

Commercial Aspect of Agricultural Enterprising Process for Rural Economic Development

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ABSTRACT

“Villagers do not purchase branded products! They do not have sound purchasing power!

They are illiterate! They are not aware about, what new is going in the market! etc. etc.....”

Before a decade, these were the common statements when discussing about rural market, but now a days these are meaningless. Many companies and management gurus has proved it myths, as Mr. C. K. Prahalad said that, “It is the bottom of the pyramid.” Though his concern was on below poverty line people, but as we knows most of such people resists in rural areas of India.

Rural people have purchasing power, they are aware about branded products and they are loyal too, the need is of right positioning and right marketing strategy.

This is what ITC has done for targeting rural market, and no doubt, that they are the market leader of this segment.

This research paper is an approach to high light what ITC has done to become a market leader of Indian rural market. Through this paper we are focusing over myths about rural market, we are also focusing on the gap between company’s strategy and expectations of rural people from organized retailers.

Key Words: *Rural Market, Purchasing Power , Market strategies.*

1. Introduction:

Indian agricultural industry has been growing at a tremendous pace in the last few decades. The rural areas are consuming a large number of industrial and urban manufactured products.

The rural agricultural production and consumption process plays a predominant role in developing the Indian economy. This is the major reason that for quite some time now, the lure of rural India has been the subject of animated discussion in corporate suites. With urban markets getting saturated for several categories of consumer goods and with rising rural

incomes, marketing executives are fanning out and discovering the strengths of the large rural markets as they try to enlarge their markets. Today, the idea has grown out of its infancy and dominates discussions in any corporate boardroom strategy session. Adi Godrej, chairman of the Godrej group that is in a range of businesses from real estate and personal care to agri-foods, has no hesitation proclaiming, it is a myth that rural consumers are not brand and quality conscious. A survey by the National Council for Applied Economic Research (NCAER), India's premier economic research entity, recently confirmed that rise in rural incomes is keeping pace with urban incomes. From 55 to 58 per cent of the average urban income in 2004-05, the average rural income has gone up to 63 to 64 per cent by 2006-07 and touched almost 66 per cent in 2008-09. There are various other reasons why every industry is taking a very serious look at rural market. Few of the reasons, we are mentioning here:

- About 285 million live in urban India whereas 742 million reside in rural areas, constituting 72% of India's population resides in its 6,00,000 villages. This number itself speaks volumes about the immense untapped potential of the rural market.
- The number of middle income and high income households in rural India is expected to grow from 80 million to 111 million by 2012 while urban India is expected to grow from 46 million to 59 million.
- Size of rural market is estimated to be 42million households and rural market has been growing at 5 times the pace of the urban market.
- More rural development initiatives by the Govt.
- Increasing agriculture productivity leading to growth of rural disposable income.
- Lowering of difference between taste of urban and rural customers.
- Growing infrastructure- thanks to Govt. initiatives.
- Setting up of channels like e-choupals by companies like ITC.

These facts and figures are not totally unknown to Indian and global players. Hence many of them have started entering or have made their intentions clear regarding their entry in to the Indian rural market.

2. GAP ANALYSIS:

The rural market in India is not a separate entity in itself and it is highly influenced by sociological and behavioral factors operating in the country. Despite the reality that the rural population in India accounts for around 742 million which is exactly 72.3% of the total population, and a large number of misconceptions holding back the organizations from entering

it, the fact of the matter is that rural market poses certain serious challenges in front of the corporate that are willing to enter these markets. Some of the important challenges are:

2.1. Companies find it difficult to do Promotional activities due to poor infrastructure: according to a recent study of planning commission, only three fifths of the nearly 6 lakh villages in India are known to be connected by roads. This creates problems for the organized retail as transporting products to the remaining outlets becomes difficult & costly.

Secondly, this nearly make impossible for majority of the targeted rural consumers, who are spread within a radius of 15-20Kms, to reach the outlet during a substantial part of the year. Nearly 63% of all rural households in India do not have electricity and those which are electrified; there is a tremendous shortage of power supply in them. Thus it is quite common for rural areas to have 10-15 hours of blackouts every day. As the promotion of most of the products in one way or the other is dependent on electricity, this creates serious problems for them. Additional to it is the fact that illiteracy still is a major impediment in rural areas as a result print media has a limited scope of exposure in the hinterland.

2.2 Unique consumer behavior: Rural consumer as compared to their urban counterparts has very unique and erratic buying behavior. Most of the rural consumers do not readily take initiatives of gathering information regarding the new development in the market. They have presumptions regarding the showrooms, and they do not feel like going to the showroom to cross check the information. The survey showed that almost all the rural consumers have a prejudice that the products in the showroom are bound to be expensive.

2.3. Distance and location of nearby towns: Most of the retail organizations operating in the rural area are usually meant to serve a market of at least 15-20Kms in nearby areas in order to be substantially profitable. But it was found that many times towns are also located within the same radius. These towns usually provide for almost all the demands of an average rural consumer at a pretty reasonable rate. Now when they know that they are in competition with big players, they are becoming more cautious about the quality they provide. Hence the customers do not find it wise to travel 15Kms extra to the retail store when they can get their needs met in the market of a town merely 5Ks away from their village.

2.4. A closed society: Rural market is still a remarkable closed society with very stringent rules, cultural boundations, serious trust issues, and a very evident resistance & inertia towards change, which is more dependent upon a day today faith of the buyers & sellers on each

other. One of the major problems faced by the organized retail is of high employee turnover. This costs them clearly in sales, as the consumer performs transactions on personal faith and confidence. So when a consumer returns to a storeroom and keeps on seeing new faces every month, it becomes difficult for him to relate with them.

2.5. Virtually inaccessible consumers: Unlike their urban counterparts, the rural male consumers most of whom are farmers or labourers in the field move out of the residing area of villages to work in the far flung field & hence are hardly exposed to the promotional activities that are by immense efforts able to make it into the hinterland. Hence these target audience more than often remains untouched & unknown to the promotions being taken out by the retail organizations. This lack of exposure further leads to lack of sales instead.

2.6. Habit of credit purchase: Most of the transactions in rural India are still based on credit although most of the times it is not by requirement but by habit. The customers usually pay their dues to the unorganized retailers at the end of the month or at the completion of the harvest even if it means paying interest on their purchases. This practice cannot be accepted by the organized retailers simply by the accepted by the virtue of their framework. This results in the form of a major hindrance in converting the rural consumers to the organized retail consumers.

3. What rural people want?(Strategies that companies can adapt):

Although the above stated challenges are formidable but it is not that they cannot be overcome. The most interesting aspect is that the strategies which could be employed for overcoming them are pretty effective and at the same time very simple & very obvious.

3.1. Accept their culture & values: Festivals like Janmashtami, Maha shivratri, Dusshera, Makar sankranti etc. which are not so popular in urban areas, are celebrated with a lot of vigour in rural areas. In fact many of these festivals are of more than a day's duration with lots of events spread throughout the festive period, for example- Dangals, kabbadi, bullock cart races, mela etc. During these events, people from the nearby villages come to a central place where they can be targeted for sale of products. Sponsorships of such events can provide massive exposure with less expenditure as these events although provide recreation to rural customer but are organized at small scale and hence even a small investment can provide a much required grandeur to these events & exposure to the organization.

3.2. Offer products in small packs: low priced products can be more successful in rural market because of the low purchasing power of rural customer. For example: Coca-cola tapped a big area of rural market when it introduces bottles at Rs. 5.

3.3. Be a friend of them: these firms should hire agronomists and experts to carry out workshops regarding the crops, their quality, technology and fair prices. These agronomists/experts should also regularly visit these farmers regarding their day to day problems and requirements. Such practices will lead towards the development of strong and powerful bonds between the organization and the potential customers.

3.4. Promote products through Haats/Mandi: Haats and Mandis provide an obvious platform to the organizations which they may use for an excellent brand building exercise with the minimum of efforts. Canopies can be setup in the haats with a display of product & their schemes. A haat is a place where almost all the rural consumers come to purchase supplies for their routine & exceptional demands.

3.5. Corporate social responsibility: in most of the rural areas there are schools which are being carried out in the open. Organizations may provide basic infrastructure to these schools by giving organization sponsored sheds there. This practice will be a sort of advertisement as well as a way to build brand credibility.

4. Case study- ITC e-Choupal

4.1 About ITC-IBD

ITC is one of India's foremost private sector companies with a market capitalization of over US \$14 billion and a turnover of US \$3 billion. ITC has a diversified presence in Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business, Packaged Foods & Confectionery, Branded Apparel, Greeting Cards and other FMCG products. Its International Business Division (ITC IBD) was created in 1990 as an agricultural trading company; it now generates US \$150 million in revenues annually. Initially, the agricultural commodity trading business was small compared to international players. By 1996, the opening up of the Indian market had brought in international competition. Large international companies had better margin-to-risk ratios because of wider options for risk management and arbitrage. For an Indian company to replicate the operating model of such multinational corporations would have required a massive horizontal and vertical expansion. In 1998, after competition forced ITC to explore the options of

sale, merger, and closure of IBD, ITC ultimately decided to retain the business. The ITC-IBD taken the challenges to use information technology to change the rules of the game and create a competitive business that did not need a large asset base. Today, IBD is a US \$150 million company that trades in commodities such as feed ingredients, food-grains, coffee, black pepper, edible nuts, marine products, and processed fruits.

4.2. ITC e-Choupal and the Strategy

ITC followed a different media/communication strategy which is more elaborate and extensive in rural marketing so far, which benefits both the farmers and the organization. The strategy is use the Information Technology and bridge the information and service gap in rural INDIA which gives an edge to market its products like seeds, fertilizers and pesticides and other products like consumer goods. With this strategy it can also enhance its competetiveness in global market for agri exports.

A pure trading model does not require much capital investment. The e- Choupal model, in contrast, has required that ITC make significant investments to create and maintain its own IT network in rural India and to identify and train a local farmer to manage each e-Choupal.



The company has initiated an e-Choupal effort that places computers with Internet access in rural farming villages; the e-Choupals serve as both a social gathering place for exchange of information (choupal means gathering place in Hindi) and an e-commerce hub. The computer, typically housed in the farmers house, is linked to the Internet via phone lines or, increasingly, by a VSAT connection, and serves an average of 600 farmers in 10 surrounding villages within about a five kilometer radius. Each e-Choupal costs

between US \$3,000 and US \$6,000 to set up and about US \$100 per year to maintain. Using the system costs farmers nothing, but the host farmer, called a sanchalak, incurs some operating costs and is obligated by a public oath to serve the entire community; the sanchalak benefits from increased prestige and a commission paid him for all e-Choupal transactions. The farmers can use the computer to access daily closing prices on local mandis(government-mandated markets), as well as to track global price trends or find information about new farming techniques either directly or, because many farmers are illiterate, via the sanchalak (the village farmer who runs the e-Choupal and acts as ITCs representative in the village). In addition they

can also know about weather forecast(local) and best practices in the world from e-Choupal website. They also use the e-Choupal to order seed, fertilizer, and other products such as consumer good from ITC or its partners, at prices lower than those available from village traders; the sanchalak typically aggregates the village demand for these products and transmits the order to an ITC representative. At harvest time, ITC offers to buy the crop directly from any farmer at the previous days closing price; the farmer then transports his crop to an ITC processing center, where the crop is weighed electronically and assessed for quality. The farmer is then paid for the crop and a transport fee.

In the words of Mr. Abhishek Jain, Soya Farmer & e-Choupal Sanchalak Dahod Village, Raisen District, Madhya Pradesh

“Before ITC introduced us to e-Choupal, we were restricted to selling our produce in the local mandi. We had to go through middlemen and prices were low. ITC trained me to manage the Internet kiosk and I became the e-Choupal Sanchalak in my village. Today we are a community of e-farmers with access to daily prices of a variety of crops in India and abroad – this helps us to get the best price. We can also find out about many other important things – weather forecasts, the latest farming techniques, crop insurance, etc. e-Choupal has not only changed the quality of our lives, but our entire outlook.”

Launched in June 2000, 'e-Choupal', has already become the largest initiative among all Internet-based interventions in rural India. 'e-Choupal' services today reach out to more than 4 million farmers growing a range of crops - soyabean, co ee, wheat, rice, pulses, shrimp - in over 31,000 villages through 5200 kiosks across six states (Madhya Pradesh, Karnataka, Andhra Pradesh, Uttar Pradesh, Maharashtra and Rajasthan)

4.3. ITC- Choupal Sagar

ITC has continued to build new infrastructure by supplementing the farmgate presence of e-Choupal with new physical infrastructure – rural marketing hubs called Choupal Saagars, positioned within tractorable distance of 30 e-Choupal centres and their user communities.

The e-Choupal – Choupal Saagar hub and spoke combination is unprecedented grassroots click and mortar infrastructure transporting rural local economies to a new level of productivity and consumption.

Choupal Saagars offer a combination of services to rural



India.

Made-to-design agri-business hubs, they function as:

1. ITC agri-sourcing centres providing farmers a transparent best price sales window,
2. shopping centres bringing a range of products comparable to urban levels of choice, and
3. Facilitation centres delivering a host of farm-related services – training, soil testing, product quality certification, medical and clinical services, cafeteria and fuel station. 24 Choupal Saagar hubs are already in operation in 3 states, to grow to 100 by 2010.

4.4. Vision and Planning Behind the e-Choupals

Implementing and managing e-Choupals is a significant departure from commodities trading. Through its tobacco business, ITC has worked in Indian agriculture for decades, from research to procurement to distribution. ITCs translation of the tactical and strategic challenges it faced and its social commitment into a business model demonstrates a deep understanding of both agrarian systems and modern management. The principles followed in implementing the e-Choupals are

□ Re-engineer, Not Reconstruct

Present Mandi system have some success factors in it. ITC decided to build e-Choupal on existing system. Already ITC has trading agents in local mandis for its tobacco business. It retained the efficient providers and created roles for inefficient people. It recruits and engages members of landscape thereby making their expertise available to ITC. With this principle ITC can avoid the reinventing the system in areas where it can add no value with its presence i.e., in areas where efficient agents are there.

□ Address the Whole, Not Just One Part

The farmers various activities range from procuring inputs to selling produce. Currently, the village trader services the spectrum of farmers needs. He is a centralized provider of cash, seed, fertilizer, pesticides, and also the only marketing channel. As a result, the trader enjoys two competitive benefits. First, his intimate knowledge of the farmer and village dynamics allow him to accurately assess and manage risk. Second, he reduces overall transaction costs by aggregating services. The linked transactions reduce the farmers overall cost in the short term, but create a cycle of exploitative dependency in the long-term.

Rural development efforts thus far have focused only on individual pieces rather than what the entire community needs. Cooperatives have tried to provide agricultural inputs, rural banks have tried to provide credit, and mandis have tried to create a better marketing channel. These efforts cannot compete against the traders bundled offer. Functioning as a viable procurement alternative, therefore, must eventually address a range of needs, not just the marketing channel. ITC e-Choupal provide services as a bundle what the entire agricultural community needs.

□ An IT-Driven Solution

Delivery of real-time information independent of the transaction. In the mandi system, delivery, pricing, and sales happen simultaneously, thus binding the farmer to an agent. E-Choupal was seen as a medium of delivering critical market information independent of the mandi, thus allowing the farmer an empowered choice of where and when to sell his crop.

□ Risk analysis & challenges

- Radical shifts in computing access will break community-based business models.
- The sanchalaks are ITCs partners in the community, and as their power and numbers increase, there is a threat of unionization and rent extraction.
- The scope of the operation: the diversity of activities required of every operative and the speed of expansion create real threats to efficient management.
- If ITC fails to full the aspirations of farmers, they will look elsewhere for satisfaction.

ITC e-Choupal, an innovative strategy which is elaborative and extensive in rural markets so far. Critical factors in the apparent success of the venture are ITCs extensive knowledge of agriculture, the effort ITC has made to retain many aspects of the existing production system, including retaining the integral importance of local partners, the company's commitment to transparency, and the respect and fairness with which both farmers and local partners are treated.

5. Conclusion

On the basis of above discussion, we can conclude that rural market in India with a growth rate of 25% is a huge opportunity for the players who want to invest in organized retail sector. The

expected middle and high income households in rural India is 111 million in 2020 which is a witness why companies are seriously looking at rural market. At the same time, Government is also providing support to these companies for developing rural areas of India. Many major players operating in rural market e.g. ITC, Tata, DSCL etc. are facing many strong challenges in rural market like- facing difficulties in promoting their products due to unavailability of proper infrastructure, unique behaviour of rural customers, threat from the unorganized retailers of nearby towns etc. In order to overcome these challenges, firms are adopting certain strategies like sharing the culture and values of rural people, offering small packs of product at low prices, developing personal relationship with the rural consumers & involvement in various corporate social responsibilities.

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