

# RETAILING IN RURAL INDIA

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## ABSTRACT

Marketing means customer satisfaction through satisfying their needs via providing them products of their preference. That providing is an important element of marketing and that's why it is being considered as 4th P of Marketing-Mix defined by E. Jerome McCarthy in 1960. This is quite significant that product manufactured according to the needs of consumers must be reached to them because if the needed product is not available at the right place or we can say it is not available with the customers that will switch to another substitute product available with them. And result will be the loss of market share. So marketers must take utmost care in taking distribution decision of 4th P i.e. Place decision. This can be done by several means as manufacturer can deliver the product itself or choose another person generally whole seller and through the whole seller product goes to retailer and then to consumer or customer. In India, retailing is not a new phenomenon as there is as we are having more than 12 million retail outlets. We can go to Kirana store situated nearby our home. That is we can call unorganized retailing. And we can also go to Wednesday Bazaar at Big Bazaar for reasoning shopping. As we are aware of the fact that Rural India constitutes total population of 70% of India's total population so we can also think the market which rural India is serving to the different products. In spite of the potential, this segment of India is still being ignored due to misconception that this sector does not have money to buy the products or by other misconception. The present paper is an insight in the same direction to find out the potential of the same segment in terms of opportunities being provided by it.

## I. INTRODUCTION

India, like Britain, is also a nation of shopkeepers. With over 12 million retail outlets, India has one of the highest densities of retail outlets in the world with one retail outlet for 90 persons. Retailers inspired by the Wal-mart story of growth in small town America are tempted to focus on smaller towns and villages in India. However, a careful analysis of the town strata-wise population, population growth, migration trends and consumer spend analysis reveals a very different picture for India. After a long spell of shortages, which shackled consumer buying for decades, retail is becoming India's new mantra. The Sanskrit word "mantra" is not just "hymn" or "slogan"; it embraces aspiration and encompasses new India's way of life. While the retailing industry itself has been present through history in our country, it is only the recent past that has witnessed so much dynamism. We have entered the 21st century at a time when the demography of our population is changing significantly to drive organized retail growth. India now has a large young working population with a median age of 24. The number of nuclear families in urban areas is growing fast. Then there is the increase in working women population. Add to these the emerging opportunities in the service sector. Lifestyle habits are shifting from austerity to complete self-indulgence and Indians are now unapologetic about spending lavishly on non-essential goods such as luxury watches, cars, and hi-tech products.

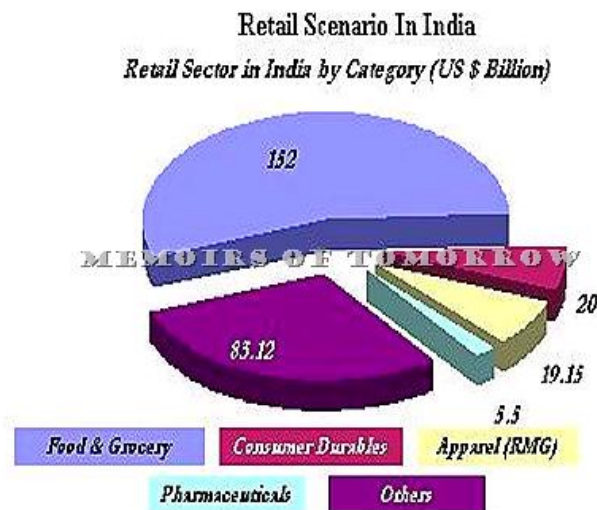
India can be said to have entered the second phase of retail growth when there is high-speed growth. There are retail chains like Tata's Westside, Pantaloon's Big Bazaar and Rahejas' Shoppers' Stop, to name a few, along with global players such as McDonald's and Benetton, trying to tap country's vast potential. Bringing all these under one roof are mega malls such as Lifestyle, Fun Republic and Big Bazaar. Now, top names in international malls such as Marks and Spencer and Mango are also eyeing the Indian market. It is only later that the retailing scene will move to the other phases when the fruits of rapid growth will result in economies of scale and greater efficiency leading finally to consolidation through mergers and acquisitions. Thus, retailing in India has a very long haul ahead.

## II. INDIAN RETAIL INDUSTRY

The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors, India retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. With growing market demand, the industry is expected to

grow at a pace of 25-30% annually. The India retail industry is expected to grow from Rs. 35,000 crore in 2004-05 to Rs. 109,000 crore by the year 2010. According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, India retail industry is the most promising emerging market for investment. In 2007, the retail trade in India had a share of 8-10% in the GDP (Gross Domestic Product) of the country. In 2009, it rose to 12%. It is also expected to reach 22% by 2010.

According to a report by Northbridge Capita, the India retail industry is expected to grow to US\$ 700 billion by 2010. By the same time, the organized sector will be 20% of the total market share. It can be mentioned here that, the share of organized sector in 2007 was 7.5% of the total retail market.



### III. RETAINING?

Retail consists of the sale of goods or merchandise from a fixed location, such as a department store, boutique or kiosk, or by mail, in small or individual lots for direct consumption by the purchaser. Retailing may include subordinated services, such as delivery. Purchasers may be individuals or businesses. In commerce, a "retailer" buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end-user. Retail establishments are often called shops or stores. Retailers are at the end of the supply chain. Manufacturing marketers see the process of retailing as a necessary part of their overall distribution strategy. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public utility, like electric power. Shops may be on residential streets, shopping streets with few or no houses or in a shopping mall.

#### Types of retail outlets

In some parts of the world, the retail business is still dominated by small family-run stores, but this market is increasingly being taken over by large retail chains.

Retail is usually classified by type of products as follows:

- Food products
- Soft goods - clothing, apparel, and other fabrics.
- Hard goods ("hardline retailers") - appliances, electronics, furniture, sporting goods, etc.

There are the following types of retailers by marketing strategy:

- Supermarkets - sell mostly food products;
- Department stores - very large stores offering a huge assortment of "soft" and "hard goods";
- Discount stores - tend to offer a wide array of products and services, but they compete mainly on price;
- General merchandise store - a hybrid between a department store and discount store;
- Warehouse store - low-cost, often high-quantity goods piled on pallets or steel shelves; warehouse clubs charge a membership fee;
- Variety store or "dollar store" - extremely low-cost goods, with limited selection;
- Demographic - retailers that aim at one particular segment (e.g., high-end retailers focusing on wealthy individuals).

Some stores take a no frills approach, while others are "mid-range" or "high end", depending on what income level they target.

Other types of retail store include:

- General store - a store which sells most goods needed, typically in a rural area;
- Convenience store - a small store often with extended hours, stocking everyday or roadside items;
- Big-box stores encompass larger department, discount, general merchandise, and warehouse stores.

#### IV. MAJOR RETAILERS IN INDIA

##### **Pantaloon:**

Pantaloon is one of the biggest retailers in India with more than 450 stores across the country. Headquartered in Mumbai, it has more than 5 million sq. ft retail space located across the country. It's growing at an enviable pace and is expected to reach 30 million sq. ft by the year 2010. In 2001, Pantaloon launched country's first hypermarket 'Big Bazaar'. It has the following retail segments:

- Food & Grocery: Big Bazaar, Food Bazaar
- Home Solutions: Hometown, Furniture Bazaar, Collection-i
- Consumer Electronics: e-zone
- Shoes: Shoe Factory
- Books, Music & Gifts: Depot
- Health & Beauty Care: Star, Sitara
- E-tailing: Futurebazaar.com
- Entertainment: Bowling Co.

##### **Tata Group**

Tata group is another major player in Indian retail industry with its subsidiary Trent, which operates Westside and Star India Bazaar. Established in 1998, it also acquired the largest book and music retailer in India 'Landmark' in 2005. Trent owns over 4 lakh sq. ft retail space across the country.

##### **RPG Group**

RPG Group is one of the earlier entrants in the Indian retail market, when it came into food & grocery retailing in 1996 with its retail Food-world stores. Later it also opened the pharmacy and beauty care outlets 'Health & Glow'.

##### **Reliance**

Reliance is one of the biggest players in Indian retail industry. More than 300 Reliance Fresh stores and Reliance Mart are quite popular in the Indian retail market. It's expecting its sales to reach Rs. 90,000 crores by 2010.

##### **AV Birla Group**

AV Birla Group has a strong presence in Indian apparel retailing. The brands like Louis Phillipe, Allen Solly, Van Heusen, Peter England are quite popular. It's also investing in other segments of retail. It will invest Rs. 8000-9000 crores by 2010.

##### **DCM Shriram Consolidated Ltd. (DSCL)**

"Hariyali Kisaan Bazaar"

##### **From Four P's to Four A's for Rural India**

There are four Ps of marketing -- product, price, place and promotion, as outlined above -- but they can be replaced by a different framework for analysis. "A number of companies have worked on various elements of the marketing mix to improve the four A's -- **affordability, awareness, availability and acceptability** -- for rural markets," he says. "FMCG companies innovated on package sizes to introduce low price points. They have customized promotional strategies for rural markets using local language and talent. Some FMCG players continue to expand rural penetration [HUL's Project Shakti, Tata Tea's Gaon Chalo]. Coca-Cola's Parivartan program has trained more than 6,000 retailers to display and stock products. Dabur has created a training module ASTRA [advanced sales training for retail ascendance] in several regional languages. A number of auto companies have launched rural-specific campaigns."

Affordability -- Godrej introduced three brands of Cinthol, Fair Glow and Godrej (soap) in 50-gram packs, priced at 10 cents; Adidas and Reebok increased their sales by 50% in rural markets by reducing prices.

- Size and design changes -- Videocon introduced a washing machine without a drier for US\$60; Philips launched a low-cost smokeless chulha (stove); DCM Shriram developed a low-cost water purifier especially for rural areas.

- Improving product acceptance -- LG Electronics developed a customized TV (cheap and capable of picking up low-intensity signals) for the rural markets and christened it Sampoorna. It sold 100,000 sets in the first year; Coca-Cola provided low-cost iceboxes as regular power outages meant families could not depend on refrigerators.
- Perhaps the ultimate sign that rural India has arrived is in the allocation of talent. "In the old days, the weakest people in organizations, the ones without a star career path, held the reins of the rural marketing divisions," says Bijoor. "Today, things have changed. Sharper and sharper brains from within the organization are being diverted to rural strategy formulation." When the whiz kids go to villages, you know the cows have come home.

## **V. SWOT ANALYSIS OF INDIAN RURAL RETAIL MARKET**

### **Strength**

- 70 % of India's population lives in 627000 villages in rural areas
- At the highest income level there are 2.3 million urban households as against 1.6 million households in rural areas
- Middle and high-income households in rural India is expected to grow from 80 million to 111 million by 2007.
- In urban India, the same is expected to grow from 46million to 59 million. Thus, the absolute size of rural India is expected to be double that of urban India.
- Young Population,
- Increasing purchasing power

### **Weakness**

- Large and Scattered market
- Major income from agriculture
- Low standard of living
- Traditional Outlook
- Diverse socio-economic backwardness
- Infrastructure Facilities
- Lack of Proper Physical Communication Facilities
- Many Languages and Dialects
- Dispersed Market
- Low Per Capita Income
- Low Levels of Literacy
- Prevalence of spurious brands and seasonal demand
- Different way of thinking

### **Opportunity**

- 3 times more families lives in Rural India,
- Rural India has a large consuming class with 41 per cent of India's middle-class and 58 per cent of the total disposable income.
- Their purchasing power is increasing,
- Exposure and increase in literacy rates will open market further,
- Govt. focus on agricultural policies will increase in rural earning,
- Population is becoming brand conscious,

### **Threat**

- Improper / Oversupply of the format in same key market.
- Shifting of young generation from rural to urban cities,
- Entry of small time players
- Study on buying behavior of rural consumer indicates that the rural retailers influences 35% of purchase occasions. ,
- Underdeveloped People and Underdeveloped Markets: The number of people below poverty line has not decreased in any appreciable manner. Thus underdeveloped people and consequently underdeveloped market by and large characterize the rural markets. Vast majorities of the rural people are tradition bound, fatalistic and believe in old customs, traditions, habits, taboos and practices.
- Substitution : Direct distribution model- HLL Shakti, Mobile Model- HLL Project Bharat,

### **Key Challenges**

Fortune is "AT" the bottom of the Pyramid But Organization has to spend Fortune "FOR" the bottom of the pyramid Initial cost to penetrate such a vast market is very high

### **Other Challenges**

- Increasing costs of land
- Pace of expansion

- High operating costs
- Low margin on agri-inputs consumers
- Low purchasing power of What should keep in mind to get success in Rural market?

## **VI. QUANTUM JUMP IN RURAL RETAIL OUTLETS**

In India for a long time a large chunk of retail outlets were grocery shop. This pattern had been changing in recent years, in urban and rural markets.

Of late, India's largely rural population has also caught the eye of retailers looking for new areas of growth. A slew of supermarket chains, including those of the Tata and ITC, are set to storm the rural areas of the country as corporate realize the huge potential of the untapped market ITC launched the country's first rural mall 'Chaupal Sagar', offering a diverse product range from FMCG to electronic appliances to automobiles, attempting to provide farmers a one-stop destination for all of their needs. Companies such as Godrej and DCM Shriram Consolidated are launching 'one-stop shops' for farmers and their communities. Godrej Agrovet, for instance, is planning to set up 1,000 Aadhar stores across rural India by 2010. DCM Shriram plans to set up 35 rural/semi-urban utility marts over 2006-07. Positioned as a one-stop shop, the Hariyali Kisaan Bazaar Chain will cater to a variety of farmers' needs by providing access to retail banking, LPG outlets and even a motorcycle showroom.

As clear from the story on Reliance Fresh and Metro, organized retail sector can bring a revolutionary change in rural India unless it goes for quick short-term gains. With Wal-Mart famous for its 'Always Low Prices' coming in India with Bharati as equal partner, Indian farmers and rural craftsmen can hope for a better direct deal. Retailing does not benefit just the consumer. It can give huge benefits to other industries, to government, and to the entire economy.

The rural market is no longer a non-player in the retail game. It is now accounting for over one-third of the market for most durable and non-durable products. Even manufacturers are developing new products with the rural consumer in mind besides using village-oriented marketing strategies for brand promotions. Whether it is Rani Mukherjee promoting the chocolate Munch or master batsmen Sachin wowing village lads with a soft drink, both ad makers as well as top company honchos know where to put their money and how. The rural market is no longer of hypothetical empirical value but is well researched and reached by most companies looking to tap India's vast and abundant bounty.

## **VII. GROWTH IN RURAL INDIA**

There may be a slowdown in urban retail, but 'Bharat' is still shining for retailers. The next phase of growth is expected to come from rural markets with rural India accounting for almost half of the domestic retail market, which is valued over \$300 billion. Rural India is set to witness an economic boom, with per capita income having grown by 50% over the last 10 years, mainly on account of rising commodity prices and improved productivity. Development of basic infrastructure, generation of employment guarantee schemes, better information services and access to funding are also bringing prosperity to rural households.

"Overall there is a huge market which is waiting to be served, ready to splurge, willing to explore new products and services, and retailers can tap on their wallets," said Ramesh Srinivas, national industry director (consumer markets), KPMG India. In rural markets, consumers are practical and price sensitive. Even though consumers at the bottom of the pyramid do not seem to have predictable income (which affects purchasing dynamics), the rural market proved to be surprisingly loyal. So if companies get it right they could really reap the rewards, experts added.

This is particularly true as changes in the rural economy such as people moving from agriculture into manufacturing, which pays better, are likely to lead to a economic boom.

In order to earn brand loyalty in the rural market, product design will need to go beyond ideas like smaller sizes (such as single use sachets) to create genuinely new products that appeal to this segment.

Also, with most of the retail markets in cities getting saturated, rural markets offer a sea of opportunity for retailers. Retailers have devised different models to serve rural markets. For instance, ITC promoted 'choupal sagar' has a hub-and-spoke model involving farmers. The model offers a rural shopping mall where they can sell their commodities and can buy almost anything including garments, cosmetics, electronics and even tractors. Other examples include Pantaloon Godrej's joint venture (Aadhar), Reliance Retail (Fresh & Fresh Plus), Hindustan Unilever (Shakti), DCM (Hariyali Kisaan Bazaar) and Mahindra & Mahindra (Shublabh).

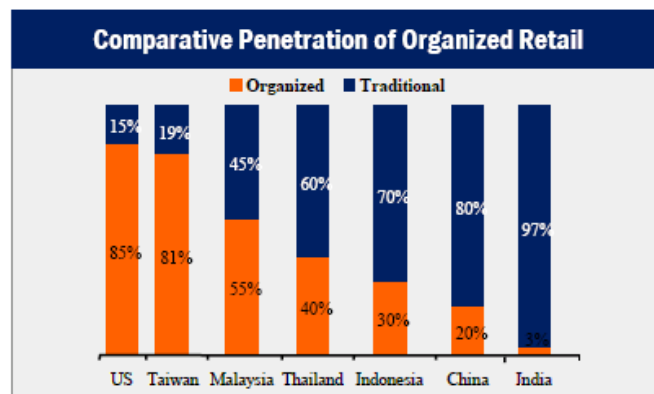
In the villages and small towns, it has been a very different picture. "The rural market is insulated from the global meltdown," says Harish Bijoor, CEO of brand and business strategy consultants Harish Bijoor Consults. "The rural part of our economy has been untouched by credit cards and mortgages as known in the West."

## **VIII. ORGANIZED RETAIL IN RURAL INDIA**



As organized retail in rural India awaits the arrival of Reliance Retail, current majors like ITC, Godrej and DSCL are expanding their retail operations by setting up more stores, entering new states and offering newer product categories. A shift from selling agri-inputs will help these stores target the non-farming segments. It is a little known fact that, while 25% of the rural population is not engaged in agriculture, it earns 50% of the rural income.

When organized retail first made its presence felt in rural India, it wasn't a pure retailing operation targeting the rural masses. Companies like DSCL and Godrej who had significant agri-business interests, set them up to meet the needs of farmers in a store's catchments area. A typical agri-input store would have a catchment area of around 100 villages spread over 20-25 kms. Says Ashik Hamid, associate director, Technopak, "These stores are one-stop shops meant to meet the occupational needs of farmers by providing agri-inputs and fertilizers". These stores, like DSCL's Hariyali Kisan Bazaar, ITC's Choupal Saagar etc. tend to be located in small towns that function as procurement hubs where the farmers come to sell their produce. Their earnings are tapped then and there, by getting them to combine their visit with shopping. These stores tend to target farmers with all sizes of holdings, "We build our offerings for everyone, from the farmer owning 20 acres to the one owning 200", says Rajesh Gupta, business head, Hariyali Kisan Bazaar, "It wouldn't be done any other way as there is a similarity on the application side, everyone needs the same inputs."



While organized retail centered on these stores, unorganized retail revolves around the local village shop and the haat. Shops are usually present in villages with a population of more than 500 people. They stock more product categories than what similar urban shops would, but there isn't much variety offered within a category. Haats are weekly mobile supermarkets that are spread over 2-3 acres of land, with more than 300 stalls, selling anything from animal feed to local medicines.

Where unorganized retail disappoints is in that the goods sold are often spurious and there is no guarantee of quality for many of the goods being sold be it agri-inputs, FMCG etc. The typical shop is cluttered and congested with limited variety and few national brands. Many of the goods are sold at prices.

## **IX. PENETRATION OF RURAL MARKETS BY LEADING PLAYERS**

Maruti Suzuki, India's leading automobile manufacturer, today sells 5% of its vehicles in the rural markets. The company expects this number to rise to 15% in the next two years. "This is not just our wish, but reflects market demand," says director (marketing & sales) Shuji Oishi. In telecom, service providers are making a beeline for the villages. That's where the growth in what is now the world's fastest growing mobile market lies. According to industry estimates, 70% of all new subscribers will come from rural areas. (See NTT DoCoMo's Tata Deal: Why Global Telecom Firms Want to Dial India.)

Mobile device manufacturers are also tailoring their products to this market. Nokia had earlier launched a basic handset with a torch (large parts of rural India don't have electricity) and an alarm clock. (see How Did Nokia Succeed in the Indian Mobile Market, While Its Rivals Got Hung Up?) In December 2008, it went one step further with the launch of Nokia Life Tools. "Nokia Life Tools is a range of agriculture, education and entertainment services designed especially for the consumers in small towns and rural areas of emerging markets," says the company. "Aimed at providing timely and relevant information customized to the user's location and personal preferences directly on their mobile devices, Nokia Life Tools is the first step towards bridging the digital divide." The mobile phone is a new-age product; gold jewelry is as old as the hills. Here, too, there has been a rural move. According to World Gold Council figures, 60% of India's US\$15 billion annual consumption of gold and gold jewelry is from rural and semi-urban areas. The Tatas have launched a mass-market jewelry brand -- Gold Plus. The Tatas train unemployed youth and send them to the villages as brand ambassadors. The problem with gold in India is that it is often adulterated. In rural areas, gold jewelry is not for ornamentation; it is a safety net for emergency situations. Thus, the Tata

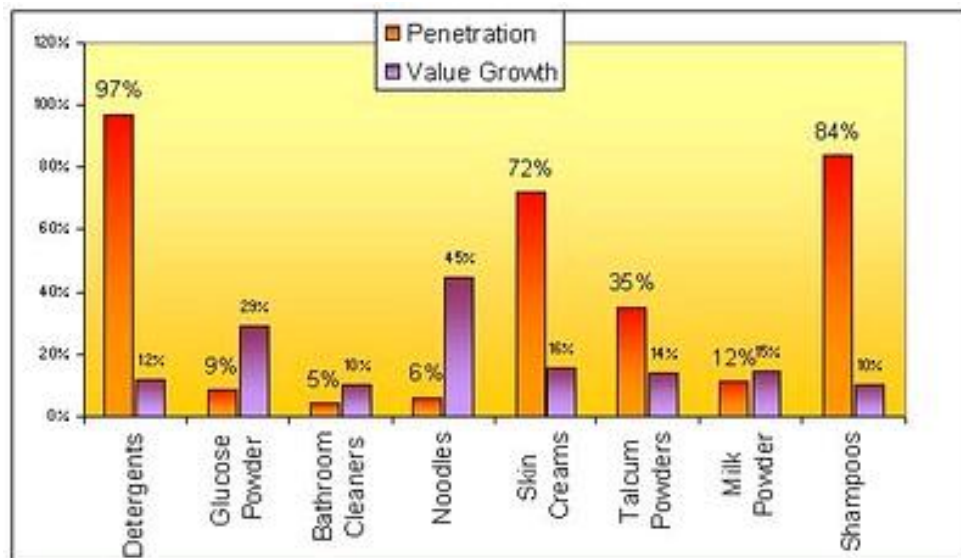
seal of good housekeeping is taking the brand places. "Gold Plus is an interesting example of the brand addressing the non-metro jewelry culture with its ethnic touch with regard to its designs and retailing," says Ramesh Kumar of IIMB.

There is substantial scope to create products that are oriented towards non-urban sectors. These can be in terms of functional appeal or cultural aspects or both. Chik shampoo created the jasmine variant [in tune with the culture of women using jasmine flowers to style their hair in a few parts of the country]. TVS mopeds created functional value in tune with the 'all purpose' vehicle culture existing in several parts of the non-metro areas. Philips is moving forward with the creation of gas stoves and lanterns that will be useful to such markets.

The Chik shampoo sachets sells for 2 cents, the Parle G Tikki biscuit packs at 4 cents and the Coca-Cola 200 ml glass bottle for 10 cents. Successes in rural areas can be transplanted to urban areas also. The shampoo in sachets created a new product segment. All shampoo manufacturers today retail in sachets, and the demand from urban India for this category is very strong.

The sachet is as much a packaging (product) strategy as a price strategy. The shampoo sachet is a case in point. Villages in India have hard water. But the shampoo that you get in sachets sold in villages is the same that you get in towns. Manufacturers should have tailored the products to suit the environment.

But re-engineering is necessary in a different sense. Companies are realizing that the urban and rural want is largely the same. However, the rural person is savvier and demands real value for money. To offer this, marketers are re-engineering products. Look at the auto segment. The urban man wants a car as does the rural man. Both have the same amount of money. The rural person, however, believes spending US\$12,000 on a car is a sin. He wants it at US\$3,000. The Nano is a solution. Every category needs to operate on the Nano paradigm. The needs are all the same, across rural and urban. The solutions have to be different.



## X. CONCLUSION

The Indian retail scenario is poised for a quantum leap. Not only are newer names set to dot the retail landscape but also new and emerging retail formats will drive the diversity of the fast-changing retail backdrop. A growing population, a young workforce and zooming consumer confidence will fuel the expansion of the retail sector. As organized retail in rural India awaits the arrival of Reliance Retail, current majors like ITC, Godrej and DSCL are expanding their retail operations by setting up more stores, entering new states and offering newer product categories. A shift from selling agri-inputs will help these stores target the non-farming segments. It is a little known fact that, while 25% of the rural population is not engaged in agriculture, it earns 50% of the rural income. The retail market is the next growth frontier for corporate India. It offers an opportunity for a large player to build a Rs. 40,000 Cr retail business spanning multiple categories by 2015 (at current prices). However, to capitalize on the opportunity, a player needs to be aggressive in its outlook and build scale quickly.

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