Rural Marketing – Profitability in Rural Sales

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Abstract: For many FMCG and Financial businesses in India, rural markets hold the key to their future growth. Companies those have been identified this potential and opportunities are stepping up efforts to gain a strong traction in these markets. Although the high costs required serving rural consumers make it difficult for companies to establish a profitable presence at large. But still, executives shouldn’t be put off by these challenges. This research paper reveals that making real profits in India’s rural markets is possible, even in the short term. What is the key to success? Companies shall build and maintain efficient sales and distribution networks tailored to rural India’s unique characteristics. This report explains how companies can generate profits and achieve high by reaching, acquiring and retaining rural consumers in India.

Keywords: Rural Marketing, FMCG products, Financial products, Rural Challenges, Rural Marketing Strategies

1. Introduction

In India, the growth of rural market for the last decade has made major players of the FMCG and financial products take great notice and experiment newer techniques to cater the potential. The average GDP growths in the rural areas are higher by 1.5 percent than the urban areas since 2000 onwards. Rural incomes are growing, and consumers are buying discretionary goods and lifestyle products which are now in the reach of their income. Hence, India’s rural markets represent an opportunity no company can afford to ignore.

This paper mainly analyzed the marketing techniques the major companies used to get a hold of the market share in rural market. The companies are classified in to following categories.

Rural Pioneers: These companies are the ones who have developed a strong base in the rural market and secured a significant market share. The companies are in great profits from rural marketing and device new plans according to the rural culture and needs.

Rural Players: These companies imitate the Rural Pioneers and make profits and a marginal rural market share.

Rural Explorers: These companies have created custom product line and pricing and had already entered into the rural market, but yet to make a profit, although they started acquiring market shares.

The New Challengers: These companies may be an urban pioneer or newly ventured into the Indian rural market and of course yet to generate any market share or a profit.

2. Rural Market

Rural consumers show a discrepancy in their needs, taste and preferences from that of urban consumers. To get hold of these customers the serving party should first try to understand the economic, cultural and demographic dimensions of these customers so that it will help the organization to successfully promote their products and establish credibility. In rural markets, people are not very fast decision makers. The marketers have to go at their pace and not impose their pace of decision making. Rural customers spend a lot of time in gathering information, particularly from the endorsements by their opinion leaders and the peer groups. An enthusiastic marketer may be rejected by them, if he tries to exert too much of his pressure. They should be allowed their own time to arrive at the decisions.
Most FMCG companies used to treat rural markets as additional market to their urban market and rural consumers as a homogeneous mass without segmenting them into target markets. But with the changing scenario rural market has become the potential market for most of the organizations. Fact remains that before the rural markets were treated as a dumping ground but now the organizations have realized that they are not the dumping grounds for low-end products basically designed for an urban audience.

The introduction of varied products has increased the scope of the financial sector to a very large extent. Rural households mainly invest in products such as bank deposits, post office savings and LIC policies that involve fewer risks as compared to the relatively risky investments such as mutual funds and bonds. Further, the investments in these products have been propelled by higher penetration of these products in rural areas that has been facilitated by growing network of the banks, post offices and LIC branches mostly driven by regulatory policies.

3. Rural Challenges

There are many hurdles to be faced in Rural Marketing, despite of development in the same areas. Some of the hurdles are as follows which has to be overcome by companies to make profit and market share.

Village structure in India: In India, the village structure is also a main cause of problem as most of the villages are small and scattered. The scattered nature of the villages increases distribution costs, and their small size affects economic viability of establishing distribution points.

Transportation: Nearly, there are six lakhs villages. More than 40 per cent of them are not connected by road at all. Transportation being an important feature in the process of movement of products to reach the consumers from production point to consumer plays very vital role. The transportation infrastructure is extremely poor in rural India. This is also one of the reason, most of the villages are not accessible by many companies.

Communication: Communication has always been a barrier in rural areas as In India, there are 18 recognized languages. All these languages and many languages are spoken in rural areas. English and Hindi are not understood by many people. Due to these problems, rural consumers, unlike urban consumers do not have exposure to new products.

Post and telephones are the main components of the communication infrastructure. Even though the development in such field has increased but still, these facilities are somewhat inadequate in the rural parts of our country. In rural areas, the literacy percentage is still low, compared to urban areas.

Warehousing: As production and consumption cycles rarely match, storage function is the basic need for storing the goods before they are supplied. In warehousing too, there are special problems in the rural perspective. It is almost impossible to distribute effectively in the interiors in the absence of adequate storage facilities.

Inadequate banking and credit facilities: In rural markets, distribution is difficult because, lack of adequate banking and credit facilities. The rural outlets require banking support to enable transfer of funds, to get replenishment of stocks, to facilitate credit transactions in general, and to obtain credit support from the bank. Retailers are unable to carry optimum stocks in the absence of adequate credit facilities.

Packaging & Labeling: Smaller packages are more popular in the rural areas. The lower income group consumers are not able to purchase large and medium size packaged goods. It is also found that the labeling on the package is not in the local language. This is also a major constraint to rural consumers in understanding the product distinctiveness and for a financial product to sell, some more challenges came to the picture in additions to the scattered rural market, communication (where literacy also takes a strong part) and transportation.

Operational challenges: Companies may face operational challenges such as obtaining relevant documents for verification. As these area people doesn’t have proper documents and it may be due to lack of awareness. Some of the most commonly required documents include a PAN card, ration card, birth certificate, etc. (SEBI)

Scale of investment: The funds available for investments among rural households are observed to be lower than the urban household due to lower incomes. According to a survey conducted by NCAER and MAX New York Life in 2005, the average income levels of urban households in India are 85% higher than that of the rural household. Further, rural households could avoid huge investments in risky financial products for longer time period since rural consumption of goods and services are subjected to income irregularities.

Irregularity in payments: A majority of rural households are involved in agricultural activities who occasionally fail to make such regular investments since their incomes are largely dependent on uncertainty of monsoon. Most financial products require regular investments at defined time intervals by the investors. For example, an insurance policy holder has to make a regular premium payment to the insurance company in order to keep the policy active.

4. The Rural Marketing Strategy

Most FMCG companies used to treat rural markets as additional market to their urban market and rural consumers as a homogeneous mass without segmenting them into target markets. But with the changing scenario rural market has become the potential market for most of the organizations. Fact remains that before the rural markets were treated as a dumping ground but now the organizations have realized that they are not the dumping grounds for low-end products basically designed for an urban audience.

The endearing strategy instead is to focus on their core competency such as technological expertise to design specific products for the rural economy. The most
remarkable example in this context is the launch of sachets which has transformed the rural market considerably as packaging in smaller units and lesser-priced packs increases the products affordability. Also companies like HLL and Nestle who have adopted this strategy have benefited greatly. Another example is of Britannia with its Tiger brand of low priced and conveniently packaged biscuits becoming a great success story in rural markets.

A very major step for change could be an effort to directly tap the weekly bazaars, haats, mandis, melas and local bazaars which provide an opportunity of promoting the brand in front of a large flock of rural consumers. Traditional media is also an effective rural strategy for FMCG companies that include the use for creating awareness about their products in the rural markets. Reinforce product quality through service initiatives. Hero Honda has established mobile service centers to take care of rural customers.

Financial products, Insurance companies are offering small premium term insurance products to the rural sector to increase sale of insurance policies in rural areas. Most of the life insurance companies are selling group insurance schemes to meet their social sector obligations and cover maximum lives under the social sector. Micro Finance Institutions (MFIs) are an important distribution channel for many insurance companies. MFIs lend to Self Help Groups (SHGs) in the rural areas. Many insurance companies are selling group term insurance policy to the members of the SHG who have collectively taken credit from the MFI. The SHGs willingly buy such insurance policies because it acts as cost effective collateral for them to avail credit from the MFIs or other financial institutions. The private players are also tying up with public sector banks, co-operative bank and the Regional Rural Banks (RRBs) to penetrate into the rural market. The large rural customer base and wide branch network of these banks offer an effective distribution channel to the insurance companies, thereby promoting bancassurance. A few insurance companies have also tied up with consumer goods companies like HLL, ITC, etc. which have a well set-up distribution network. For example, ICICI has entered into an agreement with e-choupals, the web based marketing platform of ITC, to market and distribute its insurance products to the rural households.

5. Conclusion

Rural markets in India hold great potential for business aspiring for long term growth. which is just waiting to be tapped. Progress has been made in this area by some, but there seems to be a long way for marketers to go in order to derive and reap maximum benefits. Moreover, rural India is not as poor as it used to be a decade or so back. So over the next few years, various new approaches will emerge. Companies will have to build trusting relationships with local communities, building trust can support a company’s aspiration to grow and earn profit.

References