



EMERGING INNOVATIVE BUSINESS APPROACHES IN INDIAN RURAL RETAILING

Dr. O.Ravisankar, (B.Tech, MBA, Ph.D, M.Tech)
Principal, Dr.K.V.Subbareddy Institute of Management, Kurnool

Mr. K. Ashok Vardhan Reddy, (MBA, LLB,Ph.D)
Chairman, Dr.K.V.Subbareddy Group of MBA institutions, Kurnool

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
- Promotion and communication
- Poor infrastructure
- Uneconomical market size

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,

RURAL RETAILING IN INDIA

India like most other countries has a very large network of local stores spread all across India. It is not really a network since each store is individual or family owned and has no connection with the other. It does however represent a network since large consumer product companies like Unilever, Procter & Gamble, Colgate-Palmolive, Cadbury, Coca-Cola, Pepsi and ITC uses them as their final point of retail to the consumer. These small stores are very personal and have built strong relationship with the local population. They are points of news and connection. They offer credit to the local population and help out in times of crisis.

They also have a very good understanding of requirement of the local population and have very low overheads enabling them to offer the best price for their products. However, it is believed that the new retail chains will drive these small stores out of business (Gill 2007).

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.

What makes Rural Markets Attractive?

1. Rural market has following arrived and the following facts substantiate this.
2. 742 million people
3. Estimated annual size of the rural market
4. FMCG Rs. 65,000 Crores
5. Durables Rs. 5,000 Crores
6. Agri-inputs (incl. tractors) Rs. 45,000 Crores
7. 2 / 4 wheelers Rs. 8,000 Crores
8. In 2001-02, LIC sold 55 % of its policies in rural India
9. Of two million BSNL mobile connections, 50% in small towns/villages.
10. Of the six lakh villages, 5.22 lakh have a Village Public Telephone (VPT)
11. 41 million Kisan Credit Cards issued (against 22 million credit-plus-debit cards in urban) with cumulative credit of Rs. 977 billion resulting in tremendous liquidity.
12. Of 20 million Rediffmail signups, 60 % are from small towns. 50% transactions from these towns on Rediff online shopping site
13. 42 million rural HHs availing banking services in comparison to 27 million urban HHs.
14. Investment in formal savings instruments: 6.6 million HHs in rural and 6.7 million in urban

CHANGING SCENARIO IN RURAL SECTOR

INCOME Level -The increment in household incomes made a drastic change in rural retail image. With the increased working population, the purchasing power of the rural population has

gone up from 40% in 1991 to 50 % in 2001. The various government employment schemes like NAREGA & many more help to raise the income level of rural population

LITERACY Level- Still major population in rural is reluctant towards education. Primary level education in the rural sector is below 60%. Thus the demand for products likes books, magazines, notebooks, pens/pencils, drawing instruments, calculators, computers etc. is low. But changes are taking place due to efforts of Govt. and corporate people both .The govt. and corporate sector (in form of CSR) is coming together for promotion of literacy in the rural sector and effect has been shown in form of risen percentage up to 23%. This is result contributed significantly to an improvement in the socio-economic status of the rural people. With this growth the demand for educational products has increased positively.

FAMILY Size- Families in rural market are joint-ones. In which a group of people lived under one roof, ate food from common *chullah*, held income and property in common and were related to each other by bonds of kinship. Till now they live in joint families. They check with the family and discuss everything before buying any product. It is important to consider the size of the family, depending upon this they can go for the product. The family member's discussion influences the purchasing decision. Here money plays the secondary role their composite decision matters a lot. But with rise in population and resulting pressure on land and several other socio-economic factors, joint families are breaking apart. A new concept of _individualized joint families is emerging, in which families stay in the same house but spend separately. Thus with the increasing numbers of individualized joint and nuclear families, the range and number of branded products coming into the family can increase.

OCCUPATIONAL Pattern- The shift can easily be seen from cultivator to wage earner from last few decades in rural areas. Rural people are also moving towards jobs and retailing professions. But there is a difference in wage and salary earner consumption/investment pattern. A daily wage earner has to account for variations in income, whereas a salary earner brings home an assured fixed amount and therefore can plan in a better way. 3/4th of rural household heads are either cultivators or wage earners, whereas 3/4th of urban household heads are salary earners, petty shopkeepers and wage earners. The cultivator's disposable income is highly seasonal with more disposable income available immediately after the harvesting season.

SOCIAL CUSTOM Norms: Social norms and customs play a significant role in determining individual and collective behaviour in rural India. Village elders and individuals such as the titular head of the village, caste leaders, priests and such socially important people have a major

influence on the rural people. They frequently influence the purchase decisions of others in the village, acting as credible sources of information or playing the role of opinion leader. Similarly there are some social norms and festivals on which certain kind of products demands shoots-up instantly. Thus Companies must have to see the rural market as potential market and must develop significant market strategies for its growth and development.

RURAL RETAILING

Retailing in India is slowly on the rise with changing consumer preferences and tastes and evolution of a global structure. Rural markets are relatively virgin markets, which have evolved on their own with very little direct contact with them by the corporate world, but their size is compelling and attractive. Retail sector offers opportunities for exploration and investment in rural areas, with Corporate and Entrepreneurs having made a foray in the past. India's largely rural population has caught the eye of retailers looking for new areas of growth. Market structure in India is dichotomous having rural and urban markets.

Retail outlets have sprung up practically in all the villages. In interior villages, retailing is a part time chore unlike the case of the retailer in town. In a part of their house, the villagers make retail counter. The maintenance costs for retail outlets in interior villages are also low with most of the cost spent on traveling and transportation.

In rural markets, consumers are practical and price sensitive. Even though consumers at the bottom of the pyramid do not seem to have predictable income (which affects purchasing dynamics), the rural market proved to be surprisingly loyal. So if companies get it right they could really reap the rewards, experts added. This is particularly true as changes in the rural economy such as people moving from agriculture into manufacturing, which pays better, are likely to lead to an economic boom.

One of the principal reasons behind the explosion of retail outlets and its fragmented nature is that retailing is probably the primary form of disguised unemployment/underemployment. The overcrowded agricultural sector, stagnating manufacturing sector, the hard nature of jobs and low wages, both virtually force many Indians to the service sector. So, it is almost a natural decision to open a small shop or store depending on the available means and capitals due to the lack of opportunities. This phenomenon explains the million of *kirana* shops and small stores. ITC launched the country's first rural mall *Chaupal Sagar*, offering a diverse product range from FMCG to electronics appliance to automobiles, attempting to provide farmers a one-stop destination for all of their needs.

There has been yet another initiative by the DCM Sriram Group called the *Hariyali Bazaar* that initially started off by providing farm related inputs and services but planned to introduce the complete shopping basket in due course. Other corporate bodies include Escorts and Tata Chemicals (with Tata Kisan Sansar) setting up agri-stores to provide products/services targeted at the farmer in order to tap the vast rural market.

The challenges

The challenges Though rural markets present a great opportunity to companies, they also impose major challenges. The main challenges in rural marketing are:

- High initial market development expenditure
- Problems related to market research
- Physical Distribution – It is a formidable challenge because it asks for physical distribution of goods over a network of over 35 lakh village shops. The average monthly sale per village shop is less than Rs. 5,000
- Channel Management
- Inability of the small rural retailer to carry stock without adequate credit facility
- Promotion and Marketing Communication

Even today the biggest challenge is distribution. The cost of reaching the goods and services to rural India is prohibitive. It is not commensurate with the returns that the marketers expect. Generating consumer awareness about goods and services pays dividends only when, simultaneously steps are taken to ensure constant availability of the advertised products in the market. In rural India in particular, availability determines volume and market share, because the consumer usually purchases whatever is available at the out let, influenced largely by the retailers advices and recommendation. Very few corporates are really ‘walking the talk’ when it comes to rural marketing. Except the original rural marketing giants such as Hindustan Lever Ltd (HLL) and ITC, who continue to dominate the scene with their constant innovations in this area (Project Shakti of HLL and e-Choupal of ITC), most corporates pay only lip service to the subject. Of course, there are a few who have started establishing separate rural sales and marketing teams and allotting special rural budgets (though, proportionately very low). The emphasis for the present seems to be on distribution, which is to ensure availability of their brands even in smaller markets.

The main challenges in rural distribution are:

- Large number of markets
- Dispersed population
- Poor connectivity
- Large number of intermediaries
- Low density of shops per village

LITERATURE REVIEW

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.

PRINCIPLES OF INNOVATIONS FOR RURAL MARKETS

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.

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.

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. Poor consumer's problems cannot be solved with old technologies. New technologies need to be developed to make the product relevant to the rural consumers whose product use in environment is very different from urban consumers.

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 that the prices of the product are reduced through re-engineering; cost saving in operations, reduction in pack sizes, deletion of frills from the core product, etc. but this reduction in price should not be at the cost of quality and service. Organisations have to focus on price performance of the product.

Promotional Innovation

Changing demographics and spending profiles present countless opportunities for a creative response by the corporate sector. Promotional campaigns have to be innovative to target the youngsters by engaging them through a combination of media options. Promotional campaigns such as video mounted on trucks, traveling and low cost theatrical need to be undertaken for any serious promotional effort in rural areas.

REVIEW OF INNOVATION AND CREATIVITY IN RURAL RETAILING

To tap the vast potential of rural India, the models of marketing which is for the urban markets will not be fruitful. Innovative models are required to tap the potential of the rural India. Some innovative models which are being used by the corporate houses in the rural India are discussed below:

Godrej's Aadhaar and Manthan

Manthan focuses on supplying animal feeds for dairy and poultry. On the other hand, Aadhaar is a supermarket which retails agricultural inputs such as fertilizers, pesticides, animal feeds and small implements along with FMCGs, appliance and also services, like valuable technical guidance, soil and water testing services.

These are complete solution providers to the farmers rendering farm advisory services, credit facility to farmers, providing up to date information on weather, price, soil and water testing facility, FMCG/consumer durables, etc.

HUL Project Shakti

Hindustan Unilever Limited (HUL) and its constituent companies have been in India since 1931. HUL has been proactively engaged in rural development since 1976. The principal

issue in rural development is to create income-generating opportunities for the rural population. Such initiatives are successful and sustainable when linked with the company's core business and is mutually beneficial to both the population for whom the programme is intended and for the company. Based on these insights, HUL launched Project Shakti in the year 2001, in keeping with the purpose of integrating business interests with national interests. There are more than 40,000 Shakti Entrepreneurs across India.

HUL: Shaktimaans-To-Power-Rural-Reach

The company is utilising the skills of the likes of Sudharkar to distribute its products in remote villages which have a demand for such products, but don't have a distribution network. Every day, Sudharkar sets out on a bicycle which has been provided by HUL for him to commute to villages to distribute products and sachets of popular brands like Wheel, Lifebuoy, Pond's, Brooke Bond, etc., to aspiring consumers. Earlier, these consumers had to satisfy their needs by purchasing products from nearby villages where the company has direct distribution. Now, their needs will be met in their own villages by the visiting shaktimaans.

A shaktimaan is a male member of a shakti entrepreneur family. In 2000, HUL collaborated with self-help groups to expand its rural reach under project shakti. It partnered with women entrepreneurs called shakti ammas from rural areas of Andhra Pradesh and 14 other states by offering them opportunities for business. HUL soon figured out that the menfolk from shakti households, who would by now be familiar with the operations and product range of the company, could be used for the next leap, to reach villages with a population of less than 2,000. They have been christened shaktimaans.

DSCL Haryali Stores

DCM Shriram Consolidated Ltd. (DSCL) capitalising its over 35 years of experience in the agri-input markets and firsthand knowledge of Indian farmers, is setting up a chain of centers aimed at providing end-to-end ground level support to the Indian farmer and thereby, improving his "profitability" and "productivity".

Haryali Kisaan Bazaar is a pioneering micro level effort, which is creating a far-reaching positive impact in bringing a qualitative change and revolutionizing the farming sector in India. It is also an example of how well meaning corporate can contribute to development of agriculture by building sustainable business models. It seeks to empower the farmer by setting up centers, which provide all encompassing solutions to the farmers under one roof. Each "Haryali Kisaan Bazaar" centre operates in a catchment of about 20 kms. A typical centre caters to

agricultural land of about 50000-70000 acres and impacts the life of approximately 15000 farmers.

ITC e-CHOUPAL

ITC's trail-blazing answer to these problems is the e-Choupal initiative; the single-largest information technology-based intervention by a corporate entity in rural India, enriching the farmer with knowledge; elevating him to a new order of empowerment. E-Choupal delivers real-time information and customized knowledge to improve the farmer's decision-making ability, thereby better aligning farm output to market demands; securing better quality, productivity and improved price discovery. The model helps to aggregate demand in the nature of a virtual producers' co-operative, in the process facilitating access to higher quality farm inputs at lower costs for the farmer. The e-Choupal initiative also creates a direct marketing channel, eliminating wasteful intermediation and multiple handling, thus reducing transaction costs and making logistics efficient. The e-Choupal project is already benefiting over 3.5 million farmers. By 2012, the e-Choupal network will cover over 100,000 villages, representing 1 /6th of rural India, and create more than 10 million e-farmers.

M & M Shubh Labh Stores

The venture will leverage on Mahindra's agribusiness division, which is involved in contract farming, contract services, exports and agri retailing. MSSL is involved in contract farming across 100,000 acres in eight states, covering 30,000 farmers. The company had set up agri centers in various districts of the country either under the Mahindra Krishi Vihar franchisee model or directly as Mahindra Agribusiness. These centres are one-stop shop for agro service retailing of agro inputs and procurement of produce. Shublabh interfaces with the bank for financing with the fertilizer and seeds from, as well as for the delivery of produce to the end buyer and payment to farmers.

Bharat Petroleum

Bharat Petroleum is planning to target clusters of smaller villages with a population of about 200 to 250 households. It is planning to set up the pumps for these small villages which will be smaller in size and therefore will be low priced units in terms of the cost of the infrastructure to establish these outlets. These retail outlets will serve a radius of seven to eight such villages.

Reliance Rural HUB

It is piloting a Rural-Business-Hub (RBH) model in a Gujarat village, which if successful and implemented could rival that of DSCL's Hariyali Kisan Bazaar and Future Group's Aadhar. RBH would offer farm input, food, grocery, consumer durables, and financial and health services. It will also provide farmers a platform to sell their produce, an equivalent of village haat. Even Reliance Retail (Fresh & Fresh Plus) is focusing on sourcing directly from farm gate for fresh plus, aiming at connecting farms and unorganized retail by setting up to 1600 farm-supply hubs across the country.

Warna Bazaar

Warna Bazaar is the name of two superstores in Kolhapur and Sanghli in Maharashtra, which are set up in the area of 10,000 sq. ft. Along with that, they have 30 stores of 500-1,000 sq. ft at the village level. These stores retail products like apparel, food, grocery, agri-inputs, vehicles, consumer durables and hardware.

Tata Kisan Kendras

The Tata Kisan Sansar network reflects the Tata Group's belief that technology can and must be harnessed to solve India's social and economic problems. The concept of precision farming being implemented by the TKS has the potential to catapult rural India from the bullock-cart age into the new era of satellites and IT. TKSs stock seeds, pesticides and fertilizers that farmers can buy at affordable prices, and they lease out farm equipment and implements to farmers who cannot afford to buy expensive modern machinery. One of the biggest worries for small farmers in India is finance. The sansars take care of this need too. Farmers can get credit, insure their crops against natural disasters, and even avail of buyback facilities.

Kasti Society

Kasti society has established organised co-operative rural retailing near Ahmednagar in Maharashtra, which serves 70 surrounding villages. Numbers of shops are arranged in the shopping center format with three supermarkets with total retail space of about 5,000 square feet.

Indian Oil

Indian oil is setting up large number of retail outlets to sell non fuel products like soaps and fertilizers along with petrol and diesel in the rural market.

Triveni (Khushali Bazaar)

Triveni aims at increasing the association of rural communities. Currently, the company has two owned and four franchises stores. Each store provides to farmers, agri inputs, agri

equipment, cattle feeds, FMCG, petrol, diesel, two wheeler and tractors and other goods to complete the farmer's basket of goods.

CONCLUSION

The world is changing like never before. This change is more attributed to the way business practices and strategies are changing across the globe. Business organisations are rapidly changing their domain and strategy to take benefit of this emerging global order. Rural marketing endeavours have to be seen and implemented as investment for better tomorrow. Thus, successful company will be the one which meets consumer's expectations through products offered at affordable cost and is in position to earn a decent return on investment because of its strong, efficient and intelligent distribution channel. Through the innovation business models in rural marketing, proper implementation would lead to achievement of the organisation goal in the long run with customer satisfaction.

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