
Channel Management for Durables : A Study on the Changing Scenario in Rural Market

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Abstract

Indian rural revolution is driven by increase in disposable income, rising purchasing power, changing outlook and consumption pattern of people, increase in literacy rate, exposure to information and communication technology, overall improvement in rural infrastructure and various government initiatives to boost rural economy. This gives an opportunity to tap this huge potential customer base for marketers of durable goods by understanding buying habits of rural consumers. In the past, rural consumers used to buy durables from nearby towns. But in recent times, change in buying habits of rural consumers towards durables saw new dimension, shifting their attitude to purchase locally has been observed in many instances. This change in consumer purchase behavior has important implications for rural marketers and compels them to think for establishing rural channel, which was not so dominant in earlier days. There is no standard system to establish a strong rural distribution mechanism to make availability of consumer durables at hinterlands. Challenges to reach the scattered rural market need to address on priority before making any strategy to reach this untapped market to cater rural consumers. But for this, one needs to understand and analyze key distribution challenges and then design cost effective channels of distribution to reach potential rural market through rural retailers. In case of durables, the influence of retailers perceived to be high in rural market. In rural areas, consumer loyalty to the shop as well as brand is significantly high compared to urban counterpart. For any company dealing with durables, successful penetration into Indian rural market depends on availability and affordability of offering, acceptability of the proposition and awareness of the brand.

Keywords: Rural market, Consumer durables, Channels of distribution, Reach

1.0 Introduction

Rural market, as integral part of Indian economy, has untapped potential. There are several difficulties it confronts to fully explore this market. The concept of rural market in India is still in evolving shape, and the sector poses a variety of challenges, including understanding the dynamics of the rural market and strategies to supply and satisfy the rural consumers.

At present many companies are looking for new opportunities and avenues, as they are witnessing a flat or decline in their growth rates in urban market due to market saturation. This compels them to look for huge untouched and untapped rural Indian market. As per Rural marketing association of India, there has been no impact of economic slowdown on the rural economy of India. A study reveals that rural markets of the country offer an opportunity to the marketers to come out of current economic crisis.

The Indian rural market now acknowledged being a viable market, which has captured attention of major durable companies. Infrastructure is developing fast, leading to better connectivity by roads, tele-density has gone up, access to mass media through television has improved and increased electrification of rural households has opened up rural market for durables.

2.0 Indian Rural Market Scenario

The rural market revolution in India is driven by rising disposable income, improving purchasing power, changing consumption patterns and lifestyle, improving roads and infrastructure facilities, increased access to information and modern communication technology and various government initiatives implemented to boost the rural economy.

Table-1 : Population in India (In Millions)

Year	Total	Urban	Rural	Rural (%)
1991	836	215	621	74.3
2001	1027	285	742	72.2
2011	1210	377	833	68.84

Source: Census of India 2011

The marketer has to cover the vast and scattered market in terms of areas covered and size of the rural population. It comprises 68.84% of the total population as per 2011

census, it means 833 million population reside in rural areas scattered around 6,40,867 villages.

Table-2 : Rural Literacy Rate (In %)

Gender	2001	2011	Change
Male	70.70	78.31	+7.87
Female	46.13	58.75	+12.63
Average	58.74	68.91	+10.17

Source: Census of India 2011

The pace of growth in literacy rate shown in the above table is a strong indicator that rural population awareness

has gone up and acceptance and demand for modern lifestyle products is in a rising trend.

Table-3 : Village Electrification in India

Total inhabited villages as per 2011 census	Villages having electricity as on 31/03/2011	Villages without electricity as on 31/03/2011
6, 40,268	5, 39,163	1, 01,105

Source: Annual Report, Department of Power, Government of India

Rural electrification in villages has gone up rapidly, probably by the end of 12th five year plan almost all villages would have been electrified. The proportion of rural households with access to electricity has increased from 48 per cent in 1999-2000 to 70 per cent in 2010 (IRS-2010). This has helped rural mass to go for durable goods which require electricity to operate.

Under *Deendayal Upadhyaya Gram Jyoti Yojana* scheme, power ministry has a target to electrify 18,500 villages by 2018 in 17 states with its Rural electrification Corporation (REC). Already 6,000 villages have been covered under this scheme in 2015-16.

The all India rural consumption expenditure on consumer durable goods grew at a compounded annual growth rate of 16.5 per cent from 2007-08 to 2011-12, whereas for urban areas it was 15.6 per cent, said the ASSOCHAM study. "As the income level of rural people increases, consumption expenditure on consumer durables also goes up reflecting aspirations for a better life in the countryside," it said. A survey carried out by Rural Marketing Association of India (RMAI) has revealed that 59 per cent of durables sales come from rural markets.

An Accenture's survey conducted to study behavior and attitude of rural consumers across 10 Indian states as well as a quantitative survey among 2800 consumers in 320 villages, revealed that half of the respondents visit nearby towns and district headquarters to make their purchases. This indicates an opportunity for companies to understand rural consumers' aspirations; it is not only availability but also their deep desire for a better shopping experience. They want an "urban-like" shopping experience. Also the survey defined India's rural consumer segments into four broad categories; those are Traditionalists, Steady Climbers, Young Enthusiasts and the Village Elites.

3.0 Review of Literature

In the Indian rural marketing context, there is lack in focused literature to guide a practicing or potential manager to study distribution channel in Indian rural market. For FMCG somehow few studies and initiatives by companies have happened, but in case of durables it is far behind. A very few research has taken in this regard.

Dawar Sanjay (2015) feels distribution is the most important factor when it comes to selling to rural India. An efficient distribution model is the most critical factor to achieve profitable and sustainable growth in rural market. In terms of reaching rural consumer, the biggest obstacles facing companies are inadequate distribution networks and weak marketing channels.

Gopalaswamy T.P. (1997) of the view that while consumables are purchased in the village shop or shandies or in bigger villages, the consumer durables are purchased in nearby towns or cities. Hence, purchasing habits of the rural people needs to be considered, while formulating distribution system, so that products may be available at appropriate locations.

Kashyap Pradeep (2012) feels that in case of durables, most companies cater rural markets through existing urban distribution channel, as distribution is mostly restricted to towns and cities only. There are few exceptions, companies like LG and Philips, who have established separate distribution and service networks for rural markets.

Rajan R.V. (2011) observed that while rural folk shop for durables, they don't do so near their village, where there may be one shop selling limited number of brands. They go to the nearest town or city because they believe that in cities they will get more choice, better deals and better service. Large-format retail stores in small towns are gaining importance, as they stock everything from agri-inputs to personal care products to consumer durables.

Krishnamacharyulu C.S.G and Ramakrishnan Lalitha (2011) strongly feels customized and affordable products, effective distribution and focused marketing initiatives are essential factors in building credibility for a brand in rural India. The major challenge faced by marketers involves supplying products of right quality in enough quantities to meet the needs of rural customers.

Gupta Asish (2011) strongly feels that location of the store plays an important role. Selecting a store in prime locality will definitely pay off than having it at the outskirts of the village. Also while creating these stores, acceptable ambience should be there so that rural people feel comfortable.

4.0 Objectives, Scope and Method of Study

The main objectives of the paper are:

- a) To find out challenges in rural channel management.
- b) To identify the various rural channel members in the Indian context.
- c) To suggest an appropriate rural channel strategy for distribution of durables.

The study confines to rural channel management towards durables only.

Data have been collected from various books, articles available in various journals, websites, magazines and newspapers etc.

5.0 Challenges in Rural Channel Management

Ensuring availability of the product or service is the major challenge in rural areas. In order to reach remote rural market distributors use auto rickshaws, bullock-carts and even boats. Long back rural consumers used to buy durables from nearby towns or cities, but gradually change in their buying habit has been observed. Many rural customers now looking for a shop which is selling durables in their village or nearby villages. If the same is not available, then they think of going to nearby bigger market in towns.

Marketers face following problems in rural channel management for selling durable goods:

- ♦ Large number of scattered small markets, resulting high cost of distribution
- ♦ The distribution chain in the rural context requires a large number of tiers, which makes channel a major problem for distributor.
- ♦ Business volume is not adequate enough particularly in case of durables to sustain the profitability of retail tier.
- ♦ Unorganized market causes difficulty to formulate proper distribution system
- ♦ Dispersed population put companies in difficulty for proper logistics planning
- ♦ Poor roads and infrastructure adds cost to products
- ♦ Multiple tiers (intermediaries) in the value chains leading to higher costs
- ♦ Non availability of suitable dealers, so wholesaler takes advantage
- ♦ Financial strength of retailers is low
- ♦ Poor storage system, warehouses hurdle for maintaining inventory level
- ♦ Inadequate bank and credit facility for rural customers and retailers, resulting distribution in rural markets handicapped.
- ♦ Availability of proper rural shop shelves to display products
- ♦ Poor media reach

6.0 Various Rural Channel Members

The conventional distribution channel adopted by durable companies includes four members such as C&FAs, stockists, wholesalers and retailers. There are five layers of distribution channels for movement of products from company manufacturing hub to rural market. The following table depicts various possible channels as below:

Table-4 : Channel Members

Layer	Channel Partner	Location
Layer 1	Company depot/ C&FA	National/ State level
Layer 2	Distributor / Van operator / super stockiest / rural distributor	District level
Layer 3	Sub-distributor/ retail stockiest / sub-stockist / star seller / Shakti dealer	Tehsil HQ, towns and large villages
Layer 4	Wholesaler	Feeder towns, large villages, <i>haats</i>
Layer 5	Retailer	Villages, <i>haats</i>

Source : The Rural Marketing Book, Kashyap P and Rout S

FMCG distribution comprises of maximum channel partners, whereas durable goods channel has fewer links. Goods directly move from manufacturing hub to C&FA, then to authorized dealers and lastly reach end user.

Historically, if we look at rural distribution system, it used to comprise wholesalers, retailers, vans, mobile traders and weekly *haats*.

CFAs: CFAs are first link in channel management for supplying materials to various channel members. CFAs provide godown space for keeping stock and supplying those stocks to stockists or distributors or wholesalers those who cater retailers. The orders are usually booked by company sales personnel and CFA execute the same order.

Stockists: Also called as distributors who stock materials received from CFA and redistribute to rural retail networks. They are most critical link between a company and its rural channels, as they are the first customers for the company, investing in stock and employing sales force to cover rural market as per permanent journey plan(PJP).

Wholesaler: Majority of rural consumption is still routed through wholesalers, because they are located nearby feeder markets, thus village retailers replenish their stocks

as and when it is required as per their convenience. They are typical traders rather than a distributor, keeps stock during peak demand season, not loyal to any particular brand, behaves with market demand. Rural market was neglected by most companies due to low density of retail outlets, low volume off-take by rural retailers. Thus wholesalers in nearby towns used to take advantage of this situation and village retailers solely depend on them. Thereby, those wholesalers often indulge in trade malpractices.

Retailers: Retailer sell products and services from a fixed location, such as *kirana* shops, department stores, boutiques, in small or individual quantities for direct consumption by consumers. A retailer buys goods and products in large quantities from wholesalers or distributors and sells them to end customers as per their requirement. Retailers are normally at the end of the distribution channel and they are essential part of whole distribution strategy. In India retail industry has two more forms: *Haats* and *Melas*. *Haats* are weekly local markets that serve nearby villages for their day to day necessities. Similarly *Melas* are larger local temporary markets where various durable goods are also sold.

Marketers can make effective use of the following large available infrastructure to create huge network.

Table-5 : Rural Marketing Infrastructure

Post Offices	1,38,000
Haats (Periodic Markets)	42,000
Melas (Exhibitions)	25,000
Mandis (Agri markets)	7,000
Public Distribution Shops	3,80,000
Bank Branches	32,000

Source: NCAER Report, 2011

7.0 The Rural Channel Strategy for Durables

To expand the business by tapping the countryside, more and more multinationals are foraying into Indian rural market. In order to be successful in Indian rural market, companies have to convince that rural consumer is different from that of urban counterpart in many aspects. The biggest challenge for companies including MNCs is meeting basic four criteria such as awareness availability, affordability and acceptability. The most important of these four criteria is availability of product in time at right place, meeting customer expectations and ultimately ending up with customer delight.

Many companies like LG Electronics, Samsung, Micromax, Bajaj, Usha, Hero, Philips now seriously looking for expanding rural business by strengthening their primary as well as secondary network. One such success story by Micromax may be a way ahead, which created the brand popular in rural market in a short span. Micromax launched a phone for rural market called 'Micromax X1i', a brand with unique feature like good battery backup. The strategy behind this was that rural folks normally have problems with electricity and producing a battery that lasts longer duration would be a big success. The most significant step the company took was despite many challenges, the problem of logistics was solved by setting up elaborate distribution network comprising of 450 distributors and more than 50,000 retailers. In order to cater to rural market Crompton started a new strategy of introducing rural marketing a separate wing with rural centric products like in fans 'Crompton Pavan', in pumps 'Crompton Sarita' to target rural consumers. A special drive was undertaken to appoint rural specific distributors who can cater rural retailers, which was a success story for the company. Similarly, LG Electronics made more efforts to build its distribution system in rural areas. In order to sell its products in the countryside, LG built specialized offices called Remote Area Offices (RAOs), and for places where either population is too small or which are too remotely located to set up RAO, it authorized local dealers to act as distributors.

8.0 Emergence of Modern Rural Retailers

Over last few years, Indian rural market has witnessed rapid transformation in channel particularly for durables. In order to meet increasing demand of products and services in rural markets companies are looking for new distribution channels to cater those markets effectively. Urban and semi urban markets coming up with departmental stores, supermarkets, hypermarkets, malls, specialty stores, multiplexes and fun zones,. Even this modern retail channel has become a point of attraction for consumers of rural areas.

In order to meet rural demand, companies those are seriously looking to enter rural markets and to serve them effectively need to focus and develop new distribution channels. Some of the alternate channels are as below:

a) **Vans:** Mobile vans play an important role in the distribution and promotion of products in rural

markets. Presently many durable companies use vans for product demonstration as well as distribution of their products in villages. Eveready, the market leader in batteries and torches use vans extensively to cater effectively rural markets.

- b) **Self Help Group (SHG):** A self help group is a group of 10-15 women organized by government bodies or NGOs, get loan from rural banks to set up income generating enterprises. The rapid growth of the SHG movement in India has provided marketers with an opportunity to establish distribution model through linking these groups to become part of their channel. Hindustan Unilever Limited (HUL) started Project Shakti by tapping these groups. Under project Shakti, distribution has been organized through three-tier network, first by a CFA at state level, then by Rural Distributors (RDs) at district level, who delivers various stocks at the door steps of Shakti Dealers (SDs) in villages.
- c) **Public Distribution System (PDS):** It is a system of distribution of essential commodities to a large number of people through a network of fair price shops (FPS), which is often referred as ration shops. Model fair price shops, initiated by government at Gujarat, known as micro rural malls. At these rural malls, people can not only buy only essential commodities, but also other products and services. Out of total 3, 80,000 FPS 80 percent are located in rural areas, which can be better utilized as an alternate channel of distribution.
- d) **Petrol Pumps:** In India nearly 7200 petrol pumps are located near highways close to villages. Some of those petrol pumps in addition to selling petroleum products, also sell consumables, agri-inputs, LPG cylinders and other rural based items. Indian Oil Corporation's Kisan Seva Kendra is one of these initiatives which cater requirement of rural customers.
- e) **Cooperative Societies:** Cooperative societies in Indian rural economy in terms of their coverage and role in the economic value chain, from production to marketing, and procurement to distribution. Warana Bazar in Kolhapur district of Maharashtra and Farmers' Services Cooperative Societies (FSCS) are some of the cooperative networks which operate like mini super markets for rural consumers.
- f) **Non-government Organizations:** Non-government Organizations (NGOs), which has been present in Indian rural areas for a long time can be utilized as an alternative channel of distribution in the hinterlands. Tata tea first started its initiative "gaon Chalo" meaning "Let's go to the villages", joined hands with some NGOs to reach across rural Uttar Pradesh.
- g) **Mobile Traders:** They are one of the age old unorganized distribution systems of rural India, in which traders travel through remote villages selling products door to door. They carry their products on bicycles, bullock carts, mopeds, bikes or on foot.

Mobile traders have a deep reach as they mainly target small villages and they emerge as cost-effective way of direct selling.

9.0 Concluding Note

Over the years, many durable companies have built strong distribution system which helped those brands reach the interiors of rural market. Now many durable companies like Samsung, Godrej, Bajaj, Usha, Crompton, V-Guard, Micromax are seriously looking into establishing strong distribution strategy to penetrate remote villages, so that their products move deeper into rural market. Companies mostly depend on their distribution channel to make the product available at right place, resulting hassles free purchase by customer, generating customer delight & satisfaction and achieve differentiation over competition. Now rural market has become lucrative and growing, marketers need to look at this aspect of business management seriously, establish strong distribution channel to cater durable goods so that companies can ensure brand loyalty, ensure better price discipline and thus ultimately meet and satisfy organizational goals.

According to Accenture survey, almost 83 percent of rural consumers claimed that they go to shopping malls in nearby cities or towns to make their big-ticket purchases. Thus in future, store format, location, size and layout will be critical for attracting rural consumers. It may not be feasible for durable companies to have large number of branded stores in rural areas, but at the beginning in order to inspire trust and build brand recognition few flagship shops can be opened at select markets.

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