



E-Business Model For Rural Market

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Abstract

India's rural market is undergoing a continual shift, and this emerging sector is seeing increased growth and obstacles. MNCs and domestic businesses are both trying with new approaches and methods to appeal to the most difficult rural market. Due to the expansion of ICT infrastructure in India's rural sector, e-business may have a bright future. Rural India's consumer dynamics are shifting, and marketers must adapt their plans and approaches to meet the needs of rural consumers. The obstacles and prospects in rural retailing are discussed in this study, as well as a novel paradigm for rural distribution.

Keywords: MNCs, E-Business, consumer dynamics, rural marketing, ICT

Introduction

The Indian rural market with its vast size and demand base offers great opportunities to marketers. Two-thirds of countries consumers live in rural areas and almost half of the national income is generated from ruralmarket. It is only natural that rural markets form an important part of the total market of India. India is classified in around 600 districts, and approximately 6,30,000 villages, which can be sorted in different parameters such as literacy levels, accessibility, income levels, penetration, distances from nearest towns, etc.

Retailing is the final phase of the distribution channel and it is clear by now that it is distribution that drives growth in rural Indian markets. Hence retailing will be

significant and will undergo greater organization and maturity as is being witnessed in the urban markets, even in the rural markets. Innovative retail models which take into account the nuances of rural markets are the way forward. India offers a huge, sustainable and growing rural market which can be tapped effectively through innovative distribution channels with retailing being the most critical element of this strategy as it is the final touch point and the actual touch point with the customer which can be the most critical influence in the buying process.

The paper highlights the challenges and opportunities in rural retailing and suggests a new model for rural distribution.

Recent trends in rural retailing

- Multiple drivers leading to a consumption boom
- Favorable demographics
- Growth in income
- Socio economic changes
- Raising aspirations: Value added goods sales
- Food and agri- inputs retailing key drivers of growth
- ITC is experimenting with retailing through its e-Choupal and Choupal Sagar – rural hypermarkets.
- HLL is using its Project Shakti initiative – leveraging women self-help groups – to explore the rural market.
- Mahamaza is leveraging technology and network marketing concepts to act as an aggregator and serve the rural markets.

Rural retailing challenges

The rural market of India is large and scattered in the sense that it consists of over 700 million consumers from 6, 30,000 villages spread throughout the country, Hence market coverage becomes the greatest challenge

Nearly 60 % of the rural income is from agriculture. The demand pattern for products is mostly seasonal

The rural consumer values old customs and tradition. They do not prefer changes. Rural consumers have diverse socio-economic backwardness. Different types of strategies need to be adopted.

The infrastructure facilities like roads, warehouses, communication system, and financial facilities are inadequate in rural areas. Hence physical distribution becomes costly due to inadequate infrastructure facilities.

Rural retailing Opportunities

At present 85% of the organized retailing takes place in India's urban areas. But the good thing is that the retail focus has already shifted to the rural areas. The Indian rural market with its vast size and demand base offers the following opportunities to marketers:

- Infrastructure is improving rapidly
- In 50 years only, 40% villages have been connected by road, in next 10 years another 30% would be connected.
- More than 90% villages are electrified, though only 44% rural homes have electric connections.
- Rural telephone density has gone up by 300% in the last 10 years; every 1000+ pop is connected by STD.
- Social indicators have improved a lot between 1981 and 2001
- Number of "pucca" houses doubled from 22% to 41% and "kuccha" houses halved (41% to 23%).
- Percentage of BPL families declined from 46% to 27%.
- Rural literacy level improved from 36% to 59%.
- Per square foot space is cheap in rural areas
- Low penetration rates in rural areas

Challenges in Rural Distribution

The rural market may be alluring but it is not without its problems: Low per capita disposable incomes that is half the urban disposable income; large number of daily wage earners, acute dependence on the vagaries of the monsoon; seasonal consumption linked to harvests and festivals and special occasions; poor roads; power problems; and inaccessibility to conventional advertising media.

The more daring MNCs are meeting the consequent challenges of availability, affordability, acceptability and awareness (4 As). This study mainly focuses on the distribution aspect in rural market. Product availability is considered as the important challenge because of changing phase of rural demographics. India's 6, 30,000 villages are spread over 3.2 million sq km; 700 million Indians may live in rural areas, finding them is not easy. However, given the poor state of roads, it is an even greater challenge to regularly reach products to the far-flung villages. Any serious marketer

must strive to reach at least 13,113 villages with a population of more than 5,000. Marketers must trade off the distribution cost with incremental market penetration. Over the years, India's largest MNC, Hindustan Unilever, a subsidiary of Unilever, has built a strong distribution system, which helps its brands to reach the interiors of the rural market. To service remote village, stockists use auto-rickshaws, bullock-carts and even boats in the backwaters of Kerala. Coca-Cola, which considers rural India as a future growth driver, has evolved a hub and spoke distribution model to reach the villages. To ensure full loads, the company depot supplies, twice a week, large distributors which who act as hubs. These distributors appoint and supply, once a week, smaller distributors in adjoining areas. LG Electronics defines all cities and towns other than the seven metros cities as rural and semi-urban market. To tap these unexplored country markets, LG has set up 45 area offices and 59 rural/remote area offices.

Study on buying behaviour of rural consumer indicates that the rural retailers influences 35% of purchase occasions. Therefore sheer product availability can affect decision of brand choice, volumes and market share. Some of the FMCG giants like HUL took out project streamline to significantly enhance the control on the rural supply chain through a network of rural sub-stockists, who are based in the villages only. Apart from this to acquire further edge in distribution HUL started Project Shakti in partnership with Self Help groups of rural women.

Existing Models of Rural Distribution

HUL's Project Shakti

Project Shakti is HUL's smart way of reaching 10 lakh homes directly in the villages where traditional distribution system cannot hope to enter through the use of Self Help Groups (SHGs). The project was started in 2001 in 50 villages involving women belonging to micro-credit SHG in the Nalgoda District of Andhra Pradesh. 50 SHGs were selected. These SHGs were covered by three Mutually Aided Cooperative Thrift Societies (MACTS). Each MACTS had 14 to 15 SHGs under them. HUL along with a social service organization, Marketing & Research Team (MART), assisted the women in getting micro-credit to set-up an enterprise to distribute HUL's range of products. HUL selected a woman from an SHG as Shakti entrepreneur to start an enterprise with an initial loan from her SHG. After three month training, each woman began serving 6 to 10 villages having population of 1000 to 2000. HUL delivered stocks at her door-step. From there on, she had to supply to village retailer as well as sell directly to consumers. She would pocket different profit margin for each different sale.

ITC's Choupal Sagar

Choupal Sagar, a farmer's Mall of ITC, is a place where the rural consumer gets almost all of his requirements under one roof. From clothes, FMCG goods, watches, home furnishings and consumer durables to automobiles to tractors, pumping sets, fuel, pesticides, seeds to health care, retail banking to restaurants and much more are available in the Sagars. Initial investment in each shopping is Rs 5 crore (Rs 50 million). Till now ITC is able to setup only 24 Choupal Sagars across Madhya Pradesh, Uttar Pradesh and Maharashtra.

Hariyali Bazaar.

The first outlet came up at Del Pandarwa (near Shahjahanpur in Uttar Pradesh) in July 2002 and so far 15 "Hariyali Bazaars" have been set up: six in UP, five in Punjab, three in Rajasthan and one in Haryana. On an average, each centre is attracting 150-200 farmers a day. Each "Bazaar" operates in a catchment of about 20 km radius and approximately 15,000 farmers live in this area. Each center provides help to improve the quality of agriculture in the area through 24x7 support by a team of qualified agronomists. They provide a complete range of good quality, multi-brand agriculture inputs, access to modern retail banking and farm credit at reasonable rates of interest, farm produce buyback opportunities and access to new markets.

GODREJ Aadhaar

GODREJ Aadhaar, the rural retail initiative of Godrej Agrovet Ltd. The Godrej Aadhaar brand has grown to a chain of 18 stores providing a host of services to farmers and their families within a year of setting up. The company is now in the process of developing these outlets into a one-stop solution for all the needs of the rural population. Godrej Aadhaar offers an array of services for rural house holds from the basic food, grocery, apparel, footwear to furniture, kitchenware and home appliances to value-added services including banking, postal services pharmacy to be made available at these stores to ease the burden of the entire farmer community. The Future Group has already acquired Godrej Aadhaar in 2008 from Godrej Agrovet. Aadhaar now functions as a retail store that provides inputs to farmers; it also sells FMCG and electronic products to the rural retail customer.

New e-business model for last mile distribution

ITC Choupal sagar model can concentrate only to selected areas, the expansion of such type of store becomes problem due to high setup cost. The HUL project shakthi model can cater only at the micro level with limited product choice for the customers.

The new model can be scaled up similar to ITC choupal sagar, but it should operate with low-cost, low capital investment model without losing its corporate social responsibility. The outlets can be setup as small-sized functional stores with an approximate area of 1,500-2,000 sq.ft, warehouse space retail outlets taken on rent or lease,. The new model can be developed by the participation of 100 to 150 Self Help Groups with the support of corporate. The Model becomes more viable due to the increase in number of SHGs in India. A single warehouse can concentrate on 20 to 30 rural kiosks covering an average of (each kiosk covers six villages) 150 villages. The total households covered by one distributionhub will range from 20,000 to 25,000.The key players in the new model is given in figure 1

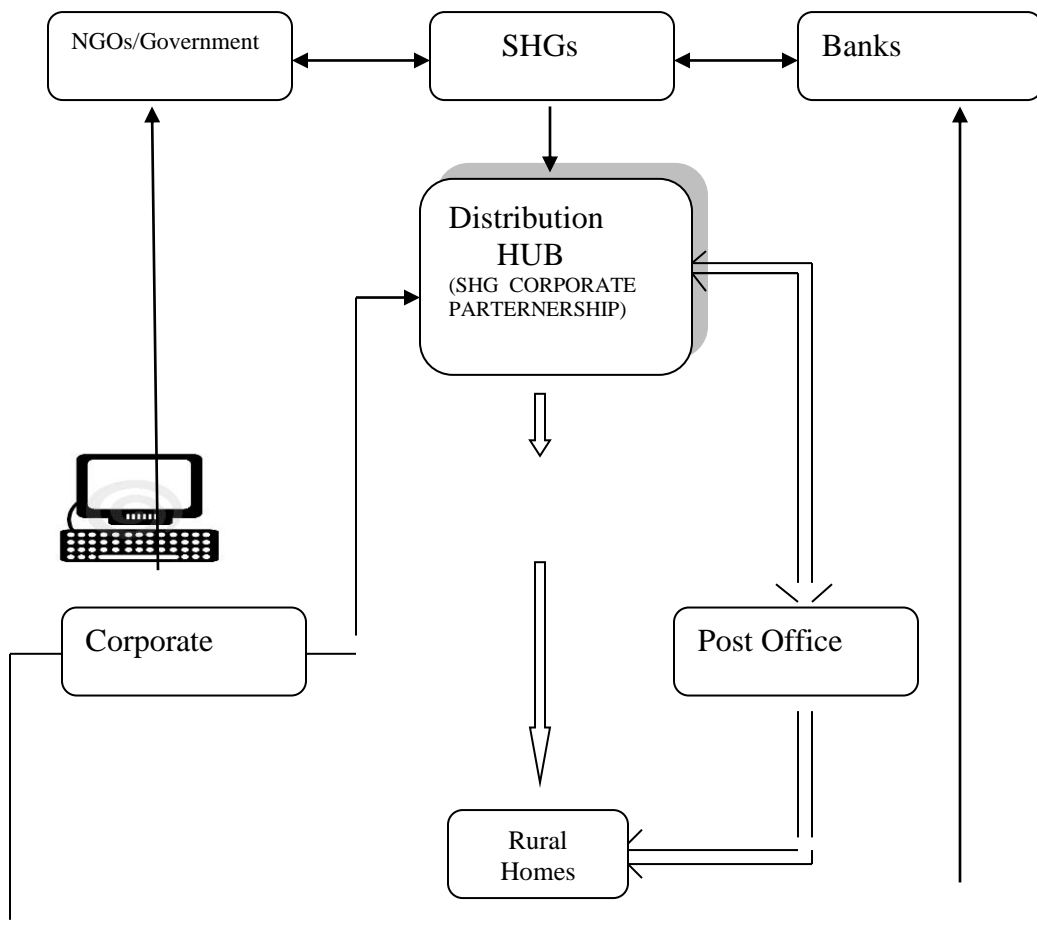


Fig. 1: Key players in the new Model

Payment options: The payment for product purchase can be made by cash or by using Kisan Credit cards or commonwealth cards at the respective kiosk operated by SHG.

Distribution channel: Distribution can be taken care with the participation of postal network. Postman service can be used to deliver the product to the rural households. Alternatively private network with the participation of SHG can be utilized for the product delivery mechanism.

Factors need to be considered for setting the new model

The new model can be formed with SHG members as equity holders. The SHG can contribute at the individual level or at the group level with the marketing support of corporate. The number of SHGs and e-kiosks can be decided based on the following factors.

- Nature of the product.
- Scale of operation.
- Nature of the market
- Financial strength of SHGs.
- SHG concentration.
- NGO's /Government support
- Corporate requirements.

Operational aspects of the e-Business model

Modern information and communications technologies (ICTs) and web based marketing of FMCG and durables hold great promise for the development of rural market in India. There are a number of ways in which ICTs may serve the development process. For instance rural entrepreneurs can benefit because ICTs help to improve access to markets or supply chains and provide a broader base for decision-making. Moreover, many local communities have experienced that ICTs have increased bottom-up participation in the governance processes and may expand the reach and accessibility of government services and public infrastructure.

Internet and Information Kiosks exist in various kinds, each with their respective merits. The Information Kiosks can be setup by the Government/NGOs support with the help of local SHG Group to sell the products and services. These Kiosks can also

operate like i-Shaktito provide information and services to meet villagers' needs in medical, health and hygiene, animal husbandry, agriculture, education and women's empowerment among others. The business uses click and brick model i.e., use of both the online as well as the offline channel. The operational aspect of the new model is given in figure 2.

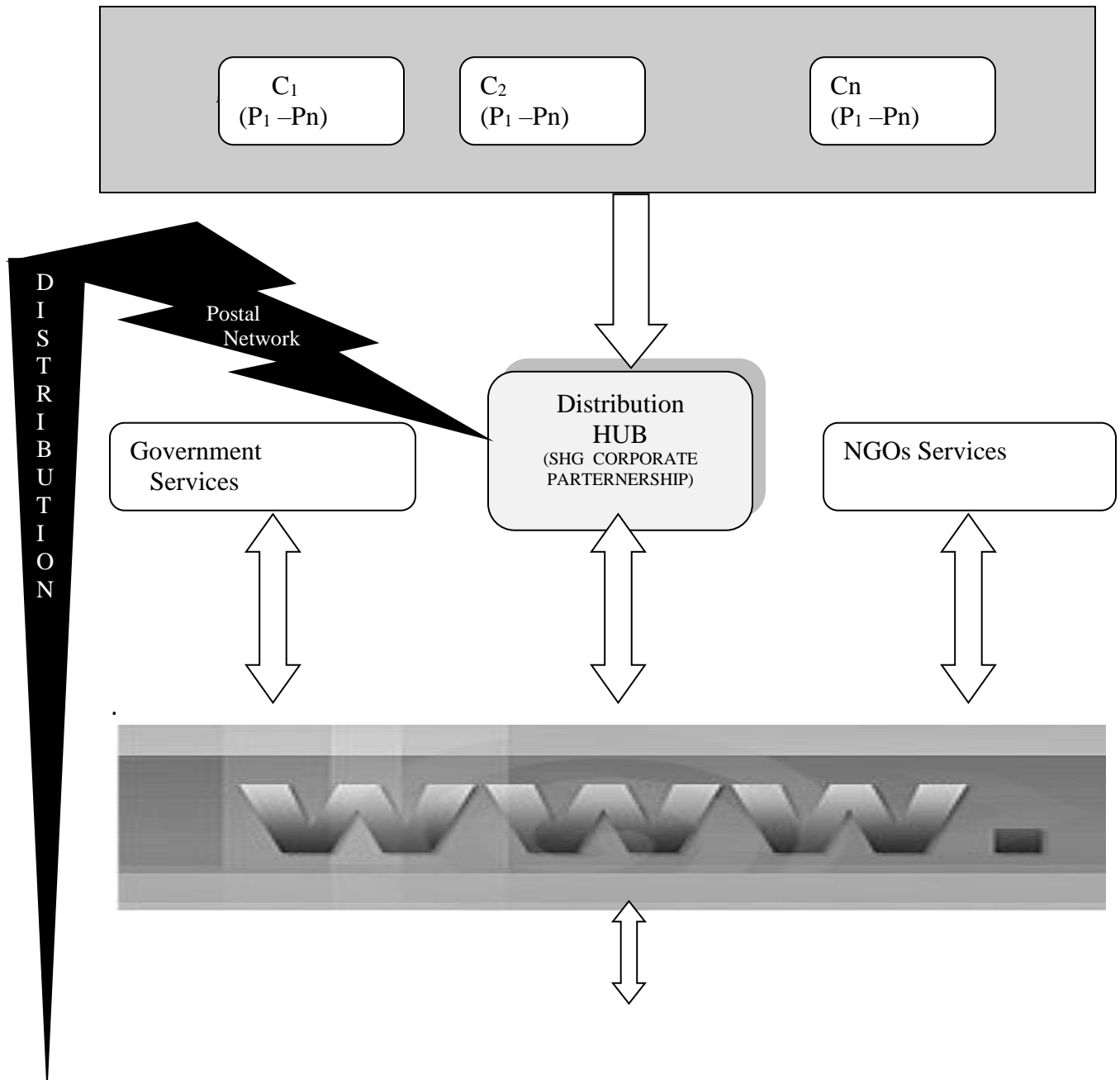




Fig 2:Operational aspects of the e-Business model

(C_1 to C_n represents the number of Corporate participated; P_1 to P_n represents products marketed through the e-business model)

Benefits of new e-businessmodel

Being a theoretical model the benefits can be derived based on the success elements derived from the various models under operation.

1. Wider acceptance due to its high level of corporate social responsibility.
2. Eradication of poverty by sharing the profits by the SHG.
3. Availability of the product to the rural consumers at affordable prices.
4. Choice of brands.
5. Availability of government and NGOs services.
6. Possibility of adding mandi system for procurement from small farmers.

Scope for further research.

Being a conceptual study it has its own limitations. Further research can be conducted in the areas of rural customers opinion on the new model, product requirements, SHGs entrepreneurial spirit and investment capacity, Financial viability of the new model ,Government and NGOs support and distribution mechanism. The future research in the above areas can serve as a solution to enhance the new model.

Conclusion

Spending in the rural segment is growing rapidly and consumption patterns are closing in on those of urban India. Several Indian and multinational firms have been making inroads into Indian rural market by setting their own distribution models. Companies such as Unilever, Phillips and Nestle have long been known to India's rural

Markets. The basic problem in Indian rural market is accessibility. The scattered population and change in rural demographics makes an obstacle for growth. The suggested model may cater to the rural market by increasing the socio-economic aspects of the rural households due the presence of increased rural communication infrastructure.

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