KARNATAKA STATE DPEN UNIVERSITY

MUKTHAGANGOTHRI, MYSURU- 570 006.

DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A III Semester

ELECTIVE – B: MARKETING

COURSE – 17 B : RURAL MARKETING

BLOCK - 1: RURAL MARKETING – AN OVERVIEW

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Registrar Karnataka State Open University Muktagangotri, Mysuru. - 570006 **Developed by Academic Section, KSOU, Mysuru**

Karnataka State Open University, 2014

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BLOCK – I INTRODUCTION

Dear Learner,

India's vast rural marketing offers a huge potential for a marketer and facing stiff competition in the urban markets. The rural market environment is very different from the familiar surroundings of the urban market; what differentiates the two markets is not mere income but a host of other infrastructural and socio- cultural factors. The rural market cannot be tapped successfully with an urban marketing mindset but requires a distinct approach.

Coming to the frame work of rural marketing, rural marketing broadly involves reaching the rural customer, understanding their needs and wants, supply of goods and services to meet their requirements, carrying out after sales service that leads to customer satisfaction and repeat purchase/sales

In this block, every unit has been scheduled in a manner so as to enable the students to understand the content easily. Each unit having its own structure and begins with the learning objectives, so that learner knows as to what he/she is required to learn from the unit.

This Block comprises of four units,

UNIT - 1 : Introductiton to Rural Marketing

UNIT - 2 : Rural Marketing Environment

UNIT - 3 : Rural Marketing Finance

UNIT - 4 : Rural Marketing Mix

BLOCK – I

RURAL MARKETING-AN OVERVIEW

UNIT - 1: INTRODUCTION TO RURAL MARKETING

Structure:

- 1.0 : Objectives
- 1.1 : Introduction
- 1.2 : Concept of Rural Marketing
- 1.3 : Evolution of Rural Marketing
- 1.4 : Rural Marketing /Urban Marketing
- 1.5 : Characteristics of rural market
- 1.6 : Scope of rural marketing
- 1.7 : Factors contributing to the growth of rural market
- 1.8 : Need for exploring the rural market
- 1.9 : Case Study
- 1.10 : Notes
- 1.11 : Summary
- 1.12 : Key Words
- 1.13 : Self Assessment Questions
- 1.14 : References

1.0 OBJECTIVES

After studying this unit, you should be able to;

- Develop insights into the concepts related to rural marketing.
- Highlight the characteristics of rural market
- Identify reasons for the growth in rural market

1.1 INTRODUCTION

India's vast rural marketing offers a huge potential for a marketer and facing stiff competition in the urban market. The rural market environment is very different from the familiar surroundings of the urban market, what differentiates the two market is not mere income but a host of other infrastructural and socio- cultural factors. The rural market cannot be tapped successfully with an urban marketing mindset but requires a distinct approach.

The thrust on rural development and green revolution began during the late 1960s and early 1970s, which focused on high yielding crops. Further the shift has been towards manufacturing and service economy resulting in increased job opportunities, income and demand for goods and services in rural market. In fact it has been estimated that the rural market are growing at a faster rate than urban market. Rural India has been emerging as a large market for a number of good and services including consumer durables, financial services, education and telecommunication.

While the rural market offer big attractions to the marketers, it is not easy to enter and generate a market share due to low literacy, low income, seasonal demand and problems with regard to transportation, communication and distribution. With all the challenges and problems associated with rural market it also offers several opportunities.

1.2 CONCEPT OF RURAL MARKETING

The field of sociology defines rural as a group of people who are traditionalist in outlook rooted in the land and who resist change.

The census of India (2001) defines rural as that what is not urban and urban is

• All locations within a Municipality/Corporation, cantonment board or a notified town area committee.

• All other location satisfying all of the following criteria:

- 1. Minimum population of 5000
- 2. At least 75% of male workforce engaged in non-agricultural activities and
- 3. A population density of over 400 persons per sq. km

The definition of rural as per marketers would be different, like most companies in the FMCG and agro-input sector would define rural as a place with a population of up to 20,000. Durable goods companies would consider any town with a population of below 50,000 as a rural market.

According to another viewpoint, customers in India have been divided into broad groups in terms of geography and sociological characteristics: Urban, Semi-Urban Rural and.

After having understood the concept of rural market in India, planning and implementation of marketing function encompasses the scope of rural marketing.

Rural marketing has been defined as the process of developing pricing, promoting distributing rural specific goods and services leading to exchange between urban and rural a market, which satisfies consumer demand and also achiever organizational objectives.

As per the National commission on agriculture "Rural marketing is a proper which start with a decision to produce a saleable farm".

1.3 EVOLUTION OF RURAL MARKETING

• Phase I(From independence to green revolution)

Before the advent of green revolution, the nature of rural market focused on agricultural produce and was considered to be synonymous with agricultural marketing.

• Phase II (Green revolution to pre-liberalization period)

Due to the advent and spread of the green revolution, rural marketing represented marketing of agricultural inputs in rural market and marketing of rural produce in urban areas.

• Phase III (Post-liberalization period of the 20th century)

In this period rural marketing represented the emerging, distinct activity of attracting and serving rural market to fulfill the needs and wants of rural households, people and their occupation.

• Phase IV (21st century)

Organizations realized that to tap the real potential of the rural market, it needs to make a long term commitment with this market. The objective of rural marketing in the current

phase is the improvement of the quality of life by satisfying the needs and wants of customer, not through stand-alone products or services but by presenting comprehensive and integrated solutions which might involve a set of inter related products and services.

1.4 RURAL MARKETING V/S URBAN MARKETING

The domain of rural marketing is significantly different from the way marketing is planned and implemented in urban areas some of the factors differentiating rural marketing from urban marketing are as follows;

1. Infrastructure availability

Urban market is better off than rural market in terms of electricity supply availability of finance facility, education level, roads connectivity and presence of organized market.

2. Income streams

The consumption pattern in urban areas is different from rural areas because income generation in rural areas is based on agriculture in rural areas is based on agriculture which is seasonal and unreliable.

3. Lifestyle

As the consumer profiles in rural market is different from the urban market the marketing mix for the same product varies in both market.

4. Accessibility

The cost and logistics of accessing consumers in a highly wide spread and heterogeneous rural market are very different from those involved in reaching urban consumers concentrated in good number in a single location.

5. Media reach and habits

The media vehicles and habits vary widely in rural and urban market which requires a different promotional strategy for the two market.

6. Natural of competition

The intensity of competition amongst the brands is more in rural market when compared to urban market.

7. Consumer behavior

The value system and perception towards goods / services in both the market differ making it difficult to generalize consumers' response to marketing stimuli.

1.5 CHARACTERISTICS OF RURAL MARKET

The rural market is not homogeneous across the country; variations in the level of exposure to urban center and the extent of development in a region have resulted in tremendous heterogeneity

The consumer willingness to accept innovation also varies significantly from one rural market segment to another. Some of the characteristics of the rural market are listed below;

1. Large and scattered market

The rural market is approximately 75 crore which is spread approximately across 6.38 lakh villages. Covering such a large and scattered market raises the inventory and transportation costs but from the other perspective, 13% villages have 50% rural population possessing 60% of rural wealth, so rural market can be reached out sufficiently.

2. Heterogeneous market

There are as many as 20,000 ethnic groups in India sharing different traditions and values making it very difficult to develop a uniform promotional message Variations in economic development and socio-cultural background influence consumer willingness to accept innovations and new product in different areas. For example the literacy rate in rate in South India is higher than rural north making them more brand conscious than their northern counterparts.

3. Income from agriculture

As 55% of rural income comes from the agriculture sector, in the recent past these has been gradual reduction in the dependence on agriculture.

4. Standard of Living

The uncertainty associated with the rural income pattern has made the rural consumer extremely conscious in their purchase behaviour. Brides this low literacy social backwardness, low savings and traditional attitude contribute to a lower standard of living.

5. Infrastructural facilities

Infrastructural facilities like roads, warehouses, communication system and financial facilities being inadequate in rural areas make it difficult companies to promote and distribute

their products for example only 50% of village in the country are connected by road or have access to electricity.

1.6 SCOPE OF RURAL MARKETING

Rural marketing has two major areas namely (a) marketing of agricultural products from rural to urban area and marketing of manufactured goods and services in rural areas.

In other words rural marketing is a two way marketing process. One is the flow of goods from rural to urban areas and the other one is flow of goods and services from urban to rural areas. Rural marketing also includes the flow of goods and services within the rural areas itself.

The rural to urban transactions includes the agricultural products like food grains cotton etc. The urban to rural transactions cover the goods and services of all agricultural inputs. Fertilizers, pesticides, consumer durables are goods which are transacted from urban to rural.

1.7 FACTORS CONTRIBUTING TO THE GROWTH OF RURAL MARKET

1. Favorable government policies

In the tenth five year plan, high priority has been given to the development of agriculture and rural areas, transportation, communication, electricity and social services like health, education and employment generation.

The government has initiated a holistic and integrated approach to rural development consisting of the following;

- Rural infrastructure development program under the Bharat Nirman scheme.
- National food for work program. It focuses on employment guarantee program and the work relates to water conservation, land development, food control and rural connectivity.
- Sampoorna Gramin Rozgar yojana

The aim of the program is to provide additional wage employment in rural areas.

- Pradhanmantri Gram Sadak Yojana
- It was launched in 2000 with the objective of constructing new roads and connecting about one lakh villages and upgrading existing roads.

- Swarnajayanthi Gram Swarojgar Yojana
- It was launched in 1999 with the aim of developing self-employment among villagers through mix of need based credit and subsidies.
- Rural housing project providing shelter to rural people.
- Stepping up credit flow to farmers and others.
- National food security mission in order to increase production of wheat, rice and pulses.
- Rastriya Krishi Vikas Yojana designed to increase public investment in agriculture.
- National agricultural extension system which provides services to farmers in the areas like technical advice and soil testing.
- National Horticulture Mission (NHM) Implemented by the Ministry of Agriculture with the objectives to increase production and productivity of horticulture crops (fruits, vegetables and flowers) reduce post-harvest losses and generate employment opportunities for the unemployed.

2. Agricultural Development

Agriculture contributes to about 20% of GDP of our country with 70% of the rural population depending on agriculture for their livelihood. Agricultural prosperity generates considerable demand for consumer goods in rural areas

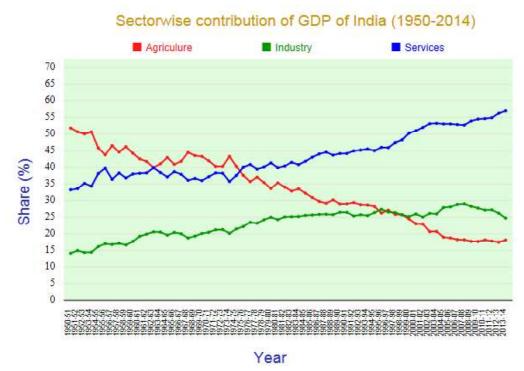
The following initiatives have led to growth and development of agriculture

- Agricultural Education and Research
- The green revaluation which focused on increasing yields of crops through modern cultivation practices.
- Crop diversification
- Change in cropping pattern from food crops to cash crops; like cotton, vegetables flowers have enabled the cultivations to increase their income.
- Diversification of agriculture
 - Considering the dependence on monsoon many formers have taken up other activities like poultry, fish culture and others to supplement income.
- White revolution

It was initiated by the government to achieve self-sufficiency in milk production. The policy focuses on producing milk through rural co-operatives and moving the processed milk products to urban areas. The state of Gujarat has taken a lead in dairy development followed by States like Punjab and Andhra Pradesh.

3. Development of Indian Economy

Indian economy is classified into 3 sectors Agriculture and allied, Industry and Services. According to CIA (Central Intelligence Agency) fact book sector wise Indian GDP composition in 2014 are as follows; Agriculture (17.19%), Industry (24.2%) and services (57.9%). The figure 1.1showing sector wise contribution of GDP of India and statistics as per the GDP for 2014 indicates a remarkable increase in the contribution of the service sector for the growth of the economy.



As there has been an expansion of industrial and service sectors, the Indian economy can be considered to be a more developed country with more market potential.

4. Rising aspirations of the rural people

The mobility towards higher income group has been higher in rural areas than urban. This provides tremendous opportunities for marketing goods and services in rural areas.

5. Media Explosion

Expansion of TV network and more channels have contributed to the growth of rural market. The growth is seen in terms of use of modern technology like Karnataka's Bhoomi Project which aims at computerization of land records which are made available through bhoomikiosks.

6. Private initiatives

Private agencies have contributed to the growth and development of rural areas through village level programs. For example companies like Colgate have highlighted the importance of health and hygiene among villagers through village meetings and film shows.

Also ITC, e-choupal has become the largest initiative among all interest based interventions in rural India. Rural naukari, com provides employment opportunities by creating database of rural human resources.

7. Growth in income

The average income level has improved in rural areas because of modern farming practices industrialisation of rural area and growth of service sector.

Rural income (farm and non-form) contributes to over50% of the total income of the country. One of the examples of rural prosperity can be seen in the village Killa Raipur in Punjab. The village has a population of about 25,000 and owns around 250 cars,800 tractors and a washing machine and TV in every home.

1.8 NEED FOR EXPLORING THE RURAL MARKET

1. Growing rural market

According to NCAER(National Council for Applied Economic Research) the rural consumers represent more than 50% of India's consuming classes and form the target group for consumer goods and services.

2. Severe competition in major urban market has led many companies to establish their products in rural market.

3. Rural marketing creates employment opportunities diversification of agriculture, development of village level industries and marketing of modern goods and services provide employment opportunities. For example many software firms are setting up centers in smaller towns where salaries are up to 50% lower than cities and real estate up to 5times less expensive resulting in cost competitiveness.

4. Rural tourism

The broad areas covered are cultural and farm tourism, nature holidays and touring in rural areas. As rural tourism is catching up, the importance of rural marketing is enhanced E.g.: Purushwadi a village situated near Mumbai has become a tourist center with over 60 households who welcome guests to stay with them and experience village life by working in the farm, trekking and like.

5. Over 70% of country's population lives in rural areas

According to a National Council from Applied Economic Research (NCAER) study there are as many middle incomes and above households in rural areas as there are in the urban areas. At the highest income level, there are 2.3 million urban households as against 1.6 million households in rural areas.

6. Habitual brand loyalty

As majority of the rural consumers are price conscious they continue to patronize a brand once they are satisfied with the product.

1.9 CASE STUDY

Encouraging good hygiene-Lifebuoy, A Unilever Brand

Developing market such as India are an important source of growth for Unilever. The company is adopting unique marketing approaches to increase consumption of its products in these regions by positioning itself as an ethical brand that benefits wider society.

Unilever's Lifebuoy 'Swasthya Chetna' ('Health Awakening') campaign is one example. This educates people on the importance of health and hygiene in preventing diarrhoea and encourages them to adopt a simple hand-washing regime using soap. Swasthya Chetna is India's largest ever rural health and hygiene education program.

Diarrhoea is the world's leading preventable cause of death, killing 2.2 million people every year including 600,000 Indian children under the age of five. According to a study by the London School of Tropical Hygiene, washing hands with soap and water can reduce instances of diarrhoea by 47%..

Many potential Lifebuoy customers live in remote, rural areas which can be hard to reach through conventional media. Ogilvy worked with Lifebuoy to create a direct communication campaign specially designed to raise awareness among India's largely rural and often illiterate population. Lifebuoy health officers visited 43,000 Indian villages and schools over five years where they used product demonstrations, interactive visuals, competitions and drama workshops to spread the health and hygiene message.

The program is based on the simple insight that 'visible clean is not actual clean' which was brought alive through a special 'Glowgerm' UV demo. When held under ultra-violet lamps, glow germ powder glows on hands washed only with water, symbolising germs on those hands, and does not glow on hands washed with soap.

The program has reached 110 million rural Indians since it began in 2002. Awareness of germs has increased by 30% and soap use has increased among 79% of parents and among 93% of children in the areas targeted. Soap consumption has increased by 15%.

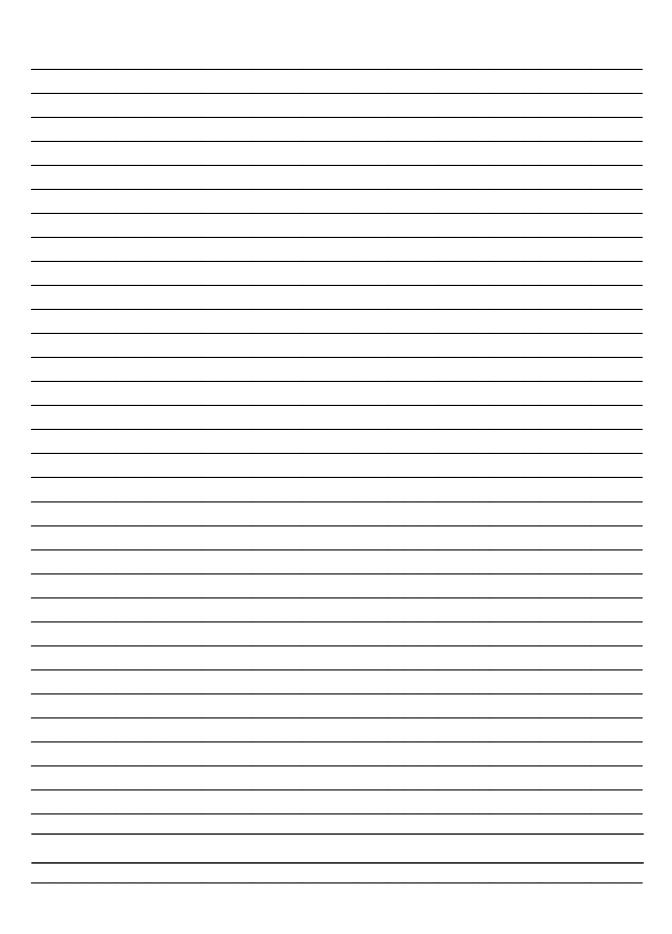
The campaign received recognition for its innovation and effectiveness, winning Silver in the Rural Marketing Advertisers Association of India awards in 2006, and the grand prize at the Asian CSR awards 2007. It was also recognised by the Indian government who created a special edition postal

Questions

1. Is the positioning strategy of the company appropriate or can the company design alternative strategies?

2. Suggest innovative strategies that the company could adopt apart from those described in the case.

1.10 NOTES



1.11 SUMMARY

The rural economy and its growth is a prerequisite for the development of India. Indian rural market possesses its own characteristics as it is highly heterogeneous and scattered. Demand for products in rural market is less volatile with rural economy becoming less dependent on income from agricultural output. Further increase in income levels and rural literacy rates has changed the perception that rural market are less attractive than their urban counterparts.

The factors responsible for the augmented rural market potential are outlined as follows; rising rural prosperity and lesser dependence on agriculture, increasing rural consumption and rural marketing efforts by different organisations. So we can conclude that the rural market is full of challenges and opportunities with over 75% of the population living in rural areas. Only companies with high level of rural commitment can carve a niche for themselves in the rural sector.

1.12 KEYWORDS

Rural market, rural marketing, urban marketing.

1.13 SELF-ASSESSMENT QUESTIONS

- 1. Explain the scope of rural Marketing & Explain briefly how Rural India is emerging.
- 2. Explain the factors, which have made rural market attractive?
- 3. Enumerate the features of the rural economy.
- 4. Explain the main features of rural market.
- 5. 'Indian economy is rural economy'. Explain.
- 6. What are the emerging characteristics of a rural market?
- 7. Describe the various benefits of rural marketing

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UNIT 2: RURAL MARKETING ENVIRONMENT

Structure:

- 2.0: Objectives
- 2.1: Introduction
- 2.2: Components and Classification of Rural Marketing
- 2.3: Rural Market v/s Urban Market
- 2.4: Rural Marketing Environment
- 2.5: Case Study
- 2.6: Notes
- 2.7: Summary
- 2.8: Key Words
- 2.9: Self Assessment Questions
- 2.10: References

2.0 OBJECTIVES

After studying this unit, you should be able to;

- Classify rural market
- Identify the difference between rural and urban market
- Highlight characteristics of the rural marketing environment

2.1 INTRODUCTION

In order to understand rural marketing a more detailed study of the rural market and how they differ from urban market needs to be analyzed. Also the influence of rural marketing environment provides inputs on factors that need to be considered in case of rural market.

2.2 COMPONENTS AND CLASSIFICATION OF RURAL MARKET

The components of the rural market include the following;

- 1. Existence of a good commodity for transactions
- 2. Existence of buyers and sellers
- 3. Business between buyers and sellers
- 4. Demarcation of areas as place and region

Classification of rural market

This can be classified as follows. Depending upon the tangibility and durability the market for products and services can be classified broadly in to six categories

- 1. Market for consumer goods
 - a. Consumer food items: cooking oil tea, health drink and biscuits
 - b. Consumer nonfood items: textiles, foot wear
 - c. Consumer durables: Fan, sewing machines
 - d. High value consumer durables: TV and Refrigerators
- 2. Market for agricultural inputs and machinery
 - a. Seeds: High yielding and hybrid seeds of paddy and cottons etc.
 - b. Fertilizers: Inorganic and organic fertilizers
 - c. Pesticides: chemical pesticides and botanical pesticides

d. Agricultural Machinery: Tractors, engine oil and harvesters

3. Market for services

It includes insurance banking and health

- 4. Market for agricultural product like grains, pulses and vegetables
- 5. Market for construction materials for farms and village level industries
- 6. Transportation equipment's like cars, commercial vehicles and jeeps.

2.3 RURAL MARKET V/S URBAN MARKET

India' urban and rural market differs not only on account of income in there are a number of other parameters like lifestyle, social cultural, outlook and other factors. On the basis of these parameters the attitude and behavior of the rural consumer is likely to remain different from that of the urban consumer. Some of the factors causing the urban- rural divide include the following table 2.1

Factor	Contribute factor (%)				
Infrastructure	42				
Income	31				
Lifestyle	19				
Interaction	08				

Table2.1: Factors causing rural - urban divide

As the parameters like infrastructure, accessibility have been discussed previously we will differentiate rural and urban market in term of the consumers behavior. The difference between rural and urban market is very significant and can be understood on the basis of the following parameters.

1. Need based buyer behavior

The rural consumer is mostly driven by this need and is therefore cost conscious and thrifty in his spending habits. So the product offered to the rural market must serve a distinct need and should provide a solution to a long standing problem.

2. Conscious decision marking

Decision making is conscious and deliberate among the rural community especially for consumer durables. The type of product a rural consumer intends to buy depends on his purchasing capacity and attitude towards the product category.

3. Value for money

Among the 4 Ps price is an important determining factor for the rural consumer. Hence sachets of tooth pastes, hair oils and other products are made available to tap the vast rural market. The unpredictable income levels make the rural consumer highly conservative and value conscious.

Although due to increased promotional efforts made by marketing organizations the rural market, though having the desire to buy branded products buy them only in small and medium packages.

The concept of value consciousness does not mean that the consumer would settle for a poor quality product also since servicing is a major issue in remote areas, the rural consumer look for products that can perform the core function on a consistent basis. Promotional activities in the rural context are more like education when the benefits of the products are highlighted to the value conscious consumers.

4. Consensus decision making

As the rural buyer has to ensure social acceptance of his decision and the products he is purchasing, he is involved in consensus decision making when compared to the urban buyer whose decision is individual or at the most family driven.

5. Resistance to change

The rural customer is resistant to change and avoids any type of risk with respect to their purchase behavior whereas the urban consumer likes to try new things.

6. Different responses to marketing stimuli

Different socio cultural settings make the urban and rural consumers to perceive marketing stimuli like product and promotion differently; for example bright and bold colours are preferred in rural India while light and trendy colours are preferred in urban areas.

7. Brand consciousness

There is a general assumption that the BOP (Bottom of the Pyramid) are not brand conscious but it is found that BOP consumers are value buyers with more number of branded products being sold in the rural areas and share of non-branded goods shrinking dramatically. When we say that rural consumer is brand conscious it means that Ural consumer values logos colors and symbols for brand identification than brand names because of low literacy rates in villages. As brand consciousness is high in rural area brand loyalty is seen in case of several product categories including the FMCC segment with Ponds and Fairs and Lovely holding high market shares in their respective categories.

8. Rising Aspirations

The rural consumer is increasingly molding his aspirations to match his urban counterpart though the urban rural divide continues to exist.

9. Alternative use of Products

In rural India products designed for satisfying a specific need are used for alternative purposes. For example Iodex is rubbed on animals to relieve them of muscular pain and washing machine is used to make bulk lassi.

2.4 RURAL MARKETING ENVIRONMENT

The rural environment comprises of the demographic, physical, economic, social, cultural political and technological aspects of rural market

1. The Demographic environment

Here the rural population is discussed in terms of its size, age, gender, education, occupation, land holdings and income.

• Growth in the rural population

The details of rural population is given in table 2.2

Parameter		2001	2010	2015
Total population(in million)		1029	1177	1254
Rural population(in million)		742	826	866
Rural proportion to total proportion (per cent)		72	70	69
Number of rural households(in million)		138	168	NA
Family size(no)		5.36	5.01	NA

Income

The rural population has grown by over 200 million over the last decades and proportion of the rural house hold continue to be 70% and is expected stabilize over time.

• Change in the rural family structure

Traditionally households in rural India were joint families with rise in population and other socio-economic factors like education and separate sources of income joint families are now breaking apart. Families are moving towards the concept of "individualized joint families" in which families stay in the same house but have separate kitchens in order to avoid conflicts and pursue individualized choices.

Education

Twenty five percent of the rural population is SSC pass out. The literacy rate has gone up from 53% in 2000 to 63% in 2010 with higher literacy rates in South India than North India.

Occupation

Agriculture was the principal occupation in rural India which has been replaced by trade other skilled jobs and salaried jobs. As literacy levels have increased and people have acquired upgraded skill set the scope for other job options has increased.

Landownership

Although the total land area has remained constant, the number of land holdings has increased with increasing fragmented small and marginal farmers.

Income

Rural income constitutes more than 50percent of the total income in India. The urban rural disparity has declined which has narrowed down the income gap. According to McKinsey report the middle class and above will be 208 million in 2025. Income growth per household is expected to increase from 2.8 percent in 2005to 3.6 percent by 2025.

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2. The Physical environment

The settlement pattern of households is either in a cluster on in individualized landholdings, or a combination of both physical environment in rural areas includes the study of the settlement patterns of households and types of dwellings. Some of the characteristics of the physical environment include;

• Villages with a population of less man 500 generally do not have any shop but the number of such villages has decreased by 5 percent over the last 10 years. 25,000 villages in the "less than 500 population" category have upgraded to the 500 population category.

• Village in the 2000+ population have been increasing rapidly. In the last 10 years almost 23,000 villages have been upgraded to the 2000+ population category. These villages have around 16 shops. The type of houses in rural areas is an important indication of economic growth.

3. The Social and Cultural environment

The Socio-Cultural behavior is mapped as distinct socio-cultural regions (SCRS). The SCR is a group of districts clubbed together based on linguistic homogeneity combined with geographical contiguity financial, economic and administrative homogeneity and regionalization of culture and lifestyle which is unique to them from other districts and caste and class considerations. There are 90 SCR in India within each SCR; there is a spectrum of rural and urban communities on the continuum of socio-economic variables which serves as a yardstick for market segmentation and targeting. Besides SCR the village community and caste system are important

• The Village Community

Historically caste based occupations and trade collectively contributed to self sufficiency of villages. Earlier the village had a council of elders who decided on disputes but now the Gram Panchayat is a part of the State administration. As gender bias is declining, the status of women in villages is changing and they are now contributing to family income and the decision making process.

♦ Caste System

Indian society has had a definite scheme of gradation which claimed certain sects of society to be socially supreme than other. However in the last few years the influence of the caste system appears to be reducing.

4. The Political environment

The political environment in the rural areas focuses on understanding the Panchayati Raj System and its functioning. It plays a critical role in many spheres of rural consumers' lives.

Under Panchayati Raj system all government departments (education, health, agriculture rural development and social justice) all form an integrated approach for the development of rural areas. The structure of the panchayat ensures the participation of villagers in electing their representatives to the panchayat as well as in its functioning, thereby making them politically aware and active. Villages with a population of 5,000 or a cluster of smaller villages with a cumulative population of 5,000 form a panchayat.

5. The Technological environment

The changes in the rural technological environment were triggered by rapid mechanization in farming after the green revolution and the information and communication technology revolution in the last decade.

• Rapid Mechanization

As a consequence of the mechanization of agriculture the s hare of animal power has declined and the share of tractor power has increased from 46% in 2002 to over 50% in 2020.

• The information and communication technology revolution

The evolution of computer, internet and mobile phones has had a tremendous impact on the lives of rural people. It is connecting farmers to food retailers enabling them to sell the produce at high farm gate prices without delay.

Today farmers have formed a community of e-farmers who have access to the daily prices of a variety of crops, latest farming techniques and crop insurance. The e-choupal project has already covered over 1, 00,000 villages representing 1/6th of the rural India.

6. The rural economic Environment

Economic liberalization and government led infrastructure development have opened up the rural economy. The growth of the non-farm sector and better farm earnings with minimum support price (MSP) and crop diversification have transformed rural economy into a vibrant economy.

The changing face of rural development

Over the decades rural economy has graduated to a cash-rich economy forcing corporate India to focus their strategies on rural India.

Rapid increase in rural literacy levels, improvement in health indicators, increase in per capita expenditure, decline in poverty levels and increase in life expectancy have resulted in the improvement of human development indicators in rural India. To improve the quality of life in rural areas, allocations for rural development and agriculture have been increased substantially over consecutive Five- year plans. The increase in budget allocation has been six-fold, both for agriculture and rural development sectors between the eighth & eleventh plans.

The rural economy has undergone transition from focus on food grain crops on-land activities and farm activities to non-food grain crops-cash crops, off-land allied activities (livestock) and non- farm activities (services and manufacturing).

The transition from farm to nonfarm activities has positive implications for employment and productivity in rural market.

The non-farm which contributed to 60 per cent of rural GDP is estimated to go up to 70 per cent in 2020. Also government programme focused on rural areas like BharathNirman (Rural infrastructure development) are creating huge opportunities in non-farm employment.

Income and expenditure in rural areas

` It is seen that occupation groups non-farm households are reporting higher incomes led by the salaried and self- employed but growth in income has been experienced by laborers whose income has doubled due to increased days of employment and better wages.

The share of the rural wallet displays a dramatic shift in consumption from food to non-food items over the last decade a healthy growth in noticed in the personal care category with consumers shifting from unbranded to branded products.

2.5 CASE STUDY

Snap deal to tap India's rural market by setting up E-Commerce Kiosks

In its ongoing race with Flipkart and Amazon India for e-commerce supremacy, Snapdeal is set to tap into the rural areas in India. In partnership with FINO Pay Tech, Snapdeal will reach out to people living in slums like Dharavi in Mumbai, and villages in Rajasthan and Haryana, among many others.

The e-commerce company plans to set up as many as 5,000 e-commerce kiosks across 70,000 rural areas in India. These kiosks will include PCs and tablets for people to go online and shop, and will also act as collection points for packages. A FINO agent at the kiosk will login and help people shop for products across a wide range of categories including speakers, juicers, solar lanterns, dinner sets, cameras and mobile phones among others. Snapdeal's Kunal Bahl believes that by tapping into the rural market, the company will be able to reach around 5-10 crore new customers in the next three years.

Snapdeal isn't the only company looking to tap into the Indian rural market. Amazon India is reported to be in talks with the government to improve the Indian Postal service, and also use to ramp up its delivery mechanism to within 24 hours anywhere within the country. Flipkart's Sachin Bansal too was recently quoted as saying that the company was in talks with the government to roll out better connectivity in rural areas, which would boost e-commerce in these areas.

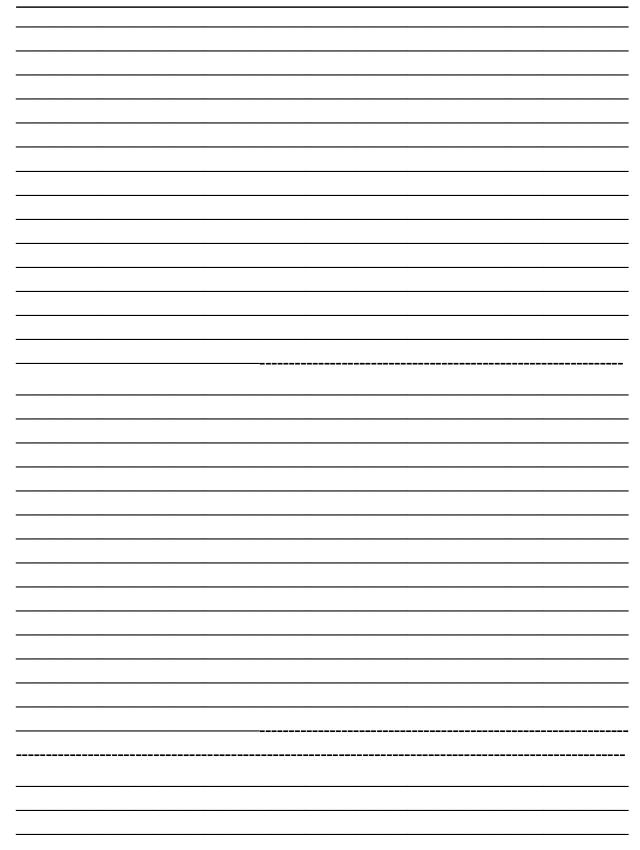
Snapdeal has been on a roll recently, having raised \$627 million (approximately Rs 3,845 crore) from Japan-based Softbank. The company said that it would be using this investment to ramp up its supply chain and technology efforts. It will also increase its fulfilment centres to 30 cities.

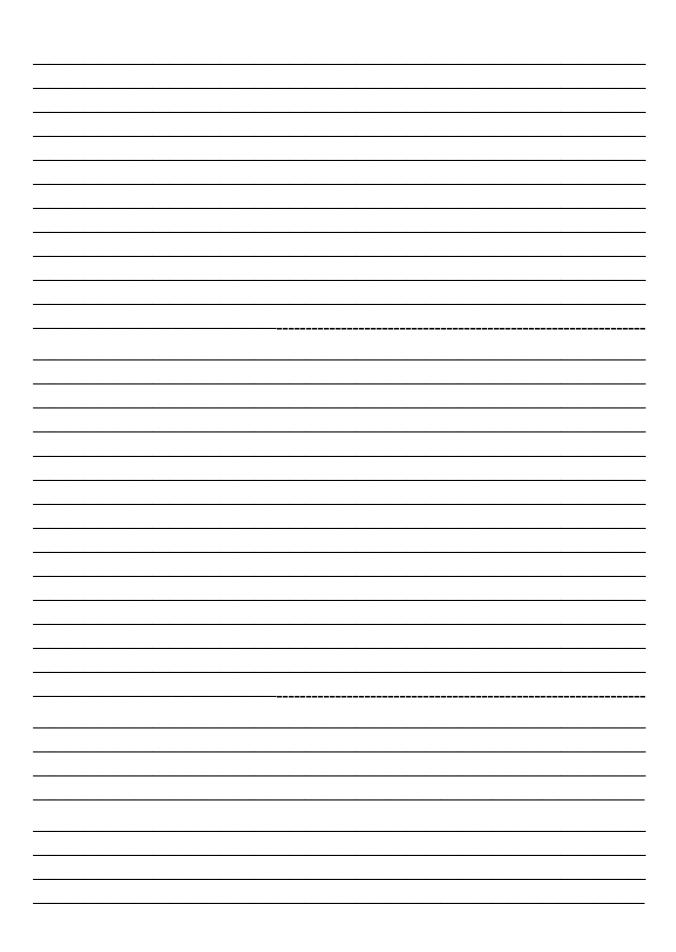
Questions

1. How can E-commerce platforms find successful implementation in rural areas which suffer from several shortcomings related to infrastructure?

2. Is it wise for the company to invest heavily on rural market where consumer behavior is apparently very different from that in urban areas?

2.6 NOTES





2.7 SUMMARY

Rural areas constitute a distinct market which is not just an extension of the urban market. Apart from income a host of other infrastructural and socio-cultural factors differentiate rural market from the urban market. Understanding the lifestyle of consumers and developing generic profiles is of utmost importance. Hence a distinct marketing discipline called Rural marketing emerged which encompasses a customized application of marketing tools and strategies to understand the psyche of the rural consumers in terms of needs, tailoring the products to meet such needs and effectively delivering them to enable a profitable exchange of goods and services to and from the rural market.

The rural market is generally classified into consumer, industrial and services market. Though similar market exists in urban areas a host of other factors differentiate both the market. The differences exist not only in the overall consumer behaviour but on factors like availability of infrastructure, socio-economic backgrounds, media habits, nature of competition, and response towards pricing and branding. Hence understanding rural marketing environment is essential. The various components of the rural environment comprises of the demographic, physical economic, social, cultural, political and technological aspects. A detailed impact of the various macro environmental factors cannot be ignored while analyzing rural market.

2.8 KEY WORDS:

Rural and urban market, rural marketing environment

2.9 SELF-ASSESSMENT QUESTIONS

1. Define Rural Marketing. Write the difference between rural and Urban Market

2. If you wish to enter into rural market, how will you access the different factors of environment and why? Elaborate.

3. Study of rural market is necessary for designing rural marketing strategy. Explain.

4. "Rural marketing cannot be neglected". Explain.

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UNIT 3: RURAL MARKETING FINANCE

Structure:

- 3.0 : Objectives
- 3.1 : Introduction
- 3.2 : Problems of rural market
- 3.3 : Recommendations for effective rural marketing practices
- 3.4 : Marketing Finance
- 3.5 : Case Study
- 3.6 : Notes
- 3.7 : Summary

3.8 : Key Words

- 3.9 : Self Assessment Questions
- 3.10 : References

3.0 OBJECTIVES

After studying this unit, you should be able to;

- Explain the various problems faced by Marketers in rural environment
- Discuss the challenges and opportunities in the field of rural marketing
- Identify sources of finance to overcome some of the problems in rural market

3.1 INTRODUCTION

The rural marketers face several hurdles but they also have immense opportunities if they understand the rural environment better and offer solutions to problems prevalent in the context of rural market. So in order to understand the potential to rural market a SWOT analysis matrix can be developed to interpret the prospects and problems of rural market. SWOT analysis matrix contains Strengths, Weaknesses, Opportunities and Threats of Rural Market.

Strengths

- Large Indian Rural Population
- Good Government Support
- Availability of Products and Raw Materials

Weaknesses

- Lack of good infrastructure
- Lack of physical distribution networks
- Low consumption levels
- Less Research and Development activities on Rural Market

Opportunities

- Growing Income Levels
- Rural Consumers' growing Literacy Levels
- Growing quality consciousness
- Changing Socio- economic Lifestyles
- ncreasing infrastructure Facilities

Threats

- Increasing grey market
- Growing Competition
- Less Knowledge levels on Product Identification

3.2 PROBLEMS OF RURAL MARKET

1. The development of appropriate communication systems to rural market may cost up to six times as much as reaching an urban market through established media, so there is a need for rural communication facilities.

2. The problems of physical distribution and channel management adversely affect the services well as the cost. The existent market structure consists of primary rural market and retail sales outlet. The structure involves stock points in feeder towns to service the seretail outlets at the village levels but it becomes difficult to maintain the required service level in the delivery of the product at retail level.

3. Rural consumers are cautious in buying and decisions are slow and delayed. They like to give a trial and only after being personally satisfied, do they buy the product.

4. Culture is a system of shared values, beliefs and perceptions that influence the behaviour of consumers. There are different groups based on religion, caste, occupation, income, age, education and politics and each group exerts influence on the behavior of people in villages.

5. As a general rule, rural marketing involves more intensive personal selling efforts compared to urban marketing. Marketers need to understand the psyche of the rural consumers and then act accordingly. To effectively tap the rural market a brand must associate it with the same things the rural folks do. This can be done by utilising the various rural folk media to reach them in their own language and in large numbers so that the brand can be associated with them yriadrituals, celebrations, festivals, meals and other activities where they assemble.

6. Life in rural areas is still governed by customs and traditions and people do not easily adapt new practices. For example, even rich and educated class of farmers does not wear jeans or branded shoes.

7. An effective distribution system requires village-level shop keeper, Mandal/Taluka- level wholesaler or preferred dealer, distributor or stockiest at district level and company-owned depot or consignment distribution at state level. The presence of too many tiers in the distribution system increases the cost of distribution.

8. Demand for goods in rural market depends upon agricultural situation, as agriculture is the main source of income. Agriculture to a large extent depends upon monsoon and, therefore, the demand or buying capacity is not stable or regular.

9. Dispersed market rural areas are scattered and it is next to impossible to ensure the availability of a brand all over the country. Seven Indian states account for 76% of the country's rural retail outlets, the total number of which is placed at around 3.7 million. Advertising in such a highly heterogeneous market, which is widely spread, is very expensive.

3.3 RECOMMENDATIONS FOR EFFECTIVE RURAL MARKETING PRACTICES

1. The Government has to develop infrastructure facilities like roadways, railways etc., in rural areas so as to reach large Indian rural market.

2. Effective Supply Chain Management practices can bring down the various costs associated with rural market like distribution cost, cost of communication, customer cost, cost of sale etc.

3. Educating rural consumers is the key to successful rural marketing. Rural consumers need to be educated in all aspects like usage of the products, gathering product information, consumer rights, laws and regulations, getting the right product at right place at right cost in right time.

3.4 MARKETING FINANCE

When we speak about rural market it is dependent more on the agricultural produce.

Indian agriculture is characterized by low productivity which leads to low income Due to low income the investments made in agriculture is also low. If this vicious cycle is to be broken, money has to be infused into the system in the form of credit.

There are a number of financial institutions in rural areas like commercial banks, cooperatives and regional rural banks. In addition a number of non-institutional agencies also function in rural areas.

Traditionally private money lenders, traders and commission agents dominated rural areas. Nearly 50-60 percent of the credit requirements of rural areas are now being provided by organized institutional agencies.

Types of credit

The rural population can obtain 3kinds of loan from institutional agencies like commercial banks, cooperatives and RRBs

1.Short term loans

These are called production loans or crop loans. This can be compared with the working capital loan given to industrial establishments. These types of loans are issued by commercial banks, cooperatives and regional rural banks.

2. Medium term loans

This loan can be availed for investments on a small scale. These loans have to be repaid in installments spread over a period of five to eight years In this case, collateral security is required.

3. Long term loans

These loans are given for high investment purpose like purchase of a tractor.

Rural credit institutions

a. National Bank for agriculture and Rural Development (NABARD)

NABARD is the apex institution of the country providing refinance facilities to all other institutional agencies which are involved in rural credit operations.

The main functions of NABARD are

- Refinance to cooperatives, RRBs and other eligible institutions for production and marketing of agricultural crops.
- Medium and long term loan refinance for rural development.

- Contribution to share capital of cooperatives engaged in rural development.
- To coordinate the activities of rural credit institutions
- To facilitate training, research and information flow on rural banking, agriculture and rural development.

b. Commercial banks

There are many nationalized and commercial banks with a network of branches operating throughout the country. They provide loans for agriculture, rural industries, rural crafts man and artisans.

c. State cooperative Banks (SCBs)

SCBs operate on a three-tier structure and are eligible to offer only short term loans. The shareholders and members the SCBs are the District Central Co-operative Banks(DCCBs). These banks operate at the district level and have branches within the district. The third tier consists of Primary Agriculture credit Co-operative (PACCs). The SCBs are financed by NABARD which in turn finances DCCBs and PACCs.

d. State Co-operative Agriculture and Rural Development Banks (SCARDBs)

The important difference SCBs and SCARDRs is that the former is allowed to do any banking function but the latter restricts to issuing and collecting medium and long term loans only.

e. Regional Rural Banks (RRBs)

They are also called Grameen Banks and are allowed to open branches within their area of operation. RRBs are similar to commercial banks as they are entitled to give all 3 types of loans.

f. Local Area Banks

The primary idea is to encourage the big money lenders and other informal agencies' to open banks with a limited sphere of operation while bringing them within an institutional structure.

g. Micro Finance Institutions (MFIs)

With the advent of Self Help Groups (SHGs) new rural financial institutions have come up which are known as Micro Finance Institutions. These institutions lend money to a group of individuals who are organized as SHGs. MFI act as a bridge between regular financial institutions and SHGs. The MFIs guide the SHGs in their activities like book-keeping, production and marketing. The purpose for which credit is advanced varies from investment in productive activities to social obligations and consumption to repaying of older debts. The growth of Non-Government Organization (NGOs) and self-help groups and their linkages with banks offer ample scope to facilitate microfinance activities in rural areas. Marketers can use the microfinance platform to market products and service in rural market.

SKS Microfinance case

SKS Microfinance Ltd is India largest MFI with more than 2,000 branches in over 19 States in the country. SKS loans are designed for convenience with small weekly repayments corresponding to cash flows. It lends to individual women utilizing five-member groups where groups serve as the ultimate guarantor for each member.

SKS has entered into strategy partnerships with various technology leaders and innovators like Microsoft, Wipro and HCL to establish agile technology architecture that is capable of handling the challenges specific to the microfinance sector.

h Kisan Credit Card

The Kisan Credit Card is a revolving cash credit facility with unlimited withdrawals and repayments with the credit limit based on operational landholding, cropping pattern and scale

of finance. The Kisan Credit Card (KCC) was introduction by the Government of India to produced adequate and timely financial support from the banking system to farmers for short-term credit needs, primarily for agriculture. As per KCC norms up to 20percent of the credit limit under KCC can be used for the purchase of non-agriculture products. This provides a great opportunity to marketers to tap KCC holders in rural market.

i. Chit funds

Chit funds are quite popular in rural South India.People become members of registered or unregistered chit fund groups and pay a certain sum of money every month or week. Each month a member can take money from the accumulated fund through an auction. Limited process formalities and easy access to credit make this an attractive option for borrowers. This system has limitationslike many chit funds operate without registration also non-payment of monthly or weekly deposit by any member can hamper the effective functioning of the chit fund.

3.5 CASE STUDY

HUL's Shakti project

The Indian rural FMCG market is something no one can overlook. Increased focus on farm sector boosts rural incomes, hence providing better growth prospects to the FMCG companies. Due to low per capita consumption for almost all the products in the country, FMCG companies have immense possibilities for growth. At present, urban India accounts for 66% of total FMCG consumption, with rural India accounting for the remaining 34%. However, rural India accounts for more than 40% consumption in major FMCG categories such as personal care, fabric care, and hot beverages. In urban areas, home and personal care category, including skin care, household care and feminine hygiene, are growing at relatively attractive rates. Within the foods segment, it is estimated that processed foods, bakery, and dairy can see long-term growth in both rural and urban areas.

Keeping in mind the above factors, FMCG major Hindustan Lever started a project named "Shakti" for rural marketing of their products in 2000. The Project is a distribution model that HUL established in late 2000 to sell its products through women self-help groups who operate like a direct-to-home team of sales women in inaccessible areas where HUL's conventional sales system does not reach. The Shakti model trains women from SHGs to distribute HUL products of daily consumption such as detergents, toilet soaps and shampoos. Each Shakti dealer covers 6-10 villages which have a population of less than 2,000. The company is creating demand for its products by having its Shakti dealers educating consumers on aspects like health and hygiene. Now, with this new distribution model, the smaller market are now being referred to as `Shakti market'

To get started the Shakti woman borrows from her SHG and the company itself chooses only one person. With training and hand-holding by the company for the first three months, she begins her door-to-door journey selling her wares hence providing a micro-enterprise opportunity to underprivileged rural women.

Like Coke and Pepsi, HUL also follows hub and spoke distribution model. It is a cost reduction technique for both the HUL and its dealers in rural market. In this distribution model, the company has hub distributors to place the bulk products which cover 10 to 15 villages. Dealers get the products directly from the hub distributors whenever they are out of stock. Distributors are the company's mediators between the company and dealers.

HUL evolved Project Shakti to reach areas of low access and low market potential. The vision was to create about 11,000 Shakti entrepreneurs covering one lakh villages and touching the lives of 100 million rural consumers by 2010. Andhra Pradesh was chosen for the pilot project as it has the most number and better established SHGs. Though the development is certain, but the impact is slow and HUL is not expecting any quick returns in this project. Since the experiment began in Andhra Pradesh, HUL has seen 15 per cent

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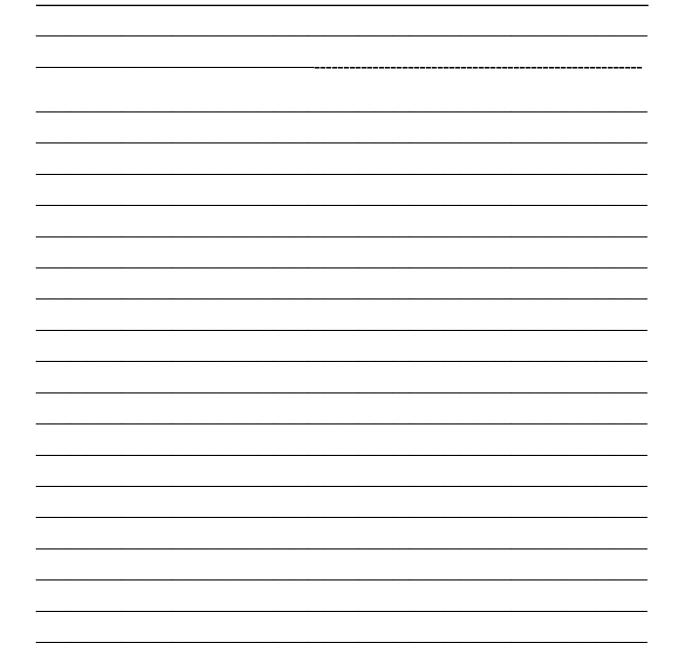
incremental sales from rural regions, which contributes 50 per cent to overall sales of HUL products in Andhra Pradesh.

Questions

1. Can other companies adopt a similar model to sell other products apart FMCG brands?

2. Suggest strategies which HUL can adopt to make the project more successful?

3.6 NOTES



3.7 SUMMARY

The potential of rural market cannot be ignored but there are several problems associated with understanding and implementing strategies in rural market. Some of the problems include lack of good infrastructure, lack of good physical distribution networks and consumer behaviour governed by customs and traditions. Also as the rural market need financial sources for its development various Institutions provide credit in the form of short, medium and short term loans; National Bank for Agricultural and Rural Development (NABARD) being the apex institution for providing refinance facilities to all other institutions involved in rural credit operations. There are also banks at the State, regional and local level which provide loans for various reasons. Apart from the government run institutions Microfinance and Chit funds have become popular sources of rural finance.

3.8 KEY WORDS:

SWOT analysis of rural market, Marketing finance, sources of marketing finance

3.9 SELF-ASSESSMENT QUESTIONS

- 1. Explain the roadblocks faced by companies in marketing their products in the rural market.
- 2. How do you solve the problems of Indian rural market?
- 3. Identify sources of finance available for rural market

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UNIT 4: RURAL MARKETING MIX

Structure:

4.0	: Objectives
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- 4.1 : Introduction
- 4.2 : Features of Marketing Mix
- 4.3 : Rural Marketing Mix
- 4.4 : Case Study
- 4.5 : Notes
- 4.6 : Summary
- 4.7 : Key Words
- 4.8 : Self Assessment Questions
- 4.9 : References

4.0 OBJECTIVES

After studying this unit, you should be able to;

- Explore strategies related to rural marketing mix adopted by Indian companies
- Analyze various promotional strategies used in rural market
- Study the 4 As' of rural marketing mix

4.1 INTRODUCTION

The rural marketing mix is the application of the concept of 4Ps and how they can be implemented in rural market with a few modifications to suit the rural consumers. The concept of marketing mix was elaborated by JeromeMcCarthy, professor Harvard Business School in the 1960s. Marketing mix refers to the set of actions, tactics, tools or variables that a company uses to promote and sell its brand or product in a market. The typical marketing mix constitutes of the 4 Ps but these days there are several other Ps suggested by different experts like packaging, positioning, people pace, passion, public and even politics.

Each element of the 4Ps requires that decisions be taken after assigning a value to each variable

- 1. Product: features, packaging, quality and image
- 2. Price: Price level, credit terms, price changes and discounts
- 3. Place: Inventory, distribution channels and number of distributors
- 4. Promotion: Advertising, publicity, sales promotion and personal selling

4.2 FEATURES OF MARKETING MIX

- 1. Marketing variables are interdependent. Any change in one variable will have an impact on the other.
- 2. It is a flexible and dynamic concept. It is necessary to adjust the variables as per changes in the marketing environment

E.g.: As visual media reach is low in rural areas, the company has to focus on rural specific promotion to reach rural consumers.

3. Customer is the focal point. The marketing mix has to be adjusted as per the requirement of the consumer

Now we will discuss the 4Ps in detail

4.3 RURAL MARKETING MIX

1. PRODUCT

Product refers to anything that is capable of or can be offered to satisfy a need or want. The term product includes both intangible goods and tangible goods. Rural consumer's decision to buy a product depends on his attitude towards the product and the cost-benefit analysis done before buying it for example

Cadbury launched choco bix, a chocolate flavored biscuit based on the consumer insight that rural mothers opt for more affordable biscuits rather than expensive chocolate bars for their children.

While designing products for the rural market the following aspects should be borne in the mind

- The product must be appropriate for the rural environment
- Simple to operate
- Visually identifiable
- ♦ Affordable

Rural product classification

As discussed earlier rural product can be classified into; FMCG, consumer durables, services and agricultural goods. To understand the FMCG market it is important to assess the penetration of various categories of products within rural households. Rural penetration for products like edible oil, washing powders, and biscuits is more than 75 per cent but around 50 per cent for commodities such as packaged tea, and shampoo. The penetration levels remain low for products like milk powder, instant noodles and sauce.

When we consider the durables market, TV has the highest penetration levels of 37 percent followed by other commodities like pressure cookers, LPG stoves and motorbikes.

Product decisions and strategies

Product decisions are made at 3 levels individual product decisions, product line decisions and product mix decisions.

• Individual product decisions

It Involves decisions related to product attributes, branding, packaging labeling and product support services. While developing a product it is important for the marketers to look into product attributes like quality, features, design and style.

Some of the product strategies which were successful in rural market include

1. Godrej Chotukool refrigerator

2. The Nokia 1100 cell phone designed with non-slip silicon coating on its keypads to resist damage caused by dust and factory environments.

• Product line and mix decisions

The product mix in rural market consists of only one product of a particular company in one or two stock- keeping units. Consumers have little say in the choice of brands and retailers push brand that bring them attractive margins. Only a few companies like HUL and Dabur have more than one product available in their rural product basket.

• Product life cycle strategies

It is seen that the lifecycle of a product in rural market in often longer than it is in urban market As rural market are not homogeneous it is evident that the same product may have reached a maturity stage in a developed market while it could be in the introductory stage in the under developed market. Pioneers in rural market like ITC who have achieved high penetration with products at the maturity stage are either extending their brands or entering new segments.

• Product branding in rural market

Consumers brand association is mainly with colors, numbers and visuals and not with the name of the brand

E.g. detergent bar, Dabur Lal Dant Manjan and cycle Agarbatti brand. The first mover brands in rural market have become generic brands. Detergent Powder came to be identified with Surf and vegetable oil with Dalda.

• Brand loyalty v/s brand stickiness

Low levels of literacy and awareness make rural people less likely to switch brands as do not have the required knowledge or information to exercise a choice so they buy tried and tested brands only. This kind of brand behavior is called brand stickiness as opposed to brand loyalty. Brand stickiness is visible more among consumers in the older ager group.

• Fake brands

Fake brands are a serious problem in rural market. The growth in spurious brands is to fill in the gap for the demand for branded products which might be difficult to reach the rural end consumer because of poor distribution network.

Fake brands can be divided into 3 distinct categories

Look-alikes

They have colour scheme on the packaging material which resembles a popular brand

• Spell-alikes

They are fakes of original brands packaged in colours and designs similar to that of the original E.g. Fare and lovely for Fair& lovely

Duplicates

They are the exact replica of the original brands. All the details on the wrapper of the original brand are present verbatim on the duplicate. In order to counter fakes' companies are upgrading packaging, Thereby making it difficult for manufacturers to copy their products.

• Packaging for rural market

Marketers need to consider 3 important factors for packaging

a. Packaging material

b. Pack size & convenience

To address the issue of affordability in rural market companies have introduced small unit packs or sachets. Tiger biscuits were introduced in transparent Oro packs designed for small outlets. Another Strategy which improved convenience was that of HUL which launched its tooth paste in a sachet with a nozzle.

c. Packaging aesthetics

As literacy levels are low in rural India, rural consumers appreciate bright colours, distinct lettering use of local languages on the pack and symbols that convey product benefits.

2. PRICE

The price point of INR 5 has become popular for marketers across products.Lower and middle class consumers buy packs of anything from snacks, biscuits, chocolates and detergent bars as long as it is available for five rupees.

This price point allows first time consumers to experience the category at an affordable price and allows individual and one- time consumption. This pricing strategy is called coinage pricing where prices are set at a coin value.

Pricing In Rural Market

The pricing decision is determined by the following 4Cs

1. Customer value

When deciding on a price, marketers need to conduct customer research to determine what "price points "are acceptable.Pricing beyond these price points could discourage customers from purchasing.

E.g.: Chick shampoo targeted daily and weekly wage earners by offering sachets for 50paise also washing soap like Fena have been offering smaller SKUs at low price points.

2. Competitors price

Consumers in rural areas compare the price charged by one manufacturer with the price offered by competitors. If the marketer has the ability to price lower than the competition and still be profitable he can capture a greater market share which can benefit him in the long run.

E.g.: Nokia introduced its 1100 model at a price of INR690 to INR920 which has become the bestselling cell phone ever.

3. Cost to the company

The company's total cost is a combination of fixed and variable costs. In order to tap the rural market,, marketers have to allocate sufficient funds under heads like packaging setting up of SKUs, and promotion and distribution strategies suitable for these market. ITC's e-choupal initiative has benefited both the company and the farmers involved in cutting cost.

4. Pricing objectives of the company

Pricing objectives need to be compatible with the marketing strategy, including

target market selection and desired product positioning.

Some of the pricing objectives of the company include the following;

• Profit maximization in the long-run

E.g.: Tata swach is an affordable safe water purifier which is aimed at 85 per cent of Indians who do not filter water and is priced at less than INR 1,000.

• Penetration of the market

The objective of the company is market expansion

E.g.: Britannia launched Tiger biscuits at INR1, INR 2 and INR4 price points which was less than price points of other brands in the product category.

• Increasing sales volume and market share

To accomplish this objective the firm needs to not only keep its prices low but also make investments in R8D, distribution and other elements of the marketing mix.

Price setting strategies

- Market entry strategies
- a. Skimming pricing

A pricing strategy where in company charges highest initial price and later lowers the price to attract price sensitive segment

Eg: P&G's Ariel and Tide brands

b. Penetration pricing

It involves setting the prices of products relatively low compared to those of similar products in order to secure more market acceptance.

Eg: Ajanta toothpaste

Product mix pricing strategies

a. Optional product pricing

It involves pricing of optional or accessory products along with the main product

Eg: A company sells the a tractor for lower price but charges high prices for servicing and spare parts.

b. Captive - product, pricing

It involves setting a price for products that must be used along with the main product such as blades for a razor

c. Product bundle pricing

It involves combining several products and offering the bundle at a reduced price

E.g. Reliance mobile created a revolution in India by launching a combo pack of handset and SIM card at INR 500.

Price adjustment strategies

a. Discounts and allowance pricing

They include cash discounts for buyers who pay the bills promptly or quantity discounts where more quantity is offered for the same price.

b. Freebies

Offering a free gift with the purchase of a product

E.g.: Detergent Companies give a good quality bucket free with the purchase of their product.

c. Special event Pricing

It is a strategy where companies offer products at reduced prices in rural market at certain times of the year in order to draw more customers.

d. Value Pricing

In order to combat competition companies provide value products and services in order to retain sales.

E.g.: Godrej No 1 soap placed its offering containing sandalwood at a very economical price

e. Psychological Pricing

It relates to price quality relationship where consumers tend to equate product quality with the price charged.

Additional Ps of rural Marketing

1. Passion

It represents an attitude and commitment shown by the marketer towards serving consumers. Passion includes passion to earn goodwill for the company, passion to serve and educate the consumer and passion to give 100% to the rural marketing effort.

2. Pace

Products intended to be sold in the rural market need to be launched at a pace where the company can reach the rural retailers shelf first before other companies reach there.

4 As of rural marketing mix

Marketing mix indicates an appropriate combination of 4Ps from the marketers' point of view. Considering the dynamics of rural market a practical approach would be to develop a model based on the 4As since it is oriented towards consumers.

1. Acceptability

Rural consumers are concerned more about the utility of the product rather than appearance. If the consumer feels that the product serves it purpose than they are ready to spend that extra amount for the product.

e.g.: When LG designed the Sampoorna TV, with the feature of graphics in the leading languages of India instead of English. Hence it found early acceptance with rural consumers.

2. Affordability

Affordability does not mean cheaper products but designing products that match the needs of the rural consumer. The Pricing has to take into account not only the income abut also patterns in which income is earned and making the consumer believe that the product is affordable.

3. Availability

The rural market are highly scattered and the product has to be made available to the rural consumer on a regular basis. Once the product reaches the shelves of the retailer it ensures the sale of the product.

4. Awareness

In order to build awareness of a product, the marketer has to use unconventional media along with commercials on traditional media like TV, radio. While building awareness it is important to develop a message which rural audience can relate to. Elements like color of packaging, logo have to be designed according to the rural context where consumers can recognize the product at the retail point.

3. PLACE

The physical distribution of products continues to pose an immense challenge because reaching 7.8 million outlets spread across 600,000 villages is a distribution night mare.

Some of the obstacles identified in order to reach the rural consumer include;

- The distribution chain requires a large number of intermediaries and this increases the cost of distribution.
- Poor viability of retail outlets due to low business volume.
- Credit requirements of channel members.
- Poor infrastructure transport and communication facilities.

Channel members in rural distribution system

The marketing channel performs the work of moving goods from producers and sellers to the consumers. The conventional distribution channel members servicing rural market include four participants

- Carrying and Forwarding Agents (CFA)
- Redistribution stockists
- ♦ Wholesalers
- Retailers

CFA

They are the first link with the company depot for supplying products to channel members. They usually cater to one region, depending on the stock handled. They are of two types; one with investment and the other without investment (Known as the forwarding agent). The majority of CFAs fall in the second category.

Redistribution stockist

They are the critical link between the company and its rural channels. They generally cover over 30 percent of rural retailers. Unlike CFAs they are the first customers for the company, investing in stock and employing a sales force to cover rural and urban retailers.

Wholesalers

More than 70 percent of the rural market is beyond the reach of direct distribution. In rural areas there is seldom a clear cut distinction between wholesaler and retailer.

Retailer

In addition to regular retailers with permanent shops there are another set of retailers comprising of mobile traders. These traders do not have a fixed shop for selling

E.g.: Traders selling in haats fall under this category of retailers.

The rural retail environment primarily comprises of the traditional mom-and-pop stores and a few modern retail stores.

Example of a modern retail initiative

ITC Choupal Saagar

It was the first rural mall in India to offer multiple services under one roof. It opened in the year 2004 and is located near the stock points of ITC's e - choupals, making it an

integrated model .The Product mix at Choupal Saagar covers a wide range of categories including apparel, footwear, toys ,horticulture products, fertilizers and pesticides.

As ITC malls are located just outside the city, usually semi-urban customers visit the mall.

ITC plans to expand the outlets to 700 in other States and to also set up retail stores called choupal fresh across the country.

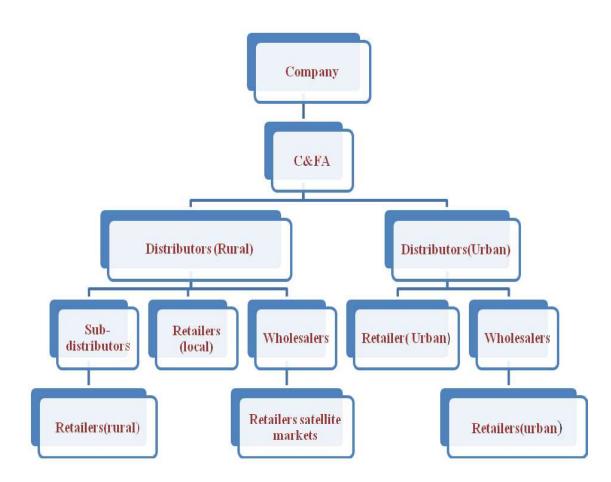
• Distribution models in rural market

Companies engaged in different product categories use varying distribution models depending on how optimally they can reach and service those market

• The distribution models for FMCGs

Can be divided into two universal models with minor variations

Distribution model 1



As shown in figure 4.1; the rural distribution is separated from urban distribution to create specific focus on the rural market. The model focuses more on distributors and sub distributors rather than the wholesale channel.

Distributor model 2

DM 2 is a traditional model of distributors in which rural market are serviced through the same channel servicing urban market. It is mostly adopted by some regional and national players with limited SKUs and who generally do not adopt a separate rural strategy.Brands like Ghari detergent and Priyagold biscuits are adopting this model. In the beginning, Nirma brand also adopted the model but faced problems as the number of SKU's increased.

Visual depiction of distribution model 2 is given in figure 4.2.

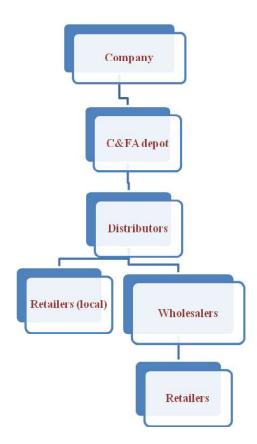


Figure 4.2: Distribution model 2

Distribution model for durables

Since durables are purchased largely from small towns, the number of locations for distribution is only a few thousand. One such channel of distribution is being developed by Phillips India and is being depicted in the figure 4.3

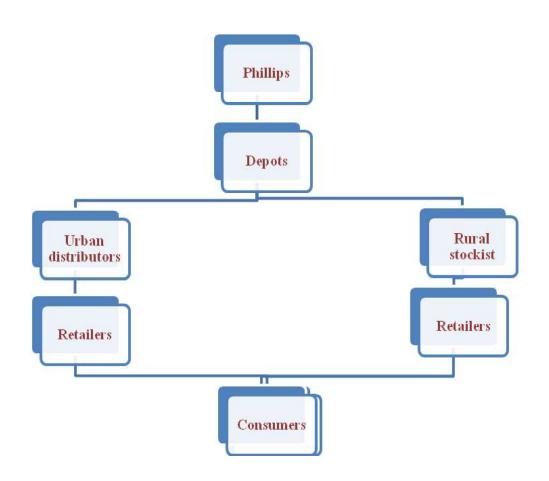


Figure 4.3: Distribution model for durables

Rural centric distribution models

Many companies have come out with innovative models to penetrate rural market. Some of the conventional and new models of distribution are discussed below,

a. Haats

They are rural bazaars that spring up every week across India. A variety of products is sold in haats like agricultural products, manufactured products, handlooms and processed foods. Each large haat covers about 20 villages and by making products available in these haats, the company covers about 50% of the rural population.

b. Company owned delivery vans

The van may be owned by the company or by wholesalers. The distributors' sales person travels in the van and delivers the stocks to the retailers and collects money too.

c. Satellite distribution

They are a group of villages around a town which is a regular trading center. The villages are satellites dependent on the town nearest to them. The feeder town plays the role of distribution as well as collecting center .A satellite distribution can be depicted in the figure 4.4

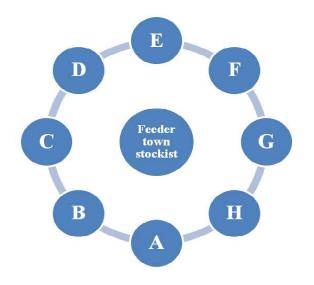


Figure 4.4: Satellite distribution

d. Syndicate distribution

It is a system in which too or more companies come together to form a syndicated trading organization, to jointly distribute a collective group of products or services by sharing distribution costs.

E.g.: Bharti Airtel collaborated with competitors in order to save capital. The company merged its infrastructure unit with those of two other cellular service providers; Vodafone and Idea. The company set up Indus towers to expand its operations in India.

e. Star Sellers (HUL)

The company appoints 1-2 rural distributors in each district. Under each rural distributor there are 20-30 wholesalers known as star sellers. They invest money and stock the products of HUL. Each wholesalers covers about 60-100 sales outlets and the wholesaler may also supply to Shakti entrepreneurs.

f. The SHG Model

A Self Help group is a group of 10-15 women organized by government bodies or NGOs, who come together to form a group and boost feelings of self-worth among women. HUL Project Shakti is one such initiative in India.

g. Hub and Spokes method

This is a system of connections arranged like a chariot wheel in which all the traffic moves along spokes connected to the hub at the center. In the rural areas, Coca-Cola has developed Hub and spokes method of distribution.

In this method, the manufacturer in the area appoints main distributors (Hub) in important market. These distributors in turn appoint sub-distributors (spokes) to handle smaller market within the territory. The sub-distributor supplies to the retailers and these retailers finally deliver it to consumers. Figure 4.5 shows a visual depiction of the distribution model.

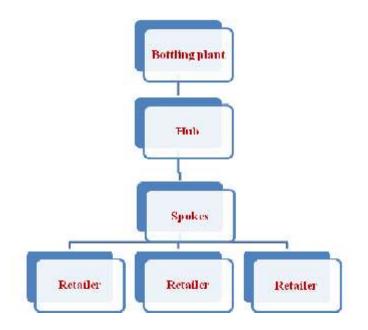


Figure 4.5: Hub and Spokes method

4. Promotion

Promotion is the process of marketing communication and includes the following; to inform, persuade remind and influence consumers or users in favour of the product or service. Essentially promotions are persuasive communication to potential customers of the existing products.

Communicating the message to rural consumers has enormous challenges like geographical diversity, heterogeneous nature of consumers in terms of language and other belief systems. The promotion strategy depends on the nature of the product, characteristic of the buyers, reputation, reliability and image of the company and marketing channel.

Designing the communication mix strategy

Companies face the task of distributing the total communication budget across different communication tools.

a. Direct Marketing

It is one of the most powerful ways to meet the target audience and build product awareness as well as sales promotion. Mobile marketing vending machines and direct mailers are some of the direct marketing tools in rural areas.

E.g.: Indian Railways and HUL Life care limited, have effectively communicated with the rural audience by using postcards as their branding platforms.

b. Publicity

Publicity involves stimulating demand for a product or service by placing commercially significant news about it in a publication or obtaining favorable opinion through radio, television or stage without a paid sponsor.

E.g.: LG conducted cookery classes for rural women at different locations to promote its news range of microwave ovens targeted at rural market.

c. Personal selling

It is the most cost –effective tool for building buyers preferences, convictions and actions. Personal selling when compared to other promotional tools helps in acquiring better responses from customers through personal confrontation.

E.g.: Most insurance companies use personal selling as a promotional tool.

d. Advertising

Advertising is a paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor and is a method of mass communication. For companies that want to reach rural areas the main advertising objective is to create awareness about their offerings. We can classify rural media as;

- Conventional media
- Non-conventional media

1. Conventional Media

They include the following;

a. Radio

Fertilizer, tractor and FMCG companies use this medium for advertising.

b. Television

c. Press /Print Media

Press includes newspapers magazines and other publications. Region - specific newspapers which communicate messages in different languages are an important part of print media.

d. Cinema

e. Outdoor media

It includes wall paintings and hoardings

f. Personalized media

They are Point of Purchase (POP) displays and demonstrations and may include display racks, display signs and boards.

2. Non-Conventional Media

a. Video van

The video van is fitted with audiovisual equipment and a large LCD screen for film shows. The van is fabricated to provide space for stocking samples, products for sale and is manned by trained personnel. A typical van cycle is 26 days during which it moves from village to village on a predetermined journey in order to create awareness about the product.

Most companies like Tata tea, Colgate and Marico use this communication tool to deliver customized messages to specific audience.

b. Haats

c. Meals

They are an important feature of Indian rural life and are held periodically to commemorate important events or to honor a deity.

d. Folk media

The essential characteristic of folk media is that it is interactive, repetitive and narrative. Folk media offers the advantage of using local language and talent to increase receptivity and interest levels in rural folks.

The different kinds of folk media include Folk theatre

- Folk songs
- Magic shows
- Puppets shows
- Interactive games

E.g.:1. Thums up used puppetry to promote its soft drink. The shows comprised of puppets of Thums up and other rival soft drinks. The Thums up puppet comes and strikes down other soft drinks thus reinforcing its slogan "Taste the Thunder".

2. Dabur designed a pinball game in which the ball was in the shape of the Dabur chyavanprash container and the pins represented germs which could be destroyed upon taking the health tonic. People were invited to slip the ball in and see how many pins were punctured.

5. SALES PROMOTION

It is the most relevant communication tool used in rural areas

Sales promotion consists of incentive tools that are mostly short term and are designed to stimulate and induce trial and make the offer attractive for early conversion by consumers or trade

Some of the consumer sales promotion tools include

- Discounts
- Coupons

They are tickets or documents that can be exchanged for a financial discount or rebate when purchasing a product. Other sales promotion tools include the following;

a. Sampling

They are of two types

Dry sampling

Distribution of product samples like soaps and toothpastes to consumers for trial

Wet sampling

It is an application trial to consumers in real time to demonstrate utility.

Marketers prefer the second option in rural areas as they fear samples reaching the wrong target group.

b. Installment schemes

As EMI schemes do not fit into a rural consumer's framework; installments in the form of chit fund schemes are popular

c. Demonstration or experiential marketing

Rural consumers generally feel that branded companies charge a premium and often do not see the utilitarian advantage achieved by spending the extra money. Physical demonstration or experiential marketing offers rural consumers an opportunity to experience the product and make an informed choice.

Rural Marketing Mix- LG Sampoorna TV

LG Electronics, a Korean MNC has demonstrated that rural consumers are actually value conscious. The success of the product is built on the following strategy

a. Brand name

The name 'Sampoorna' was carefully chosen where rural consumers could clearly understand the meaning. The retailers could present the TV to the consumers as a solution to their needs.

b. Product strategy

As majority of rural consumers did not know English language LG developed screen displays in the vernacular languages' of Tamil, Bengali and Hindi It also integrated the technology feature which could give better picture and sound quality even when the signal it was receiving was not of good quality.

c. Price strategy

The TV was priced at Rs14,000 which was Rs 2,000 more than the equivalent products from firms like Philips. Even though the product is priced more the brand saw a huge success among rural consumers.

4.4 CASE STUDY

Colgate Sampark Campaign

There are a several brands in India that have been bustling efficaciously in rural marketing. Some of the success stories include Colgate, LG Electronics, BSNL, Life Insurance Corporation of India, HUL and Hero Honda.

This case study talks about Colgate's collaboration with 'Sampark', specialists in rural advertising category, to step up their rural marketing and promotional drive.

After setting a firm foot in the urban market, Colgate was looking at tapping the potential of the rural market. Some of the reasons for venturing into rural market being increase in literacy rate and growing awareness among village folks.

Colgate's life has always focussed on high quality products that have never failed to win customer's trust. Now it needed to cater to the unattended rural market. So with the motto of 'Think global act local' in mind, in 1998, it reached out to 6 million people in 20,000 villages of which 15,000 villages had not experienced the availability of toothpaste or tooth powder.

Mass media had worked well in the urban areas but the problem faced in the rural areas was that very few people had access to television and radio. The need of the hour was a scheme that would penetrate deep into the rural network and spread its roots throughout this network.

This challenge was encountered by Sampark's Door to door selling program. The program involved hiring people from various localities who could converse comfortably as well as effectively in the local language and also make use of the local idioms and jargons. This ensured effective communication between the company and the consumers, thus reducing the communication gap tremendously. So, even though the audience was scattered and had varied languages, cultures and lifestyles it was insured that everyone got the right message from the company.

The local people were trained to go about the village informing the people about the pros of advanced oral hygiene and throw light on the cons of traditional oral care system, convincing them to use the free samples made available by Colgate. Again another ordeal came in the form of the mind-set of people who preferred natural over synthetic.

Another creative move made by Sampark was employment of publicity vans aka A/V vans. 70 promotion vans did the rounds of the country to educate the rural folks on oral hygiene products including toothpaste, toothpowder and toothbrush. Other activities included spot selling, sampling and retailing. Vans were parked in strategic locations to attract maximum attention.

The vans screened a 22 minute film explaining how to use products and also offered free samples post screening. Puppet shows were also done in villages to cultivate modern hygiene habits. Their next aid was short educational films. These were generally 10-40sec films featuring actors or local lenders, the people the village folk were familiar with, to create a better impact on their minds. Again free samples were distributed, a religious practice to thrust the promotional drive forward in its initial days.

Colgate's other successful campaigns include 'school dental health program', 'oral health education program' and 'ITC e-choupal' that has worked wonders for the program. Colgate has been one of the pioneering brands in rural marketing and has successfully strengthened its grip in the rural market. This has also been confirmed by facts and figures as today,1/3rd of Colgate's total sales are in the rural market.

Questions

- 1. Describe the promotion mix tools highlighted in the case
- 2. How did the marketing mix strategy used in the case influence consumer behaviour of rural folks?

4.5 NOTES



4.6 SUMMARY

The rural markets are of diverse nature with people from diverse cultural, linguistic and religious background demanding life style products. Most of the companies design low end products for the urban audience. This scenario is slowly changing and importance is given to fulfill the needs of the rural consumers' by designing appropriate marketing mix strategies.

The Marketing mix is a set of interdependent variables or tools that an organisation employs to accomplish its objectives in the target market. The Marketing Mix in rural areas have to be modified to some extent considering the 4 As; Acceptability Affordability, Availability and Awareness, like in rural market, brands are identified through colour, visuals of animals and Numbers. Hence it is very important for us to understand that a lot needs to be done in terms of communications, media, marketing and branding. If we have to create brand communication, marketing efforts must be supported by education. A rural customer is price sensitive and shops for value, so customer value becomes a crucial element. Distribution of products is one of the biggest challenges of rural marketing which has been attended to by adopting channels of distribution which are specifically designed by considering rural market. Promotion plays a critical role in marketing products or services. Whatever may be the quality of the product or service, without promotional activities marketing the product would be a challenging task. The promotion mix for rural areas also needs to be modified considering the consumer behaviour there.

4.7 KEY WORDS:

Rural marketing mix, brand stickiness, fake brand, freebies, value pricing, psychological pricing, 4As, CFA, Haats, satellite distribution, syndicate distribution, Hub and spokes method, dry and wet sampling

4.8 SELF-ASSESSMENT QUESTIONS

- 1. Imagine that you are the product development manager in a fairness cream manufacturing company. How would you augment the product and create its brand identity in rural market?
- 2. Study of rural market is necessary for designing rural marketing strategy. Explain.
- 3. Elaborate on the 4Ps of rural marketing.
- 4. Explain the Rural Marketing Mix & its challenges (4 A's)
- 5. Ensuring availability of products in rural market is a great challenge. Explain

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KARNATAKA STATE OPEN UNIVERSITY

MUKTHAGANGOTHRI, MYSURU- 570 006.

DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A III Semester

ELECTIVE – B: MARKETING

COURSE – 17 B : RURAL MARKETING

BLOCK - 2 : RURAL MARKETING SEGMENTATION

UNIT - 5 :	MARKET SEGMENTATION	1-16
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Registrar		
Karnataka State Open University		
Muktagangotri, Mysuru 570006		
Developed by Academic Section, KSOU, Mysuru		
Karnataka State Open University, 2014		

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BLOCK-II INTRODUCTION

Dear Learner,

In the Previous Block you have gained an insight about Rural Marketingand its Environment Factors. In this Block, we are going to discuss Market segmentation and its factors affecting market segmentation. Every business owner knows the importance of market segmentation, getting the most out of every marketing dollar depends on identifying and addressing the core needs of customers.

This Block helps to understand Market research is a key factor in maintaining competitiveness over competitor. Market research provides important information to identify and analyse the market needs, market size and competition. Maintaining up to date records in all functional departments of the marketing company should be the normal responsibility of people engaged in turning over their duties. So it is very important to have Marketing Information System (MIS) in marketing.

This Block classified as four units,

UNIT - 5: Market Segmentation

UNIT - 6 : Factors of Market Segmentation

UNIT - 7 : Marketing Research

UNIT - 8 : Rural Marketing Information System

BLOCK - II RURAL MARKETING SEGMENTATION

UNIT -5: MARKET SEGMENTATION

Structure:

- 5.0 :Objectives
- 5.1 :Introduction
- 5.2 :Meaning of Market Segmentation
- 5.3 :Objectives of Market Segmentation
- 5.4 :Bases of Market Segmentation
- 5.5 :STP Strategies for Market Segmentation
- 5.6 :Case Study
- 5.7 :Notes
- 5.8 :Summary
- 5.9 :Key Words
- 5.10 :Self Assessment Questions
- 5.11 :References

5.0 **OBJECTIVES**

After studying this unit, you should be able to;

- Define market segmentation
- Explain the reasons for market segmentation
- Discuss the bases of market segmentation
- Critically evaluate the STP strategies for market segmentation

5.1 INTRODUCTION

Market segmentation is a process of dividing the entire market into different segment or parts and target according to the segmentation.

Market segmentation is a process of identifying small markets that exists within a large market.

A market segment is a classification of potential private or corporate customers by one or more characteristics, in order to identify groups of customers, which have similar needs and demand similar products or services concerning the recognized qualities of these products, e.g. functionality, price, design, etc.

Segmentation is the process of dividing a heterogeneous market into several sub- markets or segments, each of which tends to be homogeneous in all significant aspects.

The total market for most types of products is not homogeneous. As such the marketing management cannot derive maximum benefits from an analysis of its as a whole. Market segmentation is the sub dividing of a market into homogenous subsets of customer where any subset may conceivably be selected as a market target to be reached with a distinct marketing mix. The power of this concept is that in an age of intense competition for the mass market, individual sellers may prosper through creatively serving specific segments whose needs are imperfectly satisfied by the mass market offering.

5.2 MEANING OF MARKET SEGMENTATION

Rural marketing involve delivering manufactured or processed inputs or services to rural producers or consumers

Rural Marketing is also defined as any marketing activity in which one dominant participant is from a rural area

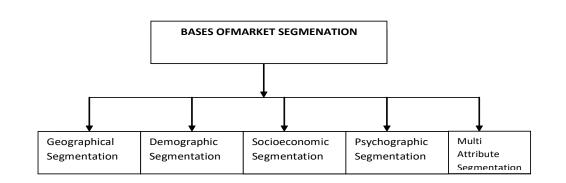
Rural marketing is a two- way marketing process that includes the flow of goods and services from rural to urban areas and the flow of goods and services from urban to rural areas as well as the flow of goods and services within rural areas.

A market segment is a classification of potential private or corporate customers by one or more characteristics, in order to identify groups of customers, which have similar needs and demand similar products or services concerning the recognized qualities of these products, e.g. functionality, price, design, etc

Segmentation is the process of dividing a heterogeneous market into several sub- markets or segments, each of which tends to be homogeneous in all significant aspects. The division is based on the premise, that different people have different preferences.

5.3 OBJECTIVES OF MARKET SEGMENTATION

- The first and most important objective of market segmentation is to produce a commercial advantage. However temporary it may be, this is the ultimate objective.
- Second, to reduce risk. Once a commercial advantage is obtained, marketing decisions become significantly safer and more powerful.
- Third, as the name suggests, to "segment" the market. By doing this, one can apply more specific characterizations to each group, as each group no longer encompasses the entire market.
- Finally, to view each segment in relation to the others to create a strategy "map" of profitability



5.4 BASES OF MARKET SEGMENTATION

- Geographical segmentation:
- Demographic segmentation
- Socio economic segmentation
- Psychographics segmentation
- Multi-Attribute segmentation

Geographical segmentation: Geographic location is the usual and popular basis for market segmentation. This segmentation consists of 4 categories namely

- 1. Zones region
- 2. Village Town
- 3. Density
- 4. Climate
- 1. Zones region: Like North, South, East and West
- 2. **Village Town:** There are different villages and town with different population. Each population varies with other.
- 3. **Density:** The regional distribution of population is important to marketers because sectional differences exist in the demand of many products.
- 4. **Climate:** The climate of India may be broadly described as tropical monsoon type. There are four seasons:
- ♦ Winter
- Summer
- ♦ Rainy
- ♦ Monsoon

Demographic segmentation: The next commonly used basis for market segmentation is the demographic characteristics of the market factors like age, gender, marital status and family size, are used singly or in a combination to segment the market.

They are

- 1. Age
- 2. Gender
- 3. Marital status
- 4. Family size

1. Age: The size of various age groups has a substantial effect on the market for certain products. When market segments are set up in terms of age, total population may be separated into groups such as children, adolescents, adults and the aged. It has been observed that the children have three way marketing influence. These children can influence parental purchase.

Adult also have their own choice of goods such as stationeries, toiletries, cosmetics, suiting, automobiles etc.

Person in the middle and old age group generally requires health giving products like tonic, vitamins pills, medicines etc.

2. **Gender:** The male market is different from the female market. Hence, gender is used for segmenting the market for different products such as dress, footwear, cosmetics, jewellery and other products.

3. **Marital status:** Another segment of market is known as marital status of the customer. The assumption is that the behavior and consumption patterns of single and married people differs, for example, unmarried people are more likely to be spend thrift and users of stylish goods and fast food. Whereas married people are more conservative and are careful spenders.

4. **Family size:** In rural India still there is a system called as joint families and large families. As family size increases, consumption of consumables will also increase. In such case family pack or economic refill packs works very well.

Further, one witness the splitting up of joint families, creating more number of small families which may further lead to a great demand of products and consumer durables as they start new families living separately.

Socio economic segmentation: Socio economic segmentation consists of following income, occupation, education, religion and culture and social class.

Income: In the study of marketing aspects, emphasis is place on the utilization of capital of both, persons as well as firms as regards income and expenditure.

Income is further studied as lower income, upper income and middle income.

Occupation: The occupation mof the consumer is also an important variable in segmenting the market. 80% of rural populations are farmer or agricultural laborers. Thus their needs apart from food are agricultural inputs such as seeds, fertilizers, pesticides, tractors, harvesters and pumps sets etc.

Psychographics segmentation:

Psychographic segmentation, which is sometimes called lifestyle, is measured by studying the activities, interests, and opinions (AIOs) of customers. It considers how people spend their leisure, and which external influences they are most responsive to and influenced by. Psychographics are very important to segmentation, because psychographics identify the personal activities and targeted lifestyle the target subject endures, or the image they are attempting to project. Mass media has a predominant influence and effect on psychographic segmentation. Lifestyle products may pertain to high involvement products and purchase decisions, to specialist or luxury products and purchase decisions

Multi-Attribute segmentation:

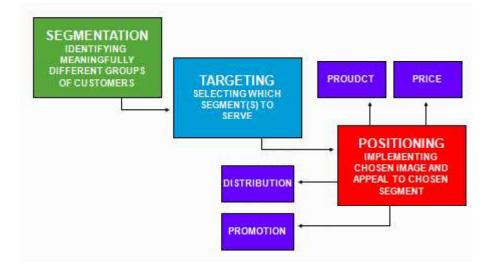
In Sales territory management, using more than one criterion to characterize the organization's accounts, such as segmenting sales accounts by government, business, customer, etc. and account size or duration, in effort to increase time efficiency and sales volume.

5.5 STP STRATEGIES FOR MARKET SEGMENTATION

SEGMENTATION, TARGETING, AND POSITIONING

Segmentation, targeting, and positioning together comprise a three stage process. We first

- (1) Determine which kinds of customers exist, then
- (2) Select which ones we are best off trying to serve and, finally,
- (3) Implement our segmentation by optimizing our products/services for that segment and communicating that we have made the choice to distinguish ourselves that way.



Segmentation involves finding out what kinds of consumers with different needs exist. In the auto market, for example, some consumers demand speed and performance, while others are much more concerned about roominess and safety. In general, it holds true that "You can't be all things to all people," and experience has demonstrated that firms that specialize in meeting the needs of one group of consumers over another tend to be more profitable.

Generically, there are three approaches to marketing. In the *undifferentiated* strategy, all consumers are treated as the same, with firms not making any specific efforts to satisfy particular groups. This may work when the product is a standard one where one competitor really can't offer much that another one can't. Usually, this is the case only for commodities. In the *concentrated* strategy, one firm chooses to focus on one of several segments that exist while leaving other segments to competitors. For example, Southwest Airlines focuses on price sensitive consumers who will forego meals and assigned seating for low prices. In contrast, most airlines follow the *differentiated* strategy: They offer high priced tickets to those who are inflexible in that they cannot tell in advance when they need to fly and find it impractical to stay over a Saturday. These travelers—usually business travelers—pay high fares but can only fill the planes up partially. The same airlines then sell some of the remaining seats to more price sensitive customers who can buy two weeks in advance and stay over.

Note that segmentation calls for some tough choices. There may be a large number of variables that can be used to differentiate consumers of a given product category; yet, in practice, it becomes impossibly cumbersome to work with more than a few at a time. Thus, we need to determine which variables will be *most* useful in distinguishing different groups of consumers. We might thus decide, for example, that the variables that are most relevant in separating different kinds of soft drink consumers are

- (1) Preference for taste vs. low calories,
- (2) Preference for Cola vs. non-cola taste,
- (3) Price sensitivity—willingness to pay for brand names; and
- (4) Heavy vs. light consumers. We now put these variables together to arrive at various combinations.

Several different kinds of variables can be used for segmentation.

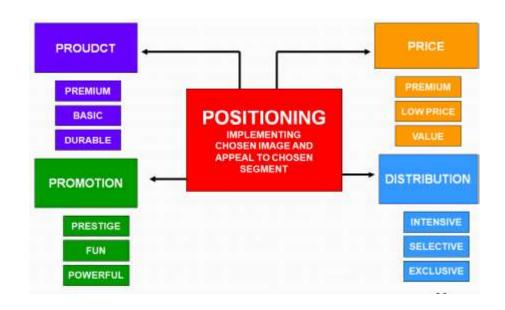
• **Demographic** variables essentially refer to personal statistics such as income, gender, education, location (rural vs. urban, East vs. West), ethnicity, and family size. Campbell's

soup, for instance, has found that Western U.S. consumers on the average prefer spicier soups—thus, you get a different product in the same cans at the East and West coasts. Facing flat sales of guns in the traditional male dominated market, a manufacturer came out with the Lady Remmington, a more compact, handier gun more attractive to women. Taking this a step farther, it is also possible to segment on *lifestyle and values*."

- Some consumers want to be seen as similar to others, while a different segment wants to stand apart from the crowd.
- Another basis for segmentation is *behavior*. Some consumers are "brand loyal" i.e., they tend to stick with their preferred brands even when a competing one is on sale. Some consumers are "heavy" users while others are "light" users. For example, research conducted by the wine industry shows that some 80% of the product is consumed by 20% of the consumers—presumably a rather intoxicated group.
- One can also segment on *benefits sought*, essentially bypassing demographic explanatory variables. Some consumers, for example, like scented soap (a segment likely to be attracted to brands such as Irish Spring), while others prefer the "clean" feeling of unscented soap (the "Ivory" segment). Some consumers use toothpaste primarily to promote oral health, while another segment is more interested in breathe freshening.

In the next step, we decide to **target** one or more segments. Our choice should generally depend on several factors. First, how well are existing segments served by *other* manufacturers? It will be more difficult to appeal to a segment that is already well served than to one whose needs are not currently being served well. Secondly, how large is the segment, and how can we expect it to grow? (Note that a downside to a large, rapidly growing segment is that it tends to attract competition). Thirdly, do we have strengths as a company that will help us appeal particularly to one group of consumers? Firms may already have an established reputation. While McDonald's has a great reputation for fast, consistent quality, family friendly food, it would be difficult to convince consumers that McDonald's now offers gourmet food. Thus, McD's would probably be better off targeting families in search of consistent quality food in nice, clean restaurants.

Positioning involves *implementing* our targeting. For example, Apple Computer has chosen to position itself as a maker of user-friendly computers. Thus, Apple has done a lot through its advertising to promote itself, through its unintimidating icons, as a computer for "non-geeks." The Visual C software programming language, in contrast, is aimed a "techies."



Michael Treacy and Fred Wiersema suggested in their 1993 book *The Discipline of Market Leaders* that most successful firms fall into one of three categories:

• Operationally excellent firms, which maintain a strong competitive advantage by maintaining exceptional efficiency, thus enabling the firm to provide reliable service to the customer at a significantly lower cost than those of less well organized and well run competitors. The emphasis here is mostly on low cost, subject to reliable performance, and less value is put on customizing the offering for the specific customer. Wal-Mart is an example of this discipline. Elaborate logistical designs allow goods to be moved at the lowest cost, with extensive systems predicting when specific quantities of supplies will be needed.

• *Customer intimate firms*, which excel in serving the specific needs of the individual customer well. There is less emphasis on efficiency, which is sacrificed for providing more precisely what is wanted by the customer. Reliability is also stressed. Nordstrom's and IBM are examples of this discipline.

• *Technologically excellent firms*, which produce the most advanced products currently available with the latest technology, constantly maintaining leadership in innovation. These firms, because they work with costly technology that need constant refinement, cannot be as efficient as the operationally excellent firms and often cannot adapt their products as well to the needs of the individual customer. Intel is an example of this discipline.

Treacy and Wiersema suggest that in addition to excelling on one of the three value dimensions, firms must meet acceptable levels on the other two. Wal-Mart, for example,

does maintain some level of customer service. Nordstrom's and Intel both must meet some standards of cost effectiveness. The emphasis, beyond meeting the minimum required level in the two other dimensions, is on the dimension of strength.

Repositioning involves an attempt to change consumer perceptions of a brand, usually because the existing position that the brand holds has become less attractive. Sears, for example, attempted to reposition itself from a place that offered great sales but unattractive prices the rest of the time to a store that consistently offered "everyday low prices." Repositioning in practice is very difficult to accomplish. A great deal of money is often needed for advertising and other promotional efforts, and in many cases, the repositioning fails.

To effectively attempt repositioning, it is important to understand how one's brand and those of competitors are perceived. One approach to identifying consumer product perceptions is *multidimensional scaling*. Here, we identify how products are perceived on two or more "dimensions," allowing us to plot brands against each other. It may then be possible to attempt to "move" one's brand in a more desirable direction by selectively promoting certain points. There are two main approaches to multi-dimensional scaling.

In the *a priori* approach, market researchers identify dimensions of interest and then ask consumers about their perceptions on each dimension for each brand. This is useful when (1) the market researcher knows which dimensions are of interest and (2) the customer's perception on each dimension is relatively clear (as opposed to being "made up" on the spot to be able to give the researcher a desired answer). In the *similarity rating* approach, respondents are not asked about their perceptions of brands on any specific dimensions. Instead, subjects are asked to rate the extent of *similarity* of different pairs of products (e.g., How similar, on a scale of 1-7, is Snicker's to Kitkat, and how similar is Toblerone to Three Musketeers?) Using a computer algorithms, the computer then identifies positions of each brand on a map of a given number of dimensions. The computer does not reveal what each dimension means—that must be left to human interpretation based on what the variations in each dimension appears to reveal. This second method is more useful when no specific product dimensions have been identified as being of particular interest or when it is not clear what the variables of difference are for the product category.

5.6 CASE STUDY

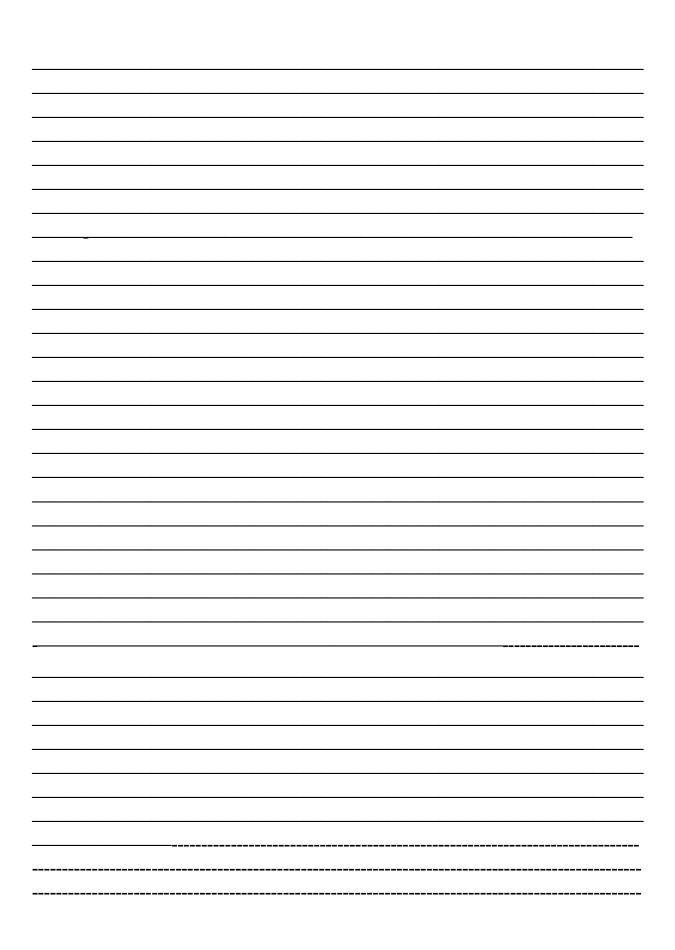
<u>Hindustan Unilever Limited (HUL)</u> is India's largest Fast Moving Consumer Goods company, touching two out of three Indians with their large brand portfolio. HUL's products are household names across the country and span a host of categories such as soaps, detergents, personal products, tea, coffee, ice cream, and culinary products. Today, there are over 7.7 million retail outlets in India with an average of 6.8 stores per thousand people – the highest store density in the world.

To maintain their market leadership, HUL pursues innovative distribution mechanisms to reach the millions of potential consumers in both urban areas and small remote villages where there is no retail distribution network, no advertising coverage, and poor roads and transport. HUL realized from the onset that its sales and distribution network gave it an edge over the competition, but that rivals would try to match it over time. To maintain their competitive advantage, HUL has aggressively extended more deeply in India, moving from large to small towns, and from urban to semi-urban areas.

The unorganized and scattered character of markets in India means sales and distribution requires a different tactic from that of more developed economies. Like <u>Coca-Cola</u>, HUL knew it needed to tailor its approach for the different markets.

5.7 NOTES





5.8 SUMMARY

Market segmentation is require to the larger extent in order to known each and every bases of segmentation deeply and to differentiate with one market to another. Based on that it is easy to the company to each segment very clearly and attract according to that. Market segmentation is a marketing strategy which involves dividing a broad target market into subsets of consumer, businesses, or countries that have, or are perceived to have, common needs, interests, and priorities, and then designing and implementing strategies to target them. Market segmentation strategies are generally used to identify and further define the target customers, and provide supporting data for marketing plan elements such as positioning to achieve certain marketing plan objectives

5.9 KEY WORDS

Market: A market is one of the many varieties of systems, institutions, procedures, social relations and infrastructures whereby parties engage in exchange

Segmentation: Segmentation is a marketing strategy which involves dividing a broad target market into subsets of consumers, businesses, or countries that have, or are perceived to have, common needs, interests, and priorities, and then designing and implementing strategies to target them.

Positioning: Is a marketing strategy that aims to make a brand occupy a distinct position, relative to competing brands, in the mind of the customer.

Targeting: Is to make a thing or group of things a target, to select it or them to be acted upon.

5.10 SELFASSESSMENT QUESTIONS

- 1. What is market segmentation?
- 2. Explain the bases of market segmentation
- 3. Why segmentation is necessary while entering rural market?
- 4. What do you understand by multi attribute segmentation?
- 5. Discuss the objectives of rural market segmentation.

5.11 REFERENCES

- 1. Dogra Balram and Chuman Karminder. *Rural Marketing Concepts and Practices*, New Delhi: Tata McGraw Hill Publishing Company Ltd. 2008
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UNIT-6: FACTORS OF MARKET SEGMENTATION

Structure:

- 5.0 Objectives
- 6.1 Introduction
- 6.2 Factors affecting market segmentation
- 6.3 Requirements for effective segmentation
- 6.4 Characteristics of rural consumer
- 6.5 Case Study
- 6.6 Notes
- 6.7 Summary
- 6.8 Key Words
- 6.9 Self Assessment Questions
- 6.10 References

6.0 OBJECTIVES

After studying this unit, you should be able to;

- Define segmentation
- Explain the factors affecting market segmentation
- Discuss the characteristics of rural consumer

6.1 INTRODUCTION

Market segmentation is the process of identifying specific customers within a broad marketplace that you target with products and promotion. In formulating segmentation strategies, companies have to consider internal factors, such as their abilities to meet the needs of certain customers. You also have to consider external influences that can help or hinder your success in a particular segment.

Every business owner knows the importance of market segmentation: getting the most out of every marketing dollar depends on identifying and addressing the core needs of customers.

Since market segmentation relies on breaking up a target market into customers who share common purchase histories or needs, the way to really streamline your marketing is to find out the most important factors driving sales and market accordingly. It's even better when the assets of your company are geared towards consumer preferences.

6.2 FACTORS AFFECTING MARKET SEGMENTATION

- 1. Size of the market
- 2. Type of the market
- 3. Availability of resources
- 4. Product variability
- 5. Stages in product life cycle
- 6. Market variability
- 7. Competitor strategies
- 8. Market potential

1. Size of the market: Market size is a measurement of the total volume of a given **market**. For now, think of **market size** in terms of a pie chart (think of a circle). The entirety of the

circle represents the **market size**. **Market** share represents a company's allocation in the total **market size**.

2. Type of the market: A **market** is one of the many varieties of system, institution, procedures, social relations and infrastructure whereby parties engage in exchange. While parties may exchange goods and services by barter, most markets rely on sellers offering their goods or services (including labor) in exchange for money from buyers. It can be said that a market is the process by which the prices of goods and services are established.

3. Availability of resources: A resource is a source or supply from which benefit is produced. Typically resources are materials, energy, services, staff, knowledge, or other assets that are transformed to produce benefit and in the process may be consumed or made unavailable. Benefits of resource utilization may include increased wealth, meeting needs or wants, proper functioning of a system, or enhanced well being. From a human perspective a natural resources is anything obtained from the environment to satisfy human needs and wants? From a broader biological or ecological perspective a resource satisfies the needs of a living organism

4. Product variability: Retailers and manufacturers across Europe are losing out to store and brand switching as consumer substitute product which are unavailable or difficult to find.

Availability is becoming an increasingly important issue for consumers seeking out convenient grocery solution.

5. Stages in product life cycle: The idea of the product life cycle has been around for some time, and it is an important principle manufacturers need to understand in order to make a profit and stay in business.

However, the key to successful manufacturing does not just understand this life cycle, but also proactively managing products throughout their lifetime, applying the appropriate resources and sales and marketing strategies, depending on what stage products are at in the cycle

6. Market variability: Market variability refers to shifts and changes in the market. For instance, the housing market is variable because home prices go up and down on a regular basis.

7. Competitor strategies: Competitive strategies are the method by which you achieve a competitive advantage in the market. There are typically three types of competitive strategies that can be implemented. They are cost leadership, differentiation and a focus strategy. A mixture of two or more of these strategies is also possible depending on your business' objectives and current market position

8. Market potential: Market potential is the entire size of the market for a product at a specific time. It represents the upper limits of the market for a product. Market potential is usually measured either by sales value or sales volume. For example, the market potential for ten speed bicycles may be worth \$5,000,000 in sales each year

6.3 REQUIREMENTS FOR EFFECTIVE SEGMENTATION

To be useful, a market segment must be:

- ♦ Measurable
- ♦ Accessible
- Differentiable
- ♦ Actionable

Measurable: Examples include the size, purchasing power, and profiles of the segments

Accessible: Refers to the fact that the market can be effectively reached and served

Substantial refers to the fact that the markets are large and profitable enough to serve

Differentiable: Refers to the fact that the markets are conceptually distinguishable and respond differently to marketing mix elements and programs

Actionable: Refers to the fact that effective programs can be designed for attracting and serving the segments

6.4 CHARACTERISTICS OF RURAL CONSUMER

1. Literacy level: Literacy is one of the important factors in developing awareness and knowledge about technological changes.

Consumer	literacy level
Urban India	53%
Rural India	45%

2. Income level: Low purchasing power, standard of living, per capital income, economic and social positions are traits of rural consumer.

Consumer	Income level
Urban India	High
Rural India	low

3. Location pattern of rural consumer

Urban	Rural
3200 cities and villages	638667 villages

4. Reference Group: Typically, in a rural area the reference groups are primary health workers, doctors, teachers and panchayat members, the village trader or the grocer, commonly called 'Baniya' or 'Mahajan' are an important influencer in the decision making of rural customer. A marketer needs to be aware of these influences that can effect changes in the rural customer's consumption patterns.

5. Occupation: Consumption patterns differ according to income levels. Typically, in a rural area the principal occupation is farming, trading, crafts, plumbing, electric works, primary health workers and teachers.

Agriculture and related activities continue to be the main occupation for majority of the rural population. Land is the major source of income for about 77% of the population.

6. Media Habits: Rural people are fond of music and folklore. In rural areas a popular form of entertainment is the 'Tamasha' and 'Nautanki'. And then there are television, radio and video films.

7. Rural Electrification: The main objective is to provide electricity for agricultural operations and for small industries in rural areas. About 5 lakh villages (77%) have electric supply and this has increased the demand for electric supply and this has increased the demand for electric motors, pumps and agricultural machinery.

8. Other Variables: Culture, language, religion, caste and social customs are some other important variables for profiling a rural customer. Rural consumers have a lot of inhibitions and tend to be rigid in their behavior. A company has to take intense care while targeting them

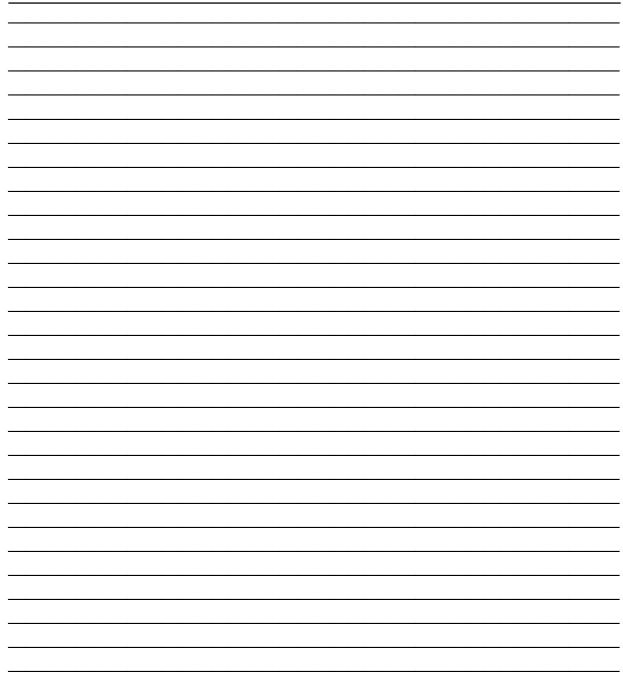
6.5 CASE STUDY

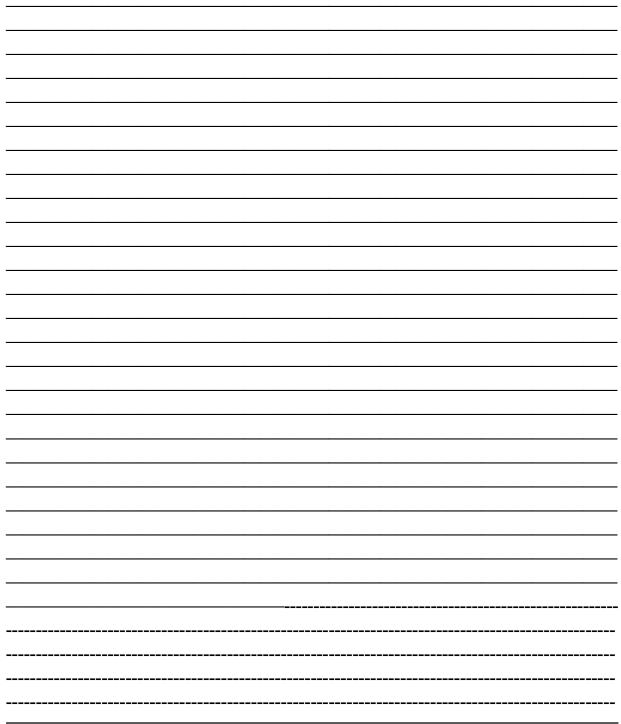
Munjal said that although the new motorcycle would be made available at a low cost, the company would not compromise on its quality and safety. He said, "Whatever we bring should certainly have a significant price advantage. Just because we have an enhanced rural focus, it does not mean that rural customers can be offered products which do not stand the test of performance or durability. In fact, rural customers need sturdier vehicles (than urban ones)."

Started in 1984, Hero Honda was the result of a joint venture between Japan-based Honda Motor Company Limited (HMCL) and the India-based Hero Group.

Hero Honda started its journey with the launch of Hero Honda CD-100 motorcycle, the first four-stroke motorcycle to be launched in the Indian market. By the early 2000s, Hero Honda had firmly established its presence in the Indian two-wheeler market. In late 2007, Hero Honda started paying importance to expanding its presence in rural India. It felt that rural India had the potential to be a large market for two-wheelers (Refer to Exhibit I for a note on the Indian Rural Market).

6.6 NOTES





6.7 SUMMARY

Formulating rural marketing strategy requires an understanding of the rural markets and the significant rural-urban differences and similarities. Rural marketing philosophy should embody marketing concept and societal concept. Relationship marketing and development marketing take precedence over transactional marketing. New approaches to marketing

research and understanding consumer behavior are needed. Marketing-Mix targeted to lower and middle income groups may be suitable, in case of some products. In other cases, altogether a different strategy becomes necessary. Rural marketing relies mostly on low priced, small unit packs and quality durables without frills, distribution by outlets like cooperatives, nongovernment organization (NGOs), self-help groups, haats and melas and promotion through interactive media using local idiom and region-specific dialect.

6.8 KEY WORDS

Rural consumer: Consumer behavior is a dynamic interaction of affection and cognition, behaviour and the environment by which human beings conduct exchanges during their lives

Product variability: Retailers and manufacturers across Europe are losing out to store and brand switching as consumer substitute product which are unavailable

Market: A place where buyer and seller takes place and exchange their values.

Market potential: Is the entire size of the market for a product at a specific time.

6.9 SELFASSESSMENT QUESTIONS

- 1. What is market size?
- 2. Explain the factors affecting market segmentation.
- 3. Discuss the characteristics of rural consumer
- 4. Explain the concept of market potential

6.10 REFERENCES

- 1. Dogra Balram and Chuman Karminder. *Rural Marketing Concepts and Practices*, New Delhi: Tata McGraw Hill Publishing Company Ltd. 2008
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UNIT -7 MARKETING RESEARCH

Structure:

7.0 :	Objectives
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- 7.1 :Introduction
- 7.2 :Meaning of Market Research
- 7.3 :Objectives of Market Research
- 7.4 :Benefits of market research
- 7.5 :Rural market strategies
- 7.6 :Case Study
- 7.7 :Notes
- 7.8 :Summary
- 7.9 Key Words
- 7.10 Self Assessment Questions
- 7.11 References

7.0 OBJECTIVES

After studying this unit, you should be able to;

- Define market research
- Explain the objectives of market research
- Discuss the benefits of market research
- Highlights the limitation of market research
- Critically evaluate the rural marketing strategies

7.1 INTRODUCTION

The peculiarities of rural markets have forced the companies to rework their marketing strategies developed for the urban market. It is not only the product, but also the message, media, channel and prices that are tailored to meet the needs of the rural markets effectively. In this chapter we are going to discuss marketing strategies suitable for rural markets, in which we will cover the four P's Product, Price, Physical distribution and promotion strategies separately.

Market research began to be conceptualized and put into formal practice during the 1920s, as an offshoot of the advertising boom of the Golden age of Radio in the United States Advertisers began to realize the significance of demographics revealed by sponsorship of different radio programs.

Market research is a way of getting an overview of consumers' wants, needs and beliefs. It can also involve discovering how they act. The research can be used to determine how a product could be marketed. <u>Peter Drucker</u> believed market research to be the quintessence of marketing.

There are two major types of market research. <u>Primary</u> Research sub-divided into <u>Quantitative</u> and <u>Qualitative</u> research and <u>Secondary research</u>.

7.2 MEANING OF MARKET RESEARCH

Market research is any organized effort to gather information about target market or customers. It is a very important component of business strategy. The term is commonly interchanged with marketing research; however, expert practitioners may wish to draw a distinction, in that marketing research is concerned specifically about marketing processes, while *market* research is concerned specifically with markets. Market research is a key factor in maintaining competitiveness over competitor. Market research provides important information to identify and analyze the market need, market size and competition. Market-research techniques encompass both qualitative techniques such as focus groups, in-depth interviews, and ethnography, as well as quantitative techniques such as customer surveys, and analysis of secondary data.

Market research, which includes social and opinion research, is the systematic gathering and interpretation of information about individuals or organizations using statistical and analytical methods and techniques of the applied social sciences to gain insight or support decision making.

7.3 OBJECTIVES OF MARKET RESEARCH

Marketing research is undertaken for attaining the following objectives:

(1) To Provide Basis For Proper Planning:

Marketing and sales forecast research provides sound basis for the formulation of all marketing plans, policies, programmes and procedures.

(2) To Reduce Marketing Costs:

Marketing research provides ways and means to reduce marketing costs like selling, advertisement and distribution etc.

(3) To Find Out New Markets for The Product:

Marketing research aims at exploring new markets for the product and maintaining the existing ones.

(4) To Determine Proper Price Policy:

Marketing research is considered helpful in the formulation of proper price policy with regard to the products.

(5) To Study in Detail Likes and Dislikes of the Consumers:

Marketing research tries to find out what the consumers, (the men and women who constitute the market) think and want. It keeps us in touch with the consumers, minds and to study their likes and dislikes.

(6) To Know The Market Competition:

Marketing research also aims at knowing the quantum of competition prevalent in the market about the product in question. The company may need reliable information about competitor's moves and strategies which are of immense significance for further planning.

(7) To Study The External Forces and Their Impact:

Marketing research provides valuable information by studying the impact of external forces on the organization. External forces may include conditions developing in foreign markets, government, policies and regulations, consumer incomes and spending habits, new products entering in the market and their impact on the company's products.

7.4 BENEFITS OF MARKET RESEARCH

The benefits of Market Research are as fallows:

1. Market research guides your communication with current and potential customers.

Once you have your research results, you should have enough ammunition to formulate the most effective way to communicate to your customers. You should know what they like/ don't like to hear/see/do. Then you can tailor what you say to them to make them take action.

2. Market research helps you identify opportunities in the marketplace.

Research might make it obvious that a new product you have planned may not be what your market wants or needs. You may then decide to make modifications on what you are going to offer to suit your audience.

3. Market research helps you minimize risks.

Through market research, you may find all the information you need to decide whether to take action on a particular subject. For example, you may find that the particular location where you wanted to open a shop already has a saturated market in your line of business, which should make you refrain from making that decision and look for a more appropriate spot.

4. Market research measures your reputation.

It's always good to know how you measure against your competitors. Market research finds out just where you are and then, according to the results, you can take action to change perception.

5. Market research uncovers and identifies potential problems.

You can get consumers' reactions to a new product or service when it is still being developed. This should enlighten any further development so it suits its intended market.

6. Market research helps you plan ahead.

Research can estimate the likely sales of a new product/service and also the advertising expenditure required to achieve maximum profits.

7. Market research can help you establish trends.

If you treat your market research as an ongoing exercise that you do periodically, you'll find that you'll have a lot of data to be able to analyze your customers and establish any particular trends.

8. Market research helps you establish your market positioning.

It's important to know the position of your business at particular moments in time. Information from market research helps you benchmark and monitor your progress, which can be useful to make decisions and take action.

9. Market research can determine the most persuasive 'promise'.

Every brand needs to make a promise. If you think of the most known brands, they all make a promise to you and you usually know what is by just looking at their logo. It can be security, a fast and tasty meal or the assurance of top technology. It needs to be simple and market research can help you define what your brand's promise is.

10. Market research can find that compromise.

The team involved in the launch of a new product/service all have their individual perceptions and gut feelings. These certainly should not be ignored, but by going straight to the target audience, you will gain thoughts and opinions from people who may be less biased or less emotionally attached to a new development or service. It helps gain a new angle, hopefully a compromise in just how you are going to go about a new launch, a new brand or a brand repositioning.

7.5 RURAL MARKET STRATEGIES

- 1. **PRODUCT STRATEGY**
- 2. PRICING STRATEGY
- 3. DISTRIBUTION STRATEGY
- 4. **PROMOTIONAL STRATEGY**

1. PRODUCT STRATEGY:

A. Small Unit Packaging

Small packs are preferred due to the following reasons:

- 1. Small packs help the rural consumer to pick the product at affordable price.
- 2. Individual use products like shampoo; toilet soaps, etc. are bought in smaller size.
- 3. Small packs are easy to display and they increase the visual appeal.
- 4. Small packs are convenient to retailer to do his business.

Example:

- 1. Cavin Kare introduced shampoo in 4 ml sachets at 0.50 paise.
- 2. Rasna is now available in sachet at Re. 1
- 3. Ponds introduced 20 gm talcum powder
- 4. Tiger biscuit is available in four biscuits pack at Re. 1

B. New Product Design

The products are designed as per the rural lifestyle.

Example:

- 1. PVC shoes and chappals are designed to work in adverse conditions.
- 2. LG electronics launched "Sampoorna" TV that can withstand power fluctuations.
- 3. Philips introduced small refrigerators especially for rural consumers.

C. Sturdy Products

Sturdiness of a product is an important factor for rural consumers. The rural consumers believe that heavier the, higher he power and durability.

Example:

- 1. Bullet motorcycle is popular in village due to its ruggedness.
- 2. Escorts has positioned their motorcycle "Rajdoot" as a tough vehicle.
- 3. Rural consumer prefer dry battery cell, which are heavy.

D. Utility Oriented Products

Rural consumers are more concerned with the utility of the product and its appearance.

Example:

1. Philips introduced low cost radio "Bahadur" with only medium wave receiver, which was failed and fund that rural consumer purchase radio not only for news but also for entertainment.

E. Brand Name

Rural consumers are more brand loyalists than urban consumer. The brand name should instantly be understood by the rural consumers. Rural consumers are unfamiliar with English and absurd names. More preferably rural brand is a symbol, logo or color.

Example:

1. Everyday battery with a cat symbol – rural consumers remember it as 'billi wali battery'.

- 2. Lifebuoy soap rural consumers remember it as 'lal saboon'
- 3. Mahindra tractor's brand 'Bhumiputra'

Slogan of Red Label Tea "jiyo mere lal" proved very effective to promote sale

2. PRICING STRATEGY:

The pricing strategy for rural market will depend upon the scope for reducing the price of the product to suit the rural incomes and at the same time not compromising with the utility and sturdiness of the product.

1. Low cost Products: This strategy can be adopted by both, manufacturing and marketing men. Price can be kept low by small unit packing

2. **Simple Packaging:** Sophisticated packing should be avoided and Simple packaging should be adopted to cut down the cost.

3. **Reusable packaging**: Packaging that is reusable and can be refilled attracts the attention of rural buyers.

For examples: Zandu Chyawanprash is providing plastic Containers that can be reused by the consumers.

4. Application of value engineering:

This is a technique which can be tried to evolve cheaper products by substituting the costly raw material with the cheaper one, without sacrificing the quality or functional efficiency of the product, for example in food industry, 'soya protein is being used instead of milk protein. Milk protein is expensive while soya protein is cheaper but the nutrition

3. DISTRIBUTION STRATEGIES:

Most of the manufacturers and marketers can arrange for distribution to villages using the strategies listed below:

1.**Using Own Delivery Vans:** One of the way of distribution to rural area can be using delivery vans which can serve two purposes-it can take product to consumer in every nook and corner of the market and it also enables the firm to establish direct contact with them and thereby facilitate sales promotion. However, only big companies can adopt this channel.

2. **Annual Melas:** Annual melas organized are quite popular and provide a very good platform for distribution because people visit them to make several purchases.

According to Indian Market Research Bureau-around 8000 such melas are held in rural India every year. Also every region consisting of several villages is generally served by one satellite town termed as Mandis and Agri-markets where people prefer to go to buy their commodities. By making product available in these annual Melas, Mandis and Agri Markets, a firm can cover large section of rural population.

3. **Paintings:** A picture is worth thousand words. This way of conveying message is simple and clean. Rural people like the sight of bright colors. COKE, PEPSI and TATA traders advertise their products through paintings.

4. PROMOTION STRATEGIES:

Mass media is a powerful medium of communication and other strategies that can be followed to promote the product in rural market include:

1. **Promoting Products with Indian Models and Actors:** Companies should picking up Indian models, actors for advertisements as this will help them to show themselves as an Indian company. Shahrukh Khan is chosen as a brand ambassador for MNC quartz clock maker "OMEGA" even though when they have models like Cindy Crawford.

2. **Associating them with India:** MNCs must associate themselves with India by talking about India, by explicitly saying that they are Indian. M-TV during Independence Day and Republic Day time make their logo with Indian tri-colour.

3. **Promoting Indian Sports Team:** Companies may promote Indian sports teams so that they can associate themselves with India. With this, they influence Indian mindset. ITC was promoting Indian cricket team for years; during world cup they launched a campaign "Jeeta hai jitega apna Hindustan India India".

4. **Talking about a Normal Indian:** It is a normal tendency of an Indian to try to associate him/her with the product. If he/she can visualize himself/herself with the product, he /she become loyal to it. That is why companies like Daewoo based their advertisements on a normal Indian family.

7.6 CASE STUDY

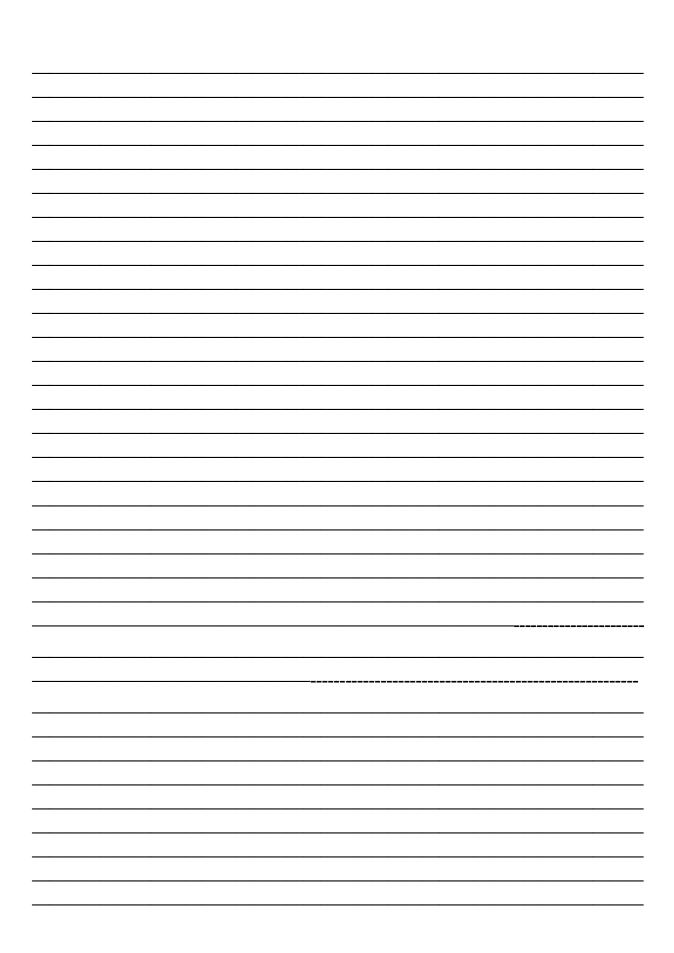
New York-based Tripmela, Inc., an online travel publisher, has found its niche in India where the Internet population has grown from 4.9 million in 2000 to 46 million in 2007 (source: Internet & Mobile Association of India), the online travel industry was named the country's leading and fastest-growing e-commerce category, and the Official Airline Guide (OAG) reported a 62% increase in the domestic low-cost travel sector between 2006 and 2007.

Tripmela aggregates the top travel bargains available to the Indian market on its site and sends out a weekly "10 Best Deals" newsletter to its subscriber base, offering a single, user-friendly portal comparable to TravelZoo in the United States.

Like much of the Indian Internet industry, however, Tripmela was still in its infancy when 2008 rolled around. Although its Web site had been launched, advertiser partnerships established, and funding secured, the task of generating a steady stream of Web traffic remained a serious challenge. The company attempted cost-per-click (CPC) and other paid-search campaigns to grow its email newsletter list (its greatest revenue driver), but those efforts turned out to be inefficient and ultimately too expensive.

"CPC gave a false sense of control—a control of cost—but what we really cared about was the cost to acquire a subscriber," said Jared Blank, CEO at Tripmela. "To get a good cost-peracquisition metric, we had to have two things in place: (a) a strong cost per lead, and (b) a high quality of leads that would drive higher conversion rates."

7.7 NOTES



7.8 SUMMARY

Market research is an invaluable tool that, at first, might seem expensive and slow, but it's nothing more than an investment. As one of our very good clients always says, "Best to measure twice and cut once to maximize your returns".

The vital role rural marketing have to play in the economic development of a developing country, is beyond doubt at present. An intensive effort in order to provide the basic facilities to rural consumers is the need of the hour. Indian rural marketing system should be made much more competitive by infusing competition within the country and preventing the external system equation from interfering with the local markets in the larger interests of the nation.

7.9 KEY WORDS

- Market Research: Systematic gathering and interpretation of information about individuals or organizations using statistical and analytical methods
- **Pricing:** Process whereby a business sets the price at which it will sell its products and services, and may be part of the business's marketing plan.
- **Promotion:** Defined as one of five pieces in the **promotional** mix or **promotional** plan. These are personal selling, advertising, sales **promotion**, direct marketing, and publicity.
- **Distribution:** Process of making a product or service available for use or consumption by a consumer or business user, using direct means, or using indirect means with intermediaries.
- **Product:** Is anything that can be offered to a market that might satisfy a want or need

7.10 SELFASSESSMENT QUESTIONS

- 1. What is market research?
- 2. Explain the objectives of market research
- 3. Discuss the significance of market research
- 4. Critically evaluate various pricing strategies
- 5. Bring out the significance of product strategies
- 6. Define distributions strategy. Discuss the various distribution strategies
- 7. What is promotional mix? Explain different types of promotion mix elements

7.11 REFERENCES

- 1. Dogra Balram and Chuman Karminder. *Rural Marketing Concepts and Practices*, New Delhi: Tata McGraw Hill Publishing Company Ltd. 2008
- 2. Kashyap Pradeep. Rural Marketing, New Delhi: Dorling Kindersley (India) Pvt. Ltd.
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UNIT - 8: RURAL MARKETING INFORMATION SYSTEM

Structure:

- 8.0 Objectives
- 8.1 Introduction
- 8.2 Problem in Rural Marketing Information System
- 8.3 Components of Rural Marketing Information System
- 8.4 Internal reporting system
- 8.5 Case Study
- 8.6 Notes
- 8.7 Summary
- 8.8 Key Words
- 8.9 Self Assessment Questions
- 8.10 References

8.0 OBJECTIVES

After studying this unit, you should be able to:

- Define information system
- Discuss the significance of Information system in rural marketing
- Explain the problems encounter in rural marketing information system
- Critically evaluate the components of rural marketing information system

8.1 INTRODUCTION

A rural marketing information system (RuMIS) is necessary not only for corporate organizations engaged in marketing of agricultural goods and manufactured goods indented for sales in rural arrears. RuMIS is required also by the agriculturists an farmers who have enormous decision making to do.

Rural marketing information system is a procedure by which information is processed and presented to agriculturists and other interested parties for decision making and action taking for marketing their commodities, and purchase and sales of agricultural implements. It involves price, transport and future potential is necessary if wise production plans are to be made. Not only farmer but also processors and other agencies of rural marketing are interested in the type of market information.

8.2 PROBLEM IN RURAL MARKETING INFORMATION SYSTEM

There are several problems faced in Rural Marketing Information System design, and these are due to obvious reasons peculiar to rural situations where it is very difficult to have any kind of control or regulation. Ultimately the market is governed by the largely unfair market forces in which the farmers happen to be the losers. However, some problems are:

1. Imperfect competition and monopoly in the market, due to which either the prices of commodities tent to be inaccurate or the price data is not made available at all. Further, that complete coverage of all transactions is not possible. In case of regulated markets these problems do not crop up. However, unfair practices even in regulated market will fetch wrong data pertaining to price, sale volume, products, etc.

2. Contractual selling under a pre arranged agreements with out the influence of any organized or open market will also not make accurate information available. How will information gather know as to what these arrangements are, at what price, what commodity, and how much of it has been sold? This is big challenge.

3. Terms of payment, supply, etc vary from dealer to dealer of the same commodity in the same locality, which affects the quotes prices. It is very difficult to know as to what are those arrangements.

4. Rapid and detailed flow of information is necessary in case of markets for fruits and vegetables, which is very difficult to happen.

8.3 COMPONENTS OF RURAL MARKETING INFORMATION SYSTEM

Rural marketing information system can be divided into three parts. These are:

- A. Market Research
- B. Market and Sales Repots

C. Marketing Intelligence

A. Market Research: A study of the size of the market demands depends on customer and user preferences and the social and economic factors affecting the nature of the market. Market research is useful for:

- Estimating demand and market share potential
- Identification of customer segments
- Preparation of sales forecast
- Measurements of sales force effectiveness

B. Market and Sales Repots: Any future decision depends on past facts. Market extension also depends upon past market and sales reports. Reports must be classified timely under different headings. The value of a market report to interested parties like producers, manufacturers and others not only depends on the speed with which it is gathered, but is also dependent on its correct and intelligent interpretation. Market and sales necessary:

- To measure sales performance against target and budgets
- To study past trends of sales and customer behavior
- To adapt sales operation on a short term.

C. Marketing Intelligence: It is necessary for everyone concerned to know where and when a product should be sold, which transport is efficient and what the condition of the market is. **Market intelligence** is the information relevant to a company's markets, gathered and analyzed specifically for the purpose of accurate and confident <u>decision</u>-

making in determining strategy in areas such as market opportunity, market penetration strategy, and market development.

Market intelligence includes gathering of data from the company's external environment, whereas the <u>Business intelligence</u> process primarily is based on internal recorded events – such as sales, shipments and purchases. The purpose of incorporating Market Information or intelligence into the Business Intelligence process is to provide decision makers with a more "complete picture" of ongoing corporate performance in a set of given market conditions.

8.4 INTERNAL REPORTING SYSTEM

Maintaining up to date records in all functional departments of the marketing company should be the normal responsibility of people engaged in turning over their duties. The internal records of production, warehousing, distribution, direct selling, cash flow, creditors are in internal reporting department system. Although this system is convenient, less costly and less time and effort consuming as against other systems for developing information , this control provide external information at all. This system has focus on four marketing activities.

- The order to payment cycle
- Sales reporting
- Previous research
- Functional records

8.5 CASE STUDY

JER Envirotech is a custom formulator and manufacturer of environmentally friendly thermoplastic biocomposite materials. Competing against traditional manufacturers with its nascent technology was challenging. The company wanted to develop a whitepaper that would help build credibility for its offerings.

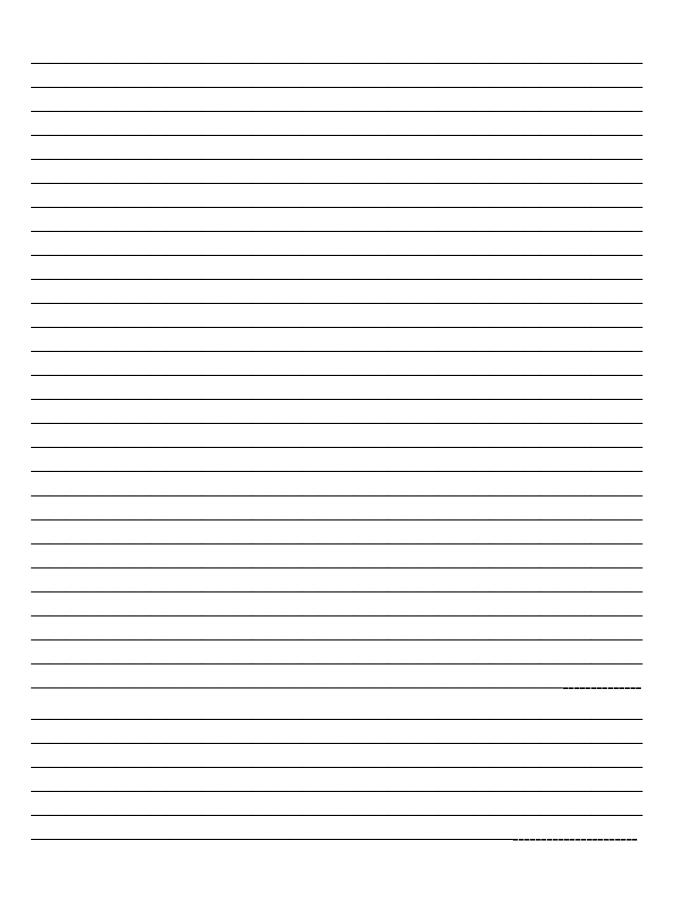
Understanding the hesitancy of manufacturers to use recycled and still-unfamiliar materials, the company wanted a whitepaper that could serve as an educational tool at tradeshows as well as an ongoing lead-generation tool on its Web site.

JER Envirotech turned to online marketing firm Plus ROI, which helped create the edu-focused whitepaper for \$4,000.

That relatively small investment allowed the company to capture 500 leads via downloads of the whitepaper in the first 60 days of its being featured on the company's Web site. It also

scored major coverage in the leading industry publication in the form of an article generated as a result of the whitepaper

8.6 NOTES



8.7 SUMMARY

Marketing information systems are intended to support management decision making. Management has five distinct functions and each requires support from an MIS. These are: planning, organizing, coordinating, decisions and controlling.

Information systems have to be designed to meet the way in which managers tend to work. Research suggests that a manager continually addresses a large variety of tasks and is able to spend relatively brief periods on each of these. Given the nature of the work, managers tend to rely upon information that is timely and verbal (because this can be assimilated quickly), even if this is likely to be less accurate then more formal and complex information systems.

Managers play at least three separate roles: interpersonal, informational and decisional. MIS, in electronic form or otherwise, can support these roles in varying degrees. MIS has less to contribute in the case of a manager's informational role than for the other two.

Three levels of decision making can be distinguished from one another: strategic, control (or tactical) and operational. Again, MIS has to support each level. Strategic decisions are characteristically one-off situations. Strategic decisions have implications for changing the structure of an organization and therefore the MIS must provide information which is precise and accurate. Control decisions deal with broad policy issues and operational decisions concern the management of the organization's marketing mix.

A marketing information system has four components: the internal reporting system, the marketing research systems, the marketing intelligence system and marketing models. Internal reports include orders received, inventory records and sales invoices. Marketing research takes the form of purposeful studies either *ad hoc* or continuous. By contrast, marketing intelligence is less specific in its purposes, is chiefly carried out in an informal manner and by managers themselves rather than by professional marketing researchers.

8.8 KEY WORDS

• Internal reporting: Maintaining up to date records in all functional departments of the marketing company should be the normal responsibility of people engaged in turning over their duties

• **Market research:** A study of the size of the market demands depends on customer and user preferences and the social and economic factors affecting the nature of the market.

• **Market intelligence:** It is necessary for everyone concerned to know where and when a product should be sold, which transport is efficient and what the condition of the market

8.9	SEL	SELFASSESSMENT QUESTIONS										
								-				

- 1. What is marketing information system?
- 2. Explain rural marketing information system
- 3. Discuss the objectives of rural marketing information system
- 4. Explain the major components of rural marketing information system
- 5. Define market intelligence
- 6. Discuss the process of market research

8.10 REFERENCES

- 1. Dogra Balram and Chuman Karminder. *Rural Marketing Concepts and Practices*, New Delhi: Tata McGraw Hill Publishing Company Ltd. 2008
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KARNATAKA STATE OPEN UNIVERSITY

MUKTHAGANGOTHRI, MYSURU- 570 006.

DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A III Semester

ELECTIVE – B: MARKETING

COURSE – 17 B : RURAL MARKETING

BLOCK - 3: AGRICULTURAL MARKETING

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Developed by Academic Section, KSOU, Mysuru

Karnataka State Open University, 2014

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BLOCK – III INTRODUCTION

Dear Learner,

In the previous block, you have learnt about Rural Marketing Segmention, factors affecting market segmentation, Marketing research and Rural Marketing information system. In this block, we are discussing agricultural marketing, role and fuction of rural marketing and development. Agricultural Marketing scenario in the country has undergone a sea-change over the last six decades owing to the increase in the supply of agricultural commodities and consequently in their market surpluses, increase in urbanization and income levels and thereby changes in the pattern of demand for farm products. Agricultural marketing today, playing a pivotal role in Rural Market.

This block will also helps to understand risk factors associate with agriculture marketing. This block also explain rural industries cottage and its factors.

This Block divided in to four units and they are,

UNIT - 9: Rural Marketing

UNIT - 10 : Risk Factors

UNIT - 11 : Role and Functions of Rural Marketing and development

UNIT - 12 : Rural Industries cottage

BLOCK : III AGRICULTURAL MARKETING

UNIT-9: RURAL MARKETING

Structure:

- 9.0 Objectives
- 9.1 Introduction
- 9.2 Concept and Definitions
- 9.3 Objectives of Agricultural marketing
- 9.4 Types of Agricultural marketing
- 9.5 Issues and Challenges in Agricultural Marketing
- 9.6 Case study
- 9.7 Notes
- 9.8 Summary
- 9.9 Keywords
- 9.10 Self assessment Questions
- 9.11 References

9.0 **OBJECTIVES**

After studying this unit, you should be able to;

- Define the meaning of agricultural marketing
- Explain the objectives of agricultural marketing
- Define the Scope and Subject matter of Agricultural Marketing,
- Bring out the Types of Agricultural Marketing
- Highlights the Issues and Challenges in Agricultural Marketing
- Discuss the Types of risk and Measure to minimize risk
- Explain the Agricultural Marketing and its Economic Importance.
- Discuss the Role of government in rural market and development.

9.1 INTRODUCTION

Strengthening agriculture is critical for facing the challenges of rural poverty, food insecurity, unemployment, and sustainability of natural resources. Agriculture is the science and practice of activities relating to production, processing, marketing, distribution, utilization, and trade of food, feed and fibre. This definition implies that agricultural development strategy must address not only farmers but also those in marketing, trade, processing, and agri-business.

In this context, efficient marketing and rural credit systems assume added importance. Marketing system is the critical link between farm production sector on the one hand and nonfarm sector, industry, and urban economy on the other. Besides the physical and facilitating functions of transferring the goods from producers to consumers, the marketing system also performs the function of discovering the prices at different stages of marketing and transmitting the price signals in the marketing chain.

The issues and concerns in marketing relate mainly to the performance (efficiency) of the marketing system, which depends on the structure and conduct of the market. An efficient marketing system helps in the optimization of resource use, output management, increase in farm incomes, widening of markets, growth of agro-based industry, addition to national income through value addition, and employment creation.

The rural credit system assumes importance because most Indian rural families have inadequate savings to finance farming and other economic activities. This, coupled with the lack of simultaneity between income and expenditure and lumpiness of fixed capital investment, makes availability of timely credit at affordable rates of interest a prerequisite for improving rural livelihood and accelerating rural development.

Civilization transformed that into producer of food and other basic requirements from the nomadic behaviour in which hunting and snatching were the way of life. Land cultivation and food production marked the beginning of civilization particularly in the riparian lands. Mother Nature has to offer her blessings to satisfy the food needs of all living creatures. Land cultivation, otherwise known as farming is influenced by the behaviour of natural events like rainfall, drought, and flood, storm and so on and so forth. Food production has its limitations and so all food cannot be produced in all places.

In other words, food production is restricted to specific locations where the soil, weather and moisture favour that activity. Nevertheless food produced has to be consumed worldwide by the human beings, animals, birds and others in need. A group of people specializing in food production and identified as farmers shoulder the noble responsibility of feeding the entire world. Hence there is no need to emphasise that food produced at specific places has to be distributed to other places of consumption. It is in this juncture, marketing plays its vital role. Marketing is as critical to better performance in agriculture as farming itself.

Therefore, market reform and marketing system improvement ought to be an integral part of policy and strategy for agricultural development. Although a considerable progress have been achieved in technological improvements in agriculture by the use of high-yielding variety seeds and chemical fertilizers and by the adoption of plant protection measures, the rate of growth in farming in developing countries limping behind the desired levels. This has been largely attributed to the fact that not enough attention has been devoted to the facilities and services which must be available to farmers that would support agricultural sector for its development. Marketing is one of those facilities needed for overall economic development of nations.

9.2 CONCEPT AND DEFINITIONS

The term agricultural marketing is composed of two words – agriculture and marketing. Agriculture, in the broadest sense, means activities aimed at the use of natural resources for human welfare, i.e., it includes all the primary activities of production. But, generally, it is used to mean growing and/or raising crops and livestock. Marketing encompasses a series of activities involved in moving the goods from the point of production to the point of consumption. It includes all activities involved in the creation of time, place, form and possession utility.

Philip Kotler has defined marketing as a "human activity directed at satisfying the needs and wants through exchange process. American Marketing Association defined marketing as the performance of business activities that directs the flow of goods and services from producers to users".

According to Thomsen, the study of agricultural marketing comprises all the operations, and the agencies conducting them, involved in the movement of farm produced foods, raw materials and their derivatives, such as textiles, from the farms to the final consumers, and the effects of such operations on farmers, middlemen and consumers.

Agricultural marketing is the study of all the activities, agencies and policies involved in the procurement of farm inputs by the farmers and the movement of agricultural products from the farms to the consumers.

The agricultural marketing system is a link between the farm and the non-farm sectors. It includes the organization of agricultural raw materials supply to processing industries, the assessment of demand for farm inputs and raw materials, and the policy relating to the marketing of farm products and inputs.

According to the National Commission on Agriculture (XII Report, 1976), agricultural marketing is a process which starts with a decision to produce a saleable farm commodity, and it involves all the aspects of market structure or system, both functional and institutional, based on technical and economic considerations, and includes pre- and post-harvest operations, assembling, grading, storage, transportation and distribution.

Agricultural marketing system in developing countries including India can be understood to compose of two major sub-systems viz., product marketing and input (factor) marketing. The actors in the product marketing sub-system include farmers, village/primary traders, wholesalers, processors, importers, exporters, marketing cooperatives, regulated market committees and retailers. The input sub-system includes input manufacturers, distributors, related associations, importers, exporters and others who make available various farm production inputs to the farmers.

However, as Acharya has described, in a dynamic and growing agricultural sector, the agricultural marketing system ought to be understood and developed as a link between the farm and the non-farm sectors. A dynamic and growing agricultural sector requires fertilizers, pesticides, farm equipment's, machinery, diesel, electricity, packing material and repair services which are produced and supplied by the industry and non-farm enterprises. The expansion in the size of farm output stimulates forward linkages by providing surpluses of

food and natural fibres which require transportation, storage, milling or processing, packaging and retailing to the consumers.

These functions are obviously performed by non-farm enterprises. Further, if the increase in agricultural production is accompanied by a rise in real incomes of farm families, the demand of these families for non-farm consumer goods goes up as the proportion of income spent on non-food consumables and durables tends to rise with the increase in real per capital income. Several industries, thus find new markets for their products in the farm sector.

Agricultural marketing, therefore, can be defined as comprising of all activities involved in supply of farm inputs to the farmers and movement of agricultural products from the farms to the consumers. Agricultural marketing system includes the assessment of demand for farm-inputs and their supply, post-harvest handling of farm products, performance of various activities required in transferring farm products from farm gate to processing industries and/or to ultimate consumers, assessment of demand for farm products and public policies and programmes relating to the pricing, handling, and purchase and sale of farm inputs and agricultural products. Of late trade in the domestic and international markets also become the part of it.

Scope and Subject Matter

Agricultural marketing in a broader sense is concerned with the marketing of farm products produced by farmers and of farm inputs and services required by them in the production of these farm products. Thus, the subject of agricultural marketing includes product marketing as well as input marketing. The subject of output marketing is as old as civilization itself.

The importance of output marketing has become more conspicuous in the recent past with the increased marketable surplus of the crops and other agricultural commodities following the technological breakthrough. On one hand surplus production in agriculture resulted in problem of distribution to consumption centres and on the other transformed agriculture into a commercial venture where market needs came to the lime light.

Input marketing is a comparatively new subject. Farmers in the past used such farm sector inputs as local seeds and farmyard manure. These inputs were available with them; the purchase of inputs for production of crops from the market by the farmers was almost negligible. The 4 importance of farm inputs - improved seeds, fertilizers, insecticides and pesticides, farm machinery, implements and credit - in the production of farm products has increased in recent decades.

The new agricultural technology is input-responsive. Thus, the scope of agricultural marketing must include both product marketing and input marketing. In this book, the subjectmatter of agricultural marketing has been dealt with; both from the theoretical and practical points of view.

It covers what the system is, how it functions, and how the given methods or techniques may be modified to get the maximum benefits. Specially, the subject of agricultural marketing includes marketing functions, agencies, channels, efficiency and costs, price spread and market integration, producer's surplus, marketing institutions, government policy and research, imports/exports of agricultural commodities and commodity and futures trading.

New Role of Agricultural Marketing

Agricultural marketing scenario in the country has undergone a sea-change over the last six decades owing to the increases in the supply of agricultural commodities and consequently in their marketed surpluses; increase in urbanization and income levels and thereby changes in the pattern of demand for farm products and their derivatives; slow and steady increase in the linkages with the overseas markets; and changes in the form and degree of government intervention in agricultural markets.

Therefore, the framework under which agricultural produce markets function and the factors which influence the prices received by the farmers now need to be understood in a different perspective compared to that in the past. The role of marketing now starts right from the time of decision relating to what to produce, which variety to produce and how to prepare the product for marketing rather than limiting it to when, where and to whom to sell.

Markets and Marketing Market – Meaning the word market originated from the Latin word 'marcatus' which means merchandise or trade or a place where business is conducted. Word 'market' has been widely and variedly used to mean: (a) a place or a building where commodities are bought and sold, e.g., super market; (b) potential buyers and sellers of a product; e.g., wheat market and cotton market; (c) potential buyers and sellers of a country or region, e.g., Indian market and Asian market; (d) an organization which provides facilities for exchange of commodities, e.g., Bombay stock exchange; and (e) a phase or a course of commercial activity, e.g., a dull market or bright market.

9.3 OBJECTIVES OF AGRICULTURAL MARKETING

- Increasing of market access to all markets
- Promotion of efficient marketing of agricultural products
- Optimisation of export earnings from agricultural products
- Enhancement of the viability of the agricultural sector.
- Identification of the problems confronting by the farmers, marketing agencies and consumers in a dynamic context

9.4 TYPES OF AGRICULTURAL MARKETING

Types of agricultural markets in India and their classification

Market for agricultural produce may broadly be divided into three categories

- Wholesale market
- Retail market
- ♦ Fairs
- 1. Wholesale markets: These markets are subdivided into

I. **Primary wholesale markets:** These markets are periodically held, either ones or twice a week. Agricultural produce comes from neighbouring villages. These markets deal in the sale of fruits, vegetables, food grains, all household requisites etc. for e.g. Village market

II. **Secondary wholesale market:** These are also known as mandis. These are situated generally at district or taluka headquarters. Small merchants purchase from primary wholesale market and sale in this markets. Some cultivators directly sell their produce in these markets. Each market comprises area with a 10-20 miles radius. For e.g. District and taluka market.

III. **Terminal markets:** These are the markets in which the produce is either finally disposes off, direct to consumer or processors or assemble for shipment to foreign countries. These markets are the parts where warehouses and storages are available/ cover a wide area may be state. For e.g. Bombay terminal market.

2. Retail markets: These markets are spread all over the city or town subject to municipal control.

They generally deal in all types of produce and serve the needs of the city people as well as of the surrounding villages. Particular type of market is located in particular locality. Cloth market is one locality and grain, vegetable are in different localities. There is direct selling to consumer.

3. Fairs:

These are held on religious occasions, at pilgrim centre. These markets deal in livestock, agricultural produce etc. for e.g. Magh Mela at Allahabad. There are various dimensions of markets.

Any market may be classified on the basis of these Dimensions

I. On the basis of free intercourse or degree of competition+

a. Perfect market:

A market said to be perfect, when all potential sellers and buyers are promptly aware of the prices at which transaction takes place, any buyers can purchase from any sellers. The principle underlying a perfect market expects that there must be a uniform price for any one standardized commodity at a particular time at any place, there should not be restriction on the movement of a commodity, and there must be a good number of buyers and sellers.

b. Imperfect market:

A market is said to be imperfect where, some buyers or sellers or both are not aware of the prices at which transactions takes place. There is restriction for movement of goods.

Imperfect markets are

a. Monopoly market: There is only one seller of the commodity

b. Duopoly market: It has two sellers of a commodity.

c. Oligopoly market: There are more than two but a still a few sellers of commodity

d. Monopolistic competition: A large number of sellers will deal in heterogeneous and differentiated form of a commodity

II. On the basis of time:

a. Very short period markets: These are for few hours and are mostly for highly perishable commodities like fruits, vegetables, fish, milk, etc.

b. Short period market: In these markets commodities are perishable and can be traded for some time. These commodities are like food grains and oilseeds.

c. Long period markets: Time span available is long to adjust supply to meet demand even by managing production. These markets can be for machinery and manufactured goods

III On the basis of nature of commodities (Type of goods transacted):

i. Commodity markets

- ii. Produce exchange- commodities are produced and not manufactured. Generally one market in one commodity. e. g. cotton exchange Mumbai.
- **Manufactured goods markets:** These are markets of manufacture and semi manufactured goods. For e.g. Leather exchange of Kanpur
- **Precious stones.** These are highly specialized and well organized markets of world for e.g. bullion market of Mumbai

Money markets: Broad term include a number of agencies providing finance to business. These are at large trading centres like Mumbai, London

Foreign exchange market: It is international market and largely concerned with export and import trade of countries.

Stock exchange: This is market for investments stocks bonds debentures shares are purchased and sold in different parts of the countries for e.g Calcutta and Madras stock exchange

IV On the basis of area of coverage:

- 1 Village Markets: Buying and selling activities are confined among buyers and sellers of the village or nearby villages mostly for perishable a commodities.
- 2 **Regional markets:** (District/ Sate) Buyers and sellers for among commodity are drawn large area than the local markets in India there generally exist for food grains.
- 3 National Markets: Buyers and sellers are at National level e,g. Durable goods such as Jute, Tea.
- 4 **World Markets:** Buyers and sellers drawn from the world biggest markets form area point of view and exist for commodities having world-wide demand e.g., Coffee, Gold, silver.
- V On the basis of location or importance:
- I **Primary Wholesale markets:** These are located in big towns near the centres of production of agriculture commodities, transaction mostly take place between farmers and traders.
- II Secondary Wholesale markets: These are generally located at districts headquarters or important trade centres near railway stations. Produce is handled in large quantity.

III Terminal markets: Here produce is either finally disposed off to the consumers or processors or assembled for export. These are located in Metropolitan cities like Mumbai, madras and Calcutta.

Sea board markets: These are located near seashore and are mainly meant for import and export of goods.

Fairs: These are held on religious occasions.

VI On the basis of nature of transaction:

I Spot or cash markets: Here goods are exchanged for money immediately after sale of within reasonable short period of time.

II Forward or future markets: Here a transaction takes place for a standardized commodity with a promise to pay and deliver a commodity at some future date.

VII On the basis of volume of transaction:

I Wholesale markets: Here commodities are brought by and sold in large lots or in bulks. Transaction takes place generally between traders.

II. Retail markets: Her commodities are brought by and sold to the consumers as per their requirement

VIII On the basis of no of commodities in which transaction take place:

I General market: In these markets almost all the types of commodities, such as food-grains, oilseeds, gut fibre crops etc. are brought & sold.

II Specialized markets: In these transaction takes place only in one or two commodities. For every group of commodities, separate markets exist e.g. Food grain markets. Cotton, markets etc.

IX On the basis of stage of marketing:

I **Producing markets:** These market mainly assemble goods for further distribution to other markets for production purpose. They are located in producing areas.

II Consuming markets: Here produce is collected for final disposal to the consuming population. These are located in generally in thickly populated areas, where production is adequate.

X On the basis of extent of public intervention:

Regulated markets: Here business is done as per the rules and regulated by statutory market organization. Market charges are standardized and fixed and practices regulated by Agril Produce Market committee. II Unregulated markets: Here business is conducted without ant set of rules and regulations. Traders frame rules and conduct business. These markets suffer from various defects in functioning.

9.5 ISSUES AND CHALLENGES IN AGRICULTURAL MARKETING

Some of the major problems and their possible solutions have been discussed as follows. Indian agriculture is plagued by several problems; some of them are natural and some others are manmade.

1. Small and fragmented land-holdings:

The seemingly abundance of net sown area of 141.2 million hectares and total cropped area of 189.7 million hectares (1999-2000) pales into insignificance when we see that it is divided into economically unviable small and scattered holdings.

The average size of holdings was 2.28 hectares in 1970-71 which was reduced to 1.82 hectares in 1980-81 and 1.50 hectares in 1995-96. The size of the holdings will further decrease with the infinite Sub-division of the land holdings.

The problem of small and fragmented holdings is more serious in densely populated and intensively cultivated states like Kerala, West Bengal, Bihar and eastern part of Uttar Pradesh where the average size of land holdings is less than one hectare and in certain parts it is less than even 0.5 hectare.

Rajasthan with vast sandy stretches and Nagaland with the prevailing 'Jhoom' (shifting agriculture) have larger average sized holdings of 4 and 7.15 hectares respectively. States having high percentage of net sown area like Punjab, Haryana, Maharashtra, Gujarat, Karnataka and Madhya Pradesh have holding size above the national average.

Further it is shocking to note that a large proportion of 59 per cent holdings in 1990-91 were marginal (below 1 hectare) accounting for 14.9 per cent of the total operated area. Another 19 per cent were small holdings (1-2 hectare) taking up 17.3 per cent of the total operated area.

Large holdings (above 10 hectare) accounted for only 1.6 per cent of total holdings but covered 17.4 per cent of the operated area (Table 22.1). Hence, there is a wide gap between small farmers, medium farmers (peasant group) and big farmers (landlords).

The main reason for this sad state of affairs is our inheritance laws. The land belonging to the father is equally distributed among his sons. This distribution of land does not entail a collection or consolidated one, but its nature is fragmented.

Different tracts have different levels of fertility and are to be distributed accordingly. If there are four tracts which are to be distributed between two sons, both the sons will get

smaller plots of each land tract. In this way the holdings become smaller and more fragmented with each passing generation.

Sub-division and fragmentation of the holdings is one of the main causes of our low agricultural productivity and backward state of our agriculture. A lot of time and labour is wasted in moving seeds, manure, implements and cattle from one piece of land to another.

Irrigation becomes difficult on such small and fragmented fields. Further, a lot of fertile agricultural land is wasted in providing boundaries. Under such circumstances, the farmer cannot concentrate on improvement.

The only answer to this ticklish problem is the consolidation of holdings which means the reallocation of holdings which are fragmented, the creation of farms which comprise only one or a few parcels in place of multitude of patches formerly in the possession of each peasant.

But unfortunately, this plan has not succeeded much. Although legislation for consolidation of holdings has been enacted by almost all the states, it has been implemented only in Punjab, Haryana and in some parts of Uttar Pradesh.

Consolidation of about 45 million holdings has been done till 1990-91 in Punjab, Haryana and western Uttar Pradesh. The other solution to this problem is cooperative farming in which the farmers pool their resources and share the profit.

2. Seeds:

Seed is a critical and basic input for attaining higher crop yields and sustained growth in agricultural production. Distribution of assured quality seed is as critical as the production of such seeds. Unfortunately, good quality seeds are out of reach of the majority of farmers, especially small and marginal farmers mainly because of exorbitant prices of better seeds.

In order to solve this problem, the Government of India established the National Seeds Corporation (NSC) in 1963 and the State Farmers Corporation of India (SFCI) in 1969. Thirteen State Seed Corporations (SSCs) were also established to augment the supply of improved seeds to the farmers.

High Yielding Variety Programme (HYVP) was launched in 1966-67 as a major thrust plan to increase the production of food grains in the country.

The Indian seed industry had exhibited impressive growth in the past and is expected to provide further potential for growth in agricultural production: The role of seed industry is not only to produce adequate quantity of quality seeds but also to achieve varietal diversity to suit various agro-climatic zones of the country. The policy statements are designed towards making available to the Indian farmer, adequate quantities of seed of superior quality at the appropriate time and place and at an affordable price so as to meet the country's food and nutritional security goals.

Indian seeds programme largely adheres to limited generation system for seed multiplication. The system recognises three kinds of generation, namely breeder, foundation and certified seeds. Breeder seed is the basic seed and first stage in seed production. Foundation seed is the second stage in seed production chain and is the progeny of breeder seed.

Certified seed is the ultimate stage in seed production chain and is the progeny of foundation seed. Production of breeder and foundation seeds and certified seeds distribution has gone up at an annual average rate of 3.4 per cent, 7.5 per cent and 9.5 per cent respectively, between 2001-02 and 2005-06).

3. Manures, Fertilizers and Biocides:

Indian soils have been used for growing crops over thousands of years without caring much for replenishing. This has led to depletion and exhaustion of soils resulting in their low productivity. The average yields of almost all the crops are among t e lowest in the world. This is a serious problem which can be solved by using more manures and fertilizers.

Manures and fertilizers play the same role in relation to soils as good food in relation to body. Just as a well-nourished body is capable of doing any good job, a well-nourished soil is capable of giving good yields. It has been estimated that about 70 per cent of growth in agricultural production can be attributed to increased fertilizer application.

Thus increase in the consumption of fertilizers is a barometer of agricultural prosperity. However, there are practical difficulties in providing sufficient manures and fertilizers in all parts of a country of India's dimensions inhabited by poor peasants. Cow dung provides the best manure to the soils.

But its use as such is limited because much of cow dung is used as kitchen fuel in the shape of dung cakes. Reduction in the supply of fire wood and increasing demand for fuel in the rural areas due to increase in population has further complicated the problem. Chemical fertilizers are costly and are often beyond the reach of the poor farmers. The fertilizer problem is, therefore, both acute and complex.

It has been felt that organic manures are essential for keeping the soil in good health. The country has a potential of 650 million tonnes of rural and 160 lakh tonnes of urban compost which is not fully utilized at present. The utilization of this potential will solve the twin problem of disposal of waste and providing manure to the soil.

The government has given high incentive especially in the form of heavy subsidy for using chemical fertilizers. There was practically no use of chemical fertilizers at the time of Independence As a result of initiative by the government and due to change in the attitude of some progressive farmers, the consumption of fertilizers increased tremendously.

In order to maintain the quality of the fertilizers, 52 fertilizer quality control laboratories have been set up in different parts of the country. In addition, there is one Central Fertilizer Quality Control and Training Institute at Faridabad with its three regional centres at Mumbai, Kolkata and Chennai.

Pests, germs and weeds cause heavy loss to crops which amounted to about one third of the total field produce at the time of Independence. Biocides (pesticides, herbicides and weedicides) are used to save the crops and to avoid losses. The increased use of these inputs has saved a lot of crops, especially the food crops from unnecessary wastage. But indiscriminate use of biocides has resulted in wide spread environmental pollution which takes its own toll.

4. Irrigation:

Although India is the second largest irrigated country of the world after China, only one-third of the cropped area is under irrigation. Irrigation is the most important agricultural input in a tropical monsoon country like India where rainfall is uncertain, unreliable and erratic India cannot achieve sustained progress in agriculture unless and until more than half of the cropped area is brought under assured irrigation.

This is testified by the success story of agricultural progress in Punjab Haryana and western part of Uttar Pradesh where over half of the cropped area is under irrigation! Large tracts still await irrigation to boost the agricultural output.

However, care must be taken to safeguard against ill effects of over irrigation especially in areas irrigated by canals. Large tracts in Punjab and Haryana have been rendered useless (areas affected by salinity, alkalinity and water-logging), due to faulty irrigation. In the Indira Gandhi Canal command area also intensive irrigation has led to sharp rise in sub-soil water level, leading to water-logging, soil salinity and alkalinity.

5. Lack of mechanisation:

In spite of the large scale mechanisation of agriculture in some parts of the country, most of the agricultural operations in larger parts are carried on by human hand using simple and conventional tools and implements like wooden plough, sickle, etc.

Little or no use of machines is made in ploughing, sowing, irrigating, thinning and pruning, weeding, harvesting threshing and transporting the crops. This is specially the case with small and marginal farmers. It results in huge wastage of human labour and in low yields per capita labour force.

There is urgent need to mechanise the agricultural operations so that wastage of labour force is avoided and farming is made convenient and efficient. Agricultural implements and machinery are a crucial input for efficient and timely agricultural operations, facilitating multiple cropping and thereby increasing production.

Some progress has been made for mechanising agriculture in India after Independence. Need for mechanisation was specially felt with the advent of Green Revolution in 1960s. Strategies and programmes have been directed towards replacement of traditional and inefficient implements by improved ones, enabling the farmer to own tractors, power tillers, harvesters and other machines.

A large industrial base for manufacturing of the agricultural machines has also been developed. Power availability for carrying out various agricultural operations has been increased to reach a level of 14 kW per hectare in 2003-04 from only 0.3 kW per hectare in 1971-72.

This increase was the result of increasing use of tractor, power tiller and combine harvesters, irrigation pumps and other power operated machines. The share of mechanical and electrical power has increased from 40 per cent in 1971 to 84 per cent in 2003-04.

Uttar Pradesh recorded the highest average sales of tractors during the five year period ending 2003-04 and/West Bengal recorded the highest average sales of power tillers during the same period.

Strenuous efforts are being made to encourage the farmers to adopt technically advanced agricultural equipment's in order to carry farm operations timely and precisely and to economise the agricultural production process.

6. Soil erosion:

Large tracts of fertile land suffer from soil erosion by wind and water. This area must be properly treated and restored to its original fertility.

7. Agricultural Marketing:

Agricultural marketing still continues to be in a bad shape in rural India. In the absence of sound marketing facilities, the farmers have to depend upon local traders and middlemen for the disposal of their farm produce which is sold at throw-away price.

In most cases, these farmers are forced, under socio-economic conditions, to carry on distress sale of their produce. In most of small villages, the farmers sell their produce to the money lender from whom they usually borrow money.

According to an estimate 85 per cent of wheat and 75 per cent of oil seeds in Uttar Pradesh, 90 per cent of Jute in West Bengal, 70 per cent of oilseeds and 35 per cent of cotton in Punjab is sold by farmers in the village itself. Such a situation arises due to the inability of the poor farmers to wait for long after harvesting their crops.

In order to meet his commitments and pay his debt, the poor farmer is forced to sell the produce at whatever price is offered to him. The Rural Credit Survey Report rightly remarked that the producers in general sell their produce at an unfavourable place and at an unfavourable time and usually they get unfavourable terms.

In the absence of an organised marketing structure, private traders and middlemen dominate the marketing and trading of agricultural produce. The remuneration of the services provided by the middlemen increases the load on the consumer, although the producer does not derive similar benefit.

Many market surveys have revealed that middlemen take away about 48 per cent of the price of rice, 52 per cent of the price of groundnuts and 60 per cent of the price of potatoes offered by consumers.

In order to save the farmer from the clutches of the money lenders and the middle men, the government has come out with regulated markets. These markets generally introduce a system of competitive buying, help in eradicating malpractices, ensure the use of standardised weights and measures and evolve suitable machinery for settlement of disputes thereby ensuring that the pro-ducers are not subjected to exploitation and receive remunerative prices.

8. Inadequate storage facilities:

Storage facilities in the rural areas are either totally absent or grossly inadequate. Under such conditions the farmers are compelled to sell their produce immediately after the harvest at the prevailing market prices which are bound to be low. Such distress sale deprives the farmers of their legitimate income. The Parse Committee estimated the post-harvest losses at 9.3 per cent of which nearly 6.6 per cent occurred due to poor storage conditions alone. Scientific storage is, therefore, very essential to avoid losses and to benefit the farmers and the consumers alike.

At present there are number of agencies engaged in warehousing and storage activities. The Food Corporation of India (F.C.I.), the Central Warehousing Corporation (C.W.C.) and State Warehousing Corporation are among the principal agencies engaged in this task. These agencies help in building up buffer stock, which can be used in the hour of need. The Central Government is also implementing the scheme for establishment of national Grid of Rural God-owns since 1979-80.

This scheme provides storage facilities to the farmers near their fields and in particular to the small and marginal farmers. The Working Group on additional storage facilities in rural areas has recommended a scheme of establishing a network of Rural Storage Centres to serve the economic interests of the farming community.

9. Inadequate transport:

One of the main handicaps with Indian agriculture is the lack of cheap and efficient means of transportation. Even at present there are lakhs of villages which are not well connected with main roads or with market centres.

Most roads in the rural areas are Kutcha (bullock- cart roads) and become useless in the rainy season. Under these circumstances the farmers cannot carry their produce to the main market and are forced to sell it in the local market at low price. Linking each village by metalled road is a gigantic task and it needs huge sums of money to complete this task.

10. Scarcity of capital:

Agriculture is an important industry and like all other industries it also requires capital. The role of capital input is becoming more and more important with the advancement of farm technology. Since the agriculturists' capital is locked up in his lands and stocks, he is obliged to borrow money for stimulating the tempo of agricultural production.

The main suppliers of money to the farmer are the money-lenders, traders and commission agents who charge high rate of interest and purchase the agricultural produce at very low price. All India Rural Credit Survey Committee showed that in 1950-51 the share of money lenders stood at as high as 68.6 per cent of the total rural credit and in 1975-76 their share declined to 43 per cent of the credit needs of the farmers.

This shows that the money lender is losing ground but is still the single largest contributor of agricultural credit. Rural credit scenario has undergone a significant change

and institutional agencies such as Central Cooperative Banks, State Cooperative Banks, Commercial Banks, Cooperative Credit Agencies and some Government Agencies are extending loans to farmers on easy terms.

9.6 CASE STUDY

In early 2002, Coca-Cola India (CCI) launched a new advertisement campaign featuring leading bollywood actor - Aamir Khan.

The advertisement with the tag line - 'ThandaMatlab Coca-Cola' was targeted at rural and semi-urban consumers. According to company sources, the idea was to position Coca-Cola as a generic brand for cold drinks.

The campaign was launched to support CCI's rural marketing initiatives. CCI began focusing on the rural market in the early 2000s in order to increase volumes.

This decision was not surprising, given the huge size of the untapped rural market in India. With flat sales in the urban areas, it was clear that CCI would have to shift its focus to the rural market. Nantoo Banerjee, spokeswoman - CCI, said, "The real market in India is in the rural areas.

If you can crack it, there is tremendous potential."

However, the poor rural infrastructure and consumption habits that are very different from those of urban people were two major obstacles to cracking the rural market for CCI. Because of the erratic power supply most grocers in rural areas did not stock cold drinks. Also, people in rural areas had a preference for traditional cold beverages such as 'lassi'6 and lemon juice.

Further, the price of the beverage was also a major factor for the rural consumer.

Questions

1. Briefly explain the campaign of Coco-Cola to enter the rural market.

2. What are the major problems in rural marketing faced by Coco-Cola in India?

9.7 NOTES

_____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____

9.8 SUMMARY

The agricultural economy of the country was characterized by a stagnant economy with wide regional diversities, lower resource availability, inadequate institutional support and acute poverty. Risk management strategies start with decisions on the farm and the household: on the set of outputs to be produced, the allocation of land, the use of other inputs and techniques, including irrigation and the diversification of activities on and off-farm.

Farmers can also manage risk through market instruments which include insurance and futures markets. Regarding measures that reduce the occurrence of risk, governments finance inspection services in all countries and subsidise pest and disease control in many. Water management support, may include a reduced price for water use and investment assistance for irrigation infrastructure projects.

Risk and uncertainty are ubiquitous and varied within agriculture and agricultural supply chains. This stems from a range of factors including the vagaries of weather, the unpredictable nature of biological processes, the pronounced seasonality of production and market cycles, the geographical separation of production and end users, and the unique and uncertain political economy of food and agriculture sectors, both domestic and international.

9.9	KEY WORDS
•	Agriculture
•	Village market
٠	National market
•	Regional market
9.10	SELFASSESSMENT QUESTIONS
1. Wh	nat is meant by Agricultural Marketing?
• • •	

- 2. What are the objectives of Agricultural Marketing?
- 3. Briefly explain the different types of agricultural marketing
- 4. What are the issues and challenges faced by the agricultural marketing?

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UNIT-10: RICK FACTORS

Structure:

- 10.0 Objectives
- 10.1 Risk Factors
- 10.2 Types of Risk
- 10.3 Rural Marketing Agencies
- 10.4 Measure to minimize the risk
- 10.5 Agricultural Marketing and Its Economic Importance
- 10.6 Case study
- 10.7 Notes
- 10.8 Summary
- 10.9 Keywords
- 10.10 Self Assessment Questions
- 10.11 References

10.0 OBJECTIVES

After studying this unit, you should be able to;

- Define Risk
- Discuss the various types of risk
- Explain the different types of agencies
- Highlights the measure for minimizing risk.

10.1 RISK FACTORS

Risks faced by farmers are numerous and varied, and are specific to the country, climate, and local agricultural production systems. Farmers face constraints that do not enable them to either improve or increase their production and revenues. Examples of such constraints are limited access to finance, dislocation from markets, poor access to inputs, lack of advisory services and information, and poor infrastructure (for example, irrigation or rural roads). These constraints are generally worse in low-income countries, where public goods and private sector service delivery are often poorly developed.

The importance of noting the difference between a risk and a constraint is that often the latter are a function of the former. For example, many argue (and it would seem logical) that access to finance (in terms of both cost and availability) for farmers in developing countries would improve if the potential financiers were able to be assured that the risks inherent with agricultural production had been managed, thereby reducing their repayment risk.

10.2 TYPES OF RISK

(i) **Production risk**: Agriculture is often characterized by high variability of production outcomes or, production risk. Unlike most other entrepreneurs, farmers are not able to predict with certainty the amount of output that the production process will yield due to external factors such as weather, pests, and diseases. Farmers can also be hindered by adverse events during harvesting or threshing that may result in production losses.

(ii) Price or Market risk: Input and output price volatility is important source of market risk in agriculture. Prices of agricultural commodities are extremely volatile. Output price variability originates from both endogenous and exogenous market shocks. Segmented agricultural markets will be influenced mainly by local supply and demand conditions, while more globally integrated markets will be significantly affected by international production dynamics.

In local markets, price risk is sometimes mitigated by the "natural hedge" effect in which an increase (decrease) in annual production tends to decrease (increase) output price (though not necessarily farmers' revenues).

In integrated markets, a reduction in prices is generally not correlated with local supply conditions and therefore price shocks may affect producers in a more significant way. Another kind of market risk arises in the process of delivering production to the marketplace. The inability to deliver perishable products to the right market at the right time can impair the efforts of producers. The lack of infrastructure and well-developed markets make this a significant source of risk.

(iii) **Financial & Credit risk:** The ways businesses finance their activities is a major concern for many economic enterprises. In this respect, agriculture also has its own peculiarities. Many agricultural production cycles stretch over long periods of time, and farmers must anticipate expenses that they will only be able to recuperate once the product is marketed.

This leads to potential cash flow problems exacerbated by lack of access to insurance services, credit and the high cost of borrowing. These problems can be classified as financial risk.

(iv) Institutional risk: Another important source of uncertainty for farmers is institutional risk, generated by unexpected changes in regulations that influence farmers' activities. Changes in regulations, financial services, level of price or income support payments and subsidies can significantly alter the profitability of farming activities.

This is particularly true for import/export regimes and for dedicated support schemes, but it is also important in the case of sanitary and photo-sanitary regulations that can restrict the activity of producers and impose costs on producers.

(v) Technology risk: Like most other entrepreneurs, farmers are responsible for all the consequences of their activities. Adoption of new technologies in modernizing agriculture such as in introduction of genetically modified crops causes an increase in producer liability risk.

(vi) **Personal risk**: Finally, agricultural households, as any other economic entrepreneur, are exposed to personal risks affecting the life and the wellbeing of people who work on the farm, as also asset risks from floods, cyclones and droughts and possible damage or theft of production equipment and any other farming assets.

10.3 RURALMARKETINGAGENCIES

Rural marketing in India gets serious with the formation of Rural Marketing Agencies Association of India (RMAAI) in Mumbai. This is the first ever association of rural marketing specialists.

R V Rajan, founder president from Anugrah Madison said, "The association has been formed to improve and develop the cause of rural marketing and protect the interests of rural marketing specialists."

According to Rajan, of the Rs 11,000 crore ads spends in 2004, a meagre Rs.500 crore was allotted to rural ad spends. This is in complete contrast to the revenues that major companies earn from the rural sector.

For example, more than half of the annual sales of Rs.11, 700/- crore of the FMCG giant Hindustan Lever come from the rural market. Likewise, companies from the consumer durables and even telecom sector report increased earnings from the rural sector. But the spends do not commensurate the earnings and hence the need for an organised effort in this direction, added Rajan.

The association is a mix of rural marketing divisions from ad agencies such as Ogilvy & Mather, Lintas and Madison on the one hand and rural marketing specialists such as MART, Impact Communications and Rural Relations on the other.

Rajan gave an idea of the association's activities that would include developing benchmarks to measure return on investment on rural ad spends and marketing effectiveness. Also, the association plans to undertake syndicated research in the field of rural marketing that will help advertisers understand their rural consumers better.

There are also academic offerings from the newly formed group to management institutes to conduct specialised courses in this emerging area of marketing.

The Indian rural market is pegged at Rs 1, 25,000/- crore annually, of which Rs 50,000/- crore is the share of FMCGs followed by consumer durables which has a market size of Rs 40,000 crore.

RMAAI will kick off its first year with a rural marketing conference that is scheduled to take place between November 10 and 11, 2005. (Source: Rural marketing agencies form association Our Corporate Bureau, Mumbai April 1, 2005)

10.4 MEASURE TO MINIMIZE THE RISK

Some of the major sources of production risks are weather, pests, diseases, technology and its interaction with farm and management characteristics, genetics, equipment and quality of factor inputs. In order to reduce production risks, some of the risk management strategies recommended are as follow:

1. Enterprise Diversification.

2. Crop Insurance.

3. Contract Production.

4. Evaluating New Technologies.

1. Enterprise Diversification

One effective way to reduce income variability on the farm is to diversify the enterprise by combining different production processes. Diversification can include different crops, combinations of crops and livestock, different end points in the same production process (e.g. different weights) or different variations in the same crop (e.g. red, yellow and green tomatoes).

Diversification can also be achieved through different income sources, such as agtourism or off-farm employment for smaller farms. Effective diversification occurs when low income from one enterprise is simultaneously offset by satisfactory or high incomes from other enterprises.

2. Crop Insurance

Management of yield or price risk through the purchase of crop insurance transfers risk from one farmer to others for a price, which is stated as an insurance premium

Crop insurance is an example of a risk management tool that protects against losses but also offers the opportunity for more consistent gains.

Crop insurance provides two important benefits. It ensures a reliable level of cash flow and allows more flexibility in the marketing plan. With some level of production insured, the crop could be forward-priced with greater certainty, creating a more predictable level of revenue.

The Federal government subsidizes the premiums for most crop insurance policies. Subsidies tend to benefit those producers most who invest in higher levels of coverage. Crop insurance is available only through private crop insurance agents. Coverage for a crop must be arranged before its sales closing date.

3. Contract Production

Contract production occurs when an agribusiness coordinates all aspects of a product from production to retail. Contract production is common in the poultry and livestock industries. The agribusiness provides feed and other inputs to the producer, who manages the grow-out process. With this production contract, the agribusiness commits the producer to deliver a specific quality and quantity of the final product. The producer must comply with the firm's quality specifications and must manage yield risk with insurance and sound management practices.

Before committing to a production contract, a farmer must consider the trade-offs. A major advantage for the producer is that a market for the output is guaranteed a favourable price. Likewise, a disadvantage is that the producer loses the opportunity of benefiting from upside price potential, since the sale of the product is fixed by conditions of the contract. The loss of flexibility and profit opportunities in the market place is offset by the cost of receiving a predictable cash flow.

4. Evaluating New Technologies

Genetically altered seeds and precision farming are two examples of evaluating new technologies in agriculture production. Some seeds are genetically modified to provide resistance to specific herbicides, thereby facilitating improved weed control. Other seeds are genetically modified to provide resistance to diseases or insects. Precision farming controls the rate of application of crop inputs such as seed, fertilizer and pesticides in the field on a per acre basis.

The conventional approach, by contrast, applies the same rate across an entire field. The method of farming allows yields to be measured for each acre so that output is measurable against crop inputs. The benefits associated with adopting new technologies include lower input costs, higher crop yields due to improved pest control and more cost-effective use of factor inputs.

The USDA Risk Management Agency, which oversees the federal subsidized crop insurance program, is planning to expand its product offering in Hawaii by an additional eight tropical crops. Consequently, we hope to raise Hawaii farmers' awareness and understanding of crop insurance, and to encourage their participation in the subsidized program to manage production risk. The utilization of appropriate tools for risk management by Hawaii agribusinesses would ensure the continuing viability of diversified agriculture in Hawaii.

10.5 AGRICULTURAL MARKETINGAND ITS ECONOMIC IMPORTANCE

Agricultural marketing plays an important role not only in stimulating production and consumption, but in accelerating the pace of economic development. The agriculture marketing system plays a dual role in economic development in countries whose resources are primarily agricultural.

Increasing demands for money with which to purchase other goods leads to increasing sensitivity to relative prices on the part of the producers, and specialization in the cultivation of those crops on which the returns are the greatest, subject to socio-cultural, ecological and economic constraints. It is the marketing system that transmits the crucial price signals.

1. Agricultural Marketing is one of the manifold problems, which have direct bearing upon the prosperity of the cultivators, as India is an agricultural country and about 70% of its population depends on agriculture.

2. Most of the total cultivated area (about 76%) is to under food grains and pulses. Approximately 33% of the output of food grains, pulses and all of the productions of cash crops like cotton, sugarcane, oilseeds etc. are marketed as they remain surplus after meeting the consumption needs of the farmers. Development of technology, quick means of communication and transportation has introduced specialization in agriculture.

3. Agriculture supplies raw materials to various industries and therefore, marketing of such commercial crops like cotton, sugarcane, oilseeds etc. assumes greater importance.

4. With the introduction of green revolution agricultural production in general and food grains in particularly have substantially increased. Agriculture once looked as a subsistence sector is slowly changing to a surplus and business proposition.

5. The interaction among producers, market functionaries, consumers and government that determine the cost of marketing and sharing of this cost among the various participants.

6. The producer, middleman and consumer look upon the marketing process from their own individual point of view. The producer is primarily concerned with selling his products.

7. Any increase in the efficiency of the marketing process, which results in lower costs of distribution at lower prices to consumers, really brings about an increase in the national income.

8. A reduction in the cost of marketing is a direct benefit to the society.

9. Marketing process brings a new varieties, qualities and beneficial goods to consumers and therefore, marketing acts as a line between production and consumption.

10. Scientific, systematic marketing stabilizes the price level.

11. An improved marketing system will stimulate the growth of number of agro-based industries mainly in the field of processing.

12. A marketing system can become a direct source of new technical knowledge and induce farmers to adopt up to date scientific methods of cultivation.

Agricultural Marketing is therefore, playing an important role in the economic development and stability of a country.

10.6 CASE STUDY

Massey-Ferguson Buys Its Own Tractors

Agricultural equipment manufacturers periodically undertake major revisions of their product lines. This is a very expensive process since the manufacturing plant required to produce agricultural tractors, combine harvesters, seed drills, straw balers and the like costs millions of dollars. When the equipment manufacturer Massey Ferguson (MF) came to develop a completely new line of tractors, in the early 1980s, it sold its existing line of tractors to the state owned Polish tractor manufacturer Ursus in order to offset at least part of the cost of the new investment. The arrangement was rather novel for the industry at that time.

Ursus was in such poor financial condition that it could not finance the purchase of the Massey Ferguson manufacturing plant and patents, so MF supplied the plant to Ursus and were to buy-back a proportion of the tractors which Ursus manufactured. They would continue to market these under the MF brand name whilst the remainder would be sold under the Polish manufacturer's name.

Massey Ferguson planned to supply the older designs to markets in developing countries where these models continued to have a large market share whilst launching the new models in industrialised countries. The agreement between Massey Ferguson and Ursus was modelled on a similar, and very successful, arrangement between the Italian automobile manufacturer Fiat and Poland's state owned car manufacturer. However, MF's deal never matched the performance of the Polski-Fiat.

The failure of the MF-Ursus buy-back package had several causes, but foremost among them was the inability of Ursus to source components of the MF tractors which Massey Ferguson did not either manufacturer itself nor owns the patents to. For example, the fuel injectors were manufactured by the British components supplier Lucas Industries. Poland simply did not have the foreign currency reserves, at that time, to import these and other parts.

Consequently, Ursus' tractor plant, on the outskirts of Warsaw, with the potential to produce 77,000 units per annum was able to manufacture around 350 units per year. Whilst the MF-Ursus buy-back arrangement was not a success it should not be concluded that buy-back agreements are doomed to failure. The Polski-Fiat deal was, after all, a great success.

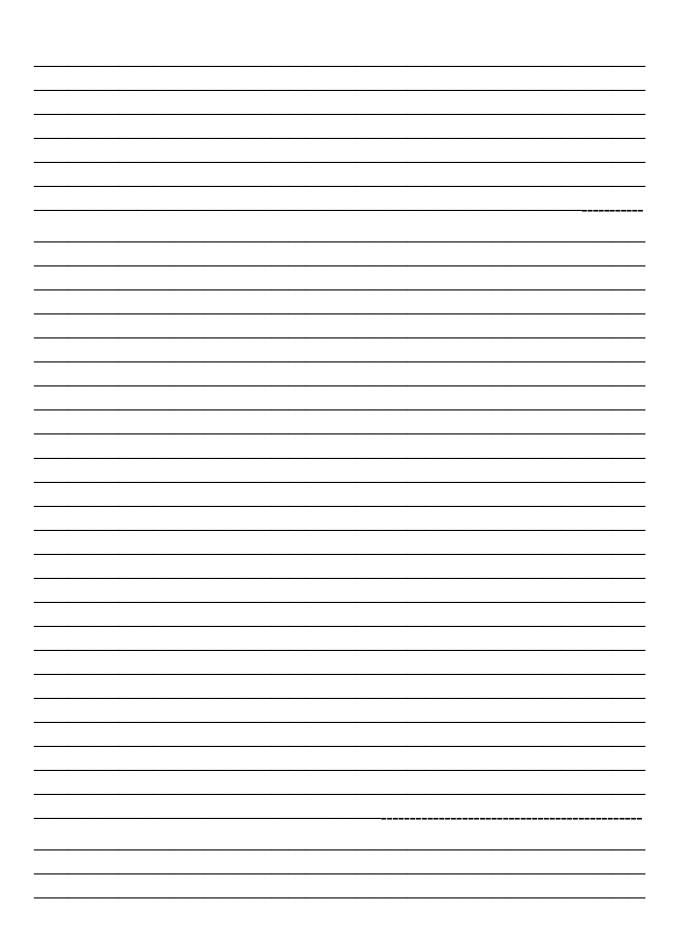
The MF-Ursus failure was due to very specific circumstances. What should be concluded is that it is possible to devise innovative approaches to the financing of business enterprises.

Questions

- 1. What are the problems faced by MF in manufacturing equipment's?
- 2. Briefly explain the plans of MF.
- 3. Suggest the best possible innovative approaches to the MF.

10.7 NOTES





10.8 SUMMARY

Marketing of agricultural marketing involves many functions like assembling of farm produce, grading, storage, processing, preparation for market, transportation to market centres, financing, risk bearing and distribution to ultimate consumers through various market channels.

10.9 KEYWORDS

Market risk.

Agencies.

Economic significance.

10.10 SELFASSESSMENT QUESTIONS

- 1. Briefly explain the rural marketing agencies in India.
- 2. What is meant by risk? Explain the different types of risk.
- 3. What are the measures to minimize the risk? Explain
- 4. What is meant by Agricultural Marketing? Explain its economic significance?

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UNIT – 11: ROLE AND FUNCTIONS OF RURAL MARKETING AND DEVELOPMENT

Structure:

- 11.0 Objectives
- 11.1 Role of Government in Rural Market and Development
- 11.2 Aims and Objectives
- 11.3 **Role and functions of the Government**
- 11.4 Strategies and programs for rural development
- 11.5 Integrated Rural Development Program (IRDP)
- 11.6 Case study
- 11.7 Notes
- 11.8 Summary
- 11.9 Key Words
- 11.10 Self Assessment Questions
- 11.11 References

11.0 OBJECTIVES

After studying this unit, you should be able to;

- Define Role of Government in Rural Market and Development
- Explain the aims and objectives of it

11.1 ROLE OF GOVERNMENT IN RURAL MARKET AND DEVELOPMENT

Establishment of rural marketing service centre (rmsc) at Jangaon, Andhra Pradesh:

Government of Andhra Pradesh entrusted the task of establishing Rural Marketing Service Centre (RMSC) at Janga on Mandal, Warangal District for specified target groups, to bring them under one roof and to provide skill up gradation as well as to provide backward and forward linkages for production and marketing of their produce. Under this project, 300 BPL (below poverty line) families from the downtrodden community were identified based on their existing artisan skills. The activities involved:

- Identification and motivation of rural artisans
- Capacity Building
- Skills up gradation
- Basic Orientation Training Programmes
- Preparation of Project Profiles
- Liaison and coordination for potential financial assistance
- Providing backward and forward linkages
- Successful grounding of units.

The various craftsman covered under the scheme were Basket Weavers, Chappal Making, Carpentry, Silk Weavers, etc.

11.1.1 EDP to Prime Minister's RozgarYojana (PMRY) Beneficiaries:

The main objective of the scheme is to provide self-employment opportunities to the educated unemployed youth. The Commissioner of Industries, the implementing agency entrusted the Council, the task of conducting Entrepreneurship Development Programmes for the beneficiaries under this scheme in the State of Andhra Pradesh since 1993. The Council has so far trained about 72,000 numbers of beneficiaries in Industry, Service and Business sectors.

The candidates are exposed to the concepts of Entrepreneurship skills, motivation, accounting procedures, marketing and managerial aspects for operating their units on profitable basis. On the basis of the ground level evaluation carried out, the success rate of the above scheme is around 65%. A.P.P.C. was the first organisation to undertake the conduct of EDP's in all the 23 districts during the first year of its inception.

11.1.2 Chief Minister's Empowerment of Youth (CMEY):

The Government of Andhra Pradesh started an innovate scheme to provide selfemployment avenues to rural youth. The programme aims at inculcating cooperation and team building among youth, by forming homogenous groups for self-employment. The Council acted as catalyst in promoting 22000 groups in 8 districts of Andhra Pradesh. Also, the Council organized Entrepreneurship orientation programmes and skill up gradation programmes besides capacity building to the above groups. The programme was launched in the year 1996-97.

During the year 2002-2003 the council was entrusted to organise Entrepreneurship development programme to 2883 CMEY groups. Under this programme the council besides organising EDP's has provided assistance in identification of Projects, Preparation of Project Reports. Identification of Skills, Establishing backward and forward linkages.

11.1.3 Facilitating Swarnajayanthi Gram Swarozgar Yojana (SGSY):

The SGSY is a holistic programme covering all aspects of self-employment such as organisation of the poor into self-help groups, training, credit linkage, skill up gradation. Infrastructure development and forward and backward linkages.

Under this scheme APPC has organized various programmes viz., Basic Orientation Programmes to SGSY beneficiaries and SHG's, Skill development programmes to SHG's and Entrepreneurship Orientation Programmes to SHG's in various Districts of A.P.

11.1.4Basic Orientation Programme to Sgsy Beneficiaries:

With the Objective the familiarize the Swarozgaris with SGSY objectives, the responsibilities of Swarozgaris as well as the behavioural aspects, the council has organized a number of BOP's to SGSY beneficiaries in Nellore, Nizamabad and Vizianagaram districts successfully during the years 1999 to till date.

11.1.5 Basic Orientation Programme to Women Shg's:

The BOP's seeks to introduce the members of SHG's the concept of SHG and its objectives through direct interaction with the members, responsibilities of leaders and members, importance of duties and records maintenance as well as behavioural aspects. The

ultimate aim of BOP is to establish linkage with banks for micro credit and micro enterprise promotion.

11.1.6 Skill Development Programmes to Women Shgs:

Under the auspices of the Ministry for Rural Development, APPC has established Skill Development centres for multiple trades training like Leather Goods Manufacture, Carpentry, Fashion Designing, Tie & Dye, Ready to Cook foods, Ready to eat foods, Fancy items, etc., in various Districts of Andhra Pradesh. Under this project, women from thrift groups and unemployed youth were selected, trained and provided gainful employment. Some of them have started their own self-employment ventures.

11.1.7 Entrepreneurship Orientation Programmes (Eops) to Sjsry, Trysem&Sgsy Beneficiaries:

The Council has also organized Entrepreneurship Orientation Programmes followed by skill development programmes to unemployed youth, women thrift groups drawn from urban and semi urban areas under various schemes such as TRYSEM, SGSY and SJSRY Programmes.

11.1.8 EDP to Rural Employment Generation Programme (Regp) Beneficiaries:

The Khadi and Village Industries Commission (KVIC), Government of India has entrusted the council to organise Entrepreneurship Development Programme to margin money beneficiaries under REGP scheme with a view to create awareness about the need and importance of self- employment and entrepreneurial career.

11.1.9 Rural Entrepreneurship Development Programmes – NABARD:

The National Bank for Agricultural Rural Development (NABARD) has entrusted the council to organise the activity based Rural Entrepreneurship Development Programmes in Cuddapah, Nellore and Prakasham districts with a view to promote Non-Form Sector units. The council has organized EDP's in the activities like fashion designing, tie and dye, food products etc.,

11.1.11Rural Entrepreneurship Development Programmes – SIDBI:

The Small Industries Development Bank of India has entrusted the council to organise REDP's in Nellore, Kadapa and Nizamabad districts to promote micro enterprises.

11.1.12 Entrepreneurship Development Programmes to Women – APWCF:

The Andhra Pradesh Women Finance Corporation has entrusted the council to organise EDP's to Women candidates who have already undergone skill upgradation training in

MahilaPranganams. The council has organised EDP's in Khammam, Nalgonda, Nellore, West Godavari Prakasham and East Godavari.

Rural Development in India is one of the most important factors for the growth of the Indian economy. India is primarily an agriculture-based country. Agriculture contributes nearly one-fifth of the gross domestic product in India. In order to increase the growth of agriculture, the Government has planned several programs pertaining to Rural Development in India. The Ministry of Rural Development in India is the apex body for formulating policies, regulations and acts pertaining to the development of the rural sector. Agriculture, handicrafts, fisheries, poultry, and diary are the primary contributors to the rural business and economy.

Rural development in India has witnessed several changes over the years in its emphasis, approaches, strategies and programmes. It has assumed a new dimension and perspectives as a consequence. Rural development can be richer and more meaningful only through the participation of clienteles of development. Just as implementation is the touchstone for planning, people's participation is the centre-piece in rural development.

People's participation is one of the foremost pre-requisites of development process both from procedural and philosophical perspectives. For the development planners and administrators it is important to solicit the participation of different groups of rural people, to make the plans participatory.

11.2 AIMSAND OBJECTIVES

Rural development aims at improving rural people's livelihoods in an equitable and sustainable manner, both socially and environmentally, through better access to assets (natural, physical, human, technological and social capital), and services, and control over productive capital (in its financial or economic and political forms) that enable them to improve their livelihoods on a sustainable and equitable basis.

The basic objectives of Rural Development Programmes have been alleviation of poverty and unemployment through creation of basic social and economic infrastructure, provision of training to rural unemployed youth and providing employment to marginal Farmers/ Labourers to discourage seasonal and permanent migration to urban areas.

11.3 ROLE AND FUNCTION OF THE GOVERNMENT

The Government's policy and programmes have laid emphasis on poverty alleviation, generation of employment and income opportunities and provision of infrastructure and basic facilities to meet the needs of rural poor. The <u>Ministry of Rural</u>

<u>Development</u> in India is the apex body for formulating policies, regulations and acts pertaining to the development of the rural sector.

Agriculture, handicrafts, fisheries, poultry, and diary are the primary contributors to the rural business and economy. The introduction of Bharat Nirman, a project by the Government of India in collaboration with the State Governments and the Panchayati Raj Institutions is a major step towards the improvement of the rural sector.

The National Rural Employment Guarantee Act 2005 was introduced by the <u>Ministry of Rural Development</u>, for improving the living conditions and its sustenance in the rural sector of India. The Ministry of Rural Development in India is engaged in legislations for the social and economic improvement of the rural populace. The ministry consists of three department's viz., Department of Rural Development, Department of Land Resources and Department of Drinking Water Supply.

Under the department of rural development, there are three autonomous bodies viz., Council for Advancement of People's Action and Rural Technology (<u>CAPART</u>), National Institute of Rural Development (<u>NIRD</u>) and National Rural Road Development Agency (<u>NRRDA</u>).

The objective of the ministry can broadly be elaborated as to encourage, promote and assist voluntary action in the implementation of projects for the enhancement of rural prosperity, strengthen and promote voluntary efforts in rural development with focus on injecting new technological inputs, act as the national nodal point for co-ordination of all efforts at generation and dissemination of technologies relevant to rural development in its wide sense and assist and promote programmes aimed at conservation of the environment and natural resources.

However, various ministries in the central government are engaged directly or indirectly for implementation of many programmes and schemes for the development of rural areas like Ministries of Agriculture, Health and Family Welfare, New and Renewable Energy, Science and Technology, Women and Child Development and Tribal affairs etc. In addition, to strengthen the grass root level democracy, the Government is constantly endeavouring to empower Panchayat Raj Institutions in terms of functions, powers and finance. GramaSabha, NGOs, Self-Help Groups and PRIs have been accorded adequate roles to make participatory democracy meaningful and effective.

11.4 STRATEGIES AND PROGRAMS FOR RURAL DEVELOPMENT

The rural economy is an integral part of the overall Indian economy. As majority of the poor reside in the rural areas, the prime goal of rural development is to improve the quality of life of the rural people by alleviating poverty through the instrument of self-employment and wage employment programmes, by providing community infrastructure facilities such as drinking water, electricity, road connectivity, health facilities, rural housing and education and promoting decentralization of powers to strengthen the Panchayati raj institutions etc. The various strategies and programs of the Government for rural development are discussed below:

11.5 INTEGRATED RURAL DEVELOPMENT PROGRAM (IRDP):

First introduced in 1978-79, <u>IRDP</u> has provided assistance to rural poor in the form of subsidy and bank credit for productive employment opportunities through successive plan periods. Subsequently, Training of Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (<u>DWCRA</u>), Supply of Improved Tool Kits to Rural Artisans (<u>SITRA</u>) and Ganga KalyanYojana (GKY) were introduced as sub-programs of IRDP to take care of the specific needs of the rural population.

Wage Employment Programs:

Anti-poverty strategies, like assistance to the rural poor families to bring them above the poverty line by ensuring appreciable sustained level of income through the process of social mobilization, training and capacity building. Wage Employment Programs have sought to achieve multiple objectives. They not only provide employment opportunities during lean agricultural seasons but also in times of floods, droughts and other natural calamities. They create rural infrastructure which supports further economic activity.

It encompasses Swarnjayanti Gram Swarozgar Yojana (<u>SGSY</u>), Sampoorna Grameen Rozgar Yojana (<u>SGRY</u>) and National Rural Employment Guarantee Act (<u>NREGA</u>) etc. <u>NREGA</u> is an act of parliament. It is not merely a scheme or policy. It aims at enhancing the livelihood security of the people in rural areas by guaranteeing hundred days of wage employment in a financial year, to a rural household whose members volunteer to do unskilled manual work. The objective of the Act is to create durable assets and strengthen the livelihood resource base of the rural poor.

Employment Assurance Scheme (EAS):

EAS was launched in October 1993 covering 1,778 drought-prone, desert, and tribal and hill area blocks. It was later extended to all the blocks in 1997-98. The EAS was designed to provide employment in the form of manual work in the lean agricultural season. The works taken up under the program were expected to lead to the creation of durable economic and social infrastructure and address the felt-needs of the people.

Food for Work Program:

The Food for Work program was started in 2000-01 as a component of the EAS in eight notified drought-affected states of Chattisgarh, Gujarat, Himachal Pradesh, Madhya Pradesh, Orissa, Rajasthan, Maharastra and Uttaranchal. The program aims at food provision through wage employment. Food grains are supplied to states free of cost. However, lifting of food grains for the scheme from Food Corporation of India (<u>FCI</u>) godons has been slow.

Rural Housing:

Initiated in 1985-86, the <u>IAY</u> is the core program for providing free housing to families in rural areas. It targets scheduled castes (SCs)/scheduled tribes (STs), households and freed bonded laborers. The rural housing program has certainly enabled many BPL families to acquire pucca houses. The coverage of the beneficiaries is limited given the resource constraints.

The SamagraAwasYojana (SAY) was taken up in 25 blocks to ensure convergence of housing, provision of safe drinking water, sanitation and common drainage facilities. The Housing and Urban Development Corporation (<u>HUDCO</u>) has extended its activities to the rural areas, providing loans at a concessional rate of interest to economically weaker sections and low-income group households for construction of houses.

Social Security Programs:

Democratic decentralization and centrally supported Social Assistance Programs were two major initiatives of the government in the 1990s. The National Social Assistance Program (NSAP), launched in August 1995 marks a significant step towards fulfilment of the Directive Principles of State Policy. The NSAP has three components:

a) National Old Age Pension Scheme (NOAPS);

- b) National Family Benefit Scheme (NFBS);
- c) National Maternity Benefit Scheme (NMBS).

The NSAP is a centrally-sponsored program that aims at ensuring a minimum national standard of social assistance over and above the assistance that states provide from their own resources. The <u>NOAPS</u> provides a monthly pension of Rs. 75 to destitute BPL persons above the age of 65. The <u>NFBS</u> is a scheme for BPL families who are given Rs. 10,000 in the event of the death of the breadwinner. The <u>NMBS</u> provides Rs. 500 to support nutritional intake for pregnant women.

In addition to NSAP, the Annapurna scheme was launched from 1st April 2000 to provide food security to senior citizens who were eligible for pension under NOAPS but could not receive it due to budget constraints.

Land Reforms:

In an agro-based economy, the structure of land ownership is central to the wellbeing of the people. The government has strived to change the ownership pattern of cultivable land, the abolition of intermediaries, the abolition of zamindari, ceiling laws, security of tenure to tenants, consolidation of land holdings and banning of tenancy are a few measures undertaken. Furthermore, a land record management system is a pre-condition for an effective land reform program. In 1987-88, a centrally-sponsored scheme for Strengthening of Revenue Administration and Updating of Land Records (SRA & ULR) was introduced in Orissa and Bihar.

11.6 CASE STUDY

Profitability Comes from Wrapping the Customer in Cotton Wool

The Zimbabwe Cotton Marketing Board's responsibilities included: purchasing and storing of all seed cotton grown in Zimbabwe ginning the cotton and marketing the lint and cotton seed and ensuring an adequate supply of certified planting seed for all growers.

All cotton growers had to register with CMB and grow verities determined by it. Large producers were required to adhere to delivery quotas by the ginneries.

The Cotton Research Institute undertook cotton breeding on the basis of international market requirements.

When new varieties were adopted, the Board selected growers to undertake multiplication. They grew for the Board which, in turn, distributed the seed the following season. Planting takes place in October-November with the start of the seasonal rains. In January all large scale growers were required to report the area planted to cotton to the Board and a first production estimate was made.

Large scale growers made a second return in March indicating their likely sales. These data, together with estimates of smallholder production, were used to forecast the next harvest. This enabled the CMB to set up its delivery quota system, ginning arrangements and selling schedules well in advance.

Farmers delivered to the nearest ginnery with those situated in remote areas delivering to transit depots. Growers marked their cotton with their registration number. On delivery at the ginnery depot, the cotton was graded into one of four classes. The farmer was then paid out, through a computerised accounting system, normally within eight days of delivery. Samples of all bales set below the top priced grade were kept for a period to allow growers to appeal against the grading if they wish.

The four grades were based on colour and cleanliness and designed to encourage appropriate production and harvesting practices. A cross-check on the grades was made by experienced lint classifiers who visited the depots on a frequent but random basis during the buying period. After the cotton had been graded for payment to the farmer, a strict quality control system came into operation. Each bale was classified into one of about 40 'stack' numbers by appraising its fibre length, strength, fineness and colour.

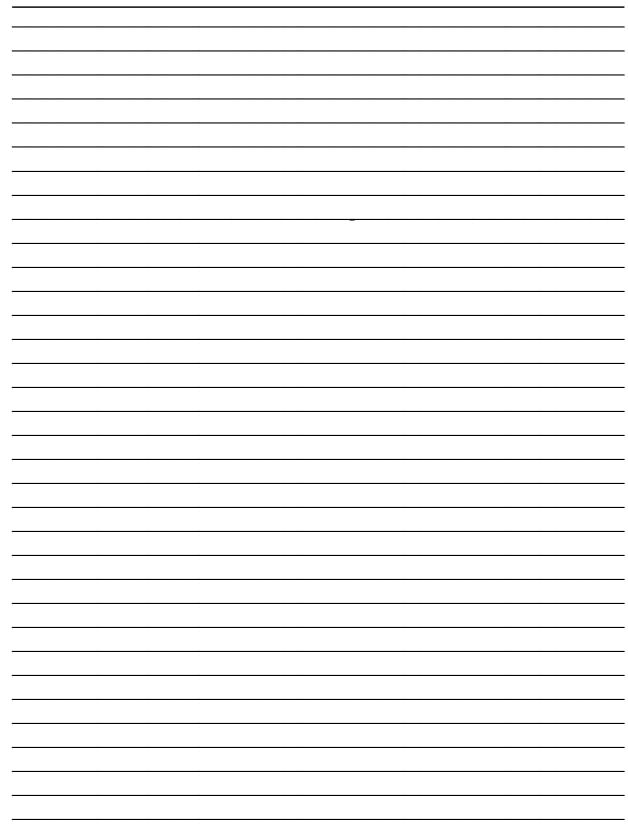
It was then stored in stacks consisting only of bales with identical stack numbers. This system is unique to Zimbabwe. Through the ability of the CMB's system to produce lint of consistent and specified quality, Zimbabwe was able to achieve premium prices for its export cotton. When a spinner set out the characteristics of the lint required, CMB could identify a stack of seed cotton likely to provide it. Samples were then checked at the ginnery and at the sample quality control laboratories in Harare to determine whether they met the requirements of the contract.

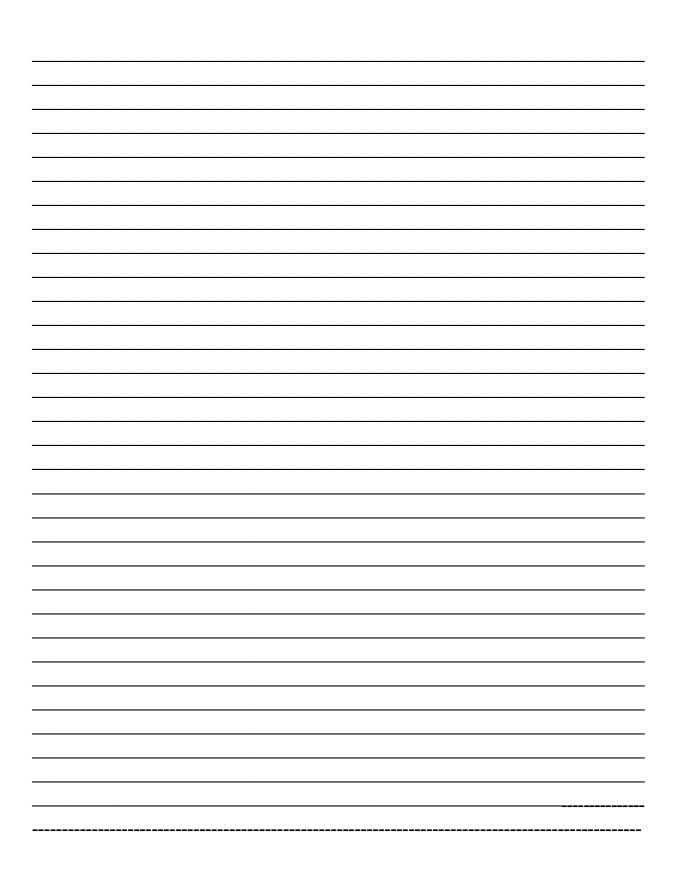
This system met much tighter quality specifications then those employed in many other countries where the lint is classified only after ginning and ends up more variable in quality. The CMB identified a specific market segment for its product and does not compete against the much larger output of such countries as the USA and the CIS. The entire marketing system - grower, researcher, extension worker, buyer and exporter - is oriented towards meeting the requirements of the market.

Questions

- 1. What are the responsibilities of Cotton Manufacturing Board?
- 2. Explain the farmers approach to deliver the product in rural area.
- 3. What are the advantages of Computerized accounting system? Explain

11.7 NOTES





11.8 SUMMARY

From this unit, we discus about the role of government in Rural Market and Development and its various Objectives and aims and later we also discussed how government had impacts on Rural Market.

11.9 KEYWORDS

- Rural marketing
- Rural development
- Strategies

11.10 SELFASSESSMENT QUESTIONS

- 1. What is Rural Marketing? Explain the different programs initiated by the government to promote rural market.
- 2. What are the aims and objectives of Rural Development?
- **3.** Briefly explain the strategies and programs for rural development.

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UNIT – 12: RURAL INDUSTRIES COTTAGE

Structure:

- 12.0 Objectives
- 12.1 Rural Industries Cottage
- 12.2 Problems faced by cottage industries in India
- 12.3 Organizations working for the benefit of cottage industry in India
- 12.4 Rural Industries- Handicraft
- 12.5 Notes
- 12.6 Summary
- 12.7 Keywords
- 12.8 Self Assessment Questions
- 12.9 References

12.0 OBJECTIVES

After studying this unit, you should be able to;

- Define Cottage industry
- Discuss the concept of Rural cottage industries
- Explain the Problems faced by cottage industries in India
- Discuss the Organizations working for the benefit of cottage industry in India.

12.1 RURAL INDUSTRIES COTTAGE

Cottage Industry is a concentrated form of small scale industry where the productivity of the goods takes place in the houses of the labourers and the workforce include the members of the family. The equipment's used to generate products are not the hi-tech ones but generally those which are used at homes. Cottage industry is generally unorganized in character and falls under the category of small scale industry. They produce consumable products through the use of conventional methods.

These types of industries originate in the country sides where unemployment and under-employment are widespread. In this way, cottage industries help the economy by engrossing a massive amount of remaining workforce of the rural areas. But on the flip side Cottage Industry cannot be considered as the mass producer of products. It faces major risks from medium or large industries which demand huge amount of capital investment for all types of hi-end technologies.

12.2 PROBLEMS FACED BY COTTAGE INDUSTRIES IN INDIA

Cottage industries in India face dearth of capital and large quantity of labour, which force them to buy capital-saving techniques. Hence, there is an urgent need for implementation of techniques which not only enhances productivity but develops skills of the labourers and meets the requirements of the local market. Endeavours should be directed towards the development of technology so that labours can enjoy a decent lifestyle. Government should also provide subsidiaries for the growth of cottage industries especially in the preliminary stages.

The labourers of cottage industry often find themselves fighting against all odds at every stage of their business, be it buying the raw materials or promoting their products, arranging for capital or access to insurance covers, etc. To his utter misfortune he is exploited by all. Hence, it is important to ensure that the benefit of value added services reaches the worker on time.

Cottage industries are the victims when it comes to attracting the attention of modern industry. This calls for preservation and promotion of cottage industries through formulation of public policies directed at improving the industry both in context of income of labourers and technological aspects.

12.3 ORGANIZATIONS WORKING FOR THE BENEFIT OF COTTAGE INDUSTRY IN INDIA

The well-known organization like Khadi and Village Industries Commission (KVIC) is working towards the development and endorsement of cottage industries in India. Other premier organizations are Central Silk Board, Coir Board, All India Handloom Board and All India Handicrafts Board, and organizations like Forest Corporations and National Small Industries Corporation are also playing an active role in the meaningful expansion of cottage industries in India.

Despite several attempts by these organizations, the Cottage Industry still face threat of extinction and will be surrounded by such threats if they continue receiving inadequate monetary and technological support from government.

12.3.1 Importance of Cottage Industries in India

The heart of India lies in her villages, as Gandhiji pointed out many a time; and if her heart is strong and healthy the whole body would be naturally so.

Although today India maintains some of the largest industrial plants of the world and is marching ahead towards her goal of industrialization, the country is much in need of cottage industries in the rural areas.

The need of Cottage Industries in India is immense. According to an Indian economist, In India, more than 74 per cent of the total population lives in the villages where their lot is linked with agriculture. They have to live in the villages as they cannot leave their fields which give them their 'living'. Side by side they must be provided with some kind of cottage industries upon which they can depend during that period in which they remain idle and unengaged'.

After independence, our country has been taking gigantic strides towards industrialisation. Cottage industries can become and alternative means of employment for the people living in the rural areas. Cottage industries will be of benefit for our villages, which form the back bone of the nation. The place of cottage industries in the national economy in the country has been unique since time immemorial. India was famous, in the past, for the wealth of the land and for the high artistic skill of her craftsmen. India was exporting wonderful jewellery and superfine embroideries to Europe. European merchants were attracted towards India more by her craft and industry than by the rich raw material.

Cottage-industries declined with the downfall of the Mughal Empire under whose benevolent patronage they had reached their point of perfection. The up-to-date fashionable people of India motivated by the Western culture preferred the well-finished products of Lancashire and Manchester and treated it as beyond their dignity and prestige to embrace the home-made goods.

The cut-throat competition was a harmful detent to the Indian craftsmen who could not keep pace with the foreign machine-made articles. Thus the foreign goods began to be sold at cheaper rates compared with the home-made goods. That was decidedly in the best interests of the foreign rulers whose chief motive was to enrich their country at the cost of India.

It was then that Mahatma Gandhi came on the Indian scene and infused new life and vigor into the decaying limbs of our home industries. The clarion call for swadeshi and benefits of 'economics of Khadi cloth' together with the 'charkha' campaign launched a crusade against mill-made foreign goods. Since then cottage-industries have been receiving good attention from the government and the people alike. The Central and the State Governments have established separate departments for the encouragement of cottage industries.

It must not be forgotten that cottage industries are the back-bone of our rural economy and no rural uplift is possible without the protection of and encouragement to these smallscale industries. Apart from all other considerations, small-scale or cottage-industries are essential for providing employment to our tillers of soil in their leisure time or when they remain idle.

To improve and encourage the cottage-industry in our country we have to change the views of the general public. The people should be made interested in patronizing home-made goods. A ready market is a further urgency in this direction.

Rural Co-operatives and Rural Banks should be established and stabilized by the Government for advancing short-term loans on nominal interest.

Lastly, adequate marketing facilities should be arranged for them, as sale of goods has now-a-days become as complicated an affair as production itself.

Hence, the artisans must be helped to get the best price of their goods. Frequent exhibitions should be organized to enable the artisans to show their art and industry and give them impetus and inspiration to create still better patterns of handicrafts.

12.4 RURAL INDUSTRIES-HANDICRAFT

The role of Handicraft Industries in Rural India Economy is very important and its contribution towards the rural economy of India is increasing steadily. The Ministry of Rural Development and the Ministry of Rural Economy, under Government of India are the two main governing authorities, which drafts and implements policies for the handicraft industries in rural India economy.

The handicrafts industry of India comes under the unorganized sector of village economy of India. India is basically an agriculture-based country and the development of rural economy of India depends upon the development of its 700-million strong rural population.

The rural economic policies of India is drafted according to the needs of rural India since, majority of the population (around 70%) lives in about 600,000 small villages. The rural India is almost wholly agriculture based and a small part of the rural Indian population is engaged with small industries like handlooms, handicrafts and other traditional produce.

The role of Handicraft Industries in Rural India Economy became important, since today the organized sector of Indian industry is ready to absorb the products from these industries. Moreover, with liberal trade and export policy, the export of the Indian handicrafts industry is on an all-time high.

The main products that are manufactured by the rural handicrafts industry of India are as follows -

- Art metal wares
- ♦ Wood wares
- Hand printed & textiles & scarves
- Embroidered & crocheted goods
- Shawls as art wares
- Zari and zari goods
- Imitation jewellery
- Miscellaneous handicrafts

The major importers of rural Indian handicrafts are as follows -

- Art metal wares USA, Germany, UK & Italy
- Wood wares USA, UK, Germany and France
- Hand printed & textiles & scarves USA, UK, Germany & Canada
- Embroidered & crocheted goods USA, Saudi Arabia, UK, Germany
- Shawls as art wares Saudi Arabia, USA, Japan & UK
- Zari and zari goods UK, USA, Japan & Saudi Arabia
- Imitation jewellery USA, UK, Saudi Arabia & Germany
- Miscellaneous handicrafts USA, Germany, UK & France

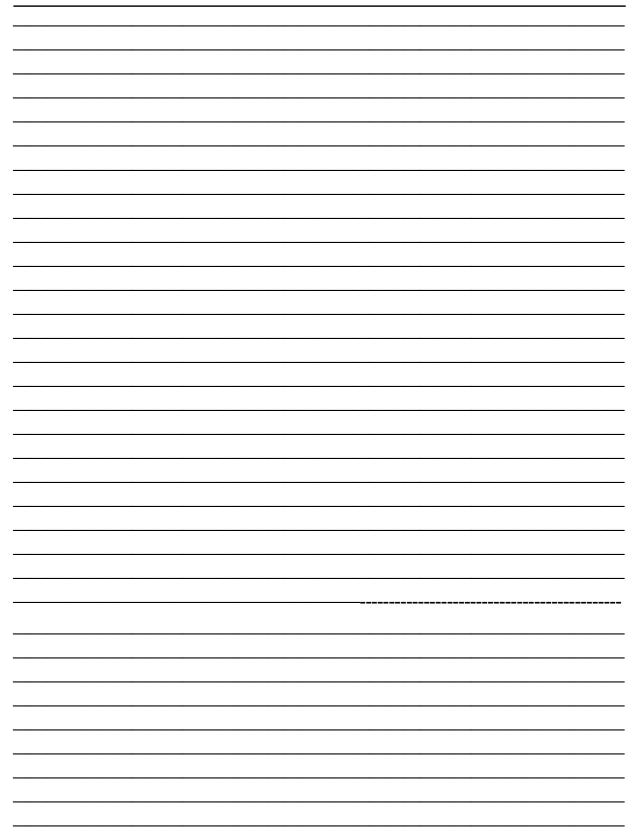
Presently, the global market of handicraft is valued at US\$ 400 billion and India's share in the global market stands at 2% only. However, the handicraft industries in rural India economy registered an annual growth rate of 15% consistently over the last decade and it is estimated to grow at the rate of 42% over the next five years annually.

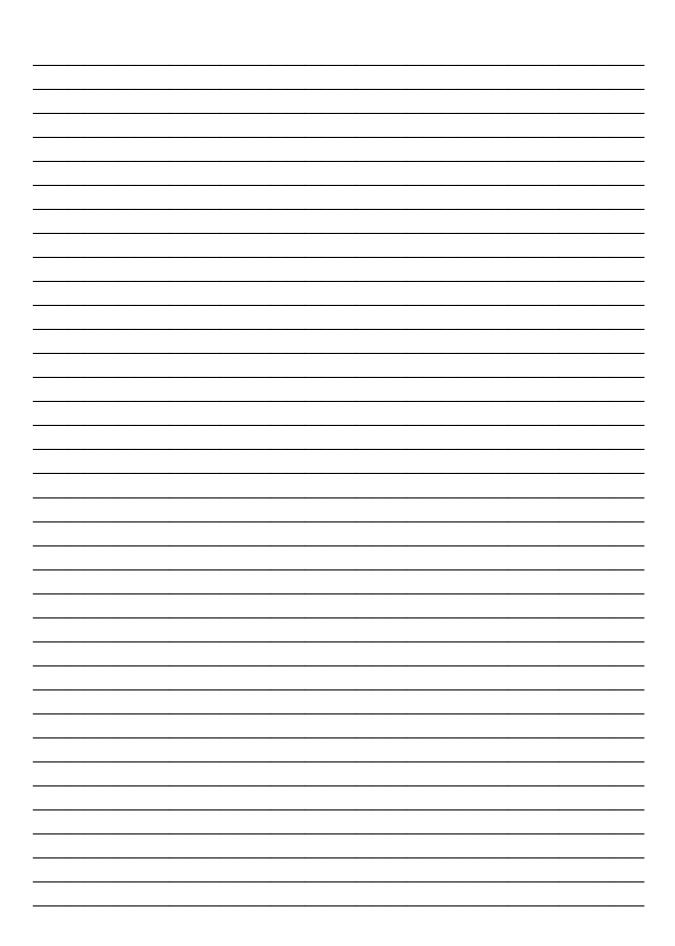
Although, the Handicraft Industries in Rural India Economy is witnessing steady growth over the last five years but its growth is plagued by certain bottlenecks, like the following-

The manufacturing process does not compliments with orders of such products

- Use of primitive techniques
- High manufacturing cost
- Poor quality of products
- Product design and development to be aligned with the background and history of the craft, the producer and the market requirements
- Poor standard of raw materials
- Lack of standardized vendor and suppliers
- Lack of standardized raw materials
- Improper pricing of finished products
- Absence of proper incentives and schemes by the Government of India
- Unorganized investment patterns and lack of regular investors
- Lack of proper marketing channels
- Poor access to urban markets

12.5 NOTES





12.6 SUMMARY

In this unit, we discussed about Rural Industries Cottage and problems faced by cottage industries in India. In this unit, it also focus on organisations working for the benefits of cottage industries in India.

12.7 KEYWORDS

- Cottage industry
- Rural handicraft

12.8 SELFASSESSMENT QUESTIONS

- 1. What are the problems faced by cottage industries? Explain the benefits of cottage industries in India.
- 2. What is the importance of Cottage industries in India? Explain briefly
- 3. What are the main products that are manufactured by the rural handicrafts industry of India?

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KARNATAKA STATE OPEN UNIVERSITY

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DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A III Semester

ELECTIVE – B: MARKETING

COURSE – 17 B : RURAL MARKETING

BLOCK - 4 : RURAL MAREKT REGULATION			
UNIT - 13 :	INDIAN RURAL MARKET	1-11	
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Registrar Karnataka State Open University Muktagangotri, Mysuru. - 570006 **Developed by Academic Section, KSOU, Mysuru**

Karnataka State Open University, 2014

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BLOCK – IV INTRODUCTION

Dear Learner,

In the previous block, you have learnt agricultral marketing, rural industries cottage and role and functions of rural marketing and development. In this block, we are discussing rural market regulations and models. This block helps to understand Government of India has put some regulation on the part of Agriculture market. They have put quality standards for agricultural commodity are framed based on their intrinsic quality. Another measures like food safety factors are being incorporated in the standards to compete in world trade. Standard are being hormorized with international standard keeping in view the WTO requirement. Certification of agricultural commodity is carried out for the benefits of producer/manufacturer and consumer.

This Block divided in to four units and they are,

- UNIT 13 : Indian Rural Market
- UNIT 14 : Rural Market Model
- UNIT 15 : Regulated Market
- UNIT 16 : Standardization, Grading of Agricultural and Allied Produce

BLOCK – IV RURAL MARKET REGULATION

UNIT – 13: RURAL MARKET REGULATION

Structure:

- 13.0 Objectives
- 13.1 Introduction
- 13.2 Definition of rural market and rural marketing
- 13.3 Rural Marketing
- 13.4 Features of Indian Rural Market
- 13.5 Roadblocks of Indian Rural Market
- 13.6 Solution to problems of rural market
- 13.7 Notes
- 13.8 Summary
- 13.9 Key Words
- 13.10 Self Assessment Questions
- 13.11 References

13.0 OBJECTIVES

After studying this unit, you should be able to;

- Define rural marketing
- Explain the nature and scope of rural marketing
- Discuss the Solutions to problems of rural markets.

13.1 INTRODUCTION

Rural marketing has gained recognition as a growing profession, a distinct academic discipline and a rewarding career for young management students and executives. The predictions of eminent business persons that rural markets would outstrip urban markets have proved right. Today, rural markets are not only attractive but also responsive. With this new opportunity the marketing battlefield has expanded from the cities to the villages. "Go rural and be rural" seems to be the guiding principle of marketing.

All smart marketers, Indian as well as MNC's, seems to have embraced this tenet. Companies such as Asian Paints, HUL, ITC, Colgate-Palmolive, Godrej, Philips, LG, Nokia and Dabur have made inroads into the countryside. New approaches, new strategic alternatives and new operational techniques are being evolved to gain competitive advantage.

13.2 DEFINITION OF RURAL MARKET AND RURAL MARKETING:

India is a land of diversity and about 70% of the Indian population lives in villages. These villages contribute in the economic development of the nation through the production of food grains, vegetables, fruits, etc. Export of these agricultural commodities result in the generation of capital and earnings of foreign exchange.

There are 600,000 villages in India. 25% of all villages account for 65% of the total rural population. So we can contact 65% of 680 million or 700 million population by simply contacting 150000 villages – which shows the huge potential of this market.

Indian rural market has a vast size and demand base. Before going into more aspects on rural marketing, let us understand how rural is defined.

The Census defines urban India as - "All the places that fall within the administrative limits of a municipal corporation, municipality, cantonment board etc or have a population of at least 5,000 and have at least 75 per cent male working population in outside the primary sector and have a population density of at least 400 per square kilometer. Rural India, on the other hand, comprises all places that are not urban!"

The government of India only defines a non-urban market. An urban market is the one which has a population density of 400 people per sq/km. 7% of its population has to be involved in non-agricultural activities and there is a municipal body. If we go by statistics, roughly around 70% of the Indian population lives in the rural areas. That's almost 12% of the world population.

To expand the market by tapping the countryside, more and more MNCs are foraying into India's rural markets. Among those that have made some headway are Hindustan Lever, Coca-Cola, LG Electronics, Britannia, Standard Life, Philips, Colgate Palmolive and the foreign-invested telecom companies.

13.3 RURAL MARKETING

Rural marketing involves the process of developing, pricing, promoting, distributing rural specific product and a service leading to exchange between rural and urban market which satisfies consumer demand and also achieves organizational objectives. It is a two-way marketing process wherein the transactions can be:

1. **Urban to Rural**: It involves the selling of products and services by urban marketers in rural areas. These include: Pesticides, FMCG Products, Consumer durables, etc.

2. **Rural to Urban**: Here, a rural producer (involved in agriculture) sells his produce in urban market. This may not be direct. There generally are middlemen, agencies, government co-operatives, etc who sell fruits, vegetables, grains, pulses and others.

3. **Rural to rural**: These include selling of agricultural tools, cattle, carts and others to another village in its proximity.

13.4 FEATURES OF INDIAN RURAL MARKETS

• Large, Diverse and Scattered Market: Rural market in India is large, and scattered into a number of regions. There may be less number of shops available to market products.

• Major Income of Rural consumers is from Agriculture: Rural Prosperity is tied with agriculture prosperity. In the event of a crop failure, the income of the rural masses is directly affected.

• Standard of Living and rising disposable income of the rural customers: It is known that majority of the rural population lives below poverty line and has low literacy rate, low per capital income, societal backwardness, low savings, etc. But the new tax structure, good

monsoon, government regulation on pricing has created disposable incomes. Today the rural customer spends money to get value and is aware of the happening around him.

• Traditional Outlook: Villages develop slowly and have a traditional outlook. Change is a continuous process but most rural people accept change gradually. This is gradually changing due to literacy especially in the youth who have begun to change the outlook in the villages.

• Rising literacy levels: It is documented that approximately 45% of rural Indians are literate. Hence awareness has increases and the farmers are well-informed about the world around them. They are also educating themselves on the new technology around them and aspiring for a better lifestyle.

• Diverse socioeconomic background: Due to dispersion of geographical areas and uneven land fertility, rural people have disparate socioeconomic background, which ultimately affects the rural market.

• Infrastructure Facilities: The infrastructure facilities like cemented roads, warehouses, communication system, and financial facilities are inadequate in rural areas. Hence physical distribution is a challenge to marketers who have found innovative ways to market their products. As part of planned economic development, the government is making continuous efforts towards rural development. In this age of liberalization, privatization and globalization, rural market offers a big attraction to the marketers to explore markets that are untapped.

13.5 ROADBLOCKS OF INDIAN RURAL MARKETS

There are several roadblocks that make it difficult to progress in the rural market. Marketers encounter a number of problems like dealing with physical distribution, logistics, proper and effective deployment of sales force and effective marketing communication when they enter rural markets. The major problems are listed below.

1. **Standard of living**: The number of people below the poverty line is more in rural markets. Thus the market is also underdeveloped and marketing strategies have to be different from those used in urban marketing.

2. Low literacy levels: The low literacy levels in rural areas leads to a problem of communication. Print media has less utility compared to the other media of communication.

3. Low per capita income: Agriculture is the main source of income and hence spending capacity depends upon the agriculture produce. Demand may not be stable or regular.

4. **Transportation and warehousing**: Transportation is one of the biggest challenges in rural markets. As far as road transportation is concerned, about 50% of Indian villages are connected by roads. However, the rest of the rural markets do not even have a proper road linkage which makes physical distribution a tough task. Many villages are located in hilly terrains that make it difficult to connect them through roads. Most marketers use tractors or bullock carts in rural areas to distribute their products. Warehousing is another major problem in rural areas, as there is hardly any organized agency to look after the storage issue. The services rendered by central warehousing corporation and state warehousing corporations are limited only to urban and suburban areas.

5. **Ineffective distribution channels**: The distribution chain is not very well organized and requires a large number of intermediaries, which in turn increases the cost and creates administrative problems. Due to lack of proper infrastructure, manufacturers are reluctant to open outlets in these areas. They are mainly dependent on dealers, who are not easily available for rural areas. This is a challenge to the marketers.

6. **Many languages and diversity in culture**: Factors like cultural congruence, different behavior and language of the respective areas make it difficult to handle the customers. Traits among the sales force are required to match the various requirements of these specific areas.

7. Lack of communication system: Quick communication is the need of the hour for smooth conduct of business, but it continues to be a far cry in rural areas due to lack of communication facilities like telegraph and telecommunication systems etc. The literacy rate in the rural areas is rather low and consumer's behavior in these areas is traditional, which may be a problem for effective communication.

8. **Spurious brands**: Cost is an important factor that determines purchasing decision in rural areas. A lot of spurious brands or look-alikes are available, providing a low cost option to the rural customer. Many a time the rural customer may not be aware of the difference due to illiteracy.

9. **Seasonal demand**: Demand may be seasonal due to dependency on agricultural income. Harvest season might see an increase in disposable income and hence more purchasing power.

10. **Dispersed markets**: Rural population is highly dispersed and requires a lot of marketing efforts in terms of distribution and communication.

The entire points discussed above offer challenges to the marketer. He tries to uncover newer ways to market his product as he cannot afford to miss this huge opportunity existing in rural markets. He tries to identify solutions to these marketing problems.

13.6 SOLUTIONS TO PROBLEMS OF RURAL MARKET

To solve the problems of rural markets in India, the following suggestions can be used by marketers.

1. Regarding the problems of physical distribution, the marketer may have a joint network of stockist clearing-cum-forwarding (C&F) agents at strategic location for facilitation of physical distribution for its products in the rural market. The main advantage of this scheme is that the costs of physical distribution can be shared by the companies and stockists. The combination of

different modes of transport based on availability of tracks will be beneficial to the companies. Presently, bullock-cart plays a very vital role in rural distribution where the roads are not available. Some of the leading companies use delivery vans in rural areas for resolving the distribution problems in rural market. The delivery van takes the products to the retail shops in every corner of the rural market and it enables the company to establish direct sales contact with majority of the rural consumers which helps in sales promotion.

2. The rural market is composed of a number of retail sales outlets along with fair price shops under the public distribution system. It is suggested that the government should encourage private shopkeepers and cooperative stores to come forward and establish their business in rural areas instead of the weekly market known as weekly bazaar. Fertilizer companies have opened their outlets for proper distribution of fertilizer among the farmers. Similarly, the companies dealing in consumer goods can apply this model. The company may also appoint a number of retailers in and around the feeder towns and attach them to the stockiest who distributes the goods to the retailers as per the potential of the market. This system has the benefit of penetrating into the interior areas of the rural markets.

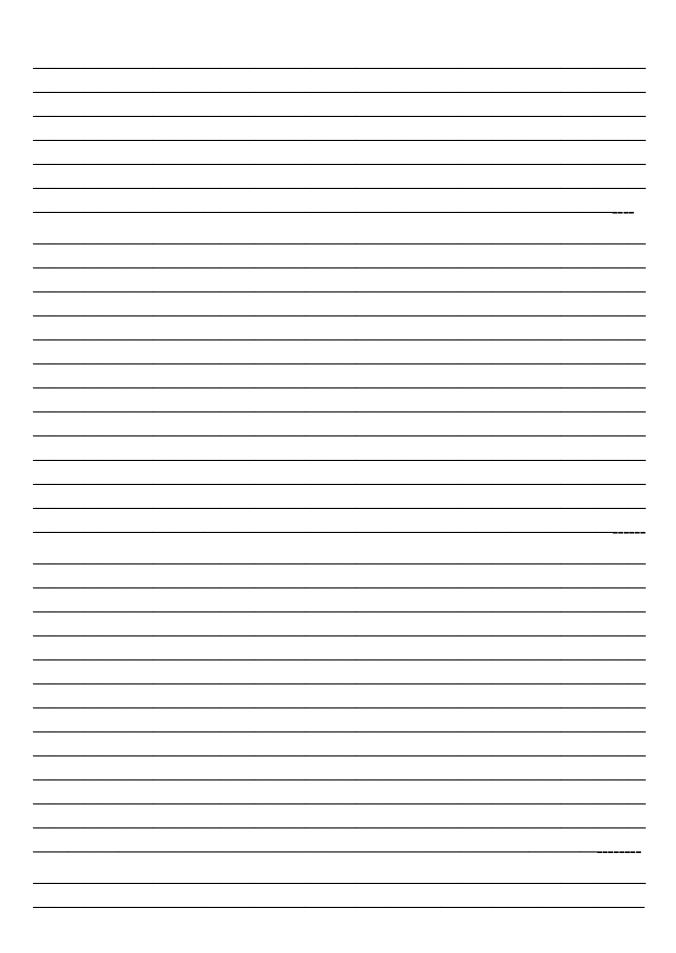
3. To solve the problems of sales force management, it is suggested that the company takes due care in the recruitment and selection of sales people because the traits they require are different from urban and suburban sales persons. For the rural markets, only those sales people should be preferred for selection that is willing to work in rural areas. They must be aware of the local language and must have the patience to deal with rural customers and can discharge the duties of a bare-footed salesman. Administration of such a large and scattered sales force, supervising and supporting them in sales calls, guiding them, attending to their official and personal problems, and motivating them for better results should be an exacting task for the sales manager. Thus, the people operating in rural areas should invariably be from the rural background and should have a missionary zeal to serve the rural masses.

4. With reference to marketing communication in rural areas, the company should use organized media-mix like TV, Radio, cinema and POP (point of purchase) advertising. Television is gaining popularity in the rural areas but due to poor supply of electricity, radio is performing significantly better. Since, the rural people need demonstration, short-feature films with disguised advertisement messages, direct advertisement films and documentaries that combine knowledge and advertisements will perform better rural marketing communication. Here the companies may also use audiovisual publicity vans, which may sell the products with promotion campaign. To attract the rural consumers, companies can organize village fairs, dance and drama shows, group meetings to convince the rural consumers about the products and services. In most Indian villages, there are some opinion leaders. For the rural markets, only those sales people should be preferred for selection who is willing to work in rural areas like Sarpanch, Pradhan and other elderly persons. They can be approached by the marketers to propagate their messages; these persons can prove to be effective communicators within the rural masses.

The rural market in India is quite fascinating and challenging in spite of all the difficulties existing. The potential is enormous. Even though, these markets have weaknesses they also have tremendous opportunities which should be availed by the marketers. It is well known that "Markets are created and not born". The market so created should be tapped effectively. An ideal example is that of LIC. The Life Insurance Corporation of India generates life insurance business by appointing the insurance agent from the village itself so that he can easily convince his near and dear ones. LIC started a scheme called Gram Vikas where the Sarpanch is given a target to sell a minimum of 10 policy plans and the commission so earned is spent on the development of their respective villages.

The marketers have to come up with innovative ideas through which the villagers also get involved in getting business from their respective villages. The Indian rural market is quite fascinating and challenging. It provides tremendous opportunities which beckon a marketer to explore.

13.7 NOTES



13.8 SUMMARY

Indian rural market has a vast size and demand base. Rural marketing involves the process of developing, pricing, promoting, distributing rural specific product and a service leading to exchange between rural and urban market which satisfies consumer demand and also achieves organizational objectives.

As part of planned economic development, the government is making continuous efforts towards rural development. There are several roadblocks that make it difficult to progress in the rural market. Marketers encounter a number of problems like dealing with physical distribution, logistics, proper and effective deployment of sales force and effective marketing communication when they enter rural markets.

The rural market in India is quite fascinating and challenging in spite of all the difficulties existing. The potential is enormous. Even though, these markets have weaknesses they also have tremendous opportunities which should be availed by the marketers. The marketers have to come up with innovative ideas through which the villagers also get involved in getting business from their respective villages.

13.9 KEY WORDS

Rural

Indian rural market

13.10 SELFASSESSMENT QUESTIONS

- 1. What is rural marketing and how do you define rural markets?
- 2. What are the features of rural markets?
- 3. What are the drawbacks of Indian Rural markets?
- 4. How do you solve the problems of Indian rural markets?
- 5. "Rural marketing cannot be neglected". Explain.

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UNIT – 14: RURAL MARKET MODEL

Structure:

- 13.0 Objectives
- 14.1 Rural Marketing Model
- 14.2 Impact of Globalization on Rural Marketing
- 14.3 Rural Marketing Information System
- 14.4 Notes
- 14.5 Summary
- 14.6 Key Words
- 14.7 Self Assessment Questions
- 14.8 References

14.0 OBJECTIVES

After studying this unit, you should be able to

- Ø Define Rural marketing
- Ø Explain Rural Marketing Model
- Ø Discuss the impact of Globalization on Rural Marketing

14.1 RURAL MARKETING MODEL:

The Rural Marketing model (fig 1.1) describes a step-by-step process of execution of a rural marketing effort. This model cannot be entirely different from the conventional marketing model, yet it has its own nuances, which need to be understood to attain success in the rural market,

Research

Segment the Rural Market

Study the lifestyle of the different segments of rural population

Develop profile of rural consumers of different market segments

Define and prioritize their needs in general terms

Develop specific need profile for a product category in that region

Select target markets

Develop/modify marketing mix

Control

Figure: I.I: Rural Marketing Model.

The different steps for implementation of the rural marketing model are described below:

Segmentation: A key factor of the rural market is that, it is a mosaic of distinct and unique markets. Each of these markets has rural consumers with unique different lifestyles, social culture, economic and demographic backgrounds. The typical socio-economic classification employed for market segmentation in rural areas, may not be sufficient in the rural market. Therefore, the first step for implementing any rural marketing effort is to segment the rural market on the basis of select parameters that influence the demand for certain product categories.

Lifestyle Analysis:

An organization contemplating to serve the rural market has to develop an understanding of the lifestyle of consumers in different rural market segments. On the basis of this understanding, it will be possible to know whether a particular product or service would be needed in a rural market segment. It will also help in devising a strategy to market that product.

Lifestyle Analysis is important because it broadly defines and prioritizes the consumer needs in a market segment. As in some cases, it may not be the buying capacity but the lifestyle of the consumers that influences the demand for a given product. For example, washing of clothes at a canal, well or pond almost rules out the use of detergent powder even if the consumers want to use it and also has the capacity to buy it. Similarly, the availability of running water and an assured supply of electricity, not just the consumer's buying capacity, determine whether a particular market will buy a washing machine or not.

Profiling of Rural Consumer:

The lifestyle analysis enables a business organization to develop a generic profile of the consumers in a rural market segment. This profile should be considered while designing or modifying the marketing mix for that market. Here the regional and local organizations are in an advantageous position as they are fully aware of the consumer's profile in a rural market segment, and they can design an appropriate marketing mix to make a mark in that segment.

Need Profile:

Analysis of the generic profile of the consumers of a rural area or market segment helps business organizations to identify the needs of those consumers in general terms. A marketer can then translate these broadly defined needs in more specific terms, from the perspective of different product categories.

Selection of Target Market:

After understanding the preceding steps, a business organization can evaluate whether it could serve the needs of a particular market segment effectively and efficiently with its present or modified marketing mix.

If the organization finds a compatibility between the consumer needs and its marketing mix in a rural market segment, then that segment can be identified selected as its target market. It can also analyze what modifications would be required in the marketing mix if a particular market segment has to be targeted and lastly, whether it would be feasible to modify the marketing mix to serve a particular market segment. Market Research is needed to identify and select rural segments that an organization can cater to, and to devise a marketing mix for them. For, it might be nearly impossible to cater to the entire rural market of India in an optimum manner with the same marketing mix.

Designing/ Modifying Marketing Mix:

An organization needs to consider modifications in different elements of its marketing mix to serve the highly heterogeneous rural market of India. It might be in the organization's interest to vary the promotional campaigns or packaging across different territories to suit variations in tastes and preferences of consumers.

Implementation:

Most experts agree that rural marketing is an implementation problem. Serving such a huge, widely scattered and highly heterogeneous territory could be a mammoth task for any organization. The retail channel plays a very significant role in providing the last mile connectivity with the rural consumers. The strategy to manage the rural retail channel is very important – not only from the planning point of view but also from the implementation perspective.

Rural Marketing plans cannot be implemented with an urban mindset. Therefore, an organization needs to make a comprehensive effort and ruralise its strategy in a real sense to make significant inroads in the rural market. Those organizations which make half hearted and superfluous exertions to implement rural marketing plans, are likely to have limited success. To have a meaningful success in the rural market an organization has to be as passionate in implementation as it is in planning.

Control:

The rural scene is transforming at an accelerating pace. It is not as it used to be and will not be the same in the future either. Therefore, organizations aiming to achieve success in the rural market needs to constantly research the developments in rural territories.

Organizations also need to have systematic processes to facilitate effective upward communication, so that the feedback from the feedback from the market reaches the planning bodies through the sales force and the retail channel. Then this information should be properly analysed and acted upon in a timely manner because in the rural market place, the timing of an action is as important as the timing itself. Regional and the local organizations, due to their flexibility and pace of decision making, are able to generate a significant preference for themselves among the channel partners.

14.2 IMPACT OF GLOBALIZATION ON RURAL MARKETING:

Globalization will have its impact on rural India also. It will be slow. It will have its impact on target groups like farmers, youth and women. Farmers, today 'keep in touch' with the latest information and also look up what is happening globally. Price movements and products' availability in the international market place seem to drive their local business strategies. On youth its impact is on knowledge and information and while on women it still depends on the socio-economic aspect.

The marketers who understand the rural consumer and fine tune their strategy are sure to reap benefits in the coming years. The leadership in any product or service is linked to leadership in the rural India except for few lifestyle-based products, which depend on urban India mainly. There has been a substantial increase in the penetration of consumer durables in the Indian rural sector. One thirds of the premium luxury goods are now sold in the rural market. Two thirds of the middle-income households are now in the rural market.

A study which compared the rural income and buying power established that if the rural income in India goes up by 1%, there would be a corresponding increase of about Rs. 10,000 crores in the buying power. On the other hand, the urban sector has showed saturation in the recent years.

The fact remains that the rural market in India has great potential, which is just waiting to be tapped. Some have progressed on this road, but there seems to be a long way for marketers to go in order to derive and reap maximum benefits. Rural India is not as poor as it used to be a decade or so back. Things are looking up!

14.3 RURAL MARKETING INFORMATION SYSTEM

The villages are the backbone or the soul of India. With more than two thirds of the Indian population living in rural areas, rural India reflects the very essence of Indian culture and tradition. A holistic development of India as a nation rests on a sustained and holistic development of rural India.

Farmers could use the connected computers to get commodity prices faster, or get information on new agricultural techniques. The youth would get details on job opportunities across the state. The district administration could get details of problems in near real-time. The eligible could search for matrimonial matches across adjacent villages.

The voters would communicate their concerns to the politicians and bureaucrats electronically, with a trail of the communication. The village officials could share governance best practices faster among their counterparts elsewhere.

The National Informatics Centre is proposing a "Rural Studio" initiative for developing reusable software components and services for the rural development sector, **Computers were used** in the process of governance in India, way back in the 1980's with some of the early and popular initiatives such as the Computerized Rural Information Systems Project (CRISP, *http://crisp.nic.in*) by the Department of Rural Development (Government of India), the District Information Systems of the National Informatics Centre (**DISNIC**) Project, the National Resource Data Management System (NRDMS) by Department of Science and Technology (Govt. of India) and Surendra Nagar Experiments, among others.

The Land Records Computerization Project (LRCP, <u>http://dolr.nic.in</u>) was another key initiative taken by the Government of India in addressing issues related to land records management and ownership. These projects were conceptualized and executed when ICTs, particularly networking technologies, were in a very nascent stage in India and had not gained roots in the government segment. Most of these projects focused on exploiting the computing/processing power of computer systems. At the district level, computers were primarily used to process data (spatial, non-spatial or both) related to various developmental schemes to strengthen the monitoring and planning done by the district administration.

Now, ICT has advanced to levels where it is being used in various sectors and helps in providing efficient services round the clock. ICT has emerged as a new way of reaching out to the people at grass root level. ICT applications into the domain of Indian Rural Development (RD) dates back to 1986 when the Computerized Rural Information Systems Project (CRISP- http://crisp.nic.in) was launched in 1986 by the Ministry of Rural Development (MoRD). Under this project, every district in the country was provided with computers and a software called CRISP (now re-named as Rural Soft – http://ruralsoft.nic.in) to help District Rural Development Agencies (DRDAs) to manage MoRD's Programmes more efficiently. The RD domain has come a long way now both in terms of ICT infrastructure as well as software solutions. The results have now started trickling down to the common people in rural areas.

Some of the major grass root level ICT initiatives by NIC include:

Land Records Computerization:

The Land Records Computerization aims at employing state-of-the-art Information Technology (IT) to galvanize and transform the way of maintaining land records in the country. The project is a collaborative effort with Ministry of Rural Development providing funds to states for data collection, collation and site preparation etc. while NIC provides technical support, training etc. Various kinds of land records software operational in different States include Bhoomi (Karnataka), Tamil Nilam (Tamil Nadu), e-Dharni (Goa), Bhuyan (Chhatisgarh), Apna Khata (Rajasthan), e-Dhara (Gujarat), Bhumi (West Bengal), Himbhoomi (Himachal Pradesh) etc.

NRICH Community Software Solution Framework:

NRICH (http://enrich.nic.in) is another ICT solution that has been developed as a Community Software Solution Framework addressing the needs of rural people. eNRICH, which was initially developed for UNESCO to facilitate intra community communications, was subsequently enhanced to work as a framework capable of networking communities and building collaborations between government and citizens, particularly mainstreaming the rural people

who are most disadvantaged and underprivileged.

AGMARKNET:

AGMARKNET (http://agmarknet.nic.in) is a NICNET based Agricultural Marketing Information System Network that links all important Agricultural Produce Market Committees (APMCs), State Agricultural Marketing Boards/Directorates and Directorate of Marketing & Inspection (DMI) regional offices located through out the country for effective information exchange on market prices related to agricultural produce. This web based information system enables farmers to sell their produce in the nearest market at remunerative prices.

Community Information Centres (CICs):

The North Eastern region has been traditionally less developed due to its remoteness and difficult hilly terrain. To provide a boost to all-round development of the region through ICT, 487 Community Information Centres (CICs) have been set up in all the eight States of the region as part of the CIC Project initiated by the Department of IT, Government of India. Each CIC has its own web-site accessible through http://www.cic.nic.in and provides information on forms, rules and procedures, government tenders, notification for employment opportunities, information on tourism, culture, examination results, schemes, legal issues, guidelines for bank loans, weather information etc.

ASHA:

NIC Assam in partnership with Agribusiness consortium has developed a model ASHA for facilitating agribusiness through CIC (http://www.assamagribusiness.nic.in). The site aims at building up of information useful for farmers and establish direct link between buyers and sellers thus promoting agribusiness.

Rural Bazar:

Rural Bazar (http://ruralbazar.nic.in) is an e-commerce solution developed by NIC to address the marketing needs of the rural producers. The software provides provision for simple showcasing of the products, off-line payment as well as on-line payment. It has been implemented in the States of Tripura, Goa and Tamil Nadu.

Property Registration:

NIC has developed Property Registration Systems that aim at setting quality and time standards for all registration services. The features include registration of deeds on the transactions relating to immovable properties between citizens and include calculation of stamp duty; Revising the rates of market values, Deed writing, providing computerized copies of Records of Right (ROR), computerized history of transactions on property & land record mutation etc.

Panchayat Informatics:

NIC has also initiated efforts to provide ICT solutions for streamlining the functioning of panchayats to enable easy access to information and services by the common man. Some of the applications in this area include **National Panchayat Portal, Priasoft -** Panchayati Raj Institutions Administration Software, **e-Gram Vishwa Gram, e-Panchayat and Info**

Gram.

e-Governance for Rural Masses:

NIC has designed applications to deliver e-Governance services to the rural masses. Some of these include:

Rural Digital Services:

Rural Digital Services provide a single window for all government services at village level. In the first phase of the project, the services offered include Birth/Death Registration and Certificates (Caste, Income, Widow, Unemployment, No Tenancy etc.).

Lokvani:

Lokvani provides citizens an opportunity to interact with government without actually visiting the government offices. The services provided through the kiosks include information about various government schemes, forms, list of old-age pensioners, list of scholarship beneficiaries, allotment of food grains to kotedars, allotment of funds to gram panchayats, land records etc.

LokMitra:

Lokmitra is an initiative of Government of Himachal Pradesh that envisages taking the benefits of IT to the door-step of general public, especially those living in rural areas through Lokmitra Soochana Kendras set up at 25 centrally located Panchayats. NIC provided the Lokmitra software and necessary training to the Soochaks, who manage the Soochana Kendras. The services offered through the Lokmitra Kendras include Classified Complaints, Forms download, Job Vacancies, Tenders, Schemes information, market rates etc. Efforts are underway to expand this initiative to all the districts in the State.

Gyandoot:

Gyandoot is an intranet in Dhar District that connects rural cyber cafes catering to everyday needs of the masses. Some of the services provided, using the software applications developed by NIC, through the kiosks set up in the villages of the rural district include Commodity/Mandi Marketing Information System, Income Certificate, Domicile Certificate, Caste Certificate, Driving License, information regarding Rural Markets etc

Backend e-Governance Solutions:

The success of how efficiently the ICT services are delivered to the common man depends largely on the extent of backend computerization.

Some of the back-end rural informatics solutions developed by NIC are asFollows:

Ruralsoft:

RuralSoft (http://ruralsoft.nic.in) is a solution that helps capturing monthly progress of various poverty alleviation schemes sponsored by the Ministry of Rural Development (MoRD) and State Rural Development Departments (SRDs).

Monitoring Software for DDWS Schemes:

The Department of Drinking Water Supply provides funds to the states for rural drinking water supply and sanitation programmes.

ITC-eChoupals:

ITC is setting up eChoupals across the agricultural belt in India to offer the farmers of India all the information, products and services they need to enhance farm productivity, improve farm-gate price realization and cut transaction costs. Farmers can access latest local and global information on weather, scientific farming practices as well as market prices at the village itself through this web portal - all in Hindi. Choupal also facilitates supply of high quality farm inputs as well as purchase of commodities at their doorstep.

This has been done in a phased approach:

In **Phase I**, the business goal was to create a physical infrastructure of eChoupals at the village level and create local level ownerships through the identified Sanchalaks. At this stage the business goal was supported by creating a local language portal, which provided the required information to farmers such as local weather, market prices and best practices.

In **Phase II**, the business goal was to get the farmer registered and transacting by selling directly to ITC Ltd. through the virtual market. This goal was supported by creating a B2B site, which integrated the transactions directly to the back-end ERP and ensured that there was no latency in processing any of the procurement by the processing units.

In **Phase III**, the business goal was to create a full fledged meta-market. In this phase, the market would facilitate other operators like inputs providers and rural distributors to work effectively through the eChoupal to deliver and procure goods from every participating village.

The technology road map to support this phase was to have a secure, consolidated Farmers database with all information pertaining to their holdings and credit worthiness to be available online. This database, along with identification provided by smart cards would enable support for online transactions through the eChoupal leading to integration with participating financial institutions such as banks, insurance and credit agencies. A more detailed description of the ecosystem being created by the eChoupals comes from a note on the World Resources Institute Digital Dividend Knowledge Bank site: This reorganization of the role of middlemen results in lower procurement costs for ITC, despite having to pay higher prices to the farmers. Transaction costs are also minimized for the farmer by buying output at the farmers' doorstep, and through transparent pricing and weighing practices. A substantial quantity has already been procured through this channel, resulting in overall savings. The savings are shared between buyer (ITC) and seller (farmer). On the marketing front, ITC is able to maintain and grow the trust of its farmers by enhancing their productivity and wealth. ITC leverages this position of trust among farmers, as well as its distribution capabilities, to market its own consumer good brands and those of partner companies offering products and services that ITC does not. Sales of consumer goods through the e-Choupals have been particularly successful because the cost-savings associated with dealing directly with the manufacturer allow Sanchalaks to offer goods at lower prices than other village-level traders or retailers can afford to do.

A digital transformation:

The following have been some of the initiatives of e-choupal:

ITC began the silent e-volution of rural India with soya growers in the villages of Madhya Pradesh. For the first time, the stereotype image of the farmer on his bullock cart made way for the e-farmer, browsing the e-Choupal website. Farmers now log on to the site through Internet kiosks in their villages to order high quality agri-inputs, get information on best farming practices, prevailing market prices for their crops at home and abroad and the weather forecast – all in the local language. In the very first full season of e-Choupal operations in Madhya Pradesh, soya farmers sold nearly 50,000 tons of their produce through the e-Choupal Internet platform, which has more than doubled since then. The result marks the beginning of a transparent and cost-effective marketing channel. No doubt, this brought prosperity to the farmers' doorstep.

Farmers grow wheat across several agro-climatic zones, producing grains of varying grades. Though these grades had the potential to meet diverse consumer preferences, the benefit never trickled down to the farmers, because all varieties were aggregated as one average quality in the mandis. ITC's e-Choupal intervention helped the farmers discover the best price for their quality at the village itself. The site also provides farmers with specialised knowledge for customising their produce to the right consumer segments. The new storage and handling system preserves the identity of different varieties right through the 'farm-gate

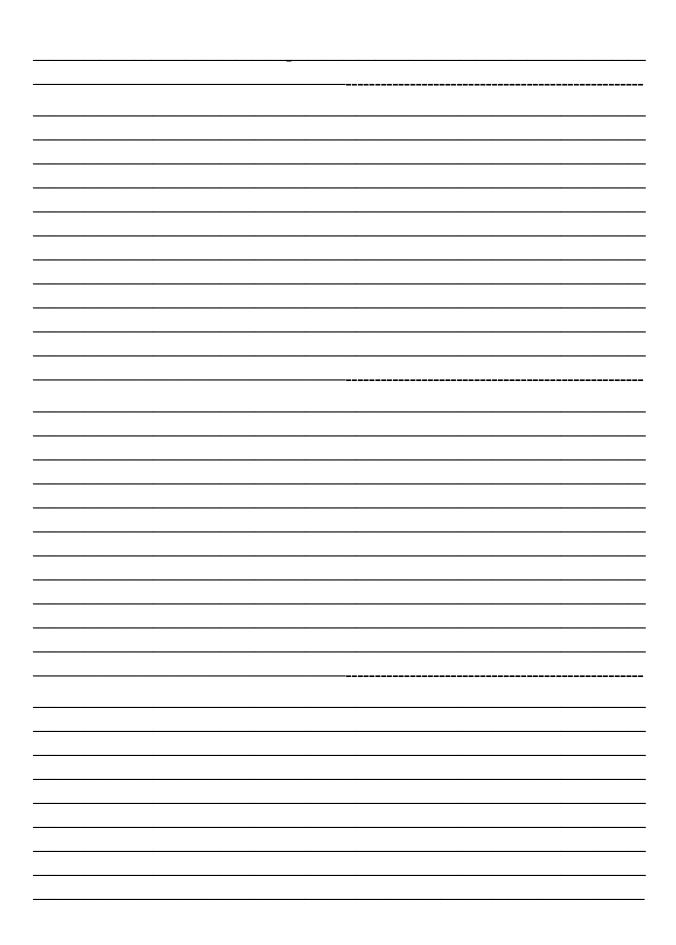
to dinner-plate' supply chain encouraging the farmers to raise their quality standards and attract higher prices.

ITC's Aqua Care Centre in Kakinada, Andhra Pradesh, has revolutionized the concept of shrimp seed testing. Its sophisticated laboratory detects the deadly White Spot virus in the shrimp seed and advises farmers on appropriate remedial action.

Echoupal.com has become popular among coffee growers as an effective platform for global trade. Coffee planters in India have for years been tossed between the highs and lows of the international coffee market. The information needed to manage risks in the volatile global coffee market, price updates and prevalent trends in coffee trading were just not available to them. Launch of e-Choupal.com has equipped India's coffee planters with appropriate knowledge base and risk management tools. The site arms them with the latest prices posted on commodity exchanges like CSCE in New York and LIFFE in London. Planters have access to technical analysis by experts to help them comprehend trends, trading ranges and chart patterns in simple language. 'Parity Chart' and the 'Calculator' on the site convert the coffee prices quoted in international auctions into raw coffee equivalent for the benefit of the small growers in India. Tradersnet, a special link on the site, brings together a large number of coffee planters, traders and roasters, creating a virtual market for transparent price discovery. ITC empowers Indian coffee growers with expert knowledge in logistics and risk management, thereby enabling them to face global competition. ITC has shown how the rural market can be tapped for mutual benefit of the customer and the marketer.

Hence, a Rural Information System caters mainly to agricultural marketing. All the above examples give us an idea of what the government and other organizations are doing to help in agricultural marketing.

14.4 NOTES



14.5 SUMMARY

A Rural Information System caters mainly to agricultural marketing. There have been a lot of initiatives by ICT in this regard.

The rural markets are of diverse nature. There are people from diverse cultural, linguistic and religious background. The incomes of rural customers are also increasing. Rising literacy has generated a demand of life style products. The reach has increased and marketers are in a position to promote their products much more easily, The marketers are meeting the consequent challenges of availability, affordability, acceptability and awareness in rural market.

Most of the companies treat rural market as a dumping ground for the lower end products designed for an urban audience. But, this scenario is slowly changing and importance is given to the need of the rural consumer.

In rural markets, brands are almost non-existent. They identify FMCG by three things: Color, Visuals of animals and birds and Numbers. Hence it is very important for us to understand that a lot needs to be done in terms of communications, media, marketing and branding. There are a number of cases which suggest that to sell brands in the rural market, it is necessary to simultaneously educate the consumers. If you have to create brand communication, marketing efforts must be supported by education. A rural customer is price sensitive and shops for value. This is mainly because of his lower income levels than his urban counterparts. Hence the marketer has to find ways of making the product affordable to the rural consumer.

Distribution of products is one of the biggest challenges of rural marketing. There are CWC (Central Warehousing Corporation) and SWCS (State Warehousing Corporations) set up in rural areas to store and distribute products. All these tiers provide warehousing facilities only to their own members. Hence it is a big problem for a company to store its goods in rural areas.

Rural communication can be through Conventional media or through a nonconventional media. The most common conventional media include: Print, Cinema, Television and Print. The Non-conventional media include: Theatre, Posters, Haats and Melas.

14.6 KEY WORDS

- Rural Market
- ♦ I-Coupal
- ♦ ICT♦ RMIS

14.7 SELFASSESSMENT QUESTIONS

- 1. What are the utilities of a rural marketing information system?
- 2. Explain some of the initiatives taken by ITC to computerize in rural areas. What has been the benefit of such schemes?
- 3. What are the lessons to be learnt from ITCs E-choupal initiative?
- 4. How will computers change the life of rural consumers?
- 5. Define Rural Market.
- 6. Explain Rural Marketing Model.
- 7. Discuss the impact of Gliobalisation on Rural Marketing.

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UNIT 15: REGULATED MARKET:

Structure:

Objectives

- 15.1 Introduction
- 15.2 Definitions of regulated market
- 15.3 Main features of Regulated Markets
- 15.4 Advantages of Regulated Markets
- 15.5 Regulated Markets in India
- 15.6 Functions of Regulated Markets
- 15.7 Services Rendered by the Regulated Markets
- 15.8 APMCACT 1963
- 15.9 Salient Features of New Model APMC Act
- 15.10 Limitations / Problems of Model APMC Act
- 15.11 Contract Framing
- 15.12 ITC e-Chou pal
- 15.13FSSAIACT 2006
- 15.14 Notes
- 15.15 Key Words
- 15.16 Summary
- 15.17 Self Assessment Questions
- 15.18 References

15.0 OBJECTIVES

After studying this unit, you should be able to;

- Define Regulated Market
- Explain main features of Regulated Market
- Discuss the concept of Regulated Market

15.1 INTRODUCTION

India is an agrarian economy. About 70 per cent of people are dependent on agriculture for their basic income. Earlier the farmers were concerned about the sale of their produce due to low quality. The Royal Commission on Agriculture found that there weren't enough marketing activities carried on by the farmers and suggested the formation of regulated markets and accordingly various market committees were incorporated.

Regulated markets aim at the development of the marketing structure to ensure remunerative price to the farmers; reduce non-functional margins of the traders and commission agents; and narrow down the price spread between the producer and the consumer. To achieve these objectives, the government has made comprehensive and rapid expansion of regulated marketing systems. Besides, the regulated marketing system has proved a good source of generating income for the marketing boards and for use in rural infrastructure. The first attempt for the regulation of markets in India dates back to 1897, when the Berar Cotton and Grain Markets Law was passed to purge marketing of many of its abuses. Since then various Acts, rules and laws have been passed, and many committees and commissions have been appointed for facilitating and promoting the growth of regulated markets all over the country.

15.2 DEFINITIONS OF REGULATED MARKET

Regulated market is wholesale market where buying and selling is regulated and controlled by the state government through the market committee.

It aims at the elimination of unhealthy and unscrupulous practices reducing marketing charges and providing facilities to producers and sellers in the market. The poor standards of primary and secondary markets where producer convert their produce into cash. The prevalence of various malpractice's such as short-weights, excessive market charges, unauthorized deduction, adulteration of produce and the absence of machinery to settle disputes between sellers and buyers were recognized as the main hindrances in agricultural marketing. These defects and malpractices can be recover by the establishment of regulated marketing there country may be regulated either by local bodies or under state legislation was suggested first in 1928 by the Royal commission on Agriculture. The movement of regulation of market gained momentum only after 1930. The Bombay Agricultural produce market act of 1939 was passed in respect all agriculture produce Viz., cereals, fibers and fruits etc. Regulated markets usually handle tobacco, cotton, groundnut, grains, coconuts, areca nuts, potatoes and turmeric etc.

15.3 MAIN FEATURES OF REGULATED MARKETS

1. MARKET COMMITTEE: Market committee is comprised of representatives from different sectors of society that is farmers, traders, government local bodies and co-operative. In general it is observed that market committee consists of 15 members 10 from farmers 3 from traders and 1 each from the government and local bodies.

2. **AREA OF OPERATION**: The concerned state government notifies that its intention to regulate trade practices in specified area such an area of operation is laid down either as a municipal limit or district or even it may be a region. In Maharashtra area of operation of each regulated market restricted to one taluka.

3. **METHODS OF SALES**: In regulated market the sale of argil produce is undertaken either by open auction or by close tender method these sales method ensure a fair and competitive price for the produce and prevent the cheating of farmers by market functionaries. By these methods, the sale is carried out under the supervision of an official of the market committee.

4. LICENSING OF MARKET FUNCTIONARIES: All the market functionaries including traders working in the regulated market have to obtain a license from the market committee after paying the prescribed fee to carry on their business, the licensed traders have to keep proper record and maintain accounts in accordance with the buy-laws of the market committee.

5. MARKET LEVIES OR FEES: Growers and traders have to pay market fees which are calculated on the basis of value of volume of a commodity bought and sold in the markets. Sometimes it may be based on cartload or truckload.

To meet its administrative expenditure and in order to create infrastructure facilities in the market area the market committees gets funds from the following sources:

1. Market fees on the produce brought for the sales in the market yard.2. License fee, renewal fee of market middlemen functioning in the area.

1. **SETTLEMENTS OF DISPUTES**: Disputes arising between producer seller and traders by reason of the quality of the producer, accounts and deductions of unauthorized charges are solved by the sub-committee of the market committee this avoid the legal complications and unnecessary expenditure.

15.4 ADVANTAGES OF REGULATED MARKETS

- 1. Market charges are clearly defined and specified.
- 2. Market practices are regulated and undesirable activities are brought under control.
- 3. Correct weighment is ensured by periodical inspection and verification of scales and weights.
- 4. Suitable arrangements for the settlement of disputes is provided.
- 5. Reliable and up to date market news are made available to the farmers.
- 6. Suitable quality standards and standard terms for buying and selling are conveniently enforced.
- 7. Reliable statistics of arrivals, stocks, prices are maintained.
- 8. Other facilities like shades for the sale of produce, space for parking carts, drinking water facilities and cisterns of cattle, rest houses, grading and warehousing facilities are provided.
- 9. Open auction method is strictly followed.

10. Propaganda for agricultural improvement is more conveniently carried out. Taking over all picture regulated markets have produced a whole some effect on marketing structure and have generally raised the efficiency or marketing at the primary level.

Organization of regulated markets and constitution of market committee:

The primary object of regulating the market is to safeguard the interest of the producer sellers raise the standards of the local Markets where the first exchange of the goods takes place. With a view to achieve the object in each of the regulated markets. Market committees are established consisting of the representatives of the growers, traders, local bodies, sellers, co-operative shops and the state government nominees. Producers are generally in the majority on these committees. The market committee should consist of 12 to 18 members depending on the size of the market and other considerations, which are responsible for utilizing the fund for

a. Maintenance and improvement of the markets and its buildings.

- b. Maintenance of standards of weights and measures.
- c. Pay and pension of the staff
- d. Payment of interests of loans.
- e. Collection and dissemination of market information.
- f. Propaganda for agricultural improvement.

15.5 REGULATED MARKETS IN INDIA

Agriculture is a way of life and a tradition, which for many centuries has shaped thoughts, outlook, culture and the economic life of Indians. It will continue to be central to all strategies of planned socio-economic development of the country. Today, agriculture and allied sectors account for 22 per cent of GDP and provide more than 60 per cent of rural employment with more than 142 million hectares of cultivated land. India ranks second in terms of total arable land as well as irrigated area in the world. Since independence Indian agriculture has made rapid strides because of multidisciplinary and multi-institutional approaches. India achieved self sufficiency in food grains production, largest producer of fruits, coconut, milk and second largest producer of vegetables, rice and wheat.

Unfortunately, pattern of growth of agriculture has brought in its wake uneven development across regions and crops as also across different sections of farming community. It is characterized by low levels of productivity and degradation of natural resources, which could be partly due to capital inadequacy, lack of infrastructural support and demand side constraints. Unfavorable price regime and low value addition also contributed their might which led to migration from rural areas. This situation is likely to be exacerbated in the wake of integration of agriculture trade in global system. Establishment of an agrarian economy which ensures food and nutrition to India's billion people, raw materials for expanding industrial base, surplus for exports and a fair and equitable reward system for farming community will be the mainstay of reforms in the agriculture sector. During pre-independence period, Government of India had too little interest in the problems of agriculture. They rather concentrated on increasing the revenue and looking after law and order situation and judicial administration in the country. The great famine of 1866, which hit badly the Provinces of Assam and Bengal, forced the government to draw its attention to the need of developing agriculture as a means of averting famines and protecting people from starvation. The history of regulated markets in India was started, when the British government felt the necessity of supplying the pure cotton at reasonable price to the textile mills at Manchester. The Karanjip Cotton Market was established in 1886 as a regulated market under the first legislation in

India was the Barer Cotton and Grain Market Act of 1897. In 1927, the Government of Bombay enacted the Bombay Cotton Markets Act. This Act provided for the establishment of markets for cotton, constitution of market committee, notification of cotton, the levying of market fee, use of authorized weights and measures and appointment of dispute subcommittee for settling dispute between the farmer-seller and trader buyers. During pre-independence period, the first Act was passed in 1897 in the name of Berar Cotton and Grain Markets Law.1 Then after that many Acts have come like the India Cotton Committee Act, 1927. The government of India appointed the Royal Commission on Agriculture in 1928 and it submitted its report in 1929. The Indian Central Banking Enquiry Committee, 1931 endorsed the recommendations of the Royal Commission and offered some suggestions for the organization and improvement of agricultural marketing in India. The Hyderabad Agricultural Markets Act was passed in 1930, followed by the Central Provinces Agricultural Produce Act in 1935, for all kinds of produces except cotton. The Bombay Agricultural Produce Market Act was passed in 1939, replacing the Bombay Cotton Markets Act, 1933 to regulate the buying and selling of commercial crops like cotton, groundnut and tobacco. Regulated markets were established in Tiruppur in 1936 for cotton and in Tindivanam for groundnut in 1939, both in former Madras state. For cotton, a regulated market was established in Baroda state in 1938. These were the pioneer regulated markets in India. The outbreak of Second World War checked the progress of market regulation activities in India. At the end of 1940 there were 135 regulated markets in India which increased to 286 by 1950. The growth of regulated markets in India showed a remarkable progress since the beginning of the planning era (1951). The 1 Ghosh, M.M (2002). Growth and Development of Regulated Markets in Tripura, in Prasad Jadish (Ed.), Encyclopedia of Agricultural Marketing, Delhi: Mittal Publications, p.92. Planning Commission laid emphasis on the development of regulated markets throughout the country. In the post-independence period, the Five Year Plans visualized the importance of regulation of new markets through out the country. The First Five Year Plan pioneered economic developments, including agricultural development of the country where importance of regulated markets to remove defects of agricultural marketing was recognized and so it made modest target of organizing 184 markets and passing of the Agricultural Produce Markets Acts in different states. The Second and Third First Five Plans aimed at organizing 245 and 267 markets respectively. As a result, there were 982 regulated markets in country with 506 submarket yards, totaling 1488 markets by March 1965. The Third Five Year Plan contemplated the regulation of markets in different parts of the country. But, in that period there were many draw backs in the markets, like lack of space, poor lay-out, unfair trade practices, inadequacy of marketing facilities, etc. From the foundation laid by the Third Five Year Plan the regulated markets start to develop to give security to the cultivators regarding better

prices, weighment and freedom from illegal deductions. After the Third Five Year Plan the socio-economic conditions of the country was facing a number of favorable and unfavorable circumstances many states entered into the new phase of its development in market regulation. The special emphasis was given on regulated markets in the Sixth Five Year Plan. These basic points of this Plan on regulated markets are further expansion of the regulated market system in terms both more markets and commodities to be brought within the scope of regulation; strengthening the arrangements for enforcement/and inspections to ensure a regulated system of open auctions, trading practices and margins of intermediaries; and development of rural markets and establishment of rural markets in the areas where such a facility is not available with in a reasonable distance. The Eighth Five Year Plan is more conscientious to the need for regulated markets. It notes that regulated markets can be used as an instrument of regeneration of the whole "rural infrastructure" with a view to achieve the objectives. The Plan provides the following programmes: comprehensive and rapid expansion of the regulated marketing system having organic links with the primary markets; the establishment of linkage with major consuming centres; the inclusion of facilities for grading and for monitoring of prices; utilizing regulated markets for the generation of the resources by levying a surcharge and associating panchayats in this task; and the development of regulated markets in command areas and terminal markets especially in areas where commercial crops like cotton, jute, tobacco and important non-traditional crops are produced and sold in weekly markets. The National Commission on Farmers, 2004 has recommended that the facility of regulated markets should be available to the farmers within the radius of 5 km. There were 286 regulated market yards at the time of independence and were increased to 7249 markets in 2011. These consist of 2433 principal markets and 4813 sub-yards. The number of regulated markets is relatively more in geographically large states viz. Andhra Pradesh, Karnataka, Maharashtra, Madhya Pradesh, Uttar Pradesh and West Bengal.

15.6 FUNCTIONS OF REGULATED MARKETS

The primary object of regulating the market is to safeguard the interest of the producer sellers and raise the standards of the local markets where the first exchange of the goods takes place. With a view to achieve the object in each of the regulated markets, market committees are established consisting of the representatives of the growers, traders, local bodies, sellers, co-operative shops and the state government nominees. The market committee consists of 12 to 18 members depending on the size of the market and other considerations, which are responsible for utilizing the fund for:

• Maintaining and managing the market.

- Enforcing in the market area, the provisions of the Act, the rules and the bylaws.
- Enforcing the conditions of licenses granted to different market functionaries in connection with the purchase and sale of agricultural produce regulated by it.
- Granting, renewing, suspending and canceling a general or a special license for the purchase and sale of regulated agricultural produce.
- Maintaining the register containing the names of all licensed traders and general commission agents.
- Providing all facilities in the market as per the directions of the Director.
- Preparing budget estimate of its income and expenditure for the next succeeding year and sanctioning it within the prescribed period.
- Levying fees on the agricultural produce or sold in the market area and collecting them through agents or otherwise.
- Managing the income, incurring the expenditure and investing the surplus funds.
- Keeping the account and other records in such a manner as directed by the Director or any other officer authorized by him on his behalf.
- Maintaining a register showing the fees collected by it.
- Paying contribution every year at prescribed rates to the State Agricultural Produce Fund.

- Prescribing the market charges with the previous sanction of the Director for the services of different market functionaries rendered in connection with the purchase and sale of agricultural produce regulated.
- Taking all possible steps to prevent adulteration of agricultural produce in the market area.
- Promoting, grading and standardizing of agricultural produce.
- Collecting and maintaining daily list of prices of different types and grades of agricultural produce regulated by it and supplying them to the government when required.
- Placing information on matters like the prices of the commercial crops ruling at the principal markets of the tract and at the ports at the disposal of the users of the market by publishing it.
- Communicating the full names and addresses of the traders holding general licenses in the market area to the authorized officer within the prescribed time when general election or by-election to be held.
- Prescribing the units of quotations in respect of the regulated agricultural produce to be bought and sold.
- Appointing one or more sub-committees for carrying out any work or to resort to it on any matter and delegating such powers and duties to it or them or to any of its members as may be deemed necessary.
- Issuing all directions necessary for the guidance of the persons using the market by publishing them on the notice board.

15.7 SERVICES RENDERED BY THE REGULATED MARKETS

Regulated markets operate through Agricultural Produce Marketing Committee. They aim at protecting the farmers from malpractices and securing a remunerative price for the produce. Regulated markets provide better places to farmers to sell their produce under competitive condition and better supervision where there are no cheating in weights and measures, to unauthorized deductions, no quarrels, no litigation, etc. There are regulated markets which have shown new paths, there are cattle markets, fruits and vegetable markets, they organize exhibitions useful to the farmers, supply price positions for farm produce on All-India Radio, provide better amenities to the farmers, and new ideas are disseminated to the farmers on these markets. Competitive and remunerative prices are ensured for the produce sold by the farmers through closed tender system. Free grading facilities for agricultural commodities are also made available in regulated markets. No fee is collected from farmers for the services provided in regulated markets. Market committees collect 1% as market fee from the traders on the value of agricultural produce purchased by them. Besides, license fee is also collected from traders and weighmen. Regulated markets provide various kinds of facilities like electronic weigh bridges, weighing balances, godowns, immediate payment after auction, daily price information, rest sheds, drinking water, cattle sheds, free medical aid to farmers, input shops, phone, fax facilities, etc. Under "AGMARKNET" centrally sponsored scheme 93 regulated markets have been provided with computer and internet connectivity for effective price dissemination among farmers through AGMARKNET website. The information on commodity prices prevailing in various markets is made available and the farmers would be able to get better price of their produce by moving their produce to the market which pays higher. The government, on the basis of the recommendations of the concerned market committee does notification of crops. The notified area of a market committee is a revenue district and that of regulated market is an area with a radius of 13 kms from the regulated market. The government notifies the principal crops in the notified area depending on the cropping pattern. Notification of crops implies that purchase and sale within and movement of produce out of the notified area should be done only with the permission of market committee. Further, traders dealing in such market committee should obtain license from the market committee, pay the necessary market fees and submit periodical accounts for their transactions to the market committee. Notifications of crops differ for each market committee, and only a few commodities are common to most of the market committees.

The training centre of Tamil Nadu State Agricultural Marketing Board, Chennai, is functioning at Salem in an extent of 2.25 acres of land. This training centre caters to the training needs of the market committee employees and the farmers. Three different training programmes namely, graders training, market committee employees' refresher training and personal contact programme are conducted by this training centre. The graders training is conducted for the employees of the market committee for 30 days duration in 3 batches per year, comprising 60 employees. The refresher training of 28 days duration is conducted for the staff working in market committees in one batch per year comprising 20 persons. The personal contact programme of 3 days duration is conducted for the farmers in 5 batches for 100 farmers. Regulated markets are issuing pledge loan to small and marginal farmers to avoid distress sales due to price fall. Under this scheme, farmers can store their agricultural produce in the godowns of regulated markets for a period of 6 months without any fee and avail pledge loan of 75% on a total value of their produce up to a maximum of Rs.1,00,000 at

5% interest rate. Similarly pledge loan facilities are also extended to traders at 9% interest rate. Farmers or tenants who sell one or more than one metric tones of agricultural produce every year through regulated markets are enrolled under Tamil Nadu Farmers Development and Welfare Scheme, and they are eligible for a grant of Rs.1,00,000 in case of death/permanent disability due to accident/death due to snake bite. In case, the eligible farmer or tenant loses both the hands/legs/eyes due to accident is eligible for a grant of Rs.75,000/-. In case of losing one hand/leg/eye or permanent hip disability due to accident the farmer or tenant is eligible for a grant of Rs.50,000/-. Farmers need not pay any premium to avail this facility in the scheme. The market committee concerned and the Tamil Nadu State Agricultural Marketing Board bear the premium amount of Rs.10 per individual per year equally.

15.8 APMC ACT 1963

APMC acts run on two principles:

1. Ensure that intermediaries (and money lenders) do not compel farmers to sell their produce at the farm gate @throwaway prices=farmer is not exploited

2. All food produce should first be brought to the market yard=> sell through auction=farmers gets good money.

Under APMC Acts:

- A State is geographically divided and Market (Mandis) are established at different places within the states.
- Farmers have to sell their produce through the auction @mandi.
- To operate in Mandi, a trader has to get license.
- Wholesale, retail traders (e.g. shopping mall owner) or food processing company etc cannot buy farm output directly from farmer. They've to get it through the Mandi.

Old APMC Acts: Problems?

Membership	State APMC Market Committees have 10-17 members.Either elected or nominated by Government in accordance with provisions of the respective State A.· But in several States, regular elections of APMCs = not held.·
	 APMC board are administrated by bureaucrats. As a result1. 1. APMC bodies have lost democratic nature. 2.Bureaucrats run the show= red tapes + bribery.

	Most Mandi traders do following:
Farmers Cheated	• Even after receiving the fruit/veggies/grains, they delay
	payment to farmers for weeks and months.
	• If payment is done on spot, then trader would arbitrarily
	deduct some amount, on excuse that he has not received
	payments from the other parties.
	• To avoid tax/cess, the traders don't give sale slips to
	farmers=>Later it is difficult for farmer to prove his
	'income' to get loans from banks.
	• on an average basis the farmer is able to receive barely
	1/4th to $1/3$ rd of the final retail prices
	• Middlemen @Mandi charge commission on both seller
Double Commission	(farmer) + buyer (the urban retailer / food processor)
	• =double commission=final consumer has to pay even
	more!
	Middlemen donot pass the benefit to either side
	Middlemen donot pass the benefit to either side1. during peak season, when they buy from farmer @low
Hurting Both Sides	1. during peak season, when they buy from farmer @low
Hurting Both Sides	1. during peak season, when they buy from farmer @low prices, they don't drastically reduce the prices to final
Hurting Both Sides	 during peak season, when they buy from farmer @low prices, they don't drastically reduce the prices to final consumer.
Hurting Both Sides	 during peak season, when they buy from farmer @low prices, they don't drastically reduce the prices to final consumer. 2. during lean season, when consumers prices are high,
Hurting Both Sides	 during peak season, when they buy from farmer @low prices, they don't drastically reduce the prices to final consumer. 2. during lean season, when consumers prices are high, the farmers do not get higher returns on their produce.
	 during peak season, when they buy from farmer @low prices, they don't drastically reduce the prices to final consumer. 2. during lean season, when consumers prices are high, the farmers do not get higher returns on their produce. Middlemen have rent-seekers mentality.
Resistance To	 during peak season, when they buy from farmer @low prices, they don't drastically reduce the prices to final consumer. 2. during lean season, when consumers prices are high, the farmers do not get higher returns on their produce. Middlemen have rent-seekers mentality. They resist anything that'll increase transparency or
	 during peak season, when they buy from farmer @low prices, they don't drastically reduce the prices to final consumer. 2. during lean season, when consumers prices are high, the farmers do not get higher returns on their produce. Middlemen have rent-seekers mentality. They resist anything that'll increase transparency or reduce transaction cost and time.
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Resistance To	 during peak season, when they buy from farmer @low prices, they don't drastically reduce the prices to final consumer. 2. during lean season, when consumers prices are high, the farmers do not get higher returns on their produce. Middlemen have rent-seekers mentality. They resist anything that'll increase transparency or reduce transaction cost and time. Even when electronic auction centres were established like the Safal National Exchange in Bangalore, the

	• Middlemen have no facilities to do grading/sorting, all
No value addition	they do is pass the produce from farmer to final consumer
	and charge truckload of commission in between.
	• Thus, post-harvest losses continue to be in the range of 18
	to 40 per cent for several commodities.
	For cereal, pulses and oilseeds, government announces
	Minimum support prices (MSP). So farmers know in
	advance, what the price of their produce.
	• But for most perishables fruits/veggies, government
	doesn't declare MSP.
Price Discovery	• thus, farmers are completely dependent for price
	discovery and on intermediaries.
	• During peak production of seasonal crops, prices drop so
	drastically, the farmers can't even cover the cash expenses
	of transportation to markets, leave alone the cost of
	production.
	The licensee traders and commission agents have formed
No Auction	informal cartels @mandis. No auction takes place. Even if
	auction is held, collectively these traders keep low bidding so
	farmer never benefits.
	• Cess= tax on tax
	• In every Mandi, every transaction is subjected to market
	tax + market cess.
	• This Cess money is to be used for further development of
	Mandi infrastructure- sorting grading storage facilities
Cess	etc.
	• But money is not used for that purpose (Raja/Kalmadi-
	type elements omnipresent.)
	• As a result, fruits and veggies often get rotten due to lack
	of processing, storage facilities at the Mandi. Even the
	good produce gets contaminated due to flies and
	larvac = gastrointestinal diseases

So far we saw that original APMC Acts enacted by various states=bogus, inefficient, useless, ridiculous.

	After years of badass thuggary and inefficiency, suddenly Union agriculture
2002	ministry woke up, drafted a new Model APMC act, and asked the State
2003	governments to adopt it. (Why? Because Agriculture is a state subject. So it
	is upto the States to reform their laws)
2006	Bihar repealed its state APMC act altogether.
2012	So far only 13 states have adopted the model APMC act. (as per the reply
	given by \$haradPawar in Loksabha)

15.9 SALIENT FEATURES OF NEW MODEL APMC ACT

This new/reformed/model APMC Act of 2003 has following features:

1. Farmer doesn't need to bring his produce to APMC Mandi. He can directly sell it to whomever he wants. (Although, if he doesn't bring his produce to Mandi, then he cant run for election in that APMC marketing committee.)

2. Farmers Processors, exporters, graders, packers, etc. can buy agricultural produce directly from farmers.

3. Permits Private market yards, Direct Purchase Centers, farmers' market for doing trade in agriculture produce. (monopoly of Mandis=destroyed)

4. Public Private Partnership in the management and development of agricultural markets in the country for post-harvest handling, cold storage, pre-cooling facilities, pack houses etc.

* A separate Chapter to regulate and promote contract-farming arrangements in the country.

* Dispute resolution mechanism for contract farming.

* Prohibits commission agents in any transaction.

* establish State Agricultural Produce Marketing Standards Bureau for Grading, Standardization and Quality Certification of agricultural produce (so they can fetch higher prices in desiforeign markets).

5. Increased the responsibilities of APMC committee. They have to:* ensure complete transparency in pricing system and transactions taking place in market area;

* ensure payment for agricultural produce sold by farmers on the same day;

* promote agricultural processing + value addition

* Publish data on arrivals and rates of agricultural produce brought into the market area for sale.

* Setup and promote public private partnership in Mandi Management.

15.10 LIMITATIONS/ PROBLEMS OF MODEL APMC ACT

1. So far, Only 13 states adopted the Model APMC Act (as of 2012). Why? Because Middleman/trader lobby made truckload of cash from exploiting farmers and consumers. Part of that money given in election funding to ruling parties in States=>reforms stalled.

2. Model APMC act is not 'uniformly' adopted, states have made their own modifications. For example:

Andhra Pradesh permitted private markets but they've to pay a
license fee of Rs 50,000 and project must be min.10 cores
=discourages small farmer/trader associations from setting up
their own private markets.
Orissa has not permitted private markets for paddy/rice
Only adopted Contract farming related provisions.
Even the private markets are subjected to Mandi tax and
Mandicess.
Madhya Pradesh abolished commission agent system but some
other states didn't adopt this provision of model
• Repealed its APMC act in 2006.
• Now, SDM is in-charge of the unregulated markets
• No market fee are charged from the farmers But other
charges for loading/unloading/Hamal charges are vogue
• Yet to amend its APMC Act.
• Mamata opposing the concept of contract farming on the
premise that it could <i>jeopardise</i> farmers' interests.

Additional Suggestions to reform APMC:

These were made by committees of planning commission, inter-ministerial groups etc.

Remove	Horticulture should be specifically excluded from definitions of	
Horticulture	APMC. Because these Mandis are main culprits for inflation and	
	wastage of fruits and veggies.	
E-Auction	All APMCs Mandis should introduce electronic auction platform	
Membership	Open membership of APMC's by encouraging wholesalers and	
	retailers to enter into transactions with the growers.	
No License	 Anyone should be allowed to trade in APMC market. Licensing system should be abolished. The APMC Market Committee should only fix the transaction fee and keep a Bank Guarantee from traders to ensure that the farmers' payment is not affected. 	
No Cess/ tax	All the taxes/cess levied in APMC Mandis should be abolished.	

15.11 CONTRACT FARMING

Contract farming is defined as a forward agreement between farmers and buyers.

Buyer: * Agrees to buy produce from farmer @predetermined price.

* Usually provides inputs (Seeds, fertilizers, pesticides), technology and production practices so that final produce meets his desired quality.

Farmer: Agrees to grow and supply the produce to the buyer @ predetermined quality, quantity and prices.

Contract farming is prevalent only in those states, where the APMC acts are favorable for private player e.g. Andhra Pradesh, Himachal Pradesh, Madhya Pradesh, Maharashtra who adopted the model APMC Act.

State	Farm Produce	Area under contract farming (acres)
Punjab	Potato, Tomato, Chilli	6000

	Basmati, Maize	400
	Soyabean	1200
Karnataka	Ashwagandha	700
Madhya Pradesh	Wheat	15,000

Below APMC – Mandi market:

- Below the Mandi markets, there are primary assembly markets such as village-bazaar, weekly haat in tribal areas etc.
- There is wide variation in their governance. Some states run them under Panchayati Raj institutions, some states put them under supervision of district administration.
- Condition of cattle markets and fish markets are even worse. Most of them do not have even basic amenities like sheds, sanitation or drinking water.
- Immediate reforms/upgrades necessary in all these markets.

Direct Sale/ Cooperative markets:

Long before the circulation of Model Act (2003), several States had promoted Farmer's Market. Example:

Rythu Bazar:

- By Andhra government in '99.
- to eliminate middlemen.
- to help farmers directly sell their produce to customers.
- Every farmer in the Rythu bazaar sells his produce as a retailer.

Virtual Markets:

• Example of such virtual markets= Future exchange, Spot Exchange, Warehouse Receipt System and Web Marketing.

• In India, the Multi Commodity Exchange (MCX) and the National Commodity Derivatives Exchange (NCDEX) are the two biggest players in the agro-futures market.

NCDEX	• Setup an e-mandi (online wholesale market).	
	• Farmer will first deposit his produce to a NCDEX nominated	
	warehouse, gets receipt.	
	• This receipt can be traded by the participant on the e-mandi	
	across the country.	
MCX	• Working on similar project like above, with help of Yes	
	bank.	
	• MCX online portal for commodity trading also available in	
	regional languages to help non-English speaking farmers.	

15.12 ITC E-CHOUPAL

In 2001, ITC (India Tobacco Company Limited) started small internet kiosks at the village level. Provides following:

- 1. direct procurement framework
- 2. Real time market information related to prices
- 3. Availability of inputs: seeds / fertilizers, their prices
- 4. scientific farm practices
- 5. weather, monsoon data
- 6. Dispute resolution between the company and the farmers.

Coverage	More than
Farmers	4 million
Villagers	40,000
Kiosks	6,000

Thanks to ITC's e-Choupal, farmers' income increased by 10-15% (compared to earlier when they relied on middlemen @mandi).

US	Single regulator: Food and Drug Administration (FDA).	
UK	Food standard agency (FSA) is the single authority for	
	formulating all food laws.	
Aus + NZ	Australia and New Zealand have a common single regulator	
	known as "Food Standards – Australia New Zealand.	
India	Totally awesome: just check the list of overlapping and	
	outdated laws	
	1. Prevention of Food Adulteration Act 1954 (PFA)	
	2. Essential Commodities Act 1955 (ECA)	
	3. Vegetable oils, De-oiled meal and edible flour control	
	order, 1967 (VPO)	
	4. Fruit Product Order, 1955 (FPO)	
	5. Meat Food Products Order, 1973 (MFPO),	
	6. Milk and Milk Products Order, 1992 (MMPO)	
	7. Agricultural Produce (Grading and Marketing) Act 1937	
	8. Bureau of Indian Standards, 1986	
	9. Standards and Weights Measure Act, 1976	
	Export (Quality Control and Inspection) Act, 1963	

Single Food Regulator:

In 2006, after sleeping for decades, Government enacted Food Safety and Standards Authority of India (FSSAI) Act to provide for a single food law regulator, and repealed those outdated acts. But until then, for so many years, those old laws did not allow Indian food processing industry to grow. How?

Problem with overlapping laws:

1. Many ministries deal with food laws = multiple bodies which set food standards = ambiguity, confusion for consumers, traders and manufacturers.

2. Very few standards developed for raw agricultural produce.3. They dealt only with physical parameters of size, colour and farm impurities. But not on microbiological and toxicological characteristics (which are necessary for export to US/EU).

4. Food laws are often inconsistent and contradicting each other. e.g. Emulsifiers and Stabilizers are permitted for use in Jams, Marmalade & Fruit Chutney under PFA but not under FPO.

5. In many cases, where one standard is more stringent than the other. Then foodentrepreneur would adopt the more stringent standard in order to prevent potential penalization and bribe harassment by food inspectors. For example, FPO allows use of artificial sweeteners in certain fruit products whereas PFA does not. Hence, the industry avoids using artificial sweeteners altogether.

15.13 FSSAI ACT 2006

Some of the important features of FSSAI act 2006 is as follows:

- Established a statutory body The Food Safety and Standards Authority of India (FSSAI)
 @Delhi Under the Administrative control of Ministry of Health & Family Welfare
- Repealed various outdated central Acts viz.
- o Prevention of Food Adulteration Act (PFA)

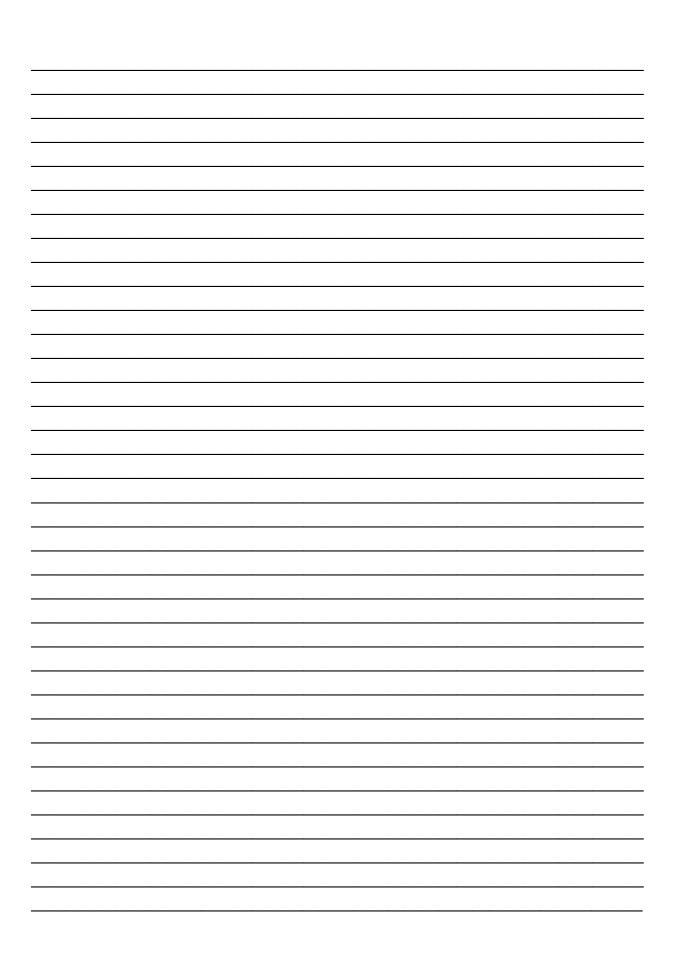
o Various "Orders" by Central Ministries e.g. Fruit Product Order (FPO), Meat Food Products Order. Milk and Milk Products Order, Vegetable oil, Edible flour Order etc.

• FASSAI made responsible for:

	Scientific Food standards: frame them, enforce them	
	• Regulate the manufacture, import, processing, distribution,	
	and sale of food.	
Guidelines	• Make Guidelines for accreditation of food laboratories,	
	food safety management bodies.	
	• International technical standards for food, sanitary and	
	phyto-sanitary standards (SPS)	
	Scientific advice and technical support to Central Government	
Advisory	and State Governments food safety and nutrition related	
	policies and rules.	

Survey	Collect Data on food consumption, food contamination, biological risk etc.	
Networking	 Create information network across the country to connect public, consumers, Panchayats etc. Provide them rapid, reliable and objective information about food safety Rapid alert system for food contamination and biological risk. Promote general awareness about food safety and food standards. 	
HRD	Training to people involved in food business	

15.14 NOTES



15.15 KEY WORDS

Infrastructure

Lifestyle

Socio- cultural

15.16 SUMMARY

In this unit, we have learnt about regulated market, ant its features, advantages and disadvantages. We have also leant about area of creation, methods of sales, and functions of regulated market.

15.17 SELFASSESSMENT QUESTIONS

- 1. What is regulated market?
- 2. Explain the functions of regulated market
- 3. Discuss the advantages and disadvantages of regulated market

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UNIT 16: STANDARDIZATION AND GRADING OF AGRICULTURALANDALLIED PRODUCE:

Structure:

- 13.0 Objectives
- 16.1 Introduction
- 16.2 Formulation of grade standards
- 16.3 Grading of Agricultural Commodities
- 16.4 Network of Agmark Laboratories
- 16.5 Marketing Research surveys and Planning
- 16.6 Research Grants
- 16.7 Agricultural Marketing Reforms
- 16.8 Marketing Research and Information Network
- 16.9 Promotion of Cold Storage
- 16.10 Gramin Bhandaran Yojan
- 16.11 Development of Agricultural Marketing Infrastructure Grading & Standardisation
- 16.12 Training in Agricultural Marketing
- 16.13Quality Control
- 16.14 Quality Control Process
- 16.15 Quality Control Characteristics
- 16.16 Food Laws and Regulation
- 16.17 Functions of FSSAI
- 16.18 Bureau of Indian Standards (BIS)
- 16.19 Media in Rural Marketing

- 16.20 Selecting the Media Mix
- 16.21 Case Study
- 16.22 Notes
- 16.23 Key Words
- 16.24 Summary
- 16.25 Self Assessment Questions
- 16.26 References

16.0 OBJECTIVES

After studying this unit, you should be able to;

- Explain Standardization and Grading of Agriculture
- Discuss the process of Market Research
- Explain Agricultural Marketing Reforms
- Highlights the factors for Development of Agricultural Marketing Infrastructure
- Define Quality Control

16.1 INTRODUCTION

Quality standards for agricultural commodities are framed based on their intrinsic quality. Food safety factors are being incorporated in the standards to compete in World trade. Standards are being harmonized with international standards keeping in view the WTO requirements. Certification of agricultural commodities is carried out for the benefit of producer/manufacturer and consumer. Certification of adulteration prone commodities viz. Butter, Ghee, Vegetable Oils, Ground-Spices, Honey, Wheat Atta etc. is very popular. Blended Edible Vegetable Oils and Fat Spread are compulsorily required to be certified under Agmark.

The Certification mark under the Agricultural Produce (Grading & Marking) Act is popularly known as "AGMARK". Grading is carried out in accordance with the standards notified, following meticulous procedure of sampling, testing, packaging, marking and sealing as per the instructions issued under the Act and Rules.

16.2 FORMULATION OF GRADE STANDARDS

Agricultural Produce (Grading & Marking) Act, 1937 empowers the Central Government to frame grade standards for agricultural produce. The DMI has formulated Agmark standards for 181 agricultural and allied commodities. Standards framed under the provisions of the Act are popularly known as AGMARK standards. The standards are framed in a scientific manner. A sampling plan is first drawn for collecting adequate number of representative samples of the concerned commodity from different producing areas and assembling centers over a period of time. These samples are analyzed in various Regional Agmark Laboratories for various physical and chemical parameters. On the basis of analytical data generated, grade standards are formulated keeping in view the standards framed under the provisions of the Prevention of Food Adulteration Act, 1954.

16.3 GRADING OF AGRICULTURAL COMMODITIES

The grading activities are directed specifically for the benefit of farmers and consumers, while they also help the traders in efficient movement of the produce from the producers to the consumers. Promotion of standardization and grading of agricultural and allied produce is one of the important activities of the Directorate of Marketing & Inspection. The Directorate promotes standardization and grading and implements scheme of certification of agricultural and allied products for orderly marketing under the provisions of Agricultural Produce (Grading & Marking) Act, 1937 as amended in 1986. The Certification mark under the Act is popularly known as 'AGMARK'. Grading is carried out in accordance with the standards notified, following meticulous procedure of sampling, testing, packaging, marking and sealing as per the instructions issued under the provisions of the Act and Rules. It serves as a means of describing the quality of commodities to be purchased or sold by the buyers or sellers all over the country and abroad. This establishes a common trade language and avoids the need for physical checking and handling at many points. The system of grading and certification benefits both the sellers and buyers in view of the fact that the producer gets price commensurate with the quality produced by him and consumer gets a quality product. Grading and certification activities can be broadly classified into -

- (i) Grading for Internal Trade
- (ii) Grading for Export
- (iii) Grading at Producers' level.

Grading for Internal Trade:

Grading of agricultural commodities for internal trade is voluntary in nature and is carried out under the provisions of Agricultural Produce (Grading & Marking) Act, 1937. However, as per provision in Prevention of Food Adulteration Rules, 1955 certification of blended edible vegetable oils and fat spread is compulsory under Agmark for internal trade. The commodities graded under 'AGMARK' for internal trade are classified into two groups; viz. decentralized commodities and centralized commodities. Decentralised commodities include those items which do not require elaborate testing facilities. Assessment of their purity and determination of grade is mostly done on the basis of physical factors or relatively simple tests. Decentralised commodities include wheat, rice and other cereals, oilseeds, edible nuts, fibre crops, fruit and vegetables etc. This programme is being implemented through the Marketing Departments of the concerned State Governments under the guidance of the Directorate of Marketing and Inspection. Certain powers such as renewal of Certificate of Authorisation, drawl of check samples, etc. under the provisions of General Grading & Marking Rules, 1988 have also been delegated to Officers of States/ UTs. for grading of decentralized commodities.

The commodities which require elaborate testing arrangements for assessment of quality and determination of grade, are classified as centralised commodities. These include ghee, butter, vegetable oils, oil cakes, powdered spices, honey, wheat Atta, Besan etc. These require elaborate testing for chemical parameters. The commodities are tested by the authorized packers in primary grading laboratories for various prescribed parameters and grades are assigned as per the analytical results. Packers/ manufacturers who can not establish their own laboratories because of cost involved and recurring expenditure, get themselves attached with State Grading Laboratories (SGLs)/ cooperative/ commercial laboratories.

Grading for Export:

The Export (Quality Control & Inspection) Act, 1963 is administered by the Ministry of Commerce. The Act empowers the Government to

- Notify commodities which will be subject to quality control and/or inspection prior to export,
- Establish standards of quality for such notified commodities, and
- Specify the type of quality control and/or inspection to be applied to such commodities.

In view of economic reforms initiated by the Government of India in early 1990s, the operation of compulsory quality control and inspection for export commodities had been simplified. The following steps initiated at the time continued to be operative.

- State Trading Houses, Trading Houses, Export Houses as well as Industrial Units in Export Processing Zones and 100% Export Oriented Units have been exempted from the purview of compulsory pre shipment Inspection.
- Units approved by EIAs under the system of In-process Quality Control (IPQC) have been authorized to issue statutory certificates by themselves.
- Items which were hitherto subjected to compulsory pre shipment inspection have been exempted from the same, provided the exporter has a firm letter from the overseas buyer stating that the overseas buyer does not require pre shipment inspection from any official Indian inspection agencies.

Fish and fishery products, honey, egg products, milk and milk products, black pepper for USA, Basmati rice for EU have been notified for compulsory pre shipment inspection and certification.

DMI has attended to certification of grapes during this year from different centers in Maharashtra, Andhra Pradesh and Karnataka.

Grading at Producers' Level:

For securing adequate return to the producer-sellers, a scheme of Grading at the Producers' Level by establishing grading units in Regulated markets and Marketing Cooperatives was introduced. The main objective of the scheme is to subject the produce to simple tests, and assign a grade before it is offered for sale. Grading helps the producer to get price commensurate with the quality of his produce. Cereals, pulses, oilseeds, spices, fruit and vegetables, fibres, arecanut, coconut and tobacco are some of the important commodities graded under this programme. The scheme is being implemented by the States/UTs.

16.4 NETWORK OF AGMARK LABORATORIES

Directorate of Marketing & Inspection has set up 13 Regional Agmark Laboratories (RALs) spread all over the country with Central Agmark Laboratory at Nagpur as the apex laboratory. These RALs have the mandate to;

(i) Analyse research samples of agricultural commodities for framing their standards

and

(ii) Analyse check samples drawn under Agmark Certification Programme.

16.5 MARKETING RESEARCH, SURVEYS AND PLANNING

Right from its inception, DMI has been undertaking commodity marketing surveys and in-depth studies of marketing system in respect of various agricultural commodities in the country. Problem-oriented studies are also undertaken and technical guidance is rendered to State Governments.

Market Research and Planning:

At the outset guidelines, questionnaires/ schedules and synopses are prepared and issued to field offices for collection of data. The field surveys are conducted at the important centres spread over the entire country. The analysis and interpretation of data is done by using percentage indices, averages, variance, standard deviation correlation, regression trends

and forecasting tools/ techniques. The report is prepared in an organized form which includes introduction, methodology, findings, summary, conclusion and recommendation. Based on these studies/ surveys, a large number of marketing reports have been published by the Directorate. These reports help planners and policy makers to formulate various schemes/ programmes from time to time for development of agricultural marketing system in the country. The important suggestions/ recommendations are also made on the basis of findings of these reports for the benefits of agriculturists, agri-business dealers and consumers.

Marketable Surplus and Post-Harvest Losses:

The Directorate is also implementing a scheme for Estimation of Marketable Surplus and Post-Harvest Losses of Foodgrains. It aims at finding out the quantum of marketable surplus and post-harvest losses to pin point the causes of losses and to suggest remedial measures, besides generating data for various user agencies.

16.6 RESEARCH GRANTS

With a view to attract private and autonomous sector talent, the DMI has provided Research Grants to eminent scholars, institutions for undertaking research studies to identify specific problems & constraints in various areas of agricultural marketing and suggest remedial The financial assistance was provided in the form of grant-in-aid. 33 such projects were sanctioned. Out of them reports on 32 projects have been received and published.

Under the Xth Five Year Plan the three schemes i) Market Information Network ii) Marketable Surplus and Post-harvest Losses of Foodgrains and iii) Research Grants Scheme have been amalgamated under one scheme namely "Market Research and Information Network". Under the new scheme the Directorate has undertaken the preparation of following commodity profiles:

- i) Post harvest profile of Paddy/ Rice
- ii) Post harvest profile of Red Gram
- iii) Post harvest profile of Bengal Gram
- iv) Post harvest profile of Soyabean
- v) Post harvest profile of Mustard-Rape seed
- vi) Post harvest profile of Wheat
- vii) Post harvest profile of Groundnut

Out of these profiles **Paddy**/**Rice**, **Bengal Gram**, **Soyabean**, **Red Gram and Mustard- Rape seed** have been uploaded on Agmark net portal and are in public domain can be accessed from<u>www.agmarknet.nic.in</u>.

16.7 AGRICULTURAL MARKETING REFORMS

i) Model Act on Agricultural Marketing: This Ministry has formulated a 'Model Act' on agricultural marketing in order to assist the States in removing barriers, whether legal or policy induced, which introduce inefficiencies and monopoly rents in the functioning of agricultural markets. The Model Act enables any person, grower or local authority to establish new markets in any area, removes compulsion on growers to sell their produce through existing regulated markets, allows establishment of direct purchase centers and Farmers Markets for direct sale, promote Public Private Partnership in management and development of markets, establish Special markets for commodities like Onions, Fruits, Vegetables, Flowers etc.

ii) Contract Farming: In the wake of economic liberalization, the concept of contract farming in which national or multinational companies enter into contracts for marketing of agricultural and horticultural produce and also provide technologies and capital to contract farmers has gained importance.

Model specifications of contract farming agreement and supporting legislation requiring amendment to the State Acts dealing with agricultural marketing has been formulated and the same sent to State Governments/ UTs for necessary action.

16.8 MARKETING RESEARCH AND INFORMATION NETWORK

4.1 The Marketing Research and Information Network Scheme viz. AGMARKNET is being implemented by the Department for electronic networking of agricultural produce wholesale markets in the country for collection and dissemination of price and market related information. The scheme was launched in the year 2000-01.

Price related Information: Information on price of agricultural commodities is collected by Auction Officers in the mandi through the process of auction that takes place from early in the morning and goes up to lunchtime. The data is usually sent by e-mail from the mandi in the afternoon indicating the day's minimum price of the commodity, the maximum price and the modal price, i.e. the price at which the maximum sales have taken place. The quantity of arrivals is also reported. E-mail from all the markets are compiled in the DMI/NIC Headquarter and after verification uploaded on the portal. Information on the portal is in

public domain and can be accessed freely. As on date, price information in respect of more than 300 commodities and 2000 varieties are reported on the portal.

Market related information: In addition to price, several other markets related information is provided on the portal. These relate to accepted standards of grades, labeling, sanitary and phyto-sanitary requirements, physical infrastructure of storage and warehousing, marketing laws, fees payable etc. Efforts are on to prepare a national atlas of agricultural markets on a GIS Platform that would indicate the availability of entire marketing infrastructure in the country including storage, cold storage, markets and related infrastructure. Similarly commodity profiles indicating the post harvest requirements of important commodities in terms of quality, packing, standards, etc. are being loaded on to the portal. Commodities already covered include Rice, Bengal Gram, Red Gram and Mustard/Rapeseed.

Establishment of Computing and Networking Facilities:

Each market node is provided with a Personal Computer, a printer, a UPS system for power backup and a modem. The markets are connected to internet through dial-up modem. The State Marketing Boards/ Directorates and Directorate of Marketing and Inspection (DMI) offices spread all over the country have also been connected. V-SAT based communication system has been established at DMI Headquarters, Faridabad to facilitate co-ordination with several participating markets.

Development of Human Resource:

About 1500 officials of the market committees have been provided necessary IT training under the project so far covering the basic operations of computers, application software for data entry and usage of internet and e-mail. The training has been conducted with the support of NIC state/district units. Wherever necessary, onsite training has also been arranged. Refresher training programmes have also been conducted wherever required.

Application and Database Development:

A market level application software AGMARK has been developed to facilitate data entry of prices and arrivals, local database creation and information transmission. A comprehensive national database has been developed. The database is growing exponentially with daily prices and arrivals information being received from markets spread all over the country. Weekly and Monthly National price bulletins are being generated using the database.

Data is received from markets through e-mail in the form of structured attachments generated through the AGMARK software. The text files are automatically uploaded (through a software module) onto the web enabled national database, after verification by DMI, twice

a day (in the afternoon and evening) except on market/ public holidays. About 770 markets are reporting data to the portal.

Portal on Market Information:

A portal has been developed to facilitate dissemination of market-wise prices of various commodities and other agricultural marketing related information as a single window service. The portal has linkage with various organizations concerned with agricultural marketing. Any market can now easily access prices of other markets through the agmarknet portal. The farmers visiting the markets can be timely informed by the market officials about prevailing prices in other markets. The portal provides access to daily, future, minimum support prices and international commodity prices from FAO website. The quantity of arrivals is also reported.

In addition to prices, several other markets related information as mentioned earlier is being provided on the portal. The portal is constantly being enriched. An e-directory of markets is gradually being evolved over the portal. Information on prices and arrivals is now accessible in Hindi, Gurumukhi and Telugu, besides English. Efforts are on to facilitate dissemination in other major local languages also. The commodity prices and arrivals information available on portals of Karnataka, Andhra Pradesh and Maharashtra are also integrated with AGMARKNET portal.

16.9 PROMOTION OF COLD STORAGE

For preservation of perishable produce like fruits and vegetables, cold storages and cold chain linkage play an important role for increasing the shelf life of produce. For proper development of cold storages and ensuring proper refrigeration condition two pronged approach was adopted through Regulation and Promotional activities. During 1997, the regulation aspect was discontinued to attract more private investment in cold storage industry. In 1999, on the recommendation of the High Level Expert Committee on storage and cold storage a capital investment subsidy scheme for construction/ expansion/ modernization of cold storage was introduced. Fund is released by National Horticulture Board through NABARD.

16.10 GRAMIN BHANDARAN YOJNA

1. It is a capital investment subsidy scheme for construction/renovation of rural godowns. It was introduced on 2001 - 2002 and extended upto 30^{th} September, 2004. It has now been extended till 31^{st} March, 2007. The main objectives of the scheme include creation of

scientific storage capacity with allied facilities in rural areas to meet out various requirements of farmers for storing farm produce, processed farm produce, agricultural inputs, etc., and prevention of distress by creating the facility of pledge loan and marketing credit.

2. The project for construction of rural godowns can be taken up by individuals, farmers, Group of farmers, growers, partnership/ proprietory firms non-Government organizations(NGOs), self-help Groups, Companies, Corporations, Cooperatives, Federations, Agricultural Produce Marketing Committees, Marketing Boards and Agroprocessing Corporations in the entire country. Assistance for renovation of rural godowns will however, be restricted to godowns constructed by cooperatives only.

3. Promoters will submit the project proposals for term loan and subsidy to Bank on application form as prescribed by the concerned Bank along with project report and other documents for appraisal and sanction of loan. A copy of the proposal shall also be endorsed by the promoter to Sub-Office/ Regional Office of DMI.

4. Bank after appraisal and sanctioning of project and disbursal of first installment of loan will furnish a brief project profile-cum-claim form for advance subsidy along with a copy of bank's sanction letter to NABARD with a copy to the Sub-Office/ Regional Office of DMI.

5. NABARD on receipt of project-profile-cum-claim from the participating bank, will sanction and release 50% advance subsidy to the participating Bank for keeping the same in the subsidy Reserve Fund Account. NABARD will provide a copy of the claim to the Head Office of DMI project-wise for replenishment or adjustment against advance subsidy provided by DMI to NABARD. The release of subsidy by NABARD will be subject to availability of funds from DMI.

6. When the project is complete, the promoter will inform the bank which will initiate action for inspection by Joint Inspection Committee consisting of officials from Bank, NABARD and DMI to ensure that the rural godown confirms to approve technical and financial parameters.

7. Under the scheme, subsidy @ 25% will be given to all categories of farmers, Agriculture graduates, cooperatives & CWC/ SWCs. All other categories of individuals companies and corporations would be given subsidy @ 15% of the project cost. In case of NE States/hilly areas & SC/ST entrepreneurs and their cooperatives, subsidy shall be 33.33%.

8. Out of 9483 godowns sanctioned so far, 335 godowns are in public sector, 2376 are in farmers cooperative, 5050 godowns belong to farmers and 1722 godowns are owned by others like traders, companies, etc.

16.11 DEVELOPMENT OF AGRICULTURAL MARKETING INFRASTRUCTURE, GRADING & STANDARDISATION

1. With a view to attract large private investment in agriculture, a new scheme has been launched in October 2004 with a Central outlay of Rs.190 crores during Xth Five Year Plan to develop marketing infrastructure in the country to cater to the post-harvest requirement of production and marketable surplus of various farm products. A provision of Rs.70 crore has been made in the budget during 2005-06 for implementation of the Scheme. This scheme is reform linked and assistance for development of infrastructure projects will be provided in those States/ Union Territories which permit setting up of agricultural markets in private and cooperative sectors and allow direct marketing and contract farming.

2 The main objectives of the scheme are to provide additional agricultural marketing infrastructure to cope up with the large expected marketable surpluses of agricultural and allied commodities including dairy, poultry, fishery, livestock and minor forest produce; to promote competitive alternative agricultural marketing infrastructure by inducement of private and cooperative sector investments; to promote direct marketing through reduction in intermediaries and handling channels thus enhancing farmers' income; and to provide infrastructure facilities for grading, standardization.

3 The Rate of subsidy under the scheme is 25% of the capital cost of the project. In case of North Eastern States, hilly and tribal areas and to entrepreneurs belonging to Scheduled Caste (SC)/ Scheduled Tribe (ST) and their cooperatives, the rate of subsidy is 33.33%. Maximum amount of subsidy shall be restricted to Rs.50 lakh for each project. In the case of North Eastern States, hilly and tribal areas and to entrepreneurs belonging to SC/ST and their cooperatives, maximum amount of subsidy shall be Rs.60 lakh for each project. In respect of infrastructure projects of State Agencies, there will be no upper ceiling on subsidy to be provided under the scheme. The assistance is available to individuals, Group of farmers/ growers/ consumers, Partnership/Proprietary firms, Non-Government Organizations, Self Help Groups, Companies, Corporations, Cooperatives, Cooperative Marketing Federations, Local Bodies, Agricultural Produce Market Committees & Marketing Boards in the entire country. Subsidy for the projects under the scheme shall be released through National Bank for Agriculture & Rural Development for projects financed by the Commercial, Cooperative and Regional Rural Banks, Agricultural Development Finance Companies, scheduled Primary Cooperative Banks, North Eastern Development Financial Corporation and other institutions eligible for refinance from National Bank for Agriculture & Rural Development and through National Cooperative Development Corporation for projects financed by them or by Cooperative Banks recognized by the Corporation in accordance with its eligibility guidelines.

4 Under the scheme the targets for Xth Five year Plan are (i) to develop 1436 number of new marketing infrastructure projects with central assistance of Rs.74.40 crores, (ii) to upgrade/ modernize 49 wholesale markets with central assistance of Rs.25.30 crores and (iii) to upgrade/ modernize 1454 rural primary markets/ apnimandies with central assistance of Rs.75.30 crores. The annual targets for the year 2005-06 are (i) to develop 528 number of new marketing infrastructure projects with central assistance of Rs.27.37 crores, (ii) to upgrade/ modernize 21 wholesale markets with central assistance of Rs.10.80 crores, and (iii) to upgrade/ modernize 558 number of rural primary markets/ apnimandies with a central assistance of Rs.28.80 crores. Besides this, modernization/ accreditation of three Agmark laboratories namely Central Agmark Laboratory, Nagpur, Regional Agmark Laboratories at New Delhi and Mumbai with National Accreditation Board for Testing & Calibration Laboratories has been proposed to be completed by the year ending 2005-06, while other six Regional Agmark Laboratories are to be modernized and accredited during the next year with central allocation of Rs.10 crores.

5 Since the scheme is reform linked, it has so far been implemented in those States/UTs which have introduced reform measures by allowing direct marketing, contract farming and setting up of markets in private and cooperative sectors. These states are Madhya Pradesh, Tamil Nadu, Kerala, Manipur, Andaman & Nicobar Islands, Himachal Pradesh, Punjab, Andhra Pradesh, Sikkim and Nagaland. Sensitization programmes have been conducted in the States of Madhya Pradesh (dated 22ndFeb, 05), Tamil Nadu (dated 4th March, 05), Kerala (dated 9th March, 05), Manipur (dated 22nd March, 05) and Andaman & Nicobar Islands (dated 9th April, 05). In addition, Bankers/ Cooperatives level programmes have also been organized in Kerala on 26th & 27th May, 2005.

16.12. TRAINING IN AGRICULTURAL MARKETING

For efficient marketing of agricultural produce, one of the important steps to be taken is to train the adequate manpower in the requisite skill. The Directorate of Marketing & Inspection is the pioneering institution to offer training programmes in agricultural marketing. In the context of ever emerging marketing problems and liberalization of agricultural trade under WTO regime, the training component requires strengthening with pointedly emphasis on (a) efficient management of regulated markets, (b) continuous improvement in quality of farm produce (c) modernization of marketing information system (d) efficient dissemination of recent technique in marketing to the farmers (e) promotion of direct marketing modals (f) scientific grading and storage of farm produce (g) promotion of post harvest technology amongst farmers and other marketing functionaries for reducing quantitative and qualitative losses. Needless to mention that the aforementioned aspects are attainable only through strengthening of agricultural marketing training service for sustained development of human resources to up-date their technical know-how and skill in the multi-disciplinary area of agri-marketing. It may be pertinent to mention here that the services of agri-marketing personnel trained by the Directorate of Marketing & Inspection are utilized by the various State Agricultural Marketing Boards/ Departments for training of farmers in various aspects of agricultural marketing. The Major training Programme organized by DMI are:

1. Diploma Course in Agricultural Marketing:

The training programme, is of six month duration is meant for middle level officers of State Governments for preparing multi-purposed specialist in order to improve their technical and managerial efficiency for successful implementation of marketing development programmes.

2. Market secretaries training course:

With a view to provide suitable manpower to the State Agricultural Marketing Department for effective implementation of various APMC Acts, this programme is being organized at Hyderabad and Lucknow.

3. Grading Supervisors Course:

In order to supervise grading of various agriculture commodities at producers' level, this specialized training programme of 45 days duration is conducted at Nagpur.

4. Market Intelligence and News Service Course:

With a view to improve and strengthen the market intelligence and new services in India, a short term training programme is being organized at Nagpur.

5. Market Extension Service Course:

In order to develop suitable human resources in the area of Market Extension methodology to facilitate effective dissemination to improve techniques of marketing and other related functions to the producers and inculcate consumers education and awareness about Agmark, a short term training programme is being conducted at Nagpur. **SPECIAL STATE LEVEL CAPSULE TRAINING PROGRAMMES:** In response to the requests received from the State Agriculture Marketing Boards/Departments specialized need based capsule training programmes are being organized by DMI.

MARKETING EXTENSION:

Marketing extension is a continuous process to disseminate all relevant information to the farmers, traders and consumers about various measures taken for improvement of marketing system so that they may all derive the benefits flowing from such measures. During the Third Five Year Plan, a small extension cell was set up in the DMI. The Directorate undertakes extension and publicity activities to educate producers, traders and consumers. Agmark quality programmes as well as improvements in marketing practices and procedures are given vide publicity through mass media. The information is disseminated through documentaries, cinema slides, printed literatures, exhibitions, conferences, seminars and workshops. The Directorate participates in national and international exhibitions. It also organizes exhibitions of its own to create awareness about Agmark and to popularize it.

(ii <u>The powers and duties of its Officers and Employees</u>:

The following Powers have been delegated to the in-charge of Regional Offices / Sub-offices of the DMI under GGM Rules 1988:-

- (i) Grant of Certificate of Authorization for grading and marking of an article in accordance with the provisions of the Rule made under the Act;
- (ii) a) Access to the premises named in the certificate of authorization for ascertaining that marking is correctly performed.
 - b) Examination of the record of the package marked with each grade designation maintained by the authorized packers.
 - c) Inspection of any package bearing a grade designation mark.
 - d) Cancellation or removal of grade designation mark from any produce, if it is found not to comply with the definition of quality prescribed for the grade designation assigned.
 - (iii) Renewal of the Certificate of Authorization in respect of export grading and centralized grading;
 - (iv) Recording changes in the name, style or address of the authorized packer and change of authorized premises in the Certificate of Authorisation.

- (v) Suspension or cancellation of any Certificate of Authorization, if he is satisfied:-
 - (a) That the authorized packer has not applied, the grade designation marks correctly; or
 - (b) That the authorized packer has contravened any of the provisions of the Act; or

(c) That the authorized packer has violated any Rule provisions of the Act or has failed to comply with any of the instructions issued under the(vi) Approval of the Laboratory set up by the packer for grading and marking.

- (vii) Withdrawal of the approval of the laboratories, if there is sufficient reasons to believe that the Grading and Marking is not done correctly.
- (viii) Approval of the chemist appointed by the packer.
- (ix) Withdrawal of the approval accorded to the chemist for grading and marking of an article under provisions of the Agricultural Produce (Grading and Marking) Act, 1937, if the chemist has failed to comply with the instructions or violated any Rule.
- (x) Grant of permission for use of "Agmark replica" in lieu of Agmark labels to the authorized packers;
- (xi) Withhold or withdrawal of the issue or use of grade designation marks.
- (xii) To call for information, report or return in respect of any of the scheduled; articles from the authorized packers
- (xiii) Issue of certificate of Agmark grading in prescribed form, for export Consignment.
- (xiv) To endorse Certificate of Agmark Grading in favor of the exporter who is not an authorized packer.
- (xv) To direct the concern authorized packer and or the seller of graded product, as May be decided for free of cost replacement of the product to the Complainant with in 30days of the issue of such direction.

The following Powers have been delegated to the In-charge of the Sub-offices of the DMI under GGM Rules 1988:-

- (i) a) To have access to the premises named in the certificate of authorization for ascertaining that marking is correctly performed.
 - b) To examine the record of the package marked with each grade designation maintained by the authorized packers

- c) To take samples of any graded produce or to open and inspect any package bearing a grade designation mark.
- d) To cancel or remove a grade designation mark from any produce, should such produce be found not to comply with the definition of quality prescribed for the grade designation assigned.
- (ii) To call for information, report or return in respect of any of the scheduled articles from the authorized packers;
- (iii) To issue certificate of Agmark grading in prescribed form, for export consignment of a scheduled article graded and marked under the provision of the Act;
- (iv) To endorse Certificate of Agmark Grading in favor of the exporter who is not an authorized packer.

The powers have been delegated to designated officers of the State Marketing Department / Union Territory:-

- (i) To receive the application for grant of Certificate of Authorization for domestic grading;
- (ii) To arrange for verification of bona fides of the applicant and inspection of the premises Laboratory, processing units and to recommend grant of C.A. for domestic grading;
- (iii) To renew the certificate of Authorization in respect of de-centralized grading;
- (iv) To recommend approval of private commercial laboratory for Agmark grading;
- (v) To recommend approval of private commercial laboratory for Agmark grading;
- (vi) To withhold issue or use of grade designation marks in respect of de-centralized grading;
- (vii) To obtain information, report, return in respect of any of the Scheduled articles;
- (viii) To inspect the authorized grading premises and to ascertain that grading and marking of de-centralized commodities is correctly performed;
- (ix) To examine the record maintained by the authorized packers of de-centralized grading;
- (x) To open and inspect any package bearing grade designation mark and to take samples of any graded produce provided all samples shall be paid for;
- (xi) To cancel or to remove the grade designation mark from any graded article covered under decentralized grading if found not conforming to the prescribed grade specifications.

Commodity Coverage : 213 Number.

Quality Grading and Certification for :

- ♦ Export
- Domestic Trade

Farm Level Grading :

- Grading at Producer's Level.
- Quality Certification Mark : AGMARK

Acts as : Third Party Guarantee to Quality Certified.

Legal Backup : Agricultural Produce(Grading and Marking) Act, 1937 as ammended in 1986.

- Agricultural Produce Grading and Marking Act, 1937 English Hindi.
- Schedule Appended to AP (G&M) Act 1937.
- General Grading and Marking Rules, 1988.
- Commodity Grading and Marking Rules.
- List of commodities for which Agmark Grade Standards have been formulated and notified under the Agricultural Produce (G&M) Act 1937.
- Organic Certification.
- Manual on Standards of Paddy.
- Manual on Standards of Wheat.
- Manual on Standards of Maize.
- Manual on Standards of Mustard and Rapeseed.
- Delegation of powers to ROs and SOs of DMI.

AGMARK STANDARDS:

- Pulses English Hindi
- Cereals, 1966
- Cereals, 2000 English Hindi
- Essential Oils
- Makhana English Hindi

- Vegetable Oils English Hindi
- Fruits and Vegetables Grading and Marking Rules, 2004
- Fruits and Vegetables Grading and Marking (Amendment) Rules, 2007
- Fruits and Vegetables Grading and Marking (Amendment) Rules,2010 English Hindi
- Fruits and Vegetables Grading and Marking Rules, 2012
- Roasted Bengal Gram
- Vermicelli, Macroni& Spaghetti English Hindi
- Oil Seeds
- Vegetable Oil Cakes Grading and Marking Rules
- Fatspread Grading and Marking Rules
- Vanaspati Grading and Marking Rules
- Blended EdibleVegetable Oils Grading and Marking Rules
- Notification of Vegetable Oils Grading and Marking(Amendment) Rules, 2009
- Sattu Grading and Marking Rules, 2007

Fibre Crops Grading and Marking Rules:

- Sann Hemp
- Palmyra Fibre
- ♦ Cotton
- ♦ Aloe Fibre
- ♦ Jute

Edible Nuts Grading and Marking Rules:

- * Arecanuts
- * Cashew Kernels
- * Water Chestnuts
- * Walnuts
- * Raw cashewnuts

* Groundnuts

* Counut

Live Stock Grading and Marking Rules:

Animal Casings	Hides
Bristles	Raw Meat (Chilled or Frozen)
Creamery Butter	Skins
Ghee	Table Eggs
Goat Hair	Wool

Agricultural & Allied Products (Miscellaneous) Grading and Marking Rules:

Tobacco	Senna Leaves & Pods	Papain
Tabacco (Commercial)	Sugarcane Gur (Jaggery)	Tapioca Sago
Tamarind Seeds & Powder	Tapioca Products (Animal Feed)	Jaggery Grading and Marking (Amendment) Rules,2012
Bura Sugar	Honey English Hindi	Isubgol Husk
Mahua English Hindi	Lac	Sheekakai
Guar Gum	Cocoa Powder	Myrobalan
Kangra Tea	Gum Karaya English Hindi	Cocoa Beans
Tendu (Bidi Wrapper) Leaf	Agar Agar	Catechu
Dried Tamarind & Powder	Puwad Seeds English Hindi	Tamarind (with Seed)
Amla	Decicated Coconut	

Spices Grading and Marking Rules:

Spices English Hindi	Sun Dried Raw Mango Slices And
	Powder
Ajowan Seeds (Whole And Powdered)	Compounded Asafoetida
Caraway And Black	Nutmeg
Caraway English Hindi	
Mace	Curry Powder
Seedless Tamarind	Saffron English Hindi
Cloves	Tejpat
Mixed Masala Powders	Poppy Seeds

16.13 QUALITY CONTROL

Quality of product and services determines success or failure of the organization. Consumers expect the company to maintain high-level of quality and consider it an important aspect of satisfaction. Quality management, therefore, becomes very important as far as any organization is concerned. Quality management can be accomplished through various quality control techniques. Quality assurance and quality control are objective oriented and can be achieved through statistical quality control.

Statistical quality control requires usage of acceptance sampling and process control techniques. Statistical quality control extensively uses chart to measure the acceptance level of the product samples. Objective is to ensure that products fall within pre-decided upper control and lower control limits. Any sample falling outside the limits is inspected further for corrective action.

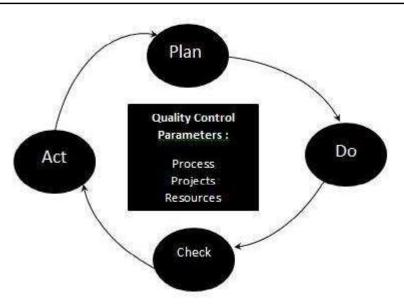
QUALITY CONTROL:

Quality control (QC) is a procedure or set of procedures intended to ensure that a manufactured product or performed service adheres to a defined set of quality criteria or meets the requirements of the client or customer. Quality control is a set of methods used by organizations to achieve quality parameters or quality goals and continually improve the organization's ability to ensure that a software product will meet quality goals.

QC is similar to, but not identical with, quality assurance (<u>QA</u>). QA is defined as a procedure or set of procedures intended to ensure that a product or service under development (before

work is complete, as opposed to afterwards) meets specified requirements. QA is sometimes expressed together with QC as a single expression, quality assurance and control (QA/QC).

16.14 QUALITY CONTROL PROCESS

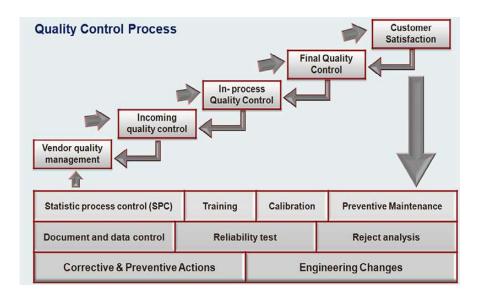


The three class parameters that control software quality are:

- Products
- Processes
- Resources

The total quality control process consists of:

- Plan It is the stage where the Quality control processes are planned
- Do Use a defined parameter to develop the quality
- Check Stage to verify if the quality of the parameters are met
- Act Take corrective action if needed and repeat the work.





16.15 QUALITY CONTROL CHARACTERISTICS

- Process adopted to deliver a quality product to the clients at best cost.
- Goal is to learn from other organizations so that quality would be better each time.
- To avoid making errors by proper planning and execution with correct review process.

QUALITY ASSURANCE VS. QUALITY CONTROL

The terms "quality assurance" and "quality control" are often used interchangeably to refer to ways of ensuring the quality of a service or product. The terms, however, have different meanings.

- Assurance: The act of giving confidence, the state of being certain or the act of making certain.
- **Quality Assurance:** The planned and systematic activities implemented in a quality system so that quality requirements for a product or service will be fulfilled.
- **Control:** An evaluation to indicate needed corrective responses; the act of guiding a process in which variability is attributable to a constant system of chance causes.
- **Quality Control:** The observation techniques and activities used to fulfill requirements for quality.

In order to implement an effective QC program, an enterprise must first decide which specific <u>standards</u> the product or service must meet. Then the extent of QC actions must be determined (for example, the percentage of units to be tested from each lot). Next, real-world data must be collected (for example, the percentage of units that fail) and the results reported to management personnel. After this, corrective action must be decided upon and taken (for example, defective units must be repaired or rejected and poor service repeated at no charge until the customer is satisfied). If too many unit failures or instances of poor service occur, a plan must be devised to improve the production or service process and then that plan must be put into action. Finally, the QC process must be ongoing to ensure that remedial efforts, if required, have produced satisfactory results and to immediately detect recurrences or new instances of trouble.

The quality of product or service is ensuring if proper designing process is followed. This designing process needs to be backed by appropriate process design supported by a suitable technology which confirms to requirements of customers. Quality control ensures that defects and errors are prevented and finally removed from the process or product. Therefore, quality control should include; planning, designing, implementation, gaps identification and improvisation. If organization can implement a stringent quality control than following benefits are possible:

- Reducing product defects lead to less variable cost associated with labor and material.
- Reduction in wastage, scrap and pollution.
- Ability to produce quality products over longer period of time
- With quality maintenance needs for inspection reduces leading to decrease in maintenance cost
- Large pool of satisfied customers.
- Increase in employee motivation and awareness of quality.
- Increase in productivity and overall efficiency.

Above mentioned points are relevant not only for production stage but are equally important for input material, manufacturing process, delivery process, etc.

STATISTICAL QUALITY CONTROL

Quality control techniques require extensive usage of statistical methods. The advantages of the statistical analysis are as follows:

- Statistical Tools are automated and therefore, require less manual intervention, leading cost reduction
- Statistical tools work on a model thus are very useful where testing requires destruction of products.

Statistical Quality tools can broadly be classified into following categories:

- Acceptance sampling is an important part of quality control wherein quality of products is assessed post production.
- Statistical process control helps in confirming whether the current process is falling within pre-determined parameters.

ACCEPTANCE SAMPLING

Acceptance sampling is done on sample's post production to check for quality parameters as decided by the organization covering both attributes as well as variables. If the sample does not meet the required parameters of quality than that given lot is rejected, and further analysis is done to identify the source and rectify the defects. Acceptance sampling is done on the basis of inspection, which includes physical verification of color, size, shape, etc.

The major objectives of inspection are:

- To detect and prevent defects in products and process.
- To identify defected parts or product and prevent it from further consumption or usage.
- To highlight the product or process defect to appropriate authorities for necessary and corrective actions.

16.16 FOOD LAWS AND REGULATION

Objectives of Food Laws and Regulation:

To meet a country's sanitary and phytosanitary requirements, food must comply with the local laws and regulations to gain market access.

These laws ensure the safety and suitability of food for consumers.

The following are the factors on which Food Laws and Regulation depends:

1. In some countries food laws also govern food quality and composition standards.

2. whether a country adopts international norms developed by the Codex Alimentarius Commission of the Food and Agriculture Organization of the United Nations and the World Health Organization or a country may also has its own suite of food regulations.

3. Each country regulates food differently and has its own food regulatory framework.

Food Laws in our Country:

The Indian Parliament has recently passed the *Food Safety and Standards Act, 200*6 that overrides all other food related laws. Such as;

- 1. Prevention of Food Adulteration Act, 1954
- 2. Fruit Products Order, 1955
- 3. Meat Food Products Order ,1973;
- 4. Vegetable Oil Products (Control) Order, 1947
- 5. Edible Oils Packaging (Regulation) Order 1988
- 6. Solvent Extracted Oil, De-Oiled Meal and Edible Flour (Control) Order, 1967,
- 7. Milk and Milk Products Order, 1992 etc are repealed after commencement of

FSS Act, 2006.

Food Safety and Standards Authority of India (FSSAI):

The Food Safety and Standards Authority of India (FSSAI) has been established under Food Safety and Standards Act, 2006 which consolidates various acts & orders that have hitherto handled food related issues in various Ministries and Departments.

FSSAI has been created for laying down science based standards for articles of food and to regulate their manufacture, storage, distribution, sale and import to ensure availability of safe and wholesome food for human consumption.

16.17 FUNCTIONS OF FSSAI

1. Framing of Regulations to lay down the Standards and guidelines in relation to articles of food and specifying appropriate system of enforcing various standards.

2. Laying down mechanisms and guidelines for accreditation of certification bodies engaged in certification of food safety management system for food businesses.

3. Laying down procedure and guidelines for accreditation of laboratories and notification of the accredited laboratories.

4. To provide scientific advice and technical support to Central Government and State Governments in the matters of framing the policy and rules in areas which have a direct or indirect bearing of food safety and nutrition.

5. Collect and collate data regarding food consumption, incidence and prevalence of biological risk, contaminants in food, residues of various, contaminants in foods products, identification of emerging risks and introduction of rapid alert system.

6. Creating an information network across the country so that the public, consumers, Panchayats etc receive rapid, reliable and objective information about food safety and issues of concern.

7. Provide training programmes for persons who are involved or intend to get involved in food businesses.

8. Contribute to the development of international technical standards for food, sanitary and phyto-sanitary standards.

9. Promote general awareness about food safety and food standards

16.18 BUREAU OF INDIAN STANDARDS (BIS)

The Bureau of Indian Standards (BIS), the National Standards Body of India, resolves to be the leader in all matters concerning Standardization, Certification and Quality.

Activities of BIS:

1. Harmonious development of standardization, marking and quality certification.

2. To provide new thrust to standardization and quality control.

3. To evolve a national strategy for according recognition to standards and integrating them with growth and development of production and exports.

4. Certification: To Product Hallmarking of Gold Jewellery, Quality Management System, Environmental Management Systems, Occupational Health and Safety Management System, Food Safety Management System, Hazard Analysis and Critical Control Points, Imported Products.

5. Laboratory Management, International Activities & Training Services.

AGMARK:

The Directorate of Marketing and Inspection enforces the Agricultural Produce (Grading and Marketing) Act, 1937. Under this Act Grade standards are prescribed for agricultural and allied.

AGMARK is a Quality Certification Mark. It ensures quality and purity of a product. It acts as a Third Party Guarantee to Quality Certified. Quality standards for agricultural commodities are framed based on their intrinsic quality. Food safety factors are being incorporated in the standards to complete in World Trade.

Standards are being harmonized with international standards keeping in view the WTO requirements. Certification of agricultural commodities is carried out for the benefit of producer/manufacturer and consumer.

Products available under AGMARK are as follows:-

- 1. Pulses.
- 2. Whole spices & ground spices
- 3. Vegetable oils
- 4. Wheat Products
- 5. Milk products.

Other products such as Honey, Compounded asafetida, Rice, Tapioca Sago, Seedless tamarind, Besan (Gram flour).

Fruit Product Order (FPO), 1955:

The main objective is lay down quality standards to manufacture fruit & vegetable products maintaining sanitary and hygienic conditions in the premises.

It is mandatory for all manufacturers of fruit and vegetable products including some non fruit products like non fruit vinegar, syrup and sweetened aerated water to obtain a license under this Order.

Following minimum requirements are laid down in the Fruit Product Order for hygienic production and quality standards:

- Location and surroundings of the factory
- Sanitary and hygienic conditions of premises
- Personnel hygiene
- Portability of water
- Machinery & Equipment with installed capacity.
- Quality control facility & Technical staff
- Product Standards
- Limits for preservatives & other additives
- Fruit product means any of the following articles, namely,
- Non fruit beverages, syrups and sherbets
- Vinegar, whether brewed or non-fruit
- Pickles
- Dehydrated fruits and vegetables
- Squashes, crushes cordials, barley water, barreled juice, and ready to serve beverages, fruit nectars or any other beverages containing fruit juices or fruit pulp
- Jams, jellies and marmalades
- Tomato products, ketchup and sauces
- Preserves, candied and crystallized fruit and peel

- Chutneys
- Canned and bottled fruits, juices and pulps
- Canned and bottled vegetables
- Frozen fruits and vegetables
- Sweetened aerated water and without fruit juice pr fruit pulp
- Fruit cereal flakes
- All unspecified fruit and vegetable products which are considered microbiologically safe and contains only permitted additives within permissible limits.

Each container in which any fruit product is packed shall specify a code number indicating the lot or the date of manufacture of such fruit product.

No person can carry on the business of a manufacturer except under and in accordance with the terms of an effective license granted to him under this Order in Form B and shall not use the License number on labels of non-fruit products.FPO mark should be printed on the label with license number.

The labels shall not contain any statement, claim, design or device which is false or misleading in any particular concerning the fruit products contained n the package or concerning the quantity or the nutritive value or in relation to the place of origin of the said fruit products.

Meat Food Products Order (MFPO):

The main objective is to regulate production and sale of meat food products through licensing of manufacturers, enforce sanitary and hygienic conditions prescribed for production of wholesome meat food products, exercise strict quality control at all stages of production of meat food products, fish products including chilled poultry etc.

Meat & Meat Products are highly perishable in nature and can transmit diseases from animals to human-beings.

Processing of meat products is licensed under Meat Food Products Order,(MFPO) 1973 which was hitherto being implemented by Ministry of food Processing industries.

Under the provision of MFPO all manufacturers of meat food products engaged in the business of manufacturing, packing, repacking, relabeling meat food products meant for sale are licensed but excluding those manufacturers who manufactures such products for consumption on the spot like a restaurant, hotel, boarding house, snack bar, eating house or any other similar establishment.

Milk and Milk Product order (MMPO):

The objective of the order is to maintain and increase the supply of liquid milk of desired quality in the interest of the general public and also for regulating the production, processing and distribution of milk and milk products.

As per the provisions of this order, any person/dairy plant handling more than 10,000 liters per day of milk or 500 MT of milk solids per annum needs to be registered with the Registering Authority appointed by the Central Government.

In every case where the milk or milk product is packed by the holder of a registration certificate in a tin, barrel, carton or any other container, the registration number shall either be exhibited prominently on the side label of such container or be embossed, punched or printed prominently thereon.

Prevention of Food Adulteration Act, 1954:

The Act was promulgated by Parliament in 1954 to make provision for the prevention of adulteration of food. Broadly, the PFA Act covers food standards, general procedures for sampling, analysis of food, powers of authorized officers, nature of penalties and other parameters related to food.

It deals with parameters relating to food additives, preservative, colouring matters, packing & labelling of foods, prohibition & regulations of sales etc. The provisions of PFA Act and Rules are implemented by State Government and local bodies as provided in the rules.

In every case where the milk or milk product is packed **Prevention of Food** Adulteration Act, 1954 is repealed from 05.08.2011 by the Central Government as per the Food Safety and Standards Act,2006.

The act clearly defines "What is meant by Food Adulteration and what is the punishment given to person/manufacturer involved in the crime?

The food is considered adulterated if it fulfills any of the below -

• If food is sub-standard rotten, decomposed or obtained from diseased animal or is insect- infested or is otherwise unfit for human consumption.

• If food contains any other substance which affects, or if the article is so processed as to affect, injuriously the nature, substance or quality thereof

- If the article has been prepared, packed or kept under insanitary conditions whereby it has become contaminated or injurious to health;
- If any constituent of the article has been wholly or in part abstracted so as to affect injuriously the nature, substance or quality thereof.
- If the article contains any poisonous or other ingredient which renders it injurious to health
- If any coloring matter other than that prescribed in respect thereof is present in the article, or if the amounts of the prescribed colouring matter which is present in the article are not within the prescribed limits of variability
- If the article contains any prohibited preservative or permitted preservative in excess of the prescribed limits;
- If the quality or purity of the article fall. Below the prescribed standard or its constituents are present in.

16.19 MEDIA IN RURAL MARKETING

Rural markets can be approached through two different categories of mass media: Traditional & Modern.

1. Traditional Media:

- Puppetry, dance-dramas, rural specific art forms like Harikatha and Villupatu preformed at village melas and temple festivals.
- Study classes.
- Mike announcements, processions.
- Caparisoned elephants, decorated bullock carts carrying ad panels.
- Music records.
- Folk theatre.
- Demonstration, house to house campaigns by special promotion Squads.
- Hoats and Melas.
- Information centres on company's products.
- Wall paintings
- Posters

- ♦ Agricultural Games
- Postcards
- Audio-visual vans or publicity vans

2. Modern Mass Media:

- ♦ Television
- Word of mouth
- ♦ Radio
- Cinema halls
- ♦ POPs
- Press
- Other print media

16.20 SELECTING THE MEDIA MIX

Evidently, in the rural context the firm has to choose a combination of formal and non-formal media. The possibilities are indicated below:

THE FORMAL/ MASS MEDIA:

Among the formal organized media TV, Radio, Cinema, POPS and Outdoors have a good scope in the rural context.

TELEVISION:

With the increase in coverage and increase in TV ownership in the ruralareas, TV has become the primary media for communication to the rural masses.Studies reveal that as much as 77% of villages in India now receive TV transmission and 27% of all rural people actually watch TV. The main advantageof this medium is that, it is both spoken and visual. Television has proven advantageous in communicating with the rural people due to the low literacy levels. However while using this medium, the viewer ship habits of people needs to be taken into consideration.

HLL has been in the forefront in using TV to communicate with the rural masses. Lifebuoy, Lux, Fair and Lovely and Nihar oil are the productsadvertised via television.Most of the messages of National concern on Family Welfare and Literacy Campaign by the Government are telecast before the popular programmes with rural characters.

RADIO:

The radio is a well established medium in rural areas.

As one of the oldest and potential media used for communication with farmers and for diffusing agricultural technology, radio has yielded significant results. A big expansion in the broadcasting facilities has taken place in the rural country over the years. The availability of radio sets has also expanded. Given the reasonable price of a transistor radio, it can be inferred that, most of the rural families own a radio set.

Naturally, the A/V vans are quite popular with rural marketing firms. Practically all the firms in agri-inputs business have their own A/V vans all over their respective marketing territories. Firms marketing consumer softs come second in the use of AV vans. Firms marketing consumer durables come third. In the third category the efforts of Phillips India deserves a special mention. Phillips India has very successfully used the AV vans for popularizing their radios in rural markets. While the AV vans are very effective tools in rural promotion, the cost is high as the target population is scattered. The cost of reaching an individual customer or prospect through the van works out to be very high. In the early stages of market development, in particular, the sales generated may not have any relationship with the cost involved in extensive use of AV vans. But in view of its effectiveness, big companies with resources make a conscious decision to use the vans as a long-term market development tool.

SYNDICATED AUDIO VISUAL VANS

In recent years, rural publicity vans have become a purchasable service. Firms that cannot afford to operate publicity vans of their own can utilize the syndicated vans service offered by independent agencies.

The Joint Publicity Committee of the nationalized banks started rural advertising through vans in the early '90s. They would make an announcement in the village about a show of some religious and holy films in the local language and in between the message would be carried to the audience.

Videocon used van demos along with audio visual aids to promote its black and white color TV. And its washing machine "Washer". In addition their mechanics take a round of the villages twice a week to assure the villagers of after-sales service, an important component of consumer durables. The company employs 1,800 engineers and mechanics for this purpose.

Even Onida uses Demonstration on vans to promote its television. When it goes to rural areas to promote its product, on both the sides of the van a huge cut out of their mascot

"the Devil" is put. This attracts the children and others towards the van. Then a 40-45 min educative commercial is run to promote the product.

MUSIC RECORDS, HARIKATHA, ETC

Music cassettes and records is another effective medium for rural communication. It is an appealing medium. One complete language group can be reached on a low budget through specially developed cassettes or records. They can be played in cinema houses or in other places where rural people assemble. Popular entertainment programmes like puppet shows, dance dramas,

Villupattu and Harikathas

Specially developed for product promotion purpose are now being used in rural markets. These traditional art forms readily render themselves for communication in rural society. Sales messages can be beautifully blended with folklore to capture the imaginations of the rural audiences. Village fairs, festivals and 'melas' are ideal venues for projecting these programmes. In certain context public meetings are also useful for promotion in rural context.

PUPPETRY

Puppetry is the indigenous theatre of India. From time immortal it has been the most popular form and well-appreciated form of entertainment available to the village people. It is an inexpensive activity. The manipulator uses the puppets as a medium to express and communicate ideas, values and social messages. The companies can develop a story line relating to the brand and show the characters using the brands to their advantage. The dresses of the characters could be those of the brand's packaging.

Thus in rural India puppetry is a source of livelihood, avenue for entertainment and creative expression which is ritually sacred and meaningful as a means of social communication and vehicle of social transformation. Song and Drama Division of the Government of India make wide use of puppets in its campaigns to promote various government projects. Several other organizations, government, semi-government and private, have also used puppets in support of individual schemes.

Life Insurance Corporation of India used puppets to educate rural masses about Life Insurance; enlisting the help of the literacy house in Lucknow.

àThese plays were shown to the audience in villages in UP, Bihar, & MP. The number of inquires at local Life Insurance Companies during the period immediately following the

performance was compared with normal frequency and found to be considerable higher. The field staff of the corporation also reported a definite impact on the business.

Thumps Up is another company that has used puppetry to promote its soft drink. The shows comprises of puppets of Thumps Up and other rival soft drinks. The thump up puppet comes and strikes down the other soft drinks thus reinforcing its slogan "taste the thunder". Indian Institute of mass communication, N.Delhi made a study of comparative impact of puppetry and documentary films, in two villages near Delhi. People in both the villages responded more favorably to the puppet shows then the films.

FOLK THEATRE

Folk theaters are mainly short and rhythmic in form. The simple tunes help in informing and educating the people in informal and interesting manner. It has been used as an effective medium for social protest against injustice, exploitation and oppression.

Folk songs have been effectively used during revolts of Telangana and Naxalbari and now days its best exploiters are Political Parties.

Government has used this media for popularizing improved variety of seeds, agricultural implements, fertilizer etc.

16.21 CASE STUDY: "GODREJ FOCUSES ON RURAL MARKET"

Godrej Consumer Products Limited (GCPL) is a major player in the Indian FMCG market with presence in personal, hair, household and fabric care categories. It has reported sales of Rs.4.39 billion and a net profit of Rs.0.7 billion in the quarter that ended on 30 June 2009.

Goals and Targets:

The company says that it is focused on growth. It estimates that it will have its best year ever in 2009-2010. The growth in the first half of the year will be in terms of price as well as volume. In the second half of 2009-10, the growth will be largely led by volumes. Currently from rural India account for 25 per cent of overall revenues and this will increase in the coming years as rural markets are growing at a higher pace than urban markets. In 2001, the rural-urban sales ration for GCPL was 23:76. At present, rural business accounts for about 38 per cent of GCPL'S revenue. Total sales from the rural market is 50 per cent in case of HUL and 60 per cent in the case of Nirma. The company has set itself a target of raising this to 50 - 55 per cent of revenues over the next three years.

FMCG Cell:

The company has renewed its emphasis on rural retailing with the formation of FMCG cell. Hoshedar .K. Press, Vice Chairman of Godrej Consumer Products (GCPL), says that historically, the company had primarily been an urban Indian brand. "Post the creation of the FMCG cell, we expect to provide an increased thrust to our rural business. Our objective is to first take the share of rural business to the industry average of around 45 per cent and then, raise is to the predominant share of our revenues", said press. Widening and deepening penetration in rural areas and small towns and expansion of the portfolio of lower-priced stock keeping units have been identified as the two prongs of its growth strategy.

Product Innovations:

As part of its strategy to push up revenues, the company plans to introduce a mix of new products and variants of existing brands in the soap and hair colour category. Its soap brands: Cinthol, Godrej Fair Glow and Godrej No.1 contribute to 65 per cent of GCPL's total sales. GCPL enjoys a market share share of 32.6 per cent in the hair colour category. The product category represents 21per cent of GCPL's total sales. Its hair colour brands include Kesh Kala, Renew, Colour Soft and it also has the mehendi brand Nupur. The company's rural share in hair colour is higher than the urban share. The case of soaps is exactly the opposite. Action is necessary to boost the sales of soaps in rural areas.

Distribution:

GCPL plans to strengthen its rural foothold by strengthening its rural distribution network. "We are planning to double our presence in 8,000 small towns in the next couple of years. We are also looking at increasing our footprint in 50,000 villages compared to the 15,000 villages we are now present in", Dalit Sehgal, MD, GCPL said.

The company is experimenting with a super stockiest distribution system in certain rural markets. Joint rural initiatives among group companies have also been kicked off to leverage each other's strengths. For instance, Godrej Agrovet and GCPL are jointly undertaking certain rural activities to explore the growth potential in rural areas. Godrej Agrovet is into the animal feeds business. In 2008-2009, Godrej increase its reach by 2,00,000 outlets. The company claims that a Godrej product can now be found in 3 million outlets across the length and breadth of the country.

Low-Price Packs: GCPL has launched a variants strategy where it has increased its focus on low-unit packs especially at the Rs. 5 & Rs.10 price points. The company has also seen the market and demand for these segments expand rapidly.

Promotion:

The Godrej group plans to increase its rural reach using regional media, rural haats, ads on walls and participation in rural fairs, among other initiatives GCPL is also planning to spend 35 per cent more in advertising and promotions compared to last year. This amounts to around 9-10 per cent of the company's total sales. A large part of its focus is going to be brand building.

New Initiative:

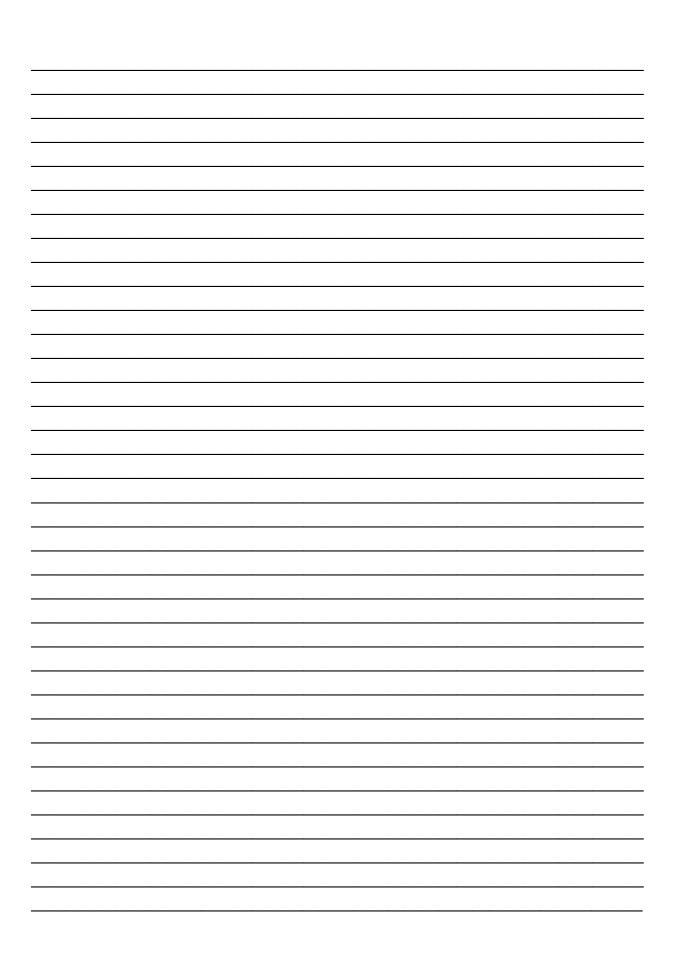
The company is working on tapping salons across the country to promote its brands, especially in smaller towns and rural areas. It has plans to rope in up to 50,000 salons and barber shops in semi urban and rural areas across the country to promote its hair care brands such as Nupur Mehndi and expert hair colour. These barber shops and salons would showcase the entire range of hair colour and other products and serve as a point for promoting them. The company will place combipacks of products such as Shaving Creams, Talakam powders, Soaps and Hair colours in these salons.

For Discussion:

1. Analyze the situations and Goals of GCPL. Are the marketing goals realistic?

2. Evaluate the steps taken by GCPL to reach the targets and suggest improvements.

16.22 NOTES



16.23 KEY WORDS

Training

Agricultural marketing

16.24 SUMMARY

In this unit, we have learnt about the various methods through which training can happen and also training can happen in agricultural marketing. We also discuss about the quality and quality control methods.

16.25 SELFASSESSMENT QUESTIONS

- **1**. What is quality?
- 2. Explain the various methods of quality control
- 3. Discuss the tools of quality control

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DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A III Semester

ELECTIVE – B: MARKETING

COURSE – 17 B : RURAL MARKETING

BLOCK - 5 : CHANNELS OF DISTRIBUTION

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BLOCK – V INTRODUCTION

Dear Learner,

In the previous block, we have discuss Rural market regulations. In this Block we are going to discuss channels of distribution and role of advertising in rural market. Every company having its own distribution channel according to their product and services. Distribution channel / Marketing channel is an important element in marketing mix. This block explain the Channel of distribution playing a vital role in distribution of product from one place to another based on the needs and wants of the customer.

This block also explain how the Distribution channel makes the product available to the largest numbers of ultimate consumers at the right place, at the right time and at low cost, which increase the marketing efficiency and competency of the product. Distribution channel performs various tasks necessary to promote sales of products and services to the ultimate customers. They may includes buying, selling, assorting, financing, storage, sorting, grading, transportation, market information etc.,

This Block divided in to four units and they are,

UNIT - 17: Distribution system in Rural Marketing

UNIT - 18 : FMCG Sector in Rural India

UNIT - 19: Role of Advertising in Rural Market

UNIT - 20 : Trends in Rural Marketing

BLOCK –V CHANNELS OF DISTRIBUTION

UNIT-17 : DISTRIBUTION SYSTEMS IN RURAL MARKETING

Structure:

17.0	Objectives

- 17.1 Introduction
- 17.2 Concept and nature of distribution
- 17.3 Case Study
- 17.4 Notes
- 17.5 Summary
- 17.6 Key Words
- 17.7 Self Assessment Questions
- 17.8 References

17.0 OBJECTIVES

After studying this unit, you should be able to;

- Explain the members in the channels of rural marketing
- Highlights the basic issues in channel selection
- Appreciate the importance of channel management relationships
- Bring out the distribution channels importance and its strategies

17.1 INTRODUCTION

Introduction

Marketing activity starts with the customer and ends with the customer. So customer is the ultimate target for the marketer. Availability and affordability are the two important considerations for buying. Availability depends upon the efficiency of the distribution channel. Channels of distribution keep changing from one product to another. There is a need for marketers to emphasize more on easy availability at acceptable price.

Definition

According to Kotler: Every producer seeks to link together the set of marketing intermediaries that best fulfill the firm's objective. This set of marketing intermediaries is called marketing channel" Its purpose is transfer of ownership of the product through intermediaries or directly to the buyer.

Types of middlemen

There are three types of middlemen that facilitate the flow of goods and services from the manufacturer to the customer. Merchant middlemen: These are the intermediaries who take title to the goods and services and resell them. They are known as distributors, dealers, wholesalers and retailers. These middlemen get margins and bonuses as compensation. They share the risk with manufacturers when they take title and physical possession of the goods.

Agents: These are intermediaries who do not take title to the goods and services but help in identifying potential customers and even help in negotiations. The typical example is that of sales agents and manufacturers' agents or manufacturers' representatives, C&F agents, brokers, jobbers, and so on who act on behalf of the producer only to the limited extent of prospecting, warehousing and redistributing the products. They do not share risk with the manufacturers,

as they do not take the title to goods and services. Agents earn a commission and are reimbursed for all expenses by the manufacturers.

Facilitators: These are independent business units that facilitate the flow of goods and services from the producer to the customer, without taking a title to them or negotiating for them on behalf of the producer. Transport companies, banks and independent warehouses are examples of these institutions. These institutions are paid their service charges, as in the case of a transporter who charges freight or a banker who is paid service charges or warehouses, cold storages and go downs which earn rent.

Channel components

The historically available people and places for distribution include:

Wholesaler, retailer, vans, weekly haats, Bazaars and shandies.

(i) Wholesalers

The Indian wholesaler is principally a galla-*kirana* (food-grain) merchant who sustains the belief that business is speculative rather than distributive in character. He is a trader/ commodity merchant rather than a distributor and therefore, tends to support a brand during boom and withdraws support during slump. The current need is to activate and develop wholesaler of the adjoining market as a distributor of products to rural retail outlets and build his loyalties to the company.

(ii) Retailers

Retailers are the front-end characteristics players with direct access to customers. They have the following.

(a) *Credibility*: he enjoys the confidence of the villagers. His views are accepted and followed by the rural people whose awareness and media exposure levels are low.

(b) *Influence leader*: His role as influence leader is indisputable. From tender twig of *neem* to washing powder, retailer testimony has been vital part of the product adoption process.

(c) *Brand promoter*: With the increasing number of brands in the place of commodities concept selling has come to a close. Brand choices are easy as the brand characteristics and benefits are communicated through different promotion media. Despite the direct one-to-one communication, the retailer remains the deciding factor to sell a particular brand.

(d) *Relationship marketer*: village retailer practices relationship marketing. He caters to a set of buyers who have incomes derivative from immovable land resources and would be

static over a much longer time span. The relationship could extend beyond three generations, backed by historical credibility of the retailer as a product referral.

(e) *Harbinger of change*: Village shopkeeper has not been merely a seller of wares in an environment relatively isolated from external developments, he has been harbinger o change. He is one of the main sources of information and opinion as well as supplier of product and services. As against this, we find urban retailer, wielding limited influence in changing the product choices and quality of life of consumers. The retail outlets are now in for a change with the corporate marketers finding them as right places for promoting their products.

(iii) Vans

Mobile vans long since, have an important place in distribution and promotion of the products in villages.

(iv) Weekly Haats, Bazaars, Shandies

The *haats* are the oldest outlets to purchase household goods and for trade. These markets are very well organized with shopkeepers having preassigned spaces for them to sell their wares. A typical market is in an open field with ample space for displaying all sorts of goods. Its location changes every week. These markets have different names in different regions. But they are strikingly similar every week. These markets have different names in different regions. But they are strikingly similar in what they sell. It is reported that there are, in all. About 47,000 *haats* held throughout the country.

(v) Melas and Fairs

These are low cost distribution opportunities in rural area. They are like the urban events India International Trade Fair (IITF), Sajavat or Cnsumex in which audience participation varies form a few thousands to a few lakh people. Most of them are associated with either a religious event or a festival. Some of the well known *melas* are: *kumbh mela* at Allahabad *(triveni sangam), pushkar mela* in Rajasthan, *Kullu Dusshera mela* in Himachala pradesh, Sonepur *mela* in Bihar and *Makar Vilakku* in Kerala. People from all over the country gather there. According to the Indian Market Research Bureau (IMRB) around 8000 *melas* are held in rural India every year. According to rural scan (Quarterly News letter by MICA (Mudra Institute of Communications, Ahmedabad), there are on an average, 1000 melas held in a state annually. The average duration of a mela is anywhere from one to 45 days.

Manufacturer – is one who recognizes a consumer need and produces a product from raw materials, component parts or labor to satisfy that need.

Channel design

At conceptual design level, deciding on the best channels or ideal ones might not be a problem. But at operational level, there will be many problems that require modifications to the ideal one. Examples include the following:

- To modify with latest technology to create a new channel ,or
- To convince one or few available middlemen to handle the line.

Therefore, keeping in mind the operational aspects, manufacturer has to make decisions.

Designing a channel system involves the following steps.

1. Assess customer needs

Firms should adopt marketing concept and view channel management as the process of creating value-added networks. Therefore, managers should begin the channel design process with a thorough customer value assessment.

What is the core marketing offer?

- Assess customer needs
- Establish channel objectives
- Identify channel design constraints
- Identify channel alternatives and networks
- Evaluate channel networks
- Build a channel network model
- Implement the model
- What are the customer expectations about augmented product and services?
- What is the service output level desired by the customers?
- How much are they worth to them?
- What is the aggregate demand function for each of the service outputs?

2. Establish Channel objectives

Channel objectives must be consistent with overall corporate and marketing objectives. Some of the objectives used by the marketing managers are:

(1) Delivery of superior value to customers

(2) Low cost of operation

(3) Control

(4) Sales maximization

(5) Image

3. Identify channel alternatives

Products and services flow from a supplier firm either directly or indirectly through reseller to a market segment. When diagrammed, conventional channels resemble linear pipelines. Various channel member firms appear as nodes in pipelines as shown below.

Level Channel Place LevelA Company depot National/State Redistribution stockiest, C&F agents, District Level B Semi-wholesalers and retailers Headquarters Level C Semi-wholesalers and retailers **Tehsil Headquarters** Mofussil towns Industrial townships. Level D Itinerant traders, Vans, Petrol bunks semi wholesalers, retailers, Co operative societies Haats Large villages Level E Retailers, Vans, sales people, NGOs, Government agencies Villages

Most companies have direct representation in the form of redistribution stockist at level B and C. Level C in a district would comprise at best 7-10 towns. High outlet density and large customer population permit economies in developing these markets through regular working of sales –cum –distribution van. On consolidating market penetration, direct representation could be extended to the towns by way of sub-dealers or stockists.

To achieve a winning edge in rural sales the object is to maximize directed flow and control of stocks at levels C to E. Approaching level D requires prior selection of *haat* markets and villages located in contiguous clusters. Sorting of easily accessible census data enable listing of villages above a predetermined population bracket and of occurrence schedule of *haat* markets.

Various schedules with level C stockist at nodal points could be operated towards self-sustaining distribution rates for level D markets. The next level is E. the villages are too small too allow economies in van distribution. But these villages form the bulk of the consumption in rural areas.

4. Identify channel design constraints

Now, operationally the objectives are to be considered in the light of constraints stemming from the company and environment.

i) Product characteristics. The nature of the product affects channel design.

ii) Company characteristics. The size of the company, its goals, financial resources, product mix and marketing strategy influence channel design.

ü Larger the size of a company, larger the market it services

ü Long run growth goals specify the channel development requirements.

ü Financial resources impose investment and cost constraints

iii) Competitor Characteristics. What the competitors are doing and through which channels they are delivering goods? Should we follow them or set up a different channel? These are the relevant questions.

iv) Middle men characteristics. Marketing intermediaries differ in their aptitude for handling promotion, negotiation, storage, contact and credit. They differ in their strengths and weaknesses. An evaluation of these aspects is primary in choosing the middlemen.

v) Environmental characteristics. Legal regulations and restrictions state of the economy; infrastructure developments and technology affect channel decisions. For instance, inflation may require cost minimization and modifying channels to achieve that.

Channel member selection

Channel member selection involves several issues.

(i) Carefully Select Channel Partners:

First, marketers prepare list of reseller firms using one or more of the sources.

• internally generate a comprehensive list of candidates for each reseller type targeted

- acquire them from governments-local, state and central.,
- obtain from database marketing firms,
- secure from trade associations

Next, they select the existing or potential channel partner firms that can best perform some or all the required channel functions. The factors considered in the selection generally include the following:

- technical competence,
- sales force deployment,
- warehouse and delivery capabilities,
- financial stability, and
- Leadership.

Managers eliminate those resellers that do not meet screening requirements. Managers then conduct a market research survey to assess customer preferences for, and satisfaction with, specific reseller firms. Then, they reconcile this list with the one developed already to create a list of prospective resellers. Selection depends not only on judgment of marketer but also the willingness of resellers to be a channel member. Reputed companies like TISCO, BHEL, and WIPRO can attract any number of intermediaries. A new company has to work hard to line up the desired number of qualified middlemen

(ii) Specify the terms and responsibilities

Business market managers now enter into partnership negotiations with preferred resellers. Following, productive negotiations, the supplier and its resellers summarize the terms of their relationship in the sales agreement. The agreement will identify the responsibilities of all parties for completing business processes and the rewards that each will receive. The terms and responsibilities, when stated clearly pave the way for successful

performance and durable business relationships. The main elements in the 'trade – relations mix' are:

- Price Policies
- Conditions of sale
- Territorial rights
- Specific services expected

Price policy establishes list price and discount structure. The discounts should be attractive and equitable to middlemen. Conditions of sales refer to the payment terms and to guarantees. Generally, the payment terms induce early payment by offering discounts. For instance net 2/10, 30 payment terms offers 2% discount for paying on or before 10th day. Guarantees are offered to replace defective merchandise or compensation in case of price decline. Territorial rights grant right to operate in the specific market area. Full credit for sales in that area is given to that particular middleman. Specific services expected of the middleman, if any, are to be specified. Generally, exclusive dealers or franchisees are provided with infrastructure and marketing support. In turn, they are expected to operate their outlets and perform services as stipulated by the company. Problems in channel

17.2 CONCEPT AND NATURE OF DISTRIBUTION

Distribution channel or marketing channel is an important element in marketing mix. The word channel is derived from the French Word "Channel" which means canal or route. Distribution means to distribute, spread out or disseminate. Distribution Channel is a pathway or route for the flow of ownership and possession of goods and services from producers to consumers.

The term distribution channel is defined by many authors in various ways. The American marketing association defines a distribution channel as the "structure of intra company organization units and extra – company agents and dealers, wholesale and retail, through which a commodity product or service is marketed.

From the analysis of several definitions, one can know that a distribution channel contains certain elements or features as given below:

i) Path – Through which products and services flow from producers to consumers.

ii) Composition – of Intermediaries or middlemen, who participate in the flow voluntarily?

iii) Functions – like breaking the bulk into smaller quantities, collecting number of products together, dispersion of homogenous products in small lots, develop assortments.

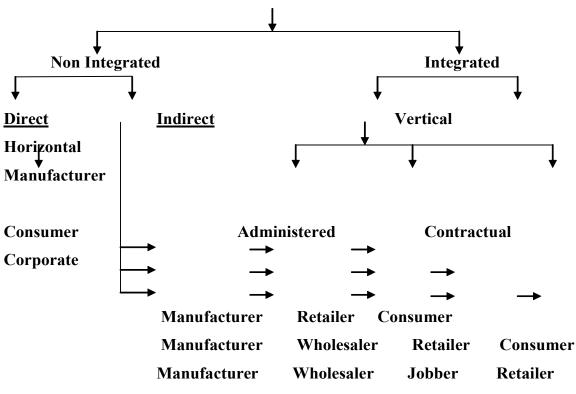
iv) Leadership – by the manufacturer to regulate the channel members' behavior through mutually acceptable code of conduct, trade and contractual terms and conditions so on.

Importance

Distribution Channels play a very important role in achieving the marketing objectives of a company. Manufacturer creates value utility to the product. Distribution Channels create time and place utilities i.e., product will be supplied to the needed place in appropriate time. Distribution channel makes the product available to the largest number of ultimate consumers at the right place, at the right time and at low cost. Distribution channels provide all functions of marketing. A best distribution channel ensures minimum speed and safety so as to reduce the cost of distribution, increase the marketing efficiency and competency of the product.

Classification and Types of Channels Distribution

Broadly, distribution channels may be classified as integrated and non – integrated channels (Fig -5.1).





Consumer

Features of Various Channels of Distribution

1. Non integrated channels, also known as conventional channels, are fragmented networks of distribution. It is a loose alignment of manufacturers, wholesalers and retailers in which they behave autonomously, bargain with each other and negotiate over terms of sale. Under this category there are two types of channels viz., direct channels and indirect channels.

A. Direct channel also known as direct marketing or direct selling in which the manufacturer sells directly to the consumers without engaging any middleman or intermediary. This type of channel is mostly used due to several reasons like: the products are bulky, highly technical, highly priced, perishable, when consumers concentrate geographically etc., Ex: In India Usha sales (p) limited sell 90% of their water coolers directly to the consumers.

B. In the case of indirect channels manufacturers take the help of a variety of agencies or middlemen to sell the products to the ultimate consumers. Basing on the types of middlemen involved they are further explained as

a. Manufacturer – Retailers – Consumer : This channel consists of only one type of middleman i.e., retailer through whom the products are sold to consumers

Ex: Bata Shoe Company, Raymonds, HPCL etc.,

b. Manufacturer – Wholesaler – Retailer – Consumer: This is the mostly widely used channel in marketing. Low–order shopping goods and convenience goods are generally sold through this channel. Example: Hindustan Levers use this to sell their products – Soaps.

c. Manufacturer – Wholesaler – Jobber (Semi – Wholesaler) – Retailer – Consumers: This channel is very much similar to the above types, but consists a Jobber or Semi – Wholesaler. The Jobber buys in bulk from the wholesalers and sells in required quantities to small retailers who are financially weak to buy from wholesalers. Example: In India, large numbers of companies in the cotton textile industry use this channel.

2. Integrated Channels: These are a type of networks in which channel members participate in a coordinated manner. These may be vertical or horizontal channels.

A) Vertical channels are those in which channel members are professionally managed to achieve technological, managerial and promotional economies. Further they may be administered, contractual or corporate types. Example: Travel Industry has alliances with chains of Hotels and Airlines.

B) Horizontal channel is an alignment of two or more companies who jointly exploit a marketing opportunity either by themselves or by creating a third entity. Example: i) In India, cement manufacturing companies have formed associated cement co., (ACC) to channel

their product. ii) Hindustan Lever Limited had an agreement to channelise the "Erasmic" shaving blades of Sharp Edge Limited.

The link between manufacturers and customers is the channel of distribution. It consists of producer, consumer, and any intermediary organizations that are aligned to provide a means of transferring ownership (title) or possession of a product from producer to consumer. The characteristic features of distribution are:

(i) Distribution is an ancient function.

It was found in a primitive economy in which people realized the need for specialization and exchange. They understood that efficiency can be gained if one person specializes in a certain activity, such as hunting, and another person specializes in a different activity, such as fishing or farming. They exchanged one good for another to satisfy their needs. In a primitive economy, distribution is straightforward; in today's global economy, it is far more complex. It is because of the distances, variety of supporting trade services, and variety of needs of buyers.

(ii) Key external resource:

While manufacturing, research, engineering and field sales personnel represent internal resources, distribution represents a key external resource. It is outcome of a significant corporate commitment to a large numbers of independent organizations whose business is distribution.

(iii) Complex with flows

Channels represent a set of interdependent relationships among intermediaries and producer. The channel facilitates forward flows (physical goods, title of goods, and promotion offers) and back ward flows (ordering and payment). Some of these flows are forward flows (physical transportation, title, and promotion); others are backward flows (ordering and payment); and still others move in both directions (information, finance, and risk taking).

Channel functions

Distribution channel performs various tasks necessary to promote sales of products and services to the ultimate customers. They may include some or all of the following:

Buying—every middleman must purchase products for resale or contract as an agent to receive a supply of product.

Selling—every middleman must contact potential customers, promote the product, and solicit orders.

Assorting—the typical middleman brings together an assortment of merchandize, usually of related items, from several sources to better serve his potential customers. *Financing*—by investing in inventory and by extending credit to customers, the middleman helps to finance the exchange process.

Storage—products must be assembled in a convenient location to assure availability and must be protected to prevent deterioration and loss.

Sorting—in some situations, the middleman provides the important function of buying in large quantities and breaking the bulk purchase into smaller quantities for resale.

Grading—it may be necessary for the middleman to inspect, test, or judge the products he receives for quality and to assign distinct quality grades to them.

Transportation—this is the logistics function, managing the physical flow of the product.

Market Information—the middleman typically has some responsibility for providing market information both to his customers and to his suppliers, including information about availability, product quality, competitive conditions, customer needs, and so on.

Risk-taking—risk is inherent in the ownership of an inventory of product that can deteriorate or become obsolete.

The design of a marketing channel is an attempt to get each of these functions performed as efficiently and effectively as possible.

Channel Structures

Channel structures are evolved based on the type of company products, target market segments and competition. Three different channel structures are briefly explained here.

System	Description	Benefits
Vertical marketing system	Comprise producer,	Achieve economies
	wholesaler (s) and retailer	through their size,
	(s) acting as a unified	bargaining power, and
	system.	elimination of duplicated
		services and channel
		conflicts.

Table –5.1 shows the different systems.

Horizontal marketing	Readiness or willingness	Economy of effort. A
system	of two or more non-related	channel may become
	companies to put together	viable and attractive. Eg:
	resources to exploit an	Shakti groups
	emerging market	
	opportunity.	
Multi- channel marketing	Simultaneous use of	Efficient reach. Wider
System	different channels.	coverage.
	Telemarketing and indirect	
	distribution as in the case	
	of marketing of mobile	
	phones.	

Channel types

One key question in channel decisions is- whether to go for indirect or direct marketing.

• Direct to customers

Producer -> Customer through (i) own sales force without own branch net work (ii) own sales force with own branch net work (iii) Telemarketing (iv) EChannels

• Indirect to customers

Because of the wide variety of channel arrangements that exist, it is difficult to generalize the structure of channels across all industries. However, distribution channels are usually of two types:

I. **Direct Marketing Channel (or Zero level).** This type of channel has no intermediaries. In this distribution system, the goods go from the producer direct to the consumer, e.g., Eureka-Forbes.

0 level

Producer Consumer

II. **Indirect marketing Channel.** This may further be classified in the following categories

1. *One-Level Channel*. In this type of channel there is only one intermediary between producer and consumer. This intermediary may be a retailer or a distributor.

1 Level

Producer — -??Retailer — -??Consumer

If the intermediary is a distributor, this type of channel is used for specialty products like washing machines, refrigerators or industrial products.

Producer —____??Distributor —____??Consumer

2. *Two-Level Channel*. The type of channel has two intermediaries, namely wholesaler/ distributor and retailer.

2 Level

Producer —---??Distributor —-??Retailer —??Consumer

3. *Three – Level Channel*. This type of channel has three intermediaries namely distributor, wholesaler and retailer. This pattern is also used for convenience products

Producer Distributor Wholesaler Retailer Consumer

4. *Four – Level Channel*. This type of channel has four intermediaries namely Agent, Distributor, wholesaler and Retailer. This channel is somehow similar to the previous two. This type of channel is used for consumer durable products also.

Producer Agent -----??Distributor ----?Wholesaler ---?Retailer ---??Consumer

Let us now draw distinctions between direct and indirect marketing efforts.

Slno.	Aspect	Direct	Indirect
1	Type of market	Vertical-few buyers	Horizontal-Many buyers,
			fragmented and widely
			distributed
2	Market potential	High volume	Less volume
3	Market density	High	Thin
4	Buying habits	Large volumes per order,	Small volume per order,
		less frequent buying,	frequent buying, not
		preference to direct contact	particular about contact
			with supplier

5	Buying process	Involves extensive	Less negotiation
		negotiation and bargaining	
6	Product	Customized solutions,	Standardized
7	Pricing	Volatile, need many	Less volatile, few
		Adjustments	adjustments
8	Promotion	Strong need for	Less need for
	/communications	information	information
		Service	Service
9	Distribution	Less emphasis on logistics	Strong emphasis on
		services, need for deep	logistics services (like lot
		product knowledge and	size, delivery time,
		personal attention	assortment and so on),
			need for availability of
			products and not brand
			specific.
10	Services of	Complex	Less complex
	installation operation		
	maintenance		
11	Quality	Important concern for	Normal considerations
		buyer	

Source: Krishnamacharyulu and Lalitha, (2006) *Industrial Marketing*, Jaico Publishing House, Mumbai.

The internet is expected to cause disinter mediation (destruction of intermediary function) as manufacturers bypass middlemen and deal directly with customers. However, channel members continue to thrive in many industries. Surprisingly, internet is now being used to collaborate and support the middlemen and to build customer loyalty.

There are some problems of rural distribution:

• Transportation has not been fully developed.

 \cdot Lack of proper channels of communication like telephone, postal services, and so on pose a lot of problem to marketer to service the retailer as it is difficult to the retailers to place order for goods.

• Storage of goods in rural areas is also a problem for the marketers.

 \cdot Multiple tiers push up the costs and channel management is a major problem for marketers due to lot of middlemen in the process.

· Availability of suitable dealers

• Poor viability of rural outlets

• Rural outlets need banking support for remittances to principals, get fast replenishment of stocks, receive supplies through bank and facilitate credit. This gets handicapped due to inadequate bank facilities.

• There are a lot of private shops in the rural sector.

17.3 CASE STUDY

ITC E-CHOUPALS

Tobacco-to-hotels giant ITC Ltd. has been trying to find a solution to an old problem for years. The company used to buy soya bean for export. Like everyone else, the corporation had no option but to source its supplies from the local mandis. This created two problems. One, quality was not guaranteed, and two, since supplies were sourced through middlemen, the company had no contact with the growers which is a crucial precondition for orders to many European countries. Direct contact with farmers was all but impossible given the fact that they lived in far-flung villages in Madhya Pradesh. ITC's problem was that it did not have a mechanism to approach them directly - and, as importantly, cost effectively.

The company looked for the solution in information technology, through a project called echoupal, launched one-and-a half years ago. A classic click-and-mortar business, the idea behind e-choupal was to offer an alternative distribution and supply chain system to the rural market. How does it work ? Soya bean farmers in Madhya Pradesh can now come to the echoupal, which is nothing but an Internet kiosk set up usually in the house of an influential man (usually the headman) in the village. The village official is appointed by the company and is known as the sanchalak. The site provides farmers with real-time information on the latest weather report, prices in various mandis, world prices and even best farming practices.

More importantly, it offers a price at which ITC is willing to buy the soya from them directly through the sanchalak. Says S Sivakumar chief executive of ITC'S international business division : "The biggest problem for farmers is that middlemen have blocked information flow. Now the price discovery is met through the kiosk and it is transparent." The farmers have the choice of selling their product in the mandi or to ITC. If a farmer accepts the company price, the order is confirmed promptly by the sanchalak on the net. But the e-choupal is not merely an instrument for effective supply chain management for ITC. By using the power of information technology, the company has converted the computer into the popular US concept of a "meta market", or a one-stop shop right in the village, where farmers can sell their produce, buy products (from farming inputs to daily items for household use), receive all the information needed to improve their yields and even get a better price for their produce.

For ITC, it opens up new windows of opportunities. It allows it to source more products directly from farmers through a more efficient price discovery mechanism. It also provides a platform for it to sell its products directly to the customer. This, in turn, provides the company with some direct information on consumer needs in the booming rural markets and reduces dependence on wholesalers. Explaining the logic behind the move, Sivakumar says : "What started as a cost-effective alternative supply chain system to deal directly with the farmer to buy products for exports is slowly going to expand into an alternative distribution mechanism for rural India."

The tobacco giant has already set up over 700 choupals covering 3,800 villages in four states - Madhya Pradesh, Uttar Pradesh, Karnataka and Andhra Pradesh - dealing with soya bean, coffee, acquaculture products and wheat. Last year it transacted business of over Rs. 80 crore through the e-choupals all across the country. The bigger plan is to spend some Rs. 150 crore to expand the number of kiosks so that the company is able to reach over 1,00,000 villages and cover 10 million farmers in 14 states in five years.

Is the business big enough to justify this level of spending and planning? To understand that, consider why a farmer would opt for the e-choupal over the regular mandi. Farmers who strike deals on the internet kiosk with ITC have a choice. They can either bring their produce to the ITC warehouse or factory and get reimbursed for the transportation cost or they could give their supplies to one of the collection centres that have been set up by the company for a cluster of villages or even deliver it to the sanchalak. Both ITC and the farmers make a neat saving by bypassing the middleman in the mandi. For instance, the farmer saves as much as

Rs. 250 per tonne on soya bean because he does not incur costs such as bagging, transportation, loading and unloading, to haul his goods to the mandi.

The company, on ihe other hand, saves over Rs. 200 a tonne by avoiding transporting the produce from the mandi to the company outlet even after reimbursing the farmer for transport. And the sanchalak, the local-level entrepreneur, also makes money by getting a 0.5 per cent commission on the total transaction made through his kiosk. But the kiosk can be used for reverse trading also - for companies to sell products and services needed by farmers directly. And ITC is already putting together a strategy to leverage the infrastructure to market and distribute goods and services that farmers require. The facility will be available for selling both ITC products as well as those of other companies - of course, at a price. The company has taken some initial steps to get agricultural input companies to sell their products directly to farmers through e-choupals.

It has already roped in US seeds giant Monsanto, fertiliser companies like BASF and Nagarjuna Fertilisers and state-owned MP State Seeds Corporation to take orders and market their products through the site. These companies can display their products on the net, trajn farmers on how to use them, offer special prices, book orders from farmers and - through the sanchalak - deliver it at the village. Of course, ITC does not provide the service free. Companies have to pay a 10 per cent fee on the face value of the transaction and the tobacco company pays the sanchalak 5 per cent of the sales as commission for any product sold on his kiosk.

But companies point out that the experience has paid rich dividends. Says a spokesperson for Monsanto : "The model offers us an opportunity to work closely with farmers and promote our offerings. Additionally, our cost of reach is also reduced." Monsanto also makes the point that the company's corporate reputation and brand image has been greatly enhanced as a result of its association with the model. "Close association with the farmers, through this model, encourages them to see us as a first preference." he says. ITC is also experimenting with using the kiosk to sell fast moving consumer goods (FMCG). As the first step, it is selling gas lanterns and packaged vegetable oil. At the moment these are being manufactured by third parties on behalf of ITC.

Orders by farmers are being booked by the sanchalak who also arranges to have them delivered to the farmer's doorstep. If the idea clicks, the platform would be available for other companies too, which could help ITC generate healthy revenues. More importantly, the new distribution system could be an effective tool for the company which is planning a major foray in the foods business. Says Arun Sharma, a rural marketing expert in the advertising agency Bates India : "For its foods foray, ITC cannot depend on cigarette distributors who

are already overloaded to penetrate rural markets. The e-choupal could provide an effective alternative."

The third initiative is to leverage the e-choupal to sell services. Talks are already on with various insurance companies for using the e-choupal as a medium for both educating and selling insurance products to the famer - in which the sanchalak becomes the insurance agent. If this experiment is successful, ITC officials say there is no reason why the array of services being offered to farmers cannot be extended. Says a senior ITC executive, "There is no reason why banks providing micro-credit to farmers, health services companies and educational services companies cannot leverage the power of the meta market" If all this sounds like a rural marketer's dream, consider the possible drawbacks. Says Pradeep Kashyap, president of Marketing and Research Team, a rural marketing consultancy outfit in Delhi : "As a collection centre for agricultural goods, it is a cost-effective way. But I don't think the availability of FMCG products at his doorstep for the farmer is an issue or a particularly high priority since he visits the local town often and picks up what he wants."

There is also the additional problem of the role of the sanchalak who could well replace the despised middleman in the chain of things. Says Arun Sharma of Bates, "There is too much dependence on the sanchalak who virtually becomes the new, powerful middleman replacing the old one. Also, to develop such a distribution system is very expensive and might not be cost effective after all, even though one can reach new markets." Preet Bedi, a director in the advertising agency Lowe-Lintas, expects that it will take at least five to seven years for a distribution platform of this nature to develop, "But it is a good way to understand the need of the rural consumer". ITC is conscious of the infrastructure constraints in expanding the e-choupal. For one, many villages aren't electrified, so how do you run a computer? For another, connectivity to the web is unreliable and could be pretty expensive, a situation that has been made more complicated by the sheer dispersion of villages In the country. Kumar says that the other challenge is to build personalized content catering to individuals across a wide range of income levels. No doubt the path towards a much-vaunted rural distribution El Dorado will be paved with problems. But with the corporation trying to reduce its dependence on tobacco and find more stable income streams, e-choupal might be its best bet yet.

Questions :

(a) Will e-choupals work as a new distribution strategy for ITC which believes in a two way flow (urban to rural; rural to urban). If yes, why; and if no, why not ?

(b) Is it a right move for ITC, which already has a presence in Indian villages with special tie ups with farmers for tobacco cultivation, to enter into e-ventures ? Will this model run successfully in the long run ? What can ITC derive out of e-choupals ?

(c) Will a company, which thinks of social marketing as its objectives for rural development, really succeed in winning the hearts of rural Indians ? Is ITC going the right way in this initiative, according to you ?

Case - 2

Telecom companies have been talking about the potential of rural India for quite some time now. Of late they have started focusing on the rural segment. Rural India accounts for 70% of India's population and more than 50% of national income. The divide between urban and rural teledensity is on decline. While the rural teledensity was less than 10% of the urban teledensity in 2006, it became more than 25% in 2012. Further, India is likely to retain its position of being the second largest wireless market in the world in terms of mobile connections, after China. Rural India is the key target market likely to drive the next round of growth, particularly for voice based services. Many companies are innovating to gain rural market leadership. However, the new-found focus on the rural segments is not without challenges. A leading expert on the telecom market comments that "The telecos would need to think of different strategies to cater to rural India. The demands of rural India are dramatically different from those of Urban India".

(a) Do you agree with the comment of the telecom expert given above ? Justify your answer.

(b) Suggest some specific marketing mix strategies for rural markets.

17.4 NOTES



17.5 SUMMARY

Distribution is important from firm as well as economy point of view. Channel design objectives may include delivery of superior value to customer, low cost operation, control, sales maximization and image. Various constraints to channel design comprise characteristics of product, company, competitor, middlemen and environment. A channel of distribution links marketer and customers directly or through intermediaries. Distribution is an ancient function, a key external resource, a link between seller and customer, a channel with flows and complex in nature. Channel structures present vertical, horizontal and multi-channel marketing systems. Vertical marketing system is of three types – corporate, administered and contractual. One key question in channel decision is whether to go for director indirect marketing. Direct marketing is appropriate when buyers are few and buy large volumes per order, product is customized ,buying requires negotiation, information needs are many and long range relationships are important. Indirect channels include wholesalers, retailers, dealers, cooperative agencies, self-help groups etc. Direct marketing channels include branch houses, sales force, telemarketing service bureau and internet info mediatise.

17.6. KEY WORDS

DISTRIBUTION CHANNELS, RURAL MARKETING, MIDDLE MAN, DIRECT MARKETING, INDIRECT MARKETING, INFORMATION TECHNOLOGY, RETAILER, WHOLESALER, DEALER.

17.7 SELFASSESSMENT QUESTIONS

- 1. Explain the concept and significance of marketing channels
- 2. Discuss the middle man system in rural marketing
- 3. Explain the role of technology in rural channels.
- 4. Identify the different players in the rural marketing.
- 5. Examine the factors influencing channel design decisions
- 6. How do you select channel members?

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UNIT-18 : FMCG SECTOR IN RURAL INDIA

Structure:

- 18.0 Objectives
- 18.1 Introduction
- 18.2 FMCG sector in India
- 18.3 Challenges Faced By FMCG Sectors for Rural Marketing
- 18.4 Prospects of FMCG
- 18.5 Marketing business process in FMCG
- 18.6 Case Study
- 18.7 Notes
- 18.8 Summary
- 18.9 Key Words
- 18.10 Self Assessment Questions
- 18.11 References

18.0 OBJECTIVES

After studying this unit, you should be able to;

- Discuss the FMCG sector in rural India
- Explain the channels of FMCG
- Highlights the FMCG categories and products
- Enumerate Challenges Faced By FMCG Sectors for Rural Marketing
- Explain the prospects of FMCG sector.

18.1 INTRODUCTION

The Fast Moving Consumer Goods (FMCG) sector is a corner stone of the Indian economy. This sector touches every aspect of human life. The FMCG producers now realize that there is a lot of opportunity for them to enter into the rural market. The sector is excited about the rural population whose incomes are rising and the lifestyles are changing. There are as many middle income households in the rural areas as there are in the urban. Thus the rural marketing has been growing steadily over the years and is now bigger than the urban market for FMCGs. Globally, the FMCG sector has been successful in selling products to the lower and middle income groups and the same is true in India. Over 70% of sales is made to middle class households today and over 50% of the middle class is in rural India. The sector is excited about a burgeoning rural population whose incomes are rising and which is willing to spend on goods designed to improve lifestyle. Also with a near saturation and cut throat competition in urban India, many producers of FMCGs are driven to chalk out bold new strategies for targeting the rural consumers in a big way. But the rural penetration rates are low. This presents a tremendous opportunity for makers of branded products who can convert consumers to buy branded products. Many companies including MNCs and regional players started developing marketing strategies to lure the untapped market. While developing the strategies, the marketers need to treat the rural consumer differently from their counterparts in urban because they are economically, socially and psycho-graphically different to each other.

Definition of FMCG goods

Fast-moving consumer goods (FMCG) or **consumer packaged goods** (CPG) are products that are sold quickly and at relatively <u>low cost</u>. Examples include non-durable goods such as <u>soft drinks</u>, <u>toiletries</u>, <u>over-the-counter drugs</u>, <u>processed</u>

<u>foods</u> and many other <u>consumables</u>. In contrast, durable goods or major appliances such as kitchen appliances are generally replaced over a period of several years. The term was coined by <u>Neil H. Borden</u> in *The Concept of the Marketing Mix* in 1965 (1996, Prentice-Hall, Inc.).

FMCG have a short <u>shelf life</u>, either as a result of high consumer demand or because the product deteriorates rapidly. Some FMCGs, such as meat, fruits and vegetables, dairy products, and baked goods, are highly perishable. Other goods, such as alcohol, toiletries, pre-packaged foods, soft drinks, chocolate, candies, and cleaning products, have high <u>turnover</u> rates. The sales are sometimes influenced by some holidays and season.

Though the profit margin made on FMCG products is relatively small (more so for retailers than the producers/suppliers), they are generally sold in large quantities; thus, the cumulative profit on such products can be substantial. FMCG is probably the most classic case of low margin and high volume business.

Characteristics

The following are the main characteristics of FMCGs

• From the consumers' perspective

- Frequent purchase
- Low involvement (little or no effort to choose the item)
- Low price
- Short shelf life
- Must use for daily consumption

• From the marketers' angle

- High volumes
- Low contribution margins
- Extensive distribution networks
- High stock turnover

The Indian Fast Moving Consumer Goods (FMCG) industry began to shape during the last fifty odd years. The FMCG sector is a cornerstone of the Indian economy. This sector touches every aspect of human life. Indian FMCG market has been divided for a long time between the organized sector and the unorganized sector. Unlike the US market for FMCG which is dominated by a handful of global players, India's Rs. 460 billion FMCG market remains highly fragmented with roughly half the market going to unbranded , unpackaged home made products. This presents a tremendous opportunity for makers of branded products who can convert consumers to buy branded products.

Globally, the FMCG sector has been successful in selling products to the lower and middle income groups, and the same is true in India. Over 70% of sales is made to middle class households today and over 50% is in rural India. The sector is excited about a burgeoning rural population whose incomes are rising and which is willing to spend on goods designed to improve lifestyle. Also with a near saturation and cut throat competition in urban India, many producers of FMCGs are driven to chalk out bold new strategies for targeting the rural consumer in a big way.

The fast-moving consumer goods (FMCG) sector is an important contributor to India's GDP. It is the fourth largest sector of the Indian economy. The FMCG market is estimated to treble from its current figure in the coming decade. Penetration levels as well as per capita consumption of most product categories like jams, toothpaste, skin care and hair wash in India are low, indicating the untapped market potential. The growing Indian population, particularly the middle class and the rural segments, present an opportunity to makers of branded products to convert consumers to branded products. The Indian rural market with its vast size and demand base offers a huge opportunity for investment. Rural India has a large consuming class with 41 per cent of India's middleclass and 58 per cent of the total disposable income.

18.2 FMCG SECTOR IN INDIA

The Indian FMCG sector has a market size of \$13.1 billion. Well-established distribution networks, as well as intense competition between the organised and unorganised segments are the characteristics of this sector. FMCG in India has a strong and competitive MNC presence across the entire value chain. It has been predicted that the FMCG market will reach \$33.4 billion in 2015 from \$11.6 billion in 2003. The middle class and the rural segments of the Indian population are the most promising market for FMCG, and give brand makers the opportunity to convert them to branded products. The Indian economy is surging ahead by leaps and bounds, keeping pace with rapid urbanisation, increased literacy levels and rising per capita income. The FMCG sector consists of consumer non-durable products, which broadly include personal care, household care and food and beverages. It is largely classified into organised and unorganised segments. The sector is buoyed by intense competition between these two

segments. Besides competition, it is marked by a robust distribution network coupled with increasing influx of MNCs across the entire value chain. The sector continues to remain highly fragmented.

India's FMCG sector creates employment for more than three million people in downstream activities. The total FMCG market is in excess of Rs 850 billion. It is currently growing at double-digit rate and is expected to maintain a high growth rate.

Category	Products		
Household care	Fabric wash (laundry soaps and synthetic detergents),		
	household cleaners (dish/utensil cleaners, floor cleaners, toilet		
	cleaners, air fresheners, insecticides and mosquito repellents,		
	metal polish and furniture polish)		
Food and	Health beverages, soft drinks, staples/cereals, bakery products		
beverages	(biscuits, bread, cakes), snack food, chocolates, ice cream,		
	tea, coffee, soft drinks, processed fruits, vegetables, dairy		
	products, bottled water, branded flour, branded rice, branded		
	sugar, juices, etc		
Personal care	Oral care, hair care, skin care, personal wash (soaps),		
	cosmetics and toiletries, deodorants, perfumes, feminine		
	hygiene, paper products		

FMCG Categories and Products

18.3 CHALLENGES FACED BY FMCG SECTORS FOR RURAL MARKETING

The peculiarities of the rural markets and rural consumers pose challenges to the marketers in reaching them effectively. While making out a case for opportunities that are rapidly developing in rural markets, one should not underestimate the several daunting problems in planning for growth. There are a large number of small villages which are not easily accessible because of all weather roads. Rural consumers are far less homogeneous than urban consumers. The main problems of rural marketing are discussed below:

Transportation problems: Transportation infrastructure is quite poor in rural India. Nearly 80 percentages of villages in the country are not connected by well constructed roads. Marketing activities require transportation facilities. Due to poor transportation facilities, farmers and marketers find it difficult to reach markets.

Warehousing: In the rural areas, there are no facilities for public as well as private warehousing. Marketers face problem of storage of their goods.

Packaging: It is the first important step of product processing. If the packaging cost is high, it will increase the total cost of products. It is suggested that the marketers should use cheaper materials in packaging for the rural markets.

Media Problems: Media have lots of problems in rural areas. Television is a good medium to communicate message to the rural people. But due to non-availability of power, as well as television sets, majority of the rural population cannot get the benefits of various media.

Seasonal Marketing: The main problem of rural marketing is seasonal demand in rural areas, because 75% of rural income is also seasonal. For example, the demand for consumer goods will be high during the peakcrop harvesting period, because this is the time at which the rural people have substantial high cash flow. Rural marketing depends upon the demand of rural people and demand depends upon income and consumer behaviour.

Low Per Capita Income: Per capita income is lower in rural areas compared to those in urban areas. Again, the distribution of rural income is highly skewed, since the land holding pattern, which is basic asset, itself is skewed. Thus the rural population presents a highly heterogeneous spread in the villages.

Low Level of Literacy Rate: The literacy rate is low in rural areas compared to urban areas. This again leads to the problem of communication for promotion purpose. Print medium becomes ineffective and to an extent irrelevant in rural areas since its reach is poor.

Distribution: An effective distribution system requires village-level shopkeeper, Mandal/ Taluka- level wholesaler or preferred dealer, distributor or stockiest at district level and company-owned depot or consignment distribution at state level. The presence of too many tiers in the distribution system increases the cost of distribution *Career in Rural Market:* While rural marketing offers a challenging career, a rural sales person should require certain qualifications and specialized talent to deal with rural consumers.

Cultural Factors: Culture is a system of shared values, beliefs and perceptions that influence the behavior of consumers. There are different groups based on religion, caste, occupation, income, age, education and politics and each group exerts influence on the behavior of people in villages. There are several difficulties confronting the effort to fully explore rural markets. The concept of rural markets in India is still in evolving shape, and the sector poses a variety of challenges. Distribution costs and non-availability of retail outlets are major problems faced by the marketers. The unique consumption patterns, tastes, and needs of the rural consumers should be analyzed at the product planning stage so that they match the needs of the rural people. Therefore, marketers need to understand the social dynamics and attitude variations within each village though nationally it follows a consistent pattern.

18.4 PROSPECTS OF FMCG

Market research -Market research is the key. Without the necessary information, it becomes difficult to understand the requirements of the customers. It provides critical information and direction. It identifies market needs and wants, product features, pricing, decision makers, distribution channels, motivation to buy. They're all critical to the decision process.

Timing - Are elements of the process coordinated? Is production on the same time schedule as the promotion? Will the product be ready when you announce it? Set a time frame for the rollout, and invite failure. There are marketing tales galore about companies making new product announcements and then having to re-announce when the product lags behind in manufacturing. The result is loss of credibility, loss of sales, and another failure.

Capacity – If the new product or service is successful, do you have the personnel and manufacturing capacity to cope with the success? Extended lead times for new products can be just as deadly as bad timing.

Testing - Test market the new product. Be sure it has the features the customer wants. Be sure the customer will pay the price being asked. Be sure the distributor and sales organization are comfortable selling it. You may need to test your advertising and promotion as well.

Distribution – Who's / which's going to sell the product? Can you use the same distribution channels you currently use? Can you use the same independent representatives or sales force? Is there sufficient sales potential in the new product to convince a distributor, retailer, or agent to take on the new line? There are significant up-front selling costs involved in introducing new products. Everyone in the channel wants some assurance that the investment of time and money will be recovered.

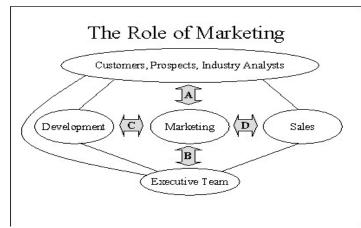
Training - The sales organization involved in the marketing/selling, inside employees, and distribution channels will need to be trained about the new product. If the product is sufficiently complex, face-to-face training needs to be provided. Or perhaps some type of multimedia program will do the job. If the product is not that complex, literature may work. Again, timing is critical. Train before the product hits the shelves, not after.

Promotion - The promotional program to support the introduction: advertising, trade shows, promotional literature, technical literature, samples, incentives, Web site, seminars, public relations. Time it all with production, inventory, shipments, and training. The new product will simply sit in the warehouse without the right support materials. Research, timing, and planning can all help increase the probability of success.

18.5 MARKETING BUSINESS PROCESS IN FMCG

1. Issue Identification and Assessment-Identify and assess the company's current marketing efforts. Company Rate with our survey and target problem areas by understanding challenges, issues and strategies. The first issue in this series identifies the FMCG product in India and allows assess the company's current. and stick to it. Many products need to be timed to critical points in the business cycle. Miss it,

2. The Role of market relationship in FMCG product - Marketing is the "man in the middle"—mediating between Customers, Prospects, Sales, Development, and the Executive Team. As such, Marketing is pulled in multiple directions. Marketing is the critical intersection between Development, Sales, Customers, and the Executive Team.



A-Marketing touches Customers, Prospects, and industry thought leaders via press releases, magazine articles, briefings, brochures, trade shows, customer councils, advisory boards, and lead generation programs.

B-Drawing on the information gathered both externally and internally, Marketing supports the Executive Team in developing business strategy by identifying market opportunities and generating and executing marketing strategies and plans that support attainment of business objectives.

C-Marketing works with Development to define requirements, plan products, and bring products to market. Marketing must assure the delivery of a reliable and "complete" product that includes documentation, training, and support. If relevant, marketing also addresses upgrade, migration and "end-of-life" planning.

D-Marketing trains the sales force on new products, manages the HQ visits of customers, prospects, and industry analysts, performs Win/Loss analyses, and gathers input on customer and prospect requirements.

3. The Classic Dilemma - Marketing has an obligation and need to support both Development and Sales. Creative thinking is required to assure that the needs of all parties are met.

4. The Selling Process - Identifying and understanding FMCG product target customer and documenting the selling process are critical success factors. Proceeding without this information is like taking a long road trip without having a map.

5. Product Planning - Defining a new offering and getting it out the door is an exciting and challenging balancing act.

6. Growth and Change - The company grows the market changes, and the challenged to turn the resulting process breakdowns into breakthroughs.

7. Marketing ROI - The marketing programs are not aimed at identifying and addressing the true needs of customers and prospects in a manner that produces measurable results.

8. Summary of Challenges and Strategies - The most common (and critical) challenges in FMCG product marketing—and proposed strategies to address them. The key is to be pragmatic and remain focused on identifying and addressing the true needs of customers and prospects. The competitive scenario continues to remain high in the sector. Majority of the companies are taking calibrated price hikes to manage the top line and volume growth. The FMCG companies are persisting with innovations and product launches across segments, to maintain his volume growth, value growth, boost its margin and maintain

market share. Most of the companies are keen on launching premium variants of its products at higher price. The sector will get good growth momentum, if the Finance minister increase the income tax slab, focus more on rural development and implant GST.

18.6 CASE STUDY

Marketing and Distribution of Mushroom

Sachin and Virag are two enterprising youth. They have passed out from IIM, Bangalore. They thought instead of doing a job, they will launch fresh vegetables in Indian markets. Having learnt of the future conventional foods, they decided to venture into cultivation of mushrooms.

Mushrooms are known to be the best alternative food for vegetarians. For Sachin and Virag fund raising was a serious handicap for mass production. However, the first trial batch of mushrooms that they produced was bought by Star Hotel in Bangalore. Further, the hotel placed orders for supply of 20 kgs every day.

Now mushroom industry is run by small entrepreneurs, like Sachin and Virag. Another big player M/s Ashtavinayak Mushrooms, equipped with cold storage facility was more interested in the export market. Sachin and Virag have set their sights high. They aim to sell mushrooms in a very big way all over India. Mushrooms have a great market potential and is a perishable food.

Questions

A. How will you advise Sachin and Virag, as how to increase the consumer awareness about this new food?

B. What would be your suggestions for distribution channel for mushrooms?

Case Study 2

THE RURAL MARKET IN INDIA

The vast size and large demand base of the Indian rural market offers great opportunities to FMCG companies. A location is defined as 'rural' if 75% of the population is engaged in agriculture-related activity. India has 450 districts and approximately 6,30,000 villages. These villages can be sorted on the basis of different parameters like income levels, literacy levels, penetration, accessibility and distance from the nearest town. In August 2002, around 700 million people, approximately 70% of the Indian population was engaged in agricultural activity, contributing 1/3rd of the country's GNP. Apart from the fact that the rural population is very large, it has also grown richer since the 1990s, with substantial improvements in incomes and spending power. This was a direct result of very high crop yields due to successive good monsoons. Tax exemptions for agricultural income have also contributed to greater rural purchasing power.

For all these reasons, rural India is now seen as a vast market with unlimited opportunities. Therefore it is not surprising that many companies that market FMCGs of everyday use, have put in place parallel rural marketing strategies. The biggest brands in India belong to companies with a strong rural presence. Many FMCG companies had already hit saturation points in urban India by the mid-1990s. The late 1990s saw many FMCG companies in India shifting their emphasis to rural marketing. Companies like HLL, Marico Industries, Colgate-Palmolive and Britannia Industries took up rural marketing in a serious manner during the 1990s. However, selling FMCG products in rural India was a tough task. It has always been difficult to gauge the rural market. Many brands which were well-established in urban areas have not been successful in rural India. Therefore, it is important for a company to understand the social dynamics and attitude variations within each village. A company has to address several problems before it can sell its products successfully in the rural market. These include:

- · Physical distribution
- · Channel management and
- Promotion and marketing communication

Amongst these, problems related to physical distribution and channel management adversely affect the service and the cost of the company. Typically a market structure consists of a primary rural market and retail sales outlets. The retail sales outlets in towns act as the stock points to service the retail outlets in the villages. But maintenance of the service required for delivery of the product at retail level is costly as well as difficult. Many companies use delivery vans to take products to the customers in the rural areas as well as to facilitate direct contact with them, for sales promotion. However, in general, only large companies can afford to undertake such initiatives.

18.7 NOTES

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18.8 SUMMARY

The new phase of rural consumption appears to provide a great opportunity for the FMCG sectors. Marketers will need to evolve new strategies to connect and communicate with a more aware and unreserved consumer than ever before, the study found. With this, product and brand development cycles will need to undergo a dramatic change. Today's rural consumer is not just indulgent, but 'smart' too: she wants products that carry the best of traditional wisdom and modern science, providing her convenience and individualism in one go. This means product and brand strategies that respond to these demands are more likely to succeed. This bolder and more individualistic consumer is unafraid to exhibit and 'externalize' the need to indulge. Recognizing this and coupling it with ideas that offer 'individualized convenience' will separate the brands that will win from the others. The demand or prospect could be increased further if these companies can change the consumer's mindset and offer new generation products. Thus we can safely suggest that the future drivers of growth are the rural markets for the FMCG sectors.

The challenge for FMCG industry is to tap new customers and retain them, for this purpose it is necessary to make pace with technological change and to satisfy the changing tastes and preference of customers. .Companies should offer the product with affordable cost, new packaging, and design. Innovation process should be continuous and it should cater to local needs rather than global .Innovation varies at different stages of Product life cycle so the marketers should have a clear understanding of issue s and problem regarding a brand, Innovation should also focus to the need of rural customers since a major population lives in rural area.

18.9 KEY WORDS

FMCG, Rural Consumers, Buying Behavior, transformation of rural living, Promotion Mix, Innovation, Product planning.

18.10 SELF ASSESSMENT QUESTIONS

- 1. Discuss the growth of FMCG sector in Indian rural market.
- 2. What are the different channels for FMCGs?
- 3. Define FMCGs. Explain the business process of FMCGS.
- 4. What are the challenges faced by the FMCG industry in rural India?
- 5. Explain the buying behavior patron in FMCGs in rural market.

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UNIT-19: ROLE OF ADVERTISING IN RURAL MARKET

Structure:

- 19.0 Objectives
- 19.1 Introduction
- 19.2 Definition of Advertising
- 19.3 Dynamic of Rural Purchase Behavior
- 19.4 Media Effect and its Measurement in Rural India
- 19.5 National Cooperative Development Corporation (NCDC)
- 19.6 Food Corporation of India (FCI)
- 19.7 Panchayat Mandi State agricultural marketing banks.
- 19.8 Case Study
- 19.9 Notes
- 19.10 Summary
- 19.11 Key Words
- 19.12 Self Assessment Questions
- 19.13 References

19.0 OBJECTIVES

After studying this unit, you should be able to;

- Define the meaning and definition of advertising
- Explain the role of advertising in rural market
- Discuss the genesis role and functions of NCDC
- Explain the Food Corporation of India (FCI)
- Highlights the state agricultural banks.

19.1 INTRODUCTION

Advertising is an important element of promotion mix. Advertising sales promotion and public relations are mass communication tools available to marketers; mass communication means using the same message for all the consumers. Advertising is used by both profit and non-profit organizations. Advertising plays a significant role in creating awareness and attitude formation. In recent times increased competition created an advertising war among the marketers. Now let us see the four features of advertising definition given in below.

- A verbal and /or visual non personal message
- An identified sponsor
- Delivery through one or more media
- Payment by the sponsor to the medium carrying the message

All these features can be identified in any advertisement. Advertising then consists of all the activities involved in presenting a message through the media, a non-personal, sponsor identified, paid for message about a products idea, service, person or organization.

SETTING ADVERTISING OBJECTIVE

Basic step in developing an advertising campaign is to decide advertising objectives. These objectives should be based on past decisions about the target market, positioning and marketing mix. The objectives of each advertising campaign need to be mentioned in measurable terms, in order to focus and evaluate the effectiveness.

The purpose of advertising is to sell something – a product, service, idea, person or place. Companies set specific objectives for individual ads. Through this the basic purpose of advertising, that is to sell, will be achieved. Specific advertising objectives are:

• **Support personal selling:** Advertising may be used to inform the prospects about the company and products. This makes the sales persons' job easy. For example Eureka Forbes advertises about water purifiers, vacuum cleaners etc. and supports its sales force

• **Improve dealer relations:** Manufacturers support their wholesalers and retailers with advertising. For example car companies advertise about their cars and the local dealers. This improves dealer relations.

• **Introduce a new product:** When a new product is added to the product line or product mix, consumers need to be informed. For instance, Reliance Communications, when it launches new mobile connection plans it advertises, when Reliance introduced Reliance Money it informs the consumers.

• **Expand the use of a product:** advertising may be used to increase the product use or different uses of the product. For example, Lion Date Syrup ad shows various situations to use.

• **Counteract substitution:** advertising persuades the existing consumers by emphasizing the benefits of the products. So they will not switch to the competitive products.

19.2 DEFINITION OF ADVERTISING

Advertising: The word "Advertise" has been derived from the word "Ad" which means "Turn" & "Verto" meaning "towards". Hence the term advertising means to turn the attention towards something.

Definition: According to the **Philip Kotler**, "Advertising consists of non-personal or one way form of communication conducted through paid media under clear sponsorship."

Objectives of Advertising: The main objective of advertising may be explained in the "AIDAS" formula, where A=Attract the attention, I=Create interest (read), D=Desire (like), A=Action (act), S=Satisfaction.

In other words, a god advertisement must attract the consumers, create interest in them, make them to desire the product & finally they should buy the product. The other objectives are:

- a. To bring to the notice of consumers, the product, the features, uses etc.
- b. To make an immediate sale.
- c. To build demand in case of a new product.

- d. To build the brand recognition
- e. To increase market share
- f. To build overall image of the company
- g. To reach new market.

19.3 DYNAMIC OF RURAL PURCHASE BEHAVIOUR

Many factors contribute to making a rural buyer's purchasing behaviour different from that of his urban counterpart. The joint family system prevails in rural areas. A family may consist of 10 to 15 people. The role and chores of family members are defined. Elders are held in high esteem. Purchases are not necessarily made by the users, but often by young boys who are asked to fetch things from the local *kirana* shop.

Family members, including young girls, their friends, and relations, go in group to fairs and purchase products which they normally do not get the chance to buy, especially lingerie, personal hygiene products, and cosmetics. Unlike urban households, buying is not systematic in rural areas. It is generally resorted to when an item like flour, tea leaves, oil, and soap runs out. According to various field surveys and research studies, mothers, grandmothers, and those in charge of household chores ask their children, generally male children, to go out quickly and buy the product from the shop. Girls may have their own choice of products and brands but they venture out for purchases very rarely.

In rural areas there is strict segregation of men and women. It is still a closely society where issues such as love, affairs, sex and sexuality are not discussed openly. Experts feel that any communication that reflects any of these issues would put off viewers. A girls or a woman is looked upon as the pride of the family (gharkiizzat) and depicting her in a flirtatious context raises eyebrows. Stereotypes persist strongly.

19.4 MEDIA EFFECT AND ITS MEASUREMENT IN RURAL INDIA

Today, Rural India is the buzzword for marketers. Organizations are shifting their focus towards this huge and largely untapped market. But the problem for them is in reaching out to this huge magnitude of the rural masses with varied social, cultural backgrounds and speaking a few hundred dialects.

Media penetration and the need gap in rural India

The growth in conventional media has been quite significant; however, it has not been substantial. Rural India consists of about 127 million households of which only

54% comes in contact with any of the conventional media, like press, TV, satellite, radio or cinema. That means roughly 238 million are waiting to be tapped by the conventional media. It should be acknowledged that different media mix is needed to convey messages to rural consumers. There is a need to understand what appeals to urban customers may not be appropriate for their rural counterparts owing to their different lifestyle. The entire communication and also the vehicles for the communicated message thus have to be different. It has been noticed that below-the-line communication like alternative and innovative ways of communication played a key role in building reassurance and trust, and so it is vital.

Changing attitude of the rural consumers: Rural consumerism

Due to the increase in literacy rates and the penetration of conventional media, the perception and attitude of the rural consumer is changing, moving towards proper consumerism. Not only this, attitude and consumption habits of rural consumers are also changing and becoming more modern in an urban sense.

Broad strategies of rural advertising

The prevalent ways of advertising in rural areas through different existing media and all the alternative and innovative media broadly revolve around three strategies, namely,

- · Influencer strategy
- · Participatory strategy
- · Show-and-tell strategy

Influencer strategy: The role of the influencer or influencing communication cannot be ignored as far as rural India is concerned. The advertisements that revolve around this very strategy actually depend on the influence of different influential people and/or events in the villages to put across the message powerfully with more effect and purchase intention. An example of this kind of advertisement may be brand endorsement by any influential person in the village like the 'Mukhiya' or the 'school master'.

Participatory strategy: Events like different festivals and different games and sports competitions actually have a high participation level in the rural India as other sources of entertainment are very less in those areas. So, these events and shows offer great opportunity to reach rural India cost effectively. Different brands sponsor different events and shows in rural villages which is actually a cost-effective way to advertise with the participatory strategy.

Show-n-tell strategy: Many brands are venturing into different ways to educate their rural consumers about their brands and their usage through different shows and events. This kind of initiatives actually create huge awareness about the brand among the interested people in the rural India. Different health related advertisements like Polio awareness and AIDS awareness programmes involve a 'show-n-tell' strategy of advertising.

19.5 NATIONAL COOPERATIVE DEVELOPMENT CORPORATION (NCDC)

Genesis

The National Cooperative Development Corporation (NCDC) was established by an Act of Parliament in 1963 as a statutory Corporation under the Ministry of Agriculture & Farmers Welfare. NCDC is a statutory organization, on the recommendation of the All India Rural Credit Survey Committee for spearheading development of rural economic activities through cooperatives. Its policies and programmes are prepared with the guidance of Board of Management and General Council, which are constituted by the Government of India (GOI) out of a cross section of cooperatives, officials and nonofficials.

Mission and Objectives

NCDC is a non equity based promotional organization created exclusively for planning, promoting and financing, production, processing, marketing, storage, export and import of agricultural produce, foodstuff and certain notified commodities, on cooperative principles. The NCDC Act underwent change in 1974 to include more business activities like fisheries, poultry, dairy, handloom, & sericulture and by this amendment, NCDC's resource base was broadened to enable it to raise funds from the market. The Act was again amended in 2002, on the recommendation of a Government of India Committee, to cover some more areas such as livestock, industrial goods, cottage and village industries, handicrafts, rural crafts and certain notified services like water conservation works, irrigation, animal health care, disease prevention, agriculture insurance and agriculture credit, rural sanitation and services pertaining to labour cooperatives. Along with the above, the amendment also enables NCDC financing cooperative societies directly under its various schemes on fulfilment of certain stipulated conditions. NCDC's funding to States/Cooperatives is based on specific patterns of assistance. NCDC has divided the States into three broad categories for lending assistance viz., Cooperatively Developed States, Cooperatively Under- Developed States and Cooperatively Least-Developed States.

Role and Functions of NCDC:

- 1. To provide loans and grants to various co-operative societies.
- 2. To utilize the National Co-operative Development Fund for various development activities of co-operative societies.
- 3. To provide technical facilities to agricultural co-operative society through respective state governments.
- 4. To participate in the share capital of the different co-operatives societies working at the national level.
- 5. To develop co-operative fields like processing, warehousing, import-export of agricultural commodities etc.
- 6. To assist state government in Human Resource Development.
- 7. To provide funds to State Governments for financing co-operative societies for the purchase of agricultural produces and food stuffs.
- 8. Plan and promote programmes through cooperative societies for the supply of seeds, manures, fertilizers and agricultural implements.
- 9. Provide outright grant to cooperative credit institutions towards their special bad debts reserve.
- 10. Help the long term credit institutions through purchase of debentures floated by them.

Functions of NCDC

Planning, promoting and financing programmes for production, processing, marketing, storage, export and import of agricultural produce, food stuffs, certain other notified commodities e.g. fertilisers, insecticides, agricultural machinery, lac, soap, kerosene oil, textile, rubber etc., supply of consumer goods and collection, processing, marketing, storage and export of minor forest produce through cooperatives, besides income generating stream of activities such as poultry, dairy, fishery, sericulture, handloom etc.

NCDC Act has been further amended which will broad base the area of operation of the Corporation to assist different types of cooperatives and to expand its financial base. NCDC will now be able to finance projects in the rural industrial cooperative sectors and for certain notified services in rural areas like water conservation, irrigation and micro irrigation, agri-insurance, agro-credit, rural sanitation, animal health, etc.

Loans and grants are advanced to State Governments for financing primary and secondary level cooperative societies and direct to the national level and other societies having objects extending beyond one State. Now, the Corporation can also go in for direct funding of projects under its various schemes of assistance on fulfilment of stipulated conditions.

Organisation & Management of NCDC

The Management vests in 51 members widely represented General Council to give shape to its policies and programmes and Board of Management with 12 members to cater to day-to-day activities. Besides its Head Office, NCDC functions through 18 Regional/State Directorates. The Managing Director is the Chief Executive. Various functional divisions look after the programmes. The field offices play an important role in project identification/formulation and oversee its implementation. NCDC is endowed with in-house technical and managerial capabilities in the areas of Cooperation, Organisation & Methods, Financial Management, Management Information Systems, Sugar, Oilseeds, Textiles, Fruits & Vegetables, Dairy, Poultry and Live stock, Fishery, Handlooms, Civil Engineering, Refrigeration and Preservation to help cooperatives to identify/formulate projects and successfully implement them.

Finance and Financing

Sources of Funds

Internal accruals, market borrowings and allocations from Government of India including International assistance.

Purposes for which assistance is provided

- Margin money to raise working capital finance (100% loan)
- Strengthening of share capital base of societies (100% loan)
- Working capital to regional/state level marketing federations (100% loan).
- Term loan for creation of infrastructural facilities like godowns, cold storages, equipment financing, purchase of transport vehicles, boats and other tangible assets
- Term and investment loan for establishment of new, modernisation/ expansion/ rehabilitation/diversification of agro-processing industries.
- · Subsidy for preparation of project reports/feasibility studies etc.

Procedure of Sanction / Disbursal of Assistance

NCDC assistance is not individual beneficiary oriented but is meant for institutional development of Cooperatives. NCDC supplements the efforts of State Government. The State Governments recommend the proposal of individual society / project to NCDC in the prescribed schematic format. The Society may also avail direct funding of projects under various schemes of assistance on fulfilment of stipulated conditions. The proposals are examined in the concerned functional division and if need be on the spot field appraisal is undertaken. Thereafter, formal sanction of funds is conveyed to the State Govt. / Society. The release of funds depends on progress of implementation and is on reimbursement basis. The period of repayment of loan ranges from 3 to 8 years. The rate of interest varies from time to time.

Activities Funded by NCDC

Marketing

- Margin Money assistance to Marketing Federations
- Strengthening share capital base of primary / district marketing societies
- Marketing (Fruit & Vegetable)
- Working Capital Finance

Processing

• Setting up of new Sugar factories (Investment Loan) / Modernisation and Expansion/ Diversification of existing Sugar Factories (Investment loan + term loan)

• Margin Money assistance to cooperative Spinning Mills / State Cooperative Cotton Federations / Share Capital participation in New Spinning Mills / Modernisation/ Expansion of Spinning Mills / Modernisation of Existing and Establishment of Modern Ginning & Pressing Units / Rehabilitation of Sick Spinning Mills / Cotton Development Programmes

• Other Processing Units: Food Grains / Oilseeds / Plantation Crops / Cotton Ginning and Pressing / Fruit & Vegetable / Maize Starch / Particle Board, etc.

• Power Loom Cooperatives covering pre and post loom facilities

Cooperative Storage

- · Construction of godowns (Normal)
- Upgradation/renovation of existing godowns

- · Construction of Cold Storages / Upgradation/ Rehabilitation of Cold storages
- Distribution of essential articles through cooperatives
- Distribution of Consumer articles in rural/ urban/ semi urban areas.
- · Industrial Cooperatives

All types of Industrial Cooperatives, Cottage & Village Industries, Handicrafts/rural crafts etc.

Service Cooperatives

Agriculture Credit

Agriculture Insurance

Labour Cooperatives

Water Conservation works/services

Irrigation, micro irrigation in rural areas

Animal care/health disease prevention

Rural sanitation/ Drainage/ Sewage system through Cooperatives

Agricultural Services

Cooperative Farmers' Service Centres

Agro Service Centres for Custom hiring

Establishment of Agricultural inputs manufacturing and allied units.

Irrigation/ Water harvesting programmes.

District Plan Schemes

Integrated Cooperative Development Projects in selected districts (ICDP)

Cooperatives for Weaker Sections

Fisheries

Dairy

Poultry

Tribal

Handloom

Coir & Sericulture

Assistance for Computerisation

Promotional and Developmental Programmes

Technical & Promotional Cells

Consultancy for studies/project reports, management studies, market survey & evaluation of programmes, etc.

Training and Education

PROMOTIONAL AND DEVELOPMENTAL ROLE of NCDC

Distinct Features

NCDC is involved in planning, promoting, coordinating and financing of cooperative development programmes at the national level. It provides financial and technical support to cooperative institutions of farmers and other weaker sections associated with agriculture and allied rural economic activities. NCDC's strategy is to strengthen and develop these institutions to enable them to serve their members and to maintain a sustained growth in their income.

A. The promotional and developmental role is distinctly reflected in the following spheres of its operations:

a) Influencing the policies of Central and State Governments to support cooperative activities for rural development.

b) Assisting in planning for cooperative development and thus, helping the Central and State Governments in formulation of Five Year Plans and Annual Plans.

c) Sponsoring specific and Integrated Cooperative Development Projects.

d) Extending consultancy support for formulation of development projects in the cooperative sector.

e) Coordinating activities of cooperatives with various Government Offices, institutions etc.

f) Imparting training to cooperative personnel to upgrade their operational skills for successful implementation of projects financed by the Corporation.

g) Convening All-India and Regional conferences to facilitate exchange of information and review of progress etc.

h) Recognizing the performance of best performing cooperative societies through cash awards and citation certificates for which the Corporation has instituted "NCDC Biennial Award for Cooperative Excellence".

B. During 2013-14, R45.20 crore was disbursed by NCDC for various promotional activities. Up to 31.03.2014 NCDC has provided R 304.86 crore for undertaking various promotional and developmental programmes.

Management Information System

NCDC has developed and is implementing a computerized Management Information System (MIS) to provide systematic information on various aspects of its programmes. NCDC has provided Internet and E-mail facilities to all officials and programme divisions. NCDC's system has facility for data storage, sharing and information retrieval by various divisions and Regional Directorates. All the computers at Head Office are connected through Local Area Network. Regional Directorates are also equipped with computer systems having Internet and e-mail facilities. The website (www.ncdc.in) provides uptodate information about the organization, its schemes, information as required under the Right to information (RTI) Act. Loan Application Forms, Guidelines, Tenders etc.

19.6 FOOD CORPORATION OF INDIA (FCI)

The Food Corporation of India was setup under the Food Corporation's Act 1964, in order to fulfill following objectives of the Food Policy:

- Effective price support operations for safeguarding the interests of the farmers.
- · Distribution of foodgrains throughout the country for public distribution system.

• Maintaining satisfactory level of operational and buffer stocks of food grains to ensure National Food Security

Since its inception, FCI has played a significant role in India's success in transforming the crisis management oriented food security into a stable security system.

MISSION

 \cdot Ensuring food security of nation by maintaining satisfactory level of operational and buffer stocks of food grains.

- Distribution of food grains throughout the country for Public Distribution System.
- · l Effective Price Support Operations for safeguarding the interest of farmers.

VISION

To play a significant role in India's success in transforming the crisis management oriented food security to a stable security system to ensure availability, accessibility and affordability of food grains to all people at all time so that no one, nowhere and at no time go hungry.

VALUES

Sincerity Team work Speed Integrity & fairness in all matter Transparency and without any fear or favour Respect for dignity and potential of individuals Loyalty and pride in the Corporation

OBJECTIVES OF FCI

In its 52 years of service to the nation, FCI has played a significant role in India's success in transforming the crisis management oriented food security into a stable security system. FCI's Objectives are:

- 1. Food Corporations of India is established under the Food Corporations Act, 1964 for the purpose of trading in foodgrains and other foodstuffs and for matters connected therewith and incidental thereof.
- 2. The primary objective of the Corporation is to undertake the Purchase, Storage, Movement, Transport, Distribution & Sale of Foodgrains & Other Foodstuffs and
- 3. Subject to the above, the Corporation may with previous approval of the Central Government

i. promote by such means as it thinks fit the production of foodgrains and other foodstuffs.

ii. ii) set up, or assist in the setting up of, rice mills, flour mills and other undertakings for the processing of foodgrains and other foodstuff and discharge such other functions

as may be prescribed or as are supplemental, Incidental or consequential to any of the functions conferred on

OPERATIONAL NETWORK

FCI operates through a country-wide network with its Corporate Office in New Delhi, 5 Zonal Offices, 23 Regional Offices practically in all the State capitals, 165 District Offices(as on 01.10.2008) and 1470 depots (as on 01.01.2007). Most of the Revenue Districts in the country are covered by FCI. It has a manpower of 33,473 officers and staff/employees as on 31.03.2010 and about 53,646 regular food handling workers besides approximately one lakh food handling contract labourers being engaged by the Handling & Transport Contractors, as on 31.03.2010. The general superintendence, direction and management of the affairs and business of the Corporation shall vest in a board of directors which exercise all such powers as may be exercised or done by the Corporation under this Act. The board of directors, in discharging its functions, act on business principles having regard to the interest of the producer and consumer and shall guided by such instructions on questions of policy as may be given to it by the Central Government.

Today, the FCI is the unrivalled food marketing agency, serving the interests of both the farmers and consumers. Its market operations prevent the speculative trader from acting against the interest of the farmer by assuring him a remunerative price for his produce. It ensures a prompt and uninterrupted supply of food grains to the vulnerable sections of society all over the country. Operationally, the FCI reaches the remotest corners of the country through its vast network of offices and storage centres. Financially, it is one of the largest public sector undertakings, with an annual turnover of over Rs.25400 crores.

Functions

The main functions of the Food Corporation of India are:

a. To procure a sizeable portion of the marketable surplus of food grains and other agricultural commodities at incentive prices from the farmers on behalf of the Central and State Governments;

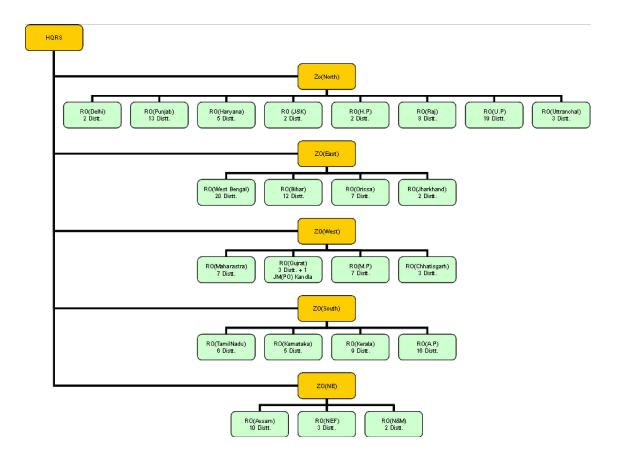
b. To make timely releases of the stocks through the public distribution system (fair price shops and controlled items shops) so that consumer prices may not rise unduly and unnecessarily;

c. To minimize seasonal price fluctuations and inter-regional price variations in agricultural commodities by establishing a purchasing and distribution network; and

d. To build up a sizeable buffer stock of foodgrains to meet the situations that may arise as a result of shortfalls in internal procurement and imports.

Growth and Structure

The Corporation discharges its responsibility to the nation through a country wide network of offices and points of contact; it is divided into five zones, each region generally coinciding with the geographical boundary of a State. Each region has district offices. The Corporation now has five zonal offices, 19 regional offices, four sub-regional offices, four offices of Joint Managers (operations), 173 district offices, and thousands of operating points throughout the country for its purchase and distribution operations.



The tremendous growth of the organization is the direct result of the staggering increase in the volume of its business. The progress of the FCI in various areas may be assessed from the following:

(i) Procurement

The Food Corporation of India undertakes the procurement of food grains on behalf of the Government of India and State Governments in the States where it has been entrusted with this responsibility either as a sole agency or jointly with other public procurement agencies. It also undertakes massive price support operations for cereals on behalf of the Central and State Governments to protect the interests of the growers. It prevents distress sales by ensuring to the farmers, predetermined procurement/support prices. It also handles huge stocks of food grains procured by other agencies for the central pool, and utilizes the services of co-operative societies to the maximum extent possible.

The Food Corporation of India purchases food grains from producers during both the seasons, directly or through the agency of co-operatives or purchasing agents, and from millers under various arrangements of procurement determined by different State Governments. Commercial purchases of some commodities, *viz.*, cereals and pulses, are also made by the Corporation at market prices with a view to supplying them to the defence services.

(ii) Storage

The provision of adequate and proper scientific storage facilities for food grains from the time of procurement till their distribution is another important function performed by the Corporation. Its responsibility for storage has increased with the transfer to it of the responsibility for building up a buffer stock by the government. Foods grains are stored in go downs which are scientifically constructed for protection against dampness, rats and fungus.

Till the beginning of 1968, there had been a more or less complete ban on the construction of new godowns. With the onset of the green revolution, there was an urgent necessity of augmenting substantially the storage facilities for food grains at the production and consumption centres. The Corporation, therefore, launched a crash programme for the construction of go downs. It also encouraged private parties to construct modern food grain go downs on a guaranteed occupation basis. Constant and effective inspection and treatment of food grains in storage ensures that the stocks are kept in good condition. New and cheap methods for the preservation of stocks have been developed by the technical experts of the Corporation. Storage losses in FCI go downs have been brought down to less than one per cent as against its former very high percentage loss (up to 10%). The activities undertaken by the FCI for this purpose are:

(a) It has constructed 28.30 million tones of storage capacity – well-built go downs, silos and CAP (Cover and Plinth) located at strategic points near the production and consumption centres and major ports. CAP storages are in large open areas and are scientifically planned to hold thousands of bags of grains under polythene covers.

(b) The FCI has taken over the construction of silos in order to switch over to the bulk handling and storage of food grains in a phased manner. Silos are tall and massive structures with huge storage facilities and facilities for mechanical handling. As a result, the losses arising out of handling are reduced. As a result, the losses arising out of handling are reduced. Handling charges, too, are brought down. The construction of silos has been taken up in Punjab, Haryana, Uttar Pradesh and Delhi.

(c) The FCI uses air strips, army barracks and former palaces for the storage of food grains during the massive procurement season. (d) The FCI has a chain of 138 quality control laboratories which develop quality control measures to ensure the safe storage of food grains. In addition, scientists, technicians and workers air, rotate and fumigate stocks at regular intervals so that quality does not deteriorate.

(iii) Transportation

The Food Corporation of India organizes swift and massive movement of food grains, both by rail and road, to ensure timely arrivals in the areas of consumption and of storage. This activity of the Corporation enables it to maintain a steady public distribution system from the procurement centres and the ports to the areas of consumption and storage without any serious difficulty. It is one of the largest users of the railways. The quantity transported by rail and road during 1966-67 was 1.238 million tones, which increased to an average of more than 20 million tones during the last five years.

(iv) Imports

The Food Corporation of India handles the entire quantity of imported food grains at all major ports. This responsibility was entrusted to it by the government in 1969-70. The imported food grains are speedily dispatched to various destinations to avoid congestion at the ports and to augment supplies to the public distribution system.

(v) Distribution

Another important function of the Corporation is the distribution of procured/imported food grains through nearly 4.91 lakh fair price shops all over India. Food grains are issued on the basis of the allocations made by the Central Government. The Food Corporation of India makes food grains available to the vast majority of population at

reasonable prices. The quantity of food grains distributed through public distribution and open sales has varied between 17.4 to 25.8 million tones during the last 5 years.

(vi) Processing

The Food Corporation of India has made notable strides in the field of food processing. It has acted as a pace-setter in the modernization of food processing operations. It has set up 24 modern rice mills in different States to increase the availability of rice and extract oil from rice bran. It has also set up a Paddy Processing Research Centre at Tiruvarur in Tamil Nadu in collaboration with the Government of Tamil Nadu and the Union Ministry of Agriculture with a view to evolving a new technology for increasing the outturn of rice at rice mills, better utilization of bran for the extraction of edible oil and proper use of by products. A solvent extraction plant at Sembanarkoil (Tamil Nadu) has also been set up for the manufacture of edible and industrial grade oil from rice bran. These have served as models for private interests in this line to set up such mills elsewhere.

The Corporation has set up paddy dryers in Thanjavur district in Tamil Nadu and a maize dryer at Khanna in Punjab to dry the grain and transport it to other districts without any damage by quick sprouting diseases which break out because of high moisture content. The FCI has also set up a solvent extraction plant at Ujjain (M.P.) to process groundnut. The FCI has set up a maize mill at Faridabad (Haryana) to manufacture a variety of maize products. It has set up a dal mill at Lucknow (U.P.) to meet the purchase requirements of the army. The FCI also produces (about 40,000 tonnes per annum) a protein-rich food (Balahar), a midday meal for school children, Balahar is a mix of wheat flour, groundnut meal, vitamins and minerals.

(vii) Consultancy

The Food Corporation of India has taken a new function of consultancy service, and provides technical and scientific assistance to other public and private undertakings as well as co-operatives in the country and abroad. The consultancy service offers assistance in the modernization of rice and dal mills and other agro-processing units. The service includes the conduct of feasibility and techno-economic studies, management systems and optimization studies, and market surveys.

(viii) The corporation also collects and manages levy sugar on behalf of the government of India.

Buffer Stocking, Procurement and Distribution of Food grains Buffer Stocks

The term buffer stock of food grains refer to the stock of food grains maintained by the government to be used as a buffer to cushion the shocks of fluctuating supply and price, to meet the emergency needs and to meet the situations arising out of serious unexpected shortages resulting from transport bottlenecks, natural calamities like war, flood, famine, earthquakes, and from the influx of refugees. The main advantages of maintaining a buffer stock are:

(i) It helps in the stabilization of prices by counteracting the effects of the activities of speculators and hoarders;

(ii) It safeguards the producers against low prices, specially during the surplus production years; and

(iii) It imparts stability to the country's food economy.

The government enters the market and purchases food grains for the maintenance of the buffer stock. This buffer stock can be built either by internal purchases or by imports from foreign countries. It is maintained by the Food Corporation of India and has averaged more than 10 million tones annually since 1976, as against a normal stock of less than 5 per cent tones before that year. After 5 years of a very comfortable position in food grains, the year 1981 witnessed some tightening in the supply position. The all-time record off take of 14.9 million tones in 1980, the relatively low procurement of 11.2 million tones, and the estimated exports of 2 million tones of food grains in repayment of a wheat loan led to a sharp decline in the size of stocks. The procurement of wheat boosted the food grains stocks to 13.5 million tones by the end of July 1981. These stocks, though adequate, were well below the level during the five years from 1976 to 1980.

In mid-eighties, a buffer stock of 10 million tones comprising 5 million tones of wheat and equal quantity of rice was considered adequate. It should be noted that this buffer stock is over and above the operational stocks. Considering both together, a stock of around 20 million tones was considered necessary for a country of India's size. However, the stock, which can be considered optimum, depends on the level of public distribution of food grains intended by the government. On July 1, 1990, the food rains stock with the go vernment of India was 20.3 million tones. But on the same day, a year before (July 1, 1980), the stock was only around 13 million tones. Apart from CWC and SWCs, the Food Corporation of India has also created storage facilities. The Food Corporation of India has a storage capacity of 21 million tones. Most of the capacity is of covered type which include conventional but scientifically designed godowns and silo complexes but a part of the storage capacity is of covered and plinth (CAP) type.

19.7 PANCHAYAT MANDI – STATE AGRICULTURAL MARKETING BANKS.

The name "Mandi" may have been derived from the common word *mandi* which means "market" in Hindi. It may possibly be connected with the Sanskrit root *mandaptika*, meaning "an open hall or shed." Therefore panchayat mandi is called as village market or rural market.

More than three-fifths of India's population draws their livelihood from agriculture that adds just one-fifth to its GDP. There should be obvious serious concerns about efficient functioning of this sector both in terms of its output / productivity and its marketing. While output and productivity are supply side factors, markets provide an intermediate link between producers and final demand by consumers. Efficiently functioning markets add to welfare of producers as well as consumers. Interventions in domestic agricultural markets can affect the efficient allocation of resources negatively thus making domestic agricultural sector less competitive in international markets. This effect can get further magnified through interventions in the border trade policies. Efficient agricultural markets can also be a potent tool for poverty reduction.

In India, farmers' produce is generally disposed off in the village, rural / primary market or secondary agricultural market. The number of regulated (secondary) agricultural markets stood at 7,157 as of March 2010 as compared to just 286 in 1950. There are also about 22,221 rural periodical markets, about 15 per cent of which function under the ambit of regulation. Average area served by a market is 115 sq. km while an average area served by a regulated market is 454 sq.km (varies from 103 sq km in Punjab to 11,215 sq km in Meghalaya). According to recommendations by National Farmers Commission, availability of Markets should be within 5 km radius (approx. 80 sq km) (2004). Regulated markets are managed by Agricultural Produce Market Committees or APMCs, though in some states they may be given different names such as Agricultural Market Committees (AMCs) in Andhra Pradesh, Regulated Market Committees (RMCs) in West Bengal and so on.

Regulatory barriers have constrained investments in development of storage and processing, hampered the development of effective market institutions, and lowered the capacity of agricultural producers to be internationally competitive. India, for example, is the world's largest producer of fruit and vegetables but inadequate post-harvest storage

and transportation cause losses of around 30- 40 per cent, only 7 per cent value addition takes place, and only about 2 per cent of production is processed commercially (Government of India, 2001). As a result a broad consensus has emerged about the need for reforms in agricultural market policies and quite significant reforms have been implemented in recent years, as part of the ongoing policy reform process in India. Linking small primary producers with markets has been identified as one of the major issues in policy and practice in improving livelihoods for millions of poor in the developing world. Small producers have many competitive advantages like lower cost because of family labour abundance, higher capability in working capability, and traditional knowledge that can be harnessed for many sectors. The only threats they face are: the demand for standardized products in global and national markets. But there are opportunities in organic, fair and ethical trade markets that are particularly suited for small producers and offer higher prices.

On the other hand, private agencies also stand to gain from small-producer linkages when the focus is not just on profits, private agencies can leverage this smallholder linkage by way of political and social legitimacy. Besides, dealing with small producers can lower costs as compared to dealing with larger ones, and smaller producers are generally easier to manage. Typically, farmers complain a lack of market for their produce, while processors, exporters or supermarket retailers complain of a lack of adequate supplies of quality produce. This marketing paradox is present because often, buyers do not reach out to explore new suppliers or farmers lack an understanding of markets as well as the ability to identify mew markets or to take advantage of such opportunity with value addition activities like grading, cleaning, sorting, packaging and primary processing.

Main Problems in Agricultural Marketing

Agricultural marketing in India is characterized by pervasive government intervention. The objectives and forms of intervention have, however, changed substantially over time. State intervention in agricultural marketing is by definition aimed at correcting perceived market failures. Several instruments of such state intervention in India have their origin in the experience of the Bengal Famine, where market failure occurred due to inadequate state intervention. In the current situation of agricul- tural surpluses, however, market failure is occurring due to excessive state intervention. Agricultural marketing has changed conspicuously during the last fifty years. The main reasons for this change are increased marketable surplus, increase in urbanization and income levels and consequent changes in the pattern of demand for marketing services, increase in linkages with distant and overseas markets, and changes in the form and degree of government intervention. Some basic features of the system and associated problems are:

• The market size is already large and is continuously expanding. Farmers. market linkages (both backward and forward) have also increased manifold. But the marketing system has not kept pace.

 \cdot Private trade, which handles 80% of the marketed surplus, has not invested in marketing infrastructure due to the excessive regulatory framework and dominance of the unorganized sector.

 \cdot Increased demand for value-added services and geographic expansion of markets demands lengthening of the marketing channel but this is hampered by lack of rural infrastructure.

 \cdot Direct marketing by farmers to consumers remains negligible. In the 27,294 rural periodic markets, where small and marginal farmers come to the markets, 85% lack facilities for efficient trade.

 \cdot For facilitating trade at the primary market level, 7161 market yards/sub-yards have been constructed but they are ill equipped.

 \cdot Food processing industry has a high income multiplier effect and employment potential. But in India the value addition to food production is only 7%, mainly because of the multiplicity of food-related laws.

 \cdot Due to poor handling (cleaning, sorting, grading and packaging) at the farm gate or village level, about 7% of grains, 30% of fruits and vegetables and 10% of seed species are lost before reaching the market.

• An estimated Rs. 50,000 crore are lost annually in the marketing chain due to poorly developed marketing infrastructure and excessive controls.

• State Agricultural Produce Markets Regulation (APMR) legislation hampers contract farming initiatives, which otherwise can be highly successful.

• Farmers shifting to higher-value crops face increased risk of fluctuation in yield, price and income.

• While agricultural price policy and associated instruments have induced farmers to adopt new technology and thereby increase physical and economic access to food, they have reduced private sector initiative and created several other problems in the economy.

It was in 1935 that the Reserve Bank was founded: the Reserve Bank of India Act, 1934 is unusual among central banks to have specific provision for attention to agricultural credit. Section 54 of the Act enjoined the Reserve Bank to set up an Agriculture Credit Department which was to have an expert staff to advise the central government, state governments, state cooperative banks, and other banks; and to coordinate RBI functions for agricultural credit. Section 17 of the Act empowered it to provide agricultural credit through state cooperative banks or any other banks engaged in the business of agricultural credit.

Among the first activities of the Reserve Bank in agricultural credit were two studies in 1936 and 1937. It was found that almost the entire finance required by agriculturalists was supplied by money lenders and that cooperatives and other agencies played a negligible part. During the period between 1935 and 1950, the Reserve Bank was very active in continuing the attempt to reinvigorate the cooperative credit movement through a variety of initiatives. Besides providing financial accommodation to the cooperative movement, the RBI played a central role in the task of building the cooperative credit structure, which gradually evolved into two separate arms, one for short term credit and another for long term credit - a structure that still exists today. The continuing intense concern with the provision of rural credit continued in the post war years: more than half a dozen committees were appointed between 1945 and 1950. Despite all these efforts, even by 1951 the provision of credit through cooperatives remained meagre with only 3.3 per cent of the cultivators having access to credit from cooperatives, and 0.9 per cent from commercial banks. Furthermore, the funds supplied by the money lenders were subject to high interest rates and other usurious practices and accordingly, legislation on money lending was advocated to check such malpractices.

The foundation for building a broader credit infrastructure for rural credit was laid by the Report of the All India Rural Credit Survey (1954). The Committee of Direction that conducted this survey observed that agricultural credit fell short of the right quantity, was not of the right type, did not serve the right purpose and often failed to go to the right people. The Committee also observed that the performance of cooperatives in the sphere of agricultural credit was deficient in more than one way, but at the same time, co-operatives had a vital role in channelling credit to the farmers and therefore summed up that, "Cooperation has failed, but Co-operation must succeed". The Committee, apart from visualising cooperatives as an exclusive agency for providing credit to agriculture, urged a well defined role for commercial banks in delivering credit for agriculture in specialised areas, such as marketing, processing, storage and warehousing. Towards this end, it recommended establishment of the State Bank of India and through it, extension of commercial banking facilities to rural and semi-urban areas. Thus, concern with the inadequate extension of agricultural credit had a significant role in the founding of both the Reserve Bank of India and transformation of the Imperial Bank of India into the State Bank of India.

The inadequacy of rural credit continued to engage the attention of the Reserve Bank and the Government throughout the 1950s and 1960s. The Agricultural Refinance Corporation (ARC) was set up by the Reserve Bank in 1963 to provide funds by way of refinance, but credit cooperatives still did not function too well.

Consequently, the All India Rural Credit Review Committee (Chairman: Shri B. Venkatappiah) was set up in July 1966 to, *inter alia*, review the supply of rural credit in the context of the Fourth Five Year Plan in general, and the requirements of the intensive programmes of agricultural production in different parts of the country, in particular, and to make recommendations for improving the flow of agricultural credit. After a comprehensive review, the Committee recommended that the commercial banks should play a complementary role, along with co-operatives, in extending rural credit. The social control and the subsequent nationalisation of major commercial banks in 1969 (and in 1980) acted as a catalyst in providing momentum to the efforts of leveraging the commercial banking system for extending agricultural credit. The outreach of banks was enlarged considerably within a relatively short period of time. The concept of priority sector was introduced in 1969 to underscore the imperative of financing certain neglected sectors like agriculture. The channelling of credit to the priority sectors was sought to be achieved through the stipulation that a certain proportion of the total net bank credit be deployed in these sectors by specific target dates* . Decentralised credit planning through the Lead Bank Scheme was also introduced, under which, each district was placed with one of the commercial banks (called the district Lead Bank) to spearhead the credit allocation for, inter alia, agricultural lending. In order to emphasise the developmental and promotional role assigned to the ARC in addition to refinancing, the Corporation was renamed as the Agricultural Refinance and Development Corporation (ARDC) by an amendment to the Act in 1975.

It was also the case that the 1950s and 1960s had been characterised by a big industrial push with inadequate attention being given to agriculture. It was the 1965-

1967 drought that brought matters to a head and focussed concentrated attention to agriculture. The Green Revolution then followed in the late 1960s and 1970s necessitating adequate availability of credit that could enable the purchase of inputs such as fertilizer, high yielding varieties of seeds, pump sets for irrigation, and the like.

Despite all these efforts, the flow of credit to the agricultural sector failed to exhibit any appreciable improvement due mainly to the fact that commercial banks were not tuned to the needs and requirements of the small and marginal farmers, while the cooperatives, on the other hand, lacked resources to meet the expected demand. The solution that was found involved the establishment of a separate banking structure, capable of combining the local feel and familiarity of rural problems characteristic of co-operatives and the professionalism and large resource base of commercial banks. Following the recommendations of the Narasimham Working Group (1975), Regional Rural Banks (RRBs) were set up. Thus, by the end of 1977, there emerged three separate institutions for providing rural credit, which is often described as the 'multi-agency approach'.

Following the recommendations of the "Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development", the National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 for providing credit for promotion of, among others things, agriculture. NABARD took over the entire undertaking of the ARDC and the refinancing functions of the RBI in relation to state cooperatives and RRBs. NABARD is the Apex institution which has been entrusted with a pivotal role in the sphere of policy planning and providing refinance facilities to rural financial institutions to augment their resource base. Since its inception, the NABARD has played a central role in providing financial assistance, facilitating institutional development and encouraging promotional efforts in the area of rural credit. NABARD also administers the Rural Infrastructure Development Fund (RIDF), which was set up in 1995-96; the corpus of RIDF is contributed by scheduled commercial banks to the extent of their shortfall in agricultural lending under the priority sector targets. NABARD has been playing a catalytic role in micro-credit through the conduit of Self-Help Groups (SHGs).

The National Bank for Agriculture and Rural Development (NABARD) is the apex organization with respect to all matters relating to policy, planning and operational aspects in the field of credit for the promotion of, agriculture and allied activities in rural areas. The bank provides refinance to various banks for their term lending operations for the purposes of agriculture and rural development. The National Bank of Agriculture and Rural Development (NABARD) has emerged as an apex refinancing institution for agricultural and rural credit in the country since July, 1982. It has taken over the refinancing functions from the Reserve Bank of India with respect of State Cooperative Banks and Regional Rural Banks. It has also taken over the ARDC (Agricultural Refinance and Development Corporation), Developing a strong and efficient credit delivery system which is capable of taking care of the expanding and diverse credit needs for agriculture and rural development was a task that received the attention of NABARD. NABARD, is involved in the implementation of projects assisted by World Bank and its affiliate, the International Development Association (IDA). There are some other International Aid Agencies which provide assistance to NABARD in respect of various projects. NABARD has been associated with the implementation of 42 projects with external credit out of which 38 projects are assisted by World Bank and its affiliate, i.e. IDA and International Bank for Reconstruction and Development (IBRD).

19.8 CASE STUDY

Mr Verma of Master Detergent was a worried person; another competitor had launched a special pack of a Detergent with a very competitive price and very aggressive advertisement and Sales promotion schemes. The flagship brand of the company MAST was taking a beating in the market and sales were going down.

The company Master is a old company existing for more than 60 years and has a strong brand equity in the Rural market. The products of the company are well known and command a premium and have a niche place in the rural market, there are also other products as Soaps Shampoos and other consumer goods the company offers.

The New Company does not have the long Range of products Master has but is strong on Raw materials buying and thus offers very low prices to attract customers this according to Mr Verma is a big strength. Mr Verma is sitting in his office trying to find a new marketing strategy to regain the lost market share.

Questions:

Q1 Pl help Mr Verma in his endeavor to regain the lost share and increase brand equity.

Q2 Should Mr Verma create a separate marketing strategy for the rural markets?

Case 2

Agricultural extension is a national priority and support from the industry and other organizations are sought by the government in this Endeavour. With the advancement of

agricultural technology and liberal market scenario, the service aspect needs reiteration and further strengthening. A group of specialized people in agriculture, particularly those who intend to take up export oriented agri-business, will heavily depend on professionalized extension services for which they will be willing to pay. Some of the grow ers, through their associations like Seed Growers Association, Grapes Growers Association, have organized themselves for obtaining tailor made extension support. The large majority of small and marginal farmers will, however, look forward to the government system and mass media for access to information on latest technological advancements. Consultancy services in agriculture sector are popping up but buyers are mostly large organizations or affluent farmers.

Mr. Sharma has a large grape growing vineyard in the Sholapur district Maharashtra, the crop is generally exported and little is sold in the local markets in the past few years the crops exported are being rejected in the Middle East Countries and Mr. Sharma is facing a strong financial crisis. He is looking at some expert advice on the cultivation methods, to regain his lost markets and future growth, the advice from the some of the experts has not yielded the desired results.

Questions

1. What is the role of the service providers in the agriculture markets.

2. What in your opinion should be the course of action for Mr. Sharma to regain the lost markets?

3. Do you feel the Agriculture services have a future in agriculture markets?

19.9 NOTES





19.10 SUMMARY

In this unit we have learnt about advertising services and agricultural services, NCDC, future in agricultural markets, Food Corporation of India, advertising in rural market etc.

19.11 KEY WORDS

Advertising,

NCDC,

FCI,

AGRICULTURAL CREDIT

19.12SELFASSESSMENT QUESTIONS

1. Explain the role of **advertising** in rural market.

2. What are objectives and functions of NCDC?

3. Discuss about Food Corporation of India (FCI) elaborately

4. What is the role of commercial banks for agricultural credit?

5. Explain the NABARD support for agricultural marketing

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UNIT-20 : TRENDS IN RURAL MARKETING

Structure:

- 20.0 Objectives
- 20.1 Introduction
- 20.2 Market Research
- 20.3 Types of Consumer Credit
- 20.4 Sources of Consumer Finance
- 20.5 Glamorize rural marketing
- 20.6 E-Rural Marketing
- 20.7 Emerging Face of Rural Marketing in India
- 20.8 FDI in Rural Market
- 20.9 Case Study
- 20.10 Notes
- 20.11 Summary
- 20.12 Key Words
- 20.13 Self Assessment Questions
- 20.14 References

20.0 OBJECTIVES

After studying this unit, you should be able to;

- Highlights the trends in rural marketing
- Explain the role of FDI in rural market
- Discuss the process of retailing in rural market

20.1 INTRODUCTION

Rural India has huge market potential as almost 70 percent of the total population is living in rural areas. With the developmental schemes of Government of India rural India is also going through series of changes with the increasing employment opportunities and rising income levels of the rural population. India's rural population is 12 percent of the total population of the world and thus has a huge untapped potential. Rural markets are an important segment of the overall economy of the country and are different from other markets like commodity markets; stock markets etc. and play a significant role in the overall development of the country. This can be accessed from the fact that nearly 69 per cent population, 56 per cent of income, 64 per cent of its expenditure and 33 per cent of its savings are coming from rural India.

In recent years, rural markets have acquired significance, as the overall growth of the economy has resulted into substantial increase in the purchasing power of the rural communities. On account of green revolution, the rural areas are consuming a large quantity of industrial and urban manufactured products. In this context a special marketing strategy, namely, rural marketing, has emerged. It can be explained as a marketing activity which is targeted to rural population in the rural areas which have some difference in their needs, wants, desire, buying behaviour, consumer behaviour etc. as they are raised in different customs, tradition and culture and have different economic, social and political background.

Product – Developing relevant products to meet the specific needs of rural consumers will exercise the minds of marketers. For eg. We know that voltage fluctuation is a major problem in our villages, because of which bulbs last but a few days. Companies will put their R & D teams to develop filaments that can withstand violent fluctuations, thereby extending the life of the bulb.

Price – As rural incomes continue to rise in the coming years, we may see the share of low unit packs coming down somewhat and economy packs gaining share. Also as the

reach of media and awareness level improve, we are likely to see companies shift their focus from trade to consumers.

Distribution – Challenge of reach will be addressed through innovation. Project Shakti of HUL is one such successful example. Nehru Yuva Kendra volunteers' model through haats being piloted by MART for Colgate, is another such new model. Amway is already selling bio-fertilizers in rural India, through its famous multi-layer distribution model.

Communication – Indian advertising industry has to be firmly grounded in rural perception, values and traditions. It has to drown itself in local colors, customs and modes of communication, to make itself relevant to rural society. It has to gain the trust of masses, by undercutting excessive dependency on western advertising.

20.2 MARKET RESEARCH

Rural consumers are fundamentally different from their urban counterparts. The lower levels of literacy and limited exposure to product and services are well-known, but there are also differences in occupation options, with a direct impact on income levels and income flows, and a high level of inter-dependency affecting the dynamics of rural community behavior. All contribute to make rural consumer behavior starkly distinct from the urban. As any consumer research study must understand the consumer in the context of his environment and society, Rural Market Research must overcome the challenge of respondents with lower literacy and exposure levels, where conventional market research tools may not be easily comprehended by villagers. MART, a specialist organization in rural, has innovated tools to overcome these limitations in conducting rural consumer research.

Consumer Finance

The term consumer finance refers to the activities involved in granting credit to consumers to enable them to possess goods meant for everyday use.

20.3 TYPES OF CONSUMER CREDIT

Revolving credit: it is an ongoing credit arrangement whereby the financier on a revolving basis grants credit. The consumer is entitled to avail credit to the extent sanctioned as credit limit ex: Credit Card

Fixed credit: it is like a term loan where by the financier provides loans for a fixed period of time. The credit has to be repaid within a stipulated period ex: monthly instalment loan, hire purchase.

Cash Loan: Under this type of credit banks and financial institutions provide money with which the consumers buy goods for personal consumption here the lender and seller are different and lender does not have the responsibility of seller.

Secured Finance: when the credit granted by financial institutions is secured by collateral it takes the form of secured finance. The collateral is taken by the creditor in order to satisfy the debt in the event of default by the borrower. The collateral may be in the form of personal property, real property or liquid assets.

Unsecured Finance: When there is no security offered by the consumer against which money is granted by financial institutions, it is called unsecured finance.

20.4 SOURCES OF CONSUMER FINANCE

Traders: The predominant agencies that are involved in consumer finance are traders. They include sales finance companies, hire purchase and other such financial institutions.

Commercial Banks: Commercial Banks provide finance for consumer durables. Banks lend large sum of money at wholesale rate to commercial or sales finance companies, hire purchase concerns and other such finance companies. Banks also provide consumers personal loans meant for purchasing consumer durable goods.

Credit Card Institutions: These institutions arrange for credit purchase of consumer goods through respective banks which issue the credit cards. The credit card system enables a person to buy credit card services on credit. On presentation of credit card by the buyer, the seller prepares 3 copies of the sales voucher, one for seller, bank/credit card company and 3rd for the buyer. The seller forwards a copy to the bank for collection. The seller's bank forwards all such bills to the card issuing bank or company. The bank debits the amount to the customer's account. The buyer receives monthly statement from the card issuing bank or company and the amount is to be paid within a period of 20 to 45 days without any additional charges.

NBFC's:Non-banking Financial companies constitute an important source of consumer finance. Consumer finance companies also known as small loan companies or personal finance companies are non-saving institutions whose prime assets constitute sale finance receivables, personal cash loans, short and medium term receivables. These companies charge substantially higher rate of interest than the market rates.

Credit Unions: A credit union is an association of people who agree to save their money together and in turn provide loans to each other at a relatively lower rate of interest.

These are caller co-operative credit societies. They are non profit deposit taking and low cost credit institutions.

Products covered

Consumers financing covers a wide range of products such as cars, Televisions, washing machines, refrigerators, Air conditioners, computers etc. The products covered possess some distinct feature such as durability, sustainability, saleability and serviceability etc.

Rural Vertical

 \cdot The CEO would need to articulate a strong commitment to rural marketing, only then will the marketing team give its focused attention and sustained support to this growing market segment.

• HUL has already created a separate rural vertical with a team of RSMs, ASMs, SOs and RSPs committed exclusively to servicing the rural market. Rural has been given separate sales targets and the company is in the process of allocating separate sales promotion and advertising budgets for this market.

Retail and IT models Contents

IT and connectivity impact the way business is done. Today with STD facility, the retailer can dial the town distributor instantly and fresh stocks would reach him in just a couple of days, because of better road connectivity. Benefits of IT Driven business strategy

- Ease of access
- Up-to-date content
- · Layout, design, consistent themes
- Easy navigation
- Higher interactivity
- · Access through multiple media
- · Higher use of non-textual information
- · Multiple languages
- · Lower transaction cost.

20.5 GLAMORIZE RURAL MARKETING

Rural is considered as unglamorous. Industry seminars on these subjects also evoke a similar response. This must change as the rural market in size is bigger than any of the other markets mentioned here. Industries associations (CII, FICCI, ASSOCHAM) government agencies and academic institutions should take upon themselves to give due importance to rural marketing.

Public-Private Partnership

Companies would join hands with the government in self-interest to increase the size of the pie, by creating economic activity in villages through micro-enterprises and mainstream these efforts, by linking them with large industry.

20.6 E-RURAL MARKETING

With the cost of technology coming down day by day, several companies are attempting to create virtual bazaars or agri- portals akin to weekly mandies. The most notable virtual mandies are the e-chaupal by ITC, India Agriline by EID Parry and Dairy Portal by Amul. ITC's e-Caupal initiative has already reached 30 lakhs families of India and by 2010, it hopes to reach 10 million farmers. It is 5050 e-Chaupals and home ushered in a revolution of sorts in the six states of India serving integrated needs of 3 million farmers. Where the core activity is to tell the farmer the price at which ITC will buy Soya, Coffee, Fish and wheat on that day. It is a winning model as both ITC and the farmers make neat savings by passing the middlemen in the physical mandi. The same kiosks are now being used for reverse trading also for the companies to sell products and services needed by farmers directly. In the coming years, more and more companies are going to take IT route to make the rural markets more accessible and thus should open up new business opportunities.

20.7 EMERGING FACE OF RURAL MARKETING IN INDIA

India in last almost twenty years has witnessed a remarkable shift in its economic, social and technological environment. The liberalization and privatization policies initiated by the Indian government in early nineties and the subsequent phenomenon of globalization have led to huge inflow of huge foreign investments and entry of large numbers of multinational corporations in India. These companies are mostly operating in BFSI (banking, financial services and insurance), retail, automobile, telecom, consumer durable and IT sectors. Besides many domestic Indian companies, especially those in ICT, automobile, textile and engineering products have also expanded their operations into

overseas markets. As products and markets are turning global, companies are facing intense competition both within the domestic as well as in the international markets. Task of marketers in recent years has become more challenging due to shift in the demographic profile and requirements of customers. Firms operating in industries such as FMCG, telecommunication, insurance, financial services, consumer durable and automobiles are nowadays employing innovative marketing practices for their survival as well as to increase their market share. These companies are now shifting their focus away from the already saturated metros and tier-I cities to the rural and semi urban towns, to increase their revenues and market base.

However, rural areas have their own limitations in terms of large number of villages with thin population density, accessibility, infrastructure, telecommunication network, illiteracy, social and cultural backwardness and low disposable income. Besides, even though the seventy percent of Indian population resides in the rural areas, the income contributed by the agricultural sector in the total GDP is less than seventeen percent. The majority of rural population has relatively low disposable income as well as consumption rate compared to their urban counterparts. Yet they have aspirations and wants for most of the urban products.

The factors that have contributed to the rising aspirations and demands among rural buyers are increase in literacy levels, migration to urban areas, growth in media and telecommunication network, availability of credit schemes, globalization, cheaper technology products (such as television, mobile, music system, camera, etc.), government sponsored employment generating schemes such as NREGA, and tax concessions and loan waivers. Rural consumer nowadays is no longer ignorant and resigned to his fate. Today a rural buyer not only has purchasing power but also better informed price conscious and demand more value for the money spent. They look for better quality, durability and utility of the products and services offered in the market.

Growth Drivers of the Rural Markets

Rural markets have grown both in income as well as consumption, and have created enormous interest among the industries ranging from FMCG, consumer durable, retail, automobile to insurance, banking and pharmaceuticals. Key drivers of rural market growth are:

i. Higher income:

Which includes crop diversification (biotech products, cash crops such as mint, floriculture, horticulture, etc.), higher commodity prices, organized retail and contract

farming, remittances from abroad or migrant urban kin, government employment generating schemes such as NREGA, microfinance and rural credit, waiver of loans to the farmers, encouragement to cottage and micro industries, subsidies on agro inputs such as seeds, fertilizers, etc., and marketing assistance through organized retail, contract farming, rural cooperatives, projects such as ITC chaupalsagar, etc.

ii. New aspirations:

Mainly through more exposure to urban products and services due to media, literacy, migration, etc., demand for urban type products, aspiration for better quality of life as product become affordable, and better informed due to projects such as e-shakti and e-chaupal of HUL and ITC respectively.

iii. Improvement in infrastructure and rural connectivity:

In the eleventh five year plan government has specific focus on the inclusive growth of the country. This includes rural and urban poor as well as the primary agricultural sector. Several schemes have been launched in last couple years related to rural housing, roads, communication, drinking water, rural electrification, etc. These have considerably improved the living conditions of rural population and have led to increase in their demand and consumption for the automobile and consumer durable goods such as mobile, television, etc.

iv. Growth of rural consumption:

Due to easier availability of credit, lowering of prices of consumer durables such as television, refrigerator & mobile phones, growth in rural income, increase in rural savings, improvement in literacy, urban association due to migrants driving sale of consumer durable, apparels, footwear, FMCG, automobile, etc., easy availability of branded goods at closer vicinity due to rural organized retail such as Haryali Bazaar, ITC Chaupal, Godrej Aadhar, etc., and availability of low priced products due to improvement in technology and imports from countries such as China. Also there is a sizeable demand for second hand goods especially in automobiles.

Challenges of Rural Markets

The rural market offers a vast untapped potential; it should also be recognized that it is not that easy to operate in rural market because of several problems. Today, the extreme challenge for the rural marketer is to reach out to the most remote rural destinations and increase rural incomes. About 750 million Indians reside in about 6 lakhs villages and even the powerful marketers like HLL and ITC have recently been able to cover only about 2 to 2.5 lakhs villages while about 1 to 1.5 lakhs villages have been connected through Project Shakti and E-Chaupal initiatives. Rural marketing is thus a time consuming affair and requires considerable investments in terms of evolving appropriate strategies with a view to tackle the problems. A lot need to be done for expanding distribution coverage and the daunting task ahead is to overcome the following challenges:

i. Poor infrastructure: Most of the villages are suffering from the inadequate infrastructure facilities like warehousing, transportation, pucca roads and financial facilities. Although on paper approximately 90 percent of the villages appear electrified but in reality only one-third of the rural households have electricity connections. Only 12 percent of villages are connected with railway network and only 33 percent villages have the pucca road. Nearly 50 percent of the villages in the country do not have all weather roads. Physical communication to these villages is highly expensive. Even today, most villages in eastern part of the country are inaccessible during monsoon season. Planning physical distribution, managing distribution and controlling marketing communication are major impediments for entering rural markets.

ii. Underdeveloped people and markets: The agricultural technology has tried to develop the people and market in rural areas. Unfortunately, the impact of the technology is not felt uniformly throughout the country. Some districts in Punjab, Haryana or Western Uttar Pradesh where rural consumer is somewhat comparable to his urban counterpart, there are large areas and groups of people who have remained beyond the technological breakthrough. In addition, the farmers with small agricultural land holdings have also been unable to take advantage of the new technology.

iii. Non-availability of shops: In India, approximately 30 percent villages have no regular shops; leave alone the proper distribution setup. According to Indian Market Research Bureau (IMRB) approximately 60,000 villages do not have even a single retail outlet. Even the outlet density is low in rural India compared to urban India. To make matter worse, most of the villages don't have the proper connectivity with roads due to harass terrain.

iv. Poor literacy level: As per the census of 2001, rural literacy level is 59.4 percent as compare to the urban literacy rate which is 80.3 percent. Low education level leads to lack of awareness and herd mentality because of which villagers are not able to find the difference between the products of good and bad quality. It is because of this so many spurious brands are flourishing in the rural area with somewhat similar names and packaging than that of branded companies. It is virtually impossible for a marketer to

track all these spurious brands and initiate any legal procedure. The only way for fighting against these evils is to increase the level of education in the rural areas and by increasing the awareness about the benefits of good quality products.

v. Poor media penetration: Only 57 percent of rural households have any type of mass media connections. Of these, 23 percent have access to print media and 36 percent are the viewers of televisions. With about 2 lakhs haats (periodic markets) in India, the greatest challenge before a marketer is the cost per contact. The cost of reaching to the customers sitting or located in rural and remote areas requires a lot of investment especially in case of unconventional modes. There is also limitation in establishing an exposure and point of purchase in rural market.

vi. Seasonal demand: As agriculture happens to be the main occupation in rural India, demands for goods depend on the monsoons heavily. Therefore, the buying capacity is not stable or regular as comparison to the urban market.

vii. Market organization & staff: The size of the market organization and staff is very important, to manage market system effective control. However, the existing organizational setup particularly at district and block level needs to be strengthened in order to make the services on various aspects available to the farmers timely and also easily accessible to them.

viii. Many languages and dialects: The number of languages and dialects vary from state to state and region to region. This type of distribution of population warrants appropriate strategies to decide the extent of coverage of rural market.

ix. Dispersed population, customs and traditions: Population density in rural areas is much lower as compared to that in urban areas. It is therefore becomes more challenging to reach out a large number of people at an affordable cost. At the same time people do not adapt to new practices as life in rural areas is based very strongly on tradition and customs.

x. Barter system: In the developing country like India, even today the barter system i.e., exchange of goods for goods exists. This is a major obstacle in the way of development of rural marketing.

xi. Other influencing factors: Natural calamities, market conditions (demand, supply and price), pests and diseases, drought or too much rains, primitive methods of cultivation, lack of proper storage facilities which exposes grain to rain and rats, grading, transport, market intelligence (up to date market prices to villagers), long chain of middlemen (large number of intermediaries between cultivator and consumer, wholesalers and

retailers), fundamental practices (market dealers and commission agents) get good part of sale of receipts.

Major critical inhibitions faced by marketers in rural areas are:

1. *Highly scattered rural population with low population density-* There are around 640000 villages in rural India as against 7900 plus towns (census 2011) and population density is also very low in many areas which makes marketing of products a herculean task in rural areas. Further that worsens the situation is the fact that villages which are only a few kilometres away have altogether different needs and attitudes (Hundal 2006), which further adds to transportation and advertising cost in such heterogeneous markets making it extremely expensive and thus becoming a major inhibition towards successful marketing in these areas.

2. *Distribution and infrastructure* - Distribution may be described as the backbone for success of any product in an area. However, availability remains a big challenge in rural areas, it is easier to distribute products in 7900 plus towns rather than 640000 plus scattered and heterogeneous villages (Kashyap 2012). Another major drawback is improper transportation network. Due to this it becomes next to impossible to reach many villages. Government is making all efforts to connect villages to all weather roads but the situation of road network is grim and there are many villages where road network is non-existent till now. This inhibition makes it difficult to deliver goods to these areas in a capital efficient manner.

3. *Socio-economic backwardness-* Being a huge country India represents unity in diversity. However it creates lot of inhibitions for marketers because of huge socioeconomic backwardness in rural areas and that also differs from State to State, region to region, block to block etc. Economic needs and socio cultural factors of each region and community are different. Thus marketers have to give importance to the social, cultural and economic indicators (Sridhar et al. 2011) of each region while planning to foray into these areas.

4. *Too many languages and dialects*- India is a country of many languages and thus communicating a message to all has to be planned very attentively as the same message may have different meaning in different languages. This is a big challenge for marketers as the product will sell only if the right message is delivered to the consumers. Thus, with so many languages and dialects a single message strategy for large mass is extremely difficult for the marketers (Singh et al. 2012).

5. *Seasonality in purchase of goods*- A major portion of rural population is still dependent on agriculture which itself is dependent upon good monsoon. Good monsoon means good crop and good harvest and thus more money in the hands of the farmers and thus seasonality influences the demand of the rural consumers (Mishra 2010). Most of the expensive purchases are done only during harvesting season as rural consumers happen to have more money at their disposal during this season. Thus marketers have to plan accordingly while keeping seasonality in purchase of goods in mind.

6. *Fake/ spurious Products* – The sale of fake products is damaging a great share of the branded products in the rural markets which is becoming a big inhibiting factor for marketers to foray in these markets. It is expected that the sale of fake products is about to touch Rs.550 billion in 2013 (TOI, August 2012). There are 113 look-alikes of fairness creams being distributed in rural areas, affecting almost 5% share of fairness cream fair & lovely' of HUL (Megharajani 2012).

7. *Resistant behaviour of rural people*- Rural consumers resistant to change behaviour is a big inhibiting factor for marketers in order to foray in these markets, it is really difficult to lure rural consumer to buy a particular product (Sikroria 2012). The reason for this resistant behaviour is rural consumer's lack of experience in market place and unawareness of how to consume the product (Eckhardt et al. 2012) resulting in disempowerment and inhibiting rural consumer to adapt to the message of the marketers. Thus marketers have to be very conscious while formulating a clear cut message and convincing the rural consumer to buy the product.

Despite the above inhibitions, marketers do not have any other option but to serve the large rural consumer base filled with immense opportunities. In this world of immense competition they simply cannot blindly go on serving the urban consumers where the saturation point has occurred and no further growth is likely to happen.

20.8 FDI IN RURAL MARKET

Liberalization of trade policies during the last one and half decade has led India to become an investment friendly country. Indian economy is basically an agro based as its 70 percent population engaged in the agriculture sector. When liberalization started in 1991, Foreign Direct Investment (FDI) was limited to only a few sectors like manufacturing, infrastructure etc. But change in FDI policy of India in 2012, allowing investment in multi-brand retail stores, aviation sector and pension plan sectors, may bring revolutionary changes in these sectors. For companies in the consumer products and retail industry, the pace of change is breakneck, global volatility is guaranteed, and fierce competition comes at every turn. Recently, a great debate has cropped up against the government plans for FDI in the Indian retail sector. FDI in retail is fundamentally different from that in manufacturing. FDI in manufacturing basically enhances the productive employment in most cases; but FDI in retail trade may create job losses and displacement of traditional supply chain.

20.8.1 Indian Retail Sector: An Overview and Current Position

Meaning of retail

It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product. In 2004, The High Court of Delhi defined the term "retail as a sale for final consumption in contrast to a sale for further sale or processing. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

Evolution of Indian Retail Industry

It is interesting to focus on the evolution of the retail sector in India. Historically they evolved as a source of entertainment (in the form of village fairs, melas etc.) which was within the rural reach. Later on these were transformed Mom and Pop/ Kirana stores which are of traditional variety neighbourhood shops. Then came the government supported PDS outlets, khadi stores, cooperatives etc. Finally shopping malls, supermarkets, departmental stores etc has brought a great revolution to the Indian retail market

Distinction of Indian Retail

The Indian trading sector, as it has developed over centuries, is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/producers through two different channels: (a) via independent retailers (,,vertical separation) and (b) directly from the producer ("vertical integration"). In India, however, the above two modes of operation are not very common. Small and medium enterprises dominate the Indian retail scene. The trading sector is highly fragmented, with a large number of intermediaries. So also, wholesale trade in India is marked by the presence of thousands of small commission agents, stockiest and distributors who operate at a strictly local level. Retail giants like USbased Wal-Mart and French Carrefour are very keen to enter in the segment. Bharti Enterprises and Wal-Mart Stores entered into a joint venture in August 2007 and started cash-and-carry stores named 'Best Price Modern Wholesale' in 2009.

Division of Indian Retail Industry

The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing.

(a) Organized Retailing - refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporatebacked hypermarkets and retail chains, and also the privately owned large retail businesses.

(b) Unorganized Retailing - refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

Types of Retailing in India

(a) Single Brand- Single brand implies that foreign companies would be allowed to sell goods sold internationally under a "single brand, viz., Reebok, Nokia and Adidas. FDI in "Single brand" retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

(b) Multi Brand- FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous kirana" store. The approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

Entry Options for Foreign Players Prior to FDI Policy (2006)

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

(a) Franchise Agreements:

It is an easiest track to come in the Indian market. In franchising and commission agents' services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

(b) Cash And Carry Wholesale Trading:

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

(c) Strategic Licensing Agreements:

Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd.

(d) Manufacturing and Wholly Owned Subsidiaries:

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

Current Position and FDI Norms in Indian Retail

In 2010, the Indian retail market was valued at \$435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to \$535 billion by 2013 with the share of modern retail at 10 per cent. In 2007, India was ranked the twelfth largest consumer market and it is expected to be the fifth-largest consumer market by 2025 after the US, Japan, China and the UK (McKinsey & Company 2007). In 2010, India attracted the largest number of new retailers among emerging and mature markets (CBRE

2011). According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from US \$322 billion in 2006-07 to US \$590 billion in 2011-12 and further US \$1 trillion by 2016-17

Opportunities And Threats Of Fdi In Retail In India

Market liberalization, a growing middle-class, and increasingly assertive consumers are sowing the seeds for a retail transformation that will bring more Indian and multinational players on the scene. India is tipped as the second largest retail market after China, and the total size of the Indian retail industry is expected to touch the \$300 billion mark in the next five years from the current \$200 billion. But the recent debate has centered on the issue of whether FDI in retail in India will be a "boon or a bane". Many studies and surveys were conducted to analyze the impact of FDI in retail sector in various segments of the economy. According to a policy paper prepared by the Department of Industrial Policy and Promotion (DIPP, 2010), FDI in retail must result in backward linkages of production and manufacturing and spur domestic retailing as well as exports. According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. While FDI in multi-brand retail has been opposed by several in the past citing fears of loss of employment, adverse impact on traditional retail and rise in imports from cheaper sources like China, adherents of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits.

Key Perceived Opportunities

The following may be regarded as major perceived benefits of allowing FDI in retail in India:

1. Capital Infusion- This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.

2. Boost Healthy Competition and check inflation- Supporters of FDI argue that entry of the many multinational corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

3. Improvement in Supply Chain- Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages).

4. Improvement in Customer Satisfaction- Consumers in the organized retail will have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a "one-stop shop" which will have a wide range of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.

5. Improved technology and logistics- Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and precooling chambers which can help bring down wastage of goods.

6. Benefits for the Farmers- Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. With liberalization, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws. Also, farmers can benefit with the "farm-to fork" ventures with retailers which helps (i) to cut down intermediaries ; (ii) give better prices to farmers, and (iii) provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

7. Creation of More And Better Employment Opportunities- The entry of foreign companies into Indian Retailing will not only create many employment opportunities

but, will also ensure quality in them. This helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed nations.

Key Potential Threats

Critics of FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. They also contend that the retail sector in India is one of the major employment providers and permitting FDI in this sector can displace the unorganized retailers leading to loss of livelihood. The major threats to the domestic retailers in India are specified below:

1. Domination of Organized Retailers- FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets (local "mom and pop" stores will be compelled to close down).

2. Create Unemployment- Retail in India has tremendous growth potential and it is the second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry will be thrown out of their jobs.

3. Loss of Self Competitive Strength- The Indian retail sector, particularly organized retail, is still underdeveloped and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self competitive strength.

4. Indirectly Leads to Increase in Real Estate Cost- It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

5. Distortion of Culture: Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

Opportunities and Challenges:

The positive outcomes of the policy are as follows:

1. Permitting foreign investment in agricultural retailing is likely to ensure adequate flow of capital into rural economy in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It will bring about improvements in farmer income and agricultural growth and assist in lowering consumer price inflation.

2. Due to lack of adequate infrastructure facilities and lack of proper storage facility farmers are forced to sell their products at very low price which sometimes cannot even cover their cost of production. It is assumed that now farmer could be sell their all producer.

3. Since the inflow of FDI in retail sector is bound to pull up the quality standards and cost competitiveness of Indian farmers. It, therefore, seems that FDI in agricultural retailing has the potential of sustaining agricultural growth.

4. This is expected to boost the country's domestic manufacturing industry that foreign retail companies have to be source at least 30 per cent of the commodities from small and micro industries.

5. The minimum investment limit has been set at US\$ 100 million for foreign companies, out of which at least 50 per cent must be used to improve transportation, distribution, storage, and packaging facilities, and develop farm allied infrastructure.

6. Due the FDI inventiveness, the concept of the middleman, which has dominated farmers in India for decades, can be eradicated and farmers can now get the full benefit of their produce.

7. Foreign companies are expected to take some constructive steps for the creation of supply chain. Entry of foreign players, storage and refrigeration infrastructure will improve significantly.

8. Job opportunities in sectors such as transportation, packaging, agriculture processing and such like are expected to flourish. According the Government of India, FDI in retail sector is capable of generating approximately 4 million direct jobs and around 5 to 6 million indirect jobs within a span of 10 years.

The FDI policy also comes with its share of disadvantages of the policy are:

1. Small retailers and owners of Pop and Mom stores might suffer, as the large retailers like Wal-Mart and Tesco are likely to alleviate out these small and micro-level shop owners.

2. There might be job losses in the manufacturing segment. Though the government has capped the sourcing of commodities from the domestic market at 30 per cent, the rest of the 70 per cent can be bought from the foreign markets.

3. The Indian retailers might not be able to cope up with the increasing competition from the foreign retailers who are well prepared with better infrastructure and management procedure. Slowly this might lead to the replacement of the Indian retailers to a considerable extent.

4. As the foreign brands will be available at a larger rate, the consumer's inclination towards international brands might affect the country's in-house brands.

5. According to the non-government cult, FDI will drain out the country's share of revenue to foreign countries which may cause negative impact on India's overall economy.

6. Now Wall mart is the single buyer and play as a monopolist and it will be force to farmer to reduce the price of their produce.

7. It is said that FDI might provide employment opportunities, but it is argued that it cannot provide employment opportunities to semi-illiterate people. This argument gains more importance because in India, large numbers of semi-illiterate people are present.

8. Though Government has predetermined that 30 per cent procurement should be from Indian sources, this may get diluted over the years. The remaining 70 per cent procurement from cheaper countries will make the people run towards that stuff and the 30 per cent supply from Indian small industries will have their own death, unable to compete with low price Chinese goods.

If the entry of FDI is permitting in agriculture retailing, it will ensure adequate flow of capital into rural economy in a manner more likely to promote the welfare coming from

all parts of society, particularly farmers and consumers. Though, the concern with farmers can be not imaginary. We already had a bitter example of such entry of foreign trader, therefore tailor-made entry of FDI should be allowed in agriculture retailing. Accomplished by integrating into your likes and dislikes for FDI retailing certain inbuilt safety valves. To make certain the foreign investors complete a genuine contribution towards the development agriculture retailing. Reconstituting the poverty stricken and stagnating rural sphere right into a forward moving and prosperous rural sphere generally is the justifications for introducing FDI in agricultural retailing but the government should executed a special regulatory framework. It will ensure that the retailing giants do make use of predatory pricing or acquire monopolistic tendencies. As the debate on home and host country's welfare continues, the majority of the empirical studies in food and related sectors concluded that FDI was conducive to economic growth in developing countries, but substituted for trade western world. Within host countries, industries shifted using the reallocation of resources, causing some to grow quicker and others to completely disappear, just like trade liberalization. FDI carries a stronger relation to growth and trade when put together with trade liberalization. However, not many numerous studies have shown addressed the post-profit repatriation scenarios in developing along with developed countries. Besides studies on competition among multinationals in a host country (a disorder required for welfare gains within a host country), further testing for factors causing FDI and consequences in dynamic settings is essential for better perception of the advantages of globalization through FDI. Lately, the processed food industries have cultivated (when measured by their contributions to GDP) rapidly in numerous countries (Pacific Rim Outlook, 1998-1999),

20.9 CASE STUDY

FDI in retailing was permitted in China for the first time in 1992. Foreign retailers were initially permitted to trade only in six Provinces and Special Economic Zones. Foreign ownership was initially restricted to 49%. Foreign ownership restrictions have progressively been lifted and, and following China,,s accession to WTO, effective December, 2004, there are no equity restrictions. Employment in the retail and wholesale trade increased from about 4% of the total labour force in 1992 to about 7% in 2001. The numbers of traditional retailers were also increased by around 30% between 1996 and 2001. In 2006, the total retail sale in China amounted to USD 785 billion, of which the share of organized retail amounted to 20%. Some of the changes which have occurred in China, following the liberalization of its retail sector, include:

(i) Over 600 hypermarkets were opened between 1996 and 2001

(ii) The number of small outlets (equivalent to "kiranas) increased from 1.9 million to over 2.5 million.

(iii) Employment in the retail and wholesale sectors increased from 28 million people to 54 million people from 1992 to 2000.

Thus the above discussion and case of China suggest that it is too early to predict the erosion of mom and pop stores in India with opening of multi-brand retail sector in India to foreign investors.

Case 2: Food world, which operates over 60 stores, plans to ramp up its presence to more than 200 locations. It has already tied up with Hong Kong-based Dairy Farm International. With the relaxation in international investments in Indian retail, India,,s Food world expects its global relationship will only get stronger. Though it is too early to assess the true impact of allowing FDI in single-brand and multi-brand retailing in India, but still the Govt. argues strongly in favour on the ground that it will provide huge gainful employment in agro-processing, marketing and logistics, help farmers secure remunerative prices by eliminating exploitative middlemen, ensure supply chain efficiencies, bring investment in back-end infrastructure and also create a multiplier effect for employment, technology up gradation and income generation by sourcing of a minimum of 30% from Indian micro and small industry. The opposition, however, argues that there will be a large-scale job loss according to international experience and global retail giants will resort to predatory pricing to create monopoly/oligopoly. So, opening up of FDI in multi-brand retail in India could potentially be a mixed blessing for domestic players. Hence adequate safeguards should be built in so that it does not end up in a losing proposition.

20.10 NOTES





20.11 SUMMARY

In this unit we have discussed about retail business, retailing and process of retailing, FDI in India, impact of FDI in India, opportunities available in rural markets for present day business world. We also discussed about characteristics of rural consumer

20.12 KEY WORDS

Rural marketing

FDI

Retail

20.13 SELFASSESSMENT QUESTIONS

- 1. Discuss the emerging trends in rural marketing
- 2. What is the Retailing in rural markets?
- 3. How the FDIs helpful in retail markets
- 4. What are the advantages and disadvantages in rural marketing?
- 5. What is the FDI impact in rural marketing?
- 6. What are the opportunities available in rural markets for present day business world?
- 7. Explain the characteristic of the rural consumer.

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