Rural Retailing And India: The Road Ahead

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Abstract: Although we have entered the third decade of the twenty-first century, the villages of India still define us. This is so because close to 70% of the population of the country still calls villages as their homes and there are close to 640 thousand villages in the country which is a huge number by any standard. Retail companies, whether Indian or foreign, have to pay heed to these huge numbers and devise their strategies accordingly. Many of them have already done and those who have not, are fast catching up. This research paper will delve upon the various aspects related to rural retailing in the Indian context and how companies have tweaked their strategies to cater to this vast segment. The paper discusses how the profitability aspect is to be kept into consideration when one talks about rural retailing because the average rural consumption levels are less as compared to the urban India, at least for the time being. This research paper is an attempt to dispel the notions which surround retailing in rural Indian context. Along with it, an attempt has been made to provide some insights to such organizations who intend to make a mark in the rural retail landscape in the nation with the help of best practices as applicable. The rural retailing context has to be understood keeping in mind its ramifications for the overall Indian retail industry as its contribution to the composite retail sector is substantial.

Key Words: Retail, Rural, Rural Retail, India, Consumer, Village, Consumption.

1 INTRODUCTION

Villages still form the core of India, a fact which cannot be ignored for any reason as such. This is so because close to 70% of the population of the country still calls villages as their homes and there are close to 640 thousand villages in the country which is a huge number by any standard. Even though we accept the fact that India is still developing and it is a long way till India becomes a developed nation, we tend to jump to the conclusion that the purchasing power of the rural India is not a force to reckon with. It might be true in certain circumstances like luxury goods but the truth is that if there is untapped potential in the Indian retail scenario, it has to be the rural sector. This is particularly true for organized retail industry as it has made its presence felt in the urban segments to an extent but it is still to make a huge impact in the rural segments (Sathyanarayana & Ganesh, 2012). The traditional Haats or Mandis have been the back bone of the rural retailing scenario for a long time. Mom-and-Pop stores have been driving the rural retail for a while now. Such has been the impact of rural retailing on the Indian retail scenario that those companies which looked up to it as not much of a factor in deciding their business decisions have been rethinking their strategies, much to their own benefits (Dey, et al., 2012). The Indian urban market is facing the same situation which the developed nations started facing in the last 2-3 decades, namely that of saturation. The growth rate of the urban Indian market is still better that most of the other nations but it is the rural market which is growing in a convention-defying manner (Kumar, 2002). The rural market is a huge one what with more than 900 million potential customers ready to be tapped. This market is home to more than 40 percent of the now world famous Indian middle class and boasts of more than half of Indian disposable income. The Indian middle class, which today stands at around 40 million, comprises of almost 35 percent of those living in the hinterland.

So it comes as no surprise that the rural market has become a force to reckon with (Singh and Pandey, 2005). A number of FMCG players who rule the roost derive a significant number of their sales from the rural parts of India. Even though opportunities are aplenty, nevertheless it is a tricky road for those who wish to harness the rural market as there is no sure shot formula for the same (Krishnamacharyulu, 2002). It is not necessary that the thing which works for the urban market would work for the rural market as well or to the same extent. Further, even in the rural markets there exist a lot of disparities which, when overlooked, can be perilous for a company which tends to generalize the entire rural market as one. Case in point, the rural market in the South India is very much different from the North as the people there are much aware thanks to their heightened literacy level (Velayudhan, 2014). Also, the penetration of television, electricity, internet connectivity and other amenities in the Southern parts of India are much better than the Northern region. Because of this, the companies operating in both the north as well as south need to develop a different approach for the regions. Additionally, a rural consumer in Punjab-Haryana, one of the leading agrarian regions of the country is much well off as compared to his counterpart in Bihar-Jharkhand, two of the laggards as far as purchasing power of the rural consumer is concerned. Apart from all this, the companies have to keep this in mind that the rural retail is set to grow ten folds in the coming 15 years. This is a fact which they cannot ignore even if they want to. So, in effect, they need to chalk out a plan so as to make it an effective method to harness the potential of the rural customers.

2 THE CHANGING FACE OF INDIAN RURAL SECTOR

Retail management has gained a lot of traction in the past decades owing to the degree of success as ensured by its proper execution (Varley & Rafiq, 2004). At the same time, the retailers, whether Indian or from outside, should understand this from the outset that the composition of the rural market is changing quite fast. Sample this, the tendency of buying premium skin cream is growing by twice the rate then what it used to be a decade ago or so. Thus we can say that the rural retail scenario is quite changing but needs lot of in-depth exercise rather than jumping on a particular conclusion. Such a scenario was not possible
even a decade ago but it certainly looks feasible now all	hanks{IUSTR©2020
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thanks to the increased awareness levels of the people
living in the rural sector and the proliferation of technology
and affordable mobile internet in the past 2-3 years.
Previously, rural retail was not considered as a force to
reckon with but since the urban markets globally are fast
approaching saturation on the lines of western economies,
the rural segment has become quite effective in tackling
such problems arising due to the global recessionary
effects which have left markets shaken. This could be
attributed to the constant moving of the rural customers up
the value chain whether in terms of productivity or
consumption in various parts of the world (Hugos, 2018).
Companies like McDonalds and Pepsi have given bulk
deals to farmers in the states of Maharashtra and Punjab to
supply with the raw materials which are used in the finished
goods sold in huge numbers, predominantly in the urban
region. To understand the importance of rural marketing in
the overall portfolio of a company, the example of Tiger
brand biscuits of Britannia Ltd. would be an apt one.
Britannia launched this biscuit prominently for the rural
market and was rewarded with an increase from 7 to 15%
in the glucose biscuit segment. Godrej has designed a
refrigerator especially for the rural market by the name
Chotukool, a 35-litre portable cooler, at a competitive price
which comes with variants running on DC rather than on AC
thereby plugging the gap which existed because of lack of
electricity in such places. Such an innovation is indeed
paving a new road as to how one can cater to the
requirements of the rural market and that too in a profitable
way. Such an approach towards a vast source of potential
income, hitherto unexplored, would differentiate the
companies who can claim their profitability from the rural
segment which is very much happening at the present
(Desai, 2013). Many Indian MNCs have reported increase
in the share of revenue generated from their rural
operations. In fact, in some cases it has been as high as
60-70% of the total revenue. All this is enough to
understand the changing role which the rural sector is
playing in the overall portfolio of any company. MNCs, both
Indian and foreign, have took up to the cause of rural
welfare along with working out feasible business models
thereby creating a situation in which both the stakeholders
are benefitted (Balaji, 2014). Several Self Help Groups
(SHG) have been created across the country which serve
the purpose of both. Prominent among them is the Project
Shakti initiated by Hindustan Unilever Ltd., the largest
FMCG organization, which has given self-sufficiency to
a number of rural households, particularly to the women
entrepreneurs, specifically in the Southern parts of the
nation and of late has caught up in the popularity index in
the North as well (Mehta, 2016). One of the largest FMCG
brands of India ITC understood the importance and promise
which the rural market had and as a response to that it set
up a network of kiosks by the name e-choupal, which is
internet-based, to ease the procurement process for the
farmers. This initiative begun with a select few lot but soon
traversed to cover a large spectrum of products which
resulted in effective elimination of the middle-man who ate
into the margins of the farmers, plus it also helped in
sourcing the products at a realistic price in the absence of
commission. The idea behind such an initiative was to
facilitate a single point for all sorts of purchases and
procurements. This immensely benefitted the farmers as
now they were able to sell their products directly to ITC on
the prevalent market prices thereby eliminating the
middlemen and also cutting the costs for ITC which passed
on the benefits to an extent to its customers also. PepsiCo
India has developed symbiotic relationships with farmers
across the nation wherein the MNC helps them by
introducing them to innovative farming practices and in
return the farmers help them in establishing a reliable
supply chain. As per Aithal (2012), a robust supply chain
goes a long way with regard to ensuring the success of a
retail organization in the retail landscape, both rural and
urban. Another example of the changing face of the rural
market and the effect of the same can be envisaged from the
case of Nirma Ltd., a detergent maker based in the
Indian state of Gujarat, which made detergent powder and
soap available to rural segments at a much more
competitive price than its pricey competitors like HUL and P
& G. The company launched a slew of initiatives such as
new product formulation, well-distributed channels, low-cost
manufacturing, sensible packaging and value pricing. As a
testimony to its ability to tap the bottom of the pyramid,
today, Nirma stands as one of the leading brands in the
detergent market across the nation. The success of Nirma
detergent compelled the industry leader HUL to come out
with products like Wheel detergent and to water down their
premium offering Surf Excel detergent to bring out its more
pocket-friendly avatar namely Rin Advanced and budget
brand Wheel. The same happened with P & G which
brought economical versions of its Arial detergent as well as
pocket-friendly brands like Tide. It is a classical case of a
domestic player outsmarting global players in the domestic
turf. What better way can one think of to describe the
changing face of rural retailing than this! Taking a cue from
the various industry players, a few other Indian companies
also started focusing on the rural parts of India. DCM
Shriram came up with its Hariyali Kisan Bazar project in the
year 2002 in the Indian states of Haryana, Punjab,
Rajasthan, Uttar Pradesh, Madhya Pradesh and
Uttarakhand to cater to the requirements of the farmers in
these regions. Then there is the Choupal Sagar of ITC Ltd.
which caters to the requirements of the rural households at
various places in India. An initiative by Pantaloon and
Godrej, namely Aadhar, has been quite useful in fulfilling
the requirements of the people in these places. Tata has
always been known for its people-focused approach and in
the case of rural markets also it has done its bit under the
name Kisan Sansar. Godrej India, one of the leading
conglomerates of India organizes ‘Rural melas’ as a regular
event which is a testimony of the potential which the rural
market has and more importantly, the Indian organizations
believe in the same. Kotler et al. (2018) opines that the
introduction of such concepts as sachets, smaller versions,
combo offers have helped the marketers of such products
like shampoo, skin creams, branded tea, snacks, cool
drinks, to tap potential of the rural markets which was
previously unimaginable due to the price factor. This very
much validates the “Bottom-of-the-Pyramid” concept given
by one of the most influential business thinkers and
Management Gurus of all time, Late C K Prahalad, who
opined that companies would do good to pay heed to the
consumers living at the bottom of the consumption pyramid
(majority of whom are rural consumers in a country like
India) (Prahalad, 2009). Just because they don’t have the appetite to consume in big numbers doesn’t mean that they can’t be treated as consumers. Such an alternative way of thinking could be cited as the reason behind the immense success of such offerings as sachets and miniature versions of existing products. Chik, a product of the South India-based Cavinkare Ltd., is a very popular choice in the rural and semi-urban belts of the country on the virtue of its pricing and sachet-focused approach. For a long time, it sold its sachet for a mere Re 1 which was path-breaking as far as reaching out to the rural customers is concerned with regard to trying a shampoo brand, a product category which hitherto was considered to be an urban product. Such is the changing face of the rural markets that it has forced many companies to rethink their strategy in such a way as to capitalize and build upon it. Companies like Micromax, Kabonn, Lava, Lemon, during their hey days, gave sleepless nights to the MNC brands like Nokia, Samsung and LG owing to their ability to understand the basic problem which the rural people faced when it came to the usage of mobile phones namely lack of electricity and high-end sets. These companies came out with such sets which were energy-efficient, inexpensive, came with multitude of features like dual SIM and gave value for money to the customers. In no time, these brands were lapped by the rural people along with their lower-class urban counterparts. Although in the present scenario the above-mentioned brands have lost their sheen and position in the Indian mobile market but this has to do with the aggressive pricing of the Chinese giants like Vivo, Oppo and Xiaomi which the home-grown Indian brands were not able to match rather than their inability to fulfill their commitments towards the rural landscape.

3 WHAT CAN BE DONE FURTHER TO CAPITALIZE ON THE RURAL RETAILING FORCE

So what should be the ideal approach if one needs to tap the rural market, one might ask. The thing which is needed to be understood is the simple fact that the requirements of the rural markets are quite different, if not altogether different, from those of the urban markets. At the same time, the fundamentals of marketing communication are as much applicable on the rural landscape as they are on the urban paradigm (Varrey, 2002) They want products which look good, have an aspirational value, have a sturdy feel. For such products, the rural customers don’t hesitate to pay even if the price is high as long as the product is worthy of it. The example is the success of such brands like Mercedes Benz, BMW, Mahindra to sell their vehicles to the rich of rural India in such places like Punjab, Gujarat, Haryana. In fact, Mahindra has been selling more MUVs in the rural India as compared to urban India. So what has it done right? It has understood the psychology of the rural folks and tweaked its offering accordingly. People in the rural parts want to feel their product, they expect them to be sturdy along with being value for money. This is the aspect which made ambassador cars a success with them because they came with a rough and tough look. Mahindra understood it and applied it. Any company which expects to do well in the rural markets has to follow the same path. Next, they need to understand that if you come out with such innovations which are primarily focused on the requirements of these people, you will not lose. The success of Godrej’s miniature refrigerator is a proof of that. Keep it as simple as possible like it happened with the desi mobile manufacturing companies a few years ago (although they have lost out to their Chinese counterparts but it was due to extremely competitive pricing which Indian mobile manufacturers were unable to match and eventually bowed out). They understood the requirements of the people facing scarcity of electricity and those who could not afford to buy handsets of the foreign brands but desired the features like multimedia, camera and multi-SIM. Chinese handsets were available which fulfilled all this criteria but the credibility factor was missing (this was the scenario initially. Now the Chinese handset manufacturers like Vivo, Oppo, Xiaomi have understood this and changed their game). Indigenous brands like Micromax, Lava and Spice filled this gap at that point of time. With branded appearance, service centers to boast of, competitive pricing, attractive features, these companies soon became the preferred choice of the people not only in the low-income urban class but also in the rural markets proving the point that they indeed have money but they would spend it smartly. At one point of time, Micromax was the third-largest selling handset company of India just behind Samsung. This example shows what should be done to do business in the rural market and do it profitably. In fact, the rural customers are much smarter than what the companies think about them. They go through all the options which the various companies have to offer and then choose the best of the lot. Such sort of discerning behavior should be seen with respect and not as a sign of spend-thriftliness. Here it would be pertinent to quote the renowned Management Guru Late C K Prahalad who gave the world-famous concept of “Bottom of the Pyramid” (as discussed earlier) which talks about offering the product in the right denomination (like sachet) to appeal to the rural consumers keeping their purchasing power into consideration (Prahalad, 2009). One product which could be highlighted in this regard is the mustard oil which, owing to its consumer-friendly pricing, is the preferred mode of cooking oil in the rural landscape. Almost every major FMCG company offers its mustard oil brand in sachets. Similar is the case with Parachute, the leading coconut hair oil brand, which offers its product in sachets. Another approach which can be adopted is the one which begun in the form of the Bharti-Wal-Mart joint venture. This model, aptly name as Best Price Modern Wholesale Store, invested in the initial phase to establish a robust supply-chain network in rural parts of India. This provided the venture to generate economies of scale thereby benefitting the customers and the farmers both. Next, one can learn from the largest private company in India, Reliance Industries Limited. Its retail subsidiary namely, Reliance Retail came out with the idea of Rural Hubs (procuring-cum-processing hub & one-stop farmer shop) which it set up in various states of India. On similar lines, pantaloons, an enterprise of yet another Indian conglomerate Aditya Birla Group, came up with a procuring-cum-processing hub which acts as an input centre for malls based in rural hinterlands of the country which can be an interesting idea to toy with. Pantaloons has given many iconic in-house brands owing to its ability to produce quality products at a reasonable price and if it is feasible for the urban market, it is also possible to generate
revenues from the rural market through the mall culture which, till now, has been the trademark of the urban market. Consumer durable companies, meanwhile, should take a leaf out of the book of giants such as Godrej and LG India, which have augmented their marketing plans meant for the rural landscape and came out with rural-centric products which would help them in gaining that extra mileage. Thus, one should keep in mind the basics of marketing and it would definitely lead to the development of the rural market as a lucrative segment to bank upon. The purpose of one’s approach towards rural retailing should be the realization of corporate goals, along with corporate social responsibility (CSR) thereby developing a viable business model which would create opportunities for all the stakeholders involved.

4 CONCLUSION
To conclude, the author would like to add that rural retailing is very well the road ahead for organizations, both foreign and domestic, who intend to build a robust base in India. What they need to understand is that the profile of the rural customer is different from the urban customer and hence much deliberation should be done with regard to tweaking the existing product. Also, a company needs to innovate keeping into consideration the various aspects which characterize the rural way of living in India while designing a new product. As mentioned during the paper, the rural customer does have the appetite to buy products from organizations. It is just that the organizations have to identify the potential lying at the ’bottom of the pyramid’ and harness the same while thinking about their product mix. In this regard, it would be pertinent to observe that the miniature versions of various FMCG products as well as the sachet offerings go a long way in terms of getting a foothold in the rural landscape of a country like India. As highlighted in the discussion above, MNCs like PepsiCo have been successful with regard to connecting with the rural farmers in a win-win scenario where both the parties stand benefited thus laying the template of CSR for the organization and tapping into the immense potential of the huge rural landscape of the country. Companies would do well to acknowledge as well as appreciate the manner in which the rural customers behave and dedicate resources commensurate with the potential of the rural customer base.

5 REFERENCES: