

## A CASE STUDY

# Consumerism in rural India: A study on buying behaviour for consumer durables

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### ABSTRACT

The purpose of the investigation was to study the buying behaviour for consumer durables in rural India. Over the past few years, the rural markets have emerged as one of the most lucrative markets for Indian companies. In the recent past, many organizations have forayed into rural areas and this has proved fruitful and beneficial for them. The Indian rural markets provide abundant opportunities for organizations to enter and operate profitably. Rural India has emerged as a large market for numerous goods and services such as financial services, FMCG, healthcare, consumer durables and telecommunications. In today's competitive scenario, the rural markets are even more vital than urban markets for marketers as part of their green ocean strategy. But this journey has not been so easy. It has been the effort of continuous positioning with innovative methods of promotions designed to suit rural masses. Still the road is less travelled. India still has more than 6 lac villages contributing to almost 60 per cent of India's population. Out of these more than 50 per cent villages are of population spread less than 500. This makes them very difficult to trace when it comes to know their buying behaviour or for designing a communication strategy for these people. Not to mention the age old hurdles such as poorly developed communication channels, difficulty in direct distribution, erratic monsoons resulting to fluctuating incomes and so on makes rural India a tough target to achieve. Still we have got successful examples in the area of rural marketing such as HUL, P and G, Marico and Godrej etc. Some telecoms such as DOCOMO, MTS, and UNINOR have even reversed the formula as to go rural first then to urban. This makes it clear that everyone is betting on Rural India and will keep on investing in it for better future prospects.

**KEY WORDS :** Consumerism, Rural India, Buying behaviour, Consumer durables

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It is now believed that Indian hinterland is on the rise. Rural India accounts for about 50 per cent of India's GDP and nearly 70 per cent of the country's population. Rural incomes are growing and consumers are buying discretionary goods and lifestyle products, including mobile phones,

television sets and two wheelers.

Between 2001 and 2009, spending in rural India was \$69 billion, significantly higher than the \$55 billion spent by the urban population. A World Bank study has revealed that nearly two-thirds of India's 120 crore population still live in rural areas. Most of the companies are steadily transforming their rural operations into viable profit centers. They have been devising 'reach strategies' which proved to be instrumental in selling to unsophisticated buyers in geographically dispersed locations. Industry experts expect the next level of growth to come from smaller towns. India's rural population, accounting for about 12 per cent of the world's population, presents a huge, untapped market. Brands cannot

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afford to disregard vast opportunities rural India offers, taking into consideration the population density in such areas. Almost 67 per cent of companies in India are expanding their presence in tier IV cities (Accenture, 2013). Since 2000, gross domestic product (GDP) has grown faster in rural India than in urban [at a 6.2 % compounded annual growth rate (CAGR) as against 4.7 %]. The study revealed that between 2010 and 2012, spending in rural India was Rs. 3,73,566 crore (US\$ 68.05 billion), while urban consumers spent Rs. 2,97,770 crore (US\$ 54.25 billion).

Improving business environment, better infrastructure and the growing number of consumers with higher disposable income are certain factors that are driving Indian rural markets. About one-third of fast moving consumer goods (FMCG) and consumer durables are sold in rural markets, according to a Tata Strategic Management Group report. Companies that recognize this enormous opportunity are experimenting with various go-to-market models to garner their share of this growth. But the results have been mixed.

An efficient sales and distribution model is the most critical factor to achieve profitable and sustainable growth in rural markets. Our research found that a hallmark of success in rural India is overcoming challenges in the three stages of the consumer lifecycle reaching, acquiring and retaining the rural customer. In terms of reaching the rural consumer, the biggest obstacles companies facing are inadequate distribution networks, partners with limited capabilities, long payment cycles, and weak marketing channels. As far as rural customer acquisition is concerned, understanding and meeting the diverse, specialized needs and preferences of such customers pose major challenges to companies.

#### **Major rural marketing initiatives :**

Big companies are increasingly molding their operations and strategies to woo consumers in Indian hinterlands as people residing in rural areas differ in terms of lifestyles, mind-sets and cultures. Hindustan Unilever aimed to empower rural women to make its products reach every rural home by training rural women as Shakti Ammas. Reportedly, the Shakti initiative delivers around 20 per cent of Unilever's overall rural sales. Meanwhile Godrej Consumer Products trains rural youth in channel sales. ITC has Choupal Sagar and Godrej Agrovet has large format retail stores called Adhaar in Indian hinterlands, While Coca-Cola, the beverage major on completing 20 years since it re-entered India, intends to increase its rural reach, India's passenger vehicle giant Maruti Suzuki India Ltd is looking to penetrate into the rural market to a greater degree, in order to further boost its sales volume and margins. Maruti's deliveries in small towns and villages were more than those in big cities during the first quarter of 2013. Pune-based non-banking financial company (NBFC) Bajaj Finance, which has operations in urban areas and a few

semi-urban regions, is planning to enter rural markets in the second quarter of the FY 14. Initially, the company would offer gold loans and loans for used vehicles and farm equipment. The operations, to be launched in Maharashtra and Gujarat, would be expanded at a later stage. Vodafone India has recently reported that most of its growth (in terms of subscriber base for voice services) is coming from the rural parts of the country. The GSM operator has emerged as the largest telecom operator in rural India, by amassing a total rural subscriber base of 82.24 million (as of March 31, 2013). Moreover, the company's venture with ICICI Bank for M-pesa is also helping it make roads into the rural sector. M-pesa, a financial inclusion initiative, has been launched in Kolkata, West Bengal, Bihar and Jharkhand, and is planned to be rolled out to other parts of the nation by 2014. Havells India Ltd. is planning to harness opportunities in semi-urban and rural markets with its non-modular switch brand Reo. The fast-moving electrical goods company hopes to achieve at least Rs. 200 crore (US\$ 36.44 million) business from this category. The company is in the process of ramping up its production capacity at its Baddi (Himachal Pradesh) facility from the current five lakh to 10 lakh units per day in the next couple of months.

With increasing rural competition and high cost-to-serve, providing reliable and consistent after-sales service and optimizing the costs of a high-quality experience remain major obstacles. The wide geographic dispersion of a small number of customers drives high sales-service costs, and many businesses cannot provide a dedicated after-sales service network.

As rural markets evolve and competition in rural markets intensifies, companies will have to look for new approaches to harness this opportunity in ways that protect their margins while also growing revenue. Deploying the correct sales and distribution model can assist companies in driving profitable growth in a relatively short span of time. Rural masters will have to find ways to scale operations without hurting their bottom line. For a rural performer, the challenge will be to create differentiated offerings and brand loyalty to retain customers and sustain their business models. Rural voyagers will build their own ecosystems and brand awareness to acquire new customers. New entrants will travel their own paths to penetrate rural markets. By focusing on the specific needs, behaviours and preferences of the rural consumers, and by applying a systematic approach to market expansion, companies can accelerate their rural expansion journey.

#### **METHODOLOGY**

This paper presents facts and analysis of the buying behaviour, awareness, adoption and usage patterns among rural populace in Northern India. It identifies opportunities that will drive rural consumerism among various durable product manufacturers in India. Having said that objective is to study buying behaviour masses with respect to major consumer

durables that are witnessing exuberant growth in rural India *i.e.* cell phones, T.V. DTH services, refrigerators, and vehicles.

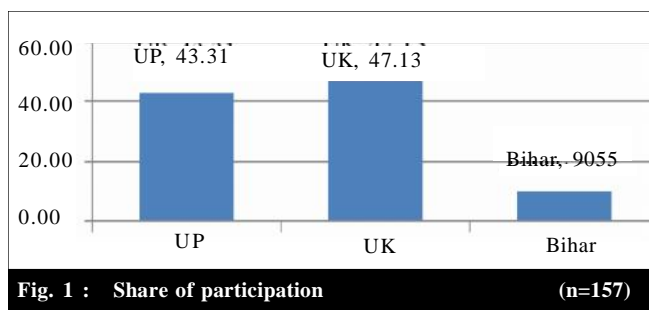
As the research was conducted on rural consumerism, the study was nothing without the active participation of rural consumer/farmers, Therefore, the All India farmer fair at Pantnagar (Uttarakhand) organized on March, 2014 was considered as the platform for the primary data collection. Sample size of 157 farmers was selected randomly within a very short period of 4 days in farmer fair.

The primary data was taken with the help of questionnaire. Questionnaire was divided into 2 parts. The first part composed of general questions about the respondent's personal information, demographic and socio-economical conditions (Table A). The second part composed of questions related to consumer buying behaviour, consumption pattern and expenditure *i.e.* purchasing power on the durable goods.

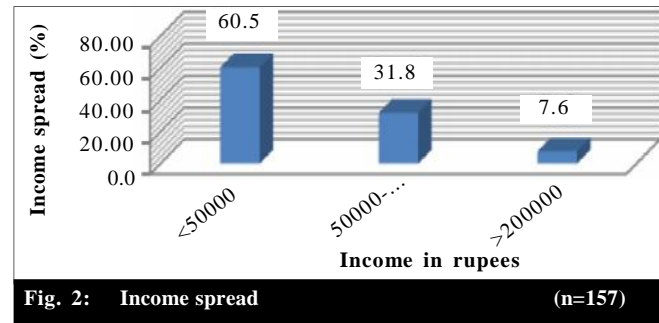
| Demographic variables | Segments              | Percentage |
|-----------------------|-----------------------|------------|
| Age                   | 20-30                 | 21         |
|                       | 31-50                 | 50         |
|                       | 51-70                 | 29         |
| Education             | Illiterate            | 9          |
|                       | 1-8                   | 32         |
|                       | 9-12                  | 31         |
|                       | Graduate              | 27         |
|                       | Post graduate         | 1          |
| Occupation            | Agriculture           | 74         |
|                       | Service(Govt/private) | 13         |
|                       | Both                  | 13         |
| Income                | <50000                | 60         |
|                       | 50000-200000          | 32         |
|                       | >200000               | 8          |

### ANALYSIS AND DISCUSSION

The rural consumers/farmers ratio observed at the time of research is shown in Fig. 1. It was observed that majority of consumer data was restricted to only 3 states of Northern India namely; U.P., Uttarakhand and Bihar.

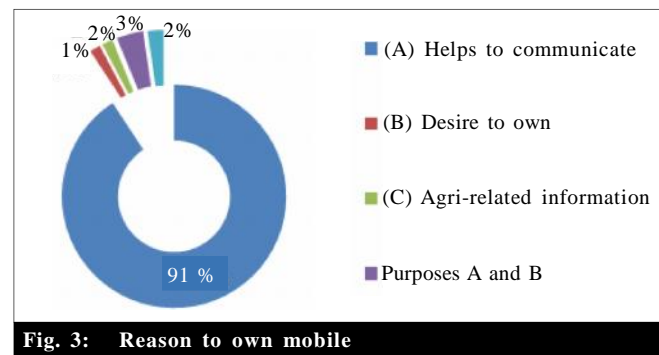


As far as income distribution is concerned, 60.5 per cent of rural consumers fall in the annual income bracket of less than Rs.50000 followed by 31.8 per cent consumers falling in the category of upto Rs. 200000 annual income and a mere 7.6 per cent people crossing the Rs. 200000 mark (Fig. 2). This is in tandem with the demographics mentioned in the rural market survey initiatives by major marketing research firms.

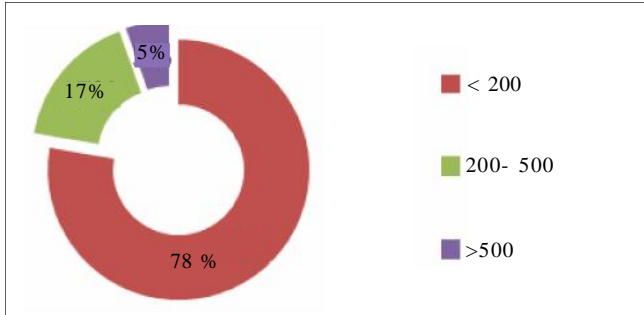


First consumer durable considered under study was mobile phone findings of which were as follows:

91 per cent of the respondents reported communication is main reason to own mobile phone among several other reasons (Fig. 3). Since majority of the rural consumers were farmers by profession, therefore, mobile as a tool to help them access agriculture related information was but obvious an option to ask for, in case of enhancing the usability of mobile phone. However, it was surprising to know that as few as 2 per cent of the respondent used it as a tool to access agriculture related information to which the government is putting a lot of focus. Airtel and IFFCO collaboration is one among such initiatives.



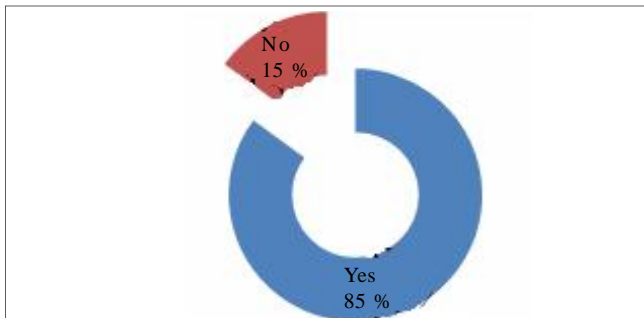
When it comes to monthly expenditure of mobile our rural counterparts are not very talkative, as the exhibit clearly shows their wise spending on mobile bills *i.e.* 78 per cent of the respondents limit their mobile bill to less than Rs. 200 a month (Fig. 4). One may find it a very conservative market, however on the other hand it can also be looked as an attractive market for expanding the reach of value added services to the rural masses as part of blue ocean strategy considering the



**Fig. 4 : Monthly average expenditure on mobile (n=130)**

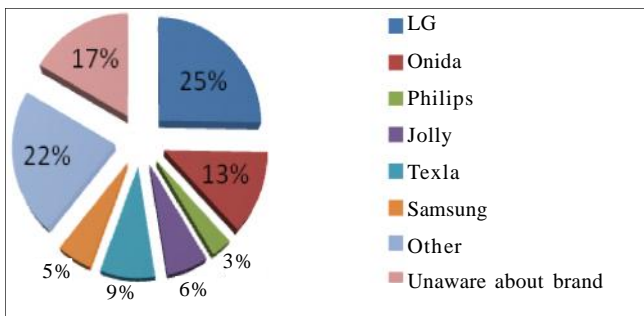
fact that the urban market has almost got saturated.

As far as mobile service is concerned, 85 per cent of total respondent has nearby reach of centers (Fig. 5). This indicates that easy access to tackle technical hurdles while handling a mobile phone through a service center enhances further buying and using its features in the long run.



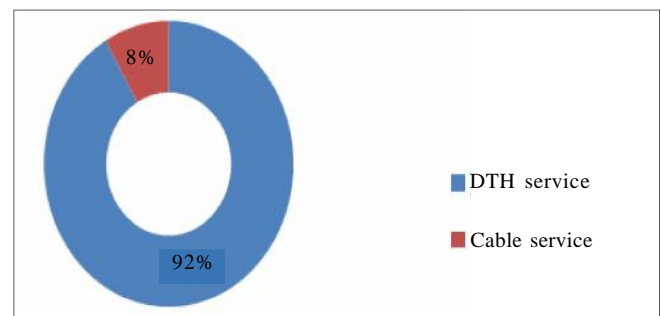
**Fig. 5: Mobile service centre (Cellphone) (n=130)**

About television brand penetration, out of 157 respondents only 95 had TV at their home. Fig. 6 clearly shows that LG is a clear leader in the rural market followed by Onida. However, 17 per cent of respondents were not able to recall the brand name of the TV they had. This significant percentage indicates that television firms still have a lot to do as part of their advertising campaign so as to establish an instant top of the mind recall which will in turn ensure a little bit of brand loyalty in future.

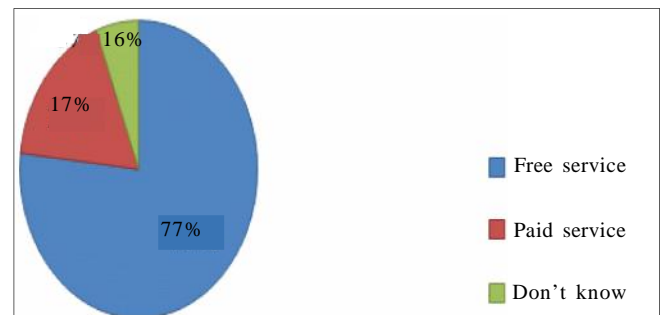


**Fig. 6: TV brand penetration (n=95)**

Digitization of TV signals in rural market as compared to urban market seems quite good as the latter has been digitized in the month of that too limited to only metros. The reason behind this is high cost of spreading the cable network in rural areas because rural households are spread far apart from each other. Out of 157 respondents, 95 were considered for analysis due to the affordability of television by them. The Fig. 7 depicts that 92 per cent among them were DTH users. However, due to affordability reasons and recharge hassles, free DTH service providers are prominent in the rural hinterland with 77 per cent of market capture whereas paid service providers such as Airtel, Tata sky etc could cover only 17 per cent of rural market in the states under study (Fig. 8).



**Fig. 7: DTH vs. cable (n=95)**



**Fig. 8: DTH service adoption (n=95)**

Fig. 9 throws light on the potential market for the paid DTH service providers approx. 47 per cent of those paid service DTH users are spending more than 200 per month as part of their TV viewing expense. This indicates rural masses' willingness and ability to pay for this new kind of TV platform. The more the penetration of paid DTH service providers in the rural areas the easier it will be for advertising agencies to reach out to rural masses through various channels as the know how and exposure to different product will increase simultaneously.

In case of Refrigerator, out of 157 respondents only 11.37 per cent (*i.e.* 19 respondent) owned refrigerator. It means there

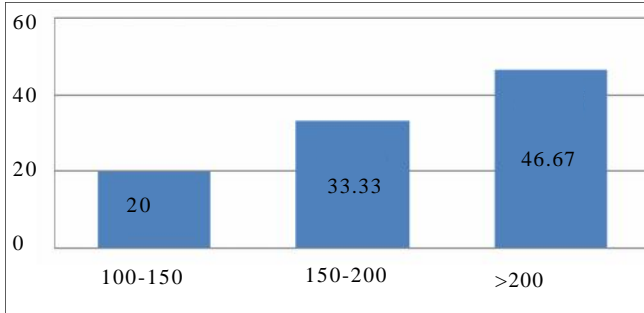


Fig. 9: Monthly expense of DTH service (%share) (n=15)

is huge potential in the rural market for the product (Fig. 10). Moreover, considering capacity and price of refrigerator, 165 to 215 litre in case of capacity and 10000-15000 rupees in case of price segment were common.

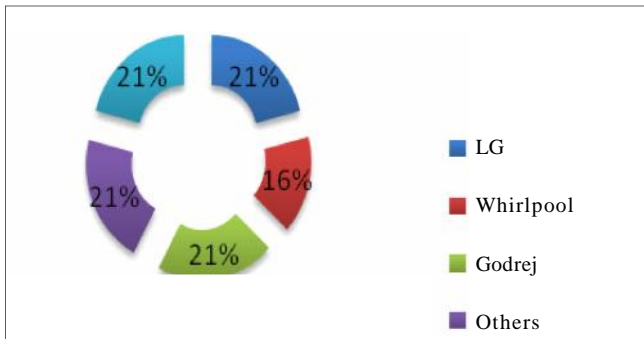


Fig. 10: Brand penetration of refrigerator (n=19)

As far as brand penetration is concerned LG, Whirlpool and Godrej secured 58 per cent share together. However, 21 per cent of respondent couldn't recall the brand they had which indicates that they were passive decision maker in the buying decision process.

Water purifier only 3 respondents out of 157 were found to have water purifier which indicates that the need is less felt and knowledge is limited. Therefore Market should be explored for need identification, price segment, and brand positioning. Tata swatch and pure-it can be an affordable option in future as they run without electricity and require less technical knowhow which is why there is a huge market potential for these products.

**Vehicle :**

Two wheeler segments is the major market segment in rural India. As can be seen from Fig. 11 and 12 in the area under study only 35 per cent is the spread of vehicles. This is dominated by 2 wheelers (89 %) due to obvious reasons such as practicality, price, maintenance and compatibility with major rural pathways. Hero Honda is undisputed leader in rural India followed by Bajaj which is increasingly

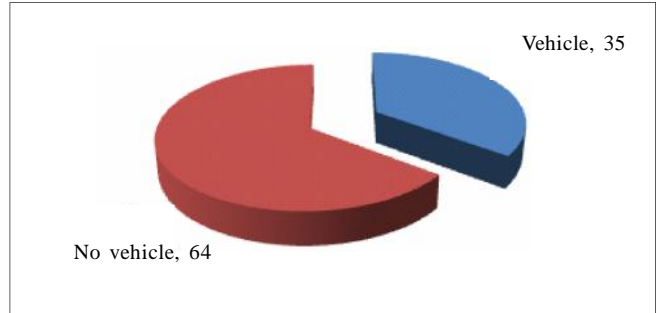


Fig. 11: Spread of vehicles

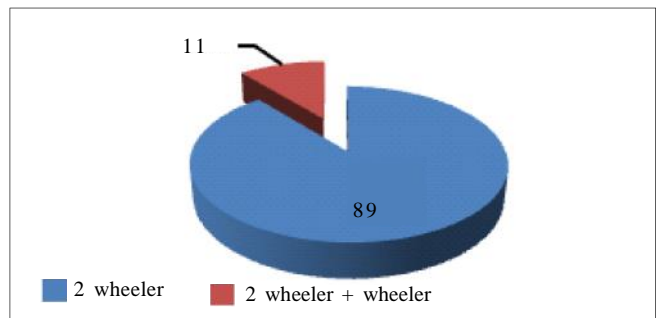


Fig. 12: 2 wheeler + wheeler

becoming the choice of rural youth due to feature rich models designed for rural India.

**Mixer grinder :**

16 out have 157 owned mixer grinder which is an indication of desire of sophistication among rural India. Similar to television and Mobile there has not been any correlation between electricity and use of these appliances (Fig. 13). Instead this desire is fuelled by sheer need of sophistication. Similar work related to the present investigation was also carried out by Buskirk and James (1970) and Lazar (1969).

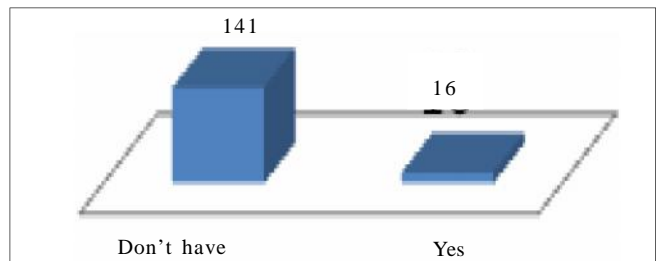


Fig. 13: Mixer grinder ownership

**Scope for further study :**

Since the author has only focused on limited aspects of consumerism with a limited area. The study has further scope in the area of consumer buying decision process positioning and

servicing aspects of different durables as well as consumables.

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