organizations. The first category consists of the following:

Government and government bodies including public sector companies. The government advertises for purchasing through tenders, selling surpluses, recruitment through Public Service Commissions.

Manufacturers advertise when they do sell direct to consumer like power, industrial raw materials. They advertise to buy from the market what raw materials components they need to manufacture their finished products.

1. Service Providers like travel agents, hotels, airlines, advertise to sell their services.

2. Importers advertise to sell their goods to the target segment.
3. Distributors, Retailers and other members of distribution channel advertise to sell their products. Since their area of operation is limited their advertising is also confined to the geographic area they serve.
4. Mail Order Suppliers advertise so that their catalogues are purchased by their target segment, which could result in their getting orders by mail. Burlington's and Readers Digest are examples of mail order suppliers.

The second category of advertisers are non-governmental organizations, like family planning groups, destitute children help groups, de-addiction centres.

From the earlier days of hand painted posters, media has come up with Cable and Satellite TV Revolution. Joining the bandwagon is Internet and Computer designing of advertisements.

Broadly media is characterized as follows:

1. **Press:** Local press for the rural markets.
2. **Electronic:** Indian villages are getting the Radio throughout the day, while TV coverage amounts 40 per cent of the radio coverage.
3. **Computer, Internet:** computers and internet use as started only now and the villagers are quite removed from the real life acceptance.
4. **Outdoor:** hoardings like wall paintings are quite popular in rural India.
5. **Point of purchase:** rural shops keep only robust wall hangings, danglers. They need to look attractive to the villagers sensibility.
6. **Direct Mail:** with low level of education in the villages, in stead of direct mail more effective option would be audio-visual advertising.
7. **Miscellaneous:** like balloons in the sky, camels and elephants with visual banners can be more useful.

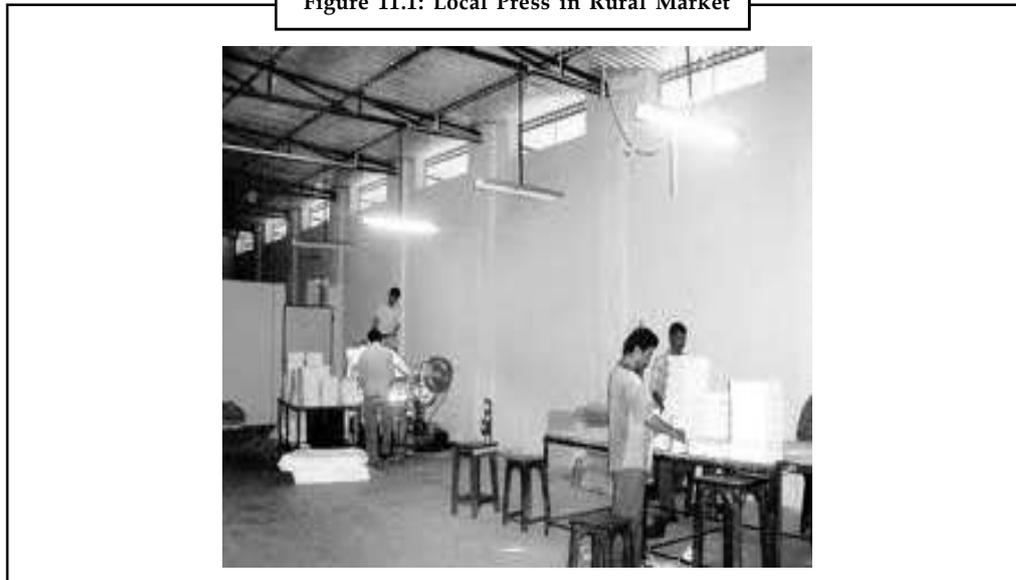
### Press

Press, more especially newspaper, provides greater flexibility, timeliness, good local coverage, good acceptance by the readers and high degree of believability. Press has, however, low shelf life, and production quality is usually suspect and only a small target audience. Local press, pamphlets in Hindi or in local language would be useful.

Television on the other hand, combines both audio and visual imagery with colour and motion causes greater grip on the customer's psyche, has high reach. However, TV costs are high, less time for the customer to see it with a lot of congestion in a highly erratic viewer-ship situation. In villages with low power coverage and long outages TV viewing, although much looked for, becomes a rarity, a pipe dream only. However, with better power cover, TV in the long run is going to be the media for the village masses. Till then, the weekly markets visits by the company publicity vans are most useful as they carry advertising audio-visuals, leaflets, samples and even product for sale.

Notes

Figure 11.1: Local Press in Rural Market



**Radio**

Radio provides for mass exposure with high geographic and demographic coverage to low cost. However, it gives only audio exposure and like TV gives only for fleeting moments. Radio has a much bigger population cover of the country and to that extent is well suited as a rural media.

Magazines can be used for selective high density geographic and demographic coverage, are associate with prestige, lifestyle and related credibility. It can have good high quality advertising long life on the shelf of the target audience and several people read each copy. However, all the magazine readers may not be in the target customer group. Villagers normally do not read magazines.

Outdoor advertising is cost effective, has high focused repeat exposure. Its use is limited to the passers by of the route of the advertising and it limits creativity as well. Village house walls are normally painted and therefore can be easily given decorative advertising messages.

**Electronic Media**

Electronic Media relates to television, radio, Videocassettes. Television as a media for advertising has made the biggest impact on almost all the segments of customers. Satellite and cable TV have invaded practically all homes. Viewer-ship of TV has increased manifold and terms like couch potato have been invented for people who are constantly viewing the TV. This fact has opened up advertising vistas for majority of the products. Advertiser has only to understand the programme one-segment views and then he can plan to place his advertisement during that particular programme. Similarly, FM channel of the radio has become popular in Metro towns with a large teenage following. Products meant for teens can be advertised on FM with great certainty of success. Telemarketing and Tele-shopping are making strides as the latest media. Products are sold through telephones in one case while in the other; TV is used for demonstrating the working of the product and orders solicited.

## Computer and Internet

Notes

The medium of communication of computers and the Internet are relatively new in India but they are making giant strides in advertising and marketing world.

Hence, in present day context it is important to understand these to succeed. With on line e-Commerce, banking, and purchasing it is expected that people with buying power will be more hooked to computers than ever before. It is important to note that Information technology is the future of communications with computers and telecommunications joining hands to provide the safest, fastest and low cost reliable communication. Advertisers need to understand the medium and take full advantage of the same.

## Outdoor

Outdoor relates to Hoarding, billboards, neon signs, bus panels, kiosks, balloons and the like. Advertisers use these as reminder advertisements as well as product launch ads too.

## Direct Mail

Several marketers resort to sending technical literature by post to prospective customers, including Readers Digest, Burlington.

## Interactive Computer Screens

Point of Purchase Advertising has been updated with technological advances. Retail shops were content earlier with posters, danglers and products innovative packaging. Today, multimedia has provided with interactive computer screens where the customers can get any information about the shop including availability of product, stocks prices. Many shops keep continuous TV Programmes with animation, cartoons and product-advertisements.

## Tele-shopping

Tele-shopping is becoming popular but gradually, as the Indian shopper wants to see and feel the touch of the product before buying it. Additionally, shopping expeditions become fun time outings for the family and it would be difficult to replace them by television - on screen - shops.

Telemarketing uses the telephone line to tell the prospective customers about the services the marketer is providing and is, at times a good approach to elicit right response from the customer.



*Task* Pick up an FMCG product for Rural India and select advertising media for the same, giving your reasons for this selection.

## Miscellaneous Advertising Media

We have all seen big balloons in the sky carrying advertising messages, advertisements on bus panels, yellow pages, directories, and rail and air tickets, even on matchboxes. We have also witnessed advertisements on camels and elephants especially designed for village fairs. Human imagination can only limit to the extent people will locate an existing unutilized medium or discover or invent one for the purpose.

**Notes**

India has witnessed lowering of prices of Newspapers from Rupees four to Rupee one and a half. This drastic reduction has been possible because of heavy advertising revenue the newspapers get. In order to get a good share of advertising, the press depends on its circulation figures - higher the circulation greater the advertising revenue. And yet, in view of heavy competition the newspapers face, they resort to selling and advertising their space too. Let us see how it is done:

1. **Rate cards:** These are mailed or given to advertising agencies and advertisers to make them aware of advertising costs for advertising in the paper.
2. Direct mail with copies of successful campaigns and Promotional folders
3. Maps of geographic areas covered with its demographic details
4. Availability of research material
5. Copies of special numbers and advance programme of special issues
6. For TV Channels information about TV Programmes of interest like films, chat shows
7. Outdoor hoarding positions availability and number of vehicles passing through that place.

### **11.3 Media Planning**

The questions to be answered are the following:

1. Whom are we trying to reach?
2. Where are they located?
3. The best time for them to see the advertisements?

To answer the first question we have to know the exact market segment. Since all the people could be prospective buyers, some are more inclined to buy. These marketers segregate through demographic, psychographics social class and lifestyle categories. It is believed that people in one segment would behave in similar manner and would have same type of needs and preferences... rich people with trendy lifestyle will be reading magazines like Vogue, Cosmopolitan, while those not in that class will not be reading these magazines. This helps in focusing on the segment directly interested in your product.

In India 70% people live in villages. The balance 30% in cities has a different mindset than that of the villagers. With several languages spoken in the country, there are newspapers, magazines for each language and they are the best media to reach the people of the area using a particular language. Products used by towns can be advertised in English as it is the language that most people understand.

Television as a media has a wide reach today and telecasting is available in several languages. If price is not a major deterrent then TV as a media is most effective.

In order to find the answer to the question "what to advertise and when?" It is best to see the creative advertisement. If the Ad is pictorial full of exquisite colours then glossy magazines are the right print media. If a lot of demonstration is to be shown, use TV.

Magazines have their definite readership and language flavour. What will go well in India Today will look out of place in a movie magazine.

Readership surveys of magazines tell us the following:

1. Percentage of men and women readers.

Notes

2. Percentage of age group in each case, for example what percentage of women readers in the age group of 25 to 34 read Femina’s every issue.
3. Percentage of income groups reading a magazine, for example what percentage of men in the income group of ₹ 25000 pm read India Today’s each issue.
4. Percentage of education segment, for example, what percentage of graduates read each issue of Business India.

In the same way information is available with respect to marital status of the readers, number of children they have, what religion they practice.

Given below is the Advertising volume in the USA in the year 1980.

Table 11.1

Media	Million \$	%	Media	Million \$	%
Newspaper total	15615	28.5	TV Total	11330	20.7
National	2335	4.3	Network	5105	9.3
Local	13280	24.2	Spot	3260	6.0
Mags. total	3225	5.9	Local	2965	5.4
Weekly	1440	2.6	Radio Total	3690	6.7
Women’s	795	1.5	Network	185	0.3
Monthly	990	1.8	Local	2755	5.0
Farm publications	135	0.3	Direct Mail	7655	14
Outdoor	610	1.1	National Total	30435	55.6
Business publications	1695	3.1	Local	24316	44.6
Misc.	10795	19.7	Grand Total	54750	100



Notes Successful campaigns are the result of this knowledge and how the agency uses it to a large degree. Besides they should know the market changes occurring on a continuous basis and be good at communicating.

Self Assessment

Fill in the blanks:

1. The role of ..... in today’s severely competitive environment is to differentiate the product from other products in the market.
2. .... tries to generate immediate consumer response with respect to company’s overall marketing strategy.
3. Advertising Management today has become an important area of .....
4. The ..... is for promoting ideas, goods and services to create awareness and assist in selling the product.
5. .... advertising converging on target segment has to be in magazines seen by purchase and technical persons of firms.

Notes

6. .... uses the telephone line to tell the prospective customers about the services the marketer is providing.

### 11.4 Objectives of Advertising

Given below are some of the objectives of advertising:

1. Sales as objective
2. Communication
3. Prompt direct action
4. Encourage customer to ask for information
5. Giving message of need and its satisfaction
6. Products success stories to reinforce product/brand loyalty
7. The benefit story
8. Attitude change
9. Reassurances

Besides, the purposes of advertising are as follows:

1. Launch of a new product
2. Modification in products
3. Changes in price
4. New packing or, Promotional plans, e.g. buy one get one free
5. Distributor's and retailer's address
6. Educating the customers for proper usage of the product
7. To retrieve lost sales, e.g. due to strike in the factory
8. Reminder ads and for maintaining sales
9. To recruit staff
10. To appoint distributors and dealers
11. To invite technical staff of industrial customer to ask for literature, come to visit
12. Competitive comparative advertising
13. To assist retail sale
14. Help salesperson get a foot in the door of industrial customers
15. To attract investors through special ad campaigns
16. To export/go international (separate chapter is provided for this topic)
17. To announce financial results of the firm
18. To sell direct e.g. Readers Digest

**Sales as objective:** Business today is for continuous improvement in the bottom line. Profit remains the prime motive and to achieve a reasonable return on investment firms have to struggle as competitors are equally focused on the same subject. Advertising is a distinct aid to

improving sales. Many advertising agencies refute that advertising should directly increase sales. However, the ultimate use of advertising must be to improve profitable sales.

### Sales Promotion

Business environment, as it exists in India today, there exist:

1. Severe international competition
2. Large middle and upper middle consumer class
3. Changes in money supply and interest rates

These factors have led to an era of continuous sales promotion. It is, therefore, important to learn what sales promotion is and how it can be made effective.

With number of products in each group increasing the customer is the main beneficiary. However, he is also a bit confused as each advertiser is telling the benefit story to him. The need to give that extra benefit to clinch the order leads to promotion.

Consumers need extra stimulus to buy the product. The dealers or retailers need that extra benefit to stock and push the product these promotional activities must be advertised to be of any value in increasing market share.

In sales promotion, the marketers are giving something extra. This is in lieu of price reduction. Price reduction, unlike promotion gets to be an extended expense; while promotional expense can be withdrawn any time you feel you have achieved your objectives.

Sales promotion provides extra incentive, an offer of direct inducements that enhance the basic value of a product for a limited time to stimulate immediate distributor commitment, sales force effectiveness and consumer purchasing.

Figure 11.2: Cokes Promotional Strategy in Rural Market



**Notes**

Thus sales promotion is an offer of direct money saving to the customer without diluting products brand equity (as can happen in case of price reductions). Consumer sales promotion encourages new product sales, increase usage of existing products, helps sales of entire range of products and adds to selling efforts. Retail promotion helps in building inventories with the distribution network and indirectly acts as a sales push in the market as no one can keep large inventories for long.

Depending on product and trade practices firms send dealers on trips to foreign countries on achieving the targets. Some firms offer cars and other consumer goods as incentive to achieve the sales as planned. Promotion programmes are known to increase sales and market share, which lasts as long as competition does not retaliate. Hence it is wise to be closely observing competitive activities, and being proactive rather than reacting to losing situations.

For example, Coke and Pepsi advertise in order to promote sales as well to encourage retail trade to keep their products.

Customer promotion can be undertaken as follows:

1. Test our new product or re-buy. Added incentives make people give new products a try.
2. Be loyal to us, we are there to look after you through our promotional plans.
3. Buy more – Pepsi says, “yeh dil mange more” – the heart wants more.
4. Buy our entire range – for this purpose sometimes products are bundled together.
5. Promotion increases sales immediately. It helps in advertising and other marketing efforts like personal selling. Just as it is important to advertise the promotions so that the customer gets to know about it. Lack of advertising for the target market will render the promotion campaign unrewarding and the objectives will not be met.

Trade promotion helps in the following manner:

1. Get better distributors
2. Better shelf space at the retail stores
3. Superior merchandizing
4. Increase stocks and sales push
5. Training the sales personnel of retailers
6. Better product knowledge (as a spin off)
7. Improvement in dealer responses in future

Sales promotion takes up to 70 of total marketing budget and hence it is a major factor, which needs constant nurturing. The main reasons for the shift towards promotion are as follows:

1. **Immediate results:** with focus on meeting target sales promotion provides quick response technique.
2. **Measuring effectiveness:** as the results are quick to achieve, promotional plans results can be seen early.
3. Retailers have acquired a status they never had, as through computerized information base they know their customers, their buying powers and habits best. Therefore, promotion plans with retailers at the hub, can be most effective.

4. Increased competition and plethora of products make you vie for customer's money. Advertising may not provide the motivation needed for making customers buy your products.
5. Buyer's loyalty is limited and can be enhanced with active participation of retailers. Since your competitors are doing exactly the same, you have to be on the constant look out for better and more rewarding promotional plans both your customers and retailers.

There are various ways of product promotion:

- Buy one get one free,
- Buy now pay later,
- Take a free sample with each purchase of our other product you just purchased.
- Many firms offer discount coupons as incentive to buy at a lower price. When the customer goes to redeem the coupon a good salesman can sell a lot of the company products. At least the customer would have tried your product and may be, he will like it so much that he buys again.
- Special low cost packs are offered as promotion to encourage trial. Similarly, some firms give money-back offers where in the unlikely event of the customer not liking the product he can get the money back. Experience shows that hardly anyone ever comes to return the product for cash, unless the product is defective.
- Contests are also used as sales promotions. If your product package has a gift written on it you get it, Colgate offers, millions of rupees, besides other goodies like computers.
- Hotels and airlines offer high usage, discounts, and frequent flyers free tickets as promotion plans.

Trade promotion plans offer the following to retailers:

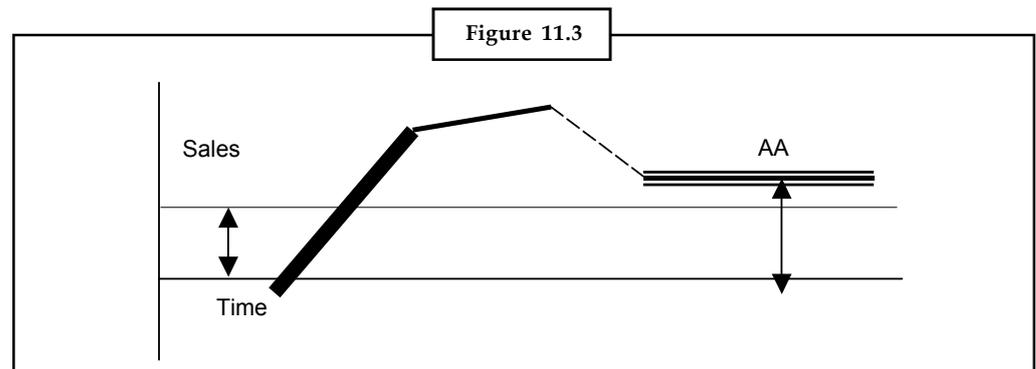
1. Display incentives for better merchandizing and shelf use
2. Short-term discounts for inventory control and sales push
3. Turn over discounts are given for achieving sales targets
4. Assistance in running sales contests among retailers sales persons
5. Cooperative advertising with the retailers where Advertising expense is shared on mutually agreed basis.

Several promotion plans do not give the desired results, because the middlemen, the channel members do not stick to the spirit of the promotion. If the free pencil is not given with the pencil box it would not mean much monetarily for the buyer. However, it would downsize the credibility of the entire organisation. Imagine, a war that can be lost for small reasons like inaccurate supply of a minor equipment.

Promotions in rural markets assume a much larger proportion as the, usually gullible village folks go entirely berserk when cheated even for a pittance. Monitoring of proper execution of any promotional plan is of vital importance because, a lot of money and time is spent on conceiving and then executing the promotional plans. Perhaps a random audit of the promotion with the distribution channel members is essential for, not only the success of the campaign but also for the well-being of the company. Even small items like sweets and toffees for the village children may suffice to sell other products including FMCG and yet their mismanagement can derail the programme in its entirety.

Notes

Ideally the sales graph for sales promotion should be as follows:



- Sales Increase during Promotion
- Sales when Competition Starts Action
- Sales Decrease with Increased Competitive Action
- Residual Sales after the Promotion is Over
- Sales Before the Promotion.

As can be seen the firm has gained quite a substantial amount of market share. (Additional sales AA) but do not forget this is the ideal situation. Competition is always there to counter the firm's moves and hence the need for continuity in promotion plans!

As can be seen Sales Promotion is a short time plan to increase sales. It can be used for the following reasons:

1. Loss of sales due to production problems
2. New product or variant launches
3. To beat the competitors plans
4. Increase in production capacity

Generally a combination approach is required, that of consumer promotion and dealers promotion plan. However, if there is only consumer promotion it increases the sales and profit of the dealer too and hence the channel members welcome it.

One major reason of failure of promotion plan is the dishonesty of dealers, who do not give the extra benefit to the consumer and pocket it themselves. Many of us have purchased a cake of soap, which was to be given as free gift with a bottle of shampoo, as written on the soap package. While most dealers and retailers play the game honestly as they know that ultimate advantage is going to be theirs because of increased sales and profits, firms should be careful in selecting dealers and retailers in the initial stage itself.

A major area of channel/distribution network promotion is training of its personnel. Automobile firms like Maruti, Daewoo send their dealer technicians to their respective headquarters, Japan or Korea for training because they are aware that the only competitive advantage, which can really sustain and can be hardly copied, is the excellence of service provided to their customers. In the area of white goods, some firms encourage dealers to keep a few trained servicemen to attend to minor complaints. The failure rate or MTBF (Mean Time Between Failures) really defines the quality of a product and differentiates it from other products in its range.



*Caution* Damage Control is a major responsibility of PR. This task is usually needed to be performed once in a long while it is of great importance as not handling it properly could lead to greater disaster. Natural calamities like floods, earthquakes cause problems for firms, but how the firms deal with the problems and what becomes the public's perception about it is of importance to the firms.

## Self Assessment

State whether the following statements are true or false:

7. Successful campaigns are the result of this knowledge and how the agency uses it to a large degree.
8. Profit remains the prime motive and to achieve a reasonable return on investment firms have to struggle as competitors are equally focused on the same subject.
9. Selling is a distinct aid to improving sales.
10. The buyer or retailers need that extra benefit to stock and push the product these promotional activities must be advertised to be of any value in increasing market share.
11. Sales programmes are known to increase sales and market share.
12. A major area of channel/distribution network promotion is training of its personnel.

## 11.5 Public Relations

Focus is on defining PR, common objectives of PR, the PR process, and the target public for PR, the PR Message. PR can be and usually is an effective form of creating positive marketing climate for the firm and thus becomes part of marketing communication methods. Rural PR should start from the village elders, the panchayat members, the sarpanch the people who can influence the village folks.

Marketing PR can be organized through publications that carry company's annual reports, articles. Besides events like press conferences, seminars, trade shows are used to reach the target public. Sponsoring of cultural events, sports contests help in marketing PR. News items about the company on television, radio or TV and the press are some other tools used for marketing PR.

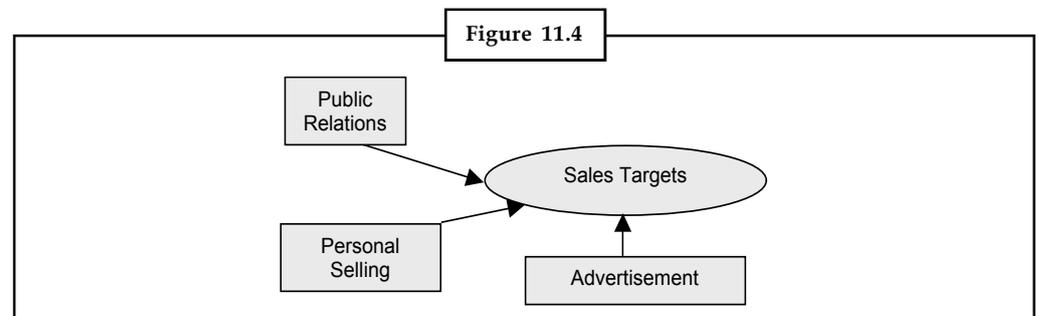
Marketing PR achieves greater credibility of the public, as it has no bias of the company's own advertising. It can help generate excitement and product expectation in the market before the product launch and the related advertisements. It creates an acceptance base amongst the customers who become loyal and also help in increasing sales by recommending it to others. It makes influencers more tuned to the product and the company.

What we see on TV as advertisements for eggs, milk and diamonds is not direct marketing/ advertising as you hardly find any sponsor. Drink more milk, eat eggs every day are meant to create awareness among the public and hence can be called PR Campaigns. Unfortunately, the task of PR is not appreciated by most of the persons and it tends to become a thankless one. In election campaigns, after the candidate has finished and gone his secretary remains to answer the questions regarding how the speech should be interpreted for improving the candidate's image. After the corporate Chairman has given an expose of the firm's plans, its elaboration and explanation is done by the PR Persons. Press releases are part of the PR job. In case of any catastrophe the PR has to explain how the firm is coping with it and the damage control measures it is going to take. The famous oil spill in the ocean had the oil company's PR People on their toes. It may be added that in such crises situations even the CEO takes the role of PR.

**Notes**

Public Relations cover all the communications of the firm except the marketing/advertising and personal selling communications.

Public Relations can be defined as, “the process of understanding public attitudes on relevant issues, interpreting these attitudes for Management, and then working either to go with the organizational policies and practices with those attitudes or to modify the attitudes themselves.”



Publicity is only one aspect of PR Job, which covers the making of Press Releases given regarding the firm’s activities and plans. Besides PR is useful tool in creating positive ambient, cue for the sale of firm’s products in the target market segment.

Public Relations task in marketing activities is subtle. Nonetheless it is equally important, as through PR, the firm is able to build custom/customer base not as a hard sell exercise, but with gaining customer support. This is done with great finesse and yet with bringing customers on the right side of the firm. *You like us you buy from US.*

The main features of PR are as follows:

1. When the firms arrange PR activities they do not have total control on the message being sent. It becomes the prerogative of the editors of the media and they can surely use their right. In personal selling or in marketing /advertising the firm talks all good things about the product. In case of PR the media men can express their likes and dislikes in their reports and not just what the firm wants them to do.
2. PR is addressed to several different classes of people, the customers being one of them. The message goes to the firm’s stakeholders, the buyers, the sellers, the investors, banks, the government, local bodies, trade associations and social activists like the environment protection groups. It pays to keep these people on the firm’s right side.
3. PR does not have any direct media cost as the PR Message goes in the form of medias editorial. No media space or time needs to be purchased for PR.
4. PR besides assisting in improving sales also does a number of pre-planned tasks like improving investor’s interest in the firm. Labour relations and activities connected with labour welfare get publicity through PR.
5. The most visible role of PR is seen during Annual General Meetings of the Shareholders of the firms. The entire programme is managed by the PR Department of the firms.

**Self Assessment**

Multiple Choice Questions:

13. Every firm wants to be known as a good ..... citizen
 

(a) corporate	(b) media
(c) private	(d) public

14. .... Relations Manager's job is to have a firm grip of the media available for transmitting the message to the public:
- (a) private (b) public  
(c) customer (d) media

Notes



Case Study

### Hindustan Unilever Ltd.

**H**UL, the MNC Company into FMCG products was one of the first to realise the importance of the huge rural market in India and given below is their story of rural marketing:

"Consider the market; out of five lakh villages in India only one lakh have been tapped so far." Irfan Khan, Corporate Communications Manager, Hindustan Lever Ltd., in 2001.

Teaching people how to wash utensils!

In June 2002, the employees of Hindustan Unilever Ltd. (HUL), a subsidiary of the fast moving consumer goods (FMCG) major Unilever and India's leading FMCG company literally took to streets. The company was undertaking a promotional exercise in the rural areas of three states namely Madhya Pradesh (MP), Bihar and Orissa for its utensil-cleansing bar, 'Vim.' A part of HUL's ongoing television (TV) campaign, 'Vim Ghar Ghar Challenge,' the promotion drive involved company officials to visit rural towns and demonstrate how vessels are cleaned with Vim.

Commenting on this, Sanjay Bhel, HUL's Marketing Manager, said, "For the purpose, we are educating the rural masses on the on-going 'Vim Ghar Ghar Challenge' TV commercial by conducting live demonstrations about vessel cleaning. Our aim is to tap the growth rate of the ₹ 4 billion scouring bar market; although it has been growing at a rate of 15% per annum, since last year it has been decelerating."

This exercise was just one of the numerous marketing drives undertaken by HUL over the decades to increase its penetration in the Indian rural markets. The company had, in fact, earned the distinction of becoming one of the few Indian companies that had tapped the country's vast rural population so extensively.

It was therefore not mere coincidence that around 50% of its turnover came from rural markets. With the penetration of their products reaching saturation levels in many urban markets, FMCG companies had to turn towards rural areas in order to sustain revenue growth and profitability. Since the disposable income in the hands of rural people had been increasing in the late 1990s and the early 21st century, it made sense for companies to focus their energies on this segment.

Industry observers also felt that HUL was at an advantage compared to most of its competitors, thanks to its consistent, pioneering efforts towards establishing well-entrenched distribution and marketing networks to reach the vast Indian rural masses.

#### **Question**

Discuss the various initiatives taken by HUL. How can they plan to retain their market lead in rural areas?

## 11.6 Summary

- Companies communicate with their customers with the help of Personnel Selling, Advertising, Promotion, PR and Publicity. Each has a special role to play in rural customer communication.
- Advertising as a discipline helps in creating brand equity.
- Rural advertising is carried out through local language, media and village opinion leaders can be used for product endorsement.
- The balance 30% in cities has a different mindset than that of the villagers.
- Television as a media has a wide reach today and telecasting is available in several languages
- *Consumer Magazines* good for current social and cultural events, mostly local, glossy but quality not uniform in every magazine.
- Person belonging to a group with similar attitudes should make endorsement.
- Business today is for continuous improvement in the bottom line.
- Many advertising agencies refute that advertising should directly increase sales.
- In sales promotion, the marketers are giving something extra.
- Sales promotion takes up to 70 of total marketing budget and hence it is a major factor, which needs constant nurturing.

## 11.7 Keywords

**Consumer Magazines:** Good for current social and cultural events, mostly local, glossy but quality not uniform in every magazine. Reading public is athletes, cooks, housewives, hobbyists and investing public. Circulation in large and medium size towns.

**Direct Mail:** Selective and personal, becoming popular, the mailer controls the persons who will get to read the mail but has no control on their responses.

**Interactive Computer Screens:** Point of Purchase Advertising it has been updated with technological advances. Retail shops were content earlier with posters, danglers and products innovative packaging.

**Media:** The vehicle that conveys the advertising message to the customers, like Press, TV, Radio Publicity is not paid, at times 'word of mouth' comment on a product.

**Outdoor Advertising:** It has high visibility in a limited way, for the people on the road. It distracts drivers and hence is being banned by some states including Delhi. Gives brand awareness and broad product view.

**Radio:** Is a media of the masses, highly varied in content, from news to classical music to art and film music. The media covers entire country and with FM it is becoming popular again amongst the youth as it provides clear voiced music of all variety. Especially popular in villages where colour TV is not yet available. It can be used as a media for the masses and for the youth with FM. Radio does not provide international exposure in a way TV does with satellite channels.

**Specific Magazines:** Good for special needs, like women magazines, film based, health, cooking, business, sports and cultural/social magazines. They are for the trendy public and they increase their awareness of the social and cultural environments.

**Tele-shopping:** Tele-shopping is becoming popular but gradually, as the Indian shopper wants to see and feel the touch of the product before buying it.

Notes

**Yellow Pages:** Mass media, with phone owners, limited usage.

## 11.8 Review Questions

1. Discuss the difference between advertising and publicity. Which is more effective and why?
2. Distinguish between customer and trade promotion.
3. What do you know about Advertising Mix Factors?
4. Explain the Media Planning.
5. Describe the objectives of Advertising.
6. Explain the Miscellaneous advertising media.
7. Explain the PR Base.
8. Describe the Business Advertising.
9. Discuss the Public Relations.

## Answers: Self Assessment

- |                |                  |
|----------------|------------------|
| 1. Advertising | 2. Promotion     |
| 3. Business    | 4. Presentation  |
| 5. Business    | 6. Telemarketing |
| 7. True        | 8. True          |
| 9. False       | 10. False        |
| 11. False      | 12. True         |
| 13. (a)        | 14. (b)          |

## 11.9 Further Readings



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Online links

[ezinearticles.com/? Successful-Sales-Promotions-](http://ezinearticles.com/? Successful-Sales-Promotions-)

[www.rmai.in](http://www.rmai.in)

[www.world-agriculture.com/...marketing/rural\\_marketing.php](http://www.world-agriculture.com/...marketing/rural_marketing.php)

[www.martrural.com](http://www.martrural.com)

[www.oppapers.com/.../rural-marketing-review-of-literature-page](http://www.oppapers.com/.../rural-marketing-review-of-literature-page)

[www.cks.in/html/cks\\_pdfs/Rural%20Marketing%20Practices.pdf](http://www.cks.in/html/cks_pdfs/Rural%20Marketing%20Practices.pdf)

## Unit 12: Principle of Innovation

Notes

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### Objectives

After studying this unit, you will be able to:

- Explain the Principle of Innovation.
- Discuss the Need for Innovation in Rural Market.
- Describe the Role of Government and NGO's in Rural Marketing.
- Explain the Role of Rural Market.

### Introduction

According to the great management guru Peter Ducker "the organisations have only two functions, one is marketing and other is innovation." Rural markets are characterized with huge potential for marketers, but at the same time pose several challenges to serve them with similar set of marketing mix used in urban settings. The main challenges in rural marketing are:

- Physical distribution
- Channel management

Notes

- Promotion and communication
- Poor infrastructure
- Uneconomical market size
- Diverse socio-economic Consumer profile

Against the backdrop of such a market environment, marketers need to design creative solutions to achieve success in rural markets. The problems of physical distribution and channel management adversely affect the quality of service (delivery) and cost. With poor or even no means of communication to exchange information with rural consumers directly, the success of a brand depends largely on the village retailers. Therefore, rural marketers have felt a great need to overcome the existing limitations across business stages in general and distribution in particular of which retailing is the final stage.

### **12.1 Need of Innovation for Rural Market**

As the competition increases in the rural market there might be the need for competitively priced products that are developed as per the needs of the rural consumers. Non-consumers of yesteryears are entering into the rural market as first time buyers for a large number of products in a large numbers. This calls for shift in management thinking from gross margin to higher profit from high value unit sales to game of high volumes, capital efficiency and from one solution fits all thinking to market innovation.



*Did u know?* NGOs have also taken a role in market intermediation. Oxfam and Traidcraft set up a trading and coffee roasting company Café Direct, now the UK's leading Fair Trade drinks company. More recently, Oxfam with a group of coffee-growing cooperatives set up Progreso Cafes Limited, with 25% of the shares bought on behalf of the cooperatives, 25% held by a Coffee Producers Trust which will pay for development projects in poor coffee growing communities and 50% held by Oxfam.

### **12.2 Principle of Innovation for Rural Market**

The principles and practices of innovation to be adopted in rural market have to take into consideration: needs, lifestyles and consumer behaviour of the rural population. It is extremely important that the product, pricing, promotion and distribution strategy are not just innovative alone but they must make product value proposition attractive and relevant for rural consumers.

#### **12.2.1 Process Innovation**

Process innovations are critical in rural markets. Innovation must focus on building a logistics infrastructure, including manufacturing that is in accordance with the prevailing conditions and can deliver solutions in a cost effective manner.

#### **12.2.2 Product Innovation**

Product development must start from a deep understanding of functionality, not just form. Marginal changes to products developed for customers in the towns might not be that effective in rural market. The infrastructure and environment, in which the rural consumers live and work in, demand a rethinking of the functionality a new. Poor consumer's problems can not be solved with old technologies. New technologies need to be developed to make the product

relevant to the rural consumers whose product use environment is very different from urban consumers.

### 12.2.3 Price Innovation

Conserving resources is the mantra; the product meant for rural market must eliminate or reduce, the various recurring costs and thus should reduce resource intensity. The option of reuse, refill and recycle are critical principles in product development for rural market as they reduce the overall cost of the product. India is a value for money society- while the value may range from a few rupees to millions, the basic instinct remains the same. Market strategies must ensure the prices of the product are reduced either through re-engineering, cost saving in operations, reduction in pack sizes, deletion of frills from the core product, etc. but this reduction price should not be at the cost of quality and service. Organisations have to focus on price performance of the product.

### Self Assessment

Fill in the blanks:

1. .... markets are characterized with huge potential for marketers.
2. .... of yesteryears are entering into the rural market as first time buyers for a large number of products in a large numbers.
3. The ..... and practices of innovation to be adopted in rural market have to take into consideration: needs, lifestyles and consumer behaviour of the rural population.
4. .... must focus on building a logistics infrastructure, including manufacturing that is in accordance with the prevailing conditions and can deliver solutions in a cost effective manner.
5. One of the key issues taken up by the ..... is the creation of micro business enterprises.
6. Marketing, especially in today's globalised world, plays a crucial role in any ..... enterprise.
7. .... is an example of a product market where NGO involvement has been extensive and has taken a number of forms.
8. .... must ensure the prices of the product are reduced either through re-engineering, cost saving in operations, reduction in pack sizes, deletion of frills from the core product.

### 12.3 Role of Government and NGO's in Rural Marketing

The role and functions of Non-Government Organisations (NGOs) have increased manifold as they have diversified their work areas and today, address almost all issues concerning man's social environment. Their presence has been especially marked, all over the country, because of several developmental initiatives. Realizing their need/s and potential, the Government of India has assigned them a place of prominence in the implementation of development programmes.

One of the key issues taken up by the NGOs is the creation of micro business enterprises, especially in rural areas. It has, however, been observed that in such enterprises, marketing comes forth as a major problem. As a result, stock of finished goods piles up. In case of perishable

**Notes**

commodities, such stocked goods lose their saleability and the entire venture runs at the risk of becoming non-viable. Poor marketing techniques result in lower price for products and consequently, lesser income for the craftsmen/artisans.

Marketing, especially in today's globalised world, plays a crucial role in any business enterprise. Efficient need-based training on specific marketing requirements can ensure the success and viability of any production activity. Entrepreneurship Development Institute of India (EDI) has planned Training Programmes on Rural Marketing (Marketing of Rural Products) for NGOs to be organised at Delhi & Bhubaneswar. The programme will aim at inculcating rural marketing skills among NGO functionaries so that they can perform this function effectively.

### **12.3.1 NGOs' Roles in Market Systems**

Maryanne drew on Practical Action's typology of market roles to consider the range and evolution of NGO interventions in markets. She suggested that while no systematic assessment exists, NGOs are becoming more prominent in all the activities identified in the Practical Action typology including policy advocacy but left it open to NGOs present to confirm or challenge this. What is clear is that there is increasing emphasis on the demand side of the market and a realisation that it is not enough to work on supply. At an FAO-VREDESEILANDEN workshop in 2006 it was argued that the great majority of NGOs are moving towards encouraging farmers to carry out market-led production and being supply chain facilitators.

Another major trend is for NGOs to enter into and seek partnerships with business as a way both to tap into business resources and skills and to influence practice in the private sector. This and the trend for NGOs to set up social enterprise companies can lead to blurring of NGO and business boundaries. Are social enterprise companies owned wholly or partly by NGOs, still NGOs?

ACTS is an NGO working for holistic development in rural and urban areas of India, focusing on community health, mother and child health, sustainable development and environmental issues. Networks with universities, corporates and government.

Coffee is an example of a product market where NGO involvement has been extensive and has taken a number of forms. There have been considerable NGO efforts to promote value chain development through fair trade (globally coffee was the first fair trade product). Other NGOs have promoted organic certification and sustainability certification (Rainforest Alliance). Certification has often been accompanied by or preceded by efforts to promote producer organizations.

NGOs have also taken a role in market intermediation. Oxfam and Traidcraft set up a trading and coffee roasting company Café Direct, now the UK's leading Fair Trade drinks company. More recently, Oxfam with a group of coffee-growing cooperatives set up Progreso Cafes Limited, with 25% of the shares bought on behalf of the cooperatives, 25% held by a Coffee Producers Trust which will pay for development projects in poor coffee growing communities and 50% held by Oxfam. This is a partnership with Matthew Algie, an independent coffee roaster.

Policy advocacy has also had considerable attention from NGOs with efforts being focused now on the renegotiation of the International Coffee Agreement. NGOs have been arguing for greater consideration to the interests of small producers.

Finally, coffee has been the focus of multi-stakeholder partnerships to raise environmental and social standards. The Common Code for the Coffee Community (4 Cs) is a joint initiative of coffee producers, trade and industry, trade unions, and social and environmental NGOs to develop a global code of conduct aiming at social, environmental and economic sustainability in the production, post-harvest processing and trading of mainstream green coffee.

It is supported and facilitated by Deutscher Kaffeeverband and GTZ (www.sustainable-coffee.net).

Notes



*Task* Discuss the role of Government in encouraging Rural Marketing.

## **12.4 Advantages and Disadvantages of NGO Involvement in Markets**

There have been some notable successes resulting from NGO activities. Fair trade is a niche market but is expanding rapidly. Independent assessments have shown evidence of benefits to producers for example to coffee growers in Bolivia, Brazil, Costa Rica and Mexico (CI/IIED 2006). The provision of credit through microfinance is another area of success. NGOs have raised the profile of small producers in international advocacy while at a more practical level have helped to fill gaps in support. In the literature on NGOs it is argued that NGOs can be cost-effective because the altruism of NGO staff, motivated by the organisation's mission rather than financial gain, could imply lower labour costs or higher quality, than for a comparable private firm (Scott and Hopkins 1999). NGOs have greater potential for innovation and flexible responses to changing external pressures (Najam, 1999).

However, concerns are often raised about NGO involvement in markets relating to lack of financial and institutional sustainability. What happens when the NGO withdraws financial and other support and are independent local enterprises crowded out in the process? These concerns could equally apply to activities promoted by governments or donors and are not inherent to NGOs.

Another concern is the potential conflict between the business goal and the social development goals. It is usually easier to develop viable market activities with the not-so-poor than with the poorest and most vulnerable who cannot take any major risks. More generally, can niche market successes be replicated on a larger scale or does this success reflect local conditions such as a pre-existing community organisation. Finally it could be argued that by concentrating on small groups of producers in niche markets, there is a danger of distracting efforts of NGOs and other stakeholders from the more fundamental changes needed in trading regimes and business environments.

### ***Suggested Areas for Discussion***

Maryanne concluded by setting out some key issues for discussion.

1. What roles can NGOs play most effectively in markets?
  - (a) From facilitation to establishing social enterprise trading
  - (b) What is the comparative advantage of NGOs?
  - (c) What is appropriate mix of service provision and advocacy
2. Replication of success:
  - (a) What are the constraints and how can they be overcome?
3. Policy frameworks (NGO, donor and public policy):
  - (a) What changes are needed for greater NGO effectiveness in markets?

Notes



Caselet

## **Presentation: Market Development of Sudanese Hibiscus**

*Alison Griffith, Practical Action*

Alison Griffith, International Team Leader for Markets and Livelihoods, talked about Practical Action's change in focus from small enterprise development to making market systems work for the poor. Until 2000 Practical Action (then ITDG) had been structured around technology programmes. This approach was good at focusing on technical skills, for example to improve tools for farmers made by blacksmiths but not on whether there was a market for the improved products. Sustainability of interventions was consequently always a challenge. It therefore moved to developing sustainable markets for business services and subsequently to understand the market system in which the users of the services i.e. small-scale producers are operating in.

A new Markets and Livelihoods programme set up in 2003 aimed to become more market literate defined as an "awareness, understanding and capacity to build the process, institutions, competencies and relationships that enable markets to work for poor producers".

Practical Action focuses now on developing market systems encompassing three main elements:

1. Enabling business environment
2. Market chain actors and linkages
3. Service providers

Practical Action works with actors in the market including middlemen to conduct participatory market mapping to identify the blockages in the system and the opportunities for improvement. The emphasis is on how to increase the flow of resources from the market to the producers. This is reflected in the market mapping which maps the flows from the market to the producer. The challenge is to identify win-win solutions benefiting all actors in the chain to ensure their cooperation. It is also necessary to find a balance as the facilitator between being so heavily involved that market actors perceive it as the organisation's project rather than anything concerning them and having such a light touch that very little happens.

To avoid continuing to work in a sector simply because the organisation has always worked in that sector, Practical Action uses a methodology to select promising sub-sectors. The hibiscus sector in Sudan was chosen because of its potential to impact large number of farmers, mostly women (1-1.5 million), its international and national market potential (as the main ingredient in herbal teas) and its role as a economic shock absorber. Sudan has competitive advantages for hibiscus as it provides growing conditions which result in colour and acidity levels favoured by importers and an absence of pests and diseases. A Comic Relief funded project started in 2006 is targeting 40,000 farmers in the Darfur region but it is anticipated that if interventions are successful, another 200,000 farmers in the area will benefit. Comic Relief provided additional funds for market research. Practical Action wanted to get the Sudanese market actors involved in this research so that they

*Contd...*

would feel ownership of the results and use it to shape their strategy to develop the sub-sector. This has taken longer as a result but has been worth it. The research confirmed problems of quality and unreliable supply leading to declining market share.

The project is designed to address the three areas of the market system:

1. Improving market linkages
2. Improving technology services
3. Improving policy environment

## 12.5 Market Linkages

To improve market linkages, Practical Action organised meetings to explore market opportunities and the problems and potential of hibiscus. These workshops involved farmers, traders and village development committee members from 25 villages in north Darfur and Kordofan as well as service providers (government extension agents and private agricultural inputs suppliers). The village committees as a result set up a rural marketing network to get farmers and traders to work together to improve standards. In Khartoum, Practical Action organised a workshop that led to the formation of the Hibiscus Forum involving exporters, input suppliers and government officials concerned with promoting the sub-sector. The forum is currently developing a 10 year plan for the sub-sector. The challenge is to improve the interaction between the Hibiscus Forum and the producers. The project is aiming to link rural marketing network with the forum.

## 12.6 Improved Services

Some major successes include the following:

1. The Hibiscus forum produced a manual for extension workers and village development committees containing guidance on production, harvesting and drying.
2. An exporter who was being penalised by importers because of quality problems worked with Practical Action to produce a simple tool for correct harvesting of the flowers. He also paid for extension workers to train farmers in the use of this tool.

The challenges concern how to scale up this success. Lack of price incentives for quality grades mean that the grading system proposed by the Forum is not working.



*Notes* NGOs need to work with producers to encourage them to negotiate with government and business themselves and set the negotiation platforms and campaign agendas. Businesses, for example, may use arm-twisting tactics to negotiate with small farmers.

## 12.7 Enabling Environment

The hibiscus sub-sector suffers from high local transit taxes which can absorb as much as 50% of the revenue and laborious export procedures which lead to long delays at the port. It is difficult for the Hibiscus Forum to tackle these issues. The project is helping the Forum to build the economic case for trade.

Traidcraft Exchange always operates through a local entity or NGO. This creates some challenges as NGOs are often not attuned to business matters and tend to shy away from business and

**Notes**

profit. NGOs are structured for development purposes rather than for business purposes. There is also a tension between local NGOs and the private sector, which tends to consider them as troublemakers. These issues need to be resolved if they want to be effective as market actors, and this is a role that Traidcraft Exchange plays through its capacity building activity.

Taking the typology of market roles offered by Practical Action, Maveen observed that Traidcraft Exchange concentrates its efforts on the enabling environment and market services but has a policy of staying out of the supply chain. It adds value by focusing on a few sectors and themes and working with local intermediaries to achieve a multiplier effect. Its activities can be summarised as:

1. Trade
2. Support
3. Influence

### **Experience with the Tea Sector**

Traidcraft Exchange started with a difficult context given that both the private sector players in the tea sector and the trade unions do not like NGOs intervention in this sector. There was also considerable resistance to Fair Trade on the part of plantations and government bodies, which view it as a non-tariff trade barrier in export markets. In order to increase buying from the industry it worked through a multi-stakeholder process but it took a year to get the different players to achieve a meaningful dialogue.

After three years of working on this sector, Traidcraft has had some success in increasing interest in fair trade in the industry. Through its partners, it has organised 4000 small tea growers is encouraging the private sector to source from small tea growers. Large companies like Tatas and Hindustan Lever are considering buying from small growers.

### **Experience with the Cotton Sector**

Traidcraft's work has enabled the Fair Trade Labelling Organisation (FLO) to develop standards for the cotton sector. It has had some success also in promoting organic cotton in dryland areas through its partner, Agrocél. Marks and Spencer is now working with partners on the ground to source fair trade & organic cotton products, while Traidcraft continues to work on crop diversification to enable improved yields of cotton. An important factor in this success has been the choice of business partners in India & Europe.

Traidcraft Exchange's good links within the supply chain and the organisation of the farmers were also important.

### **Reflections**

Maveen presented some final thoughts on what Traidcraft Exchange has learnt. The key lesson was the need to stay out of the supply chain, enable changes within the supply chain, influence the enabling environment, while building service market for small enterprises.

This meant being aware of the organisation's strengths and limitations and to be structured according to what can be offered and add value to what exists on the ground. It was important to ensure cross-learning by sharing experiences.

## Working Groups

## Notes

The aim of the working groups was to allow focused discussion of key issues and areas, considered priorities by workshop participants. In the discussion that followed the presentations a wide range of issues were raised, from sustainability and building resilience into market interventions to the role of information and governance issues surrounding market chains. For the purposes of the working group discussions, these were clustered into two topics: (a) external issues of governance of market chains and (b) internal NGO issues of culture. Two working groups were formed to discuss these topics. These were facilitated respectively by Emma Wilson and Ivan Bond of IIED.

Governance of Market Chains - Working Group Discussion Participants agreed that the role of information was important, but that a lot of research was already being undertaken in this area. Therefore they did not identify this as a key area for further collaborative work. Issues around information include: using Information Technology (IT) to increase transparency; providing access to technology in remote areas; cost-effectiveness; sustainable provision of IT services; traceability; control of information; and the issue of monopolies and price-fixing.

The key points that came out of the rest of the discussion on governance and the 'enabling environment' for sustainable enterprise development included:

1. The need to engage in constructive dialogue with multiple stakeholders including the government and business
2. The lack of capacity in current NGO networks and the need for more cohesion in NGO approaches

Constructive multi-stakeholder dialogue Participants noted that the current landscape is made up of 'business' (also referred to as 'the private sector', i.e. commercial enterprises) and various disorganized producers, with the state playing a nominal role. There is a need to build a constructive dialogue between these players. Various for a already exist for this, including poverty reduction strategy papers. Participation in such for a is a huge challenge for small producers due to issues of cost, confidence and preparation: capacity building is needed for small-producer organizations and individuals.

Building an effective multi-stakeholder dialogue requires very experienced facilitation. One useful role of NGOs is to convene these dialogues, bringing together people with different sets of skills to effect change. To move dialogue forward there needs to be an appeal to self-interest (in the form of 'hooks' and the prospect of 'win-win' outcomes). Workshop participants also noted the importance of champions to take the lead in participation in such dialogues, and to encourage others to join in.

### 12.8 Engaging with the Government

Participants noted the lack of trust towards NGOs that some have experienced on the part of government. Public policy influence needs to be based on sound research and analysis; there is also a need for transparency.

Participants drew attention to the Overseas Development Institute's Research and Policy in Development programme (RAPID).

In some cases policy change has happened but is not implemented at the local level. NGOs can play a role in informing local authorities and experts about how to implement policy at the local level (e.g. Practical Action's work with local authorities in Nepal).

**Notes**

Setting up incentives in value chains is a key issue, particularly when working with the informal sector. Practical Action noted that In the context of Practical Action's Sudanese hibiscus project, the two key problem areas are export processes and taxation. NGOs need to work with the private sector to make the 'business case' for governments to develop an enabling environment (e.g. taxation and regulation). There is a need to demonstrate the benefits that come to the state from developing lower-value market systems. NGOs also need to empower the producers themselves to put pressure on government to create this enabling environment. The role of NGOs also includes research and analysis, creation of coalitions and mobilisation of the private sector to demand change.

### **Engaging with the Private Sector**

The relationship between government and business is changing: business is getting more powerful. They are using coalitions to speak to government. Supermarket standards are increasingly setting the framework; it is not only the government setting the agenda. Business should be encouraged not to stand on the sidelines. However, it is necessary to create a 'safe' environment for engagement. The enthusiasm of the private sector in dialogue depends to an extent on the geographical location and the sub-sector.

### **Working with Producers**

NGOs need to work with producers to encourage them to negotiate with government and business themselves and set the negotiation platforms and campaign agendas. Businesses, for example, may use arm-twisting tactics to negotiate with small farmers. NGOs go in to level up the playing field, through education on alternative ways to build relations between business and producers.

NGOs need to help the producers to understand what the issues are, and the way that the market systems work, including the role of the government. Producers need to think about areas where policy implementation is weak or corrupt, and seek to improve these areas through engagement with government. Traidcraft works with local groups and empowers them to engage in policy change. Producer groups are supported by local NGOs. A national organisation is in process of being established.



*Caution* There has been very little assessment of environmental impacts of market chains and market development. IDRC and ODI's research on integrating social and environmental considerations in value chain analysis was mentioned as an important step in this direction.

## **12.9 Evaluation of NGO Roles in Markets**

Much of the working group discussion centred on the challenge of evaluating the impact of NGO roles in markets particularly as they moved to a more facilitation role. It is very difficult to demonstrate causal impacts to donors and private sector partners. Donors are not convinced that NGOs should be involved in markets and are uncertain about the efficacy of NGO interventions. There is a need for evaluation to put more emphasis on evaluating the process of NGO facilitation rather than the impacts. The USAid Microenterprise programme has done some evaluation of NGO market activities (see [www.microlinks.org](http://www.microlinks.org)).

There has been very little assessment of environmental impacts of market chains and market development. IDRC and ODI's research on integrating social and environmental considerations

in value chain analysis was mentioned as an important step in this direction. Environmental indicators are needed in the evaluation to indicate long-term productive capacity.

There has also been very little long-term assessment of NGO interventions and the sustainability of the market activities promoted beyond the short-term donor funding period. The BOND network was highlighted as an appropriate forum to hold discussions with donors, particularly the EU on NGO roles and best practices as market facilitators. NGO organisational culture One of the challenges facing NGOs in moving to a facilitation role is to convince and support staff in country offices to move away from their traditional roles and adopt this new approach. NGO staff need greater market literacy and to understand the language of the private sector. The Small Enterprise Education and Promotion network (SEEP) ([www.seepnetwork.org](http://www.seepnetwork.org)) could be helpful in this respect. It is practically oriented, offering materials and training. It has a working group on market development. NGO practitioners could engage more with this group.

### Engaging with the Private Sector

NGO staff need to learn how to deal with a new set of actors in the form of the private sector. They are getting better at working with the private sector as they have started to hire people with business skills. There is a need to be better linked to the corporate social responsibility community and networks.

### Economic Models and Modelling

It was proposed that there was a need to make a business case to individual companies of the benefits of engaging in participatory market chain analysis with NGOs. Some companies were reluctant to participate because they could not see the 'win-win' outcomes of making changes to the market systems. Some economic modelling of different market systems and scenarios might help to convince companies to participate.

It was suggested that NGOs want absolute certainty and are risk-averse, whereas entrepreneurs are more focused on understanding the risks and then making a decision. It is accepted in business circles that some start-ups fail.

### Self Assessment

State whether the following statements are true or false:

9. NGOs have also taken a role in market intermediation.
10. Policy advocacy has also had considerable attention from NGOs with efforts being focused now on the renegotiation of the International Coffee Agreement.
11. Practical Action works with actors in the market including middlemen to conduct participatory market mapping to identify the blockages in the system and the opportunities for improvement.
12. The obascus forum produced a manual for extension workers and village development committees containing guidance on production, harvesting and drying.
13. Foreign Exchange always operates through a local entity or NGO.
14. The aim of the focussed groups was to allow focused discussion of key issues and areas.
15. Microenterprise programme has done some evaluation of NGO market activities.

## Notes



Case Study

### Export of Cut Flowers from India

**R**ural India has woken up to the immense potential of exporting flowers from India. Floriculture is an important and upcoming trade with potential both in domestic as well as export markets for the world over, the flowers have gained an important place in one's life be it for religious purposes or personal decoration. The global floriculture industry with an investment of about US\$ 50 billion is growing at an annual rate of 10 to 12%. The USA, Japan, Western Europe are the major markets for the flowers. Besides, Eastern Europe, South Korea, Thailand and Indonesia are also coming up as large consuming countries. In the producing countries Netherlands alone enjoys 56% followed by Columbia 11%. Among the floriculture products the major share is of "Cut-flowers".

Total import/export trade of cut flowers in the world is estimated at US \$ 4100 million. Main importing and exporting countries are given respectively in value terms. Of the US \$ 3716.8 millions of imports, the share of Germany was the highest (30.3%) followed by USA (16.8%), UK (9.7%), France (9.7%) and Netherlands (8.4%). These five countries together shared nearly 75% imports. Netherlands which exports large amount of flowers also imports cut flowers. Regarding exports Netherlands had the maximum share of US \$ 2102.2 million (56.5%) followed by Columbia (14.1%), Israel (4.2%) together constituting nearly 75% of world's export. In fact, the share of Netherlands in the total exports has come down from 64% in 1991 to 56.5% in 1995. This is due to increasing shares of exports from developing countries like Columbia, Kenya, Ecuador, Thailand, Zimbabwe etc. India has also appeared in the world cut flower trade with about 0.3% share of exports.

#### **Floriculture Exports from India**

Floriculture is a very broad group consisting wide range of products such as flowers, cut flowers, flowering and ornamental plants, bulbs, tubers, corms, rhizomes, chicory, orchids, mosses etc. For export purposes, all floriculture products are grouped into four categories, that are given in Table 3 along with their qualities and values for the year 1998-99. It is seen that cut flowers in the largest group sharing nearly 72% value of floriculture exports. This is followed by a group of foliage, branches mosses and plant parts (17.16%), group of rooted cuttings, slips, mushroom spawn (9.92%) and the lastly bulbs, tubes, tuberous roots, rhizomes, chicory etc. (1.05%). Thus the cut flowers both fresh and dried, dominate floriculture export trade of India.

#### **Cut Flowers Exports**

The cut flowers are exported in two forms:

1. Fresh form for bouquets and ornamental purposes.
2. Dried, dyed and bleached for other purposes.

The information of export of fresh cut flowers in respect of quantities values and the countries to which exported is given for the 1998-99. Total quantity exported was 2722 MT valued at ₹ 25.12 crores. The biggest export market was Japan importing 19.65% cut flower followed by USA (10.44%), Germany (7.96%), UK (7.40%), Australia (5.43%) and Netherlands (4.67%). The fresh cut flowers are exported to 54 countries, but nearly 68% are exported to 10 countries shown in the table. Unit value revealed that the highest price was paid by Netherlands (₹ 376.62/kg), followed by Japan (₹ 155.92/kg) and Singapore (₹141.49/kg).

Contd...

The overall average price received was ₹ 92.26/kg. The price offered by USA was quite low (₹ 51.33/kg). The quality of cut flowers exported was 8295 MT valued at ₹ 51.04 crores. They were exported to in all 55 countries but the major export markets were USA sharing 35.25% exports followed by Japan (27.98%), Netherlands (9.50%), Germany (5.41%), U.K (4.91%) and so on. These five countries shared about 83% of total exports. Thus, the exports to different countries are unevenly spread. Unit values or prices received varied from ₹ 26/kg by Japan to ₹ 137.38 by Germany. The overall average unit value received was ₹ 61.52/kg. There was a very wide difference in the prices received from different importing countries. Although USA and Japan imported the largest quantities, they offered low prices.

#### Question

Since flowers are perishable products and mostly unbranded, suggest ways of ensuring export growth as the demand is going to increase in time.

### 12.10 Summary

- As the competition increases in the rural market there might be the need for competitively priced products that are developed as per the needs of the rural consumers.
- Product development must start from a deep understanding of functionality, not just form.
- Conserving resources is the mantra; the product meant for rural market must eliminate or reduce.
- One of the key issues taken up by the NGOs is the creation of micro business enterprises, especially in rural areas.
- Another major trend is for NGOs to enter into and seek partnerships with business as a way both to tap into business resources and skills and to influence practice in the private sector.
- Coffee is an example of a product market where NGO involvement has been extensive and has taken a number of forms.
- Traidcraft Exchange always operates through a local entity or NGO.
- Traidcraft's work has enabled the Fair Trade Labelling Organisation (FLO) to develop standards for the cotton sector.
- NGOs need to work with producers to encourage them to negotiate with government and business themselves and set the negotiation platforms and campaign agenda.
- NGO staff need to learn how to deal with a new set of actors in the form of the private sector.

### 12.11 Keywords

**Price Innovation:** Conserving resources is the mantra; the product meant for rural market must eliminate or reduce, the various recurring costs and thus should reduce resource intensity. The option of reuse, refill and recycle are critical principles in product development for rural market as they reduce the overall cost of the product.

**Process Innovation:** Process innovations are critical in rural markets. Innovation must focus on building a logistics infrastructure, including manufacturing that is in accordance with the prevailing conditions and can deliver solutions in a cost effective manner.

**Notes**

**Product Innovation:** Product development must start from a deep understanding of functionality, not just form. Marginal changes to products developed for customers in the towns might not be that effective in rural market. The infrastructure and environment, in which the rural consumers live and work in, demand a rethinking of the functionality a new.

**Working Groups:** The aim of the working groups was to allow focused discussion of key issues and areas, considered priorities by workshop participants. In the discussion that followed the presentations a wide range of issues were raised, from sustainability and building resilience into market interventions to the role of information and governance issues surrounding market chains.

**12.12 Review Questions**

1. Explain the principle of Innovation for Rural market.
2. What is the role of Government and NGO's in Rural Marketing?
3. Describe the NGO's role in Rural Marketing.
4. Explain the market linkages.
5. Explain the NGO capacity and Cohesion.
6. What are the advantages and disadvantages of NGO's involvement in Market?
7. Describe the Promotional Innovation.
8. Explain the NGO's Role in Market System.
9. What do you mean by Enabling Environment?

**Answers: Self Assessment**

- |               |                      |
|---------------|----------------------|
| 1. Rural      | 2. Non Consumers     |
| 3. Principles | 4. Innovation        |
| 5. NGO's      | 6. Business          |
| 7. Coffee     | 8. Market Strategies |
| 9. True       | 10. True             |
| 11. True      | 12. False            |
| 13. False     | 14. False            |
| 15. True      |                      |

**12.13 Further Readings**



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## Online links

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[www.rmai.in](http://www.rmai.in)

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## Unit 13: Rural and Urban Markets

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### Objectives

After studying this unit, you will be able to:

- Define Rural Markets.
- Discuss the Rural and Urban Markets.
- Describe the Challenges and Opportunities of Rural Market.
- Explain the Parameters Differentiating Urban and Rural Markets.

### Introduction

India is the world's 12th-largest consumer market. By 2025, it is projected to be ahead of Germany, the fifth largest, according to a recent McKinsey (2007) survey. The biggest strength of Indian markets lies in the size, not in individual spending. With the rise in income, over 291 million people will move from desperate poverty to a more sustainable life, and India's middle class will increase incredibly by over ten times from its current size of 50 million to 583 million people. Besides urban and semi-urban areas, rural India has a huge potential. Indian corporations have now recognized the importance of rural markets. It is evident from the efforts made by the companies like Coke, ITC (Indian Tobacco Company) and Hindustan Lever Limited. According to Rajan (2005), Coke, in India has doubled the number of outlets in rural areas from 80,000 in 2001 to 160,000 in 2003, and increased market penetration from 13 per cent to 25 per cent. ITC Limited and Hindustan Lever Limited (now Hindustan Unilever Limited) have initiated rural approach through strategic initiatives such as *e-choupals* and *Project Shakti*. In case of white goods and automobiles, the differences between prices of national and foreign brands have been narrowed down. Majority of the companies have introduced number of services to induce the

consumers. Bargaining power of consumers has increased tremendously than ever before due to intense competition. The phenomenal growth of media, availability of loans and lowering of interest rates have caused sudden rush for these products. Liberalization and opening up of the economy has exposed the middle class of the country to the quality products at the competitive prices. There is a huge flow of foreign brands into the Indian market. There have been major structural changes in the economy as a result of globalization. The competition has been intensified. The state like Punjab gets a favorable ranking in terms of ownership of assets, consumer durables, two-wheelers, and cars in rural areas. In rural Punjab there are many families whose one or more family members have gone abroad. Their standard of living is even far better than many of the urban residents.

## **13.1 Rural and Urban Markets: A Comparative Analysis**

### **13.1.1 Rural vs Urban Consumers - Challenges**

The biggest mistake a FMCG company can make while entering the rural India is to treat it as an extension to the existing urban market. But there is a vast difference in the lifestyles of the rural and urban consumers. The rural Indian consumer is economically, socially, and psychographically different from his urban counterpart. The kind of choices that an urban customer takes for granted is different from the choices available to the rural counterparts.

The difference in consumer behavior in essence stems from the way of thinking with the fairly simple thought process of the rural consumer in contrast to a much more complex urban counterpart. On top of this there has hardly been any research into the consumer behavior of the rural areas, whereas there is considerable amount of data on the urban consumers regarding things like - who is the influencer, who is the buyer, how do they go and buy, how much money do they spend on their purchases, etc. On the rural front the efforts have started only recently and will take time to come out with substantial results. So the primary challenge is to understand the buyer and his behavior.

Even greater challenge lies in terms of the vast differences in the rural areas which severely limits the marketer's ability to segment, target and position his offerings. The population is dispersed to such an extent that 90% of the rural population is concentrated in villages with population of less than 2000. So the geographical spread is not as homogeneous as it is with the urban areas owing to vast differences culture and education levels. Also with agriculture being the main business of rural sector the purchasing power of rural consumer is highly unpredictable which can lead to high variations in demand patterns.

One more gray area that needs to be probed into is the importance of retailer in rural trade. Rural consumer's brand choices are greatly restricted and this is where the retailer comes into the picture. The rural customer generally goes to the same retailer to buy goods. Naturally there's a very strong bonding in terms of trust between the two. Also with the low education levels of rural sector the rural buying behavior is such that the consumer doesn't ask for the things explicitly by brand but like "laal wala sabun dena" or "paanch rupaye waali chai dena". Now in such a scenario the brand becomes subservient to the retailer and he pushes whatever brand fetches him the greatest returns. Thus, as there is a need to understand the rural consumer, similarly need is there to study the retailer as he is a chief influencer in the buying decision.



*Did u know?* ITC Limited and Hindustan Lever Limited (now Hindustan Unilever Limited) have initiated rural approach through strategic initiatives such as *e-choupals* and *Project Shakti*. In case of white goods and automobiles, the differences between prices of national and foreign brands have been narrowed down.

### **13.2 Parameters Differentiating Urban and Rural Markets**

The market is a place where buyers and sellers exchange things. In lay man terms "It is a place where buyers and sellers exchange goods/service for some value in return such as Money". So the Market is same everywhere. But, the difference is in the consumer behaviour. There will be different buyers in each market. This is because of different factors which Influence them. So the same way there is a difference between Rural and Urban Market. The factors are so many to define. There is a difference in all the marketing Variables. That is where most of the companies approach with different Marketing Mix and Strategies to Rural Market. The strategies differs from the urban to rural market. The companies which have understood the phenomena of rural market have succeeded in the market, For example, HUL, ITC, Colgate, Rajdoot Motorcycle. These companies have done a perfect home work and Implemented in terms of effort and Operations. These companies approach shows that there is a difference between Rural and Urban Market.

The Differences can be Infrastructure, Economy, Lifestyle, Socio-cultural Background, Availability or reach, Habits, Competition, Consumer Behaviour.

**Infrastructure:** The facilities like Electricity, Internet, Roads and Buildings, Educational Institutions, Financial Institutions, Communication and Organised Market , Other Facilities differs in urban and Rural market. In urban everything gets implemented soon and Availability is also there. Where as in rural market everything takes a good amount of time.

**Economy:** Here the Economy means, the earning Capacity in a rural market. The cost of living always depends upon their way of earning. So, the income levels are unreliable, as most of them are depended upon the seasons and agriculture. So the income levels cannot be a fixed one.

**Lifestyle:** The Lifestyle, that is living pattern of both the markets differ a lot. This can be important factor which influences the companies to think of when they approach rural market.

**Socio-cultural Background:** Due to the illiteracy level, and Culture adaptability from long time the rural market always gets differ than the urban market. The superstition and other belief as well as the way of thinking towards products and goods differ in these two markets.

**Availability or Reach:** Due to the areas which are diverted Geographically and Heterogeneous market the reach is very difficult. The logistics for rural market is a tough task than to reach the Urban Market.

**Habits:** The daily routine of the people makes them to cultivate different habits. Apart from due to the awareness is low in Media terms there will be a difference in the habits. Competition: The competition in the market for brands and Companies always differ. As in rural markets it is always the channel Partner and Retailer plays a vital role. But where as in Urban Market Brand Plays a great role.

**Consumer Behaviour:** Last but not least, the consumer behavior is the task for the task for the companies. The mindset of the rural consumer is completely different from Urban Consumer. The Mindset of the consumer is different. For example, in urban market , to buy Electronic Item the customer thinks of Brand and its updated feature. where as in rural market he thinks of in so many ways, such as money, Durability, Buying Capacity and so on. So these mindset makes a difference in both markets. So these are the differences in the rural market and urban market. Those companies which have understood have done well.

### **13.3 Difference in Consumer Behaviour in Rural and Urban Markets**

To understand the brand switchover behavior the migrants were asked to mark their current brand and the previous brand of personal care products. This was done to analyze whether there is any change in the usage of personal care products.

The reasons for brand switch over behavior is also due to the reasons that there are certain brands of personal care products marketed only in rural area, that may be one of the reason for the change in usage of brand after the migration. The key drivers influencing the change in the previous brand of products are listed in the order ranked by the migrants, they are: Self image, Outdoor display, Attractive Package, influence of sales people, Features of the product, New habit, Awareness about the product, Brand image, perceived quality, Advertisement, Friends influence, Availability of the product, price of the product, Health related

The physical boundaries of urban built-up areas often do not coincide with their administrative boundaries. The areas surrounding urban centers generally have an important role in providing food for urban consumers, with proximity lowering the costs of transport and storage. It is difficult to make generalizations on the nature of peri-urban areas, which depends on the combination of a number of factors including the economic and infrastructural base of the urban center, the region and the nation; the historical, social and cultural characteristics of the area, and its ecological and geographical features. Peri-urban areas around one center are also not necessarily homogenous: high- and middle-income residential developments may dominate one section, while others may host industrial estates and others provide cheap accommodation to low-income migrants in informal settlements.

The peri-urban interface around larger or more prosperous urban centres is also the location where processes of urbanisation are at their most intense and where some of the most obvious environmental impacts of urbanisation are located. They are often characterised by: Variations in the characteristics of peri-urban areas can be important. For example, in the growing number of extended metropolitan regions in Southeast Asia, agriculture, small-scale industry, industrial estates and suburban residential developments co-exist side by side. Availability and affordability of transport are essential for the intense movement of goods and the extreme mobility of the population. In other contexts, and especially in less industry-based economies such as many countries in sub-Saharan Africa, agriculture still prevails in peri-urban areas although often with significant shifts in land ownership and use. This is especially the case where smallholder productivity is low because of the increasing costs of inputs and limited credit availability. Other problems include poor access to urban markets due to a lack of roads and physical infrastructure and the tight control over access to the urban marketplaces by middlemen and large traders. Thus, despite proximity to urban consumers, small farmers may be easily squeezed out, especially as the value of land in peri-urban areas increases with the expansion of the built-up center.



*Task* Critically evaluate the distinction between urban and rural markets.

### **13.4 Governing across and beyond the Rural-urban Boundary**

If well managed, the interactions between towns and countryside are the basis for a balanced regional development which is economically, socially and environmentally sustainable. Local development is increasingly associated with decentralisation processes, on the assumption that local government is 'closer' to citizens – meaning that it is both more accountable to them and that it has a better understanding of local needs and priorities. With regard to rural-urban linkages, local government can play an important role in facilitating positive interactions and limiting negative exchanges:

1. It is best placed for decision-making on physical transport and communication infrastructure; however, expenditure for infrastructure can be significant and well beyond

**Notes**

the means of local government. Wider alliances, which increase access to financial resources, are therefore necessary.

2. The management of natural resources and wastes is an important area of local government intervention. However, it often includes much wider areas than those administered by local authorities, and requires alliances with other local, regional, national and sometimes cross-border governments.
3. National level policies also have an important role, for example, with respect to access to land and land ownership and titling in both rural and urban areas. Clearly, this is not the responsibility of local authorities but is nevertheless crucial for local development planning and practice.

In short, understanding rural-urban linkages matters because it provides the basis for measures that can improve both urban and rural livelihoods and environments. Ignoring them means that important opportunities will be lost, and in many cases it will also contribute to poor and marginal people's hardship. There are urban initiatives that can reduce ecological damage to rural areas, and help support regional development. However, with a narrow urban-centric approach, such initiatives are unlikely to be given the priority they deserve.

**Self Assessment**

Fill in the blanks:

1. India is the world's ..... largest consumer market.
2. Majority of the companies have introduced number of services to induce the consumers .....
3. The daily routine of the people makes them to cultivate different .....
4. The ..... boundaries of urban built-up areas often do not coincide with their administrative boundaries.
5. The ..... of natural resources and wastes is an important area of local government intervention.
6. There are ..... initiatives that can reduce ecological damage to rural areas, and help support regional development.

**13.5 Stages of Buying Decision Process**

The smart companies research the buying decision process involved in their product category. The consumers' passes through 5 stages:

1. Problem recognition
2. Information search
3. Evaluation of alternatives
4. Purchase decision and
5. Post purchase behavior

Five stages comprise the consumer buying decision process: problem recognition, information search, alternative evaluation, purchase decision and post-purchase behavior. Each of these stages can be a deliberate action such as researching product options or a subconscious thought like recognizing the juice in the refrigerator has almost run out. A merchant or business must

understand the steps a customer goes through to make a purchase. A merchant can influence a customer's purchase by providing targeted information, advertisements or guidance.

- **Problem Recognition:** Consumers recognize a problem based on physical cues, stimulus response or a need. For example, a customer could smell fresh bread and realize she is hungry or she could have a broken pair of glasses and know she needs a new pair. Visual clues trigger problem recognition. For example, a beverage in a clear container shows when it is getting low, or a sticker in a car window reminds customers when it is time for an oil change.
- **Information Search:** Customers in the information search stage of the buying process look for solutions to their problems or needs. They remember what types of purchases solved a similar problem in the past. Customers also discuss their needs with friends and relatives to see what solutions they may suggest. For more expensive purchases, customers may read reviews, look through newspapers or research the product online.
- **Evaluation of Alternatives:** Consumers evaluate their purchase options based on product attributes, such as technical specifications, through subjective factors, such as brands, and through personal experience, such as sampling or testing products. Consumer and company reviews can influence a consumer's product evaluation.
- **Purchase Decision:** A consumer's decision to purchase something includes where to buy, when to buy and whether to buy. For routine goods such as groceries, consumers may simply go to their favorite grocery store, but for electronic purchases, they may browse multiple stores. They will evaluate each merchant based on prior experience with the store, special offers and whether they can return the product easily. A store that's visually appealing, has helpful sales associates and offers specials and discounts influences a buyer.
- **Post-purchase Behavior:** After making a purchase, a consumer mentally ranks her purchase satisfaction. She will evaluate if she liked the store, if she enjoys the product and the quality of the product. This evaluation determines whether the customer will purchase the product or brand again and whether it would be from the same store. Customers who are happy with their purchases and feel they received a quality product at a good price, will become repeat customers and will tell others about their experience.

**Positioning:** Having identified the potential segments and selected one or more to target, the marketer must next decide what position to pursue. A position is the way a firm's product, brand, or organization is viewed relative to the competition by current and prospective customers. If a position is how a product is viewed, then positioning is a firm's use of all the elements at its disposal to create and maintain in the minds of a target market a particular image relative to competing products.

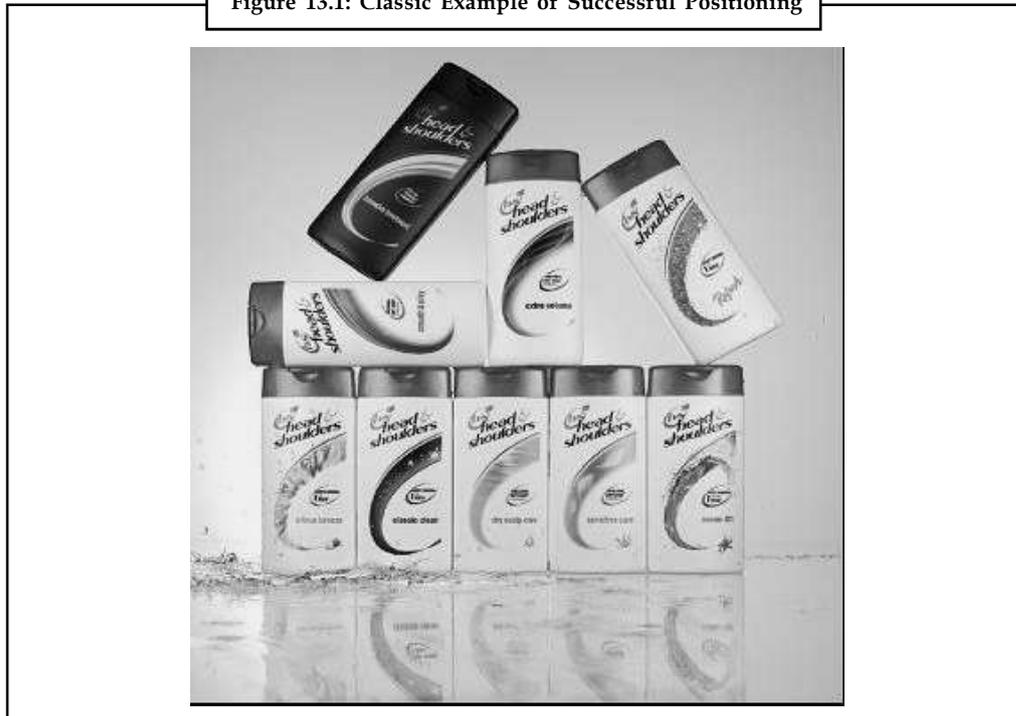
When positioning a product, the marketer wants to convey the benefit most desired by the target market. A classic example of successful positioning is the original Head and shoulders shampoo. As the first shampoo positioned as a dandruff remedy, the product's name implied the benefit, the medicinal fragrance suggested its potency, and the color and consistency, and the color (blue-green) and consistency (a paste rather than a liquid) indicated that it wasn't an ordinary shampoo.

There are three steps in a positioning strategy:

1. **Select the positioning concept:** To position a product or an organization, a marketer needs to first determine what is important to the target market. Marketers can then conduct positioning studies to see how members of a target market view competing products or stores on the important dimensions. The results of this research can be portrayed in a perceptual map that locates the brand or organization relative to alternatives on the dimensions of interest.

Notes

Figure 13.1: Classic Example of Successful Positioning



2. **Design the dimension or feature that most effectively the position:** A position can be communicated with a brand name, a slogan, the appearance or other features of the product, the place where it is sold, the appearance of employees, and in many other ways. However, some features are more effective than others. It is important to not overlook details. According to a consultant, chairs for customers are vital in upscale retail environments because they signal that the seller “cares”. Because the marketer has limited resources, decisions have to be made on how best to convey the desired positioning concept.
3. **Coordinate the marketing mix components to convey a consistent position:** Even though one or two dimensions may be the primary position communicators, all the elements of the marketing mix – the product, price, promotion, and distribution – should complement the intended position. Many product failures are the result of inconsistent positioning that confuses consumers. For example, a compact car with a high price tag (Cadillac Cimarron), and Tetley Instant Iced Tea (in Britain, where the people take great pride in brewing tea) both flopped.

Over time a position may erode because of lack of attention, become less attractive to the market as needs or tastes change, or be usurped by a competitor. Hence positions must be regularly monitored and sometimes adjusted.



*Notes* In short, understanding rural-urban linkages matters because it provides the basis for measures that can improve both urban and rural livelihoods and environments. Ignoring them means that important opportunities will be lost, and in many cases it will also contribute to poor and marginal people’s hardship.

## 13.6 Market Targeting

Notes

Once the firm has identified its market segment opportunities, it has to decide how many and which ones to target.

1. **Evaluating the Market Segments:** In evaluating different market segments, the firm must look at two factors the segments overall attractiveness i.e., size, growth, profitability scale economics. Second the firm must consider whether investing in the segment makes since given the firms objectives and resources.
2. **Selling the Market Segments:** Hearing evaluated different segments, the company can consider five patterns of target market selection.
  - (a) **Single Segment Concentration:** the company may select a single segment volkswagen concentrates on the small company market and Porsche on the sports can market. Through concentrated market the firms gains a strong knowledge of the segments needs and achieves a strong market presence.
  - (b) **Selective Specialization:** here the firm selects a no of segments, each objectively attractive and appropriative there may be little or number if synergy among segments but each segment premises to be a money market this multi segment coverage strategy has the advantage of diversifying the firms risk.
  - (c) **Product Specialization:** here the firm specializes in making a certain product that it sells to several segments.  
 e.g., could be microscope manufactures increases scopes to universities laboratories govt. laboratories commercial laboratories.  
 Through a product specialization strategy , the firm builds a strong reputation in the specific product area.
  - (d) **Market Specialization:** Here the firm concentrates on serving any needs of a particular customer group.  
 E.g., is firm that sell an assortment of products only to university laboratories, including microscopes, oscilloscope, Bunsen, because and chemical flasks.  
 The firm gains a strong reputations in saving this customer group and becomes a channels for feather products that the customer group could use.
  - (e) **Full market coverage:** here a firm attempts to save all customer groups, unit all the products they might need. Only very lounge fives can undertake a full market coverage strategy.  
 E.g., IBM, general motors, coca cola etc. i.e. large firms can ever a whole market in two broad ways. Through underestimated marketing or differentiated market.
3. **Additional Consideration:** fore other consideration must be taken in to ale in valuating and selecting segments.
  - (a) **Ethical choice of market target:** market targeting sometimes generates public controversy. The public is concerned when marketers take unifies advantage of groups or disadvantaged groups.
  - (b) **Segment interrelationships and super segments:** in selecting more than one segment to serve, the company should pay attention to segment inter relationships on the cost, performance and technology side.

**Notes**

Companies should try to operate in super segments rather than in is dated segment. A super segment is a set of segments shaving some exploitable similarly.

- (c) *Segment by segment incision plans:* a company would be wise to enter one segment at a time revealing its total expansions plans. The competitors must not know to what segment the firm will move.
- (d) *Inter segment cooperation:* the but way to manage segments is to appoint segment managers with sufficient authority and responsibility for building their segments brinier at the some time, segment managers. Should not be so segment forced as to cooperation with other company personnel.

**Self Assessment**

State whether the following statements are true or false:

- 7. To position a product or an organization, a marketer needs to first determine what is important to the target market.
- 8. A position can be communicated with a brand name, a slogan, the appearance or other features of the product.
- 9. Once the customer has identified its market segment opportunities it has to decide how many and which ones to target.
- 10. Over time a position may erode because of lack of attention, become less attractive to the market as needs or tastes change, or be usurped by a seller.
- 11. Segmentation is a long standing practice in such product and service categories as automobiles, boats, clothing, cosmetics and travel.
- 12. Sellers can be distinguished according to the occasions they develop a need, purchase a product, or use a product and occasions segmentation can help firms expend product usage.

**13.7 Segmenting Consumer and Business Markets**

Whenever a market for a product are service canvases of two or more buyers. The market is capable of being segmented i.e. divided in to meaningful buyers groups. The propose of segmentation is to determine only among buyers which may be consequent in choosing away them or making to them.

Bases for segmenting consumer markets: two brood group of variables are used to segment consumer markets. Some researches try to form segments by looking at consumer characteristic and other researches try to firm segments by looking at consumer response.

The major segmentation variables are:

- 1. *Geographic segmentation:* geographic segmentation call for dividing the market in to different geographic units such as nations, states, regions, countries, cities. The company can operates in one or a few geographic areas or operates in all but pay attention to local variations.
- 2. *Demographic segmentation:* in demographic segmentation the market is divided in to groups on the basis of variable such as age, family, size, family life cycle, gender, income etc. demographic variable are the most popular basis for distinguishing customer groups.

Here is how certain demographic variables have been used to segment market.

Notes

- (a) *Age and life cycle stage*: consumer wants and abilities change with age.
  - (b) *Gender*: gender segmentation has long been applied in clothing hair styling, cosmetics, and magazines. Occasionally other marketers notice an opportunity for gender segmentation.
  - (c) *Income*: income segmentation is a long standing practice in such product and service categories as automobiles, boats, clothing, cosmetics and travel. However income does not always predict the best customer for a given product.  
E.g., blue collar workers was among the first purchase of color television sets, it was cheaper for them to buy these sets than to go to movies and restaurants.
  - (d) *Generation*: many marketers are now turning to generation segmentation. Each generation is profoundly influenced by the times in which it grows up the music, movies, politics, and events of that period.
  - (e) *Social class*: social class has a strong influence on preferences for cars, clothing, home furnishings, leisure activities, and retailers, money companies design products and services for specific social classes.
3. **Psychographic segmentation**: in this segmentation buyers are divided into different groups on the basis of life style or personality and values:
- (a) *Life style*: people exhibit many more lifestyles than are suggested by the seven social classes, the goods they consume express their lifestyles. Companies making cosmetics, alcoholic beverages, and furniture are always seeking opportunities on life style segmentation.
  - (b) *Personality*: marketers have personality variables to segment markets. They endow their products with brand personalities that correspond to consumer personalities.
  - (c) *Values*: some marketers segment by core values, the belief systems that underlie consumer attitudes and behaviors, core values go much deeper than behavior or attitude and determine, at a basic level and derive over the long term.
  - (d) *Personality*: marketers have personality variables to segment markets. They endow their product with brand personalities that correspond to consumer personalities.
  - (e) *Values*: some marketers segment by core values, the belief systems that underlie consumer attitudes and behaviors, core values go much deeper than behavior or attitude and determine at a basic level and desire in the long term.
4. **Behavioral segmentation**: many marketers believe that behavioral variables such as occasions, benefits, user states, usage loyalty states are one of the best starting points for constructing market segments.
- (a) *Occasions*: buyers can be distinguished according to the occasions they develop a need, purchase a product, or use a product and occasion's segmentation can help firms expand product usage.  
E.g., Orange juice is usually consumed at breakfast. An orange juice consumer can try to promote drinking orange juice on various occasions: level, dinner, midday.
  - (b) *Benefits*: buyer can be clarified according to the benefits they seek  
E.g., Haley reported true benefit segmentation of the toothpaste market. He found four benefits segments; economy medicinal, cosmetic.

Notes

- (c) *User states*: markets can be segmented into consumers.  
E.g., user potential user, first time user, and regular uses of a product.
  - (d) *Loyal states*: consumers have buying degree of loyalty to specific brands, stores and other entities.
  - (e) *Buyer readiness stage*: a market consists of people in different stages of readiness to buy a product. Some all universe of the product, some all aware, some all informed and some derive the product.
  - (f) *Attitude*: five attitude groups can be found in a market enthusiastic, positive, indifferent, negative
5. **Multi-attribute segmentation**: one of the most promising developments in multi attribute segmentations called geo-declustering yields richer descriptions of consumers and neighbor goods than traditional demographic.

**Self Assessment**

Multiple Choice Questions:

13. Markets can be segmented into:
- (a) Consumers
  - (b) Purchases
  - (c) Sellers
  - (d) Buyers
14. .... segmentation call for dividing the market in to different geographic units such as nations, states, regions, countries, cities.
- (a) Physical
  - (b) Timely
  - (c) Geographic
  - (d) Vertical



Case Study

**Tractors and Farm Equipment Ltd**

**T**AFE has emerged as the second largest tractor manufacturer in the country in the last fiscal, displacing Punjab Tractors Ltd (PTL), which slipped to fourth place.

In terms of sales, the company was placed only next to market leader Mahindra & Mahindra, which saw a sales jump of about 32 per cent to 65,390 units in the year.

TAFE, a unit of Chennai-based Amalgamations Group, improved its sales by about 36 per cent in the last fiscal to 33,848 units as compared to 24,895 units in the previous year, according to data compiled by the Tractor Manufacturers' Association (TMA) showed.

The company's market share also saw an increase in the year to about 13.67 per cent from 12.98 per cent in the previous year. This market share may jump to more than 20 per cent in the current year if TAFE goes ahead with its proposed acquisition of the tractor business of Eicher Motors.

Meanwhile, PTL despite seeing a jump in sales of about 18.4 per cent to 30,330 units in 2004-05, as compared to 25,602 units in the previous year, saw a drop in market share by about one per cent in the year.

Contd...

Escorts Ltd, however, maintained its position as the third largest tractor manufacturer in the country with a sales increase of 24 per cent to 31,696 units in 2004-05.

Overall the tractor industry recorded a growth of about 30 per cent to 247,531 units in 2004-05 up from 1,91,673 units in the previous year.

Going by the current trends, market analysts forecast that the industry would touch its all-time high level of about 2,70,000 units (recorded in 2000) in the current year.

Tractor sales, it may be recalled, fell from 270,000 units in 1999-2000 to 1,70,000 units in 2002-03. But the year 2003-04, helped by good monsoons, saw a revival in the industry, with sales growing by 10.5 per cent to 1.9 lakh units.

The major factors driving the industry last year have been easy availability of finance (with a reduction in interest rates) and good cash flow to the farmer, besides pent-up demand over the past two-three years. The inventory position too has improved drastically.

#### Question

Discuss the role of farm equipment in today's agriculture operations and how can the Indian farmers get to the mechanised farming at low cost. What role do the equipment manufacturers and the government play in this regards?

### 13.8 Summary

- India is the world's 12th-largest consumer market. By 2025, it is projected to be ahead of Germany, the fifth largest, according to a recent McKinsey (2007) survey.
- The biggest strength of Indian markets lies in the size, not in individual spending.
- With the rise in income, over 291 million people will move from desperate poverty to a more sustainable life, and India's middle class will increase incredibly by over ten times from its current size of 50 million to 583 million people.
- Besides urban and semi-urban areas, rural India has a huge potential.
- Indian corporations have now recognized the importance of rural markets.
- The physical boundaries of urban built-up areas often do not coincide with their administrative boundaries.
- The firm gains a strong reputations in saving this customer group and becomes a channels for feather products that the customer group could use.
- The firm gains a strong reputations in saving this customer group and becomes a channels for feather products that the customer group could use.

### 13.9 Keywords

**Behavioral Segmentation:** Many marketers believe that behavioral variables occasions, behelfils, user states, usage loyalty states one the best starting points for constructing market segments.

**Benefits:** Buyer can be clarified according to the benefits they seek.

**Buyer Readiness Stage:** A market consists of people in different stages of readiness to buy a product. Some all universe of the product, some all aware, some all informed and some derive the product.

**Notes**

**Full Market Coverage:** here a firm attempts to serve all customer groups, unit all the products they might need. Only very lounge firms can undertake a full market coverage strategy.

**Loyal States:** Consumers have buying degree of loyalty to specific brands, stores and other entities.

**Market Specialization:** Here the firm concentrates on serving any needs of a particular customer group.

**Occasions:** Buyers can be distinguished according to the occasions they develop a need, purchase a product, or use a product and occasions segmentation can help firms expand product usage.

**Personality:** Marketers have personality variables to segment markets. They endow their product with brand personalities that correspond to consumer personalities.

**Product Specialization:** Here the firm specializes in making a certain product that it sells to several segments. The firm gains a strong reputations in serving this customer group and becomes a channels for feather products that the customer group could use.

**User States:** Markets can be segmented into consumers.

**Values:** Some marketers segment by core values, the belief systems that under lie consumer attitudes and behaviors, core values go much deeper than behavior or attitude and determinate at a basic level and desire in the long-term.

### **12.10 Review Questions**

1. Describe the comparative analysis of Rural and Urban Markets.
2. Explain the difference of Consumer Behaviour in Rural and Urban Markets.
3. Discuss the segmenting consumer and business markets.
4. What are the parameters of differentiating Urban and Rural Markets?
5. Describe the stages of Buying Decision process.
6. Explain the Market Targeting.
7. Discuss the Behavioral Segmentation.
8. Define product specialization.
9. Explain the Selective Specialization.
10. What do you know about "Governing across and beyond the rural-urban boundary"?

### **Answers: Self Assessment**

- |                     |              |
|---------------------|--------------|
| 1. 12 <sup>th</sup> | 2. Consumers |
| 3. Habits           | 4. Physical  |
| 5. Management       | 6. Urban     |
| 7. True             | 8. True      |
| 9. False            | 10. False    |
| 11. True            | 12. False    |
| 13. (a)             | 14. (c)      |

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Notes



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## Unit 14: Corporate Sector in Agri-Business

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### Objectives

After studying this unit, you will be able to:

- Define Agri Business.
- Discuss the Cultivation, Processing and Retailing.
- Describe the Durables and Financial Services.
- Explain the Role of Rural Marketing of FMCG.

### Introduction

India is still an agriculture based country and the agrarian sector contributes substantially to the GDP of India. Around seventy percent of the Indian population still depends on agriculture and

allied areas for live hood. Agribusiness is a generic term that refers to the various businesses involved in food production, including farming and contract farming, seed supply, agrochemicals, farm machinery, wholesale and distribution, processing, marketing, and retail sales. Agribusiness is widely used simply as a convenient portmanteau of agriculture and business, referring to the range of activities and disciplines encompassed by modern food production. Agri-business can be defined as commercialization of agriculture, which refers to market orientation of agricultural production process.

### **14.1 Indian Agriculture**

Agriculture in India is one of the most important sectors of its economy. It is the means of livelihood of almost two thirds of the work force in the country and according to the economic data for the financial year 2006-07, agriculture accounts for 18% of India's GDP. About 43 % of India's geographical area is used for agricultural activity. Though the share of Indian agriculture in the GDP has steadily declined, it is still the single largest contributor to the GDP and plays a vital role in the overall socio-economic development of India. One of the biggest success stories of independent India is the rapid strides made in the field of agriculture. From a nation dependent on food imports to feed its population, India today is not only self-sufficient in grain production but also has substantial reserves. Dependence of India on agricultural imports and the crises of food shortage encountered in 1960s convinced planners that India's growing population, as well as concerns about national independence, security, and political stability, required self-sufficiency in food production. This perception led to a program of agricultural improvement called the Green Revolution. It involved bringing additional area under cultivation, extension of irrigation facilities, the use of improved high-yielding variety of seeds, better techniques evolved through agricultural research, water management, and plant protection through judicious use of fertilizers, pesticides and cropping practices. All these measures had a salutary effect and the production of wheat and rice witnessed quantum leap.

The Indian government also set up Ministry of Food Processing Industries to stimulate the agricultural sector of Indian economy and make it more lucrative. India's agricultural sector highly depends upon the monsoon season as heavy rainfall during the time leads to a rich harvest. But the entire year's agriculture cannot possibly depend upon only one season. Taking into account this fact, a second Green Revolution is likely to be formed to overcome such restrictions. An increase in the growth rate and irrigation area, improved water management, improving the soil quality, and diversifying into high value outputs, fruits, vegetables, herbs, flowers, medicinal plants, and bio-diesel are also on the list of the services to be taken by the Green Revolution to improve the agriculture in India.

India has a geographical area of 328.73 million hectares; of which reported area for land use is 306.04 million hectares. The net area cultivated is about 142.60 million hectares i.e. about 46.6 per cent of the total reported area. Since nearly 50 million hectares of area is sown more than once, the cropping intensity works out to 135.1. Forests account for about 68.97 million hectares i.e. 22.5 percent of the total reported land area. Also nearly 13.97 million hectares are cultivable wastelands and 9.91 million hectares are fallow lands. Only about 30 percent of the total cropped area is irrigated and the remaining area is rain fed. The available statistics further shows that only about 66 percent of the gross cropped area is under food crops and nearly 34 percent area under nonfood crops. Cereals and pulses account for nearly 52.93 per cent and 12.64 percent of the total area respectively. Fruits and vegetables occupy nearly 4.24 percent of area.

To carry improved technologies to farmers and to replicate the success achieved in the production of wheat and rice a National Pulse Development Programme, covering 13 states, was launched in 1986. Similarly, a Technology Mission on Oilseeds was launched in 1986 to increase production

**Notes**

of oilseeds in the country and attain self-sufficiency. Pulses were brought under the Technology Mission in 1990. After the setting up of the Technology Mission, there has been consistent improvement in the production of oilseeds. A new seeds policy has been adopted to provide access to high-quality seeds and plant material for vegetables, fruit, flowers, oilseeds and pulses, without in any way compromising quarantine conditions. To give fillip to the agriculture and make it more profitable, Ministry of Food Processing Industries was set up in July 1988. Government has also taken initiatives to encourage private sector investment in the food processing industry.



*Did u know?* The Indian government also set up Ministry of Food Processing Industries to stimulate the agricultural sector of Indian economy and make it more lucrative. India's agricultural sector highly depends upon the monsoon season as heavy rainfall during the time leads to a rich harvest. But the entire year's agriculture cannot possibly depend upon only one season.

## **14.2 Opportunities in India**

Opportunities to do business with Indian Agriculture are vast. The area in which the potential exists are Fruits which include Mango, Papaya, Pineapple, Guava, Pomegranate, Lime, Sweet orange, Banana, Grape, Sapota etc. Vegetables which include Carrot, Cabbage, Cauliflower, Beans, Okra, Peppers, Tomato, Bell peppers, Gherkins, Onion, Peas etc. Flowers which include Rose, Coronations, Gerbera etc. Processed Fruits and Vegetables includes Fruit pulp, concentrates, flavors, extracts, frozen fruits, frozen vegetables, pickled products, assorted products. Spices including Black pepper, Red pepper, Garlic, Tamarind, Ginger, Basil leaves, Rosemary, Oregano etc. Dairy products include Milk, Milk powder, Butter, Ghee, Cottage cheese etc. Medicinal and Aromatic plants, Essential oils etc. Organic products including Fruits, Vegetables, Food grains, Mushrooms, Medicinal & Aromatic plants etc. Aqua products including Fish, Shrimp, Crab, Assorted, Value added products etc. Poultry & Meat products, Mushrooms.

## **14.3 Factors Enhancing Agri-business Opportunities**

The following factors contribute to agribusiness opportunities:

1. Strong agriculture
2. State support
3. Multi product environment
4. Vibrant economy Product availability throughout the year
5. Strong domestic market
6. Land area not a constraint
7. Products for global markets
8. Wealth of human resources
9. Presence of global MNCs
10. Exportable surplus
11. Processing capability

## 14.4 Selected Case Studies

Notes

The corporate sectors in agribusiness are in different activities from cultivation, processing to retailing. The initiatives of the corporate world in the field of agribusiness are described below.

### Pepsi

PepsiCo was a pioneer in the concept of contract farming under which the company transfers agricultural best practices and technology and procures the produce at a guaranteed price. To support the initiative, PepsiCo set up a 27-acre research and demonstration farm in Punjab to conduct farm trials of new varieties of tomato, potato and other crops. The PepsiCo model of contract farming, measured in terms of new options for farmers, productivity increases, and the introduction of modern technology, has been an unparalleled success. The company focused on developing region- and desired produce-specific research, and extensive extension services. It was thus successful in bringing about a drastic change in the Punjab farmers' production system towards its objective of ensuring supply of right produce at the right time in required quantities to its processing plant. Encouraged by the sweeping success of contract farming in tomato in several districts of Punjab, PepsiCo has been successfully emulating the model in food grains (Basmati rice), spices (chillies) and oilseeds (groundnut) as well, apart from other vegetable crops like potato. During 2002-03 crop year, farmers from Jalandhar, Amritsar, Hoshiarpur and Sangrur districts of Punjab, and parts of Western Uttar Pradesh were contracted for Basmati rice cultivation. The season's acreage for the crop stood at 800 hectares. The company has partnered with more than 10,000 farmers working in over 10,000 acres across Punjab, U.P., Karnataka, Jharkand West Bengal, Kashmir and Maharashtra for the supply of potatoes. PepsiCo India has also partnered with 1,200 farmers in Rajasthan to cultivate barley in a tie up with the United Breweries Group.

### Bharti

Indian telecom giant Bharti, has moved into the global fruit and vegetable market through a joint venture with a unit of UK finance group Rothschild. Field fresh foods incorporated in September 2004, is an equal partnership joint venture between Bharati enterprises, and ELRo Holdings India Ltd, an investment company of the Rothschild family. The business model is to link Indian fields to the world market, by providing quality fresh produce to the markets world wide through contract farming. It is leasing large tracts of land in Punjab and Rajasthan and has developed an arrangement with a group of farmers in Uttaranchal as well. FieldFresh has 78 farms with 4,200 acres on lease in Punjab producing Beans, snow peas, carrots, okra, baby corn and other vegetables for export to Europe and the Middle East. The leased arrangement is increasing the income of farmers significantly. The lease rate in Punjab is anywhere between ₹ 12,000- ₹ 15,000 a year, which the farmer earns over and above his annual income.

### Reliance

Reliance industries is one of the India's largest industrial groups. Reliance industries got involved in cropping and sale of medicinal and herbal plants, through its Reliance life sciences, its biotech venture from 2001. It has developed a 200 core herbal garden in Navasari, Gujarat, where it grows plants like aswagandha, patchouli, geranium and lemon grass. Reliance Life is extracting aromatic oils from Patchouli, Geranium and Lemon Grass under the brand names ReliCare Pa, ReliCare Ge and ReliCare Le respectively. The essential oils from these plants are anti-bacterial and anti-fungal in nature. Reliance is entering food processing and export of fruits and vegetables through contract farming and establishing chain of cold stores. These stores will be located in Punjab.

Notes

**BILT**

Paper industry depends on the agriculture sector for the availability of its raw material. For its paper unit in Jeypore, Orissa, BILT had to get wood from distances ranging between 500-1,000 Kilometers resulting in high freight costs and delays. In the year 2000, BILT started farm forestry for its raw material. In this farm forestry the company got in to buy back arrangement with marginal farmers to grow eucalyptus for which it provided seedlings. In this social forestry initiative over 9,000 farmers are involved.

**DSCL**

DCM Shiram Consolidated (DSCL) has put in place a relationship model for ensuring supply of sugarcane for its sugar production business. With improved inputs, better technology and modern farm practices, the company achieved a sugar recovery of 10.4 percent, the fourth highest in the country, for the financial year 2004-2005. DSCL is also employing information technology tools for dissemination of information to enable farmers to increase their productivity through better cropping practices. The improved sugarcane production is leading to increased incomes for farmers in Uttar Pradesh in the last 7-8 years.

**GGCL**

Thapar Group's Global Green Company is helping farmers in Andhra Pradesh and Karnataka to grow gherkins. The company markets 30,000 tonnes of gherkins and has a contract farming arrangement with 12,000 farmers. The business model has enabled the company to earn substantial hard currency from international market. Over 95 percent of GGCL's products are exported to 23 countries.

**MAHINDRA**

M&M's Shubh Labh network is spread over eight states with 36 outlets. Only three centers are run by M&M and the rest are franchisees. The company retails agri-inputs, including M&M brands through Shubh Labh. It also undertakes contract farming in over a lakh acre. In the year 2003, it grew oilseeds and cereals and in the year 2004, it grows horticultural products, aromatic plants and flowers. It also offers borrowing support to farmers through the Mahindra Krishi Vihar, a platform for banks to provide loans to farmers with minimum documentation, quick sanctions, and attractive interest rates. For banks it is a good way to make their rural lending safer without too much overhead.

**TATA CHEMICALS**

The company undertakes contract farming in 15,000 acres of land. It grows paddy and vegetable seeds in Uttar Pradesh and Punjab and fruits in Karnataka and Maharashtra. The produce is sold to retail chain or exports.

**CHAMBAL FERTILISERS**

In the year 2002 Chambel Fertilisers entered the food processing by taking over a food processing unit in Haryana. The unit processed and freezes fresh vegetables and markets them under Ever Fresh Brand.

 <i>Task</i>	Discuss the upcoming Financial and Durable services in Rural Sector.
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## **14.5 Rural Marketing of FMCG's**

There was a time when the FMCG companies ignores rural market, they took no any interest to produced or sell products in rural market in India. It was the initial stage of FMCG companies in India. As per as the time had passed, the strategy and marketing style of FMCG companies had been changed.

### **Background of the Study**

In 1970, Nirma was the first FMCG Company to initiate and produced goods according to rural consumers. In the early 1970s, when Nirma washing powder was introduced in the low-income market, Hindustan Lever Limited reacted in a way typical of many multinational companies. However, Nirma's entry changed the whole Indian FMCG scene. It became a great success story and laid the roadmap for others to follow. MNC's like HUL, which were sitting pretty till then, woke up to new market realities and noticed the latent rural potential of India. 1983, C K Ranganathan started selling shampoos in a sachet with an investment of ₹ 15,000 and dared to take on the multinationals, Lever and P&G, the unquestioned leaders in that segment. He targeted rural and small-town consumers who used soaps to wash their hair. He introduced the sachet at 90 paise and then reduced it to 50-paise. And that's when the multinationals sat up and noticed him.

Sales zoomed from 35,000 sachets to 12 lakhs. Initially they took any sachet, but after three months they restricted to Chik sachets.

Now at the present time, rural market is one of the best opportunity and focusing sector for the major FMCG companies in India. Each and every company is set to invest a huge capital for competition in rural market. According to the Federation of Indian Chambers of Commerce and Industry, the number of rural households using FMCG products has grown from 136 million in 2004 to 143 million in 2007, a clear indication that rural consumers are shifting from commodities to branded products. Urban consumers, on other hand, could go slow on FMCG expenses, thanks for inflation spiral, rise in fuel cost and costlier credit. Evidence suggests that for the first time, the rural market has grown faster than the urban market in key product categories in April-May 2008, the latest months for which such information is available, according to market research firm AC Nielsen.

### **Need for the Study**

In those days, the rural market is the one of the best opportunity for the FMCG sector in the India. It is more wide and less competitive market for the FMCG. As the income level of the rural consumers increasing, the demand of FMCG is increasing continuously. The various need of the study is given as follows:

1. To determine the raising demand of FMCG products in rural area.
2. Know about the different choices of rural consumers.

The study of opportunity for FMCG products in the rural market is a sum total of different analytical survey of different FMCG products in the rural area. In one sense, we can say that it is determination of how much market captured by

### **Scope of Study**

With a population of 1 billion people, India is a big market for FMCG companies. Around 70% of the total households in India reside in the rural areas. The total number of rural households

**Notes**

is expected to rise from 135 m in 2002 to 153 m in 2010, which represents the largest potential market in the world.

## **14.6 Rural and Urban Potential**

For many years, rural India was not much acknowledged by the retailers. But as the 'bottom of the pyramid' is getting empowered with education, higher purchasing power and awareness, companies are looking for opportunities in hinterlands.

### **Urban Rural**

An average Indian spends around 40% of his income on groceries and 8% on personal care products. A larger part of the total spending pie along with a large base (in terms of population) makes India one of the largest FMCG markets.

### **Changing Lifestyles**

Rising per capita income, increased literacy and rapid urbanisation have caused rapid growth and change in demand patterns. The rising aspiration levels, increase in spending power has led to a change in the consumption pattern.

## **14.7 Low Penetration and Low Per Capita Consumption**

Due to the large size of the market, penetration level in most product categories like jams, toothpaste, skin care, hair wash etc. in India is low. This is more visible when comparison is done between the rural and the urban areas. The average consumption by rural households is much lower than their urban counterparts. Existence of unsaturated markets provides an excellent opportunity for the industry players in the form of a vastly untapped market as the income rises.

India's growth trajectory is highly driven by the development of the rural clan. Players in various industries such as retail, fast moving consumer goods (FMCG), consumer durables, automobiles et al., are looking towards the untapped potential hinterlands possess.

The household consumer expenditure survey for 2009-10, released by the National Sample Survey Office (NSSO), reveals that rural Indian households are spending more on consumer goods like durables, beverages and services as compared to their expenses on such things five years back. The 66th round of the National Sample Survey showed that monthly per capita expenditure (MPCE) in rural India was ₹ 953.05 (US\$ 20.69) in 2009-10, an increase of 64.6 per cent from 2004-05.

The Indian consumer base is highly supported by the rural population (about 70 per cent of the country's population), which drives revenues for many major conglomerates operating in diverse markets in India. Key developments and investments pertaining to various sectors are discussed hereafter.

## **14.8 Retail in Rural India**

'Aadhar', the Future Group and Godrej Agrovet's joint venture (JV) in agri-service-cum-rural retailing is undergoing a revamp, wherein the model will follow hub-n-spoke concept to drive higher profits for the company.

DCM Shriram Consolidated Limited (DSCL), which operates 270 stores of Hariyali Kisaan Bazaar (one of the largest national rural retail chains of India), plans to open 20 more outlets by the end of 2011.

Figure 14.1: Hariyali Kisan Bazaar in Rural India



### FMCG

Increasing levels of income in the hands of rural households, coupled with massive advertisements by the market players, would take rural FMCG market from current ₹ 87,900 crore (US\$ 19.08 billion) to a market size of over ₹ 1,06,300 crore (US\$ 23.08 billion) by 2012, according to an analysis carried out by a leading industry body. This entails a compounded annual growth rate (CAGR) of 10 per cent in totality for rural and semi-urban areas.

Meanwhile, a recent study by global information and measurement company Nielsen has revealed that over 80 per cent of FMCG categories are growing faster in rural India as against urban India.

FMCG players like HUL and ITC have already established their foothold in hinterlands. ITC's 'Chaupal Sagar' offers huge variety of FMCG products in villages while HUL expects contribution of rural markets to grow from 40 per cent to 50 per cent in next 4-5 years in its turnover.

### Consumer Durables

India's consumer durables market is anticipated to expand by 40 per cent in 2011-12, according to a study by a leading industry body - 'Rise of Consumer Durables in Rural India'.

Mobile handset companies are betting on low-end models to target a significant segment in the society that wants basic vanilla communication tool to stay connected to the world. Indian companies like Tata and MTS are fighting for rural market share with Chinese brands like Lawow and G'Five. Players like Videocon and Micromax have also rolled out models that are meant for sizeable price-sensitive customer segment.

Moon B Shin, Managing Director, LG Electronics has revealed in his recent interview that rural India stands as a great opportunity for the company in future and provides 15-20 per cent of the business to the company.

### India's Rural FMCG Market to Grow to \$100 Billion by 2025

The Indian rural market is expected to grow more than tenfold to become a USD\$100 billion opportunity for retail spending in the next 15 years, The Nielsen Company has found.

**Notes**

Details of the findings were unveiled today at Nielsen's flagship Consumer 360 conference in New Delhi, India. The study showed that in more than half the largest FMCG categories, rural India is now contributing more to their growth than urban. One of the key drivers of this trend appears to be the unprecedented growth of smaller packaging options in rural India.

"While the ability of lower priced packs to improve accessibility is known, their pace and presence has been unrelenting" said Prashant Singh, Vice President, The Nielsen Company, India. " In addition, premium skin care brands typically associated with urban areas are growing nearly twice as fast in rural," he added.

"The good news is that the opportunity needn't overwhelm smart marketers. For instance, even a mere 2.5 percent of villages, if selected correctly, can generate a 20 percent jump in sales growth," Singh added.

The rural market is currently worth approximately USD\$9 billion in consumer spending in the FMCG space annually. The study findings show that food categories are currently driving the bulk of the additional USD\$91 billion into the marketplace by 2025.

One of the most telling points is "the unprecedented pull of consumer demand fueled by an overdrive of awareness and acceptability. This will allow, and propel manufacturers to swing into full gear," said Prasun Basu, Executive Director and Vice President, The Nielsen Company.

The study also found a surprising set of priorities. In rural areas, education of children ranked second after having a good crop.

On the consumption front, a third of rural consumers are eating biscuits for breakfast and one in six rural buyers of hair dye now uses colors other than black to indulge in the trend of externalized beauty that is picking up fast in rural areas.

"These emerging cues that seem to be on the fringes of the larger market, or 'EmerFringe' trends are the signs of a future that has arrived. The rural consumer is no longer merely experimenting with urban products because of a phase of prosperity - rather, she is reveling in it and indulging unabashedly, providing gratification to her senses and her self-esteem," said Basu.

The study also revealed that:

1. Rural purchasing power has grown faster than urban in the last six quarters.
2. Faster growth in rural is not limited to penetration; today the rural consumer's frequency of consumption is growing faster as well, demonstrating their entrenchment in these categories.
3. Instant noodle sales are growing nearly twice as fast in rural India compared to urban in both penetration and frequency.
4. Seemingly 'urbane' brands in categories like deodorant and fabric softener are growing much faster in rural India than urban.



*Notes* According to industry estimates, 70% of all new subscribers will come from rural areas. Mobile device manufacturers are also tailoring their products to this market. Nokia had earlier launched a basic handset with a torch and an alarm clock.

### **14.9 New Strategies to Win**

Now that the new phase of rural consumption appears here to stay, marketers will need to evolve new strategies to connect and communicate with a more aware and unreserved consumer

than ever before, the study found. With this, product and brand development cycles will need to undergo a dramatic change. This growth is proving to be systemic and sustainable as multiple factors converge:

1. Government spending in rural India has tripled over the last four years and is now translating into higher consumer spending.
2. Significant progress on literacy levels – 99 percent of the villages have a primary school within a 1 km walk.
3. Rural consumers are consuming more premium and convenience oriented categories that are typical of their urban counterparts.
4. DTH television connections in rural are more than double that of urban and have grown dramatically; today two out of five new mobile telephone connections are in rural.

“Today’s rural consumer is not just indulgent, but ‘smart’ too: she wants products that carry the best of traditional wisdom and modern science; ones that provide her convenience and individualism in one go. This means product and brand strategies that respond to these demands are more likely to succeed” said Basu. “This bolder and more individualistic consumer is unafraid to exhibit and ‘externalize’ the need to indulge. Recognizing this and coupling it with ideas that offer ‘individualized convenience’ will separate the brands that will win from the others.”

“These findings have wide-ranging, practical implications for creating successful portfolio strategies and packaging formats that recognize these traits and appeal to the rural consumers’ senses. Combined with a smarter selection of locations and targeted distribution plans, brands can transform their plans for growth dramatically and profitably to make the most of the next big rural opportunity,” added Prashant Singh.

### **14.10 Durables and Financial Services**

In late May, when India’s GDP numbers were released, many were happily surprised. In the fourth quarter of the fiscal year (January-March 2009), the economy grew 5.8% against expectations of less than 5%. For the year, growth was 6.7%, less than the 9% recorded in 2007-2008, but still very respectable during a global downturn. Multinational banks and brokerage houses rushed back to their spreadsheets to raise their growth forecasts for 2009-2010.

But why were the estimates so pessimistic in the first place? A possible explanation is that most analysts work in cities, and their views are colored by what is happening around them and in the corporate world. That picture has been bleak: During the last quarter of 2008-2009, manufacturing shrank 1.4%. In contrast, agriculture grew 2.7%. The feel-good factor in urban India is returning only now with a new, stable government and a sharp jump in the Bombay Stock Exchange Sensitive Index (Sensex).

In the villages and small towns, it has been a very different picture. “The rural market is insulated from the global meltdown,” says Harish Bijoor, CEO of brand and business strategy consultants Harish Bijoor Consults. “The rural part of our economy has been untouched by credit cards and mortgages as known in the West.”

“The slowdown experienced by India on account of the IT (information technology), real estate, financial services and automobile sectors was an urban phenomenon,” says Ajay Gupta, founder and CEO of ruralnaukri.com, which focuses on jobs in the rural sector. (See “rural naukri.com’s Ajay Gupta: ‘Rural Jobs Can Provide Momentum to the Wheel of the Economy’”). “However, the negative impact of all this on urban India has been more than offset by encouraging performance in rural areas. The rural economy has provided a cushion. Overall sentiment in the country was different from other parts of the world where each household had at least one person with a pink slip.”

**Notes**

“Several factors have led to an increase in rural purchasing power,” says Pankaj Gupta, practice head, consumer & retail, Tata Strategic Management Group. “The increase in procurement prices [the government sets the minimum support price – MSP – for many farm products] has contributed to a rise in rural demand. A series of good harvests on the back of several good monsoons boosted rural employment in agricultural and allied activities. Government schemes like NREGS [National Rural Employment Guarantee Scheme, which guarantees 100 days of employment to one member of every rural household] reduced rural underemployment and raised wages. Also, farmers benefited from loan waivers [introduced in the last Union Budget]. The increase in rural purchasing power is reflected in rural growth across a number of categories. For example, in the financial year 2009 [April-March], FMCG [fast moving consumer goods] rural volume growth is estimated to be 5% to 12% higher than urban growth across a number of categories.”

### **14.11 A Short-Lived Renaissance?**

Some academics agree with these upbeat views of a rural resurgence. “Policy measures like the waiver of agricultural loans to the tune of US\$13.9 billion and the NREGS have really put cheer into the rural economy,” says Devi Singh, director of the Indian institute of Management Lucknow (IIML). “The Bharat Nirman program with an outlay of US\$34.84 billion for improving rural infrastructure is another step that has helped the rural economy. To some extent, the growth of organized retail can also be held responsible for the rural economy’s growth, as this has ensured that farmers get a better price for agricultural produce. The MSP set by the government has been rising further, fuelling rural growth by putting more money into the hands of the rural population.”

Singh adds a caveat, however. “While the statement that the Indian economy has been saved from the slowdown due to rural growth is true to a certain extent, this is not the only factor,” he says. “India’s growth has been fuelled more by domestic demand than exports. Also Indian spending and saving habits differ from other parts of the world. Indians by their very nature always save for their future and this holds them in good stead during times of crisis. The Indian buyer is more finance conscious than his global peer. The Indian banking system, due to the so-called non-reforms, is actually more resilient and the level of delinquencies is far lower than in other parts of the world.”

Some observers are skeptical about the durability of rural demand. “There is a worrying groundswell of optimism that rural consumers will come to the rescue of an Indian economy which is in the midst of a sharp slowdown. This optimism may be misplaced,” suggest consumer behavior expert Rama Bijapurkar and Rajesh Shukla, a senior fellow at the National Council for Applied Economic Research. Writing in business daily *Mint*, they continue: “Hearing phrases such as ‘rural renaissance’ or ‘rural India to the rescue’ makes us nervous. Such talk bears overtones of the ‘Great Indian Middle Class’ story of the 1990s, where we declared victory at least a decade before we should have.” Their question: How sustainable, stable and volatility-free is the growth in income and consumption?

Bijapurkar and Shukla note that “periodically, India has seen a consumption spurt because of a one-time burst of a combination of events. This recent spurt seems no different. Over the past four years, the monsoon has been good; the support prices for crops have grown at 10% to 15% CAGR [compounded annual growth rate] in 2005-2008 compared with 2.5% to 4% in 2002-2005. In addition to a healthy flow of farm credit, there has been a one-time loan write-off of US\$13.9 billion as well as a sizeable cash outlay from the NREGS. This doesn’t show intrinsic growth in rural India: This growth is, instead, owing to a combination of acts of God and acts of government. What we must never do is make the same mistake with rural India that Western multinationals make with India as a whole – assume that it will evolve the same way with a 10-year lag.

The rural Indian market and consumer call for sophisticated new marketing strategies and paradigms, not a transplant of old ideas.”

### Self Assessment

Fill in the blanks:

1. .... in India is one of the most important sectors of its economy.
2. The Indian government also set up Ministry of Food Processing Industries to stimulate the ..... sector of Indian economy and make it more lucrative.
3. India’s agricultural sector highly depends upon the monsoon season as heavy ..... during the time leads to a rich harvest.
4. India has a geographical area of ..... million hectares.
5. India’s consumer durables market is anticipated to expand by ..... per cent in 2011-12.
6. .... purchasing power has grown faster than urban in the last six quarters.
7. Rural consumers are consuming more premium and convenience oriented categories that are typical of their ..... counterparts.
8. M&M’s Shubh Labh network is spread over eight states with ..... outlets.

### 14.12 What Rural Means

Even as this debate continues, the term “rural” is being redefined. “‘Rural’ is difficult to define any more,” says Bijoor of Bijoor Consults. “Typically, from an Indian census point of view, rural has been defined with a ‘deprivation’ orientation, rural being a landmass without access to continuous electricity, water, the stock market. There has been a correction in this view, however. Marketers today define rural as people living a different lifestyle as opposed to that of those who have settled in the bigger cities and towns. Rural is defined as pastoral in nature and as a mass of people who relate their income closely to the lands they till or use to raise their cattle and livestock. Those who possess it are rural and those who do not are urban. To that extent, in Bangalore city, just off the old airport road, are a whole set of people who live by farming on their lands. If you visit their homes, their lifestyles are totally rural. Similarly, there are people who live in villages, who have access to the best of it all. These are urban folk. Rural is not a geography; it is a mindset.”

“Definitions for rural India abound while the most convenient remains, ‘anything that is not urban’,” says Gupta of ruralnaukri.com. Singh of IIML adds: “Rural India comprises all places that are not urban.” This definition by exclusion for what is the much larger part of the country has its roots in the government’s own approach. “The Census of India defines urban India,” says Gupta of TSMG. “Urban India constitutes places with a population of more than 5,000, a population density above 400 per square kilometer, all statutory towns, that is, all places with a municipal corporation, municipal board, cantonment board, notified area council, etc. and with 75% of the male working population engaged in non-agricultural employment. All non-urban is rural.”

Such definitions leave marketers cold. “The traditional definition of rural may be of little use to marketers in terms of providing consumer insights,” says S. Ramesh Kumar, professor of marketing at the Indian Institute of Management, Bangalore (IIMB). “Given the diversity of culture and lifestyle/aspirational changes that are taking place across non-metro consumers, the non-metro areas need to be segmented into tiers of varying urban orientation using psychographic and lifestyle analysis along with demographics. The digital 1 or 0 type of urban

**Notes**

and rural definitions is unlikely to yield consumer behavior nuances. For example, district headquarters [towns] in Tamil Nadu are likely to be significantly different from those in Karnataka or Maharashtra.”

Many others agree that census-style definitions are no longer enough. “My understanding of rural India is a less developed countryside where the infrastructure is primitive, houses are of mud or brick but rarely painted well, the primary source of livelihood is agriculture, employment opportunities in the organized sector are negligible, eating choices are restricted to home-cooked, simple food, schools are far away, health facilities are rudimentary and – importantly – the youth, while energetic and ambitious, are to be seen playing cards the whole day,” says Gupta of ruralnaukri.com.

“We recognize rural India by certain characteristics,” says B.N. Garudachar, general manager, corporate communication and investor relations at Voltas, a Tata group company in air-conditioning and engineering services. “These are: low population numbers, low median income, poor infrastructure [roads, electricity, communications], and agrarian rather than industrial activity. Such rural areas are within the sphere of influence of neighboring cities and metros. This influence determines their aspiration levels and their viability as markets.”

### **14.13 Massive Market**

View it as you may, few people dispute that the rural market is massive. According to Singh, 12.2% of the world’s consumers live in India. “Rural households form 72% of the total households. This puts the rural market at roughly 720 million customers.” Gupta of TSMG extrapolates the Census 2001 numbers and comes up with an estimate of 790 million. “Total income in rural India (about 43% of total national income) is expected to increase from around US\$220 billion in 2004-2005 to US\$425 billion by 2010-2011, a CAGR of 12%,” he says.

Bijoor explains that this is entirely disposable income unlike what it would be in urban India. “If a farmer in rural Holenarsipura earns US\$1, all of it is his to dispose off as he pleases. The same income in the hands of an urban person, who is possibly a tech worker, is actually not US\$1 of disposable income. It is most likely 67 cents; the rest goes as tax. The farm economy, with zero-tax on farm income, creates far more disposable income. Buying power in the hands of the rural rich is higher than the buying power of the urban rich.”

Gupta of rural naukri.com provides some telling statistics. “The purchasing power of rural India is more than half for fast moving consumer goods [US\$17 billion],” he says. “The durables and automobile sectors contribute US\$2.5 billion each, and agri-inputs (including tractors) about US\$1 billion. Some 42 million rural households [use] banking services against 27 million urban households. There are 41 million Kisan credit cardholders [credit cards issued to farmers for purchase of agricultural goods] against some 22 million card users in urban markets. Be it automobile, telecom, insurance, retail, real estate or banking, the future drivers of growth are rural. No marketer can afford to ignore the possibilities of rural India.”

Bijoor adds some growth numbers. “Our rural folk have bought a lot more of FMCG; this part of the market has grown at a robust rate of 23% [last year],” he says. “As durables shrink in urban India, the rural market is witnessing a 15% growth rate. Some 60% of the durables market lies in rural India. Telecom in rural India is growing at 31%.” It depends on the product, of course. “Just the sheer population numbers don’t mean very much from a marketing point of view,” says Garudachar of Voltas.

Across product categories, however, there seems to be a lot of action. Media – particularly TV – has been a great leveler. Even in small villages, people who have seen the urban lifestyle on television seem to want similar goods and services. Companies have realized this and are going all out to tap this latent demand.

## Consider Some Examples

Notes

The State Bank of India (SBI) has started a zero-balance bank account program for villagers. Called the SBI Tiny account, there are no physical branches or officials, just a paid volunteer who is equipped with a small box and a cell phone. The box enables biometric measurements (fingerprints), at the time of opening the account to confirm the account holder's identity. The cellphone enables communication with the zonal office to check on available balance. Payments under programs such as the NREGS and pensions are made directly to these accounts. The advantage for the villagers is that they can withdraw money from their accounts at any time of the day or night. (Withdrawals are never more than a few dollars.) SBI hopes to cover 100,000 villages by 2012. The bank has tied up with India Post for some services.

India Post, the public sector postal network, has its own plans. It has been hard hit in urban areas because of the more efficient (though more expensive) private sector courier services. Now it is looking at consolidating its hold on the rural areas. Project Arrow has been launched to IT-enable post offices in the hinterland. A pilot project involving 500 post offices – the country has more than 150,000 – has been kicked off. It will focus on banking, money remittance, and transmission and delivery of information.



*Caution* ASSOCHAM suggests that for deeper penetration in the rural markets, the industry needs to create proper channels and inform the community about the products through local language advertising as well as other tools such as local exhibitions and mobile vans to tap the rural consumer.

### 14.14 Products for Rural Markets

Maruti Suzuki, India's leading automobile manufacturer, today sells 5% of its vehicles in the rural markets. The company expects this number to rise to 15% in the next two years. "This is not just our wish, but reflects market demand," says director (marketing & sales) Shuji Oishi.

In telecom, service providers are making a beeline for the villages. That's where the growth in what is now the world's fastest growing mobile market lies. According to industry estimates, 70% of all new subscribers will come from rural areas. (See NTT DoCoMo's Tata Deal: Why Global Telecom Firms Want to Dial India.)

Mobile device manufacturers are also tailoring their products to this market. Nokia had earlier launched a basic handset with a torch (large parts of rural India don't have electricity) and an alarm clock. (See How Did Nokia Succeed in the Indian Mobile Market, While Its Rivals Got Hung Up?) In December 2008, it went one step further with the launch of Nokia Life Tools. "Nokia Life Tools is a range of agriculture, education and entertainment services designed especially for the consumers in small towns and rural areas of emerging markets," says the company. "Aimed at providing timely and relevant information customized to the user's location and personal preferences directly on their mobile devices, Nokia Life Tools is the first step towards bridging the digital divide."

The mobile phone is a new-age product; gold jewelry is as old as the hills. Here, too, there has been a rural move. According to World Gold Council figures, 60% of India's US\$15 billion annual consumption of gold and gold jewelry is from rural and semi-urban areas. The Tatas have launched a mass-market jewelry brand – GoldPlus. The Tatas train unemployed youth and send them to the villages as brand ambassadors. The problem with gold in India is that it is

**Notes**

often adulterated. In rural areas, gold jewelry is not for ornamentation; it is a safety net for emergency situations. Thus, the Tata seal of good housekeeping is taking the brand places. "GoldPlus is an interesting example of the brand addressing the non-metro jewelry culture with its ethnic touch with regard to its designs and retailing," says Ramesh Kumar of IIMB.

"There is substantial scope to create products that are oriented towards non-urban sectors," notes Kumar. "These can be in terms of functional appeal or cultural aspects or both. Chik shampoo created the jasmine variant [in tune with the culture of women using jasmine flowers to style their hair in a few parts of the country]. TVS mopeds created functional value in tune with the 'all purpose' vehicle culture existing in several parts of the non-metro areas. Philips is moving forward with the creation of gas stoves and lanterns that will be useful to such markets."

Singh of IIML talks about pricing successes: The Chik shampoo sachets sells for 2 cents, the Parle G Tikki biscuit packs at 4 cents and the Coca-Cola 200 ml glass bottle for 10 cents. Singh notes that successes in rural areas can be transplanted to urban areas also. "The shampoo in sachets created a new product segment," he says. "All shampoo manufacturers today retail in sachets, and the demand from urban India for this category is very strong."

The sachet is as much a packaging (product) strategy as a price strategy. But, asks Garudachar of Voltas, have companies done enough about the core product? The shampoo sachet is a case in point. "Villages in India have hard water," he says. "But the shampoo that you get in sachets sold in villages is the same that you get in towns. Manufacturers should have tailored the products to suit the environment."

It doesn't apply across the board, of course, particularly as manufacturers have moved away from the mindset that along with cutting price, you can cut quality. "Product re-engineering was an issue five years ago," says Bijoor. "I do not believe this is an issue at all today. The quality on offer needs to be the same all over. One company tried to pass off inferior quality tea leaves in rural markets and superior quality grades for urban markets under the same brand name. This fell flat."

But re-engineering is necessary in a different sense. According to Bijoor, "Companies are realizing that the urban and rural want is largely the same. However, the rural person is savvy and demands real value for money. To offer this, marketers are re-engineering products. Look at the auto segment. The urban man wants a car as does the rural man. Both have the same amount of money. The rural person, however, believes spending US\$12,000 on a car is a sin. He wants it at US\$3,000. The Nano is a solution. Every category needs to operate on the Nano paradigm. The needs are all the same, across rural and urban. The solutions have to be different."

Distribution and promotional channels also need to be different for rural markets. Companies are getting their act together here, too. Private sector companies like ITC have set up the IT-enabled e-Choupal network, and Hindustan Unilever has project Shakti, under which women's self-help groups act as the last link of the retail chain. As mentioned earlier, India Post wants to convert itself into a retail chain for a variety of products. Even fair-price shops, which form part of the government's rationing system, are trying to expand beyond supplying just basic foods like rice and wheat.

In the area of promotion, television has invaded rural India. TV reaches even very small villages through community sets. But advertising on national channels is wasteful if you are trying to target rural areas. Garudachar of Voltas says his company is trying to sell air conditioners to the rural rich. "Difficulties in penetration are due to the widespread and scattered nature of the territory," he says. "At one time, basic conservatism and diehard thrift would also have been factors, but exposure to TV has changed all that, and created aspirations where once there was resistance to change."

### 14.15 From Four P's to Four A's

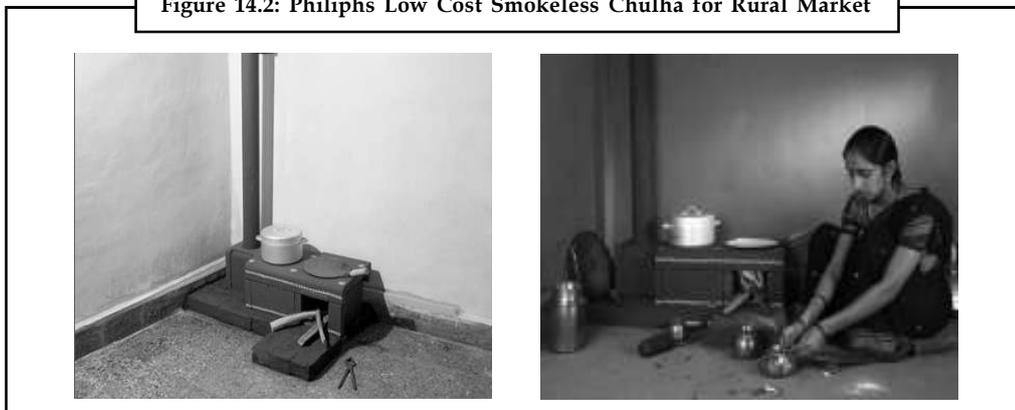
Notes

Gupta of TSMG notes that the traditional four P's of marketing – product, price, place and promotion, as outlined above – have been replaced by a different framework for analysis. “A number of companies have worked on various elements of the marketing mix to improve the four A's – affordability, awareness, availability and acceptability – for rural markets,” he says. “FMCG companies innovated on package sizes to introduce low price points. They have customized promotional strategies for rural markets using local language and talent. Some FMCG players continue to expand rural penetration [HUL's Project Shakti, Tata Tea's Gaon Chalo]. Coca-Cola's Parivartan program has trained more than 6,000 retailers to display and stock products. Dabur has created a training module ASTRA [advanced sales training for retail ascendance] in several regional languages. A number of auto companies have launched rural-specific campaigns.”

Gupta of rural naukri.com offers more examples:

1. Affordability – Godrej introduced three brands of Cinthol, Fair Glow and Godrej (soap) in 50-gram packs, priced at 10 cents; Adidas and Reebok increased their sales by 50% in rural markets by reducing prices.
2. Size and design changes – Videocon introduced a washing machine without a drier for US\$60; Philips launched a low-cost smokeless *chulha* (stove); DCM Shriram developed a low-cost water purifier especially for rural areas.
3. Improving product acceptance – LG Electronics developed a customized TV (cheap and capable of picking up low-intensity signals) for the rural markets and christened it *Sampoorna*. It sold 100,000 sets in the first year; Coca-Cola provided low-cost iceboxes as regular power outages meant families could not depend on refrigerators.

Figure 14.2: Philips Low Cost Smokeless Chulha for Rural Market



Perhaps the ultimate sign that rural India has arrived is in the allocation of talent. “In the old days, the weakest people in organizations, the ones without a star career path, held the reins of the rural marketing divisions,” says Bijoor. “Today, things have changed. Sharper and sharper brains from within the organization are being diverted to rural strategy formulation.” When the whiz kids go to villages, you know the cows have come home.

### 14.16 The Rural Scenario

Even as the rural market is a major contributor to the total sales of consumer durables, the penetration level of consumer durables in rural India – with as much as 70 per cent of the total Indian population – is still low, making it a lucrative market for CDIT players.

**Notes**

According to a recent study, "Rise of Consumer Durables in Rural India", by Associated Chambers of Commerce and Industry of India (ASSOCHAM), the Indian rural consumer durables market, with the current growth rate of 30 per cent, is expected to witness an annual growth of 40 per cent in the ongoing fiscal (FY12).

This growth, the study says, is fuelled by the change in lifestyle and higher disposable incomes of rural India. "Around 35 per cent of the total sales of consumer durable items come from rural and semi-urban markets, which will grow by 40 to 45 per cent in the near future. The consumer durables industry is growing at a fast pace and sees a strong demand in the coming period with the growing affordability of products as well as the general buoyancy in the economy," ASSOCHAM president Dilip Modi said while releasing the report in December 2010.

On the growing significance of the rural market for CDIT players, Sunil Mehta, CEO of Next Retail, the CDIT retail format of Videocon Industries, says, "A major [share of] growth has to come from rural markets as metros and bigger towns have nearly touched peak." He adds further, "The existing share of the rural market is 35 per cent with a CAGR of more than 30 per cent."

**Low Penetration**

So, what is stopping the growth of CDIT in the rural market? A poor distribution network in semi-urban and rural areas and low awareness of consumer electronics products in rural India are major factors hindering the overall growth in this lucrative market.

While a 25 per cent share in the TV category, as mentioned above, may appear good, the fact is that the penetration level of consumer durables is quite low in rural India. Consider this: two-thirds of Indian consumers live in rural areas and almost half of the national income is generated here!

The biggest challenges, Mehta of Next Retail, feels are issues pertaining to distribution and infrastructure.

"There is lack of a well developed distribution network in the rural markets and this makes it difficult to achieve growth in the sector," says Mehta, adding, "there are also issues of power cuts and poor road linkages in these areas."

The low penetration of CDIT is unlike that of FMCG products, which have managed to make strong inroads in rural India. On this, Vinay Bysani, vice-president, projects & marketing, Viveks, a Chennai-based regional CDIT retailer, opines that FMCG covers essentials for a home and these products touch the lives of people. CDIT products, on the other hand, are at the next level of aspiration and power availability determines the ability to use these products.

Talking about the reasons for low CDIT penetration, he says, "From the point of view of distribution, infrastructure is important. Also, national chains will look for critical mass of business to sustain their formats, regardless of the size of the format. This can be a deterrent." Finance companies restricts dramatic growth in consumption.

Mehta, however, feels the rural consumer today is well aware of the trends in metros and aspire to get the latest products packed with various features. He further says price sensitivity is still high and the reach of finance companies restricts dramatic growth in consumption.

**Ways to Increase Rural Reach**

ASSOCHAM suggests that for deeper penetration in the rural markets, the industry needs to create proper channels and inform the community about the products through local language advertising as well as other tools such as local exhibitions and mobile vans to tap the rural

consumer. On the other hand, the government needs to focus on the rural economy with greater fiscal incentives and generate more rural employment schemes, adds the industry body.

No doubt, in promoting the industry in rural areas, the role of the government cannot be ignored. As Mehta suggests, "Rural electrification at subsidised rates, education opportunities and EMI-linked finance facilities through rural development banks are the areas that the government must address on priority." Agreeing with Mehta, Bysani says, "A major emphasis must be on electricity in all villages, followed by motorable roads."

Bysani also feels product customisation can further help to attract rural consumers. "We offer products such as semi-auto washing machines, direct cool refrigerators, low-end small appliances that typically fit in the pockets of the rural market. Even in mobile phones and cameras, basic models are focused," he says, adding, "to tap the rural market, manufacturers should concentrate on offering customised products."

The penetration level of consumer durables would be higher in rural India with the growth in disposable incomes, improving lifestyles, power availability, low running cost, rise in temperatures and liberal incentives offered by banks and financial institutions for the white goods industry segment.

While the consumer durables market is facing a slowdown due to saturation in the urban market, rural consumers should be provided with easy consumer finance schemes, after sales services to suit the infrastructure, and amenities such as electricity and voltage, among others.

Currently, rural consumers purchase consumer durables from the nearest towns, leading to increased expenses due to transportation. Purchase is necessarily done only during the harvest, festival and weeding seasons – April to June and October to November in North India and October to February in the South – believed to be months 'good for buying'. The purchase activity needs to be converted from the seasonal feature into a regular habit.

### **14.17 The Wave of Change**

Despite the low penetration levels at present, the consumer durables industry in rural and semi-urban areas has witnessed a considerable change in the last few years. The sector is characterised by the emergence of MNCs, exchange offers, discounts and stiff competition in the market to attract the growing middle class of the rural market.

Unsurprisingly then, retailers are heading to rural areas. And why not? The ASSOCHAM study says that the urban consumer durables market is growing at an annual rate of 9-12 per cent, while its rural counterpart is witnessing a healthy 30 per cent growth. Clearly, the rural market is growing faster than the urban market and the urban market has now largely become a product replacement market.

"At present, colour TV, VCD, audio, mobile and refrigerators account for 80 per cent of rural demand," says Mehta.

Bysani, on the other hand, says, "Televisions, mixers, wet grinders, gas stoves, water purifiers, fans and small refrigerators are extremely promising CDIT products in rural India."

### **Self Assessment**

State whether the following statements are true or false:

9. The State Bank of India (SBI) has started a zero-balance bank account program for villagers.
10. India's leading automobile manufacturer, today sells 5% of its vehicles in the rural markets.

Notes

11. Distribution and promotional channels also need to be different for rural markets.
12. Coca-Cola's Parivartan program has trained more than 9,000 retailers to display and stock products.
13. Around 87 per cent of the total sales of consumer durable items come from rural and semi-urban markets.
14. ASSOCHAM suggests that for deeper penetration in the Urban markets.
15. Bysani also feels product customisation can further help to attract rural consumers.



Case Study

### UK Rural Markets - Hampshire

#### **Market Towns Project**

For centuries, Hampshire's market towns have been the focus of social and commercial activity for the county's many rural areas. Since the war, however, this function has been under constant pressure from changes in the social, agricultural and industrial fabric of the county, and today many small towns are struggling to survive and keep their identities.

The Rural White Paper in 2000 identified the need to take action to assist small rural towns in retaining and growing their function as rural service centres or 'hubs', and the Countryside Agency introduced the Market Towns Initiative in 2001, designed to be accessible to individuals and partnerships through access to a web-based 'toolkit', handbook and resource documents.

The Economic Development Office at Hampshire County Council recognised the need to join the Initiative in 2001, and the Market Towns Project began.

The Hampshire Market Towns Project is led by the Economic Development Office at Hampshire County Council, in partnership with the South-East England Development Agency (SEEDA) and with the South-East Rural Towns Partnership (SERTP). A full time Market Towns Co-ordinator, Anne Harrison, part-funded by SEEDA, works with small rural towns, and promotes the Market Town Healthcheck (toolkit) throughout the county, helping to deliver the new SEEDA Small Rural Towns funding programme and to create and develop networks of interested groups.

The total programme is worth around £7 million over a 7-year period from 2004-2011, and the EDO works with the Hampshire Economic Partnership (HEP) Rural Economy Task Force and the Hampshire Market Town Partnership, HMTP, to deliver around £1.2 million of this funding to Hampshire to benefit some of its small rural towns, of which 32 are potentially able to apply for project funding. Delivery schedules are submitted regularly to SEEDA, with £530K already committed to Hampshire projects, and work is ongoing in New Milton, Alton and Whitehill and Bordon.

The Hampshire Market Town Manager is also responsible for the supervision of two staffers, in New Milton, Emsworth, Lee-on-the-Solent, and Hayling Island. These officers are part funded by SEEDA, with HCC and the relevant District and Town Councils also providing cash or in-kind support for these posts.

Their roles vary from place to place, from co-ordinating town Healthchecks, identifying potential funding opportunities and helping develop a long-term Vision/Action Plan, to

*Contd...*

## Notes

helping facilitate a range of projects to boost the economic vitality of each town, whilst building capacity and sharing their best practice across the county. In one or two other towns, town project managers/officers are supported by their town and/or district councils.

The Rural Enterprise Scheme (RES) is part of the England Rural Development Programme (ERDP). It provides assistance for projects that help to develop more sustainable, diversified and enterprising rural economies and communities. Its coverage is wide-ranging but the primary aim is to help farmers adapt to changing markets and develop new business opportunities. RES also has a broader role in supporting the adaptation and development of the rural economy, community, heritage and environment.

Approximately £150 million EU and Government money has been allocated to the RES for the period April 2001 to the end of 2006. The majority of the funding has been allocated to regional budgets. A small proportion has been reserved for national projects on the marketing of quality agricultural products.

The environmental, food chain and rural sector uses about 77% of the UK's total landmass (18.4 million hectares) and employs over a million people.

Of the million-plus people employed in this sector, the majority work in 17 main industries. These industries, and the percentage of people working in them, are listed in the table below:

Agricultural crops	12.9%
Agricultural livestock	30.7%
Animal care	4.7%
Animal technology	0.3%
Aquaculture	0.4%
Environmental conservation	5.6%
Equine	5.0%
Farriery	0.2%
Fencing	2.5%
Fisheries management	0.7%
Floristry	2.6%
Game and wildlife management	0.6%
Land-based engineering	1.5%
Landscape	13.8%
Production horticulture	9.4%
Trees and timber	3%
Veterinary nursing	0.6%
Other related	5.5%

Almost 90% of all businesses in the land-based and environmental sector employ less than ten people. This means that large intakes for traditional graduate management positions are rare. Most of the smaller businesses are interested in graduates who can 'hit the ground running', without a structured training scheme.

Self-employment is a key feature of the environmental, food chain and rural sector. Approximately 80% of the total workforce are proprietors and 20% are employees.

*Contd...*

**Notes**

At the time of writing (April 2006), the workforce is almost 70% male. However, this varies within the different areas of the sector. For example, 75-80% of employees in the equine and floristry industries are female.

Like many other sectors in the UK, the land-based sector is becoming more service oriented. There has been major growth in the use of land for leisure and tourism as opposed to purely production-based purposes. This is particularly evident in the growth of the horticultural, landscaping, equine and environmental sectors. For graduates, this means that many higher-level jobs are located on the 'agri-business' side, as opposed to direct production.

Poverty remains a predominately rural phenomenon in Africa, yet there has been surprisingly little research of the continent's rural labour markets. IDS worked in partnership with the Economics Department of the University of Zambia and Rural Net to produce such an analysis.

If poverty reduction is to be successful it will need to tackle the issue of raising incomes in rural areas. An understanding of how rural labour markets work has. The project included a household survey covering 1,000 households and oral life histories. It provided insights into the livelihoods of the poor and relevant information for targeted interventions. It will help design more appropriate surveys and contribute to academic analysis of markets in rural Africa and offer implications for the design of poverty reduction strategies. The contractual arrangements typical in rural markets do not fit readily into categories commonly used by economists. Rather there is a complex array of interlocking social obligations and cash payment is only one of many forms of remuneration.

**Question**

Describe the planning process given in the case study and your own recommendations for better planning.

### **14.18 Summary**

- The Indian government also set up Ministry of Food Processing Industries to stimulate the agricultural sector of Indian economy and make it more lucrative.
- India has a geographical area of 328.73 million hectares; of which reported area for land use is 306.04 million hectares.
- In 1970, Nirma was the first FMCG Company to initiate and produced goods according to rural consumers.
- India's growth trajectory is highly driven by the development of the rural class.
- The Indian consumer base is highly supported by the rural population.
- India's consumer durables market is anticipated to expand by 40 per cent in 2011-12.
- The Indian rural market is expected to grow more than tenfold to become a USD\$100 billion opportunity for retail spending in the next 15 years.
- The rural market is currently worth approximately USD\$9 billion in consumer spending in the FMCG space annually.
- In late May, when India's GDP numbers were released, many were happily surprised. In the fourth quarter of the fiscal year.
- Maruti Suzuki, India's leading automobile manufacturer, today sells 5% of its vehicles in the rural markets.

- Distribution and promotional channels also need to be different for rural markets.
- The biggest challenges, Mehta of Next Retail, feels are issues pertaining to distribution and infrastructure.
- ASSOCHAM suggests that for deeper penetration in the rural markets.

### **14.19 Keywords**

**Aadhar:** The Future Group and Godrej Agrovet's joint venture (JV) in agri-service-cum-rural retailing is undergoing a revamp, wherein the model will follow hub-n-spoke concept to drive higher profits for the company.

**ASSOCHAM:** ASSOCHAM suggests that for deeper penetration in the rural markets, the industry needs to create proper channels and inform the community about the products through local language advertising as well as other tools such as local exhibitions and mobile vans to tap the rural consumer.

**Consumer Durables:** India's consumer durables market is anticipated to expand by 40 per cent in 2011-12, according to a study by a leading industry body - 'Rise of Consumer Durables in Rural India'.

**DCM Shriram Consolidated Limited (DSCL):** It operates 270 stores of Hariyali Kisaan Bazaar (one of the largest national rural retail chains of India), plans to open 20 more outlets by the end of 2011.

**Rural:** The traditional definition of rural may be of little use to marketers in terms of providing consumer insights," says S. Ramesh Kumar, professor of marketing at the Indian Institute of Management, Bangalore (IIMB).

### **14.20 Review Questions**

1. What are the factors enhancing Agri-business opportunities?
2. Explain the Rural Marketing of FMCGs.
3. Describe the Durables and Financial services in Rural Marketing.
4. What do you know about wave of change?
5. Explain the ways to increase the Rural Reach.
6. Explain the products of Rural Markets.
7. Describe the rural scenario.
8. Explain the low penetration.
9. Describe the massive market.
10. Describe the opportunities in India.

### **Answers: Self Assessment**

- |                |                 |
|----------------|-----------------|
| 1. Agriculture | 2. Agricultural |
| 3. Rainfall    | 4. 328.73       |
| 5. 40          | 6. Rural        |
| 7. Urban       | 8. 36           |

Notes	9.	True	10.	True
	11.	True	12.	False
	13.	False	14.	False
	15.	True		

### 14.21 Further Readings



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## Unit 15: Marketing of Agricultural Produce

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### Objectives

After studying this unit, you will be able to:

- Explain the Importance of Grama Melas.
- Discuss the Regulated Markets.
- Describe the Sanctioning Authority.
- Explain the Policy Implications.

### Introduction

The detailed analysis takes Mumbai of December 1998 - January 1999 into account with Grama Shree Mela in Mumbai during the same period. Melas in Mumbai are expected to attract not only a large number but also various categories of customers. Mumbai also gets a large number of participants/entrepreneurs from almost all the states in the country.

The role of these melas in marketing the rural goods in the cities is gaining importance over a period of time. The melas organised under the banner of Grama Shree Mela have created a degree of awareness among the urban people about the rural products.

### 15.1 Importance of Grama Melas

These melas have also helped the rural entrepreneurs to acquire competitive strength in the urban-market. A large number of rural entrepreneurs had an opportunity to interact with the urban people and understand their tastes so as to improve their production process.

**Notes**

The participants/entrepreneurs come to mela not only to sell their products but also to exhibit the innovations of the producer. The customers come to the mela only to have the best and rare products at reasonable price. The perceptions and the expectations of both the parties may be different but achieve the same goal.

1. The customer represents different sections of the society and background. They have different reasons to visit the mela. A few come to mela to buy certain products and others because of their liking for these products and some came out of curiosity. Many customers have a special flavour for rural products. Many of them are regular visitors to such melas. There are also a few who are regular buyers of rural products because of the product's unique features.
2. It is found that majority of the customers are satisfied with the quality and price of the products.
3. While identifying a few deficiencies in the present mela the customer felt that organising these types of melas effectively by itself could be a good strategy for market promotion of rural products.
4. The participants/entrepreneurs represent all the states and a wide range of product lines.
5. The investment and production capacities of these entrepreneurs appear to be reasonably good. The employment potential of all these enterprises is significant. The share of women employment is more than 50 per cent.
6. The major market channel for these products is the mela for the last few years. However, there are many that depend on various other channels such as government, direct sale, merchant middlemen and exports.
7. The expectations of these entrepreneurs on the present mela are varied. A few think that the exposure to urban and open market would help them in improving their product. A few others wish to explore new products by attending these melas. There are a few who want to learn the techniques of good marketing from these melas. Some hope to observe the new design and packaging in these melas so as to improve their own presentation in the future marketing of their products.
8. The turnover of these participants during the last mela appears to be reasonable.
9. Their expectations on the present mela could not be realised due to the interior location as well as lack of proper publicity.
10. They feel that there are a number of advantages that could be derived from these melas for the marketing of rural products. Of the entire advantages, interaction with their entrepreneurs and gaining knowledge about new products become important for the entrepreneurs. By participating in these melas many entrepreneurs appear to have made a number of improvements to their own products for better marketing.
11. A few express that they are forced to sell their products at throwaway prices. Many others feel that the actual sale and the profit derived from the sales of these melas are much less than expected.
12. They also admit that the products may not give satisfaction to all the varied interests of customers. However, they express that, by and large, the customers go away with a sense of satisfaction.
13. While explaining the difficulties encountered in the melas, they suggested that the melas need to be organised monthly at all state capitals so as to expand the market network for the rural products.



*Did u know?* The employment potential of all these enterprises is significant. The share of women employment is more than 50 per cent.

## **15.2 Policy Implications**

Since melas are recognised as an effective channel for marketing of rural industry products, they need to be strengthened not only by increasing the frequency but also by organising them in several locations. Further, they need to be extended to different sectors as is done by Government of AP with regard to Chief Ministers Empowerment of Youth (CMEY), TARUNI (Exhibition/stall of women entrepreneurs) and Farmers Market.

The government introduced the Khadi and Village Industries Commission (Amendment) Bill, 2005, in the Lok Sabha on August 22. Piloted by the Union Minister for Small-Scale Industries, Mahavir Prasad, the Bill seeks to alter the definition of “village industry” by raising its fixed income cut off level from ₹ 15,000 to ₹ 1 lakh. Besides the change in definition, it has several provisions relating to the administration of the KVIC, as the country’s largest rural development support agency.

While the proposed Bill, when legislated, is likely to change the administrative structure as also the opportunities available to rural industries, it is also necessary to discuss the Bill in the context of the overall SME policy in the country.

The core issue relates to rural industry development in the context of the country’s development imperatives. The rural industrialisation programme in India has a dual character: First, its political sensitivity in relation to its links with the ‘Freedom Movement’. Second, from the point of view of employment generation and balanced regional development, rural industry is the only sub-sector that offers the maximum spread.

Though, in theory, the relevance of rural industry has come down, its functional relevance continues. The functional relevance of rural industries needs to be discussed in terms of their present role in the economy. Hence, we can redefine rural industries based on what they actually do. The broad features of a rural industrial enterprise are their location in a rural setting with a limited market and linkages; abundant labour availability but scarcity of capital; and focus on local skills and relatively low-technology. Based on these criteria, India’s rural industries cover its significant informal sector. The term informal sector covers both the micro base of entrepreneurship, which spontaneously emerges, as also, a micro sector that has been deliberately created as an appendage of large capital. Viewed from this angle, an array of economic activities falling under the rubric ‘rural crafts’, such as handlooms and handicrafts, can form the compass of rural industries.

The craft based products are also commodities exchanged in the market. They perform two roles-exchange value and use value. The exchange value of a craft product arises out of its design and appearance; and ethnic origin. For example, batik produced in Indonesia may be inferior to Indian handlooms. But they attract a premium in the Indian market because of its particular ethnic origin. Both India and Indonesia turn out bamboo handicrafts. However, such handicrafts produced in China attract a much larger premium in the European market. China’s advantage lies in the peculiar design and look of their products. For example, handicrafts are meant not exclusively for exchange value; their use value is also important.

Therefore, a craft product with greater use value as well as exchange value attracts a premium in the international market, though all handicrafts have at least a limited market share, based exclusively on their ethnic origin.

**Notes**

Sustainability of rural industries has become a crucial area of debate in recent times. Marketing was considered a problem rather than an opportunity. This 'problem' was addressed through enhanced public policy interventions, such as bhandars and common marketing centres organised by the government, marketing federations and co-operatives.

The fact that products of rural industries do not attract an appropriate market points to a basic lacuna in rural industrialisation policy. The official focus has been primarily on the preservation and revitalisation of traditional industries, and not on a programme for rural industrialisation. As a result, rural industries have not played an effective role in providing reasonable incomes to those engaged in them, or in integrating the rural areas into the overall industrialisation process. Some economists point out that the problem of rural industrialisation was never considered as an aspect of spatial diversification of industries, addressing the wider questions of location flexibility, economies of scale and agglomeration, infrastructure and incentives and concessions. On the other hand, it was viewed in terms of a limited concept of promoting village industries. Under such a limited approach, a vicious circle of static technology, competition from substitutes and low income elasticity of demand, are natural. These issues gain added complexity under globalisation, where markets are characterised by extreme competition and volatility. While rural industry has been perceived traditionally as catering to the local market, or at best, to a wider national market through limited formal channels, the reality of globalisation since the 1990s introduced a new dimension to the market for such products. While the public outlets lost their capability of providing marketing opportunities, the reality of the market itself became complex.

The issue of rural industrialisation, therefore, needs to be viewed from a new angle and on far more scientific lines. The core of a scientific approach is to understand the market opportunities for rural products along with the country's development priorities and to chalk out a strategy where rural industries have an important role to play. It is often presumed that in rural areas, industries form only a subsidiary occupation. Most traditional industries are household-based and family labour-based. However, in an open economy, where materials and technology flow freely and markets are open and global in nature, production at the household level becomes rather difficult. This demands a change in the household organisation of production itself. The production structure and the consumption pattern of rural and urban areas are characteristically distinct. With rising rural incomes, a shift both in the input structure of production and commodity structure of consumption in favour of the so-called urban products is inevitable. In order to take advantage of these changes, rural industries need to have some dynamism relating to technology, product design and organisational structure.

While before the globalisation era, the switchover was relatively easy through supply-side interventions, under globalisation the situation has completely changed. While rural products are forced to increasingly become part of global supply chains, these products need to adapt themselves, not only according to the changing tastes of the national market, but also according to changes in tastes in the international market. It is in this context that the importance of networking of enterprises becomes important. The crucial questions that emerge are the following:

1. Are we able to protect rural industry with existing policies and programmes?
2. Is there a role for rural industry in the overall programme of economic development?

An answer to these questions is not simple. More than being questions in economics, they are wider questions in political economy. A review of policy exercises for rural industry during the last one and half decades of active liberalisation has shown that there has been an enhanced patron-client relationship emerging in this sector. While rural industry has been considered outside the mainstream of debates on small industry, the thrust on it has been largely out of

political compulsions. This crucial influence of policy is one area of concern, in relation to enhancement of investment ceiling. If the policy implementers are not vigilant, the benefits of the new changes may be cornered by vested interests.

The opportunities for enhancing productivity in rural industry have not yet been explored. A study commissioned by the Ministry of Agro and Rural Industries- ARI, carried out by the Institute of Small Enterprises & Development, Kochi, has come out with several recommendations relating to targeting employment opportunities as also establishing relevant linkages among the various programmes of the Ministry of SSI & ARI. These include a strategic reorganisation of both PMRY and various programmes of the KVIC.

The imperatives for innovation demand a coordinated approach that can energise rural entrepreneurs. While the public programmes since Independence have focussed on upgrading technical skills of the rural poor, precious little has been done so far to motivate them into entrepreneurial activities. This is one area which needs to be emphasised in the coming years. And this is the way forward, shown by the UN Commission on Private Sector and Development, in its report entitled 'Unleashing Entrepreneurship': "Making Business Work for the Poor".

Planning Commission Chairman has called for creating a special rural industry fund on the lines of venture capital fund to meet the multiple and diverse needs of the non-farm sector. Speaking at the National Convention on Rural Industrialisation, he said such a fund could be useful in technology up gradation, quality standardisation, and market support including brand development for sustainable development of village industries. Linking micro markets to the larger macro markets to provide marketing channels for rural non-farm sector was also critical for the sustainable growth of the rural economy, he said, adding that private sector participation in market development, product marketing and brand building should be encouraged. Mr. Pant said " policies of the central bank also need to be tailored to ensure adequate lending to the small and tiny sector entrepreneurs." On the extant difference in the interest rate being charged on loans taken by small-scale industries and large industry, he said the issue has been addressed to a level in the budget but there was still room for more reforms.

Referring to the innate strengths of Khadi and village industry, Mr. Pant said environment-friendliness and near monopolistic condition were the two advantages which need to be fully availed of in an era of global consciousness on the adverse effects of pollution.

### ***Implementing Agency***

1. KVIC and State KVIBs.
2. National level/State level Khadi and V.I. Federations.
3. Khadi and V.I. Institutions affiliated to KVIC and KVIBs.
4. NGO who have already worked in implementation of programme relating to development of rural artisans in activities excluding the negative list of KVIC with financial assistance at least for 3 projects from any Ministry of State/Central Government, CAPART, NABARD and UN agencies.
  - (a) Provide improved machinery/equipment to be utilised as common utility facilities by the nearby unites/artisans to enhance production capacity or value addition of the product
  - (b) Provide attractive and appropriate packaging facilities and machineries to the local artisans for better marketing of Rural Industry Service Centre

**Notes**

The financial assistance should follow the norms below:

**Table 15.1**

(a)	Building/Infrastructure	Maximum 15% of project cost.
(b)	Plant & Machinery for manufacturing and or testing facilities and packaging	Minimum 50% of project cost.
(c)	Raw material /new design, product Diversification, etc.	Maximum 25% of project cost.
(d)	Skill up gradation & training and/ or Product catalogue	Maximum 10% of Project cost.

However, a, c, d can be reduced depending upon requirements of the situation.



*Task* Define how networking is important in companies.

**Self Assessment**

Fill in the blanks:

1. The melas organised under the banner of Grama Shree Mela have created a degree of awareness among the urban people about the ..... products.
2. The issue of rural ....., therefore, needs to be viewed from a new angle and on far more scientific lines.
3. The ..... structure and the consumption pattern of rural and urban areas are characteristically distinct.
4. The imperatives for ..... demand a coordinated approach that can energise rural entrepreneurs.
5. The official focus has been primarily on the preservation and ..... of traditional industries, and not on a programme for rural industrialisation.

**15.3 Sanctioning Authority**

The project proposals to set up Rural Industry Service Centre (RISC) up to ₹ 5 lakhs will be appraised and sanctioned by a Committee constituted for the purpose at State/Regional level, consisting of following members:

1. Director Industry of concerned State Govt. or his representative not below the: Member Rank of Additional Director
2. CEO of concerned State KVI Board: Member
3. Representative of Lead Bank in the State/Region: Member
4. Representative of NABARD: Member
5. Secretary of KVI Institution having highest turn over in the State: Member
6. State/Regional Director, KVIC: Member/Conveners

**Terms and References**

**Notes**

1. The Committee will evaluate capability of the organisation to implement.
2. The Committee will examine commercial viability of the project.
3. Accord approval up to project of ₹ 5 lakhs.
4. Evaluate and monitor the execution of programme in the Rural Industry Service Centre (RISC).

**15.4 Release of Fund**

After Committee approved the proposal, State/Regional Directors will release the funds in 2 installments. The first installment will be 50% of the amount share of KVIC for the project. The second and last installment will be released only after amount released by KVIC and 50% of the share of the organisation is utilized.

Stages of Programme implementation:

1. Identification of the cluster.
2. Selection of a Cluster Development Agency.
3. Technical feasibility by and expert or an agency.
4. Project formulation.
5. Approval of the project and release of funds.
6. Monitoring and Evaluation.

**15.5 Operationalisation and Programme Implementation**

For the purpose of establishing Rural Industry Service Centre (RISC), it may be ensured that the number of artisans/Village Industries units shall not be less than 25 individual artisans or 5 REGP units/VI Institutions/Societies for projects up to ₹ 5.00 lakhs.

The implementing agency/Organisation should have its own land where the Rural Industry Service Centre (RISC) will be established.

The period of setting of project should not be more than 6 months.

After submission of the proposal by the implementing agency to set up Rural Industry Service Centre (RISC), State/Regional Director shall conduct technical feasibility and place the proposal with his recommendations before State Level Committee. Technical feasibility may done either by DIC or by State Office or State Board.

The funds shall be released based on the progress of work report received periodically from State/Regional Director and based on activities of the project and also within a specific time frame for timely completion of the project.

The State/Regional Director of the concerned state where the project is located shall ensure monitoring and evaluation and timely completion of project.

After obtaining approval by the State Level Committee for setting up of project State/Regional Director will intimate to concerned Industry Programme Directors at Central Office of the Commission.

Notes

**Rural Industry Service Centre**

(RISC) for Khadi and Village Industries activity.

Objectives of the Programme:

1. Provide backward forward linkages to Khadi & V.I. activities in a cluster.
2. To provide services like raw material support, skill up-gradation, training, Quality Control, Testing facilities, marketing promotion, design & product development in order to strengthen the rural clusters.

The project proposals to set up Rural Industry Service Centre (RISC) up to ₹ 25 lakhs will be technically appraised by a Committee constituted for the purpose at Central level, Central Office, KVIC, Mumbai-56, consisting of following members after appraisal and recommendation of State/Regional level Committee:

1. Financial Advisor, KVIC : Chairman
2. General Manager of lead Bank : Member
3. One Expert Member from IIT Concerned with subject of the project : Member
4. Dy. Chief Executive Officer (VI) : Member
5. Director (Finance) : Member
6. Programme/Industry Director : Member
7. Director (VIC) : Member/Convener

**Terms and References**

The Committee will evaluate the recommendation of the State/Regional level Committee before Technically appraised the Project.

The Committee will examine commercial viability of the project.

The Committee will examine the collateral security or surety bond submitted by the implementing agency and recommended by the State/Regional level Committee.

**Mode of Sanction**

Once the project up to ₹ 25.00 lakhs have been technically appraised by the Technically Appraisal Committee, the concern Industry/Programme Director will process the proposal and placed before the SFC either Khadi and VI as the case may be.

**Security for Release of Fund**

Surety Bond must be submitted against the release to the tune of 90% of the project cost of maximum up to ₹ 25.00 Lakhs for NEZ and 100% women artisan best institution/organisation and 75% of the project cost of maximum ₹ 25.00 lakhs for others.

The surety Bond must be register with the competent authority of the State the following points must be taken into account while submitting the Surety Bond to KVIC.

1. Resolution of the institution.
2. Original Surety Bond duly stamped (Non-Judicial) as per the stamp Act of the State.

3. Original Valuation Report of the property of the Surety/ies from Government Registered valuer/Revenue Authority.
4. Original Blue Print/Lay out plan of the property of the Surety/ies duly approved by the competent Authority.
5. Original extract of record of rights certified by the Revenue Authority.
6. Original Non-encumbrance Certificate in respect of the Property/ies from a Govt. Pleader or from the Revenue/Competent authority certifying that the property is marketable and free from all encumbrances.
7. The Borrower should submit all extract from the revenue record evidencing that charge has been created on the revenue record in respect of the property/ies of the surety bond/ s after sanction and before release of funds.

In addition to the surety bond the implementing agency must mortgage their assets i. e. machinery, building etc. to the Commission created from out of the RISC fund before the release of 3rd installment.

### 15.6 Rural Industry Service Centre

“Rural Industry Service Centre (RISC) is the Common Facility Unit which aims to provide infrastructural support and necessary services to the local units to upgrade their production capacity, skill upgradation and market promotion.”

Figure 15.1: Rural Industry Service Centre in Villages



One of the following services must be covered by the Rural Industry Service Centre (RISC):

1. Provide testing facilities by establishing laboratory to ensure quality of the products.
2. Provide improved machinery/equipment to be utilised as common utility facilities by the nearby unites/artisans to enhance production capacity or value addition of the product.
3. Provide attractive and appropriate packaging facilities and machineries to the local unties/artisans for better marketing of their products.

In addition of the above facilities RISC can also cater to following services:

1. Provide training facilities to upgrade artisan's skill in order to increase their earnings.

**Notes**

2. Provide new design or new product, diversified product in consultation with experts/agencies for a value addition of rural manufacturing units.
3. Provide raw material support, which mainly depend on seasonal procurement.
4. Prepare product catalogue.

Types of Khadi & Village Industries to be covered under Rural Industry Service Centre (RISC):

1. Khadi & Poly Vastra post weaving value addition facilities.
2. Herbal products: Cosmetics and Medicines.
3. Edible Oil,
4. Detergents & Soaps.
5. Honey
6. Hand Made Paper
7. Food processing
8. Bio-Fertilizer/Bio-Pesticides/Bio Manure
9. Pottery
10. Leather
11. Woodwork
12. All other V.I. except those, which are in the negative list.



*Notes* The funds shall be released based on the progress of work report received periodically from State/Regional Director and based on activities of the project and also within a specific time frame for timely completion of the project.

**Self Assessment**

State whether the following statements are true or false:

6. The State/Regional Director of the concerned state where the project is located shall ensure monitoring and evaluation and timely completion of project.
7. The Committee will evaluate the recommendation of the State/Regional level Committee before Technically appraised the Project.
8. The rural markets offered a huge potential to the business houses because of their enormous spread and rising consumer demands.
9. The imperatives for innovation demand a coordinated approach that can energise rural entrepreneurs.
10. Borrower should submit all extract from the revenue record evidencing that charge has been created on the revenue record in respect of the property.

**15.7 The Rural Market Scenario**

The rural markets offered a huge potential to the business houses because of their enormous spread and rising consumer demands. Around the world, over 4 billion people survived in

rural areas that came to more than 60 percent of the total population. In India also, the ratio of rural to urban population was slightly higher than the world's ratio with 70 percent of them living in rural areas. They domiciled in nearly 6,27,000 villages spread over 3.2 million sq. km. This growing affluence along with good monsoon and the increased agriculture output, increased the total disposable income of rural consumers to 58 percent with two-third of middle income households being in the rural market. About 40 percent of the graduates coming out of Indian Universities were from rural areas. As they are eager to earn more and live better, their aspirations are similar to the urban youth. It is predicted by industry analysts that by 2009-10, the urban households are projected to grow by 4 percent while rural households are expected to grow by 11 percent. If the rural income rose by 1%, then the buying power would correspondingly increase by about ₹ 10,000 crore. The colour televisions, refrigerators, air-conditioners and microwaves have become a household sight in villages and small townships that was long thought of as a luxury and domain of urbanites.

However, rural India had its own set of problems like illiteracy, early childhood marriages, lack of access to birth control measures, poverty etc., that were interdependent on each other. There are also large numbers of daily wage earners and most of the people depended on vagaries of monsoon. Inadequate infrastructure like non-availability of gas supply, frequent power cuts, improper sanitary conditions, inaccessible areas were the other common sight of rural areas.

### Self Assessment

Multiple Choice Questions:

11. Media influenced the mindset of the rural consumer to such an extent that people who had money started purchasing the products unmindful of the:
 

(a) costs	(b) product
(c) households	(d) market
12. The Committee will examine commercial viability of the:
 

(a) group	(b) project
(c) wages	(d) rural areas.
13. .... should submit all extract from the revenue record evidencing that charge has been created on the revenue record in respect of the property.
 

(a) buyer	(b) seller
(c) borrower	(d) client
14. The ..... structure and the consumption pattern of rural and urban areas are characteristically distinct.
 

(a) protection	(b) pricing
(c) innovation	(d) production

### 15.8 The Paradigm Shift

In most of the rural areas in different parts of the country, there is considerable awareness on various latest products that are available in the market. This has been possible due to the penetration of cable and satellite channels that have brought down the world at the finger tips of the common man. The media influenced the mindset of the rural consumer to such an extent

**Notes**

that people who had money started purchasing the products unmindful of the costs, just to satisfy their needs as well as their ego. But, the growth of rural market could be attributed to many other reasons that in one way increased the sales as well as the profits of the companies. Some of the important causes for the growth of rural markets are:

1. The rise in disposable income of the rural families
2. The economic boom
3. Timely rains
4. Rural population involved themselves in business other than agriculture
5. Increase white-collar jobs in nearby towns
6. Commercialization of agriculture
7. Saturation of the urban markets
8. Media penetration in rural areas (particularly satellite channels)
9. Globalization
10. Economic liberalization
11. Revolution in the Information Technology
12. Women empowerment
13. Improving infrastructure

However, there was a significant role of the corporate enterprises simultaneously in the development of rural market. Their timely intervention into the rural areas, their appropriate planning, their perception and identification about the growth of rural markets and the use of marketing strategies all have equally contributed for the progress of rural markets. Even though corporate houses were hedged with so many problems in the rural areas, they saw a galore of opportunities in the rural market and converted all the pessimistic characteristics of the rural market into affirmative attributes. They satisfied themselves with the availability of limited infrastructure, saw a sign of prosperity rather than fear during the entry of competitors into the rural markets, showed excitement at the availability of satellite channels in the rural households, visualized their cash bells ringing with the increase in purchasing power of the rural masses that came equivalent to their urban counterparts. They traced a constant rise in the demand for those products that were once confined mostly to the urban houses. But, blame it on the kind of awareness created by the companies - people started using the products for other purposes as seen earlier.



*Caution* In India also, the ratio of rural to urban population was slightly higher than the world's ratio with 70 percent of them living in rural areas. They domiciled in nearly 6,27,000 villages spread over 3.2 million sq. km.



Case Study

## The World Economic Forum - Annual Report

The World Economic Forum has once again published its annual report on Global Competitiveness, the fundamental objective of which is to “evaluate the economic competitiveness of a large sample of countries”. In the latest report for 2003, 102 countries have been covered, up from 80 in the previous year, the additions coming mainly from the developing world, and chiefly Africa.

Among the non-African economies included in the latest report are Luxembourg, Macedonia, Malta, Pakistan and Serbia. The sub-continental interest factor here is clear though the point must be made that, in the international economic league, Pakistan is no match for its much bigger economic neighbour. In fact, in the Growth Competitiveness Ranking Index (GCRI) table, Pakistan figures at No 72 as against India’s 56.

The report relies on two “complementary approaches to analysing competitiveness”, the first being the Growth Competitiveness Index (GCI) and the second the Business Competitiveness Index (BCI). The two indices are based on “available hard data” and on the results of an Executive Opinion Survey conducted annually by the WEF. This survey is conducted in the first half of every year and covers responses from leading business executives and entrepreneurs, specifically their current perceptions of their immediate business environments.

The prescriptive aspect of the exercise (as opposed to the strictly descriptive function of the Survey) has been spelt out as follows: “By participating, respondents are also provided with the opportunity to identify key obstacles to economic growth in their own countries and thus contribute to assessing the quality of the business environment in the countries where their companies operate.”

This, in turn, may help precipitate an internal debate within the country between government officials, business leaders, organisations of civil society and the academic community on key problem areas and how best to address them. As far as India is concerned, the point of interest in the Global Competitiveness Report 2003 is how it has fared vis-à-vis China because it is in the outcome of this specific competition that the economic future of the country lies, both in Asia and in the world at large.

This is precisely why China is always considered as the competing investment destination, and also why (to actual and prospective foreign investors) the economy’s image is so very closely linked to the overall foreign direct investment figures, though the actual basis for comparison may not be quite comparable.

Thus, in the Growth Competitiveness Ranking Index for 2003, while China was placed at No 44, India was put at No 56 (in 2001 the respective figures were 39 and 57). Now the Growth Competitiveness Index is itself broken up into three components, namely, the macroeconomic environment index, the public institutions index, and the technology index, on which the process of economic growth is said to rest.

First, as regards the macroeconomic environment, the point is made that “although it is certainly not true that macroeconomic stability alone can increase the growth rate of a nation, it is no less true that macroeconomic disarray kills its growth prospects”. In other words, an economy cannot grow unless the macroeconomic environment is favourable.

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Second, although private enterprise must provide the main thrust for real growth in any national economy, it cannot function optimally if the institutions “created and maintained by the Government” (with whom it has to interact on a daily basis) do not provide the required support.

Third, there can be no sustainable economic growth (in contrast to the diminishing returns scenario associated with principal inputs like labour and capital) unless there is healthy technological progress which, in the real world, has shown signs of accelerating over time instead of decelerating.

As the GCR 2003 says, these three “pillars of growth” are interwoven: “strong institutions, for example, are needed for technological development to occur; a sophisticated technology base will contribute greatly to macroeconomic stability, but they do each have close and statistically distinct relationships with recent trends in economic growth”.

How do India and China fare under these three distinct categories? In the macroeconomic environment index (which, as we have seen, basically measures stability and predictability) China scores handsomely with a 25th ranking with India occupying the 52nd place. Curiously, as regards the other two indices, public institutions and technology, the two economies are very close to each other.

Thus, while in the former China and India are at 52nd and 55th positions, in the latter (technology) India is No 64 followed by China’s No 65. An important point to consider is whether China’s pre-eminence vis-à-vis India in the sphere of macroeconomic stability has anything to do with the form of political governance that is prevalent in Communist China as opposed to the parliamentary democratic babel that holds sway in India.

The Business Competitiveness Index is the micro counterpart of the macro approach that is encapsulated in the GCI. As the report puts it succinctly: “It is well understood that sound fiscal and monetary policies, a trusted and efficient legal system, a stable set of democratic institutions and progress on social conditions contribute greatly to a healthy economy.

“However, these broader conditions are necessary but not sufficient. They provide the opportunity to create wealth but do not themselves create wealth. Wealth is actually created (at) the micro-economic level of the economy, rooted in the sophistication of actual companies as well as in the quality of the micro-economic business environment in which a nation’s firms compete. Unless these micro-economic capabilities improve, macroeconomic, political, legal, and social reforms will not bear full fruit”.

In another place, the report says: “The productivity of a country is ultimately set by the productivity of its companies. An economy cannot be competitive unless companies operating there are competitive, whether they are domestic firms or subsidiaries of foreign companies. However, the sophistication and productivity of companies (are) inextricably intertwined with the quality of the national business environment. More productive company strategies require more highly skilled people, better information, more efficient Government processes, improved infrastructure, better suppliers, more advanced research institutions, and more intense competitive pressure, among other things. This is what the BCI tries to capture”.

Like the GCI, this particular index too is broken down into component parts, namely, sophistication of company operations and strategy, and quality of the national business environment. How do India and China fare here vis-à-vis each other?

These figures, basically evaluating the quality of the business environment at the grassroots level where freedom to operate is of the essence, throw up an interesting departure from

*Contd...*

the GCI scenario, which appears to have implications for the future development of the Communist Chinese polity if the current economic performance of China is to continue uninterrupted in the years to come.

It will be remembered that in the GCI set-up it is only in the sphere of technology that India had a marginal advantage over China (64th and 65th positions). But in the Business Competitive Index India is ranked 37th with China following at 46th. This is not all. In the company operations and strategy rankings, India is at No 40 while China is at No 42; the respective figures for "quality of the national business environment" being 36 and 44.

India's performance in the last index holds out hope because it indicates that the Indian environment is more suited for efficient business operations than is the case with China. The question is: Will the emerging Indian political set-up play ball?

Agriculture is a way of life, a tradition, which, for centuries, has shaped the thought, the outlook, the culture and the economic life of the people of India. Agriculture, therefore, is and will continue to be central to all strategies for planned socio-economic development of the country. Rapid growth of agriculture is essential not only to achieve self-reliance at national level but also for household food security and to bring about equity in distribution of income and wealth resulting in rapid reduction in poverty levels.

Indian agriculture has, since Independence, made rapid strides. In taking the annual food grains production from 51 million tonnes of the early fifties to 206 million tonnes at the turn of the century, it has contributed significantly in achieving self sufficiency in food and in avoiding food shortages in our country. The pattern of growth of agriculture has, however, brought in its wake, uneven development, across regions and crops as also across different sections of farming community and is characterized by low levels of productivity and degradation of natural resources in some areas. Capital inadequacy, lack of infrastructural support and demand side constraints such as controls on movement, storage and sale of agricultural products, etc., have continued to affect the economic viability of agriculture sector. Consequently, the growth of agriculture has also tended to slacken during the nineties.

Agriculture has also become a relatively unrewarding profession due to generally unfavourable price regime and low value addition, causing abandoning of farming and increasing migration from rural areas. The situation is likely to be exacerbated further in the wake of integration of agricultural trade in the global system, unless immediate corrective measures are taken.

Over 200 million Indian farmers and farm workers have been the backbone of India's agriculture. Despite having achieved national food security the well being of the farming community continues to be a matter of grave concern for the planners and policy makers in the country. The establishment of an agrarian economy that ensures food and nutrition to India's billion people, raw materials for its expanding industrial base and surpluses for exports and a fair and equitable reward system for the farming community for the services they provide to the society, will be the mainstay of reforms in the agriculture sector.

The National Policy on Agriculture seeks to actualise the vast untapped growth potential of Indian agriculture, strengthen rural infrastructure to support faster agricultural development, promote value addition, accelerate the growth of agro business, create employment in rural areas, secure a fair standard of living for the farmers and agricultural workers and their families, discourage migration to urban areas and face the challenges arising out of economic liberalization and globalisation. Over the next two decades, it aims to attain:

1. A growth rate in excess of 4 per cent per annum in the agriculture sector;

*Contd...*

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2. Growth that is based on efficient use of resources and conserves our soil, water and bio-diversity;
3. Growth with equity, i.e., growth which is widespread across regions and farmers;
4. Growth that is demand driven and caters to domestic markets and maximises benefits from exports of agricultural products in the face of the challenges arising from economic liberalization and globalisation;
5. Growth that is sustainable technologically, environmentally and economically.

The policy will seek to promote technically sound, economically viable, environmentally non-degrading, and socially acceptable use of country's natural resources, i.e. land, water and genetic endowment to promote sustainable development of agriculture. Measures will be taken to contain biotic pressures on land and to control indiscriminate diversion of agricultural lands for non-agricultural purposes. The unutilized wastelands will be put to use for agriculture and forestation. Particular attention will be given for increasing cropping intensity through multiple-cropping and inter-cropping.

The Government accords abiding importance to improving the quality of the country's land and soil resources. Reclamation of degraded and fallow lands as well as problem soils will be given high priority to optimize their productive use. Special emphasis will be laid on conserving soils and enriching their fertility. Management of land resources on watershed basis will receive special attention. Areas of shifting cultivation will also receive particular attention for their sustainable development. Integrated and holistic development of rainfed areas will be promoted by conservation of rain water by vegetative measures on watershed basis and augmentation of biomass production through agro and farm forestry with the involvement of the watershed community. All spatial components of a watershed, i.e. arable land, non-arable and drainage lines will be treated as one geo-hydrological entity. Management of grazing land will receive greater attention for augmenting availability of animal feed and fodder. A long-term perspective plan for sustainable rainfed agriculture through watershed approach will be vigorously pursued for development of two thirds of India's cropped area which is dependent on rains.

Rational utilization and conservation of the country's abundant water resources will be promoted. Conjunctive use of surface and ground water will receive highest priority. Special attention will be focused on water quality and the problem of receding groundwater levels in certain areas as a result of over-exploitation of underground aquifers. Proper on-farm management of water resources for the optimum use of irrigation potential will be promoted. Use of in situ moisture management techniques such as mulching and use of micro overhead pressured irrigation systems like drip and sprinkler and green house technology will be encouraged for greater water use efficiency and improving productivity, particularly of horticultural crops. Emphasis will be placed on promotion of water harvesting structures and suitable water conveyance systems in the hilly and high rainfall areas for rectification of regional imbalances. Participatory community irrigation management will be encouraged.

Erosion and narrowing of the base of India's plant and animal genetic resources in the last few decades has been affecting the food security of the country. Survey and evaluation of genetic resources and safe conservation of both indigenous and exogenously introduced genetic variability in crop plants, animals and their wild relatives will receive particular attention. The use of biotechnologies will be promoted for evolving plants which consume less water, are drought resistant, pest resistant, contain more nutrition, give higher yields and are environmentally safe. Conservation of bio-resources through their ex situ preservation in Gene Banks, as also in situ conservation in their natural habitats through

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bio-diversity parks, etc., will receive a high priority to prevent their extinction. Specific measures will also be taken to conserve indigenous breeds facing extinction. There will be a time bound programme to list, catalogue and classify country's vast agro bio-diversity.

Sensitisation of the farming community with the environmental concerns will receive high priority. Balanced and conjunctive use of biomass, organic and inorganic fertilizers and controlled use of agro chemicals through integrated nutrients and pest management (INM & IPM) will be promoted to achieve the sustainable increases in agricultural production. A nationwide programme for utilization of rural and urban garbage, farm residues and organic waste for organic matter repletion and pollution control will be worked out.

Agro forestry and social forestry are prime requisites for maintenance of ecological balance and augmentation of biomass production in the agricultural systems. Agro-forestry will receive a major thrust for efficient nutrient cycling, nitrogen fixation, organic matter addition and for improving drainage. Farmers will be encouraged to take up farm/agro-forestry for higher income generation by evolving technology, extension and credit support packages and removing constraints to development of agro and farm forestry. Involvement of farmers and landless labourers will be sought in the development of pastures/forestry programmes on public wastelands by giving financial incentives and entitlements to the usufructs of trees and pastures.

The history and traditional knowledge of agriculture, particularly of tribal communities, relating to organic farming and preservation and processing of food for nutritional and medicinal purposes is one of the oldest in the world. Concerted efforts will be made to pool, distill and evaluate traditional practices, knowledge and wisdom and to harness them for sustainable agricultural growth.

Special efforts will be made to raise the productivity and production of crops to meet the increasing demand for food generated by unabated demographic pressures and raw materials for expanding agro-based industries. A regionally differentiated strategy will be pursued, taking into account the agronomic, climatic and environmental conditions to realize the full growth potential of every region. Special attention will be given to development of new crop varieties, particularly of food crops, with higher nutritional value through adoption of biotechnology particularly, genetic modification, while addressing bio-safety concerns.

A major thrust will be given to development of rainfed and irrigated horticulture, floriculture, roots and tubers, plantation crops, aromatic and medicinal plants, bee-keeping and sericulture, for augmenting food supply, exports and generating employment in the rural areas. Availability of hybrid seeds and disease-free planting materials of improved varieties, supported by network of regional nurseries, tissue culture laboratories, seed farms will be promoted to support systematic development of horticulture having emphasis on increased production, post-harvest management, precision farming, bio-control of pests and quality regulation mechanism and exports.

Animal husbandry and fisheries also generate wealth and employment in the agriculture sector. Development of animal husbandry, poultry, dairying and aqua-culture will receive a high priority in the efforts for diversifying agriculture, increasing animal protein availability in the food basket and for generating exportable surpluses. A national livestock breeding strategy will be evolved to meet the requirements of milk, meat, egg and livestock products and to enhance the role of draught animals as a source of energy for farming operations and transport. Major thrust will be on genetic upgradation of indigenous/native cattle and buffaloes using proven semen and high quality pedigreed bulls and by expanding artificial insemination network to provide services at the farmer's doorstep.

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**Notes**

Generation and dissemination of appropriate technologies in the field of animal production as also health care to enhance production and productivity levels, will be given greater attention. Cultivation of fodder crops and fodder trees will be encouraged to meet the feed and fodder requirements and to improve animal nutrition and welfare. Priority attention will also be given to improve the processing, marketing and transport facilities, with emphasis on modernization of abattoirs, carcass utilization and value addition thereon. Since animal disease eradication and quarantine is critical to exports, animal health system will be strengthened and disease free zones created. The involvement of co-operatives and the private sector will be encouraged for development of animal husbandry, poultry and dairy. Incentives for livestock and fisheries production activities will be brought at par with incentives for crop production.

An integrated approach to marine and inland fisheries, designed to promote sustainable aquaculture practices, will be adopted. Biotechnological application in the field of genetics and breeding, hormonal applications, immunology and disease control, will receive particular attention for increased aquaculture production. Development of sustainable technologies for fin and shell fish culture as also pearl-culture, their yield optimization, harvest and post-harvest operations, mechanization of fishing boats, strengthening of infrastructure for production of fish seed, berthing and landing facilities for fishing vessels and development of marketing infrastructure will be accorded high priority. Deep sea fishing industry will be developed to take advantage of the vast potential of country's exclusive economic zone.

**Generation and Transfer of Technology**

A very high priority will be accorded to evolving new location-specific and economically viable improved varieties of agricultural and horticultural crops, livestock species and aquaculture as also conservation and judicious use of germ plasma and other biodiversity resources. The regionalization of agricultural research, based on identified agro-climatic zones, will be accorded high priority. Application of frontier sciences like biotechnology, remote sensing technologies, pre and post-harvest technologies, energy saving technologies, technology for environmental, protection through national research system as well as proprietary research will be encouraged. The endeavour will be to build a well organized, efficient and result-oriented agriculture research and education system to introduce technological change in Indian agriculture. Upgradation of agricultural education and its orientation towards uniformity in education standards, women empowerment, user-orientation, vocationalization and promotion of excellence will be the hallmark of the new policy.

The research and extension linkages will be strengthened to improve quality and effectiveness of research and extension system. The extension system will be broad based and revitalized. Innovative and decentralized institutional changes will be introduced to make the extension system farmer-responsible and farmer-accountable. Role of Krishi Vigyan Kendras (KVKs), Non-Governmental Organizations (NGOs), Farmers Organizations, Co-operatives, corporate sector and para-technicians in agricultural extension will be encouraged for organizing demand driven production systems. Development of human resources through capacity building and skill up gradation of public extension functionaries and other extension functionaries will be accorded a high priority. The Government will endeavour to move towards a regime of financial sustainability of extension services through affecting in a phased manner, a more realistic cost recovery of extension services and inputs, while simultaneously safeguarding the interests of the poor and the vulnerable groups.

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Mainstreaming gender concerns in agriculture will receive particular attention. Appropriate structural, functional and institutional measures will be initiated to empower women and build their capabilities and improve their access to inputs, technology and other farming resources.

Adequate and timely supply of quality inputs such as seeds, fertilizers, plant protection chemicals, bio-pesticides, agricultural machinery and credit at reasonable rates to farmers will be the endeavor of the Government. Soil testing and quality testing of fertilizers and seeds will be ensured and supply of spurious inputs will be checked. Balanced and optimum use of fertilizers will be promoted together with use of organic manures & bio-fertilizers to optimize the efficiency of nutrient use.

Development, production and distribution of improved varieties of seeds and planting materials and strengthening and expansion of seed and plant certification system with private sector participation will receive a high priority. A National Seed Grid will be established to ensure supply of seeds especially to areas affected by natural calamities. The National Seeds Corporation (NSC) and State Farms Corporation of India (SFCI) will be restructured for efficient utilization of investment and manpower.

Protection to plant varieties through a sui generis legislation, will be granted to encourage research and breeding of new varieties particularly in the private sector in line with India's obligations under TRIPS Agreement. The farmers will, however, be allowed their traditional rights to save, use, exchange, share and sell their farm saved seeds except as branded seeds of protected varieties for commercial purpose. The interests of the researchers will also be safeguarded in carrying out research on proprietary varieties to develop new varieties.

Integrated pest management and use of biotic agents in order to minimize the indiscriminate and injudicious use of chemical pesticides will be the cardinal principle covering plant protection. Selective and eco-friendly farm mechanization through appropriate technology will be promoted, with special reference to rain fed farming to reduce arduous work and to make agriculture efficient and competitive as also to increase crop productivity.

The Government will endeavour to create a favourable economic environment for increasing capital formation and farmer's own investments, by removal of distortions in the incentive regime for agriculture, improving the terms of trade with manufacturing sectors and bringing about external and domestic market reforms, backed by rationalization of domestic tax structure. It will seek to bestow on the agriculture sector, in as many respects as possible, benefits similar to those obtained in the manufacturing sector, such as easy availability of credit and other inputs, and infrastructure facilities for development of agri-business industries and development of effective delivery systems and freeing movement of agro produce.

Consequent upon dismantling of Quantitative Restrictions on imports as per WTO Agreement on Agriculture, commodity-wise strategies and arrangements for protecting the grower from adverse impact of undue price fluctuations in world markets and for promoting exports will be formulated. Apart from price competition, other aspects of marketing such as quality, choice, health and bio-safety will be promoted. Exports of horticultural produce and marine products will receive particular emphasis. A two-fold long term strategy of diversification of agricultural produce and value addition enabling the production system to respond to external environment and creating export demand for the commodities produced in the country will be evolved with a view to providing the farmers incremental income from export earnings. A favourable economic environment and supportive public management system will be created for promotion of agricultural

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exports. Quarantine, both of exports and imports, will be given particular attention so that Indian agriculture is protected from the ingress of exotic pests and diseases.

In order to protect the interest of farmers in context of removal of Quantitative Restrictions, continuous monitoring of international prices will be undertaken and appropriate tariffs protection will be provided. Import duties on manufactured commodities used in agriculture will be rationalized. The domestic agricultural market will be liberalized and all controls and regulations hindering increase in farmers' income will be reviewed and abolished to ensure that agriculturists receive prices commensurate with their efforts, and investment. Restrictions on the movement of agricultural commodities throughout the country will be progressively dismantled.

The structure of taxes on food grains and other commercial crops will be reviewed and rationalized. Similarly, the excise duty on materials such as farm machinery and implements, fertilizers, etc., used as inputs in agricultural production, and post harvest storage and processing will be reviewed. Appropriate measures will be adopted to ensure that agriculturists by and large remain outside the regulatory and tax collection systems. Farmers will be exempted from payment of capital gains tax on compulsory acquisition of agricultural land.

The Agriculture sector has been starved of capital. There has been a decline in the public sector investment in the agriculture sector. Public investment for narrowing regional imbalances, accelerating development of supportive infrastructure for agriculture and rural development particularly rural connectivity will be stepped up. A time-bound strategy for rationalisation and transparent pricing of inputs will be formulated to encourage judicious input use and to generate resources for agriculture. Input subsidy reforms will be pursued as a combination of price and institutional reforms to cut down costs of these inputs for agriculture. Resource allocation regime will be reviewed with a view to re-channelizing the available resources from support measures towards asset formation in rural sector.

A conducive climate will be created through a favourable price and trade regime to promote farmers' own investments as also investments by industries producing inputs for agriculture and agro based industries. Private sector investments in agriculture will also be encouraged more particularly in areas like agricultural research, human resource development and post-harvest management and marketing.

Rural electrification will be given a high priority as a prime mover for agricultural development. The quality and availability of electricity supply will be improved and the demand of the agriculture sector will be met adequately in a reliable and cost effective manner. The use of new and renewable sources of energy for irrigation and other agricultural purposes will also be encouraged.

Bridging the gap between irrigation potential created and utilized, completion of all ongoing projects, restoration and modernization of irrigation infrastructure including drainage, evolving and implementing an integrated plan of augmentation and management of national water resources will receive special attention for augmenting the availability and use of irrigation water.

Emphasis will be laid on development of marketing infrastructure and techniques of preservation, storage and transportation with a view to reducing post-harvest losses and ensuring a better return to the grower. The weekly periodic markets under the direct control of panchayat raj institutions will be upgraded and strengthened. Direct marketing and pledge financing will be promoted. Producer's markets on the lines of Ryatu Bazars will be encouraged throughout the width and the breadth of the country. Storage facilities

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for different kinds of agricultural products will be created in the production areas or nearby places particularly in the rural areas so that the farmers can transport their produce to these places immediately after harvest in shortest possible time. The establishment of cold chains, provision of pre cooling facilities to farmers as a service and cold storage in the terminal markets and improving the retail marketing arrangements in urban areas will be given priority. Upgradation and dissemination of market intelligence will receive particular attention.

Setting up of agro-processing units in the producing areas to reduce wastage, especially of horticultural produce, increased value addition and creation of off-farm employment in rural areas will be encouraged. Collaboration between the producer co-operatives and the corporate sector will be encouraged to promote agro-processing industry. An interactive coupling between technology, economy, environment and society will be promoted for speedy development of food and agro-processing industries and to build up a substantial base for production of value added agro-products for domestic and export markets with a strong emphasis on food safety and quality. The Small Farmers Agro Business Consortium (SFAC) will be energized to cater to the needs of farmer entrepreneurs and promote public and private investments in agri-business.

Indian agriculture is characterized by predominance of small and marginal farmers. Institutional reforms will be so pursued as to channelise their energies for achieving greater productivity and production. The approach to rural development and land reforms will focus on the following areas:

1. Consolidation of holdings all over the country on the pattern of north western States.
2. Redistribution of ceiling surplus lands and waste lands among the landless farmers, unemployed youth with initial start up capital.
3. Tenancy reforms to recognize the rights of the tenants and share croppers.
4. Development of lease markets for increasing the size of the holdings by making legal provisions for giving private lands on lease for cultivation and agri business.
5. Updating and improvement of land records, computerization and issue of land passbooks to the farmers.
6. Recognition of women's rights in land.

The rural poor will be increasingly involved in the implementation of land reforms with the help of Panchayati Raj Institutions, Voluntary Groups, Social Activists and Community Leaders.

Private sector participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured markets for crop production, especially of oilseeds, cotton and horticultural crops.

Progressive institutionalization of rural and farm credit will be continued for providing timely and adequate credit to farmers. The rural credit institutions will be geared to promote savings, investments and risk management. Particular attention will be paid to removal of distortions in the priority sector lending by Commercial Banks for agriculture and rural sectors. Special measures will be taken for revamping of co-operatives to remove the institutional and financial weaknesses and evolving simplified procedure for sanction and disbursement of agriculture credit. The endeavour will be to ensure distribution equity in the disbursement of credit. Micro-credit will be promoted as an effective tool for alleviating poverty. Self Help Group and Bank linkage system, suited to Indian rural

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sector, will be developed as a supplementary mechanism for bringing the rural poor into the formal banking system, thereby improving banks outreach and the credit flows to the poor in an effective and sustainable manner.

The basic support to agriculture has been provided by the co-operative sector assiduously built over the years. The Government will provide active support for the promotion of co-operative form of enterprise and ensure greater autonomy and operational freedom to them to improve their functioning. The thrust will be on:

1. Structural reforms for promoting greater efficiency and viability by freeing them from excessive bureaucratic control and political interference.
2. Creation of infrastructure and human resource development.
3. Improvement in financial viability and organizational sustainability of co-operatives.
4. Democratisation of management and increased professionalism in their operations.
5. Creating a viable interface with other grass-root organizations.

The Legislative and regulatory framework will be appropriately amended and strengthened to achieve these objectives.

Despite technological and economic advancements, the condition of farmers continues to be unstable due to natural calamities and price fluctuations. National Agriculture Insurance Scheme covering all farmers and all crops throughout the country with built in provisions for insulating farmers from financial distress caused by natural disasters and making agriculture financially viable will be made more farmer specific and effective. Endeavour will be made to provide a package insurance policy for the farmers, right from sowing of the crops to post-harvest operations, including market fluctuations in the prices of agricultural produce.

In order to reduce risk in agriculture and impart greater resilience to Indian agriculture against droughts and floods, efforts will be made for achieving greater flood proofing of flood prone agriculture and drought proofing of rainfed agriculture for protecting the farmers from vagaries of nature. For this purpose, contingency agriculture planning, development of drought and flood resistant crop varieties, watershed development programmes, drought prone areas and desert development programmes and rural infrastructure development programmes will receive particular attention.

The Central Government will continue to discharge its responsibility to ensure remunerative prices for agricultural produce through announcement of Minimum Support Prices policy for major agricultural commodities. The food, nutrition and other domestic and exports requirements of the country will be kept in view while determining the support prices of different commodities. The price structure and trade mechanism will be continuously reviewed to ensure a favourable economic environment for the agriculture sector and to bring about an equitable balance between the rural and the urban incomes. The methodology used by the Commission on Agricultural Costs & Prices (CACP) in arriving at estimates of costs of production will be periodically reviewed. The price structure of both inputs and outputs will be monitored to ensure higher returns to the farmers and bring about cost effectiveness throughout the economy. Domestic market prices will be closely monitored to prevent distress sales by the farmers. Public and co-operative agencies undertaking marketing operations will be strengthened.

The Government will enlarge the coverage of futures markets to minimize the wide fluctuations in commodity prices as also for hedging their risks. The endeavour will be to cover all important agricultural products under futures trading in course of time.

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Effective implementation of policy initiatives will call for comprehensive reforms in the management of agriculture by the Central and the State Governments. The Central Government will supplement/complement the State Governments' efforts through regionally differentiated Work Plans, comprising crop/area/target group specific interventions, formulated in an interactive mode and implemented in a spirit of partnership with the States. The Central Government will move away from schematic approach to Macro-Management mode and assume a role of advocacy, articulation and facilitation to help the States in their efforts towards achieving accelerated agricultural development.

The Government will focus on quality aspects at all stages of farm operations from sowing to primary processing. The quality of inputs and other support services to farmers will be improved. Quality consciousness amongst farmers and agro processors will be created. Grading and standardization of agricultural products will be promoted for export enhancement. Application of science and technology in agriculture will be promoted through a regular system of interface between S&T institutions and the users/potential users, to make the sector globally competitive.

The database for the agriculture sector will be strengthened to ensure greater reliability of estimates and forecasting which will help in the process of planning and policy making. Efforts will be made to significantly improve and harness the latest remote sensing and information technology to capture data, collate it, add value and disseminate it to appropriate destinations for managing the risk and in accelerating the growth process. The objective will be to engage in a meaningful continuous dialogue with the external environment in the changing scenario and to have on-line and real time system of 'Agriculture on line' capacity to analyze the signals emanating from the farms and the markets for the benefit of the farmers.

The Government of India trust that this Statement of National Agriculture Policy will receive the fullest support of all sections of the people and lead to sustainable development of agriculture, create gainful employment on a self sustaining basis in rural areas, raise standards of living for the farming communities, preserve environment and serve as a vehicle for building a resurgent national economy.

#### Question

Analyse the situation and offer suggestions for helping India's cause in agriculture business.

### 15.9 Summary

- The raw materials from which rural articles are made are brought from outside.
- Middlemen often supply the artisan with capital necessary for buying them and other accessories and purchase their products in lieu of repayment.
- This sometimes reduces the artisans to the status of ordinary wage earners carrying on repair work and production work on piece rate basis as per the orders received through their financiers.
- With a view to rendering assistance to the artisans, co-operative societies of have been organised in districts with training centres for artisans and these societies arrange finance and marketing of the members' produce.
- In most of the rural areas in different parts of the country, there is considerable awareness on various latest products that are available in the market.

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- The issue of rural industrialisation, therefore, needs to be viewed from a new angle and on far more scientific lines.
- The production structure and the consumption pattern of rural and urban areas are characteristically distinct.

### 15.10 Keywords

**NGO:** Non-government organisations that operate in rural areas too for development work.

**Paradigm Shift:** In most of the rural areas in different parts of the country, there is considerable awareness on various latest products that are available in the market. This has been possible due to the penetration of cable and satellite channels that have brought down the world at the finger tips of the common man.

**Rural Industry Service Centre:** Rural Industry Service Centre (RISC) is the Common Facility Unit which aims to provide infrastructural support and necessary services to the local units to upgrade their production capacity, skill upgradation and market promotion.

**Sustainability:** Sustainability of rural industries has become a crucial area of debate in recent times. Marketing was considered a problem rather than an opportunity. This 'problem' was addressed through enhanced public policy interventions, such as bhandars and common marketing centres organised by the government, marketing federations and co-operatives.

### 15.11 Review Questions

1. Discuss the problems of rural artisans face in marketing their products and how these can be surmounted.
2. Rural finance has remained a major issue because of non availability of collaterals with the rural folk. Discuss how this problems can be solved.
3. Discuss the paradigm shift.
4. Explain the Rural Marketing Scenario.
5. Describe the Rural Industry Service Centre.
6. Discuss the importance of Grama Melas.
7. Discuss the operationalisation and programme implementation.
8. What do you know about sanctioning authority?
9. Describe the Security of Release of Fund.
10. Describe the policy implications.

### **Answers: Self Assessment**

- |                   |                      |
|-------------------|----------------------|
| 1. rural          | 2. Industrialisation |
| 3. Production     | 4. Innovation        |
| 5. Revitalisation | 6. True              |
| 7. True           | 8. False             |
| 9. False          | 10. True             |

- |         |         |       |
|---------|---------|-------|
| 11. (a) | 12. (b) | Notes |
| 13. (c) | 14. (d) |       |

### 15.12 Further Readings



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## Unit 16: Marketing in Small Towns

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### Objectives

After studying this unit, you will be able to:

- Explain the Small Town Marketing Ideas.
- Describe the Media Strategy.
- Explain the Small town Marketing Plan.
- Discuss the Small Town Marketing Research Process.

### Introduction

Small town business owners are unbelievably busy. But the fact remains that in addition to running a business, successful small business owners recognize the need to educate themselves on a tremendous variety of subjects in order to stay current and relevant. Small business marketing is at the top of the list. Think about it, small business owners need to have a working knowledge of sales, accounting, inventory control, hiring (and firing) practices, psychology, management and much, much more. And with increasing time constraints, the very thought of having to learn "small business marketing strategies" might seem like an impossible task. But after almost 30 years involved in a wide variety of businesses most of the problems associated with falling profits and failing ventures can be tracked directly to the failure of the business owner to implement solid, proven, successful small business marketing principles.

## 16.1 Small Towns becoming Important to Marketers:

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### Ernst & Young Report

According to findings in E&Y's study, 'The New Market Shehers: Tapping Potential Beyond the Metros', non-metro urban markets are becoming more relevant in India's consumption story; and marketers are restructuring their budgets to take advantage of the new urban consumer.

Ernst and Young (E&Y) has released its report, 'The New Market Shehers: Tapping Potential Beyond the Metros', which identifies trends in consumption patterns and marketing spends in small-town India. The report deals with the growing relevance of non-metro urban markets in India's consumption story, and how marketers are restructuring their budgets to take advantage of the new urban consumer.

For this report, India was divided into four geographical categories – the top six Metros (Mumbai, Delhi, Bengaluru, Hyderabad, Chennai and Kolkata); the Key Urban Towns (KUTs), which are the 22 cities immediately following the metros in their market potential (such as Amritsar, Surat and Ludhiana); cities in the Rest Of Urban India (ROUI); and rural India.

'The New Market Shehers: Tapping Potential Beyond the Metros' highlights consumption patterns of consumers across KUTs and ROUI. KUTs, for instance, exhibit consumption patterns that are similar to those in the metros – consumption of premium brands and services in the KUTs has shown an increase.

The report findings indicate that retail presence in the KUTs and the ROUI through organised retail chains and malls has increased considerably. Over a two-year period, the percentage growth in the number of malls in the KUTs (55 per cent) was more than twice that of the metros (24 per cent).

Consumers in the KUTs show an increasing preference for premium products and services of established mass brands. For instance, the sale of LCD televisions and wellness services is on the rise in the KUTs.

There has also been a significant uptake in the leisure and lifestyle spends of consumers in the KUTs. For instance, men utilise wellness services now more than ever before, not just in the big metros, but also in Tier 2 and 3 cities. Women in small towns are more willing to pay large amounts for age-correction products, body sculpting and removing skin imperfections.

The share of the KUTs and the ROUI in newspaper advertising (by volume of activity) in 2009 was higher than 50 per cent across most categories. For categories such as cellular skincare, oral hygiene, hair care and consumer durables, the advertising share is higher than 75 per cent.

The KUTs and the ROUI comprise more than 50 per cent of total BTL activity in the country, the report suggests. BTL activities have grown significantly in non-metros (40 per cent in 2009 vis-à-vis 15 per cent during 2007), as compared to the metros (60 per cent in 2009 vis-à-vis 85 per cent in 2007), which is another indicator of the importance of KUTs. Furthermore, 60 per cent of BTL activities are concentrated in the ROUI and in rural India, especially for sectors such as telecom, consumer durables and certain categories of FMCG products.

Mobile advertising is also catching up more effectively in the KUTs and ROUI, as opposed to person-to-person marketing, with more 500 million mobile users in these regions.

The metros and KUTs are driving growth in later-stage consumption (higher transaction value products and discretionary goods); while the ROUI is driving growth in early-stage consumption (necessities and products with lower transaction value).

**Notes**

According to Ashok Rajgopal, partner, media and entertainment practice, Ernst & Young, there is enormous opportunity in non-metro urban markets; the large consumption base there was only marginally affected by the recession, and now has enhanced purchasing power.

“Marketers have now realised the potential of focussing on these non-metro urban markets, which are key drivers for future business growth, with restructuring their budgets and services for making best use of this new and aggressive opportunity,” he adds.

Marketers are taking cognisance of this new urban consumer and are aggressively targeting the KUTs and ROUI, which has resulted in a focus shift in media spends from the metros to the non-metros. This trend, according to the report, is likely to continue with the changing consumption pattern of consumers, fuelled by greater purchasing power.

For the record, ‘The New Market Shehers: Tapping Potential Beyond the Metros’ is the second report from E&Y detailing the consumption patterns in small towns and cities for the benefit of marketers. The earlier report, ‘The Dhoni Effect: Rise of Small Town India’, released in March 2008, provided a comprehensive view on developments and trends in marketing spends across the Indian market. It looked at how marketing decisions impact media spends, vis-à-vis actual ground realities, which directly indicate market growth for India.



*Notes* Consumers in the KUTs show an increasing preference for premium products and services of established mass brands. For instance, the sale of LCD televisions and wellness services is on the rise in the KUTs.

## **16.2 Ideas of Small Town Marketing**

When promoting products and services in a community of just a few thousand (or hundred) people, successful marketing strategies conform to the local resources, culture and population. Getting out of the office and hitting the streets to talk with local business owners, residents and public figures is the backbone to small town marketing.

### **Community Leaders**

Make connections with the mayor, bank president and local city council. In small towns these community leaders can easily persuade residents. If local citizens realize the mayor eats at the local restaurants, for example, so will they. If the city council members buy their groceries locally, others in the town will follow suit. Ask people with recognizable faces and names in the small town to become part of the marketing campaign. Use quotes from community leaders that reflect happiness with local services in newspaper advertisements and local public access television advertisements. Include photos of them at the local businesses for extra impact.

### **Local Benefits**

Draw new businesses or people to a small community by enticing them with the local benefits. When sending out letters, posting advertisements or presenting economic development initiatives at city council meetings, highlight the small town’s localized and personal educational system, family friendly community activities, and proximity to major highways or airports. Discuss the unique cultural heritage of the area and the importance of small town values. Draw in businesses with special tax break incentives, low rent store fronts on a main street and a collection of resumes from local potential employees.

## Promote in the Community

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Use empty store fronts, local bulletin boards and set up an information booth at small town festivals to promote growth for the community. Use colorful window paint to tell the history of the local community on the windows of empty store fronts during the town's annual holiday parades or other events that draw members from outside the community. Allow visitors to connect with the cultural heritage and small town values that are on display. Or, use the windows to paint a picture of an entrepreneur's future. If you want an antique store or bakery to relocate to the community, paint the windows with phrases such as "Welcome entrepreneurs! Sell antiques (or your favorite baked goods) here!"

## Talk to Locals

Ask local business owners and new residents of the community what they enjoy about living in the small town and what initially attracted them. Did they relocate for a job offer, low housing costs or for the high-ranking education system? Use those key points to attract even more people and business. Then, ask the local people what they would like to see in their community. The addition of a community center or small local grocery store may be desired by established residents and help draw new prospects to the community. Do a survey with patrons of the local businesses and learn what they want to see from their hometown shops. Do they want more sales, a larger selection or lower prices? Then, work with the business owners to organize a sidewalk sale weekend. They could also offer the option to special order items from catalogs or a company web site and then implement a discount buyers program for those who purchase regularly or in large quantities.



*Caution* Keep in mind that a marketing strategy may be plural. If you have a variety of products and services, you may need a variety of marketing strategies. If your strategy is to market your name (For Example: Microsoft) then you will most likely concentrate on one major strategy.

## 16.3 What Kind of Business to Start in Small Town

Small towns present a unique challenge to entrepreneurs, as fewer residents seemingly means fewer niches to explore. With some creativity, dedication, and business ingenuity, though, virtually any kind of business can be successful in a small town.

### Local Pride Paraphernalia

Small town residents are often fiercely loyal to their local municipality, and enjoy showing off their hometown to those who may not have been to the area. Local photography, postcards, shirts emblazoned with the name of the town, and even local-themed stationary are excellent ways to generate profit while also spurring small town pride.

### Peddle Local Information

Most small towns have a character and numerous achievements that are unique to the locale. Many small towns are home to at least one tour company that shows guests the local scenery while pointing out some of the more colorful events in the town's history, and others pay for localized brochures or pamphlets that explain why the town is unique. If the town does not

**Notes**

already have a public visitor's center, consider opening a local-themed boutique that combines the local-themed products mentioned above with localized information distribution.

**Bring the World to the Town**

Many residents of small towns enjoy big city offerings and exotic merchandise but have limited means to explore exotic parts of the world. Some entrepreneurs choose to bring the world to the small town by shopping for goods in big-city wholesale and discount markets, or picking up a number of hand-crafted items in foreign lands to resell in a town shop. Locals often enjoy discussing the origin of the merchandise, and will take pride in owning an item that is not readily available locally.

**Consider an Internet Cafe or Service Provider**

Many small town residents are unable to take advantage of the very high bandwidth Internet connections available in larger markets; many service providers simply do not extend their premium offerings into small markets because they do not view small towns as profitable. Small town entrepreneurs can bring high speed Internet access to locals, though, by subscribing to a commercial-grade service like Gigabit Ethernet and reselling the bandwidth as a service provider or an Internet cafe. The initial investment may be somewhat steep, but the costs can be quickly recouped as locals sign up for the highest Internet speeds in town.

**16.4 How to Create a Small Town Marketing Strategy**

Keep in mind that a marketing strategy may be plural. If you have a variety of products and services, you may need a variety of marketing strategies. If your strategy is to market your name (For Example: Microsoft) then you will most likely concentrate on one major strategy.

**Figure 16.1: Tata Nano Targets Small Town Consumers who aspire to Upgrade from Two Wheelers to Four Wheelers**



The first step in any strategy is to determine an objective. What do you expect this strategy to accomplish? Name recognition? Product awareness? Increase in sales? Lower overhead? Reduced Payroll? Lower Distribution Costs? The list could be endless for some companies.

A pilot flying from New York to London can't see his destination for almost 99.9% of his flight. How does he find London? He plots a course and follows it. You will need to do the same thing in your business. The pilot's objective is very simple, "fly to London." What is his strategy? First, get a plane. Second, know how to fly (pay particular attention to landing safely). Chart a course, check the weather, file a flight plan, load passengers and take off.

## **16.5 Some Things to Keep in Mind as you Plan your Strategy**

What many people fail to consider in their strategy is how will its success change the company. If you make crafts in your bedroom and one day Sears calls and wants to order 100,000 units what will you do?

**What is the most phenomenal success you can expect?** Assume that's what will happen and plan for it. Don't run out and hire 1,000 employees...plan on paper. Have a battle plan ready to go into effect if your strategy is successful that will keep things under control and you won't constantly have to adapt to new circumstances.

**Consider your pricing.** If you start taking too much business from your competitors, the easiest course of action for them is to cut their pricing. You must be prepared to justify your pricing as fair and reasonable for the products and services offered. (See: How Pricing Affects Your Business)

**What about distribution?** If business increases will you need more storage? Where will that be? What about delivery? Will it increase? Can you make some projections as to how much?

**What about suppliers?** Are current suppliers going to be able to fill increased demand? Do you have back-ups in place?

**What about finances?** Have you discussed your marketing strategy with your banker? Do you have lines of credit if you need them?

There are a lot more that are specific to your business that you must consider in order for your strategy to succeed.

## **16.6 Where is the Best Place to Start?**

Start with the obvious, who is the target market you already know? In other words, who are your current customers? Is there another target market you may be missing? Seniors? Teens? Generation X? Ethnic Groups? Intrastate? Interstate? International? If you stay with the current customers you have how will your business grow? There are only two ways to get new customers that I know of. Either create new ones who have never been customers of this product or service before or steal customers from your competition.

What are your products and services? What makes your products or services unique from the competition. Don't give me the buzzwords from the advertising. "Superior quality", "finest craftsmanship", etc. Tell me in terms a customer can understand. Don't show me a feature of your product without a benefit to go with it. People buy benefits not features. What about packaging? Brand Name? Don't forget product guarantees, credit terms, and discounts.

Once you match the specific needs your target market is looking for with the benefits of the product you are half way there. All that's left is presenting that message to your target market in the correct media.

### **How to Select a Media Strategy**

This is usually pretty easy in a small town because there usually aren't a lot of options. Generally one weekly or perhaps daily paper. One radio station. Rarely is there a TV station. There may

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also be a PennySaver or Mini-Nickel® or some free weekly or monthly tabloid. My favorite media for small town advertising is direct mail. It's less expensive than most conventional advertising when done correctly. It only reaches your target market. It isn't wasted on large numbers of unqualified customers. See: "Direct Mail: Why It Works And How To Use It."

If you don't know what your customers are reading, watching or listening to then you may have a problem. One of the nice things about small towns is that they are almost a control group. If you don't know your target customer, then take a look at your best customers. Make a "top 10" customer list and ask them to help with a survey. Get age, income, education, employment, radio stations they like, newspapers and magazines they read. See: "How To Do Market Research In A Small Town."

This is certainly not as effective as knowing your customers but it's a place to start. You are looking for demographics of your customers to match up with the various media that are available to you. The right customer matched with the right product is the goal of any marketing strategy.

**Self Assessment**

Fill in the blanks:

1. .... have now realised the potential of focussing on these non-metro urban markets.
2. .... in the KUTs show an increasing preference for premium products and services of established mass brands.
3. The ..... and the ROUI comprise more than 50 per cent of total BTL activity in the country, the report suggests.
4. .... advertising is also catching up more effectively in the KUTs and ROUI, as opposed to person-to-person marketing, with more 500 million mobile users in these regions.

**16.7 What will Market Research Tell Me?**

- Who current and potential customers are
- The demographics of your customers (age, income, education, etc.)
- Your customers buying habits
- If your customers want your products or services
- If your pricing is in line with customer expectations and other markets
- How your advertising and promotions are working
- How customers see you as a business (your business image)
- How you compare to your competition in the eyes of your customers
- How can I profit from market research?

If it is done correctly and accurately it can prevent costly mistakes. Done incorrectly, it can end your business. Let me show you two examples of how market research can make profits in one case or create losses and damage image in the other.



*Example:* In the early 1960's Volkswagen was the leader in small car sales. Until that time most American automobiles had been "small tanks" with fins and lots of chrome. Ford's challenger to Volkswagen had been the Ford Falcon. Ford was concerned because Falcon sales had begun to decline. Ford could have assumed that customers just didn't want small American cars. Two other American manufacturers were experiencing the same kind of sales decline.

Ford turned to market research and found some surprising facts. While Falcon sales were on the decline, young adults were requesting sport options such as bucket seats and special interiors. There was a marked increase in the sales of these options. So market research led a young Ford engineer to design and introduce, in 1965, ... the Ford Mustang. This car crushed all existing sales records up to that time. Who was that young engineer who headed up the Mustang project? Lee Iacocca.



*Example:* McDonalds. What would I do for bad marketing examples if it wasn't for these guys? Do any of the following ring a bell? The McLean burger, salad bar, McDLT, The Arch Deluxe? All were dismal failures. I can't begin to guess what types of market research they were using.

McDonalds market is kids...period! If the kids come so will their parents. They have spent the past 40 years establishing a kids market. Playgrounds out front. Disney movie promotions. Happy Meals with toys. The list goes on and on.

The last major success for this company was the Egg McMuffin breakfast sandwich and possibly the McRib in some areas. Compare McDonald's marketing to Wendy's. No playgrounds at Wendy's. No kids in Wendy's commercials (rarely anyway). Adult fare at low prices. Wendy's has successfully identified its' market (through market research) and is successfully capitalizing on it.

### Canon Image Express in Small Towns

Figure 16.2: Image Express Campaign helped canon to reach out its Customers in Small Towns



Canon India Pvt. Ltd, India's No 1. Complete Digital Imaging Company rolled out the Canon's Image Express from Ahmedabad. This yearlong mobile campaign will further leverage Canon's brand image in small towns. The caravan had stationed in Ahmedabad for 3 days from 23rd April to 25th April 2010. Using two caravans and 2800 square feet of floating showroom space, the Image Express will display products like cameras, camcorders, photo printers, inkjet and laser printers, scanners, projectors etc. The company will spend about ₹ 10 crores on this unique campaign.

It will cover 16 states and 38 cities under this project. This is yet another strategic, innovative initiative to reach out to the tier 2 and 3 markets which has been Canon's focus to garner greater

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market share. Under this project 2-modeled Canon canters along with 4 cars carrying products and other equipment will travel as a caravan throughout the country. Each vehicle is fitted with the latest GPS (Global Positioning System), which is linked to the engine making it possible for Canon to track the vehicle and its movement status including if the engine is running or not on a real time basis. This will help Canon to coordinate efforts, which is quite complicated in nature. The canters will be parked in various cities and will create a 1,500 square feet showroom showcasing all products from the house of Canon. People can come in, touch, feel and try the products. Canon will also be investing in advertising, promotions, below the line activities and working towards more engagement with consumers, retailers, photographers, partners with the aim to increase Canon's presence and mind share in the small cities. With this initiative, Canon is bringing the latest in technology application for the Image Express.



*Did u know?* In the early 1960's Volkswagen was the leader in small car sales. Until that time most American automobiles had been "small tanks" with fins and lots of chrome. Ford's challenger to Volkswagen had been the Ford Falcon. Ford was concerned because Falcon sales had begun to decline.

## 16.8 What is the Small Town Marketing Research Process?

Here are the types of things you must know to do effective market research.

*What is the problem?* You must define what your problem is. This is the most important step of the process. Poor customer traffic? Poor sales? High cost of sales? Too much competition?

*Is research the answer?* Is the answer to the problem in the internal or external information? (See Above) Is free information already available? Have studies of this problem already been done by trade magazines or industry associations? Can you adapt them to your business? Do you need to start from scratch?

*What are the objectives of the research?* You may have one objective (Who is my target market?) or several objectives (How do customers perceive each of my products?).

*What kind of data do you need?* Customers age, income, buying habits? Or, where do customers come from, what advertising is working? You must define what you are looking for.

Next, design a sample of questions that will gather the information in a controlled way. Each person must be asked the same questions under the same conditions in the same way for the test to be accurate.

### **Here are Three Ways to Gather Information**

**Mail Survey:** Expect an average of 15% return depending on what kind of incentive there is to do the survey. In a small town give a discount if they return the survey in person to your business. You can pick up extra information. Keep it short for higher response. Always include a postage paid return envelope. Mail is poor at gathering specifics about your business and finding reasons why people do what they do. Lowest return but least expensive in a small market.

**Telephone Survey:** Expect about 70% (keep calling until you get it) 100 phone calls equals about 1,000 mailings. Better control of the questioning and more detailed collection of information. Next lowest in cost.

**Personal interview:** Expect about 80%. Advantages – longer survey and more detailed questions. You can show the product or service. Customer can sample the product. Products can be compared to competition. This is the best method for finding why customers do what they do.

Disadvantages – Most expensive unless you do it yourself. Where can you ask the questions to insure an unbiased “across the board” control group?

## **16.9 What are Some Low-cost Market Research Techniques**

Here are a couple of things you can do to find out about your customer base.

**Check license plates in your parking lot:** Here in Montana, the numbering on license plates tell what county the car is from.

**Telephone numbers:** Gather numbers from checks, credit card slips and delivery information. Phone prefixes will tell cities and sometimes geographic areas of your customers.

**Key your ads and coupons:** Check the effectiveness of your advertising by using a key in the ad to tell you where the customer saw it. For example: The ad might say, “Ask for Joe”. This would mean it came from the newspaper. “Ask for Jim” would mean a magazine. “Ask for Jerry” would be radio.

**Communicate with customers:** Every customer and every phone call should get a “How did you find us?” Use “small talk” to gather information. Instead of “May I help you?” which invites a robotic “yes” answer, ask “open-ended” questions that can’t be answered with a yes or no. “What can I help you find today?”



Case Study

### **Hero Honda – Rural Marketing**

#### **Introduction**

The Indian two-wheeler industry is experiencing a major shift in its shape and structure. The established players in the industry are taking a hard look at their portfolio of products and are in the process of reshuffling them to meet the expectations of customers. The beneficiary is of course the consumer, who has an increased array of products to choose from. The last four-five years have brought about a great change in the consumer preferences for two-wheelers. The market leaders of yesteryears are being driven to maintain their leadership position in the forthcoming years. Those who have had a great going in the last few years are fighting hard to retain their new supremacy. The two-wheeler industry is perhaps the most happening place in terms of new models launched, upgraded products and innovative marketing techniques. Gone are the days of regulation when the production of scooters and motorcycles was limited to two or three brands and the number of products produced was decided by the Government; today the Indian two-wheeler market is highly competitive with numerous players who offer anything and everything a consumer demands and that too at affordable price. From a sellers market where one had to wait for a scooter for 12 years to the days when you can just walk into any showroom and drive out in the vehicle of your choice, the market of two-wheelers in India has come a long way. But this is only the beginning of the transformation.

#### **The Industry**

The Indian two-wheeler industry is dominated by three players, Bajaj, Hero Honda and TVS Suzuki, who account for 80 percent of the total two-wheeler market. The other players

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including Kinetic Engineering, LML and others account for the remaining 20 percent of the market. The industry can be divided into three broad segments: Scooters, motorcycles and mopeds. In the scooters segment Bajaj is the market leader, Hero Honda is the market leader in the motorcycles segment and in the segment of mopeds, TVS controls the major chunk of the market. Most Indian players in the two-wheeler industry had been into some kind of strategic alliance, technical collaboration or joint venture with foreign players, mainly Japanese firms. Hero-Honda, is a joint venture between the Munjal-promoted Hero Group and Honda Motor Co. of Japan; TVS-Suzuki was an alliance with TVS and Suzuki Motors (till September 2001); Bajaj-Kawasaki a joint venture between Bajaj Motors and Kawasaki; and Yamaha-Escorts, a joint venture between Escorts and Yamaha Motor Corp. (till June 2001)

**Hero Honda**

The story of motorcycles in India is a good case study of how fortunes change overnight. Motorcycles in India were hardly popular and Hero Honda was the only player, which had carved a niche for motorcycles. Its market was small and limited while scooters ruled the roost but today, it is one of the biggest success stories. Its established presence in the motorcycle segment had stood it in good stead in this phase of boom in motorcycle sales. The fact that no other player commanded the brand name which Hero Honda enjoyed in motorcycle segment also added up to its success. In addition most other players such as Bajaj, TVS, LML etc., took time to assimilate the change in customer preferences and come up with models to buck the trend. Meanwhile Hero-Honda's designs were ready on the platter. Its R&D had been able to come up with models such as CBZ, Passion etc., in the premium segment to capture the hot demand. Riding high on the expectations of consumers, Hero Honda has successfully crossed over the one million units mark in motorcycle sales. Its popular model Splendor is the largest selling motorcycle in the world. To give a boost to its youthful image the company has chosen Saurav Ganguly and Hrithik Roshan as brand ambassadors. The company has also embarked on in-film advertising in a forthcoming Hindi movie. In order to expand its reach to rural areas, the company has recently launched a marketing initiative in towns with a population of less than 50,000 in Uttar Pradesh. As a part of this initiative, it started a mobile workshop and showroom, through which people will be able to gather knowledge about the companies' vehicles and can also buy them. These mobile marketing efforts are focused on Splendor and Joy

**Executive Summary**

Hero Honda Motors Ltd is one of the leading companies in the two-wheeler industry. At present, it is the market leader in the motorcycle segment with around 47% the market share during FY 2000-01. During the year, the company posted a 41.05% y-o-y rise in turnover to ₹ 31,686.5mn in motorcycles which was driven by a 35.17% y-o-y rise in motorcycle sales volumes. The company has emerged as one of the most successful players, much ahead of its competitors an account of its superior and reliable product quality complemented with excellent marketing techniques. The company has been consistently addressing the growing demand for motorcycles and has a cumulative customer base of over 4 million customers which is expected to reach 5mn. mark with the rural and semi-urban segment being the new class of consumers. The Indian two wheeler contributes the largest volumes amongst all the segments in automobile industry. Though the segment can be broadly categorized into 3 sub-segments viz; scooters, motorcycles and mopeds; some categories introduced in the market are a combination of two or more segments e.g. scooterettes and step-thru's. The market primarily comprises five players in the two-wheeler segment with most of the companies having foreign collaborations with well-known Japanese firms earlier. But most of the companies are now planning 100%

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## Notes

subsidiaries in India. In the last four to five years, the two-wheeler market has witnessed a marked shift towards motorcycles at the expense of scooters. In the rural areas, consumers have come to prefer sturdier bikes to withstand the bad road conditions. In the process the share of motorcycle segment has grown from 48% to 58%, the share of scooters declined drastically from 33% to 25%, while that of mopeds declined by 2% from 19% to 17% during the year 2000-01. The Euro emission norms effective from April 2000 led to the existing players in the two-stroke segment to install catalytic converters. All the new models are now being replaced by 4-stroke motorcycles. Excise duty on motorcycles has been reduced from 32% to 24%, resulting in price reduction, which has aided in propelling the demand for motorcycles. Fierce competition has also forced players to cut prices of certain models.

Hero Honda has been an early-entrant in the 4-stroke segment of the two wheeler industry. With a right mix of product styling and pricing the company helped garner a larger market chunk of the 4-stroke market as compared to Bajaj Auto.

A shifting consumer preference towards motorcycles also enabled the fast growth of the company in the last few years.

Of the total motorcycle sales, HHML has a maximum of around 36.5% market share in the Western Zone and 28.6% in the Southern Zone which has remained more or less consistent from FY2000 levels. In the Eastern Zone Hero Honda has a market share 12%. The company has reported a fall in sales volume to 3,29,900 units from 4,79,630 units in motorcycles for half-year ended September 2001 accompanied by decline in net sales by 29.2% to ₹ 10.38 mn from ₹ 14.67mn. Competition has intensified over the last couple of years altering the dynamics in the motorcycle segment with various companies planning to cash in on this spurt in demand by calling off their JVs like Suzuki Motors planning to break-off with TVS.

Recently, Honda Corporation of Japan announced its intentions to setup a 100% subsidiary to manufacture scooters and motorcycles.

Other players in the two wheeler industry include Bajaj Auto Ltd , Kinetic Motor Co. Ltd, LML and Escorts Yamaha.

Low-interest regime has helped in reducing cost of loans, which will help in boosting sales of 2-wheelers, since 80% of the two-wheelers are credit-stimulated. HHML, a part of the Hero group, is a reputed name in the two-wheeler sector and the management has a rich experience in the business.

HHML is a joint venture with Honda Corporation, Japan and over the years has been the most successful Indo-Japanese venture in two-wheelers. The company has invested in capex, in the past three years to cater to the increasing demand. The company has been cash-rich and has been effectively utilizing its surplus.

Hero Honda resources combined with prudent working capital management. Hero Honda has set a target of 20% volume growth and 25% turnover growth for the fiscal 2001-02. The company has also set a turnover target of ₹ 200 mn from spare parts business in fiscal 2001-02 up from ₹ 145 mn in 2000-01 and the business is expected grow faster than bike sales for the next 5 years. It has planned to bring in operational efficiencies with special focus on distribution, dealerships and pricing and the successful implementation of SAP R/3 (ERP-Program- "Project Synergy") has enabled proper planning and company wide efficiency.

**Question**

Analyse the case and discuss the case facts.

Notes

**Self Assessment**

Fill in the blanks:

5. In the early .....s Volkswagen was the leader in small car sales.
6. Ford turned to market research and found some surprising facts .....
7. .... has successfully identified its' market (through market research) and is successfully capitalizing on it.

**16.10 Summary**

- In this unit we have discussed about Small towns present a unique challenge to entrepreneurs, as fewer residents seemingly means fewer niches to explore. With some creativity, dedication, and business ingenuity, though, virtually any kind of business can be successful in a small town.
- Many small town residents are unable to take advantage of the very high bandwidth Internet connections available in larger markets; many service providers simply do not extend their premium offerings into small markets because they do not view small towns as profitable.

**16.11 Keywords**

*Local Pride Paraphernalia:* Small town residents are often fiercely loyal to their local municipality, and enjoy showing off their hometown to those who may not have been to the area. Local photography, postcards, shirts emblazoned with the name of the town, and even local-themed stationary are excellent ways to generate profit while also spurring small town pride.

*Mail Survey:* Expect an average of 15% return depending on what kind of incentive there is to do the survey. In a small town give a discount if they return the survey in person to your business. You can pick up extra information. Keep it short for higher response.

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*Personal interview:* Expect about 80%. Advantages – longer survey and more detailed questions. You can show the product or service. Customer can sample the product. Products can be compared to competition.

*Telephone Survey:* Expect about 70% (keep calling until you get it) 100 phone calls equals about 1,000 mailings. Better control of the questioning and more detailed collection of information. Next lowest in cost.

**16.12 Review Questions**

1. Describe the ideas of Small town Marketing.
2. Describe the business that we can start in a small town.

3. What is the small town marketing research process?
4. What are the benefits of Market Research?
5. What are the some low cost market research techniques?
6. Describe the steps to select a media strategy.

Notes

### Answers: Self Assessment

- |              |              |
|--------------|--------------|
| 1. Marketers | 2. Consumers |
| 3. KUT's     | 4. Mobile    |
| 5. 1960      | 6. Ford      |
| 7. Wendy's   |              |

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## Unit 17: Role of Microfinance in Rural India

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### Objectives

After studying this unit, you will be able to:

- Analyze the growth of microfinance sector developed in India and see potential for the microfinance institutions, NGOs, SHGs in the market.
- Analyze the structure and pattern of microfinance programme in rural Indian by the MFIs, NBFCs.
- Understand the marketing of microfinance products in rural market.
- Study the importance and role of microfinance in poverty alleviation and profitable agriculture activities.

### Introduction

Microfinance economically disadvantaged segments of society, for enabling them to raise their income levels largest in term of population after China. India's GDP ranks among the top 15 economies of the world. However, around 300 million people or about 80 million households are living below the poverty line, i.e. less than \$2 per day according to the World Bank and the poorest are which earns \$1 per day. It is further estimated that of these households, only about 20% have access to credit from the formal sector. Out of these 80 million house hold, 80% takes credit from the informal sources i.e. local Zamindars, Chit Funds etc. With about 80 million households below MFIs include non-governmental organizations (NGOs), credit unions, non-bank financial intermediaries, and even a few commercial banks.

## **17.1 Legal and Regulatory Framework for the Microfinance Institutions in India**

### **Societies Registration Act, 1860**

NGOs are mostly registered under the Societies Registration Act, 1860. Since these entities were established as voluntary, not-for-profit development organizations, their microfinance activities were also established under the same legal umbrella. Main purpose is:

1. Relief of poverty
2. Advancement of education
3. Advancement of religion
4. Purposes beneficial to the community or a section of the community.

### **Indian Trusts Act, 1882**

Some MFIs are registered under the Indian Trust Act, 1882 either as public charitable trusts or as private, determinable trusts with specified beneficiaries/members.

### **Not-for-profit Companies Registered under Section 25 of Companies Act, 1956**

An organization given a license under Section 25 of the Companies Act, 1956 is allowed to be some of the provisions of the **Companies Act, 1956**.

For companies that are already registered under the Companies Act, 1956, if the central government is satisfied that the objects of that company are restricted to the promotion of commerce, science, art, religion, charity or any other useful purpose; and the constitution of such company provides for the application of funds or other income in promoting these objects and prohibits payment of any dividend to its members, then it may allow such a company to register under Section 25 of the Companies Act.

## **17.2 A Profile of Rural India**

1. 350 million Below Poverty Line.
2. 95 % have no access to microfinance.
3. 56 % people still borrow from informal sources.
4. 70 % don't have any deposit account.
5. 87 % no access to credit from formal sources.
6. Annual credit demand is about ₹ 70,000 crores.
7. 95 % of the households are without any kind of insurance.
8. Informally Microfinance has been in practice for ages.



*Notes* NGOs are mostly registered under the Societies Registration Act, 1860. Since these entities were established as voluntary, not-for-profit development organizations, their microfinance activities were also established under the same legal umbrella.

### 17.3 Rural India and Microfinance

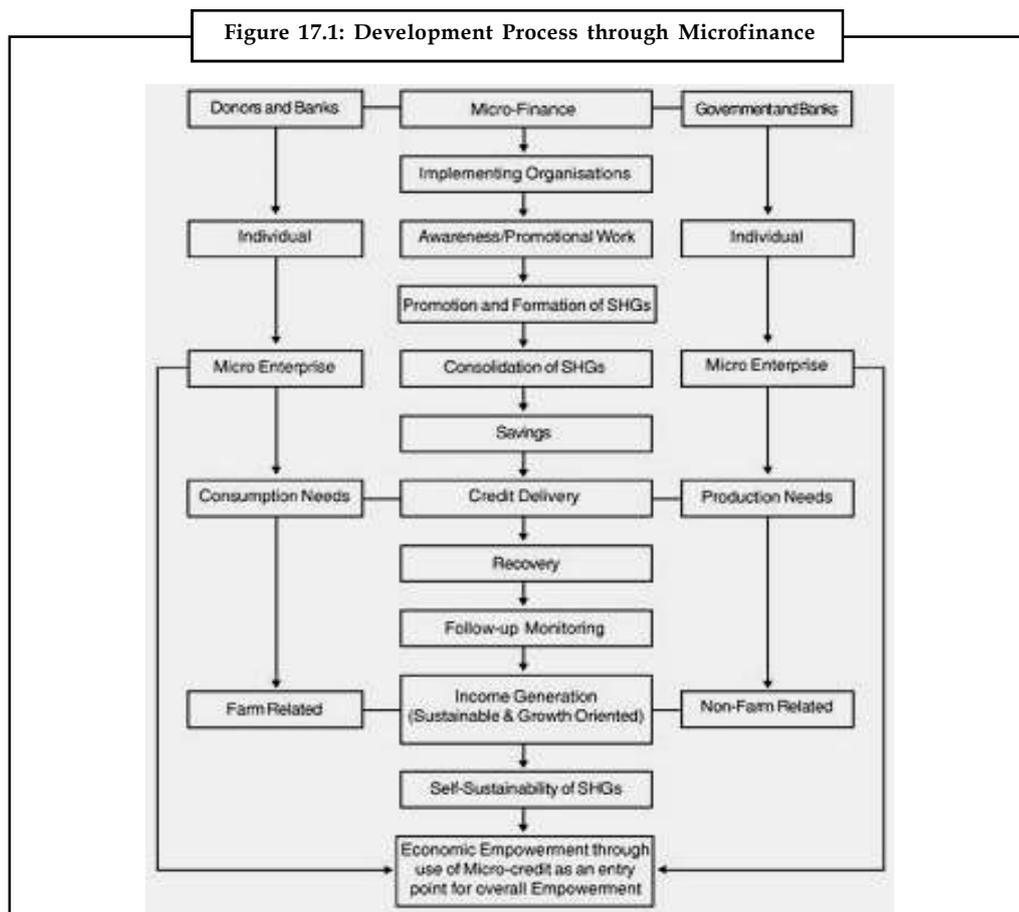
Notes

Micro financing has become important since the possibility of a sub ₹ 1,000 mobile handset has been ruled out in the near future. Rural India can generally afford handsets in the price range of ₹ 1,500-2,000.

To succeed in India, agri-business must empower the farmer by making agriculture profitable, not by expropriating him for this particular purpose the farmer should be funded for their basic and small needs.

Microfinance is expected to play a significant role in poverty alleviation and development. The need, therefore, is to share experiences and materials which will help not only in understanding successes and failures but also provide knowledge and guidelines to strengthen and expand Microfinance programmes.

The development process through a typical Microfinance intervention can be understood with the help of the Figure 17.1 the ultimate aim is to attain social and economic empowerment. Successful intervention is therefore, dependent on how each of these stages has been carefully dealt with and also the capabilities of the implementing organizations in achieving the final goal, e.g., if credit delivery takes place without consolidation of SHGs, it may have problems of self-sustainability and recovery. A number of schemes under banks, central and state governments offer direct credit to potential individuals without forcing them to join SHGs. Compilation and classification of the communication materials in the directory is done based on this development process.



Notes

**Self Assessment**

Fill in the blanks:

1. .... is expected to play a significant role in poverty alleviation and development.
2. Microfinance has been attractive to the lending agencies because of demonstrated sustainability and of low costs of .....
3. Institutions like ..... and NABARD are hard nosed bankers and would not work with the idea if they did not see a long term engagement.
4. Banks and ..... institutions have been partners in contract farming schemes, set up to enhance credit.



*Caution* To succeed in India, agribusiness must empower the farmer by making agriculture profitable, not by expropriating him for this particular purpose the farmer should be funded for their basic and small needs.

**17.4 Success Factors of Microfinance in Rural India**

Over the last ten years, successful experiences in providing finance to small entrepreneur and producers demonstrate that poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. This is not surprising since the only realistic alternative for them is to borrow from informal market at an interest much higher than market rates. Community banks, NGOs and grass root savings and credit groups around the world have shown that these micro enterprise loans can be profitable for borrowers and for the lenders, making microfinance one of the most effective poverty reducing strategies.

**For NGOs**

1. The field of development itself expands and shifts emphasis with the pull of ideas, and NGOs perhaps more readily adopt new ideas, especially if the resources required are small, entry and exit are easy, tasks are (perceived to be) simple and people's acceptance is high - all characteristics (real or presumed) of microfinance.
2. Canvassing by various actors, including the National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Friends of Women's World Banking (FWWB), Rashtriya Mahila Kosh (RMK), Council for Advancement of People's Action and Rural Technologies (CAPART), Rashtriya Gramin Vikas Nidhi (RGVN), various donor funded programmes especially by the International Fund for Agricultural Development (IFAD), United Nations Development Programme (UNDP), World Bank and Department for International Development, UK (DFID)], and lately commercial banks, has greatly added to the idea pull. Induced by the worldwide focus on microfinance, donor NGOs too have been funding microfinance projects. One might call it the supply push.
3. All kinds of things from khadi spinning to Nadep compost to balwadis do not produce such concrete results and sustained interest among beneficiaries as microfinance. Most NGO-led microfinance is with poor women, for whom access to small loans to meet dire emergencies is a valued outcome. Thus, quick and high 'customer satisfaction' is the USP that has attracted NGOs to this trade.

## For Financial Institutions and Banks

Notes

Figure 17.2: NABARD Setup to help Expand Credit to Farmers



The National Bank for Agricultural and Rural Development (Nabard), set up to help expand credit to farmers and develop India's villages, is now undertaking a major repositioning exercise that will see this refinancer switch to a direct financing model, albeit only partially in the beginning. Nabard will henceforth start funding infrastructure projects in the farm and power sectors on a commercial basis, a move that is likely to help boost earnings.

This larger repositioning endeavor, for which a professional consultant has been roped in, is expected to make "Nabard more relevant in the current national context and also improve its internal efficiency," says K G Karmakar, Managing Director, Nabard, which was established by an Act of Parliament in 1981 with an initial capital outlay of 100 crore, later enhanced to ₹ 2,000 crore. The repositioning is, of course, not without its share of risks.

### Key Challenges

The challenges are many. Being a refinancer, the bank has a business model that may have been more suited to the pre-liberalization era. What Nabard does is raise money from specific sources and then disburse those funds (at a slightly higher interest rate) to banks and institutions that interface directly with villagers. This refinance-based model was once widely used by other development finance institutions as well.

"Over time, others such as SIDBI, ICICI, IDBI and IFCI have all moved to a direct financing-based business model," says Roy. Nabard is not a listed entity. Even so, it is one of India's top 20 finance companies in terms of 'total income plus total assets'.

Today, this refinancer has a lending muscle of nearly ₹ 1.36 lakh crore, which it uses judiciously to refinance commercial, cooperative and regional rural banks for on-lending to the agriculture and allied sectors, and lend to states for infrastructure development from the Rural Infrastructure Development Fund (RIDF).

Nabard, which came into being after it was felt that the RBI would be too stretched to meet India's pressing credit problems, has an RIDF-heavy fund sourcing pattern. In fiscal 2009-10, nearly 44% of its funding came from RIDF deposits (scheduled commercial banks that do not fulfil their priority sector lending targets put the difference money in this fund). Income from

**Notes**

bonds and debentures contributed nearly 15%. Around 12% came from the National Rural Credit Fund, which is augmented by the RBI and its internal accruals, and around 10% from Nabard's capital reserves and surplus.

The banks put their money in the RIDF at a 6% interest rate, but Nabard lends this money out at 6.5% to states for infrastructure projects. Nabard's dependence on RIDF money renders it vulnerable, and this seems to have triggered the repositioning that will involve moving to a direct financing model. Banks rushing to meet their priority sector lending targets may stanch the flow of unutilized money into this fund in future, which could starve Nabard of its major source of capital.

Microfinance has been attractive to the lending agencies because of demonstrated sustainability and of low costs of operation. Institutions like SIDBI and NABARD are hard nosed bankers and would not work with the idea if they did not see a long term engagement – which only comes out of sustainability (that is economic attractiveness). On the supply side, it is also true that it has all the trappings of a business enterprise, its output is tangible and it is easily understood by the mainstream. This also seems to sound nice to the government, which in the post liberalisation era is trying to explain the logic of every rupee spent. That is the reason why microfinance has attracted mainstream institutions like no other developmental project. Perhaps the most important factor that got banks involved is what one might call the policy push. Given that most of our banks are in the public sector, public policy does have some influence on what they will or will not do. In this case, policy was followed by diligent, if meandering, promotional work by NABARD. The policy change about a decade ago by RBI to allow banks to lend to SHGs was initially followed by a seven-page memo by NABARD to all bank chairmen, and later by sensitisation and training programmes for bank staff across the country. Several hundred such programmes were conducted by NGOs alone, each involving 15 to 20 bank staff, all paid for by NABARD. The policy push was sweetened by the NABARD refinance scheme that offers much more favourable terms (100% refinance, wider spread) than for other rural lending by banks. NABARD also did some system setting work and banks lately have been given targets. The canvassing, training, refinance and close follow up by NABARD has resulted in widespread bank involvement.



*Did u know?* Another innovation is that of The Punjab Mandi Board, which has experimented with a 'farmers' market' to provide small farmers located in proximity to urban areas, direct access to consumers by elimination of middlemen. This experiment known as "Apni Mandi" belongs to both farmers and consumers, who mutually help each other.

## **17.5 Marketing of Microfinance Products**

### **Contract Farming and Credit Bundling**

Banks and financial institutions have been partners in contract farming schemes, set up to enhance credit. Basically, this is a doable model. Under such an arrangement, crop loans can be extended under tie-up arrangements with corporate for production of high quality produce with stable marketing arrangements provided – and only, provided – the price setting mechanism for the farmer is appropriate and fair.

### **Agri Service Centre – Rabo India**

Rabo India Finance Pvt Ltd. has established agri-service centres in rural areas in cooperation with a number of agri-input and farm services companies. The services provided are similar to

those in contract farming, but with additional flexibility and a wider range of products including inventory finance. Besides providing storage facilities, each centre rents out farm machinery, provides agricultural inputs and information to farmers, arranges credit, sells other services and provides a forum for farmers to market their products.

### Non-traditional Markets

Similarly, Mother Dairy Foods Processing, a wholly owned subsidiary of National Dairy Development Board (NDDB) has established auction markets for horticulture producers in Bangalore. The operations and maintenance of the market is done by NDDB. The project, with an outlay of ₹ 15 lakh, covers 200 horticultural farmers associations with 50,000 grower members for wholesale marketing. Their produce is planned with production and supply assurance and provides both growers and buyers a common platform to negotiate better rates.

### 17.6 Apni Mandi

Another innovation is that of The Punjab Mandi Board, which has experimented with a 'farmers' market' to provide small farmers located in proximity to urban areas, direct access to consumers by elimination of middlemen. This experiment known as "Apni Mandi" belongs to both farmers and consumers, who mutually help each other. Under this arrangement a sum of ₹ 5.2 lakh is spent for providing plastic crates to 1000 farmers. Each farmer gets 5 crates at a subsidized rate. At the mandi site, the Board provides basic infrastructure facilities. At the farm level, extension services of different agencies are pooled in. These include inputs subsidies, better quality seeds and loans from Banks. Apni Mandi scheme provides self-employment to producers and has eliminated social inhibitions among them regarding the retail sale of their produce.

Figure 17.3: Scene of Apni Mandi in Rural India



### Findings

1. Considerable gap between demand and supply for all financial services.

Notes

2. Majority of poor are excluded from financial services. This is due to, inter alia, the following reasons:
  - (a) Bankers feel that it is risky to finance poor peoples because of their creditworthiness.
  - (b) High transaction costs.

**Self Assessment**

Fill in the blanks:

5. Microfinance has been attractive to the lending agencies because of demonstrated sustainability and of ..... costs of operation.
6. .... and financial institutions have been partners in contract farming schemes, set up to enhance credit.
7. Rabo India Finance Pvt Ltd. has established agri-service centres in ..... areas in cooperation with a number of agri-input and farm services companies.
8. Bankers feel that it is risky to finance poor peoples because of their .....



Case Study

**HUL Launches Multi-brand Rural Activation Programme**

The main objective of the campaign is to reach out to media dark villages with HUL brand messages and to engage with consumers deeply to rapidly change brand adoption metrics. The main aim is to change attitudes of the rural mass to inculcate good personal hygiene and through this create greater preference for the company brands by association to daily hygiene habits.

Through a multi-brand approach, *Khushiyon ki Doli* also helps to create a cost efficient rural activation module. It involves various personal care and home care brands of HUL including Wheel, Surf Excel, FAL, Sunsilk, Vim, Lifebuoy and Closeup. The module follows a 3-step process, starting with awareness, moving on to consumer engagement and finally retail contact.

The first step of spreading awareness is achieved through a team of promoters who head to each village and invite the villages to what is known as 'Mohallas' to make them aware of the company and its products. In every village, there are about 4-5 teams who conduct these events in local language for small focused groups so that it allows for greater engagement and involvement for the consumers. During this activity, brands are introduced with the help of TVCs that are played continuously. And the promoters by way of 'live' demonstrations bring alive the hygiene benefits of using such brands and improving the quality of daily life. To increase the 'fun' element and enhance involvement, promoters also conduct simple quizzes and games around the brands and daily hygiene habits. As part of this activation, we offer schemes both for the participating consumers and also local retailers for generating trial among consumers as well enhancing availability at retail.

Post the mohalla activity, the promoters go home to home and conduct consumer home visits to generate trial where they offer attractive promotions to the consumers. Similarly, there is another team which visits all the shops in the village which ensures improved availability and visibility of HUL brands.

Contd...

One of the unique aspects of this initiative is the use of technology to bring alive the benefits of our brands in a simple and compelling manner. The other unique characteristic feature of this initiative is the effective use of popular traditional symbols with technology to create more acceptance. For example, the brand films and hygiene messages are shown to the consumers through the use of Palki.

#### Questions

Analyse the case and discuss the case facts.

### 17.7 Summary

- The potential for growing Microfinance institutions in India is very high.
- Major cross-section can have benefit if this sector will grow in its fastest pace. Annual growth rate of about 20 % during the next five year.
- The loan outstanding will consequently grow from the present level of about 1600 crores to about 42000 crores Annual growth rate of about 20 % can be achieved during the next five years.

### 17.8 Keywords

**Companies Act 1956:** For companies that are already registered under the Companies Act, 1956, if the central government is satisfied that the objects of that company are restricted to the promotion of commerce, science, art, religion, charity or any other useful purpose

**Microfinancing:** Micro financing has become important since the possibility of a sub ₹ 1,000 mobile handset has been ruled out in the near future. Rural India can generally afford handsets in the price range of ₹ 1,500-2,000.

**Rabo India Finance:** Rabo India Finance Pvt Ltd. has established agri-service centres in rural areas in cooperation with a number of agri-input and farm services companies

### 17.9 Review Questions

1. Describe the legal and regulatory framework for the microfinance institutions in India.
2. Explain the profile of Rural India.
3. What do you know about non-traditional markets?
4. Discuss the Marketing of Microfinance products.
5. Discuss the Rural India and Microfinance.
6. What are the success factors of Microfinance in Rural India?
7. Explain the contract farming and credit bundling.

#### Answers: Self Assessment

- |                 |                     |
|-----------------|---------------------|
| 1. Microfinance | 2. Operation        |
| 3. SIDBI        | 4. Financial        |
| 5. Low          | 6. Banks            |
| 7. Rural        | 8. Creditworthiness |

Notes

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