

“Pradeep Kashyap [is] known as the father of rural India”
Late C K Prahalad in *The Fortune at the Bottom of the Pyramid*

THIRD EDITION

RURAL MARKETING

PRADEEP KASHYAP

Foreword by **Jagdish N. Sheth**

Rural Marketing

THIRD EDITION



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Rural Marketing

THIRD EDITION

PRADEEP KASHYAP

PEARSON

Delhi • Chennai

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ABOUT THE AUTHOR



Pradeep Kashyap, known as the father of rural marketing in India, founded MART in 1993. A transparent, team-based, non-hierarchical, flat organization based on ethical and spiritual principles, MART has emerged as India's leading rural consultancy organization.

He co-created Project Shakti with HUL (erstwhile HLL) to appoint 46,000 poor women from microfinance groups as company dealers. He has pioneered another low-cost, last mile rural distribution model using village volunteers on bicycles for Colgate and Heinz, among others. He has advised many Fortune 500 companies including GE, Intel, John Deere, Shell, Coca-Cola and Pepsi on rural strategy.

He has been Marketing Advisor to the Ministry of Rural Development and has served in the Prime Minister's Office and the Andhra Pradesh Chief Minister's Committee on rural development. He is a World Bank and United Nations consultant. He was Chairman, KVIC National Marketing Committee, and member of the NABARD and SIDBI national advisory committees.

He started Gramshree melas in 1989 for the sale of rural products in urban areas by artisans. Three hundred such melas have been held in 75 cities, benefiting 100,000 producers.

He was the only speaker from India at the Cannes Lions International Festival of Creativity 2008, and among 50 global speakers to address 2,000 participants. The theme of his talk was 'Rural India: The Emerging Market'. He was the keynote speaker at The Third Subsistence Marketplaces Conference, held in 2010 at the University of Illinois, Chicago, where he talked about inclusive marketing. He has given talks at the University of Cambridge and the London Business School.

He is a recipient of the Jamnalal Bajaj Endowment Award 1991 for his outstanding contribution to rural development. His marketing career spans 40 years.

He was the President of Rural Marketing Association of India (2009–14) and was honoured with the Lifetime Achievement Award by the Association. He was also honoured with the Distinguished Alumnus Award 2014 by his alma mater BITS Pilani.

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FOREWORD

At least 40 per cent of the world's markets are rural markets. They represent more than three billion people whose current consumption is estimated to be at least four trillion dollars per year. Rural markets have been traditionally ignored by most multinationals from advanced countries, as well as by local large-scale manufacturers of packaged branded products, for several reasons.

First, rural markets are still mostly served by unbranded local competitors. These locally entrenched competitors often use non-traditional and unethical tactics to control the market. Also, the fragmented nature of competition as well as the low density of population makes rural markets less attractive to serve.

Second, most consumers still self-produce products and services at home rather than buy them commercially for a variety of historical reasons. For example, rural consumers still make pickles, *papad*, *chapati*, sweets, snacks, fuel, garments, and most other basic necessities of food, shelter, and clothing. Two exceptions in recent years have been milk (due to the mushrooming of local cooperatives) and mobile telephones (due to the policy-mandated spectrum coverage). It is also true for several livelihood-related products such as tractors and motorcycles.

Finally, a lack of modern infrastructure, including roads, electricity, banks, and media, make accessibility to rural markets very difficult and expensive. In fact, companies that have historically succeeded in rural markets had to organize alternate sales and distribution systems to reach rural consumers. These include Brooke Bond tea, ITC cigarettes, Coca-Cola, as well as government-sector enterprises such as India Post, Life Insurance Corporation of India (LIC) and Indian Railways.

All of this is now changing, and changing rapidly due to several reasons. The first and foremost reason is that rural markets are growing faster than urban markets and with better profitability, as urban markets have become more mature and intensely competitive, especially after the liberalization of the Indian economy. Moreover, if aggregated with cost efficiency, rural markets constitute a very large and untapped market. This has been conclusively proven by Wal-Mart in the USA, which started with small rural towns in America and became the largest retailer, surpassing world-class competitors such as K-Mart and Sears. Rural markets, which used to be neglected by branded manufacturers, are now becoming the core of a company's growth strategy for both multinationals such as Nestlé, Colgate and Unilever, and for Britannia biscuits, Titan watches, Godrej mosquito repellants, and Wipro soaps and lighting products.

The second and equally important factor is the increasing interest of rural consumers in acquiring branded products, especially those that symbolize educated or modern lifestyles. Watches, jeans, cell phones and T-shirts, bottled water, shampoo and toilet soaps, as well as education and healthcare, are part of this list. In other words, rural consumers in India today are less resistant to change. In fact, they seem eager to enter the world of modern consumption, especially those for daily use.

The third factor is the astounding technological advances and affordability of mobile telephony. Mobile phones will have an even greater impact on marketing as they become Internet-enabled. Wireless broadband will increase the reach of the Internet—a very rich medium capable of providing voice and video in addition to data. This is very important, because voice and video transcend literacy. It is also a viral medium, as demonstrated by events in the Middle East. Markets will become increasingly flat,

FOREWORD

with no level playing advantage for the urban markets. The mobile phone revolution in rural markets is now encouraging investment in other infrastructures, and organizing the otherwise unorganized rural markets all over the world, including in Africa and Latin America.

Finally, as rural markets become more strategic, companies will learn to innovate and experiment with their traditional approaches to the four Ps of marketing: product, price, place, and promotion. This is already happening worldwide. For example, Avon's largest growing market for cosmetics and personal care is Brazil. The company organized an agency-based sales force of a million agents in Brazil alone, who are all self-employed entrepreneurs servicing micro-markets with the help of microfinancing. There are several success stories in India's rural markets as well. Indeed, it is not an exaggeration to assert that companies that succeed in rural markets with non-traditional approaches to products, prices, promotion, distribution, and service will gain a competitive advantage over those who do not, or could not, succeed in rural markets. Reverse innovation from rural markets to urban markets is the key to future growth and profitability.

More than a decade ago, my colleague Rajendra Sisodia and I developed a new customer-centric framework called the 4 As of Marketing.¹ Briefly, the framework suggests that the objective of marketing managers should be to use their marketing and non-marketing resources to improve acceptability, affordability, accessibility, and awareness of their offerings. This framework has been utilized to diagnose more than 500 product failures and successes. This framework is even more relevant in rural markets because of its inherent challenges of reach, awareness, and affordability.

I am very pleased to write this Foreword for three reasons. First, a textbook focused on rural marketing will encourage management institutes to develop separate courses and encourage and prepare students to learn and become passionate about rural marketing in India. Second, there is no other expert better than Pradeep Kashyap as the author of this textbook. Pradeep, over many years, has demonstrated his commitment and dedication to understanding rural marketing, especially through his research and consultancy company, MART. He is one of the very rare individuals who blend theory and practice. Finally, I believe and sincerely hope that this textbook will demonstrate that it is possible to write an Indian book that has the potential to be translated and/or adapted in advanced countries. The reverse innovation in management education is already here!

Jagdish N. Sheth

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¹ Sheth, Jagdish N. and Rajendra S. Sisodia (1999), 'Iridium's 66 Pies in the Sky', *Wall Street Journal*, June.

∴ The Rural Marketing Scenario

The first edition of *Rural Marketing* was published in 2005—a time when rural markets were considered a ‘black box’ as there was very little information or data available, when the rural demand for most categories was just beginning to register high rates of growth. Between then and the second edition in 2011, many companies entered the rural market successfully and a lot of new knowledge was created, which needs to be shared with students and practitioners.

Rural India has undergone a rapid transformation in the last few years. Who would have imagined in 2005 that the rural share of the total market would outstrip the urban share for most categories in a short period of a decade? Or that rural growth would exceed urban growth? Rural India registered a growth of 17 per cent, compared to a modest 12 per cent growth in urban India. Since the introduction of mobile phones in India in the 1990s, it took urban India 10 years to reach a figure of 200 million connections. In contrast, rural India hit 200 million connections in five years, starting in 2005, which was when the first mobile phones were purchased in villages! Today there are 350 million mobile phones in rural India and are growing. As late as 2007–08, Maruti sold less than 20,000 cars in rural India. In 2014–15, it sold 300,000 cars.

The pro-rural government initiatives and schemes, rapid rural infrastructure development, eight good monsoons and a two-fold increase in the minimum support price for food grains have enhanced incomes and fuelled rural growth. Last year alone, the National Rural Employment Guarantee Scheme (NREGA) has put an additional INR 440 billion in the hands of the poor. Rapid electrification has led to enhanced economic activity in rural areas. Seventy-five per cent villages are now connected by high-quality roads, resulting in a spurt in the sale of Hero Honda motorcycles, Maruti cars, Bolero SUVs, and Tata Ace mini goods vehicles. Improved Internet connectivity and the rapid spread of TVs and mobile phones have led to higher awareness levels among rural consumers.

Companies have responded by customizing products for rural consumers—smaller packs, coinage pricing, etc. Some companies such as HUL, ITC, and Tata Tea have innovated new communication and distribution channels.

∴ The Theme of the New Edition

The unimaginable transformation of rural India in the last decade prompted me to revise the book, with the view to making it more relevant to today’s rural marketing needs and challenges. Unlike the first edition, where the approach was to compare rural markets with urban ones, this edition focusses on capturing the ‘changing rural India’. The present edition focuses on the huge opportunity that has already become a reality. The next big growth in demand for the next decade will be mainly from the rural markets. The valuable feedback received from academia and industry has also helped in shaping this edition.

PREFACE

❖❖❖ New in this Edition

The present edition, while retaining the key strengths of the previous edition, builds on it by introducing new material relevant for today's readers to enhance and sharpen their learning. The pedagogy of the book has been expanded to make learning easier and interesting.

Following are the major changes made in this edition of the book.

- ◆ A chapter on 'Role of Government in Rural India' has been added as Chapter 12.
- ◆ The chapter on 'Future of Rural marketing' has now become Chapter 13.
- ◆ New cases and discussion questions have been added to various chapters to bring contemporary knowledge.

■ Focused **learning objectives** present a convenient overview of the concepts discussed in the chapter.

CHAPTER 1 ❖❖❖ THE CALL OF RURAL INDIA

one

AFTER READING THIS CHAPTER, YOU WILL BE ABLE TO:

1. Define rural India and rural markets
2. Identify common rural myths
3. Understand the rural marketing mix and the challenges related to it
4. Understand the characteristics of the evolving rural consumer
5. Describe the emerging rural India

Before 2006, Sakamma, a 35-year old lady in a village in Nalgonda district, used to stay in a small house with her husband and three children. Her husband was the sole bread earner for the family of five. His meagre income of INR 10,000 per year was barely sufficient for the family; moreover, the situation worsened due to his alcoholism. With this money, it was a daunting task for Sakamma to meet the needs of her growing children.

When the concept selling meeting of 'Project Shakti' was organized by Hindustan Unilever in the same year in her village, Sakamma was excited, and decided to take up the challenge of becoming a Shakti entrepreneur.

Today, she earns an additional yearly income of INR 10,000 through Shakti. The programme has given her the desired financial independence that has enabled her to plan for the future of her children. 'I want my daughter to become an engineer,' she proudly says. Sakamma today has independent access to a bank and decides what investments to make. She recently invested in gold jewellery as she has started preparing for her daughter's marriage. Sakamma was recently also chosen to work with the government to help educate the rural population on health issues.

Such initiatives like Project Shakti have not only opened up earning opportunities for rural people like Sakamma, but have also led to rural development in such a way that rural masses are now getting exposed to the right quality products and services, which in turn is adding to their quality of life. Rural markets are no longer a mass of illiterate, poverty-stricken people who are reluctant to change and spend. Instead, they are today becoming the most lucrative markets that every marketer is eyeing.

Project Shakti, HUL's rural initiative, has empowered underprivileged rural women in scores of villages across India by making them financially independent.

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RURAL MARKETING MEMO | ATTRIBUTES OF A RURAL RESEARCHER

Conducting research in rural areas is difficult. The following attributes are desirable in a researcher working in rural areas.

1. **Mindset:** Since most researchers have an urban mindset, it is important for the rural market researcher to be able to think from a rural perspective, constantly evaluate responses, and mould his communication accordingly.
2. **Effective communication:** For more effective communication and eliciting accurate responses in rural research, a working knowledge of and familiarity with local dialects is desirable.
3. **Discerning ability:** Since information collection in rural research has to be in the form of general conversation, the researcher must know when to ask a specific question and put an end to the general discussion. He must also be able to discern between sensitive and non-sensitive issues/topics/questions and tackle them accordingly.
4. **Good memory:** Since the researcher is advised not to carry any writing material along, he is expected to memorize all the relevant information before putting it in the form of a written record.
5. **Patience:** The researcher needs to have a lot of patience to get specific responses from villagers, as they tend to get involved in their own rhetoric and repeat things, which the researcher may have to listen to patiently. However, he should have the ability to bring them back on track.

Rural Marketing Memo boxes provide practical guidelines and directions in dealing with various decisions at all stages of the rural marketing process.

Chapter-opening vignettes serve as ice-breakers and narrate the key concepts of the chapter through a powerful story around a consumer, brand or company for a better understanding of the chapter.

PREFACE

Rural Marketing Insight boxes bring practical insight through compact rural-centric cases and current research findings, thus supplementing theory and concepts.

Marginalia, or margin notes, summarize crucial points and highlight definitions.

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Prising in Rural India

Price is a major element in the marketing mix. It is defined as the exchange value of a product or service, and is the amount of money needed to acquire a product or service. Price is of fundamental importance as it is the only marketing-mix element that actually generates income. Pricing is an important strategic issue since it is related to product positioning. Further, it affects other marketing-mix elements such as product attributes, distribution channels, and promotion strategies.

The right price influences the quantities of various products or services that consumers will buy, which in turn determines the total revenues and hence the profit of the business.

In the 1980s, rural folks had low disposable income; hence, affordability was a major factor while purchasing any product. People also had a conservative approach, which made them wary of accepting a new product.

In 1983, C. K. Ranganathan started selling shampoo in a sachet with an investment of INR 15,000, and dared to take on the multinationals HUL and P&G, the unquestioned leaders in that segment. The 'sachet revolution' was a major event of this era. Most companies resorted to the low unit-price strategy, focusing on value-for-money products. All possible categories, like detergents, soaps, toothpaste, sauces, noodles, mineral water, toiletries, etc., were introduced in sachet packaging to ensure affordability of the product, and encourage the maximum number of people to try it.

Over the years, there has been a shift in rural consumers from farm to non-farm sectors, resulting in an increase in their purchasing power. Also, a series of good harvests backed by several good monsoons has boosted rural incomes in agricultural and allied activities. This is reflected in their living standards and possession of assets such as electrical gadgets and modern amenities at home.

Purchasing power in rural India is rising steadily, resulting in the growth of the rural market. Today, unlike in the past, price is not the only consideration in the purchase of a product. Also, with growing incomes, rural consumers aspire to live better, eat healthy, and have a better tomorrow. Hence, marketers have to find a way to cater to their changing aspirations, keeping in mind that rural consumers are value buyers (see 'Rural Marketing Insight: Rural Consumers Prefer Value for Money'). They expect great quality at affordable prices. The challenge for marketers is to make good quality aspirational products available to them at affordable prices.

Price is the amount of money charged for a product or service. Pricing is a determinant of the market demand for the product.

High-value brands too are doing well in rural markets. Rural consumers across income segments are showing a marked propensity towards spending on premium high-quality products backed by strong brand values. For example, rural people have traditionally been 'bid' smokers; however, this is slowly changing, and the younger generation is shifting to cigarettes. Rural consumers are upgrading to aspirational products like face wash, deodorants, cream biscuits, and noodles.

How Do Companies Price?

For a company, it is crucial to decide how much to charge for a product. If it charges too much, the product will not sell; if the product is priced very low, the company may not be able to earn a significant revenue, and the product's market value will be diminished.

In rural markets, consumers look at the value for money. So companies have to price their products to meet consumer expectations and generate profits. Nowadays, companies also opt for target pricing in the rural segment. Target pricing involves setting a target price for the product prior to its production. For rural consumers, companies sometimes fix an ideal, affordable price, and then ensure that that price is met. A case in point is the Tata Nano, which holds the distinction of being the cheapest car on Indian roads. It is no secret that the Tatas fixed the price of the car and tweaked features and functionalities to deliver the end product at the pre-determined price point. The

Target pricing is a concept used throughout the product lifecycle, but is primarily used and is most effective at the product development and design stage.

RURAL MARKETING INSIGHT

Marketers often erroneously perceive price as their only weapon when targeting rural customers. In actuality, rural consumers are driven by value for money, not price alone. These consumers scrutinize products, raise real concerns, and eventually ask the marketer, 'Is your product worth buying?' If the consumers see value for money, they will buy the product. Their discerning and cautious approach does not stop them from upgrading to better products delivering higher value for money, as evidenced in the case of dish washing products and mosquito repellents. A few instances where consumers have adopted higher priced products in rural areas to get good value for money are:

1. **Dish Washing Products:** The shift to bars from local mill cleaners and dish washing powder in rural India clearly indicates that rural consumers are willing to adopt higher priced products.

Source: FICD Nielson Report, 2010.

RURAL CONSUMERS PREFER VALUE FOR MONEY

provided that quality is superior. This is despite the fact that dish washing bars are priced at INR 50 per kg as against dish washing powders, which are priced at only INR 19 per kg. Today, the sale of bars is growing at 11 per cent annually, whereas that of cleaning powders is declining steadily (-13 per cent). This trend is reflected in the stocking pattern in rural stores, where the sales of powders is declining.


2. **Mosquito Repellents:** At 17 per cent, the rural mosquito repellent market is growing much faster than its urban counterpart, which is growing at a mere 8 per cent. Despite the fact that both vapourisers and mats require electricity, we see that the market share of liquid vapourisers is higher, and it continues to grow faster than the other available formats.

Nano uses just one wiper, one side-view mirror, and the seats are not adjustable.

Consumer Psychology and Pricing

A rural marketer should understand consumer psychology before setting the prices of their offerings. They need to keep the following points in mind:

- Rural consumers are very conscious of value for money. They do not always look for cheap products; instead, they want good quality for the money they spend.
- Rural consumers still do not perceive the premium value of brands. They are happy to deal with products, especially consumer durables, which offer basic functions. High-priced products



Gillette Guard was launched to provide high-quality shave at an affordable price and the feel of a premium brand for men in emerging markets.

Rural Marketing Snapshots depict the transition of rural India through powerful visuals.

Caselets highlight best-in-class practices and unique innovative initiatives and solutions that have been adopted by companies successfully.

> SEGMENTING AND TARGETING RURAL MARKETS < CHAPTER 5 107

RURAL MARKETING CASE

BRU INSTANT COFFEE CONNECT

BRU represents the coffee business of HUL, and is the only brand to be present in all segments of the coffee category—instant, roast, and ground, and premises. It is the volume leader in the roast and ground market. There are three different consumer segments based on their drink preferences in south India:

- Conventional filter coffee drinkers
- Tea drinkers
- Instant coffee drinkers

South India is a big market for coffee, filter coffee being the most prevalent, with a few pockets within the states of Andhra Pradesh and Karnataka also preferring tea. However, most people prefer conventional filter coffee for its taste and aroma. This segment when combined with the tea-drinking segment represents a huge, untapped market for instant coffee.

The Challenge

While people are aware of instant coffee, it is still a drink to be had on special occasions for many households. The marketing challenge, thus, was to convert these special occasions to Bru Instant Coffee occasions.

The company had to reach out to 1.3 million people spread across three segments for product trials.

As these households were a mix of tea drinkers/filter coffee and other coffee drinkers, conveying the right message across the segments was the key challenge for the company. Beverage preferences are difficult to change; it was not easy to get people to deviate from a beverage of their choice and sample instant coffee. The decision to leave samples with consumers significantly improved the impact of this trial campaign.

With multiple communicators of differing individual capabilities, delivering a standardized yet customized message consistently was an even bigger challenge for Bru. The fact that most households/target consumers have a not-so-welcoming attitude to a door-to-door salesman/communicator.

The brand, therefore, needed a breakthrough to overcome these hurdles and to communicate the benefits of Bru Instant to three different beverage drinkers.

The Solution

The accompanying video talks about how the communication strategy covered all three segments in one go using a door-to-door sampling strategy in a cost-effective manner for introducing trials. It talks about how innovative media vehicles were used during the campaign in the absence of effective mass media reach out to reach three sets of audiences.

During the campaign in 2009, 2.3 million households were sampled, resulting in the brand gaining a 70 per cent share of new category entrants.

Discussion Questions

1. What communication challenges did Bru face? Which innovative media vehicle was chosen for reaching the target group? Why? What else could have been used to improve the effectiveness of the campaign?
2. What kind of impact was generated by the campaign? How much rural growth was achieved as a result of this campaign?
3. Identify different consumer segments among health food drinkers in the rural sector. Suppose a new brand 'Health Plus' is entering this market. As the brand manager of the company, explain how you will enter this market and address the communication challenge for different segments.

Rural Marketing Cases at the end of each chapter helps readers apply their learning from the chapter to real-life situations and problems. The case is divided into two parts: text and video. Readers are required to read the text and see the video to analyse the case and answer the discussion questions.

∴ The Teaching and Learning Package

The second edition of *Rural Marketing* includes a teaching and learning package.

For Instructors

PowerPoint lecture slides, for use by instructors, provide an overview of key chapter concepts and examples, and include additional notes to help instructors explain various rural marketing concepts. This is designed to deliver classroom sessions in an interesting and engaging manner.

∴ A Note on the Language and Terms Used in the Book

I have used the ISO 4217 code for the Indian currency—INR—instead of Rs throughout the book.

The terms million and billion have been used to represent large numbers, and the use of lakh and crore, although common in Indian English have been avoided.

In the interest of gender equality, I have avoided using terms like he and she when the pronoun is indefinite. Instead I have used they, their, and them in the singular sense.

∴ Acknowledgements

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PREFACE

throughout the writing of this book. Both the editors were very patient and respectful in their dealings. I want to thank them for their input and enthusiasm.

I offer this book to the very source of knowledge from where I have drawn my inspiration.

Pradeep Kashyap

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**AFTER READING THIS CHAPTER,
YOU WILL BE ABLE TO:**

1. Define rural India and rural markets
2. Identify common rural myths
3. Understand the rural marketing mix and the challenges related to it
4. Understand the characteristics of the evolving rural consumer
5. Describe the emerging rural India



One

Before 2006, Sakamma, a 35-year old lady in a village in Nalgonda district, used to stay in a small house with her husband and three children. Her husband was the sole bread earner for the family of five. His meagre income of INR 10,000 per year was barely sufficient for the family; moreover, the situation worsened due to his alcoholism. With this money, it was a daunting task for Sakamma to meet the needs of her growing children.

When the concept selling meeting of 'Project Shakti' was organized by Hindustan Unilever in the same year in her village, Sakamma was excited, and decided to take up the challenge of becoming a Shakti entrepreneur.

Today, she earns an additional yearly income of INR 10,000 through Shakti. The programme has given her the desired financial independence that has enabled her to plan for the future of her children. 'I want my daughter to become an engineer,' she proudly says.¹ Sakamma today has independent access to a bank and decides what investments to make. She recently invested in gold jewellery as she has started preparing for her daughter's marriage. Sakamma was recently also chosen to work with the government to help educate the rural population on health issues.

Such initiatives like Project Shakti have not only opened up earning opportunities for rural people like Sakamma, but have also led to rural development in such a way that rural masses are now getting exposed to the right quality products and services, which in turn is adding to their quality of life. Rural markets are no longer a mass of illiterate, poverty-stricken people who are reluctant to change and spend. Instead, they are today becoming the most lucrative markets that every marketer is eyeing.

Project Shakti, HUL's rural initiative, has empowered underprivileged rural women in scores of villages across India by making them financially independent.

A habitation with a population density of less than 400 per sq. km, where at least 75 per cent of the male working population is engaged in agriculture and where there exists no municipality or board, is defined as a rural habitation.

Defining Rural Markets

The Census of India (2001) defines any habitation with a population density of less than 400 per sq. km, where at least 75 per cent of the male working population is engaged in agriculture and where there exists no municipality or board, as a rural habitation. Thus, the rural population consists of 800 million inhabitants, accounting for 70 per cent of India’s population. Depending on their requirements, different organizations ascribe different meanings to the term *rural*. LG Electronics, for instance, defines any population centre other than the seven metros as semi-urban or rural. This definition is in stark contrast to that of the Census. It is important for a marketer to look beyond these definitions at the underlying limitations of each. Table 1.1 captures important definitions and limitations that marketers should be familiar with.

While defining a market as *rural*, the following facts and figures should be considered:

- As per the 2011 Census, India has more than 20,000 villages whose population ranges from 5,000–10,000. So any population cut-off criteria should definitely include these villages as rural areas. The majority of rural institutions, agricultural markets and rural banks are located in larger villages and towns, which have a population of up to 10,000. As the population crosses this figure, characteristics

TABLE 1.1 | Definitions of Rural

Organization	Definition of Rural	Limitations
Census	<i>Village</i> : Basic unit for rural areas is the revenue village, which might comprise several hamlets demarcated by physical boundaries. <i>Town</i> : Towns are actually urban areas that satisfy the following criteria: <ul style="list-style-type: none"> • Minimum population ≥ 5,000 • Population density ≥ 400/ sq. km • 75% of the male population engaged in non-agricultural activities 	The term ‘rural’ is not defined. It does not specify the population strata. It does not rule out 5,000+ population villages.
IRDA	Similar to the Census definition <i>Village</i> : Basic unit for rural areas is the revenue village, which might comprise several hamlets demarcated by physical boundaries. <i>Town</i> : Towns are urban places that satisfy the following criteria: <ul style="list-style-type: none"> • Minimum population ≥ 5,000 • Population density ≥ 400/ sq. km • 25% rather than 75% of the male population engaged in non-agricultural activities 	Widening of definition has allowed a larger market to be considered for rural products.
RBI	<i>Rural</i> : All locations with a population up to 10,000 will be considered rural, irrespective of whether village or town. <i>Semi-urban</i> : All locations with a population between 10,000 and 100,000 will be considered semi-urban, irrespective of whether village or town.	Village and town characteristics are not defined: <ul style="list-style-type: none"> • Towns with less than 10,000 population are defined as rural. • Villages with more than 10,000 population are defined as semi-urban.
Planning Commission	Towns with population up to 15,000 are considered rural.	Town characteristics are not defined.
Sahara	Locations with shops/commercial establishments up to 10,000 population size are treated as rural.	No town or village characteristics defined.
LG Electronics	All population centres other than the 7 metros are considered rural or semi-urban.	Population criteria is not considered.

such as occupation, consumption and buying behaviour show a marked change, indicative of the transition from a rural to an urban/semi-urban set-up.

- Many villages, although now notified as towns due to their economic growth over the last three or four decades, continue to retain their rural character.
- Leaving aside Hindustan Unilever and ITC, most companies in the FMCG sector define a rural set-up as any place with a population of up to 20,000. Similarly, durables and agri-input companies set this limit at 50,000.

∴ Rural Myths

Although there has been a great deal of interest in rural markets over the past few years, a few big myths remain regarding the size and potential of rural markets.

Rapid Urbanization

It is widely believed that the pace of migration from rural to urban centres is very rapid, which of course means that rural India is shrinking at a very rapid pace. If this were to continue, rural India would eventually become insignificant in size, and perhaps not worth the effort of entering.

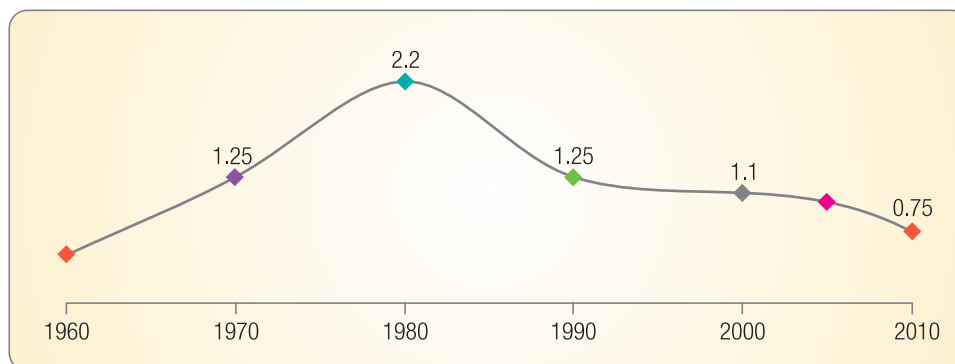
The truth is somewhat different. Up until 1980, there was indeed rapid urbanization. However, since that time, there has been a massive slowdown. In fact, in 2010 the UN population database revealed that the urban population had only a slight increase (0.75 times) over the rate of increase of the rural population, suggesting that migration levels were very low (see Fig. 1.1).

The trend also suggests that in the near future, there may even be reverse migration, which ties in with recent field observations. As earning possibilities increase in rural areas, as has happened through the National Rural Employment Guarantee Scheme (NREGS) in the last few years, there is less incentive to leave for urban markets in search of work, or, if migration does occur, it is only for a short period of time spanning agricultural lean months.

Predictions (United Nations' population database 2010) suggest that while the urban population will continue to grow, the share of rural will come down only marginally till the year 2020, and nearly two-thirds of the country's population will continue to live in villages. So, it would be better for marketers to enter the arena sooner rather than later.

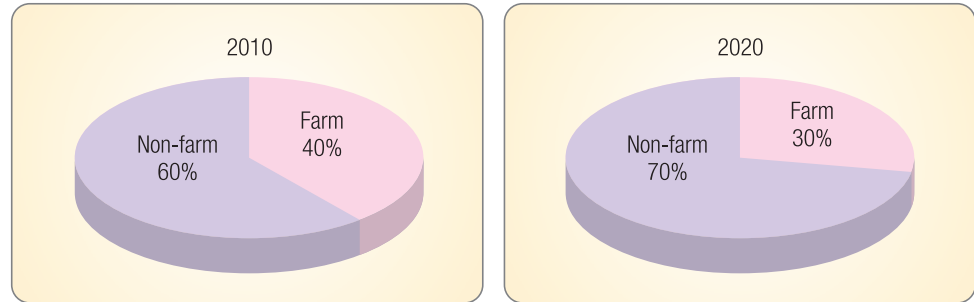
Rural India Is an Agrarian Economy

Traditionally, rural India was an agrarian economy. However, this is no longer true. Already the non-farm sector accounts for higher incomes in rural India than the farm sector. This is only expected to increase further (see Fig. 1.2). The increased earning opportunities in rural India have decreased the dependence of agriculture on the vagaries of a good monsoon, suggesting that rural markets will be more



| FIG. 1.1 |
The Pace of Urbanization in India
Source: United Nations' population database.

| FIG. 1.2 |
Growing Non-farm Income



resilient to fluctuations in rainfall.

Field observations have indicated that multiple sources of income for a household are increasingly becoming the norm, with only one family member involved in agriculture as owner or daily wage labourer, while other earning members in the family run a small business or shop or work as salaried employees. Apart from increasing the household income, this has the added benefit of buffering the household from risks occurred in farming, and providing a more constant stream of income to the household rather than only at harvest times.

∴ The Rural Marketing Mix: Challenges

The 4 Ps of marketing—price, product, place, and promotion—have been the standard by which every marketing strategy has been developed in the past. This approach was designed for urban markets, but the distinctiveness of rural consumers means that something different was required.

The 4 As of marketing—affordability, availability, awareness, and acceptability—have evolved as a more customer-oriented solution to designing an appropriate marketing strategy for rural markets.

Affordability

It is a fact that per capita rural incomes are still only half of urban incomes, and all products and services designed for rural markets must keep affordability in mind. However, it is important to realize that creating an affordable product or service is not the same as creating a low-cost–low-quality version of an urban product or service. It is vital to design a product or service that caters to the needs of the rural consumers in their unique environment and provides value as perceived by them. Rural consumers are driven by the value proposition, and not just by cost. Affordability here simply means that it should be within their purchasing capacity.

Thus, branded personal care items have been successful in rural areas through ‘sachet packaging’ by increasing affordability. Companies like Max Vijay now offer life insurance through ‘sachet purchasing’, small frequent payments made to local retailers.

Availability

Availability remains the single largest challenge for marketers. India’s 640,867 villages are spread over 3.2 million sq. km (Census 2001). If the product or service is not available in a market, it cannot be purchased. A simple enough concept, but the vastness of the country makes reaching the ‘last mile’ a Herculean task. Companies have adopted innovative distribution strategies—HUL’s Shakti model and Colgate’s bicycle entrepreneurs—to overcome this problem.

Field observations have shown that when products or services reach small towns, there may be no need to develop a distribution strategy to go further. Retailers themselves will transport the goods to the village level. Also, especially in the case of larger ticket items, rural consumers visit nearby towns to purchase items such as mobile phones, two wheelers, and branded clothing, to avail of the greater choice or access services such as banking and computer classes available there.

Thus, the question is, which small towns to target? The paucity of secondary data

The 4 As of rural marketing are affordability, availability, awareness, and acceptability.

available at the village and block levels also adds to the confusion, as it is difficult to determine where distribution efforts would reveal a viable market. A 'Small Town Index' to rate the attractiveness of one location versus another would be an invaluable tool in determining where to make the product or service available.

Awareness

Low levels of literacy remain a stumbling block for any communications message for rural consumers. However, literacy rates are rising, indicating that comprehension levels will rise, too. Access to mass media, especially television, is very high in rural India, with half of all television sets being sold in rural India. This means that rural consumers are exposed to the same advertising designed for urban markets, increasing the demand for typically urban products and services such as fairness creams, etc. However, alternative rural means of communication such as wall paintings, vans, road shows, and *nautankis* in the local language also play an important role in creating interest amongst rural consumers.

Acceptability

Acceptability of a product or service vis-à-vis rural consumers is critical. As mentioned earlier, a product or service developed and designed for urban consumers may not necessarily be successful in rural markets. The rural environment must be borne in mind, in terms of their living conditions and how they would perceive and use the product or service. A productive asset, one that adds to earnings rather than a mere consumption product, would have greater acceptability in a typical rural household. Products that show greater versatility and adaptability to rural conditions have an advantage over others. For example, Chinese models of mobile phones have been an instant hit in rural markets without any advertising or promotion as they are low cost, durable, easy to use, have a built-in torch, and loudspeakers for playing music. So the mobile phone transforms into a personal portable entertainment system operable in 'no electricity' conditions.

Once a product or service fulfils rural concerns on all aspects of the marketing mix, it becomes suitable for rural markets. However, the size of the target rural consumer segment and the cost implications need to be considered to determine if this has the potential to become a successful product or service for the company.

::: The Evolving Rural Consumer

The rural consumer is evolving from the poverty-stricken, illiterate stereotype, with a fear of change and a reluctance to spend. Today's rural consumer is value driven. A product is worth purchasing if it enhances his life in a meaningful way. Either it should add to his earning capability (like mobile phones), or it should enhance his status (like readymade clothing). Literacy is rising, and exposure to the same commercials as urban consumers has created a demand for typically urban products and services. Villagers are willing to adopt new products or services if they can clearly see the benefits that accrue. Better road infrastructure has led to increased mobility, with people travelling more often and further afield in search of entertainment in the form of cinema, and not just for visiting family or pilgrimages.

The change has been greatest amongst the rural youth. They are the most educated and most savvy of all rural consumers, emulating their urban cousins and demanding the same high quality in the products and services they require. They are the key drivers for expenditure on mobile phones, two wheelers, computers, personal care items, and education in rural areas, leading to an improved quality of life.

In some households, it is the young children who are the only educated members of the family. In this capacity, they play a large role in decision-making for a variety of products and services, including food and personal care. For example, rural children's 'pester power' has become a driver for the purchase of Horlicks, a health drink,

A rural marketer should design his products keeping in mind the rural environment and needs, so that his products become acceptable and affordable to the target audience.

The rural consumer is becoming more literate and value driven. The greatest change is taking place amongst the rural youth, who are rapidly getting exposed to urban products and services.


in many households, although mothers are the decision-makers for this product category in urban areas. Children are also the educators of their mothers where health and sanitation messages are concerned, influencing behavioural changes affecting the whole household.

Cultural and social norms are slowly changing, with nuclear families creating new roles for women. Traditionally, males were the decision-makers for all household purchases, but now women do participate in decision-making for the items they use, such as cooking utensils, food items, and soaps, as a result of greater exposure. There are seven million self-help groups (SHGs) in India, which means approximately 70 million SHG members. This averages out to one SHG member in every two rural households. The overwhelming majority of these SHG members are women, many of whom travel to nearby towns for federation meetings as a result of their membership, and in the process gain exposure to advertising and the products available. The 50 per cent reservation for women in the Panchayati Raj has also played a similar role for the participants. This greater level of exposure influences purchase behaviour for the complete household, and creates a willingness to try out new products, services, and brands. Some corporations have already identified this sizeable new target consumer and are designing appropriate communication to create awareness for their brands.

Companies should focus on creating awareness and excitement for their brands amongst the women, youth, and children, rather than focusing on the older generations which remain more resistant to change, if they are to thrive in rural markets. See 'Rural Marketing Snapshot: Changing Rural Settlements' to understand how rapidly rural India is progressing.


∴ Rural India: The Exploding Middle Class

The sleeping giant has woken up, and rural India has finally emerged as a market worth chasing in its own right. 'Rural Marketing Memo: Startling Facts About Rural India' captures some interesting and relatively unknown facts about rural India. For years, its sheer size had captivated the imagination of marketers, but a population of 800 million, consisting of approximately 164 million households, had yet to prove that it had the spending power to emerge as a vital force to compete with urban markets in the eyes of marketers. Rural India has, as a result, been isolated from its urban counterpart, as a



RURAL MARKETING **SNAPSHOT**

CHANGING RURAL SETTLEMENTS



A *kuccha* dwelling

>



A permanent house

Rural India has come a long way from the *kuccha*, mud houses of the past. Today 62 per cent of rural houses are *pucca*. The dramatic change in trend in the type of house is indicative of the changing lifestyle, and increasing consumerism and asset possession. This large base of *pucca*-house dwellers presents a huge opportunity to rural marketers.



RURAL MARKETING MEMO

STARTLING FACTS ABOUT RURAL INDIA

- 377 million rural mobile users, more than the total number of subscribers in Brazil
- 27 million mobile internet users in Dec 2013
- Of the 22 million DTH subscribers, 60 per cent reside in rural areas and small towns
- 96 million Kisan Credit Cards issued, which exceeds the total number of (credit + debit) cards in urban areas
- Rural India is growing faster than urban India. Durables (25 per cent vs 10 per cent urban growth in 2009); FMCGs (18 per cent vs 12 per cent urban growth in 2009)
- 11 per cent car sales coming from rural areas and small towns
- There are 42,000 rural supermarkets (*haats*) in India, which exceed the total number of retail chain stores in the United States (35,000).

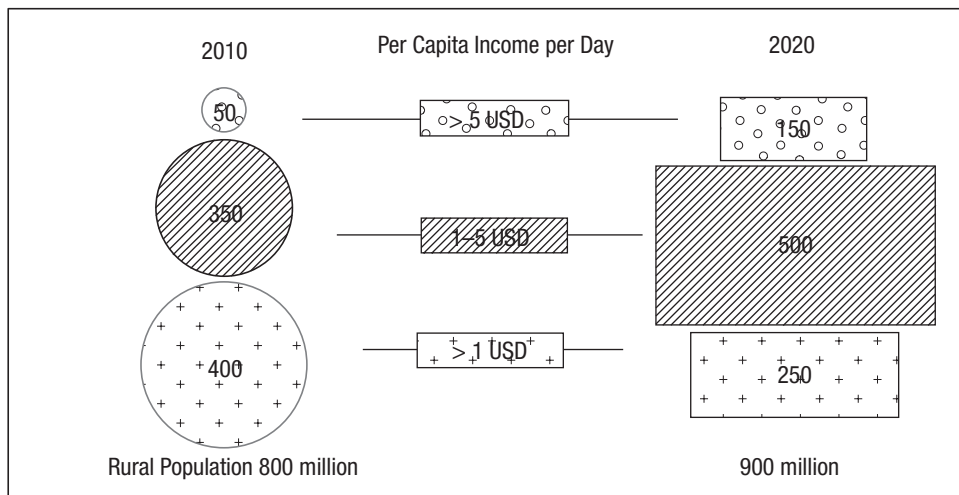
wide range of products and services were considered by marketers to be beyond their purchasing capacity. Today, this has changed. Now rural India has emerged as one of the largest markets to be tapped on the global scale.

The rural market is now an acknowledged viable market that has captured the attention of marketers. It already accounts for 56 per cent of India's total income, 64 per cent of expenditure and 33 per cent of savings. Infrastructure is also developing fast, leading to better connectivity by road (67 per cent villages are connected by all-weather roads), by phone (30 per cent tele-density in rural areas), and access to mass media through television. Increased electrification of households (60 per cent) has opened up the rural markets for durables. All of these factors have increased purchasing power and the demand for and access to new goods and brands, as seen over the past decade (2001–2010).

The future of the rural market looks even brighter. Future predictions of income are very positive, suggesting that the present income pyramid will actually change shape to a diamond as the proportion of the poor earning less than USD 1 per day drastically shrinks over the next decade to almost half (see Fig. 1.3). The majority of the rural population will be earning between USD 1 to 5 per day, and the proportion with incomes of over USD 5 per day will increase three-fold. Rural India is fast moving from poverty to prosperity.

The rural population earning more than USD 5 per day per capita on top of the income pyramid holds great promise for marketers. Although it translates into a monthly household income of USD 750 or INR 33,750, it is more than earners with similar

The present income pyramid is predicted to change its shape to a diamond as the proportion of the poor earning less than USD 1 per day drastically shrinks over the next decade to almost half.



| FIG. 1.3 | Changing Rural Income Pyramid