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## **B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 1**

**UNIT - I**

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### **STRUCTURE**

- 1.1 Introduction
- 1.2 Objectives
- 1.3 Concept of Industrial Marketing
- 1.4 Definition of Industrial Marketing
- 1.5 Nature of Industrial Marketing
- 1.6 Significance of Industrial Marketing
- 1.7 Scope of Industrial Marketing
- 1.8 Summary
- 1.9 Glossary
- 1.10 Self Assessment Questions
- 1.11 Lesson End Exercise
- 1.12 References

### **1.1 INTRODUCTION**

Marketing is defined by the American Marketing Association as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large”. Marketing

creates those goods and services that the company offers at a price to its customers or clients. That entire bundle consisting of the tangible good, the intangible service, and the price is the company's offering. Market can be consumer market or industrial market. Consumer markets are the markets for products or services which are bought and consumed by individuals and households for their personal purpose. In contrast, the participants of industrial market are organizations and the people who work for them. They buy products or services for use in their own businesses or to make other products. For example, a refrigerator manufacturer might purchase sheets of steel, wiring, shelving, and so forth, as part of its final product. These purchases occur in the industrial market.

In comparison to consumer markets, the volume of transactions in industrial market is more. The purchases made by the government, commercial as well as non-profit making organizations constitute a large amount of this market.

## **1.2 OBJECTIVES**

After going through this lesson the student will be able to:

- describe the meaning of industrial marketing
- know the significance of industrial marketing
- explain the nature and scope of industrial marketing

## **1.3 CONCEPT OF INDUSTRIAL MARKETING**

Industrial marketing, also known as business to business marketing or business marketing or organizational marketing, is the marketing of goods and services by one business to another. Business includes manufacturing companies, government undertakings, private sector organization, educational institutions, hospitals and so on. Industrial goods are those goods which an industry uses to produce an end product from one or more raw materials.

Industrial marketing can cross the border into consumer marketing. For example, an electronic component seller may distribute its products through industrial marketing channels, but also support consumer sales. Many products are equally desired by business and consumers-such as audio products, furniture, paint, hardware, etc. Nonetheless, manufacturers and service providers frequently maintain separate industrial and consumer

marketing operations to reflect the different needs of the two channels.

Understanding the concept of industrial marketing is compulsory for industrial marketing manager- to provide proper guidance and stimulation for research and development of new products; to exploit and develop markets for new products; to define the methods for promoting products to customers considering the major increase in the cost of media advertising and personal selling; to innovate in distribution and other areas to keep up with changing requirements of industrial customers doing business on a multinational basis; to meet stiff competition through modernised business; to refine and modify product positioning; and to approach problems in the modern ways.

#### **1.4 DEFINITION OF INDUSTRIAL MARKETING**

Kotler and Armstrong defines business market as "the market which includes organizations that buy products and services for use in the production of other products and services that are sold, rented or supplied to others. It also includes retailing and wholesaling firms that acquire goods for the purpose of reselling or renting to others."

Ernest F Cooke identified three approaches for defining industrial marketing. These are:

- the product definition approach,
- the market definition approach, and
- the marketing activity approach.

Majority of the researchers recommend that the most useful definition of industrial marketing should focus first on the industrial customer and then on the industrial product.

One definition of industrial marketing is "the marketing of goods or services to commercial enterprises, governments, and other non-profit institutions for resale to other industrial consumers or for use in the goods and services that they, in turn, produce." This follows the suggestion of concentrating first on the customer.

Risley, George (1972) defines industrial marketing as "the marketing of goods and services to industrial customers for use in the production of goods, for use in the operations of businesses themselves, and for use by non-political institutions." This differs in two ways from the first definition. It concentrates on product rather than market and it excludes governments (non-political) while the first specifically includes political institutions

(governments).

According to Robert W. Haas (1982) industrial marketing refers to "human activities directed toward satisfying wants and needs of professional buyers and other individuals influencing purchases in commercial, institutional, and governmental organizations through the exchange process." This definition focuses on the marketing aspect of industrial marketing.

Hence, industrial marketing is a set of activities directed toward facilitating and expediting exchange involving customers in industrial markets and industrial products." This deals exclusively with marketing, depending on further definitions to explain industrial markets and industrial products.

### **1.5 NATURE OF INDUSTRIAL MARKETING**

Industrial marketing is a dynamic and challenging area that presents opportunities for the application of marketing concepts and principles. Industrial marketing performs its functions differently with respect to that of consumer marketing in many aspects.

Following are the characteristics/nature of industrial marketing:

1. In industrial marketing, marketing is one-to-one in nature. It is relatively easy for the seller to identify a prospective customer and build a face-to-face relationship.
2. The demand in case of industrial marketing is derived demand. It is derived demand because the demand for industrial products depends upon the demand for consumer goods. For example, automobile companies manufacture cars. It is the consumer who buys cars. The companies manufacture these cars because there is the demand by the consumers for cars. The demand for cars is direct. But the manufacturers require several components to make these cars such as engines, paints, glass, batteries and so on. The suppliers of all these things will be different. As the demand for the car will increase, the demand for various components will also increase. This will ultimately create a chain. This is known as derived demand.
3. Fluctuating demand is another characteristic of industrial markets: a small change in demand by consumers can have a big effect throughout the chain of businesses that supply all the goods and services that produce it. For example, Cisco makes

routers, which are specialized computers that enable computer networks to work. If Google uses five hundred routers and replaces 10 percent of them each year, that means Google usually buys fifty routers in a given year. What happens if consumer demand for the Internet falls by 10 percent? Then Google needs only 450 routers. Google's demand for Cisco's routers therefore becomes zero. Suppose the following year the demand for the Internet returns to normal. Google now needs to replace the fifty routers it didn't buy in the first year plus the fifty it needs to replace in the second year. So in year two, Cisco's sales go from zero to a hundred, or twice normal. Thus Cisco experiences a bullwhip effect, whereas Google's sales vary only by 10 percent.

4. Although the number of consumers of industrial product/service is small, the number of transaction is large. A single purchase by an industrial consumer is larger than that of an individual consumer.
5. Industrial marketing often involves competitive tendering. This is a process where a purchasing organization undertakes to procure goods and services from suitable suppliers. Due to the high value of some purchases and the complexity of such purchases, the purchasing organization will seek to obtain a number of bids from competing suppliers and choose the best offering. An entire profession that includes tertiary training and qualifications has been built around the process of making important purchases.
6. The channels available for distribution of industrial products are short.
7. In industrial marketing, personal selling is still very effective because many products must be customized to suit the requirements of the individual customer.
8. Sales force management has a critical function in industrial selling, where it assumes a greater role than other parts of the marketing mix. Typical industrial organisations depend on the ability of their sales people to build relationships with customers. During periods of high demand, sales forces often become mere order takers and struggle to respond to customer requests for quotations and information. However, when economic downturn hits it becomes critical to direct the sales force outward to sell.

9. Industrial marketing involves rational buying. The consumers of industrial products/ services are knowledgeable, technically sound and skilled in negotiations.

## **1.6 SIGNIFICANCE OF INDUSTRIAL MARKETING**

Industrial markets are one of the driving forces that support and enhance the economic activities of any country. It also forms a foundation for the consumer market.

It is important for students and practitioners to understand that there are different types of marketing-consumer and industrial. That is, both the markets are very different in terms of product, promotion, distribution channel and other marketing strategies. If one fails to understand the difference, then wrong methods might be undertaken and may suffer from heavy loss. For instance, industrial marketing is said to be more complex, the buying process is more intricate, the products and services offered are often of a strategic nature and the sales value of each order are much larger than in consumer markets.

Industrial markets operate at both a national and an international level. Such markets can account for over 40 per cent of all national, international and global transactions. In terms of the amount of revenue collected, the end consumer price will be higher than intervening prices between companies but if value added is taken into account then it could be three or four times larger in consumer markets. This is because for every business-to-consumer purchase there could be many more transactions between raw material suppliers, producers, manufacturers, agents and wholesalers. The total value of sales will generally be higher, resulting in higher transactions, with potentially greater profits.

In industrial marketing, the customers are the organizations. That is, in this type of marketing, company has to deal with other companies and not with a large number of customers. As these companies need to buy these products, it is much easier to convince them to do business. Once these companies become your client, they will remain working with you for a long time, if your services are good, and you are offering adequate customer support. In short, brand loyalty, in the case of companies, is higher compared to final consumers.

## **1.7 SCOPE OF INDUSTRIAL MARKETING**

In industrial marketing, the customers are the organizations namely manufacturing companies, government undertakings, private sector organization, educational institutions, hospitals and so on. That is, here, the buying function is performed by the industrial buyers on behalf of the organization. There are certain products such as air conditioners, electrical fans, diesel generating sets, etc which are purchased both in consumer markets and industrial markets. The marketers dealing with such products have to frame different strategies for consumer and industrial marketing to ensure better sales efficiency and effectiveness. Because of difference in the buying motives of industrial and consumer marketers, it is important to design different strategy for each set of marketers. Further, there are two important aspects that affect the buying decisions of industrial buyers-transparency and accountability. It means since industrial buyers are 'buying on behalf' they have to develop certain processes and policies to ensure transparency and accountability which is not in case of consumer buying process.

Industrial buying process passes through several exchanges which involves value additions. These value additions are provided by different constituents of the value chain of the whole economy. The value chain varies from product to product and also from industry to industry. A conceptual view of this value chain and the stages for each type of industry in the economy is shown in the figure 1.1. As we can see in the figure, there are six stages of the value chain. The first five stages of the value chain belong to the domain of industrial marketing. The exchanges and transactions involved in the process (i.e. 1-5 stages) are managed by the industrial marketers. The last stage belongs to consumer marketing which cannot be performed without the existence of first five stages of the value chain. The value chain in figure contains the names of some well known business marketers of India for each stage.

The domain of industry marketing as shown in the figure indicates that it could contain thousands of products and services in each stage of the value chain. By 2010, India alone had around 30 million organizations, which could be associated with industrial marketing. In short, there is too much of product and customer diversity in industrial marketing.

In short, there is too much of product and customer diversity in industrial marketing.

First	Second	Third	Fourth	Fifth	Sixth
Raw Material Extraction	Material Processing	Manufacturing	Final Assembly	Distribution and After Markets	Wholesale and Retail Sales to Household Consumers
ONGC	Indian Oil	Larsen & Turbo	Tata Motors	Pantaloon	Big Bazaar
Oil India Ltd.	Tata Steel	Bharat Forge	Maruti Suzuki India Ltd.		Titan watches
Reliance Industries	Reliance Industries	Sundaram Fasteners Ltd.	Godrej Boyce	Service provider for cars, elevators, air conditioner	Raymonds
Coal India	Sterlite	Sona Steering	LG	Westside	Auto Dealer Showroom
Tata Steel	Hindalco	Rane Brakeline	Nokia, Hindustan Unilever Ltd.		VIP Suitcases

← Domain of Industrial Marketing → Domain of Consumer Marketing

Source: Sarin (2010)

**Figure 1.1: The Value Chain of an Economy: Domain of Industrial Marketing**

## 1.8 SUMMARY

The industrial market offers significant number of opportunities and special challenges for the marketing manager. Market-driven firms in the business market demonstrate superior skill for understanding and satisfying customers. Business marketing programme increasingly involve a customized blend of tangible products, service support, and ongoing information services both before and after the sale.

Industrial marketing is a dynamic and challenging area that presents opportunities for the application of marketing concepts and principles. Industrial market performs its functions differently with respect to that of consumer marketing in many aspects.

It is important for students and practitioners to understand that there are different types of marketing-consumer and industrial. That is, both the markets are very different in terms of product, promotion, distribution channel and other marketing strategies. If one fails to understand the difference, then wrong methods might be undertaken and may suffer from heavy loss. For instance, industrial marketing is said to be more complex, the buying process more intricate, the products and services offered often of a strategic nature and the sales value of each order much larger than in consumer markets.



In industrial marketing, the customers are the organizations namely manufacturing companies, government undertakings, private sector organization, educational institutions, hospitals and so on. That is, here, the buying function is performed by the industrial buyers on behalf of the organization. There are certain products such as air conditioners, electrical fans, diesel generating sets, etc which are purchased both in consumer markets and industrial markets. The marketers dealing with such products have to frame different strategies for consumer and industrial marketing to ensure better sales efficiency and effectiveness.

### 1.9 GLOSSARY

- **Consumer Market:** It is the market for products or services which are bought and consumed by individuals and households for their personal purpose.
- **Industrial Marketing:** Industrial marketing is the marketing of goods and services by one business to another.
- **Offering:** The entire bundle consisting of the tangible good, the intangible service, and the price is the company's offering.
- **Value Chain:** It is the process or activities by which a company adds value to an article, including production, marketing, and the provision of after-sales service.

### 1.10 SELF ASSESSMENT QUESTIONS

1. Give the meaning of industrial marketing.

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2. Why there is need to study industrial marketing?

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### 1.11 LESSON END EXERCISE

1. Define industrial marketing. Explain its nature and scope.

2. Discuss the importance of industrial marketing.

#### **1.12 REFERENCES**

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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 2**

**UNIT - I**

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**STRUCTURE**

- 2.1 Introduction
- 2.2 Objectives
- 2.3 Difference between Industrial Marketing and Consumer Marketing
- 2.4 Industrial Marketing Environment
  - 2.4.1 The Political and Regulatory Environment
  - 2.4.2 The Economic Environment
  - 2.4.3 The Competitive Environment
  - 2.4.4 The Technological Environment
  - 2.4.5 The Social and Cultural Environment
  - 2.4.6 The Physical and Ecological Environment
- 2.5 Summary
- 2.6 Glossary
- 2.7 Self Assessment Questions
- 2.8 Lesson End Exercise
- 2.9 References

## **2.1 INTRODUCTION**

The basic concepts of marketing (in terms of exchange processes between buyers and sellers) remain the same for both the consumer marketing and industrial marketing. However, there are differences between consumer markets and industrial markets. These differences must be understood well by industrial marketers who want to reach and satisfy the customers better and faster than their competitors, in order to achieve the corporate objectives.

In consumer marketing sales are made to individuals who are the final decision makers, though they may be influenced by family members or friends. In industrial marketing, sale is made to a business or firm.

## **2.2 OBJECTIVES**

After going through this lesson the student will be able to:

- know the differences between industrial and consumer marketing
- understand industrial marketing environment

## **2.3 DIFFERENCE BETWEEN INDUSTRIAL MARKETING AND CONSUMER MARKETING**

Marketing is the process of getting the right goods or services or ideas to the right people at the right place, time, and price, using the right promotion techniques and utilizing the appropriate people to provide the customer service associated with those goods, services, or ideas. This concept is referred to as the "right" principle and is the basis of all marketing strategy. We can say that marketing is finding out the needs and wants of potential buyers (whether organizations or consumers) and then providing goods and services that meet or exceed the expectations of those buyers. Marketing is about creating exchanges.

From the above definition, it is clear that marketing involves four main activities:

- a) Deciding the target markets
- b) Identifying the needs and wants of target markets

- c) Developing products/services that tends to meet or exceed the expectations of the target markets
- d) Framing marketing strategies to satisfy those markets and to achieve competitive advantage.

The above mentioned marketing activities are applicable equally to both consumer and industrial marketing. However, there are a number of differences which make the marketing of products and services in the industrial market quite different from marketing to consumers. Following are the differences between consumer marketing and industrial marketing:

### **1) Market**

In industrial marketing, the number of buyers and sellers is less. Although the number is less but such market constitute a large volume of transactions. In industrial marketing, the marketers are geographically clustered due to various factors such as availability of raw material, cheap labour, nearness to industrial buyers, etc. In contrast, in consumer marketing the customers are geographically dispersed all over the country.

### **2) Product**

The industrial marketers buy the products/services with the objective of having smooth and uninterrupted flow of operations of the company. Therefore, such products are not only technically complex but also require better service quality in terms of timely delivery or availability of product as compared to products of consumer marketing. Moreover, the life cycle of products in industrial marketing is short as compared to that of consumer marketing due to high rate of change in technology. The risk of obsolescence is higher than consumer markets.

### **3) Buyer Behavior**

The buying process in industrial marketing is more complex than consumer marketing. Emotional factors play a large role in consumer marketing. In industrial marketing purchasing decisions tend to be less emotional and more task-oriented than consumer buyer markets. Business customers often look for specific product attributes such as economy in cost and use, productivity, quality, availability or timely supply, acceptable

payment, after sales service and so on. Additionally, industrial purchasers generally spend more money, as the buying process tends to be more complex and lengthy.

#### **4) Buyer-Customer Relationship**

While consumer marketing is aimed at large groups through mass media and retailers, the negotiation process between the buyer and seller is more personal in business marketing. Sales representatives and marketers are often assigned to market to individuals who act as influencers or decision-makers in the customer organization. The bulk of a consumer's interaction with a brand typically happens via an advertisement, promotion, or transaction. In contrast, industrial marketing can include numerous meetings between the seller and buyer before a transaction occurs. For example, industrial marketers often present products and their benefits in private presentations to key decision-makers. The organization may also invite prospects and customers to public or private events to facilitate further conversations. As a result, confidence and trust are gradually built between the seller and buyer over a period of time. Significant time and money are spent during the evaluation and selection process, resulting in strong brand loyalty among industrial customers.

#### **5) Communications Channels**

Although on the surface the differences between business and consumer marketing may seem obvious, there are more subtle distinctions between the two, with substantial ramifications. The evaluation and selling process for industrial purchases are longer and more complex than consumer purchases. However, business marketing generally entails shorter and more direct channels of distribution to target audiences. Different aspects of the promotional mix can be easily personalized due to the relationship between an industrial salesperson and the individual buyer.

Most business marketers commit only a small part of their promotional budgets to general advertising, usually through direct marketing efforts and trade publications. For example, a business marketer may allocate spending to banner advertising or paid search. Similar to consumer ads, these advertisements lead to landing pages, where marketing messaging aims to convince web visitors to submit a form, download a brochure, or register for a webcast. While business advertising is limited, it helps generate leads that marketing can pass along to sales representatives.

## **6) Pricing**

In industrial marketing, competitive bidding and negotiated pricing are very common. For government contracts and larger projects, competitive bidding is done. In case of private organizations and some government offices, price negotiations are held to decide the prices and volume of orders to be placed to various supplier firms.

However, in consumer marketing, the products are sold through retailers to the consumer on the basis of price that is listed by the manufactures or maximum retail price (MRP) for the packaged products. Sometimes, to increase the sales or clear the stocks, discount on MRP (which reduces the price of the product) is allowed to the customers.

## **7) Demand**

In consumer marketing, the buyers purchase the product/service for consumption. They use it for personal satisfaction and not for any commercial purpose or to make profits. Therefore, the demand of the consumer is called direct demand. However, in industrial marketing since the demand for a product is derived by the customers or clients of the business marketers, the demand is called derived demand. Generally, industrial customers buy products/services for use in producing other products/services. So, whatever is produced will be ultimately sold to the consumers. Hence, the demand for industrial products/services is derived from consumer products/services. In Industrial demand, there may be joint demand and cross elasticity of demand. Joint demand exists when products require existence of other products. For example, a pump would be considered useless without a motor. So, both these products are jointly demanded.

Cross Elasticity of demand simply is the ratio of percentage change in demand of one commodity (say X) due to percentage change in price of another commodity (say Y). It is the responsiveness of the sales of one product to a change in price of another product. Although the concept of cross elasticity of demand exists both in consumer and industrial marketing, but it has more significance in industrial marketing as it can have a remarkable impact on the marketing strategy of an industrial marketers. For example, the demand for aluminum may be related to steel. The direct relation between the price of one good and the quantity demanded of another good is very much true for industrial products.

**Table: 2.1 Comparison between Industrial Marketing and Consumer Marketing**

<b>Bases</b>	<b>Industrial Marketing</b>	<b>Consumer Marketing</b>
Markets Structure	Geographically concentrated, Oligopolistic competition	Geographically dispersed, Monopolistic competition
Products	Technical complexity, customized service very important	Standardized, service somewhat important
Buyer Behaviour	Functional involvement, interpersonal relationship	Family involvement No personal relationship
Channels	Shorter & direct	Indirect & multiple linkages
Promotion	Emphasis on personal selling	Emphasis on advertising
Price	Competitive biddings stages and negotiating	List prices
Nature of Demand	Derived	Direct

## **2.4 INDUSTRIAL MARKETING ENVIRONMENT**

The business organization performs its activities in an environment which is dynamic and highly turbulent. There are the certain factors which affects the performance of the organization. These factors are not only internal to the firm but also come from external sources, thus, providing both opportunities as well as threats. Therefore, an organization needs to understand these factors which constantly impose challenges to the business.

The internal factors are controllable factors and help the organization to identify its strengths and weaknesses periodically. Such factors include R&D facilities, marketing effectiveness, production facilities, human resources, reputation or image of the company, etc.

Unfortunately, there are other forces at work in the marketing world over which marketers have much less control. These forces make up a company's external marketing environment, which we can divide into five sets of factors:



1. Political and regulatory
2. Economic
3. Competitive
4. Technological
5. Social and cultural

These factors and changes in them present both threats and opportunities that require shifts in marketing plans. To spot trends and other signals that conditions may be in flux, marketers must continually monitor the environment in which their companies operate. To get a better idea of how they affect a firm's marketing activities, let's look at each of the five areas of the external environment.

#### **2.4.1 The Political and Regulatory Environment**

Federal, state, and local bodies can set rules or restrictions on the conduct of businesses. The purpose of regulation is to protect both consumers and businesses taking into account interests of a society as a whole. These regulations ultimately aim at guiding the industries towards growth. Hence, government regulatory laws relating to taxation, funding, interest rates, safety standards, corporate governance and so on are made to protect consumers on the one hand while on the other hand, play significant role in the process of how industrial organizations are run.

Businesses favor some regulations (such as patent laws, Monopolies and Restrictive Trade Practices) while chafing under others (such as restrictions on advertising). India has passed the Tobacco Products Bill 2001 which prohibits advertisement of all tobacco products. The tobacco industry has had to learn to live with a ban imposed on TV and radio advertising. Further, many companies in the food industry have expressed unhappiness over regulations requiring the labeling of trans-fat content. The broadcasting industry is increasingly concerned about fines being imposed by the U.S Federal Communications Commission for offenses against "standards of decency." The loudest outcry probably came from telemarketers in response to the establishment of "do-not-call" registries. All these actions occasioned changes in the marketing strategies of affected companies. The industrial marketers have to understand the actions of their governments as well as those

governments over the world where they operate.

#### **2.4.2 The Economic Environment**

Every day, marketing managers face a barrage of economic news. They must digest it, assess its impact, and alter marketing plans accordingly. The various economic factors that need to be assessed include business cycle, interest rates, currency rates, fiscal policies, investment, industrial production and so on. For instance, sometimes, the news is cause for optimism-the economy's improving, unemployment's declining, consumer confidence is up. At other times, the news makes them nervous-our economy is weak, industrial production is down, jobless claims are rising, consumer confidence has plummeted, credit is hard to get. Naturally, business thrives when the economy is growing, employment is full, and prices are stable. Marketing products is easier because consumers are willing to buy. On the other hand, when the economy is slowing (or stalled) and unemployment is rising, people have less money to spend, and the marketer's job is harder. Hence, industrial marketers need to monitor and evaluate the changes taking place in economic environment as it affects the buying-selling ability of an organization.

#### **2.4.3 The Competitive Environment**

Imagine playing tennis without watching what your opponent was doing. Marketers who don't pay attention to their competitors are playing a losing game. In particular, they need to monitor the activities of two groups of competitors: the makers of competing brands and the makers of substitute products. Coke and Pepsi, for instance, are brand competitors who have engaged in the so-called cola wars for decades. Each tries to capture market share by convincing people that its soft drinks are better. Because neither wants to lose share to the other, they tend to resort to similar tactics.

Therefore, monitoring and understanding competitor's activities are as important as understanding customers. In order to remain competitive, an industrial marketer has to collect information on competitors' strategies, tactics, objectives, strengths and weaknesses. Based on such information, the organization can frame its marketing strategy relating to target market segments, pricing, product mix, promotion, distribution, etc.

#### **2.4.4 The Technological Environment**

When's the last time you rented a VHS tape of a new movie? If you had trouble

finding it, that's because DVDs are in and videotapes are out. Videotape makers who were monitoring technological trends in the industry would probably have taken steps to keep up (go into DVDs) or otherwise protect themselves from losses (maybe even getting out of the market). In addition to making old products obsolete, technological advances create new products.

New technologies also transform the marketing mix in another important way: they alter the way companies market their products. Consider the revolutionary changes brought about by the Internet, which offers marketers a new medium for promoting and selling a vast range of goods and services. Marketers must keep abreast of technological advances and adapt their strategies, both to take advantage of the opportunities and toward off threats.

Likewise in consumer marketing, technological developments have major influence on industrial marketing. There are certain industries where technological changes happen rapidly such as telecommunication, computers and semi conductors. Technological development can both uplift as well as destroy the company.

Rapid changes in technology are forcing industrial firms to

- recognize limit to their existing technologies
- know which new technologies are emerging
- decide when to incorporate new technologies in their products

#### **2.4.5 The Social and Cultural Environment**

Although the influence of socio-cultural environment in industrial marketing is less than in consumer marketing, still industrial marketer needs to analyze various elements of such environment if it decides to operate globally. A pattern of work suitable in one country may not be suitable for another. For instance, Japanese methods of consensual decision-making, long term employment and use of quality control circles have experienced difficulties when attempted in US.

Besides external environment, there are factors in physical and ecological environment which affects industrial marketing.

#### **2.4.6 The Physical and Ecological Environment**

The physical environmental factors such as water, raw material, low cost labour, electricity, skilled manpower, transportation facilities, etc play an important role. A favourable combination of all these factors can help the organization to gain competitive advantage. For instance, location and transportation costs strengthen the relationship between buyer and seller. The advantage of low transportation costs lies with the organization which is located near to raw materials.

The industrial organization producing chemicals and pesticides pose severe threats to environment. In 1997, Delhi High Court asked several chemical producing factories to shut down its operations because of their failure to dispose of the effluent in proper manner. Similarly, Methyl Isocyanate, which is the cause for the Bhopal Gas tragedy has been banned in many countries. Further, to protect the environment from such harmful effect and make the conduct of organization environment friendly, the countries develop "Environmental Act".

### **2.5 SUMMARY**

The marketing activities are applicable equally to both consumer and industrial marketing. However, there are a number of differences which make the marketing of products and services in the industrial market quite different from marketing to consumers. The difference between industrial and consumer marketing exists in terms of markets structure, products, buyer behaviour, channels, promotion, price and nature of demand. Unlike consumer products, the demand for industrial products is derived from the ultimate demand for consumer goods and services. Therefore, industrial demand is derived demand.

The business organization performs its activities in an environment which is dynamic and highly turbulent. There are the certain factors which affects the performance of the organization. These factors are not only internal to the firm but also come from external sources, thus, providing both opportunities as well as threats. Therefore, an organization needs to understand these factors which constantly impose challenges to the business.

The internal factors include R&D facilities, marketing effectiveness, production facilities, human resources, reputation or image of the company, etc. The external factors are political and regulatory, economic, competitive, technological and socio-cultural. Besides

these, there are factors in physical and ecological environment such as water, raw material, low cost labour, electricity, skilled manpower, transportation facilities which affects industrial marketing.

## 2.6 GLOSSARY

- **Target Market:** It refers to a particular group of consumers at which a product or service is aimed.
- **Derived Demand:** It is demand that springs from, or is derived from, a source other than the primary buyer of a product.
- **Joint Demand:** Such demand exists when products require existence of other products.

## 2.7 SELF ASSESSMENT QUESTIONS

3. Illustrate with example why industrial demand is called derived demand ?

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2. The concept of industrial marketing is similar to that of consumer marketing. Do you agree or disagree on this statement.

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## 2.8 LESSON END EXERCISE

1. Differentiate between industrial marketing and consumer marketing.
2. Why should environment be a concern for industrial marketers? Explain.

## 2.9 REFERENCES

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## **B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 3**

**UNIT - I**

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### **STRUCTURE**

- 3.1 Introduction
- 3.2 Objectives
- 3.3 Types of Industrial Customers
- 3.4 Industrial Buying Process
- 3.5 Industrial Market Segmentation
  - 3.5.1 Macro Segmentation
  - 3.5.2 Micro Segmentation
- 3.6 Summary
- 3.7 Glossary
- 3.8 Self Assessment Questions
- 3.9 Lesson End Exercise
- 3.10 References

### **3.1 INTRODUCTION**

In the previous lesson, we studied the difference between industrial and consumer

marketing and it became clear that the nature of both the market is different whether in terms of market, product or even customers. Industrial customers are classified into four groups; commercial enterprises, governmental agencies, institutions, and co-operative societies. Commercial enterprises include both manufacturing and non manufacturing firms. The government users' include Central and State Government departments, undertakings, and agencies, such as railways, department of telecommunication, defense, Director General of Supplies and Disposal (DGS&D), etc. Whereas institutional customers are public and private institutions such as hospitals, schools, colleges, and universities. The buying process of such users involves a set of complex events and depends upon the experience of the firm in buying goods or service.

### **3.2 OBJECTIVES**

After going through this lesson, you will be able to:

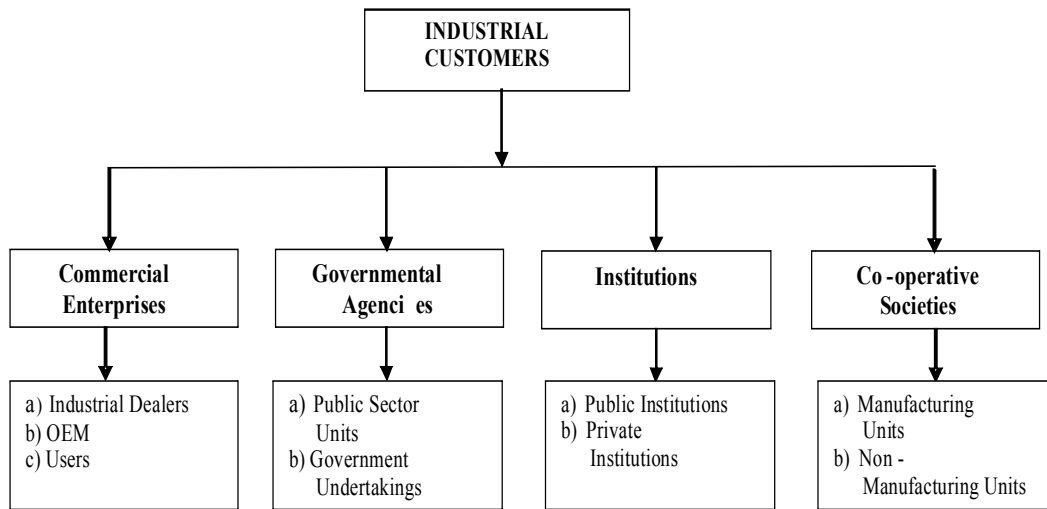
- understand different types of industrial customers
- explain industrial buying process
- develop an understanding about industrial market segmentation

### **3.3 TYPES OF INDUSTRIAL CUSTOMERS**

Industrial customers are normally classified into four groups:

1. Commercial Enterprises
2. Governmental Agencies
3. Institutions and
4. Co-operative Societies





**Figure 3.1: Types of Industrial Customers**

### **1. Commercial Enterprises**

Commercial enterprises namely IBM, General Motors, Bajaj, Tisco, Computer Land, Raven Company, etc purchase goods/ services for the purpose of producing other goods/ services and do not involve in selling such goods/services directly to ultimate customers. They are private sector which works for profit making objective. They include both manufacturing and non manufacturing firms. Commercial enterprises can be further classified as

- industrial distributors or dealers
- original equipment manufacturers (OEMs) and
- users

#### **(i) Industrial distributors and dealers**

They buy industrial products and undertake the title of the product. They then resell the purchased industrial product, in original form, to other industrial customers (i.e. commercial enterprises, government and institutional). Just like wholesaler or retailer in case of consumer marketing, industrial distributors and dealers act as

middlemen in industrial marketing.

**(ii) Original equipment manufacturers (OEMs)**

These industrial customers purchase industrial goods to incorporate OEMs into the products they produce. For instance, a tyre manufacturer (say, MRF), who sells tyres to a truck manufacturer (say, Maruti Suzuki), would consider the truck manufacturer as an OEM.

**(iii) Users**

Users are those industrial customers, who purchases industrial products/services, to support its manufacturing process or to facilitate the business operations. For example, drilling machines, press, winding machines, and so on are the products which support manufacturing process, whereas the products which facilitate the operations of business like computers, fax machines, telephones, and others.

Sometimes there may be overlapping of categories. It means a manufacturer can be a user or an OEM. For example, a car manufacturer buys a drilling machine to support the manufacturing operation and is referred to as a user. The same car manufacturer also buys batteries which are incorporated into cars and hence, it can be also referred to as an OEM.

**2. Government Customers**

Central and State Government departments, undertakings, and agencies, such as railways, department of telecommunication, defense, Director General of Supplies and Disposal (DGS&D), state transport undertakings, state electricity boards, and so on are known as government users. These government units purchase almost all types of industrial products and services. In India, government units are the largest purchasers of industrial products.

**3. Institutions**

Public and private institutions such as hospitals, schools, colleges, and universities are termed as institutional customers. Some of these institutions have rigid purchasing rules and others have more flexible rules. An industrial marketing person needs to understand

the purchasing practice of each institute so as to be effective in marketing the products or services.

#### **4. Cooperative Societies**

An association of persons forms a cooperative society. It can be manufacturing units (e.g. Cooperative Sugar Mills) or non-manufacturing units (e.g. Cooperative Banks, Cooperative Housing Societies).

### **3.4 INDUSTRIAL BUYING PROCESS**

Industrial buying process is a set of complex events and depends upon the experience of the firm in buying goods or service. No two companies follow the same purchasing procedure. However, the industrial purchasing process might be broken down into following eight distinct stages for the purpose of analysis:

1. Problem recognition
2. The need is described and quantified
3. Description of the characteristics of the item and the quantity needed
4. Potential suppliers are searched
5. Qualified suppliers are asked to complete responses to requests for proposal (RFPs)
6. The proposals are evaluated and supplier(s) selected
7. An order routine is established
8. A post purchase evaluation is conducted and the feedback provided to the vendor

#### **1. Problem Recognition**

Recognition of a problem triggers the purchasing process. Someone recognizes that the organization has a need that can be solved by purchasing a good or service. Users often drive this stage. This need recognition may be internal or external. For example, equipment break-down, non availability of raw material in adequate quantity or is not as per expected quality, etc are internal problem recognition. External need recognition may

be one when existing technology have become obsolete and there is need to purchase new technology which will enhance the performance of the organization.

## **2. The Need is Described and Quantified**

In this stage, the buying center, or group of people are brought together to help make the buying decision. They describe what they believe is needed, the features it should have, how much of it is needed, where, and so on. For example, members of the production department determine the characteristics needed in a high-speed packaging system. For more technical or complex products the buyer will define the product's technical specifications. Will an off-the-shelf product do, or must it be customized? The development of performances specifications has a critical impact on the final choice of a product and a supplier. The industrial salesperson is a vital source of information to organizational buyers throughout the purchasing process.

## **3. Description of the Characteristics of the Item and the Quantity Needed**

This involves a detailed and precise description of the needed item, a description that can be readily communicated to others. As this is the only stage where the role of influencers is very important, this stage can be a very critical stage of the complete buying process. A marketer who triggers the initial need has the benefit of a close working relationship with key organizational members throughout these formative stages in the procurement process.

## **4. Potential Suppliers are Searched**

At this stage, the people involved in the buying process seek out information about the products they are looking for and the vendors that can supply them. Most buyers look online first to find vendors and products, then attend industry trade shows and conventions and telephone or e-mail the suppliers with whom they have relationships. The buyers might also consult trade magazines, the blogs of industry experts, and perhaps attend Webinars conducted by vendors or visit their facilities. Purchasing agents often play a key role when it comes to deciding which vendors are the most qualified. Are they reliable and financially stable? Will they be around in the future? Do they need to be located near the organization or can they be in another region of the country or in a foreign country? The vendors that don't make the cut are quickly eliminated from the running.

## **5. Qualified Suppliers are Asked to Complete Responses to Requests for Proposal (RFPs)**

Each qualified vendor is sent a request for proposal (RFP), which is an invitation to submit a bid to supply the good or service. An RFP outlines what the vendor is able to offer in terms of its product-its quality, price, financing, delivery, after-sales service, whether it can be customized or returned, and even the product's disposal, in some cases. Good sales and marketing professionals do more than just provide basic information to potential buyers in RFPs. They focus on the buyer's problems and how to adapt their offers to solve those problems.

Often times the vendors formally present their products to the people involved in the buying decision. If the good is a physical product, the vendors generally provide the purchaser with samples, which are then inspected and sometimes tested. They might also ask satisfied customers to make testimonials or initiate a discussion with the buyer to help the buyer get comfortable with the product and offer advice on how best to go about using it.

## **6. The Proposals are Evaluated and Supplier(s) Selected**

During this stage, the RFPs are reviewed and the vendor or vendors are selected. Different organizations will weight different parts of a proposal differently, depending on their goals and the products they purchase. The price might be very important to some sellers. Other organizations might be more focused on top-of-the-line goods and the service a seller provides. Still other factors include the availability of products and the reliability with which vendors can supply them. Reliability of supply is extremely important because delays in the supply chain can shut down a company's production of goods/services and cost the firm its customers and reputation. For high-priced, complex products, after-sales service is likely to be important.

A scorecard approach can help a company rate the RFPs. "A Scorecard Used to Evaluate RFPs" is a simple example of a scorecard completed by one member of a buying team. The scorecards completed by all the members of the buying team can then be tabulated to help determine the vendor with the highest rating.

**Table 3.1: A Scorecard Used to Evaluate RFPs**

Criteria	Vendor A			Vendor		Vendor	
	Weight	Score (Scale of 1-3)	Points (Score X Weight)	Score (Scale of 1-3)	Points (Score X Weight)	Score (Scale of 1-3)	Points (Score X Weight)
Product Performance	3	1	3	3	9	2	6
Product Durability	3	3	9	2	6	3	9
Price	3	3	9	2	6	2	6
On-Time Delivery	3	3	9	2	6	2	6
Customer Service	3	2	6	2	6	2	6
Return Policy	3	2	6	2	6	2	6
<b>Total Score</b>			<b>42</b>		<b>39</b>		<b>39</b>

*Selecting Single versus Multiple Suppliers.* Sometimes organizations select a single supplier to provide the good or service. This can help streamline a company's paperwork and other buying processes. With a single supplier, instead of negotiating two contracts and submitting two purchase orders to buy a particular offering, the company only has to do one of each. Plus, the more the company buys from one vendor, the bigger the volume discount it gets. Single sourcing can be risky, though, because it leaves a firm at the mercy of a sole supplier. What if the supplier doesn't deliver the goods, goes out of business, or jacks up its prices? Many firms prefer to do business with more than one supplier to avoid problems such as these. Doing business with multiple suppliers keeps them on their toes. If they know their customers can easily switch their business over to another supplier, they are likely to compete harder to keep the business.

## **7. An Order Routine is Established**

This is the stage in which the actual order is put together. The order includes the agreed-upon price, quantities, expected time of delivery, return policies, warranties, and any other terms of negotiation. The order can be made on paper, online, or sent electronically from the buyer's computer system to the seller's. It can also be a one-time order or consist of multiple orders that are made periodically as a company needs a good or service. Some buyers order products continuously by having their vendors electronically monitor their

inventory for them and ship replacement items as the buyer needs them.

### **8. A Post Purchase Evaluation is Conducted and the Feedback Provided to the Vendor**

Just as consumers go through an evaluation period after they purchase goods and services, so do businesses. In this stage, a formal or informal review regarding the performance of each vendor takes place. The buying unit might survey users of the product to see how satisfied they were with it.

Some buyers establish on-time performance, quality, customer satisfaction, and other measures for their vendors to meet, and provide those vendors with the information regularly, such as trend reports that show if their performance is improving, remaining the same, or worsening.

### **3.5 INDUSTRIAL MARKET SEGMENTATION**

Market segmentation is the process of subdividing a market into distinct subsets of customers that behave in the same way or have similar needs. Each subset may possibly be chosen as a market target to be reached with a distinctive marketing strategy. Hence, market segmentation involves partitioning a given market into similar customer groupings for which uniform marketing strategies can be used. The reason for market segmentation is to understand the heterogeneity or homogeneity of the market.

For segmenting the market, the goal of the company should be to find a niche in terms of measurability, substantial, accessibility, profitability and compatibility.

**Measurability:** It refers to the identification of the buyer characteristics. Buyers can be identified through primary as well as secondary data sources.

**Substantial:** The segments should be large "substantially" to be worth investing resources into.

**Accessibility:** Accessibility refers to the reach that the company can have in the identified segment.

**Profitability:** The company has to assess itself whether the identified market segments are profitable or not.

**Compatibility:** The strength of business marketer should be compatible with the competitive and technological factors.

From the compatibility dimension of market segmentation, it is clear that competitive and technological considerations must be taken into account before segmenting the industrial market. As mentioned in the previous lesson, technological developments have major influence on industrial marketing. There are certain industries such as telecommunication, computers, etc. where technological changes rapidly happen. If the company does not take into account these changes, it will be thrown out of the market by its technologically sound competitors. Hence a business marketer should be vigilant about the risks involved in such markets and keep the competitive and technological environments in mind before segmenting the market.

Industrial markets are segmented differently than consumer markets. Industrial markets may segment based on geography, volume, and benefits, just as consumer markets are. However, organizations might also segment based on use of the product (such as a petrochemical company having one market segment for purchasers who use polyethylene for instrumentation panels and one for purchasers who use polyethylene for car seats), characteristics of purchasing function (such as purchasing committees, purchasing managers, or purchasing departments), size of the client (one segment for large customers who have different needs than smaller customers), or industry (such as segmenting food systems into restaurants or government agencies such as schools or military bases), as well as other considerations related to characteristics of business customers.

The industrial markets can be segmented on the basis of macro and micro variables. These are explained below:

1. Macro Segmentation
2. Micro Segmentation

### **3.5.1 Macro Segmentation**

Macro segmentation means segmenting the market on the basis of organizational and industry characteristics. In the first stage, the industrial marketers need to identify potential industrial and organizational variables that can be used to segment the markets. These variables can be easily obtained through secondary sources of information such as



trade directories and publications, general business magazines and directories, government reports, and market research companies as well as company sources of information. The macro variables for segmenting the industrial market variables are shown in the Table: 3.2.

**Table 3.2: Macro Variables**

<b>Macro Segmentation</b>	
<b>Variables</b>	
Industry	Agriculture mining construction, manufacturing, transportation, wholesale, retail, finance, services
Organizational Characteristics Size of characteristics	Size of customers' parent company, size of customers' business, and number of plants sold
Plant Characteristics	Size of customers' plant, age of customers' plant, inventory turn-over, and degree of automation
Economic Factors	Cyclically of customers' industry
Location	Distance from plant, state of plant, and suburban/urban/rural location
Customers Industry	Growth rate of industry and customers' growth stage within the industry; ultimate customer of customers' product
Competitive Forces	Degree of competition in customers' industries, ease of entry into customers' industries, and ease of customer switching
Purchasing Factors	Decentralized versus centralized, and number of levels of purchasing authority
End-use Marketers	Residential commercial contractors, coal/ore miners, foresters, federal/state highway maintenance departments, banks/ insurance/ brokerage houses
Product Application	Small appliance, computer, television and airplane manufacturers

Some of the variables are explained below:

### **1) Industry characteristics**

Many firms produce products and services that can be targeted to different industries. For example, computer manufacturers can market their products to such diverse

industries as health, finance, manufacturing, and retailing. For these marketers, effective market segmentation and subsequent marketing programmes will rest on a clear understanding of the similarities and differences between these industries. For example, there may be some common needs of educational institutions, banks and hospitals with respect to computers whereas many of their requirements will be different as per their attitudes and approaches toward purchasing.

Significant differences may also be present within an industry. For instance, the sale of computer equipment and software programmes within the finance industry. While commercial banks, insurance companies and brokerage house are all part of the finance industry, their product and service requirements with respect to terminals, data handling, and software programmes will be considerably diverse. Thus, in some instances, further subdividing of individual industries may be necessary to obtain a more detailed segmentation.

## **2) Organizational characteristics**

The "size", whether large or small, of the customer business is another important macro variable which can be used to segment the market. Generally, larger organizations have different purchase requirements. They purchase goods in bulk quantity to avail the volume discount facility. Further, larger organizations will not purchase goods from small companies because these companies cannot satisfy their large volume requirements. Hence, larger companies will react differently to marketing strategies as compared to smaller companies which purchase in small quantities.

## **3) Customer location**

The industrial marketing can be segmented on the basis of geographical location of customers. The industrial marketers prefer those customers which are geographically close. This is because if the customers are near to the industrial seller then providing on-time delivery will be relatively easier than those which are geographically dispersed. Therefore, some industrial marketers avoid those customers or markets which are too far away or too dispersed, considering the high cost of marketing efforts such as deployment of sales force, warehousing, service centres.

## **4) End-use markets**

Many firms also produce products and services that can be offered to multiple

end-use markets. For example, International Harvester manufactures heavy duty equipment as wheel loaders, excavators, off-highway trucks and long skidders. These various equipments, for instance, can be marketed to residential and commercial contractors, coal and ore miners, central and state governments.

## **5) Product application**

Many products are used in several different ways. For instance, small electrical switches are used in the production of small household appliances, computers, televisions, and even jumbo jets. Thus, markets can be segmented on the basis of product application.

### **3.5.2 Micro Segmentation**

Micro segmentation requires more focus, better understanding of markets, market knowledge, decision making units and their criteria. The various types of micro variables for industrial market segmentation are:

1. Organizational Variables
2. Customer Experience
3. Product Innovativeness: Innovative versus followers firms
4. Organizational Capabilities: Extent of operating, technical, or financial capabilities
5. Purchase Situation Variables: Inventory requirements: Material requirement planning or just-in-time systems
6. Purchase Importance: Degree of perceived risk (cost, usage factors, or time)
7. Purchase Policies: Market-based prices, bids or leasing preferences Supplier reputation, technical services reliability, flexibility, etc.
8. Purchasing Criteria: Supplier reputation, technical service, reliability, flexibility etc.
9. Customer Interaction Needs
10. Personal Characteristics
11. Customer Benefits/Benefit segmentation

Some of these micro variables are explained below:

### **1. Organizational variables**

There are three types of buying situations in industrial marketing- New task, modified or straight rebuy. A new-buy selling situation occurs when a firm purchases a product for the first time. In such situation, for instance, the firm's ability to penetrate the market will depend on its ability to assist in problem solutions, to provide information to key decision makers, and to work with customers through all phases of the purchasing decision process. A straight rebuy is a situation in which a purchaser buys the same product in the same quantities from the same vendor. Here, suppliers must be capable of convincing customers that it is worth reevaluating current suppliers by offering superior product advantages or significant price differences. A modified rebuy occurs when a company wants to buy the same type of product it has in the past but make some modifications to it. Thus, segmentation across the buy grid continuum is an important micro step in examining buyers' purchasing needs, information requirements, and the structure of the buying center and interaction patterns.

### **2. Customer experience**

When customers are unfamiliar with products (product introduction), they tend to assign purchasing responsibility to those persons within the firm who are competent in dealing with the uncertainties involved. They also tend to be attracted by a bundle of vendor supplied benefits and proven technology. As they become more familiar with product application, however, they tend to shift purchasing responsibility to functional specialists or purchasing agents who are more prices sensitive and supplier support programmes begin to decline in value, opening the door to out suppliers. Thus, the level of customer experience, not only affects the composition of the decision making unit and the decision making process, it also affects marketing strategy considerations for current as well as potential customer firms.

### **3. Customer interaction needs**

Interaction needs between buyer and seller is an important base for segmenting the industrial markets. In case of complex or strategically important products, there is more interaction between the two parties. The duration and involvement of that interaction will depend on whether buyers are capable of determining their own needs or are dependent

on suppliers. Buyers who are uncertain of their needs will exhibit different sets of problems and behaviours. Such type of buyers would like to have frequent interaction with the seller. In the case of computers, for instance, when buyers are capable of determining their own needs, the purchasing decision process will be shorter, and buyers will be less dependent on suppliers' knowledge and support. Thus, market penetration will consume considerably less resource allocation than when buyers are more dependent on suppliers. Micro segmentation on the basis of different needs during the interaction process, then, can be a useful tool to marketers of complex products.

#### **4. Personal characteristics**

Along with the organizational characteristics, personal factors also play a significant role in decision making process. Hence, it is also possible to segment the markets on the basis of personal characteristics such as demographics (e.g., age and experience), personality, non task motives, perceptions and risk takers/avoiders, etc. The major disadvantage of this base of segmentation is that it is very difficult to obtain information regarding personal characteristics. It can be only obtained from sales person.

#### **5. Customer benefits/benefit segmentation**

This segmentation requires identifying similar user needs and product attributes within groups of potential customers. Such identification is useful for product design, pricing, distribution, and marketing support decisions. It also affords a look at competitive offerings in terms of their technical sophistication and service requirements, thereby alerting the firm to potential weakness in technology or marketing skills, or to gaps in the existing product line. In fact, according to some authorities, segmentation by benefits sought is frequently more relevant in industrial markets than segmentation on some purchase characteristic, particularly among firms in such basic industries as steel forging.

### **3.6 SUMMARY**

In industrial marketing, the buyers are the organizations. It includes commercial enterprises, governmental agencies, institutions, and co-operative societies. The buying process by industrial buyers is an entirely different process when compared with consumer buying process. In industrial buying, the purchase manager coordinates the complete set of activities with numerous people in the organization. No two companies follow the same

purchasing procedure. However, the industrial purchasing process might be broken down into following eight distinct stages: problem recognition; the need is described and quantified; description of the characteristics of the item and the quantity needed; potential suppliers are searched; qualified suppliers are asked to complete responses to requests for proposal; the proposals are evaluated and supplier(s) selected, an order routine is established; a post purchase evaluation is conducted and the feedback provided to the vendor.

The industrial markets can be segmented on the basis of macro and micro variables. In macro segmentation segmenting of the market is done on the basis of organizational and industry characteristics. In micro segmentation more focus, better understanding of markets, market knowledge, decision making units and their criteria is required.

### 3.7 GLOSSARY

- **Cooperative Society:** It refers to an association of persons. It can be manufacturing units or non-manufacturing units.
- **Market Segmentation:** Market segmentation is the process of subdividing a market into distinct subsets of customers that behave in the same way or have similar needs.
- **Straight Rebuy:** A straight rebuy is a situation in which a purchaser buys the same product in the same quantities from the same vendor.
- **Modified Rebuy:** A modified rebuy occurs when a company wants to buy the same type of product it has in the past but make some modifications to it.

### 3.8 SELF ASSESSMENT QUESTIONS

1. Who are the participants in industrial buying?

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2. Does market segmentation help in understanding consumer behaviour?

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### **3.9 LESSON END EXERCISE**

1. Discuss the types of industrial customers and their purchase practices.
2. Explain, in detail, the industrial buying process.
3. Write, a detailed note on, industrial market segmentation.

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## **B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 4**

**UNIT - I**

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### **STRUCTURE**

- 4.1 Introduction
- 4.2 Objectives
- 4.3 Meaning and Classification of Industrial Products
  - 4.3.1 Entering Goods
  - 4.3.2 Foundation Goods
  - 4.3.3 Facilitating Goods
- 4.4 Summary
- 4.5 Glossary
- 4.6 Self Assessment Questions
- 4.7 Lesson End Exercise
- 4.8 References

### **4.1 INTRODUCTION**

In the previous lesson, we learned about different types of business market customers. Now we need to understand what type of products do business market customers require and how each type of product is marketed. One useful method of classifying industrial goods is to ask different questions such as- how does the industrial good or service enter the production process and how does it affect the cost structure of the firm? The classification of industrial goods enables the industrial marketer to know the scope of the market, identify



the factors which are influential in the organizational buying process, and understand how to design an effective business marketing strategy.

## **4.2 OBJECTIVES**

After going through this lesson the student will be able to:

- define industrial products
- classify industrial products into different categories

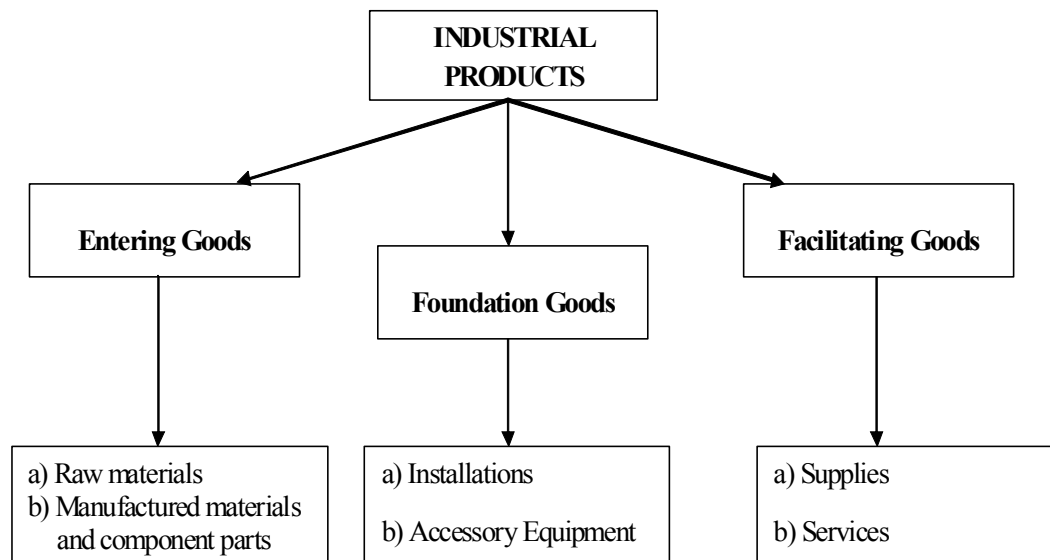
## **4.3 MEANING AND CLASSIFICATION OF INDUSTRIAL PRODUCTS**

Products bought by businesses or institutions for using them in making other products are called industrial products. In other words, industrial products are the products, which are used for processing or for use in conducting a business. Industrial products can be very complex. Some need to be custom built or retrofitted for buyers. The products include everything from high-dollar construction equipment to commercial real estate and buildings, military equipment, and billion-dollar cruise liners used in the tourism industry. A single customer can account for a huge amount of business.

In industrial markets, customers are organizations. There are number of products that are purchased by organizations. Similarly, there are many products that are purchased both by organizations and by private consumers. Now the question arises that whether industrial products can be classified separately from consumer products, or whether same classification will function both for industrial and consumer products. Thus the distinction between a consumer product and an industrial product is based on the purpose for which the product is bought. For example, when a customer buys a grinder for domestic use it is a consumer product, but when the same grinder is purchased by the fruit juice vender for business purpose, it is termed as an industrial product.

One useful method of classifying industrial goods is to ask different questions such as- how does the industrial good or service enter the production process and how does it affect the cost structure of the firm? The classification of industrial goods enables the industrial marketer to know the scope of the market, identify the factors which are influential in the organizational buying process, and understand how to design an effective business marketing strategy. In general, industrial goods can be divided into three broad categories:

entering goods, foundation goods, and facilitating goods.



**Figure 4.1: Types of Industrial Products**

#### **4.3.1 Entering Goods**

Entering goods are those goods which enter the product directly and become part of the finished product. The costs of such goods are treated as part of manufacturing expense. This category of goods consists of:

- Raw materials
- Manufactured materials and component parts

##### **1. Raw materials**

Raw materials include both farm products and natural products. These are the basic goods that enter into the production process either in original form or with little changes. Raw materials are processed only to the level required for economical handling and transport. McDonald's uses more than 700 million pounds of potatoes each year and dictates the

fortunes of many farmers in that agricultural segment.

**Table 4.1: Types of Industrial Products with Examples**

<b>Types of Industrial Products</b>	<b>Meaning</b>	<b>Examples</b>	<b>Nature</b>
Raw materials	Products that are sold in their natural state	Coal, timber, metallic ores	Cyclical markets, regional supply sources, high transportation costs, bulky products
Processes materials	Products that have been partially processed before reaching an ultimate producer	Plastic, glass, chemicals, steel lumber	Commodity products, lose their identity, incorporated into other products
Components	Products that either are ready for direct assembly into the finished product or require only minor processing	Pumps, electric motors, diesel engines, lamps, microchips	Require no further processing, perform a vital function
Equipment	Capital goods that support a user's manufacturing or other business needs	Machine tools, aircraft, computers	High cost capital goods, asset, reliability is important, so too are first cost and operating costs
Systems	Capital goods that support a user's manufacturing or other business needs	Process equipment, paper mills, steel mills	Perform two or more functions, high financial risk, to seller but also offer high financial rewards
Supplies	Products that are used up during the manufacturing process or during the daily operation of a business	Lubricants, office supplies,	Stock items, off the shelf, availability is important
Services	Activities, benefits, or satisfaction that are	Advertising, legal services,	Intangible services

Source: Philip W. MAHIN, Business-to-Business Marketing. p.15.

## 2. **Manufactured materials and component parts**

In contrast to raw materials, manufactured materials and parts undergo some amount of initial processing. That is, such types of goods are subjected to certain amount of processing before entering the production process. Component materials such as textiles or sheet steel are processed before reaching a clothing manufacturer but must be processed further before becoming part of the finished consumer product. Component parts, on the other hand, include small motors, motorcycle tires, and automobile batteries. They can be installed directly into another product with little or no additional processing.

**Marketing strategy:** Manufactured goods and parts would be either standardized part or a customized part. If such part is standardized, factors such as pricing, delivery and services would play an important role. In case the buyers are widely scattered, then one can make use of middlemen or industrial distributors. In case of customized part, the suitable marketing strategy is personal selling.

Hence, **entering goods** include raw material, finished material & parts. Raw materials are mostly farm products namely cotton, wheat, vegetables etc. They can be some natural products also, namely meat, petroleum product, iron etc. Manufactured material and parts could be iron rods, linen yarns, wires and cables etc. Component and parts are the items like household appliance motors, components of PC's, component parts of motor vehicles etc.

*Selling Method:* Mostly they are sold directly to industrial users.

*Price & Service:* A major factor in marketing.

*Advertising & Promotion:* Less important

### 4.3.2 **Foundation Goods**

The foundation goods include capital items. As capital goods are used up or worn out, a portion of their original cost is assigned to the production process as a depreciation expense. Foundation goods include:

- Installations
- Accessory equipment

## **1. Installations**

Installations include the major and long-term investment items that underlie the manufacturing process, such as buildings, land rights, and fixed equipment. Large computers and machine tools are examples of fixed equipment. The demand for installations is shaped by the economic climate (for example, favorable interest rates) but is driven by the market outlook for a firm's products. Such items can be either purchased or leased. If capital items are purchased then they are shown in the asset side of balance sheet and are depreciated over a period of years. If they are leased, the cost is treated as expenses for tax purpose.

## **2. Accessory equipment**

Accessory equipment is generally less expensive and is short-lived compared with installations, and it is not considered part of the fixed plant. This equipment can be found in the plant as well as in the office. Portable drills, personal computers, and fax machines illustrate this category.

**Marketing strategy:** As foundation goods require heavy investment, the cost and risk involved are very high. The suitable marketing strategy for such goods is direct interaction between buyer and seller. For standardized products, the service of industrial distributors can be taken.

Hence, foundation goods are the industrial products that aid the buyer's productions and operations. They can be accessory equipments, installations or may be buildings, complex computer systems. There are also some other items which can be added to this are the accessory equipment which can be like tools for work in the production, fork lift trucks for material handling, equipments & furniture etc.

### **4.3.3 Facilitating Goods**

Facilitating goods are the supplies and services that support organizational operations. These goods do not enter the production process or become part of the finished product and hence, their costs are handled as expense items. Facilitating goods are of two types: supplies and services.

## **1. Supplies**

Every organization requires operating supplies, such as printer cartridges, paper, or business forms, and maintenance and repair items, such as paint and cleaning materials. These items generally reach a broad cross-section of industrial users. In fact, they are very similar to the kinds of supplies that consumers might purchase at a hardware or discount store.

## **2. Services**

Business services include maintenance and repair support (for example, machine repair) and advisory support (for example, management consulting or information management). Like supplies, services are considered expense items.

**Marketing strategy:** As mentioned earlier, the supply items reach a broad cross-section of industrial users. So, wide variety of intermediaries is required to cover this broad area. Branding and price will play an important role. Assortment of goods, timely delivery and better prices would be the key for such goods.

Hence, facilitating goods include supplies and services. Supplies are the items, which have a continuous use in the plant or in office. Cleaning equipments, paints, pencils, printer inks, photocopy papers, etc. Supplies are the convenience products and are purchased with ease. Maintenance and repair services are the items like window and furniture cleaning material computer repair etc. Lastly are the business advisory services like legal, management consulting, advertising etc.

## **4.4 SUMMARY**

Products bought by businesses or institutions for using them in making other products are called industrial products. Industrial products can be very complex. Some need to be custom built or retrofitted for buyers.

In industrial markets, customers are organizations. There are number of products that are purchased by organizations. Similarly, there are many products that are purchased both by organizations and by private consumers. The distinction between a consumer product and an industrial product is based on the purpose for which the product is bought

One useful method of classifying industrial goods is to ask different questions such

as- how does the industrial good or service enter the production process and how does it affect the cost structure of the firm? The classification of industrial goods enables the industrial marketer to know the scope of the market, identify the factors which are influential in the organizational buying process, and understand how to design an effective business marketing strategy. In general, industrial goods can be divided into three broad categories: entering goods, foundation goods, and facilitating goods.

#### 4.5 GLOSSARY

- **Components:** These are the products that either are ready for direct assembly into the finished product or require only minor processing
- **Entering Goods:** Entering goods are those goods which enter the product directly and become part of the finished product.
- **Facilitating Goods:** Facilitating goods are the supplies and services that support organizational operations. These goods do not enter the production process or become part of the finished product.
- **Industrial Products:** Industrial products are the products, which are used for processing or for use in conducting a business.
- **Process Materials:** Products that have been partially processed before reaching an ultimate producer.
- **Raw Materials:** These are the basic goods that enter into the production process either in original form or with little changes.

#### 4.6 SELF ASSESSMENT QUESTIONS

- 1) What do you mean by industrial products?

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- 2) Write short note on entering goods.

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3) Match the following:

- |                  |                 |
|------------------|-----------------|
| A. Raw materials | 1. Computers    |
| B. Components    | 2. Welding rods |
| C. Equipment     | 3. Coal         |
| D. Supplies      | 4. Pumps        |

Answer: A-3, B-4, C-1, D-2.

4) State True or False

- a) Entering goods include capital items.
- b) Accessory equipment is generally less expensive and is short-lived compared with installations.
- c) Services include activities, benefits, or satisfaction that is offered for sale.
- d) Foundation goods are the supplies and services that support organizational operations.

Answer: True: b & c, False: a & d

#### **4.7 LESSON END EXERCISE**

- 1. Describe whether industrial products can be classified separately from consumer products, or whether same classification will function both for industrial and consumer products.
- 2. Explain, in detail, different types of industrial products.

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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 5**

**UNIT - II**

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**STRUCTURE**

- 5.1 Introduction
- 5.2 Objectives
- 5.3 Industrial Product Mix
- 5.4 Product Life Cycle
- 5.5 Strategy for New Product Development
  - 5.5.1 Why does New Product Fail?
  - 5.5.2 Success Factors for Products
  - 5.5.3 New Product Development Process
- 5.6 Summary
- 5.7 Glossary
- 5.8 Self Assessment Questions
- 5.9 Lesson End Exercise
- 5.10 References

**5.1 INTRODUCTION**

Once a firm has defined its target market and identified its competitive advantage, it can create the marketing mix that brings a specific group of consumers a product with

superior value. Every target market requires a unique marketing mix to satisfy the needs of the target customers and meet the firm's goals. A strategy must be constructed for each of the marketing mix (product, price, place, promotion) and all strategies must be blended with the strategies of the other elements. Thus, the marketing mix is only as good as its weakest part. For example, an excellent product with a poor distribution system could be doomed to failure. An excellent product with an excellent distribution system but an inappropriate price is also doomed to failure. A successful marketing mix requires careful tailoring.

## **5.2 OBJECTIVES**

After going through this lesson, you will be able to know about:

- industrial product mix
- product life cycle
- what are the strategy for new product development?

## **5.3 INDUSTRIAL PRODUCT MIX**

Marketing strategy typically starts with the product. Marketers can't plan a distribution system or set a price if they don't know exactly what product will be offered to the market.

The product mix is the total range of products offered by a company. The product mix is made up of both product lines and individual products.

Industrial product mix decisions involve making decision regarding product line strategy and product mix strategy.

### **1. Product Line Decisions**

A product line can contain one product or hundreds. The number of products in a product line refers to its product line depth, while the number of separate product lines owned by a company is the product line width (or breadth).

Product line decisions involve line stretching, filling and pruning decisions.

In line stretching decision, marketers have to take decision regarding lengthening the firm's product line beyond its current range.

Line-filling strategies occur when a gap in the existing product line has not been filled or a new gap has developed due to the activities of competitors or the request of consumers. Before considering such a strategy, several key questions should be answered:

- Can the new product support itself?
- Will it affect existing products?
- Will existing outlets be willing to stock it?
- Will competitors fill the gap if we do not?
- What will happen if we do not act?

Line-pruning strategies involve the process of getting rid of products that no longer contribute to company profits. A simple fact of marketing is that sooner or later a product will decline in demand and require pruning.

## **2. Product Mix Decisions**

All the decisions regarding product lines that is, product depth (number of sub-categories of products a company offers under its broad spectrum category) and product breadth (the number of product lines a company offers) in each line are taken under product mix decisions. Generally, it is preferred to have a high level of consistency, which means that some sort of relationship exists between the product lines which may be in terms of usage, having common- customers, distribution channels, technology, etc. Sometimes, the company even continues with the product lines where there is no consistency between product lines.

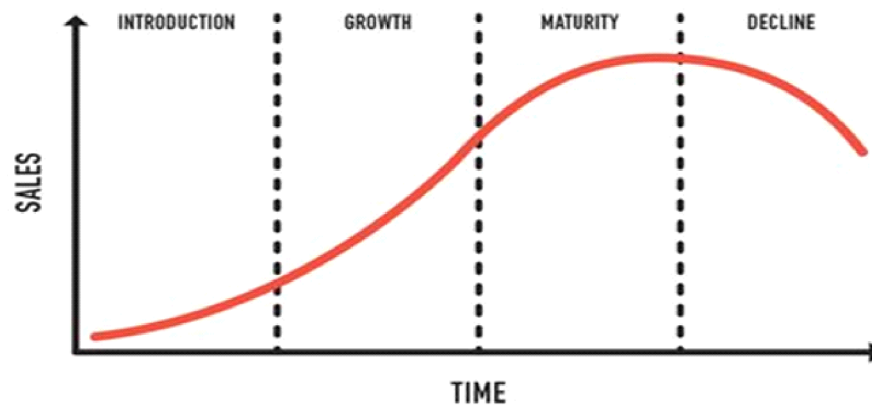
Hence, product mix decisions involve decisions regarding depth, breadth and consistency.

## 5.6 PRODUCT LIFE CYCLE

After the development of the product, it is introduced in the marketplace. The product developed and introduced must be managed effectively for the customer to receive value from it. Only if this is done will the product's producer achieve its profit objectives and be able to sustain the offering in the marketplace? The process involves making many complex decisions. The product life cycle (PLC) includes the stages the product goes through after development, from introduction to the end of the product.

The PLC is a beneficial tool that helps the marketers to manage the stages of a product's acceptance and success in the marketplace, beginning with the product's introduction, its growth in market share, maturity, and possible decline in market share. The product lifecycle dictates that a firm engages in a dedicated product development process. It consists of following stages:

1. The Introduction Stage
2. The Growth Stage
3. The Maturity Stage
4. The Decline Stage



**Figure 5.1: Product Life Cycle Stages**

### 1. The Introduction Stage

The first stage in a product's life cycle is the introduction stage. In this stage,

marketing costs are typically higher than in other stages. Just as an airplane needs more fuel for takeoff, a new product or service needs more funds for introduction into the marketplace. Communication (promotion) is needed to generate awareness of the product and persuade customers to try it, and placement alternatives and supply chains are needed to deliver the product to the customers. Profits are often low in the introductory stage due to the research and development costs and the marketing costs necessary to launch the product.

The length of the introductory stage varies for different products. An organization's objectives during the introductory stage often involve educating potential customers about its value and benefits, creating awareness, and getting potential customers to try the product or service. In this stage, marketer attempts to build channels of distribution.

The specific promotional strategies a company uses to launch a product vary depending on the type of product and the number of competitors it faces in the market. Since industrial products are technical and expensive, the marketers utilize professional selling, informational promotions and demonstrations so buyers can see how the products work.

Product pricing strategies in the introductory stage can vary depending on the type of product, competing products, the extra value the product provides buyers versus existing offerings, and the costs of developing and producing the product. Organizations want its buyers to perceive that a new offering is better or more desirable than existing products. Two strategies that are widely used in the introductory stage are penetration pricing and skimming.

A penetration pricing strategy involves using a low initial price to encourage many industrial to try a product. A company uses a skimming pricing strategy, which involves setting a high initial price for a product, to more quickly recoup the investment related to its development and marketing.

## **2. The Growth Stage**

If a product is accepted by the marketplace, it enters the growth stage of the product life cycle. The growth stage is characterized by large number of variants of the basic product, increasing sales, more competitors, and higher profits.

A company sometimes increases its promotional spending on a product during its growth stage. However, instead of encouraging consumers to try the product, the promotions often focus on the specific benefits the product offers and its value relative to competitive offerings.

The number of distribution channels utilized to sell the product should be increased during the growth stage as a company tries to reach as much of the industrial buyers as possible. Expanding a product's distribution and increasing its production to ensure its availability usually results in high product's costs during the growth stage. The price of the product remains at the same level during the growth stage, although some companies reduce their prices slightly to attract additional buyers and meet the competitors' prices. Companies hope by increasing their sales, they also improve their profits.

### **3. The Maturity Stage**

After many competitors enter the market and the number of potential new industrial customers declines, the sales of a product typically begin to level off. This indicates that a product has entered the maturity stage of its life cycle. Companies are challenged to develop strategies to extend the maturity stage of their products so they remain competitive. The Many firms do so by modifying their target markets, their offerings, or their marketing strategies.

Modifying the target market helps a company attract different customers by seeking new users, going after different market segments, or finding new uses for a product in order to attract additional customers. Entering new markets provides companies an opportunity to extend the product life cycles of their different offerings. In this stage, relationships with distributors play a significant role. The firm's overall objective is to hold market share through aggressive pricing, communications, and distribution or to maximize profits by focusing on key segments.

### **4. The Decline Stage**

When sales decrease and continue to drop to lower levels, the product has entered the decline stage of the product life cycle. In the decline stage, changes in buyer's preferences, technological advances, and alternatives that satisfy the same need can lead to a decrease in demand for a product. Here in this stage an industrial marketer should

adopt the strategy of withdrawing the existing product from the market or introduce a new product as a replacement or reduce marketing or other costs to make some profits.

However, product life cycle for technological and high tech products may take different shape. In this market, technology changes at a very fast pace, so the risk of obsolescence is high and also involves very high R&D costs.

## **5.5 STRATEGY FOR NEW PRODUCT DEVELOPMENT**

The product strategy of a company is related to the making decisions regarding product's features, quality, design, after sales service, brand etc. In addition, product strategy involves developing a rational relationship between and among product offerings.

Developing new products is both costly and risky. Industrial goods failure rates tend to be lower than those for consumer goods. Therefore, while designing the product strategies, the industrial marketer should take into account the following points:

1. The product mix should be in line with the organizational objectives
2. Such strategies should set guidelines for developing product lines and items.

### **5.5.1 Why Does New Product Fail?**

Various reasons have been identified for the failure of industrial products in the market. Some of these reasons are:

1. An industrial marketer fails to define precisely in which market segment the product is likely to have greatest value for users.
2. Sometimes, the industrial marketer is not able to estimate properly the amount of marketing effort required to generate the expected revenue levels.
3. Underestimation of the amount of new investment required on the part of customers and the extent to which the present production technology is developed is another important reason.
4. The marketer also fails to anticipate the demands which the new products make on the customer's technical and application skills.



5. Inadequate understanding of the buying process and the influence patterns within buying organizations influence the success of new product in the market.

#### **5.5.2 Success Factors for Products**

1. Product has superior quality and new features which gives competitive advantage over competitors.
2. Company's technical and production capabilities.
3. Company understanding of the needs and wants of the target markets and producing products to satisfy the needs of their potential customers. It helps the company in formulating successful marketing strategies and action plans.

A well thought out new product development strategy helps a company avoid wasting time and resources by helping to organize planning and research, understanding customer expectations, and accurately resourcing the project. By avoiding common errors such as overestimating the target market, incorrectly setting the price, and accruing higher than predicted costs, a new product development strategy helps the product to be developed and launched as planned.

The nature of the business and the product in question will determine the new product development strategy, and what steps need to be taken. Certain steps may be iterated as needed, and others may be eliminated. To speed up the process, many companies complete several steps at the same time (known as "time to market"). For some more complicated products, a large amount of uncertainty makes it impossible to plan the complete project before starting it, and thus a flexible approach is required.

There are many different ways to approaching new product development strategy. Some of the more common ways are described below.

##### **1. User-centered design (UCD)**

Here, the needs, wants and limitations of end users of a product are given a great deal of attention at each stage of the design process. The main element in this process is that user-centered design tries to optimize the product around how users can, want, or need to use the product, rather than forcing users to change their behaviours to accommodate the product.

## **2. Flexible product development**

Flexible product development is the ability to make changes in the product being developed or in how it is developed, even relatively late in development, without being too disruptive. Flexibility is important because the development of a new product naturally involves change from what came before it. Change can be expected in what the customer wants and how the customer might use the product, in how competitors might respond, and in the new technologies being applied in the product or in its manufacturing process. The more innovative a new product is, the more likely it is that the development team will have to make changes during development.

Flexible development counteracts the tendencies of many contemporary management approaches to plan a project completely at its outset and discourage change thereafter. These include Six Sigma, which aims to drive variation out of a process; Lean, which acts to drive out waste; and traditional project management and phased development systems, which encourage upfront planning and following the plan. Although these methodologies have strengths, their side effect is encouraging rigidity in a process that needs flexibility to be effective, especially for truly innovative products. Flexibility techniques must be used with discretion, for instance, only in the portions of a product likely to undergo change, in order to minimize potential disruptions, delays, and cost overruns.

## **3. Phase-gate model**

In a phase-gate model, also referred to as a phase-gate process, the process is divided into stages or phases, separated by gates. At each gate, the continuation of the process is decided by (typically) a manager or a steering committee. The decision is based on the information available at the time, including the business case, risk analysis, and availability of necessary resources (e.g., money, people with correct competencies). The phase-gate model may also be known as stage-limited commitment or creeping commitment.

Hence, a new product can be:

- a. a change or replacement to an existing benefit offering
- b. an existing market concept but new to the organization or

### **3. A totally new concept**

A new product can be successful in the market if it offers form of unique benefit not offered by the competitor's product. This is called unique selling proposition (USP). If the new product has nothing different to offer from the existing product then it cannot be a successful one. Following are the strategies which can be adopted while developing new product in order to make it successful when introduced in the market:

1. Make the product/service cheaper
2. Make the product/service better
3. Make the product/service different

#### **1. Make the product cheaper**

In this type of strategy, price is used as the tool for making the product unique in highly competitive market. Here the organization has to lower down the product's price than the competitor. This strategy can be achieved by lowering down- the profit margin or the cost involved. Adopting first approach could be successful for the organization only in the short run. It is because the competitors will also react to price change and there will be price war. So, this approach will not work in the long run. So, in order to maintain price leadership, the organization can adopt lower cost approach. This means that by producing the products with lower cost of production, the price will also tend to be less as compared to the competitors. The organization by selling more products can gain greater economies of scale as well as lower pricing motive. A smaller company could use low price as its product strategy if it has a monopoly, is in a niche market or it has a contract to manufacture own label products for a larger company. The larger company would guarantee a certain level of orders and carry all of the marketing costs.

#### **2. Make the product/service better**

Many organisations achieve competitive advantage by making the product/service better than the competition in some significant way. This might be offering a better features, higher quality, superior design, better after sales service and so on. This is probably the most successful way that the smaller industrial marketers can achieve market share against the might of the larger organization.

### **3. Make the product/service different**

Industrial marketers also hope to gain competitive advantage by adopting a USP that offers the industrial buyers something different to that being offered by the competition. The way that a company may choose to differentiate its products and services may take many forms. It might be through having a unique innovative (preferably patented) product or service not marketed by anyone else. Service could be offered on a twenty-four hour basis, delivery guaranteed within a certain time, taking feedback regarding product performance, etc. What is important is that the benefit solutions offered match the continuously researched needs of each target segment served.

#### **5.5.3 New Product Development Process**

New product development process involves various stages by which the product ideas are generated, assessed, directed and converted into products.

Following are stages involved in the process of new product development:

1. Idea generation
2. Idea screening
3. Concept development and testing
4. Business analysis
5. Product development
6. Market testing, and
7. Commercialization

#### **1. Idea generation**

The success of product-driven companies is directly tied to new product development, which is generated through innovative ideas. Ideas for new products can be obtained from basic research using a SWOT analysis. Smaller firms usually depend on employees, customers, investors, and distributors for new ideas. Employees often come up with new product ideas. In industrial markets, customers are probably the biggest source of new product ideas. Customers know what they need and want, which provides organizations an indication of market needs.

Suppliers provide another source of ideas for new products. A supplier might develop a new product or technology that can be used to make yet another product, and then go to the makers of those products and suggest new versions of them.

Larger companies use these sources and more-structured marketing research techniques, such as focus groups and brainstorming. A focus group consists of eight to 12 participants led by a moderator in an in-depth discussion on one particular topic or concept. The goal of focus group research is to learn and understand what people have to say and why. The emphasis is on getting people to speak at length and in detail about the subject at hand. The intent is to find out how they feel about a product, concept, idea, or organization; how it fits into their lives; and their emotional involvement with it. Focus groups often generate excellent product ideas.

Brainstorming is also used to generate new-product ideas. With brainstorming, the members of a group think of as many ways to vary a product or solve a problem as possible. Criticism is avoided, no matter how ridiculous an idea seems at that time. The emphasis is on sheer numbers of ideas. Evaluation of these ideas is postponed to later steps of development.

Keep in mind that idea generation is typically the least expensive step in the process of developing a new offering, whether you involve customers or not. As you move through the product development process, each step is usually more expensive than the last. Ideas for new products are relatively cheap and easy to generate; what is difficult and expensive is making them a reality.

## **2. Idea screening**

As ideas emerge, they are checked against the firm's new-product goals and its long-range strategies. Many product concepts are rejected because they don't fit well with existing products, needed technology is not available, the company doesn't have enough resources, or the sales potential is low. Hence, major considerations in the screening of a new product idea includes expected profit potential, the competitive situation, the general adoptability of the company to the new product and the volume of investment that would be necessary for the implementation of the new product idea. Marketing consideration includes the size of the market, marketing methods etc. It is also necessary to judge the technical viability of the product idea. Production considerations such as facilities required,

cost of production, and availability of materials are also to be considered apart from several legal considerations.

### **3. Concept development and testing**

After the screening of the new product idea it should be developed into a product concept. A Product concept is a detailed version of the product idea that is expressed in a meaningful terms. It is the usual practice to develop different versions of product concept and each product concept is assessed by getting response from the customers. The product concept that has the strongest reaction from the customers is selected.

The new product concepts are tested in a prospective customer organization. The concept can be presented by developing physical product or three dimensional models. The physical presentation of the product will increase the reliability of the concept testing. The three dimensional model techniques create computer generated three dimensional plastic proto-types which takes very short time to get ready. The decision makers in the prospective customer organization are contacted and interviewed with various questions on their experience of using such products. The answers so obtained will enable the company to decide on the strengths of the new product.

### **4. Business analysis**

The output of the business analysis stage is a prediction about whether the product is likely to be profitable or not if ultimately produced.

After the initial screening stage, the number of viable proposals available to progress to the next stage will have decreased significantly. However, before the company begins the development of prototypes, there is one more evaluation process that must take place, and this is the business analysis stage. In this stage, additional information is gathered on the remaining innovations in order to decide whether the significant costs that development will require are justified.

The primary focus of the business analysis stage is to determine whether the product idea will ultimately be profitable or not. However, while this is the primary consideration, it is not the only consideration. Social and environmental issues are frequently considered as well, particularly if there are certain regulations that the company must adhere to in these realms.

The first step in the business analysis process is to examine the projected demand for the product. While the major source of revenue would be product sales, another possible significant source of revenue is the licensing of the technology generated as a byproduct of the given product. Clearly this is not applicable to all products, but for certain classes of products, this can be a very significant source of income.

A complete cost appraisal is also necessary as part of the business analysis. As you can expect, it is difficult to anticipate all the costs that will be involved in product development. However, the following cost items are typical:

- Expected development cost, including both technical and marketing R&D
- Expected set-up costs (production, equipment, distribution)
- Operating costs that account for possible economies of scale and learning curves
- Marketing costs, especially promotion and distribution
- Management cost
- Based on these costs, the business analysis stage will estimate the likely selling price.

## **5. Product development**

Development involves setting product specifications as well as testing the product with intended customer groups to gauge their reaction.

Once a potential product has passed the screening and business analysis stages, it goes onto the technical and marketing development stage. This stage includes identifying the target market and the decision maker in the purchasing process, determining what features must be incorporated into the product and the most cost-effective way to produce it, and establishing what the actual cost of production will be.

## **6. Test marketing/Market testing**

Test marketing is the final stage before commercialization, and is where all the elements of the marketing plan are tested.

During the testing stage, the offering is tested, first in the lab and then with real

customers. Lab testing is also called alpha testing. Alpha testing ensures that the offering works like it's supposed to in a variety of different environments-that it meets its specifications.

The next step is beta testing. During beta testing, actual customers make sure the offering works under real-world conditions. Beta testing not only tests whether the offering works as advertised but also tests the offering's delivery mechanisms, service processes, and other aspects of marketing the product. This step can be an expensive. In industrial settings, beta tests are usually conducted with lead users and preferred customers. The developer of the product needs a strong relationship with these customers because the product might still have bugs that need to be ironed out. If the relationship between the parties is "iffy," and the product or service needs a significant amount of changes, beta testing could damage the relationship between the two parties and hurt the developer of the product's sales.

Besides, companies can also make use of trade shows and dealer show rooms to introduce the new product. The reactions of the customers, their purchase intentions can be determined through such market testing methods.

In normal marketing situations, the test marketing method is used to test the product in a limited geographical area. This method is used by many industrial marketers through their sales force. Along with sales training required material such as price list, product catalogue etc., are given to the sales personnel. When the product is launched on full scale basis, the market information received from test marketing will help the company in taking effective decisions.

## **7. Launch or commercialization**

Once an offering has been designed and tested, it is made available to customers. Sometimes a company launches the offering to all of its markets at once. Other companies may use a rolling launch in which the offering is made available to certain markets first and then other markets later. A rolling launch might make sense if the company's service technicians need training. The company makes the offering available to one market after the first batch of its employees are prepared to service the product; then as new batches of employees are prepared to service the product, the company enters more markets.



In this stage, activities such as customer service, maintaining adequate stocks at the company warehouses and or with dealers/distributors, introductory advertisement, price lists, product catalogues, training of sales force etc. would be taken up. Sophisticated network techniques such as PERT and CPM can be used by industrial marketers to ensure proper coordination and timely completion of all the activities concerning the launching of new industrial product.

## 5.6 SUMMARY

Marketing strategy typically starts with the product. Marketers can't plan a distribution system or set a price if they don't know exactly what product will be offered to the market.

Industrial product mix decisions involve making decision regarding product line strategy and product mix strategy. Product line decisions involve line stretching, filling and pruning decisions. All the decisions regarding product lines that is, product depth (number of sub-categories of products a company offers under its broad spectrum category), product breadth (the number of product lines a company offers) and consistency in each line are taken under product mix decisions.

The product life cycle (PLC) includes the stages the product goes through after development, from introduction to the end of the product. It includes four stages namely- introduction, growth, maturity and decline.

The product strategy of a company is related to the making decisions regarding product's features, quality, design, after sales service, brand etc. While designing the product strategies, the industrial marketer should take into account that the product mix is in line with the organizational objectives.

## 5.7 GLOSSARY

- **Product Mix:** The product mix is the total range of products offered by a company. The product mix is made up of both product lines and individual products.
- **Product Depth:** It refers to the number of sub-categories of products a company offers under its broad spectrum category.
- **Product Breadth:** It refers to the number of product lines a company offers.

## **5.8 SELF ASSESSMENT QUESTIONS**

1. What do you mean by industrial product mix?

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2. Give the reasons for failure of new product in the market.

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## **5.9 LESSON END EXERCISE**

1. Explain various stages of product life cycle.
2. What are the strategies for new product development? Explain

## **5.10 REFERENCES**

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## **B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 6**

**UNIT - I**

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### **STRUCTURE**

- 6.1 Introduction
- 6.2 Objectives
- 6.3 Concept of Services
- 6.4 Marketing of Industrial Services
- 6.5 Pricing Industrial Products
- 6.6 Pricing Methods
- 6.7 Factors Influencing Pricing
- 6.8 Summary
- 6.9 Glossary
- 6.10 Self Assessment Questions
- 6.11 Lesson End Exercise
- 6.12 References

### **6.1 INTRODUCTION**

The increasing importance of the service market in the economy has brought about a change in the definition of goods and services. No longer are goods considered separate from services. Rather, services now increasingly represent an integral part of the product.

It is this interconnectedness between goods and services that is represented on a goods-services continuum. In traditional marketing, a business broadcasts messages directly to the consumer. In contrast, in services marketing, employees play an integral role.

In industrial service marketing, the combination of human resources, operations and marketing is significant in developing the proper approach to the service offering. In industrial marketing, distribution of services is often not possible. Here customers will have to go to the supplier's location himself for getting crucial service from a highly differentiated seller.

Pricing is another important element that we are going to study in this lesson. In industrial marketing, the price of a product is a reflection of the operational benefits it provides. The price of an industrial product/service must be considered as a consequence. It means that prices are ultimately a result of company's decisions and activities other than price.

## **6.2 OBJECTIVES**

After going through this lesson, you will be able to:

- understand the concept of services
- determine pricing, promotion and distribution aspects of industrial service marketing
- develop an understanding of various methods of pricing industrial products
- identify various factors influencing pricing of industrial products.

## **6.3 CONCEPT OF SERVICES**

The importance and share of service sector is increasing in the economies of developed as well as developing countries like India. In fact, the growth of the service sector is considered as one of the indicators of a country's economic progress. India has emerged as the fastest growing nation in the global services trade. Hence, just like manufacturers of products, service providers are also providing their services globally for growth.

The service sector is going through revolutionary change. The service providers

are launching new services continuously to satisfy the existing needs as well as those needs that we did not even know we had. Nearly fifty years ago, when the first electronic file sharing system was created, few people likely anticipated the future demand for online banking, website hosting, or email providers. Similar changes are occurring in business-to-business markets.

The increasing importance of the service market in the economy has brought about a change in the definition of goods and services. No longer are goods considered separate from services. Rather, services now increasingly represent an integral part of the product. It is this interconnectedness between goods and services that is represented on a goods-services continuum.

The American Marketing Association defines services as "activities, benefits or satisfactions, which affect sale or are provided in connection with the sale of goods."

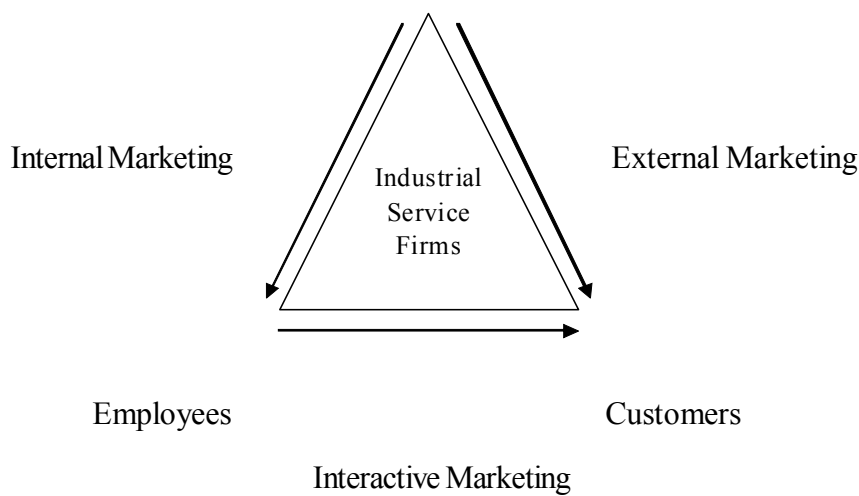
In the words of William Stanton, "Services are those separately identifiable, essential intangible activities which provide want satisfaction and are not necessarily tied to the sale of a product or another service."

According to Philip Kotler, "A service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything."

There are four key differences between goods and services. According to numerous scholars (Regan; Rathmell; Shostack; Zeithaml et al. in Wolak, Kalafatis, & Harris, 1998) services are:

1. Intangible
2. Heterogeneous
3. Inseparable (simultaneously produced and consumed)
4. Perishable

Due to the inseparability characteristic of a service, the person servicing the customer shall be an ambassador of the company and hence the right attitude of the industrial service firm's employee is very important.



**Figure 6.1: Types of Marketing by Industrial Services Firms**

In traditional marketing, a business broadcasts messages directly to the consumer. In contrast, in services marketing, employees play an integral component. The communications between the three groups can be summarized as follows (Morrison, 2010):

1. External marketing: promotional efforts aimed at potential customers and guests (creating a promise between the organization and the guest)
2. Internal marketing: training, culture, and internal communications (enabling employees to deliver on the promise)
3. Interactive marketing: direct exchanges between employees and guests (delivering the promise)

The direct and indirect ways that a company or destination reaches its potential customers or guests can be grouped into eight concepts known as the 8 Ps of services marketing.

The 8 Ps are best described as the specific components required to reach selected markets. In traditional marketing, there are four Ps: price, product, place, and promotion. In services marketing, the list expands to the following (Morrison, 2010):

- Product: the range of product and service mix offered to customers
- Place: how the product will be made available to consumers in the market, selection of distribution channels, and partners
- Promotion: specific combination of marketing techniques (advertising, personal sales, public relations, etc.)
- Pricing: part of a comprehensive revenue management and pricing plan
- People: developing human resources plans and strategies to support positive interactions between hosts and guests
- Programming: customer-oriented activities (special events, festivals, or special activities) designed to increase customer spending or length of stay, or to add to the appeal of packages
- Partnership: also known as cooperative marketing, increasing the reach and impact of marketing efforts
- Physical evidence: ways in which businesses can demonstrate their marketing claims and customers can document their experience such as stories, reviews, blog posts, or in-location signage and components

It's important that these components all work together in a seamless set of messages and activities known as integrated marketing communications, or IMC, to ensure the guests receive a clear message and an experience that meets their expectations.

#### **6.4 MARKETING OF INDUSTRIAL SERVICES**

Akin to tangible products, identifying the relevant segment is the most important step in marketing services. It is often said that the service segments are narrower than product segments. In addition, industrial services may have to be customized for individual customers. Some segmentation may be accomplished along with a level of expectation since this is a key determinant of the perceived success of a particular service (i.e. those with lower expectations versus those with higher expectations may be placed in different segments).

The product is the service offering which includes all of the processes and outcomes

which customers will see. In industrial service marketing, the combination of human resources, operations and marketing is significant in developing the proper approach to the service offering.

In industrial marketing, distribution of services is often not possible. Here customers will have to go to the supplier's location himself for getting crucial service from a highly differentiated seller.

While tangible goods are often sold throughout the world through intermediaries, highly intangible services like management consulting or architecture are nearly impossible to pass through steps of distribution.

Pricing for services depends upon demand. According to Moorthi (2002) pricing the most intangible of services (like consulting) is difficult. Despite very strong competition, a renowned consultant might receive a premium price. In the case of the most intangible services quality becomes more important than price. In fact, price is often seen as a surrogate for quality.

Promotion for services has some unique aspects. The most important is the need for internal marketing to employees. This must be a key part of the success of any services offering. To customers, Moorthi (2002) emphasizes the need for education. Word of mouth is also critical among customers and developing satisfied customers who will speak positively to others is very important. In less populated countries like Denmark or Chile, the communities of specialists in various industries are especially small. Therefore, poor service for one customer can easily sour an entire country's market on a service provider. On the other hand, good service can create loyal customer who will further act as an apostle. The positive word of mouth will lead to enhance customer base for the service provider.

## **6.5 PRICING INDUSTRIAL PRODUCTS**

Price is the value of good or service for both the buyer and the seller. The total revenue of a company is obtained by the prices charged for the product and volume of sales. All other marketing activities represent expenditures while pricing managed properly can make a major difference in the firm's revenue and income. From this fund of revenues,



the cost of purchases, manufacturing costs, inventory, distribution and sales costs, wages and overhead expenses have to be met, and also the profit which a company needs to continue in business or to grow.

Pricing for products and/or services must match with the rest of the marketing plan. Managing price properly also means thoroughly understanding costs as well as customers.

In industrial marketing, the price of a product is a reflection of the operational benefits it provides. The price of an industrial product/service must be considered as a consequence. It means that prices are ultimately a result of company's decisions and activities other than price.

The industrial marketers should understand the various aspects of the pricing, since pricing is the most critical part of industrial marketing strategy. Different strategies such as market segmentation strategy, product strategy, and promotion strategy are related to pricing strategy. In order to achieve the dual objective such as to meet the company objective and satisfy the market needs, the industrial marketer has to integrate the various strategies.

The objectives of companies are likely to be similar, whether marketing to the final consumer or to other companies on the chain of derived demand. Although it might be argued that the industrial buyer is more rational than his consumer counterpart, the crucial difference, must be recognized when prices are being set.

Following are the features of industrial prices as suggested by Morris:

1. Price is an endogenous variable as it depends upon factors such product, promotion and distribution strategies.
2. Since pricing of industrial products depends upon number of factors like delivery and installation cost, training cost, discounts, financing cost, trade in allowances and so on, the price of such product is different from the list price.
3. In comparison to other marketing mix elements such as product and distribution, pricing decision is more flexible.
4. The complimentary and substitute product sold by the same company should be considered at the time of deciding price for industrial goods.

5. In industrial marketing, pricing is mostly done through competitive bidding and negotiation. For government contracts and larger projects, competitive bidding is done. In case of private organizations and some government offices, price negotiations are held to decide the prices and volume of orders to be placed to various supplier firms.
6. Industrial buyers who are experienced and able to estimate the vendors' approximate production costs expect the increasing price to be justifiable on the basis of either increasing cost or improvement in product. Hence, industrial pricing is often characterized by an emphasis on fairness.
7. Industrial buyers who are rational and experienced buyers often compare the product price with the cost and product quality before purchasing the product. They have the ability to estimate the suppliers' approximate production costs and expect that the increasing price is justifiable on the basis of either increasing cost or improvement in product. Therefore, industrial pricing is often characterized by an emphasis on fairness.
8. Besides, the factors mentioned above, industrial prices are also affected by several economic factors such as inflation, change in interest rates, fluctuation in exchange rates etc.

## **6.6 PRICING METHODS**

Price is one of the important decisions to be taken by industrial marketer. For setting the price of the product, the industrial marketer need to identify the answer of the question that is; What should be the price of an industrial good or service that helps to achieve the objectives? The objectives of industrial marketer can be to achieve growth, profits, gain in market share, maximize sales or may be survival goal. Pricing is the most important decision which can either lead to increase the sale or even reduce it. For price sensitive customers, pricing becomes more important as compared to price insensitive customers. This is because for price insensitive customers factors such as quality, delivery and service play significant role. A lot of industrial sales happen over negotiation and bidding.

The industrial marketers must understand the cost structures in terms of identifying the level to which the prices can fall, but still is profitable. However, gaining a contract through bidding and losing money, by recovering a part of the cost is definitely not worth it. The pricing decisions taken by industrial marketer have both short-term and long-term effects. These 'effects' must be in line with the organizational goals and thus rationality on the pricing analysis is very important. Hence, the pricing objectives provide guidelines for taking pricing decisions in the actual business world. Some of the popular pricing methods are:

### **1. Return on Investment (ROI)**

The "return on investment" or sometimes referred to as "capital asset pricing" is a very popular method to price industrial products. This method is commonly used in "oligopolistic markets"

Return on investment is calculated as:

$$\text{ROI} = \text{Profits} \div \text{Investments}$$

For example, let Profits = Rs 15,000, Investment = Rs 2,00,000. Then ROI is 7.5%

Now if profits fall to Rs 13,000 with investment the same, then ROI would be = 6.5 per cent. This means when profits increase with the investments remaining the same, ROI increases. If profit is Rs 15,000 and investment is increased to Rs 2,20,000 then ROI would be = 6.8 per cent. Therefore, with profitability remaining the same, if the investment has to be stepped up, then ROI falls.

This is based on standard costs, which vary much less than actual costs. Therefore, the ROI serves as a benchmark for performance, and the actual can be compared against that.

### **2. Cost Plus**

One of the very popular methods, with more than 50 per cent of the industrial marketers using this technique. The Cost-plus pricing or full cost pricing or markup pricing is widely prevalent in the business world. Full cost pricing means pricing a level covering total costs and selling expenses plus a predetermined markup. Sometimes, a rigid predetermined markup is added to costs. Alternatively, the markups are flexible, varying with business conditions.

Mark up price (P) is calculated by the formula:

$$P = C / (1 - r)$$

Where

C is the unit cost of the product and

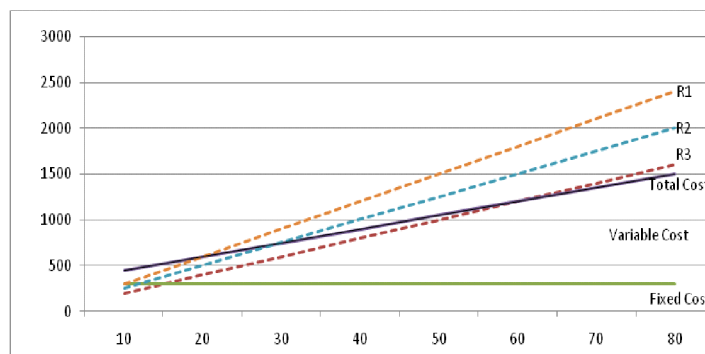
"r" is the mark up

This method is simple and convenient when an industrial marketer handles a bundle of product. It is also suitable in industries, where most of the sellers follow this method to reduce price competition.

### 3. Break Even Pricing

The industrial marketer must try and understand what happens to profitability at various price levels. The industrial marketer would be interested to know that because setting a high price would mean lower volumes and setting a lower price means low returns per unit sold. To find out the break even, the industrial marketer must know what his costs are, i.e., fixed and variable costs.

$$\text{Break-Even Point} = (\text{Fixed cost} / \{\text{selling price per unit} - \text{variable cost per unit}\})$$



**Figure 6.2: Break Even Analysis**

X axis represent units produced and Y axis is cost and revenue. We have the "total cost" line which is a sum of "total fixed cost" and "total variable cost". Now the fixed cost remains constant, throughout the production at any level. It is only the variable cost that is changing with increase in production.

Here Fixed cost= Rs 300,000

Variable cost= Rs 15 per unit

Selling price= Rs 20 per unit

In this case; Break even volume will be 60,000 units

If selling price per unit is Rs 25 and 30 then BEP will be 30000 and 20000 units respectively.

The industrial marketer has three revenue options. Revenue 1, 2, 3 respectively. Now at each of these revenue curves, a price is fixed for the product. At revenue 1, the price of a particular product, would be set higher than at revenue 2. Revenue 2 curve has the price of the product at a higher level than revenue 3. This is the reason that the industrial marketer reaches the break- even point faster in revenue curve 1, than in 2 and 3. In the revenue curve 1, the break-even point would reach at 20,000 quantity produced and with fifty lakhs of revenue. This would give us BEP 1, i.e., break even point 1. Any earnings or sales above this, would give the industrial marketer profits and below this BEP 1 would generate losses. Similar is the case with BEP 2 and BEP 3. What is the price, therefore an industrial marketer should set for its products? He has indeed three options. But what he chooses depends on the factors that affects the pricing decision such demand conditions, cost and profitability analysis, competition and government policies.

#### **4. Marginal Cost or Variable Cost Pricing**

Under marginal cost pricing, fixed costs are ignored and prices are determined on the basis of marginal cost. Instead of using full costs as the lowest possible price, this method suggests that variable cost represents the price that can be charged. Since variable cost is the basis of pricing, it is also known as variable cost pricing. In marginal cost pricing, the objective of the firm is to maximize its total contribution to fixed costs and profit.

#### **5. Value Based Pricing**

Companies are basing their price on the product's perceived value. Here, customer's perceptions of the value of the product, not the seller's cost, are considered as, as the key to pricing. They use the non price variables in the marketing mix to build up perceived value in the buyers' minds. Price is set to capture the perceived value.

The key to perceived-value pricing is to accurately determine the market's perception of the offer's value. Sellers with an inflated view of their offer's value will overprice their product. Sellers with an underestimated view will charge less than they could. Market research is needed to establish the market's perception of value as a guide to effective pricing.

## **6. Sealed-Bid Pricing**

Competitive-oriented pricing is common where firms bid for jobs. The firm bases its price on expectations of how competitors will price rather than on a rigid relation to the firm's costs or demand. The firm wants to win the contract, and winning normally requires submitting a lower price than competitors.

Yet the firm cannot set its price below a certain level. It cannot price below cost without worsening its position. On the other hand, the higher it sets its price above its costs, the lower its chance of getting the contract.

### **6.7 FACTORS INFLUENCING PRICING**

The following are major factors that influence industrial pricing:

#### **1. Policy of the Firm**

Every firm has a policy on profits, which may be stated in terms of return on investment, return on capital employed, etc. A firm, which decides to operate at a higher profit, is likely to charge higher price, if its costs are high and cannot be pruned.

#### **2. Value to Customers**

Value is something that is perceived by the customers. Industrial pricing is flexible in nature. That is, by changing the quantity of goods/services provided by the seller, changing the premiums and discounts that are offered, changing the time and place of payment and also in numerous other ways prices can be changed. Therefore, products with similar attributes might be charged differently to different industrial buyers.

An industrial buyer performs cost-benefit analysis while buying the product. They consider factors such as training, innovation, product reliability, reduced operating costs, and good post-sales support as more important than price. So, while deciding the price of the industrial product, the industrial markets must take into account those set of factors

that provide maximum value to the customers.

### **3. Branding**

A firm, which has created a brand and positioned itself as an elitist supplier, is likely to charge a higher price, whereas a firm, that has positioned itself as a low cost and reasonably good supplier, is likely to charge a lower price.

### **4. Cost**

As principal motive of any firm is to earn profit, costs play an important role in deciding pricing. Every industrial manufacturer strives to reduce its costs either to beat competition, or to improve its market share. Market shares can be increased in a competitive environment only if a manufacturer has acquired a strong position vis-à-vis its competitors.

Generally, the total cost consists of the variable cost and fixed costs for a given level of output. Some of the cost elements vary over a period of time; other cost elements fluctuate with output. The industrial marketer must identify and classify the cost for making profitable pricing decisions.

While competition sets the upper limits on price, costs set the lower limits. Therefore, it makes little sense to develop pricing strategy without considering the costs involved. However, many organizations tend to set prices based on their costs alone, adding some acceptable increment for profit. Since costs vary over time and fluctuate with volume, they must be considered in relation to demand, competition and the market share objectives of the firm. Marketing, production and distribution costs are all relevant to the pricing decision. The total cost of a product is made up of multiple elements that react differently to changes in the quantity produced. Properly identifying and classifying these separate costs is an essential step toward making profitable pricing decision. The marketing manager should determine which costs is volume dependent, which products or markets generate the costs, and where opportunities for additional profits might exist. When fixed costs make up a large portion of total cost, prices must be set to maximize the use of operating capacity. Until fixed costs are covered, a firm is losing money. Once covered, each incremental sale can contribute to profits. On the other hand, when variable costs are relatively high, pricing to maximize the contribution margin (selling price minus variable costs) is crucial to profitability.

Under certain conditions, a firm may elect to price at less than full cost (that is, not counting those costs, direct and indirect, that are traceable to a particular activity). For example, during a recession a firm with high fixed costs may set price to cover variable costs and make some contribution to fixed costs to keep its plant in operation. This is often called "survival" pricing. Such pricing strategy may also be used in the short run to secure an exceptionally large order, to penetrate a specific customer, or to gain market share.

Hence, for fixation of appropriate price, the industrial marketer should know how the cost varies at different levels of output.

## **5. Competition**

Competitive level pricing is considered as an important pricing strategy by many industrial marketers. A firm facing stiff competition would not be in a position to price its products higher than its competitors. Charging more price becomes more difficult when the products or services of all firms are comparable, and do not offer a significant advantage over others. The company can charge higher price only if it has better product offerings than its competitors.

The industrial marketer often obtains information regarding competitors' various elements of marketing mix and their strategies through market research. Based on the available information about the competitors, the industrial marketer can use price as a mechanism to position the product. An industrial marketer must study the actual sales, costs corporate objectives, financial situations, utilization of production capacity and strengths and weaknesses. The reactions of the competitors should be anticipated soon after collecting the information on competitors. The competitors are likely to respond when the number of industrial buyers is less, the buyers are aware of price change and the products are similar.

## **6. Government Regulations**

Certain restrictions on trading and price fixing have been imposed by the government. For instance, in India we have Monopolies and Restrictive Trade Practices Act. Similarly, in United States, the restrictions are imposed through "Sherman Antitrust Act", "Clayton Antitrust Act" and "Robinson Patman Act". All these acts are framed to ensure that no



unfair practices are adopted to fix the prices, stop price discrimination and price concessions.

The price discrimination by offering cash, volume or trade discount to distributors or dealers is prohibited. A company must offer the same discount structure to its intermediaries otherwise it will be treated as price discrimination.

The Predatory pricing is not permitted. When a firm with dominant position reduces its pricing structure leads to predatory pricing. Under such a situation the smaller firms cannot operate in a profitable manner.

#### **7. Size of the Market**

A large market tends to reduce the intensity of competition. More so, if the suppliers are operating at peak capacity utilization. If such a situation exists, suppliers have more freedom to charge their prices higher. For example, due to emphasis on the development of infrastructure, all civil contractors are comfortably placed; their order book is filled to capacity which varies from 5.5-10 times their capacity to execute orders/contracts. Under such a situation, it is unlikely that any contractor would quote lower prices and get business.

#### **8. Position in the PLC**

The position of a product in different stages of PLC-introduction, growth, maturity and decline is likely to influence its price.

#### **9. Demand Condition**

The concepts of demand curve and price elasticity are important to understand demand-volume- price relationship. In demand analysis, we measure the relationship between price and demand keeping other factors constant. The basic purpose of estimating demand curve is to determine the extent of change in demand for a product with the change in prices. The demand may be inelastic or elastic. The demand is considered to be inelastic if it changes very less with a small change in price and the demand is elastic if it changes substantially with a small change in price.

The demand of industrial product is derived demand. A single industrial product may find several uses in the market.

Since the industrial products are technically sophisticated, the demand for these products is relatively inelastic. Hence, to set a price for an industrial product, the company needs to

understand the benefits, the costs involved and understand the value from customer perspective.

## **6.8 SUMMARY**

Akin to tangible products, identifying the relevant segment is the most important step in marketing services. Industrial services may have to be customized for individual customers. Some segmentation may be accomplished along with a level of expectation since this is a key determinant of the perceived success of a particular service.

In industrial service marketing, the combination of human resources, operations and marketing is significant in developing the proper approach to the service offering. Here distribution of services is often not possible. Here customers will have to go to the supplier's location himself for getting crucial service from a highly differentiated seller.

Pricing for services depends upon demand. Promotion for services has some unique aspects. The most important is the need for internal marketing to employees. This must be a key part of the success of any services offering.

The industrial marketers should understand the various aspects of the pricing, since pricing is the most critical part of industrial marketing strategy. Different strategies such as market segmentation strategy, product strategy, and promotion strategy are related to pricing strategy.

The industrial marketers must understand the cost structures in terms of identifying the level to which the prices can fall, but still is profitable. The pricing objectives provide guidelines for taking pricing decisions in the actual business world. Some of the popular pricing methods are: return on investment, cost plus, break even pricing, marginal cost or variable cost pricing, value based pricing and sealed-bid pricing. There are various factors that influence the industrial pricing decisions such as policy of the firm, value to customers, branding competition, government regulations, etc.

## **6.9 GLOSSARY**

- **Service:** A service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.
- **Price:** Price is the value of good or service for both the buyer and the seller.

- **Total Cost:** It is a sum of "total fixed cost" and "total variable cost".
- **Fixed Cost:** Those cost which remains constant throughout the production at any level.
- **Variable Cost:** The cost which changes with the change in level of production.

#### 6.10 SELF ASSESSMENT QUESTIONS

1. Is there any difference between marketing of services and products?

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2. Explain cost plus method of pricing.

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#### 6.11 LESSON END EXERCISE

1. What are the unique aspects of services and how does this affect the marketing of these services?
2. Explain different methods for pricing industrial products.
3. What are the factors that influence pricing of industrial product? Explain.

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## **B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 7**

**UNIT - II**

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### **STRUCTURE**

- 7.1 Introduction
- 7.2 Objectives
- 7.3 Meaning of Distribution Channel
- 7.4 Distinctive Nature of Industrial Distribution Channels
- 7.5 Factors Affecting Distribution Channels
- 7.6 Summary
- 7.7 Glossary
- 7.8 Self Assessment Questions
- 7.9 Lesson End Exercise
- 7. 10 References

### **7.1 INTRODUCTION**

Just as with the other elements of the firm's marketing programme, distribution activities are undertaken to facilitate the exchange between marketers and consumers. There are two basic functions performed between the manufacturer and the ultimate consumer. The first called the exchange function, involves sales of the product to the various members of the channel of distribution. The second, the physical distribution function, moves products through the exchange channel, simultaneously with title and ownership.

Decisions concerning both of these sets of activities are made in conjunction with the firm's overall marketing plan and are designed so that the firm can best serve its customers in the market place. In reality, without a channel of distribution the exchange process would be far more difficult and ineffective.

The key role that distribution plays is satisfying a firm's customer and achieving a profit for the firm. From a distribution perspective, customer satisfaction involves maximizing time and place utility to: the organization's suppliers, intermediate customers, and final customers. In short, organizations attempt to get their products to their customers in the most effective ways.

Unlike consumer organizations, the decisions taken by the industrial organizations on distribution channels is of great significance as the decisions involved are of long-term nature that cannot be changed frequently. A good industrial channel creates the communication and physical supply linkages with existing and potential customers.

## **7.2 OBJECTIVES**

After going through this lesson, the students will be able to:

- understand the meaning of distribution channel
- know the distinctive features of industrial distribution channels
- develop an understanding of the factors that influence distribution channels

## **7.3 MEANING OF DISTRIBUTION CHANNEL**

When a manufacturer produces goods or services, it has to distribute and sell them to the industrial and institutional customers. There are various intermediaries who are involved in a distribution and selling process which help the manufacturers to make their goods reach the end users. Thus, a network or channel that helps to flow the goods from the producer to the consumer through a set of interdependent organizations (intermediaries) is called distribution channel or trade channel or marketing channel.

Industrial marketing play a linking role between technology and human needs. Industrial firms develop and supply products, services, processes and other knowledge to

support consumer goods distribution companies. In turn, consumer companies apply these technological advances to serving their own customers more effectively and efficiently.

Industrial goods consist of stock and specification items. In the case of stock items the seller participates in application and installation. The sale of more products/ services requires working with the professionals in the buyer's organization from the design stage to product installation and operation. Given the service orientation of industrial marketing, the relationship between the industrial firm and consumer goods distributor is long-term and must be communicative.

Hence, a distribution channel is the series of interdependent marketing institutions that facilitate transfer of title to a product as it moves from producer to ultimate consumer or industrial user. The title may be transferred directly, as and when the commodity is bought or sold outright, or indirectly, as and when the transaction is negotiated through a functional middleman such as an agent or broker who does not take credit to it.

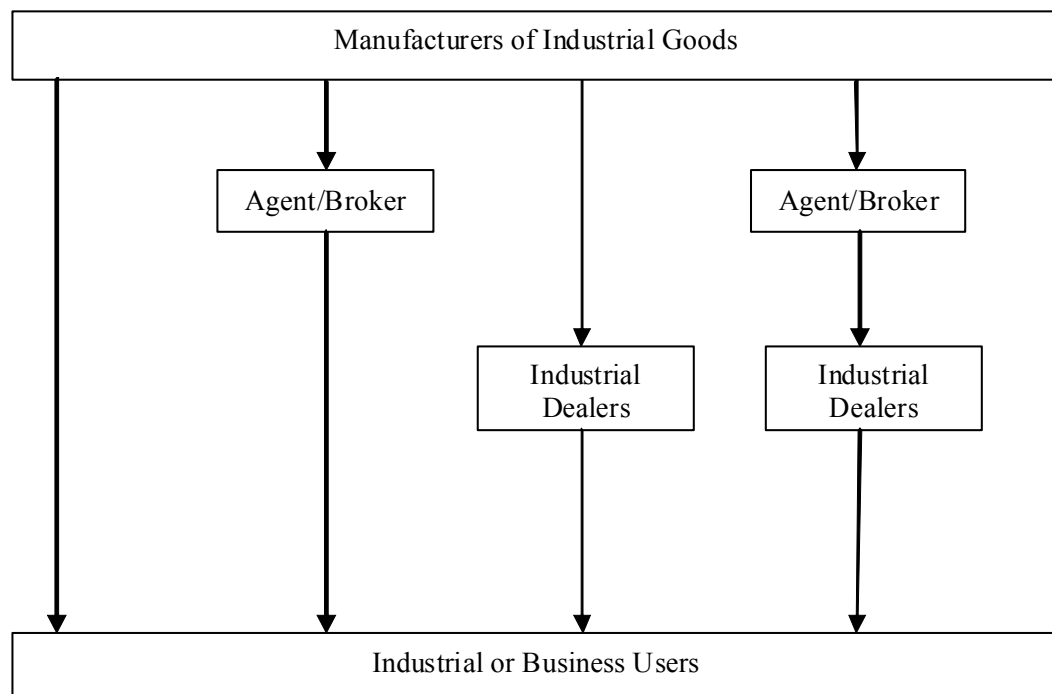
Channels are the tools used by management to move the goods from the place of production to the place of consumption. A good industrial channel creates the communication and physical supply linkages with existing and potential customers. A distribution channel is made up of marketing intermediaries, or organizations that assist in moving goods and services from producers to industrial users. Marketing intermediaries are in the middle of the distribution process, between the producer and the end user.

#### **7.4 DISTINCTIVE NATURE OF INDUSTRIAL DISTRIBUTION CHANNELS**

Unlike consumer organizations, the decisions taken by the industrial organizations on distribution channels is of great significance as the decisions involved are of long-term nature that cannot be changed frequently. The industrial organizations carry on certain important functions till the products reach the consumers like utilizing the services of transportation companies for distribution, the services of warehouses for safe storage of goods, inventory control, order processing and selection of marketing channels. This necessitate taking important decisions like devising effective communication tools, planning promotional activities, managing finances etc that help in serving the consumers better.

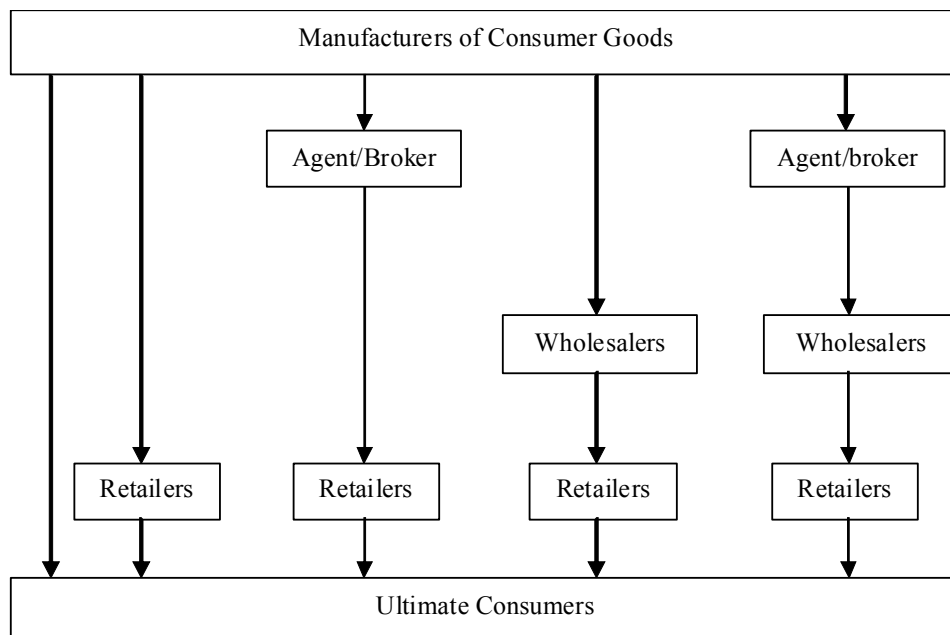
Following are the distinctive nature of industrial distribution channels:

1. Industrial distribution is unique as there are several different methods of channeling the products and services to industrial consumers. The type of product, the selling price of the product and technical knowledge required to sell the product all play a considerable role in selecting the proper sales or distribution channel.
2. Industrial distribution channels are quite different from channels in consumer marketing. Industrial marketing have fewer distribution channels as compared to consumer marketing channels as shown in the following figures:



**Figure 7.1: Distribution Channels in Industrial Marketing**





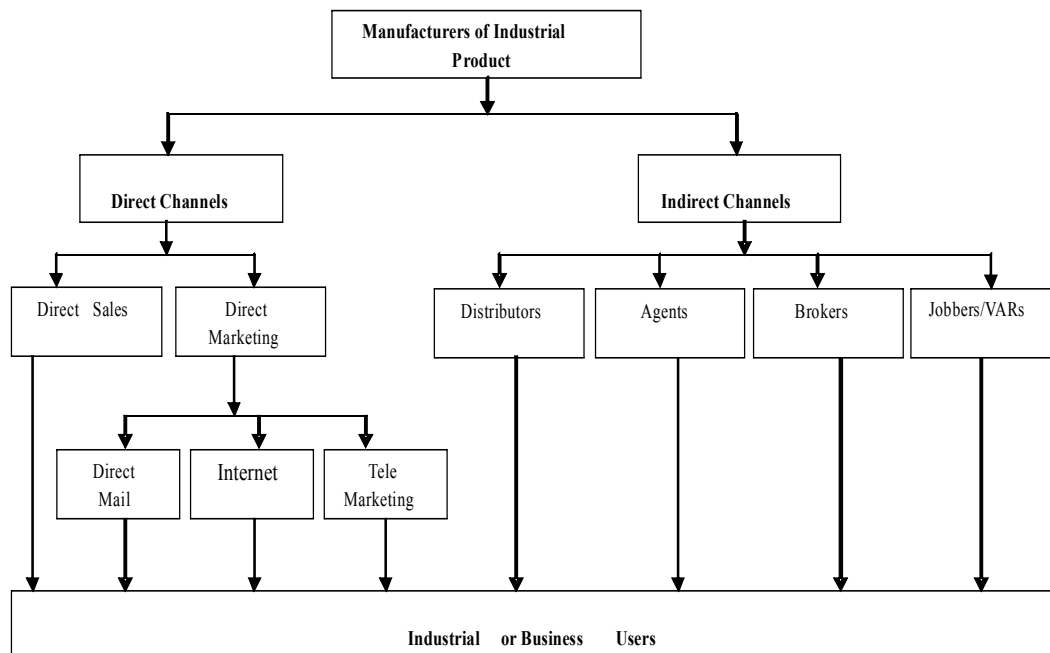
**Figure 7.2: Distribution Channels in Consumer Marketing**

3. The participants in industrial marketing include the following:

- **Agents and brokers:** Agents are sales representatives of manufacturers and wholesalers, and brokers are entities that bring buyers and sellers together. Both agents and brokers are usually hired on commission basis by either a buyer or a seller. Agents and brokers are go-betweens whose job is to make deals. They do not own or take possession of goods.
- **Industrial distributors or dealers:** Industrial distributors are independent wholesalers that buy related product lines from many manufacturers and sell them to industrial users. They often have a sales force to call on purchasing agents, make deliveries, extend credit, and provide information. Industrial distributors are used in such industries as aircraft manufacturing, mining, and petroleum.
- **Value added resellers (VARs):** VAR are used in computer industry whose task is to customize the computer hardware and software to solve specific problems for particular industries, say, inventory control for industrial values and fittings.

- **Jobbers:** Jobbers retain the title to the goods and do not store or take physical possession of the goods. For example, a coal jobber buys coal from coal mines. Such jobber purchases either on the basis of order in hand or expected orders from several customers. Once the customer places the order to the jobber for coal, he/she directly dispatches the order from coal mine to customer.
- **Commission merchants:** They deal with large quantities of items like raw materials. They are paid commission by the manufacturers when they perform certain functions. Their general functions include getting the raw materials inspected, negotiating during sales and finally close the sales. They receive the commission based on the net sales value as is compensated to agents and brokers.

4. The industrial distribution channels can be direct or indirect. In direct structures, the manufactures perform all the functions right from creating sales to delivering the product to industrial users. Whereas in indirect channels these functions are shared between manufacturer and intermediaries.



**Figure 7.3: Direct and Indirect Industrial Distribution Channels**

5. The marketing intermediaries perform varieties of functions such as marketing research, promotion, selling, negotiation, assorting, warehousing, grading, providing technical services and so on. The industrial marketer have to decide whether these functions can be performed directly by its sales force in an efficient manner or it needs to take the service of industrial intermediaries (distributors, dealers, agents or brokers). Hence, due to financial and manpower constraint, the industrial marketer use the service of intermediaries.

6. Industrial distribution channel is also characterized by channel conflict. Channel conflict arises because each member wants to maximize its own profits or power. Conflicts also arise because of frustrated expectations. That is, each member expects the other members to act in particular ways, and sometimes these expectations are unfulfilled.

## **7.5 FACTORS AFFECTING DISTRIBUTION CHANNELS**

Following are the factors that affect the industrial distribution channels:

### **1. Geographical Distribution**

The industrial distributors or dealers are concentrated highly in the industrial markets. That is, they exist in those areas where there is industrial market. They serve in certain places that have large number of industries like large towns and cities, for example, Mumbai, Delhi, Kolkata, Chennai, etc.

### **2. Size**

Unlike consumer markets, the industrial markets tend to have fewer channels of distribution. Even the industrial channel is shorter in size as organizational buyers expect immediate product availability, technical expertise and prompt after-sales service. This indirectly demands investment in training and physical facilities for the industrial organizations.

### **3. Characteristics of Intermediaries**

The intermediaries involved in industrial marketing are technically qualified and maintain close relationship with industrial organizations. Industrial manufacturers depend more heavily on each member of the channel. Industrial distributors, brokers and agents are some types of intermediaries used by industrial marketers to reach customers.

#### **4. Mixed Channels**

Most of the industrial marketers will use combination of direct and indirect distribution channels depending upon factors such as; need of market segment, resource constraints, nature of product, etc. When the customers are large and their volume and value is high, direct channel is used. That is, to cater to large-volume customers, industrial firms generally use their own sales force. Whereas when the markets are geographically dispersed, indirect distribution channel (Industrial distributors) is used.

#### **5. Environment**

Economic conditions, legal regulations are the environmental factors that affect the selection of distribution channel. During recession, producers use economical ways to sell the products to avoid additional costs. Similarly, the law looks down upon those channel arrangements that tries to build a monopoly market or minimize competition.

#### **6. Product Characteristics**

The complex and non-standard products require direct distribution without any intermediaries. Example, if an industrial marketer is providing customized machinery to his customer, then he deals directly with him rather than involving any intermediary to understand the customer needs better.

### **7.6 SUMMARY**

Industrial marketing play a linking role between technology and human needs. Industrial firms develop and supply products, services, processes and other knowledge to support consumer goods distribution companies. In turn, consumer companies apply these technological advances to serving their own customers more effectively and efficiently.

Industrial goods consist of stock and specification items. In the case of stock items the seller participates in application and installation. The sale of more products/ services requires working with the professionals in the buyer's organization from the design stage to product installation and operation. Given the service orientation of industrial marketing, the relationship between the industrial firm and consumer goods distributor is long-term and must be communicative. Industrial marketing have fewer distribution channels. Some of these are direct and others are indirect. In direct structures, the manufactures

perform all the functions right from creating sales to delivering the product to industrial users. Whereas in indirect channels these functions are shared between manufacturer and intermediaries. The choice of the distribution channels is affected by number of factors such as geographical distribution, channel size, characteristics of intermediaries, etc.

## 7.7 GLOSSARY

- **Marketing Channels:** It is a network or channel that helps to flow the goods from the producer to the consumer through a set of interdependent organizations (intermediaries).
- **Agents:** Agents are sales representatives of manufacturers and wholesalers.
- **Brokers:** Brokers are entities that bring buyers and sellers together. Brokers don't purchase or take title to the products they sell. Their role is limited to negotiating sales contracts for producers. Clothing, furniture, food, and commodities such as lumber and steel are often sold by brokers.
- **Industrial Distributors:** Industrial distributors are independent wholesalers that buy related product lines from many manufacturers and sell them to industrial users.
- **Jobbers:** Jobbers represent manufacturers of goods that are sold in bulk quantity. They retain the title to the goods and do not store or take physical possession of the goods.

## 7.8 SELF ASSESSMENT QUESTIONS

1. What do you mean by distribution channel?

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2. How does industrial distribution channel differ from the consumer goods distribution channel?

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3. Explain the need for channel distribution in industrial marketing?
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### **7.9 LESSON END EXERCISE**

1. Discuss distinctive nature of industrial distribution channels.
2. What are the factors that affect the distribution of industrial goods? Explain.

### **7.10 REFERENCES**

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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 8**

**UNIT - II**

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**STRUCTURE**

- 8.1 Introduction
- 8.2 Objectives
- 8.3 Industrial Marketing Communication Mix
- 8.4 Advertising
  - 8.4.1 Message Decisions
  - 8.4.2 Limitations of Industrial Advertising
- 8.5 Sales Promotion
- 8.6 Publicity
- 8.7 Direct Marketing
- 8.8 Summary
- 8.9 Glossary
- 8.10 Self Assessment Questions
- 8.11 Lesson End Exercise
- 8.12 References

## **8.1 INTRODUCTION**

Marketing communication techniques help businesses grow and prosper, creates relationships, strengthens the effectiveness of organizations, and allows people to learn about one another. Technology such as the Internet and cell phones affects the way we communicate and is changing the type of messaging strategy organizations use.

The industrial products are technical in nature. As mentioned in the earlier lessons, that the industrial marketing has relatively few number of buyers as compared to the consumer marketing. Therefore, the marketing communication (promotion) mix in industrial markets will be different to that of consumer markets. The promotional mix used by the industrial marketer consists of advertising, sales promotion, publicity, public relations, personal selling and direct marketing. These tools help to create awareness about company and its products/ services, develop image, etc which ultimately help the company and other intermediaries to increase their sales.

Among all the promotional mix elements, personal selling is the most important because of technicality nature of the industrial products thereby, requiring direct interactions between sales force and industrial customers. However, all promotional mix techniques are required to be well integrated with personal selling to develop an effective communication strategy.

## **8.2 OBJECTIVES**

After going through this lesson, the students will be able to understand:

- meaning of marketing communication
- different types of industrial marketing communication mix
- role of advertising, sales promotion, publicity and direct marketing in industrial marketing

## **8.3 INDUSTRIAL MARKETING COMMUNICATION MIX**

Industrial marketing communication (Promotion) is an attempt by marketers to inform, persuade or remind industrial users to influence their opinion or elicit a response. Most companies use some form of promotion. Because company goals vary widely, so



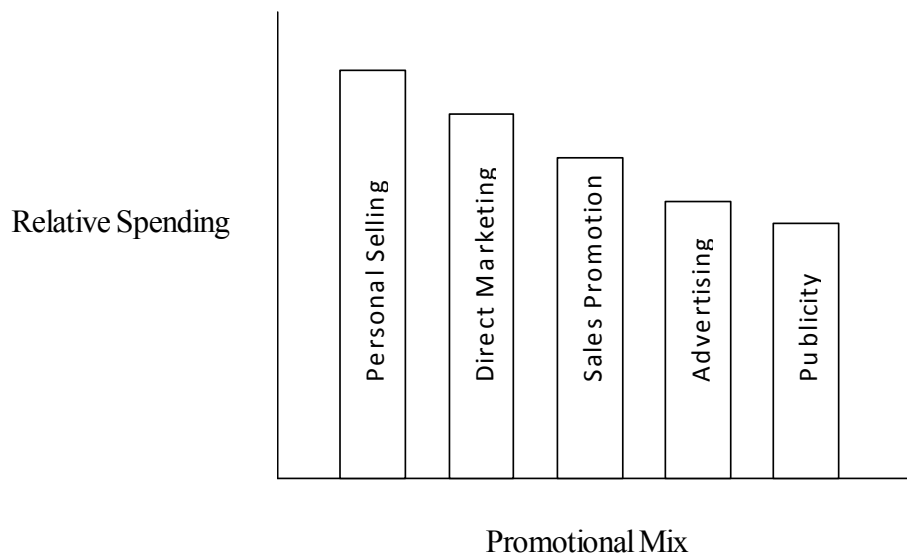
do promotional strategies. The goal is to stimulate action from the organizations of a target market. In a profit-oriented firm, the desired action is for the industrial customers to buy the promoted item.

Industrial marketing communication goals include creating awareness, getting industrial customers to try products, providing information, retaining loyal customers, increasing the use of products, and identifying potential customers, as well as teaching potential service clients what is needed to "co-create" the services provided. Any promotional campaign may seek to achieve one or more of these goals.

The combination of traditional advertising, personal selling, sales promotion, publicity and direct media used to promote a product is called the promotional mix. Each firm creates a unique promotional mix for each product. But the goal is always to deliver the firm's message efficiently and effectively to the target audience. These are the elements of the promotional mix:

1.     **Advertising:** Any paid form of non-personal promotion by an identified sponsor that is delivered through traditional media channels.
2.     **Personal selling:** A face-to-face presentation to a prospective buyer.
3.     **Sales promotion:** Marketing activities (other than personal selling, traditional advertising, public relations, publicity and direct marketing) that stimulate consumer buying, including catalogs, samples, displays, trade shows and exhibitions, seminars, and other types of selling efforts.
4.     **Public relations and Publicity:** The linking of organizational goals with key aspects of the public interest and the development of programs designed to earn public understanding and acceptance. Public relations can include lobbying, publicity, special events, internal publications, and media such as a company's internal television channel.
5.     **Direct marketing:** The use of direct mail, telemarketing and online marketing channels

Among all the promotional mix elements, personal selling is the most important because of technicality nature of the industrial products thereby, requiring direct interactions between sales force and industrial customers.



**Figure 8.1: Relative Importance of Promotional Tools in Industrial Marketing**

Ideally, marketing communications from each promotional-mix element (personal selling, traditional advertising, sales promotion, publicity and direct marketing) should be integrated. That is, the message reaching the industrial buyers should be the same regardless of whether it comes from an advertisement, a salesperson in the field, a trade article, direct mail and so on.

#### **8.4 ADVERTISING**

Advertising is a non-personal and paid promotion with an identified sponsor that reaches many people at one time and can be repeated many times. In advertising there is one-way approach, that is, it is not interactive except in a very limited way. The target of industrial advertising is industrial buyers rather than individuals as in case of consumer marketing. Therefore, the role of industrial advertising is to appeal industrial buyers, each having different personalities and attitudes, and most especially each with a different role within the organization.

Generally, because industrial products are technical in nature, such buyers rarely buy goods and services through advertising alone. Here, advertising acts as a supporting promotional tool rather than a primary means of communication. Hence, advertising plays an important role in industrial marketing strategy by supporting and supplementing personal selling efforts.

As shown in figure 8.1, the relative spending of industrial marketers on advertisement is less than other promotional mix (except publicity). That is, the importance of advertising for industrial marketers is not as much in consumer marketing. Only, few industrial marketers use it and a small amount of promotional budget is apportioned for advertising. Since it is difficult to cover each and every member in industrial marketing, advertising is used by the companies to increase their sale. Besides this, there are several other reasons, why advertising is used in industrial marketing. These are:

- a) Advertising will make the industrial salesperson more efficient while dealing with the buyers. It creates a favorable climate for personal selling. Research shows that the industrial buyers generate interest in the company and its products if they some have knowledge about them. In this context, advertising can play significant role and generate leads for salespeople.
- b) Some of the members of the industrial buyers are inaccessible to salespeople. One estimate revealed that salespeople may only reach an average of three out of ten buying units that should be reached. Hence, advertising can create brand image of the company's product even in those buyers who have very less or no contact with the salespeople.
- c) A single advertising reaches a vast number of people that comes out cheaper than a single salesperson meeting so many people personally and explaining them in details about the company's products. Thus, advertising not only reduces cost but also saves time of the company.
- d) Advertising acts as reminder for the existing and potential customers regarding new products/services. It also informs the channel intermediaries.

Hence, advertising provides relevant information to the potential buyers, influences their attitudes, reminds them about a product or a company, support and motivate the distribution channel members and sales agents.

#### **8.4.1 Message Decisions**

For developing effective advertising strategy, the industrial marketers have to consider two important elements. First element is creating advertising message and second one is deciding advertising media.

The advertising message should be both informative and attractive. Depending upon the advertising objective it can create advertising message. For example, whether the marketer wants to impress industrial buyers with its long experience or it wants to give information about its product and its features, etc.

In industrial marketing the number of advertising media is limited. The print medium is the most frequently used in industrial marketing. So the advertisement regarding company and its products can be done in business magazines, trade journals, business newspapers, etc. Advertising on the internet is also becoming popular today. Industrial marketers can have online seminars regarding introduction of new product in the market.

#### **8.4.2 Limitations of Industrial Advertising**

Although advertising assisting the industrial marketers in many ways as mentioned above still it suffers from certain limitations. The limitations of industrial advertising are:

- a) Industrial advertising is only supporting mechanism. It cannot substitute personal selling.
- b) Advertising cannot create any product preference as this requires live demonstration with explanation.
- c) Advertising cannot achieve the task of creating conviction and purchase. Such tasks are achieved by personal selling.

#### **8.5 SALES PROMOTION**

Sales promotion is not only used in consumer marketing but industrial marketers also use such promotional technique as a means of moving customers to action. However, the promotional choices available to the industrial marketer are not as extensive as those found in the consumer markets. For example, most industrial marketers do not use coupons as a vehicle for sales promotion with the exception of companies that sell to both consumer and business customers (e.g., products sold through office supply retailers). The following table shows different types of sales promotion available to consumer and industrial marketing:

**Table 8.1: Different Types of Sales Promotion**

<b>Consumer Sales Promotions</b>	<b>Business-to-Business Sales Promotions</b>
Coupons	Trade shows and conventions
Sweepstakes or contests	Sales contests
Premiums	Trade and advertising allowances
Rebates	Product demonstrations
Samples	Training
Loyalty programs	Free merchandise
Point-of-purchase displays	Push money

In industrial marketing, sales promotions are typically called trade promotions because they are targeted to channel members who conduct business or "trade" with consumers. Trade promotions include trade shows, conventions, event marketing, trade allowances, training, and special incentives given to retailers to market particular products and services, such as extra money, in-store displays, and prizes.

### **1. Trade Shows**

Trade shows are one of the most common types of sales promotions in industrial markets. A trade show is an event in which firms in a particular industry display and demonstrates their offerings to other organizations they hope will buy them. There are typically many different trade shows in which one organization can participate. Using displays, brochures, and other materials, representatives at trade shows can identify potential customers, inform customers about new and existing products, and show them products and materials. Representatives can also get feedback from prospects about their company's products and materials and perhaps about competitors.

Companies also gather competitive information at trade shows because they can see the products other firms are exhibiting and how they are selling them. While approximately 75 percent of representatives attending trade shows actually buy the product(s) they see, 93 percent of attendees are influenced by what they see at the trade shows. However, only 20 percent of organizations follow up on leads obtained at trade

shows and only 17 percent of buyers are called upon after they express interest in a particular company's products. Trade shows can be very successful, although the companies that participate in them need to follow-up on the leads generated at the shows. With changing technology, Webinars are being used to reach businesses that may not be able to attend trade shows. Follow-up after a Webinar is also essential.

## **2. Conventions**

Conventions or meetings with groups of professionals also provide a way for sellers to show potential customers the different products. For example, a medical convention might be a good opportunity to display a new type of medical device. Sales representatives and managers often attend conventions to market their products.

## **3. Sales Contests**

Sales contests which are often held by manufacturers or vendors, provide incentives for salespeople to increase their sales. Often, the contests focus on selling higher-profit or slow-moving products. The sales representative with the most sales of the product wins a prize such as a free vacation, company recognition, or cash.

## **4. Trade Allowances**

Trade allowances give channel partners different incentives to push a product. One type of trade allowance is an advertising allowance (money) to advertise a seller's products in local newspapers. An advertising allowance benefits both the manufacturer and the retailer. Typically, the retailer can get a lower rate than manufacturers on advertising in local outlets, saving the manufacturer money. The retailer benefits by getting an allowance from the manufacturer.

## **5. Training and Demonstration**

Another sales promotion that manufacturers, such as those in the tool or high tech industries, offer businesses is training to help their salespeople understand how the manufacturers' products work and how consumers can be enticed to buy them. Many manufacturers also provide in-store product demonstrations to show a channel partner's customers how products work and answer any questions they might have. Demonstrations of new video game systems and computers are extremely popular and successful in generating sales.

## **6. Free Merchandise**

Free merchandise, such as a tool, television, or other product produced by the manufacturer, can also be used to get retailers to sell products to consumers. In other words, a manufacturer of televisions might offer the manager of a retail electronics store a television to push its products. If a certain number of televisions are sold, the manager gets the television. Have you ever been to an electronics store or a furniture store and felt like the salesperson was pushing one particular television or one particular mattress? Perhaps the salesperson was getting push money, or a cash incentive from the manufacturer to push a particular item. The push to sell the item might be because there is a large amount of inventory of it, it is being replaced by a new model, or the product is not selling well.

## **8.6 PUBLICITY**

Publicity is a very good tool of industrial marketing communication. It is highly effective tool and has very high credibility in the eyes of industrial buyers. It is a form of marketing public relation. When any significant news about a product/service is provided to the industrial customers through a published medium like radio, television, newspaper, journals, etc such kind of act is known as publicity. Such medium helps the company to generate sales leads and improves relationship with customers.

In industrial marketing, publicity can be done through editorial reviews or signed articles. In editorial publicity, the industrial marketer provides information about new products, new applicants, patent, innovation, existing product performance and so on. This technique is not only cost effective but can also bring good review about the company's product. Such review will lead to enhance the image of the company and will also attract considerable amount of attention of the industrial customers. Sometimes the term signed articles are used, with the name of author, when the product is publicized in trade journals.

Though publicity is free but certain amount of costs is attached to it. The costs include: obtaining space in the journal or magazine for writing an article, preparing the matter for news release and arranging for it to be placed in the right magazine by contacting the respective editors. As compared to other promotional tools, publicity is less costly. To make marketing communication effective, it is important to integrate publicity properly with other promotional tools.

## **8.7 DIRECT MARKETING**

Direct marketing is a recent marketing communication activity that is used not only by business to consumer marketers but also by the industrial marketers. The reason of using direct marketing extensively by industrial marketers is that such type of promotional activity helps the company to reach a specific set of customers. Since the cost of reaching industrial customers through company sales force is high, the industrial marketers first use direct marketing tools to identify whether the potential customers are interested in the company's product or not. If yes, then the sales person visits the customers and provides detailed information about the company's products.

Bauer and Miglautsch defined direct marketing as "A cybernetic marketing process which uses direct response advertising in prospecting, conversion and maintenance."

The industrial marketers aim to create relationships in which loyalty is high. In this context, direct marketing can help by ensuring that the customer is regularly contacted at all stages of the relationship in order to maintain a two-way flow of communication.

Hence, direct marketing involves the delivery of personalized and often interactive promotional materials to industrial customers. By targeting customers individually, organizations hope to get consumers to take action.

The direct marketing includes the following tools:

Direct mail

Telemarketing

Online marketing channels

### **1. Direct Mail**

The industrial marketers sent mails through various channels. They mail promotional letters, catalogues, audiotapes, computer diskettes (CDs), etc. Generally, mailing lists are obtained by companies from websites, telephone companies, trade publications, mailing list brokers, industrial directories, company's database etc. All the existing and potential customers are contacted via direct mail channels through which all information regarding product/service, its price, offers or schemes available, etc are provided. This helps the



industrial marketers to collect sales leads for the sales force who will then persuade the customers to buy the product and hence, close the sales. The main advantage of direct mail is that it involves low cost. It also helps the company to select the target customers and provide considerable information about the company, its products and attractive offers. However, if the company fails to identify the target customers properly, then such efforts will be wasted.

## **2. Telemarketing**

In this process, prospective customers are contacted through telephone and provided with all the required information. Sometimes the industrial buyers who are interested to buy product/service of a company themselves call the industrial marketers for gaining the necessary information. The telephone number of the company can be obtained from the print media or even through direct mail. In telemarketing, the services of highly trained personnel are used due to which this tool is quite expensive.

## **3. Online Marketing Channels**

These are the recent tools that have come up after the advent of internet and information technology. They are used by many industrial marketers for direct marketing of their products where they use this tool to find, reach, communicate and sell to organizational buyers. There are certain advantages of online marketing like being very cost-effective as even small organizations can use it, and accessing and retrieving the information is fast. But, unless an user has a computer system with modem attached and is computer literate, it does not make sense using this channel.

Technological changes affect marketing channels too. With the development of internet and information technology, online marketing channels have become popular. Online marketing channels include commercial online channels and the Internet. The commercial online channels provide services such as database search, bulletin boards, product support, online shopping, etc.

Many companies like selling products on the Internet as much as consumers like buying them. For one, an Internet sales channel gives companies more control over how their products are sold and at what prices than if they leave the job to another channel partner. Plus, a company selling on the Internet has a digital footprint, or record, of what

shoppers look at, or click on, at its site. As a result, it can recommend products they appear to be interested in and target them with special offers and even prices.

Direct marketing is not a mass medium as it communicates with consumers as individuals, rather than as a group of segments. Hence, direct marketing allows organizations to target a specific set of customers, measure the return on investment (ROI), and test different strategies before implementing to all targeted consumers.

## **8.8 SUMMARY**

The marketing communication mix in industrial markets will be different to that of consumer markets. The promotional mix used by the industrial marketer consists of advertising, sales promotion, publicity, public relations, personal selling and direct marketing. These tools help to create awareness about company and its products/services, develop image, etc which ultimately help the company and other intermediaries to increase their sales.

Among all the promotional mix elements, personal selling is the most important because of technicality nature of the industrial products thereby, requiring direct interactions between sales force and industrial customers. However, all promotional mix techniques are required to be well integrated with personal selling to develop an effective communication strategy.

The role of industrial advertising is to appeal industrial buyers, each having different personalities and attitudes, and most especially each with a different role within the organization.

Generally, because industrial products are technical in nature, such buyers rarely buy goods and services through advertising alone. Here, advertising acts as a supporting promotional tool rather than a primary means of communication. Hence, advertising plays an important role in industrial marketing strategy by supporting and supplementing personal selling efforts.

In industrial marketing, sales promotions are typically called trade promotions. It includes trade shows, conventions, event marketing, trade allowances, training, and special incentives given to retailers to market particular products and services, such as extra money,

in-store displays, and prizes.

Publicity is a very good tool of industrial marketing communication. It is highly effective tool and has very high credibility in the eyes of industrial buyers. The industrial marketers use direct marketing extensively as it helps the company to reach a specific set of customers. Since the cost of reaching industrial customers through company sales force is high, the industrial marketers first use direct marketing tools to identify whether the potential customers are interested in the company's product or not. The direct marketing includes direct mail, telemarketing and online marketing channels.

## 8.9 GLOSSARY

- **Advertising:** Any paid form of non-personal promotion by an identified sponsor that is delivered through traditional media channels.
- **Personal Selling:** A face-to-face presentation to a prospective buyer.
- **Sales Promotion:** Marketing activities (other than personal selling, traditional advertising, public relations, publicity and direct marketing) that stimulate consumer buying, including catalogs, samples, displays, trade shows and exhibitions, seminars, and other types of selling efforts.

## 8.10 SELF ASSESSMENT QUESTIONS

1. Write short note on marketing communication mix.

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2. State True or False.
  - i. In industrial marketing, advertising acts as a primary means of communication.
  - ii. A single advertising reaches a vast number of people and hence, is cheaper than a single salesperson meeting.
  - iii. In industrial marketing, sales promotions are also called trade promotions.
  - iv. Telemarketing is one of the tools of trade promotion.

Answers: True-ii & iii; False- i & iv

### **8.11 LESSON END EXERCISE**

1. What do you mean by industrial marketing communication? Explain different types of industrial marketing communication mix.
2. Explain the role of advertising and sales promotion in industrial marketing.

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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 9**

**UNIT - II**

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**CONCEPT, NATURE, SIGNIFICANCE AND  
SCOPE OF RURAL MARKETING**

**STRUCTURE**

- 9.1 Introduction
- 9.2 Objectives
- 9.3 Concept and Definitions of Rural Marketing
- 9.4 Nature of Rural Marketing
- 9.5 Significance of Rural Marketing
- 9.6 Scope of Rural Marketing
- 9.7 Summary
- 9.8 Glossary
- 9.9 Self Assessment Questions
- 9.10 Lesson End Activity
- 9.11 Books Recommended

**9.1 INTRODUCTION**

In the present competitive scenario, identifying new and untapped market for growth and expansion has become a challenging task of any business. Markets for the consumer products can be classified into urban and rural markets. Due to intensive competition in

urban markets, companies are moving from urban areas to rural areas. Rural markets are having a lot of potential for business. Now-a-day many companies have taken lead in establishing their manufacturing and marketing facilities in rural markets.

Over the last few decades, rural market has become prominent due to growth in the purchasing power of rural people. In developing countries, majority of the population live in rural areas. Therefore, there is a vast scope for marketing the products and services in the rural market. Today's companies have realized the potential of rural markets to a great extent. Hence they shift their attention from urban market to rural market and attempt to produce the products as per the requirements of rural population.

## **9.2 OBJECTIVES**

The objective of this chapter is to understand:

- concept and nature of rural marketing
- scope and significance of rural marketing

## **9.3 CONCEPT AND DEFINITIONS OF RURAL MARKETING**

Rural marketing is a two-way marketing process which involves the outflow of goods (eg. agricultural products like food grains, oilseeds, cotton, sugarcane, tobacco, etc) from rural to urban areas and inflow of goods and services ( eg. fertilizers, pesticides, seeds, tractors, radio, bicycle, electrical and electronic goods, etc.) from urban to rural areas. Rural marketing also includes the flow of goods and services within the rural areas itself. Rural marketing defined as a activity which applying marketing theory and marketing efforts in rural areas in order to create and satisfy needs and wants of rural consumers.

According to National Commission on Agriculture: "Rural 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".

According to Thomsen: "the study of rural marketing comprises of all the operations, and the agencies conducting them, involved in the movement of farm produced food, raw

materials and their derivatives, such as textiles, from the farms to the final consumers, and the effects of such operations on producers, middlemen and consumers".

According to G.N. Murthy : "the study of rural marketing is the study of all the activity, agency and policy involved in the procurement of farm inputs by the farmers and the movement of rural products from farmers to consumers".

According to T.P Gopalaswamy- "Rural marketing is a two-way process which encompasses the discharge of business activities that direct the flow of goods from urban to rural area (manufactured goods) and vice versa (agriculture products) as also with in the rural areas".

In nutshell, rural marketing is a function which manages all those activities in asserting, stimulating and converting the purchasing power of rural population into an effective demand for specific products and services.

#### **9.4 NATURE OF RURAL MARKETING**

The main reason why companies are focusing their attention on rural market and developing effective strategies for establishing marketing facilities in rural areas can be identified as follows:

- 1. Large, diverse and scattered market:** According to 2001 census, 72% of India's population lives in rural areas. In developing countries, rural marketing is large and scattered over a wide range of geographical area.
- 2. High purchasing power:** Purchasing power of the rural population is also growing significantly. Marketers have realized the potential of rural markets, and thus they are expanding their business operations in rural areas.
- 3. Market growth:** In rural market, the demand for branded products such as toothpaste, tea, soaps, shampoos etc. and consumer durables goods such as refrigerators, TV and washing machines has also grown steadily over the years.
- 4. Development of infrastructure:** Development of infrastructure such as construction of roads and transportation, communication network, rural electrification and public service projects in rural areas has also increased the scope of rural marketing.

5. **Changing lifestyle:** Lifestyle of rural people changed considerably.
6. **Traditional outlook:** The rural people belief in old customs and traditions. They do not prefer changes in culture and traditions. Gradually, the rural population is changing its demand pattern, and there is demand for branded products in villages.
7. **Low standard of living:** The standard of living of consumers in rural areas is low because of low savings, low literacy, low per capita income and social backwardness.
8. **Less expensive:** To promote consumer durables in rural market is less expensive
9. **Separate marketing mix:** Separate sets of products, pricing and promotion strategy are designed for rural consumers as per the demand of rural market. The marketing mix elements are to be adjusted according to the needs of the rural consumers.
10. **Agricultural oriented:** Rural market is largely agricultural oriented, with poor standard of living, low-per capital income and socio-cultural backwardness.

## 9.5 SIGNIFICANCE OF RURAL MARKETING

Over the last few decades, rural market has become prominent due to growth in the purchasing power of rural people. In fact, rural market is growing faster than urban market, rural marketing results into social and economical development. Rural marketing is not only beneficial to business executives, rural population and urban population but to the entire nation. Let's see how growth and development of rural marketing contribute to overall prosperity and welfare of the nation.

1. **Reduced population pressure on urban:** With the growth of marketing activities in rural area, population pressure on urban can be reduced. People can earn their livelihood in rural places. And they can also live comfortably in rural area due to availability of all goods and services in villages.
2. **Increased economic growth:** Rural market is more potential for consumer durables and services as compared to urban. Rural population largely depends on agriculture income. Rural marketing improves agricultural sector and improved



agricultural sector can boost whole economy of the country. In India, agriculture income can contribute nearly 50% to total national income.

3. **Creates employment opportunities:** Rural marketing can generate or create more attractive employment opportunities to rural and urban people. Diversification of agricultural activities, development of village level industries and marketing of modern products and services, generate a lot of employment opportunities in rural areas.
4. **Raising standard of living:** With the growth of rural marketing, rural buyers can easily access needed and branded products and services at fair and reasonable prices. Rural marketing improves rural infrastructure and prosperity. Hence, all these aspects can directly improve living standard of rural people.
5. **Development and diversification of agro-based industries:** Rural marketing leads to the development and diversification of agro-based processing industries. These industries can enhance profit margin for farmers and also employment opportunities for both urban and rural people.
6. **Optimum utilization of rural untapped resources:** There are ample businesses opportunities exist in rural areas. Untapped and unutilized resources can be utilized at optimum level and that can further accelerate overall economic growth.
7. **Easy marketability of rural products:** With the growth of rural marketing, many options are available to farmers and local producers to market their products. Large domestic as well as multinational companies prefer to buy agricultural products directly from villages. Rural producers can sell their products easily at satisfactory prices. And this will further improve income level and purchasing power of rural people.
8. **Development of rural infrastructure:** Growth of rural marketing also leads to development of infrastructure facilities such as road, transportation, insurance, banking, communication, entertainment, and other. Due to availability of basic infrastructural facilities, the marketers can easily serve their rural buyers.
9. **Quality of life and reduced crime:** With the growth of rural marketing, rural prosperity and income level are also increased. Moreover, better quality and

branded products are easily available to rural buyers at reasonable and fair price. These have direct positive impacts on quality of life. Quality of life improves and level crime reduces.

10. **Balanced industrial development:** The regional imbalances between rural and urban development can be reduced gradually due to growth of rural marketing. Rural development improves rural life and reduces pressure on urban life.

## 9.6 SCOPE OF RURAL MARKETING

Rural marketing is an activity which applying marketing theory and marketing efforts in rural areas in order to create and satisfy needs and wants of rural consumers. Its scope includes:

1. **Large, diverse and scattered population:** According to 2011 Census, rural population is 72% of total population and it is scattered into a number of regions. Rural market is unbelievably diverse and heterogeneous in nature.
2. **Rising rural income and prosperity:** Rural prosperity and saving habits of rural people are also increased with the growth of modern farming practices, industrialization of rural area, growth of service sector in rural area etc. This too contributes in higher purchasing power of rural population
3. **Growth in consumption:** Purchasing power of the rural population is also growing significantly. But in rural areas, the average per capita house hold expenditure is still low compared to urban spending.
4. **Change in life style and demands:** With the economic and social development, life style of rural consumer changed considerably. The demand for durables and non-durables products etc. in rural area is increasing by rural people. This will provide a readymade market for the producers to start their operations in rural market.
5. **Growth in market rate:** The demand of fast moving consumer goods and durable goods is high in rural areas compared to urban area. In rural area, the market share is more than 50% for products like cooking oil, hair oil etc.

6. **Life cycle advantage:** Rural market also provides product life cycle advantage to the market executives. The products which have attained the maturity /decline stage in urban market are still in growth stage in rural market.
7. **Buying decision making process:** In rural areas, women's have started to make fast decisions for purchasing products independently. Moreover, studies reveal that in rural area majority of the decisions are taken jointly in a family. With the growth of education and mass media, role of women and children in decision making is also changing.
8. **Growth in literacy Rate:** With the growth of education and service sector, the literacy rate in rural areas is also rising over the years. The farmers and rural population are well-informed about the world and new technology used around them.
9. **Rural marketing is less expensive:** The promotion of consumer durables in rural market is less expensive as compared to urban market.
10. **Diverse socioeconomic background:** Rural people have different socioeconomic background due to dispersion of geographical areas, which ultimately raise the avenue of business opportunities in rural market.

## 9.7 SUMMARY

Due to stiff competition in urban market, companies are now shifting their marketing efforts from urban to rural market. Over the last few decades, rural market is growing faster than urban market. Rural market is quite fascinating and challenging. It has a vast size and demand base. According to 2011 census, rural population is 72% of total population which is scattered over a wide range of geographic area. 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 the demand of the consumers and achieve organizational objectives. Rural marketing is promotion of a company's products in the rural markets by using those strategies which differ from urban market. Rural marketing is a two-way marketing process which involves the outflow of goods from rural to urban areas and inflow of goods and services from urban to rural areas. Rural marketing also includes the flow of goods and services within the rural areas

itself. Today's companies have realized the potential of rural markets to a great extent. Rising literacy rate, high purchasing power of rural people, changing lifestyles and development of infrastructure are the important factors which influence the marketers to establishing their marketing facilities in rural areas. For social and economic development, the government is making continuous efforts towards rural development.

## 9.8 GLOSSARY

- **Market:** The market is a place where buyers and sellers exchange things. In lay man terms "It is a place where buyers and sellers exchange goods/Service for some value in return such as money".
- **Marketing:** Marketing refers to the activities of a business related to buying and selling a product or service. It involves finding out what consumers want and determining whether it is possible to produce it at the right price.
- **Rural Marketing:** "Rural marketing is a two-way process which encompasses the discharge of business activities that direct the flow of goods from urban to rural area (manufactured goods) and vice versa (agriculture products) as also with in the rural areas". The primary market is that part of the capital markets that deals with the issuance of new securities.
- **Urban marketing:** Urban marketing would be any marketing strategy that best reaches an urban population, such as those people who reside in large cities or town. Urban markets are in a vantage position. They have better exposure to marketing stimuli and have high exposure to branded products.
- **Separate marketing mix:** Separate sets of products, pricing and promotion strategy are designed for rural consumers as per the demand of rural market. The marketing mix elements are to be adjusted according to the needs of the rural consumers.
- **Agricultural oriented:** Rural market is largely agricultural oriented, with poor standard of living, low-per capital income and socio-cultural backwardness.

## 9.9 SELF ASSESSMENT QUESTIONS

- Q1. Define rural marketing. How will you add value to rural marketing.

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Q2. Explain nature and scope of rural marketing.

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**9.10 LESSON END ACTIVITY**

Q1. Define rural marketing.

Q2. Discuss the nature and scope of rural marketing.

Q3. Explain the significance of rural marketing.

**9.11 BOOKS RECOMMENDED**

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International
- Balkrishnan, Mandira Dutta (1978), "Rural Marketing: Myth and Reality", Economic and Political weekly, August 1878, M-75 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies. Dey, N.B and Adhikari, KingShuk (1998) "Rural Marketing challenges and opportunities",
- Philip Kotler, Marketing Management, 1992. 8th edition. Pradeep Kashyap & Siddhartha Raut, The Rural Marketing, Biztantra.
- R.V. Bedi, N.V. Bedi, Rural Marketing, Himalaya Publishing.
- Shukla, R.K., (1997), "New Perspective in Marketing, Rural Marketing: Thrust and Challenges", National Publishing House, New Delhi.

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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501****LESSON NO- 10****UNIT - II**

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**RURAL MARKETING OPPORTUNITIES AND CHALLENGES****STRUCTURE**

- 10.1 Introduction
- 10.2 Objectives
- 10.2 Rural Marketing Opportunities
- 10.3 Rural Marketing Challenges
- 10.4 Summary
- 10.5 Glossary
- 10.6 Self Assessment Questions
- 10.7 Lesson End Activity
- 10.8 Books Recommended

**10.1 INTRODUCTION**

Rural marketing referred to selling of rural products in rural and urban areas and agricultural inputs in rural markets. It was treated as synonymous to 'agricultural marketing'. Rural marketing represented the emergent distinct activity of attracting and serving rural markets to fulfill the needs and wants of persons, households and occupations of rural people. Rural marketing is similar to simply marketing. Rural marketing differs only in terms of buyers here; target market consists of customers living in rural areas. Thus, rural marketing is application of marketing fundamentals (concepts, principles, theories, etc.) to

rural marketers. Rural marketing is a process of developing, pricing, promoting and distributing rural-specific goods and services leading to desired exchange with rural customers to satisfy their needs and wants and also to achieve organizational objectives.

## 10.2 OBJECTIVES

The objective of this chapter is to understand:

- rural marketing opportunities
- rural marketing challenges

## 10.3 RURAL MARKETING OPPORTUNITIES

Rural marketing is a process of developing, pricing, promoting and distributing rural-specific goods and services leading to desired exchange with rural customers to satisfy their needs and wants and also to achieve organizational objectives.

Opportunities in rural marketing are as follows:-

1. **Large population:** Still, the majority of the population in India resides in Villages and therefore, the marketers find more potential in the rural areas and direct their efforts to penetrate the rural market.
2. **Improved infrastructure facilities:** Today, many villages are well connected with the roads and transportation facilities that enables the marketer to access the rural market and promote his goods and services. With the growth in telecom services, the rural people can be reached easily via mobile phones.
3. **Saturated urban Market:** The marketers may move to the rural markets, when the urban market has reached the saturation point, the i.e. market is well stuffed with the products, and the consumers are not likely to make a frequent purchase due to the varied options available in the market.
4. **Employment opportunities are increasing:** Rural development has led to financial development in rural areas due to government initiatives over the years. It also has increased the employment opportunities for the rural residents, and thus the income level has increased.

5. **Improve literacy rate:** In this new generation, the rural peoples are more aware of education. They understand the importance of education and try to encourage it. Because of them, older people are also mindful of the importance of education.
6. **Increased income:** The income and the purchasing power of the rural people have increased. With the use of modern agricultural equipment and technology, the farmers can produce more and can get better returns for their agricultural produce. The increased income motivates a farmer to improve his livelihood by purchasing a good quality product and thus, the marketer gets an opportunity to enter into the rural market.
7. **Competition in urban market:** There is a lot of competition in the Urban market, where people are well aware of the goods and services and have created a brand loyalty. Therefore, the marketers move to the rural market to escape the intense completion and generate revenues from the untapped areas.
8. **Support of financial institutions:** Several Co-operative banks and public sector banks offer the loan facility to the rural people at low-interest rates. With the loan, the purchasing power of an individual increases, thus resulting in a better standard of living.

Due to so much potential in the rural areas, the companies are focusing more on the needs and desires of people living in here and are taking every possible step to stimulate people to buy products and services and improve their livelihood.

### 10.3 RURAL MARKETING CHALLENGES

There are many challenges that have to be faced in rural marketing despite rapid paces in the development of the rural sector. Some of the common challenges are discussed as given below.

1. **Transportation:** Transportation is an important element in the process of movement of products from urban production centers to remote villages. The transportation infrastructure is very poor in rural market. Due to this reason, most of the villages are not accessible to the marketing man.
2. **Communication:** Marketing communication in rural markets suffers from a variety



of constraints. The literacy rate among the rural consumers is very low. Print media have limited scope in the rural area. Post, telegraph, telephones are the key components of the communication infrastructure. These facilities are extremely inadequate in the rural market.

3. **Non Availability of appropriate media:** TV is popular and is an ideal medium for communicating with the rural masses. As it is not available in all parts of the rural area. However, the actual viewership is too little. The cinema, however, is a good medium for rural communication. These opportunities are very low in rural areas.
4. **Warehousing:** A storage function is necessary, because production and consumption cycles rarely match. It is almost impossible to distribute effectively in the interior outlets in the absence of adequate storage facilities. Due to lack of adequate and scientific storage facilities in rural areas, stocks are being maintained in towns only.
5. **Village structure:** Village structure itself causes many problems. Most of the villages are small and scattered. The scattered nature of the villages increases distribution costs and their small-size affects economic viability of establishing distribution points.
6. **Rural markets and sales management:** Rural marketing involves a greater amount of personal selling efforts compared to urban marketing. The rural salesman must also be able to guide the rural customers in the choice of the products. It has been observed that rural salesmen do not properly motivate rural consumers.
7. **Lack of banking and credit facilities:** In rural markets, distribution is also hampered due to lack of adequate banking and credit facilities. Retailers are unable to carry optimum stocks in the absence of adequate credit facilities. They are not able to offer credit to the consumers, because of this problem. All these problems lead to low marketing activities in rural areas.
8. **Market segmentation:** Market segmentation is the process of dividing the total market into a number of sub-markets. Market segmentation is as important in rural marketing as it is in urban marketing. Most firms assume that rural markets

are homogeneous. It is unwise on the part of these firms to assume that the rural market can be served with the same product, price and promotion combination.

9. **Branding:** The brand is the surest means of conveying quality to rural consumers. Day-by-day, though national brands are getting popular, local brands are also playing a significant role in rural areas. This may be due to illiteracy, ignorance and low purchasing power of rural consumers. It has been observed that there is greater dissatisfaction among the rural consumers with regard to selling of low quality duplicate brands, particularly soaps, creams, clothes, etc., whose prices are often half of those of national brands, but sold at prices on par or slightly less than the prices of national brands. Local brands are becoming popular in rural markets in spite of their lower quality.
10. **Packaging:** As far as packaging is concerned, as a general rule, smaller packages are more popular in the rural areas. At present, all essential products are not available in villages in smaller packaging. The lower income group consumers are not able to purchase large and medium size packaged goods.
11. **Labeling:** It is also found that the labeling on the product package is not in the local language. This is a major constraint to rural consumers understanding the product characteristics.

#### 10.4 SUMMARY

The rural market is fascinating and challenging at the same time. It offers large scope on account of its sheer size and it is growing steadily. Even a small growth can push up the sales of a product substantially, in view of the huge base despite the fact that there are enormous amount of problems. It is an attractive market from this angle also that the urban market is highly competitive; the rural market is relatively quiet. In fact, for certain products, it is a totally virgin market. Successful rural marketing calls for a review of the rural marketing environment, developing proper understanding of the nature and profile of rural consumers, designing the right products to appeal to them, and adopting suitable media as well as appropriate strategies for communication and distribution. It is generally believed that markets are created, not found. This is especially true in case of the rural market. It is a market for the truly creative marketer.

## 10.5 GLOSSARY

- **Rural Marketing:** Rural marketing is a process of developing, pricing, promoting and distributing rural-specific goods and services leading to desired exchange with rural customers to satisfy their needs and wants and also to achieve organizational objectives.
- **Transportation:** Transportation is an important element in the process of movement of products from urban production centers to remote villages. The transportation infrastructure is very poor in rural market. Due to this reason, most of the villages are not accessible to the marketing man.
- **Warehousing:** A storage function is necessary, because production and consumption cycles rarely match. It is almost impossible to distribute effectively in the interior outlets in the absence of adequate storage facilities.
- **Rural markets and sales management:** Rural marketing involves a greater amount of personal selling efforts compared to urban marketing. The rural salesman must also be able to guide the rural customers in the choice of the products. It has been observed that rural salesmen do not properly motivate rural consumers.
- **Market segmentation:** Market segmentation is the process of dividing the total market into a number of sub-markets. Market segmentation is as important in rural marketing as it is in urban marketing. Most firms assume that rural markets are homogeneous. It is unwise on the part of these firms to assume that the rural market can be served with the same product, price and promotion combination.
- **Branding:** The brand is the surest means of conveying quality to rural consumers. Day-by-day, though national brands are getting popular, local brands are also playing a significant role in rural areas. This may be due to illiteracy, ignorance and low purchasing power of rural consumers.

## 10.6 SELF ASSESSMENT QUESTIONS

Q1. Discuss the various opportunities available in rural marketing.

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Q2. Discuss the various challenges in rural marketing.

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### **10.7 LESSON END ACTIVITY**

Q1. Define rural marketing and discuss its various challenges.

Q1. Write down the various challenges of rural marketing.

Q3. Discuss the various opportunities available in rural market.

### **10.8 BOOKS RECOMMENDED**

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International
- Balkrishnan, Mandira Dutta (1978), "Rural Marketing: Myth and Reality", Economic and Political weekly, August 1878, M-75 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies. Dey, N.B and Adhikari, KingShuk (1998) "Rural Marketing challenges and opportunities",
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- Philip Kotler, Marketing Management, 1992. 8th edition. Pradeep Kashyap & Siddhartha Raut, The Rural Marketing, Biztantra.
- R.V. Bedi, N.V. Bedi, Rural Marketing, Himalaya Publishing.
- Shukla, R.K., (1997), "New Perspective in Marketing, Rural Marketing: Thrust and Challenges", National Publishing House, New Delhi.

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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501****LESSON NO- 11****UNIT - II**

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**RURAL VERSUS URBAN MARKETING****STRUCTURE**

- 11.1 Introduction
- 11.2 Objectives
- 11.3 Rural versus Urban Marketing
- 11.4 Parameters Differentiating Rural & Urban Market
- 11.5 Summary
- 11.6 Glossary
- 11.7 Self Assessment Questions
- 11.8 Lesson End Activity
- 11.9 Books Recommended

**11.1 INTRODUCTION**

The rural market is fascinating and challenging at the same time. It offers large scope on account of its sheer size and it is growing steadily. Even a small growth can push up the sales of a product substantially, in view of the huge base despite the fact that there are enormous amount of problems. It is an attractive market from this angle also that the urban market is highly competitive; the rural market is relatively quiet. In fact, for certain products, it is a totally virgin market. Successful rural marketing calls for a review of the rural marketing environment, developing proper understanding of the nature and profile of

rural consumers, designing the right products to appeal to them, and adopting suitable media as well as appropriate strategies for communication and distribution. It is generally believed that markets are created, not found. This is especially true in case of the rural market. It is a market for the truly creative marketer. Rural marketing referred to selling of rural products in rural and urban areas and agricultural inputs in rural markets. It was treated as synonymous to 'agricultural marketing'. Rural marketing represented the emergent distinct activity of attracting and serving rural markets to fulfill the needs and wants of persons, households and occupations of rural people. Rural marketing is similar to simply marketing. Rural marketing differs only in terms of buyers here; target market consists of customers living in rural areas.

## **11.2 OBJECTIVES**

The objective of this chapter is to understand:

- rural and urban marketing
- the difference between rural and urban marketing

## **11.3 RURAL VERSUS URBAN MARKETING**

Although rural marketing offers immense potential, marketers used to recognize the fact that there are considerable differences in many aspects including the nature, characteristics, buying patterns and behaviors of rural consumer, when compared with their urban counter parts. The difference between rural and urban market shows that, to market to rural consumers, companies need to adopt micro strategies by understanding consumers in each region. Many companies make the mistake of having one campaign for cities and rural areas. But not only are cities and villages different, but they also varying from region to region. The differences across regions are quite huge. The difference between rural and urban marketing are discussed as below:

SNo.	Basis	Rural Marketing	Urban Marketing
1.	Orientation	Development oriented with inclusive growth	Innovative, integrated and relationship oriented
2.	Consumer Buying Motives	Rural consumers look for quality products that offer value for money	Urban consumer looks for fashionable, stylish, quality and branded products
3.	Marketing Objectives	Sustainable development of rural market, increase profitability and building positive image	Sustainable development, increase market share, enhance customer satisfaction and increase profitability
4.	Marketing Research Method	Simple methods like discussion, interviews and observation are useful	Sophisticated market research methods, internet, mobile SMS, E-mail, etc. are being used
5.	Marketing Mix	4 P's of marketing mix is needful to meet the customer requirements	7P's of marketing mix is needful to meet the customer requirements
6.	Market Segmentation	Demographic and Geographic segmentations basis are helpful	Psychographic and Usage basis are helpful
7.	Market Positioning	Difficult to create market position	Creating market position is easy
8.	Product Awareness	Rural consumers have low product awareness	Urban consumers have high product awareness
9.	Advertising Methods	TV, radio and print media to some extent	Print media, Internet, Social media, Outdoor media are useful
10.	Competition	Among units in unorganized sector	Among units in organized sector
11.	Price sensitive	Highly price sensitive	Less price sensitive
12.	Distribution channels	Village Shops	Whole seller, retailers, supermarkets, specialty stores, authorized store rooms

### **Differences Between Rural Marketing And Urban Marketing**

#### **11.4 PARAMETERS DIFFERENTIATING RURAL & URBAN MARKET**

The market is a place where buyers and sellers exchange things. In lay man terms "It is a place where buyers and sellers exchange goods/Service for some value in return such as money". So the market is same everywhere. But the difference is in the consumer behavior. There will be different buyers in each market. This is because of different factors which Influence them. So the same way there is a difference between rural and urban Market. The factors are so many to define. There is a difference in all the marketing variables. That is where most of the companies approach with different marketing mix and strategies to rural market. The strategies differ from the urban to rural market. The companies which have understood the phenomena of rural market have succeeded in the market, e.g. HUL, ITC, Colgate etc.. These companies have done a perfect homework and implemented in terms of effort and operation. These companies approach shows that there is a difference between rural and urban Market.

Parameters differentiating Rural & Urban Market

##### **A. Environmental Differences:**

The rural environment presents a different picture.

- Small contiguous settlement units of villages widely dispersed.
- Low infrastructural level (such as road, electricity).
- Low density of population per square kilometer of space.
- Poor physical connectivity with other villages and towns, low mobility.

**The urban environment is characterized by:**

- Large contiguous settlement units of town or urban agglomerations mostly concentrated.
- High infrastructural level (such as road, electricity).
- High density of population per square kilometer of space.
- Good physical connectivity, high mobility.

##### **B. Social Relations Peculiarity:**



The outlook of rural society is a mixture of both of traditional and modernisms.

- Less number of interpersonal interactions
- More frequent interactions between the same people.
- Individual better known, and identified.
- Social norms influencing individuals are more visible.
- Status is ascribed, determined by birth in a family.
- Caste influence direct and strong.

On the contrary, in the urban society,

- Social dynamic represent a more liberated system.
- Large number of interactions with persons
- Individuals are less known and identified between members in the social and settlement system. Social norms are less visible.
- Status is achieved.
- Caste influence indirect and of less strength, generally subjected to economic influence.

**C. Exposure to Marketing Stimuli:**

A different and apathetic situation find in rural markets

- Low product exposure
- Low exposure to branded products.
- Low ads exposure,
- Low brand awareness.
- Low exposure to marketing researchers
- Limited sources of information and learning.
- Less convenient buying,

- Low rate of retail outlets
- Low market reach
- Availability of limited range of branded products along with imitation products.

Urban markets are in a vantage position.

- They have better exposure to marketing stimuli
- High product exposure: high exposure to branded products
- High ad exposure, high brand awareness
- High exposure to marketing researchers, multiple sources of information and learning
- More convenient buying
- High rate of retail outlets
- High market reach
- Availability of wide range of products

#### **D. Dependence on Nature:**

In the rural life

- Dependent on abundance of natural resources
- Differential access to resources based on caste, political and money power etc.
- High dependence on livelihoods/employment and income on natural factors.

On the other hand, in the urban areas,

- Dependence on natural resources is less
- Access is a function of purchasing power
- Most resources to be purchased

- Low dependence on employment and incomes on natural factors

#### **E. Employment and Incomes Variations:**

The rural people work in a less certain environment

- Agrarian base, mostly small land holdings per house hold (two hectares or less).
- More than to 70 per cent people in small scale agricultural occupations.
- Acute seasonality in income receipts; high chance element in income receipts (because of the dependence on agriculture and natural factors)

On the other hand, in urban areas,

- Occupations and incomes are more stable and permanent
- Occupations mostly include employment in government, business, industry and service organizations; contract or daily labor in organized and unorganized sector
- White collar employees and workers a majority.
- Frequency of income receipts predictable and at regular intervals.

### **11.5 SUMMARY**

Due to stiff competition in urban market, companies are now shifting their marketing efforts from urban to rural market. Over the last few decades, rural market is growing faster than urban market. Rural market is quite fascinating and challenging. It has a vast size and demand base. According to 2011 census, rural population is 72% of total population which is scattered over a wide range of geographic area. 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 the demand of the consumers and achieve organizational objectives. Rural marketing is promotion of a company's products in the rural markets by using those strategies which differ from urban market. Rural marketing is a two-way marketing process which involves the outflow of goods from rural to urban areas and inflow of goods and services from urban to rural areas. Rural marketing also includes the flow of goods and services within the rural areas

itself. Today's companies have realized the potential of rural markets to a great extent. Rising literacy rate, high purchasing power of rural people, changing lifestyles and development of infrastructure are the important factors which influence the marketers to establishing their marketing facilities in rural areas. For social and economic development, the government is making continuous efforts towards rural development.

## **11.6 GLOSSARY**

- **Market:** The market is a place where buyers and sellers exchange things. In lay man terms "It is a place where buyers and sellers exchange goods/Service for some value in return such as money".
- **Marketing:** Marketing refers to the activities of a business related to buying and selling a product or service. It involves finding out what consumers want and determining whether it is possible to produce it at the right price.
- **Rural marketing:** Rural marketing is a marketing system that involves the development, planning, pricing, and distribution of goods and services so that people in rural areas can access basic products at fair prices. Different and apathetic situations find in rural markets they have low exposure to branded products and have limited sources of learning and information.
- **Urban marketing:** Urban marketing would be any marketing strategy that best reaches an urban population, such as those people who reside in large cities or town. Urban markets are in a vantage position. They have better exposure to marketing stimuli and have high exposure to branded products.

## **11.7 SELF ASSESSMENT QUESTIONS**

Q1. What is rural marketing?

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Q2. Define urban marketing

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Q3. Discuss the parameters that differentiate rural and urban marketing.

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### **11.8 LESSON END ACTIVITY**

Q1. How does rural marketing differ from urban marketing?

Q2. Write a short note on rural marketing and urban marketing.

### **11.9 BOOKS RECOMMENDED**

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International
- Balkrishnan, Mandira Dutta (1978), "Rural Marketing: Myth and Reality", Economic and Political weekly, August 1878, M-75 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies. Dey, N.B and Adhikari, KingShuk (1998) "Rural Marketing challenges and opportunities",
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- Philip Kotler, Marketing Management, 1992. 8th edition. Pradeep Kashyap & Siddhartha Raut, The Rural Marketing, Biztantra.
- R.V. Bedi, N.V. Bedi, Rural Marketing, Himalaya Publishing.
- Shukla, R.K., (1997), "New Perspective in Marketing, Rural Marketing: Thrust and Challenges", National Publishing House, New Delhi.

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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 12**

**UNIT - II**

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**RURAL MARKETING ENVIRONMENT**

**STRUCTURE**

- 12.1 Introduction
- 12.2 Objectives
- 12.3 Meaning of Rural Marketing Environment
- 12.4 Characteristics of Rural Marketing Environment
- 12.5 Importance of Studying Rural Marketing Environment
- 12.6 Factors Affecting Rural Marketing Environment
- 12.7 Summary
- 12.8 Glossary
- 12.9 Self Assessment Questions
- 12.10 Lesson End Activity
- 12.11 Books Recommended

**12.1 INTRODUCTION**

Rural marketing environment encompasses the marketing team within an organization and includes all of outside factors of marketing that affect the marketing team's ability to develop and maintain successful customer relationship with that targeted customer group.

Rural marketing environment means the opportunities and threats available in front of the marketers while promoting their sales very particularly in the rural areas. If the marketers are concentrating both in rural as well as urban markets, they can mutually tackle rural and urban environmental threats in a positive manner. This is just because to improve rural employment opportunities, their income and overall rural prosperity. If a manufacturer constructs or shifts their production place to rural area, he/she can avail the tax benefit. In this way, one of the major environmental threats (i.e., liability to pay huge corporate tax) can be overcome and will reflect in the reduced production cost. At the same time, rural environmental threat such as - low literacy level, reach of media, etc., can be tackled by targeting urban consumers. In real situation, it is very difficult to conduct Strength, Weaknesses, Opportunities and Threats (SWOT) analysis in this environment because of the frequent occurrences of changes. Marketers, who are ready to take effective steps to change their marketing plans and strategies, will prosper in this changing environment.

## **12.2 OBJECTIVES**

The objective of this chapter is to understand:

- rural marketing environment
- factors affecting rural marketing environment

## **12.3 MEANING OF RURAL MARKETING ENVIRONMENT**

Rural marketing environment means all those factors like demographic, physical, economic, social etc. which affect the rural marketing. When marketing activities are done in the rural areas, it is necessary to know the conditions of rural markets in terms of environment which is ever changing. Rural marketing environment encompasses the marketing team within an organization and includes all of outside factors of marketing that affect the marketing team's ability to develop and maintain successful customer relationship with that targeted customer group. Rural marketing requires an understanding of the rural environment in which companies have to operate to deliver product and services. Environment means external conditions or surroundings, those in which people live or work and it includes all elements, factors, conditions that have some impact on growth and development of certain organism. An environment is that which surrounds an organization. It is also important for marketer to realize the developments and trends in the environment.

It is the sum totals of internal and external factors where former are controllable and later are uncontrollable. So, environment also affects rural marketing. The rural marketing environment is complex and is changing continuously. Rural marketing is affected by the dynamism and uncertainty of the environment within which it functions. Therefore, it is essential to understand the rural marketing environment elements in detail to meet out the challenges and explore all the opportunities provided by the rural markets.

Definitions of Environment are given below:

**According to E.J. Ross:** "Environment is an external force which influences us."

**According to Philip Kotler:** "A company's marketing environment consist of the internal factors and forces, which affect the company's ability to develop and maintain successful transactions and relationships with the company's target customers."

**According to P. Gisbert:** "Environment is anything immediately surrounding an object and exerting a direct influence on it."

#### **12.4 CHARACTERISTICS OF RURAL MARKETING ENVIRONMENT**

Rural marketing environment encompasses the marketing team within an organization and includes all of outside factors of marketing that affect the marketing team's ability to develop and maintain successful customer relationship with that targeted customer group. The following are the main characteristics of rural marketing environment:

1. **Affected by external factors:** The main feature of rural marketing environment is that it is greatly affected by external factors like demographic, economical, political, socio culture etc. It is necessary to study these external factors from the point of view of rural markets because these factors are different in rural markets as compared to urban markets.
2. **Flexibility:** Rural marketing environment is not static or rigid. It is highly dynamic and flexible in nature. Rural markets have shown a greater change now-a-days in terms of various factors like income, birth rate, housing pattern etc.
3. **Complexity:** Another feature of rural marketing environment is complexity. There are many factors which affects rural markets. So, it is not easy to study all factors and hence, it is complex in nature.



4. **Relativity:** The impact of rural marketing environment may differ from company to company any country to country. Some environmental factors may affect some company a lot while these factors may have less effect on other company.
5. **Uncertainty:** It is very difficult to predict the changes of marketing environment. As environment is changing very fast.

## 12.5 IMPORTANCE OF STUDYING RURAL MARKETING ENVIRONMENT

In present scenario, importance of marketing environment is becoming more complex and challenging. For the successful management and implementation of marketing activities in rural areas, it is necessary to study and analyse its environment. The importance of studying rural marketing environment is as follows:

1. **Study the complexities of rural environment:** Rural marketing environment is studied for measuring complexities because in environment, changes occurs regularly like change in interest of consumers, income profile of rural consumers, occupation etc. And these changes can be ascertained easily through the study of marketing environment.
2. **Study the developments of rural environment:** Study of rural marketing environmental is also important for marketers in order to realize the developments and trends in rural markets rather than to know the static picture of rural market environment.
3. **Make company policy:** Study of rural marketing environmental is also important to prepare the company policy. It is responsibility of marketing manager to change the company's policy policies and strategies according to changes occurring in the environment Company's policy will be different in rural markets as compared to urban markets. Success of any business depends on the fact that how fast it can make changes in the policies and strategies on the basis of change in environment.
4. **Make marketing decisions:** A marketing manager has to take various marketing decisions. Appropriate decisions can be taken only if marketing manager has integrated knowledge of marketing environment. Understanding of rural marketing

environment help in taking various marketing decisions like product decision, price decision, and demand estimate decision etc.

5. **Identify new market opportunities:** Opportunities are the favourable situations of the business. . Opportunities can be in many forms and marketers must have an ability of spotting them. If a marketing manager has adequate strength, then he can take benefit of these opportunities. Through environment analysis, timely knowledge of available opportunities for business is received.
6. **Provide information regarding threats:** Threats refer to adverse situations which increase the risk of business. This risk can be due to technical changes, increase in competition, and change in fashion, economic changes and lack of material. Thus knowledge of marketing environment is necessary for getting the timely information regarding problems, challenges and possible threats of marketing
7. **Understand rural market conditions:** A marketing manager has to sell his product in the market for which he should have knowledge about the customers, competitive units, suppliers, etc. Information about market conditions like change in demand and supply of goods, fashion, taste, competition, boom, recession in market, etc. is beneficial for the business. A marketing manager gets all this information through the study of marketing environment.
8. **Face competition:** Study of marketing environment is necessary for keeping the products of the organization in existence for long period. For this, marketing manager has to regularly study the products of competitive units, their cost, marketing strategies, promotion plans, etc.
9. **Understand rural consumer behaviour:** Rural consumers are different from urban consumers in terms of lifestyle, culture, behaviour etc. In depth analysis of rural marketing environment helps the marketer to understand rural consumer's behaviour better.
10. **Protect from the effect of external factors:** External factors like, economic, demographic, socio-cultural etc., are uncontrollable and their effect is unbearable. These factors provide threat as well as opportunities. So, in order to protect

themselves and to exploit opportunities, it is important for the marketers to study these external environment factors.

## **12.6 FACTORS AFFECTING RURAL MARKETING ENVIRONMENT**

Rural marketing environment is the combination of external and internal factors and forces which affect the company's ability to establish a relationship and serve its customers. It works with the overall environment. Rural marketing environment includes the internal factors (men, materials, machines, capital etc.) and the external factors (political, legal, social, technological, economic) that surround the business and influence its marketing operations. Some of these factors are controllable while some are uncontrollable and require business operations to change accordingly. Firms must be well aware of its marketing environment in which it is operating to overcome the negative impact the environment factors are imposing on firm's marketing activities. Rural marketing structure includes the various types of environments which are very important and to be understood by the marketers who want to sell their products in the rural areas.

These environmental factors are majorly divided into two parts like internal and external:

I. Internal Environment: It refers to those elements which influence the internal activities of an organization. The internal environment includes all the factors that are within the organization and affects the overall business operations. These factors include: men, money, material, and machine which are a part of the organization and affects the marketing decision and its relationship with the customers. These factors can be controlled by the firm. These components can be grouped under the Five Ms of the business, which are:

- **Men:** The people of the organization including both skilled and unskilled workers.
- **Minutes:** Time taken for the processes of the business to complete.
- **Machinery:** Equipment required by the business to facilitate or complete the processes.
- **Materials:** The factors of production or supplies required by the business to complete the processes or production.

- **Money:** Money is the financial resource used to purchase machinery, materials, , and pay the employees.

**II. External Environment:** It refers to those elements which influence the outside activities of an organization like - Demographic, Physical, Socio-Cultural, Technological, Political and Legal influences. So, an organization has its own internal strength and weaknesses as well as common external opportunities and threats. They have to play effectively to convert their hurdles into suitable aid which can be controlled by them. In the following sessions, we will discuss about the major external factors which influence the organization's activity.

- A. Demographic Environment:** Demographic environment is the scientific study of human population in terms of elements, such as age, education, occupation, income, and location. These elements are also called as demographic variables. Before marketing a product, a marketer collects the information to find the suitable market for the product. Some important demographic factors that affect rural marketing environment are as follows:
- a) Age:** Growing population is not a sign for growing market unless they have considerable purchasing power. Generally, people between the age group of 15-35 are the largest consumption group for many goods. If the corporate gear up their marketing policies to attract the people below the age group of 35, they can easily tap nearly 70% of rural potential.
  - b) Education and Literacy Level:** The rural literacy rate is risen nearly 25% over the last two decades. The improved literacy rate naturally leads to the growth of demand for education oriented products like pen, pencil, notebooks and electronic goods such as digital diaries, calculators, etc. It also increases the rural employment opportunities, disposable income and finally rural purchasing power for several products. So, the growth in rural literacy level, results in noticeable change for the improvement of rural people's socio-economic status. The rural youth education and literacy level shows a good progress and prosperous rural India. This growth in youth literacy level increases the demand for modern, fashionable, current trend products among the younger generation. Also it increases the brand awareness of rural consumers for various products (national and international level). Marketers

can make serious efforts to capture these adults group (falls in the age group of 20-35).

- c) **Density of Population:** Although the rural population has come down over the years, there has been considerable increase in real terms of total number of rural population. If we compare the rural proportion to total population in the past three decades, it is slightly decreasing. But still the total number of rural population is increasing in a considerable manner.
- d) **Rural Housing:** One can easily assess the economic status and growth of any sector with the help of housing pattern they have. Over the decades, there has been spectacular change in the trend of housing pattern. People are showing interest to shift from less permanent (semi-pucca) type of houses to more permanent (pucca) type of houses. Various state governments are putting more efforts to increase semi-pucca and pucca houses and to reduce kuccha houses.
- e) **Rural Household Pattern:** Rural household pattern consists of family structure and housing pattern. In rural areas also, tradition joint family system is slowly goes down and the nuclear family culture is spreading alike in the urban areas.
- f) **Family Structure:** Different types of family structures are existing in the demographic India. These can broadly be classified based on the number of households in a family under two groups namely; Joint family and Nuclear family.
  - **Joint Family:** Group of people (grand-parents, parents, their brothers and sisters, their children) living together and using common property and dwelling house. Generally, the elder person is the head of the family and he is responsible to make decisions in all issues.
  - **Nuclear with Elders:** It is a shrieked form of big joint family. It consists of grand-parents, parents and their children alone (not living with parent's brothers and sisters' family). Here, also final decision is taken by the senior person. This lack of individual decision making capacity is one of the major marketing hurdles for the marketers while promoting their products in villages.
  - **Nuclear without Elders:** This is the exact nuclear family which is commonly seen in urban sector Father, mother and their children (nowadays, not even children

only with single child) is the total family members and they can take individual decisions in all matters.

Recently, one more different type of nuclear family system is emerging. In this system, all are living in a big common house but, having separate kitchens, savings, assets/ properties, etc.

**g) Occupational Patterns:** Agricultural and allied activities are the main occupation for the rural people. An allied activity includes Horticulture, Forestry, Fishery, Animal Husbandry (dairy, poultry, and goat), Floriculture etc., the everyday needs of the villagers are also met by many other types of occupations. In rural sector, agri-based occupation can be different types. The occupations which can be generally seen in the villages are:

- Farm laborer
- Milkman
- Washer man
- Pot maker
- Blacksmith
- Barber
- Carpenter
- Cobbler
- Priest
- Weaver.

Other rural occupation which are non-agricultural and support agricultural requirements and the rural people in their daily life are:

- Village doctor
- Policemen
- Traditional village nurse

- Anganwadi workers
- Teacher
- Peon
- Grocer
- Mechanic
- Agricultural experts
- Electricians etc.

It has been observed that agri-based occupational trend is slowly changing and a gradual shift towards non-agri based work has been taken place.

**B. Economic Environment:** The economic environment constitutes factors which influence customers' purchasing power and spending patterns. There is a tremendous growth in rural economy. The higher income class in the rural sector has almost grown six times. There is an increase in the rural per capita income also. Let's understand the progress.

- a) **Income Generation:** Majority of rural people are engaged in agricultural and allied activities. Next followed by the wage earners, salary earners, and small shop keepers and so on. If we compare with urban sector, rural sector hits very little percentage of professionals and businessman.
- b) **Expenditure Pattern:** If we compare the availability of disposable income in the hands of rural and urban population, generally less is with the rural people. The rural population is spending more than half of their income on food items.
- c) **Saving Pattern:** As the time is changing the earning, consumption and saving pattern of the Indian consumers are also changing. Rural people are also becoming aware of saving their income during the crisis situation. Based on some research it has been reported that majority of the rural households save a portion of their disposable income for the future.

**C. Physical Environment:** The physical environment includes the natural environment

in which the business operates. This includes the climatic conditions, environmental change, accessibility to water and raw materials, natural disasters, pollution etc. Rural land is a combination of cultivation land and farm houses. Farmers normally live in their own farm houses and those houses falls in the category of kuchha in general. If we observe Indian villages, construction of houses are majorly based on Religious, Caste and Relationship. Some examples are - Agraharam - colony of Brahmins, Vysiyar Street - Vaishyas residing place and separate colony for Scheduled Caste and Scheduled Tribes. Some major factors which are required to be consider are:

- a) **Scattered and Clustered Settlement:** Rural areas are certainly connected with towns and villages. Most of the towns are nothing but the developed villages and they have Municipalities instead of Panchayats. But still, other attributes such as dependency on weekly haats, mandis and melas for buying and selling of goods in towns are as same as in the villages. People in towns are involved in various jobs, such as - teachers, officers, professionals, businessmen, farmers and so on. All though they have different occupations, we can simply group them under two categories like, stable salary earners and unstable or irregular income earners.
- b) **Land Distribution:** It has been clear that nearly majority of income from rural area is generated through agriculture and allied activities. Land is the basic resource for all agriculture based activities. Land which is an unrecognized asset has changed the living style and attitude of farmers. Rural people enjoy the closeness with nature, soil, animals and other natural things. Land can be classified in many ways such as:

Land Based on Topography:

- Plains
- Plateaus
- Hills
- Mountains.

Land Based on Use:



- Cultivable land
- Uncultivable land
- Land for public infrastructure
- Forest land.

Land management is becoming very important due to increase in demand for land because of growth in Indian population. So, land distribution plays a vital role in the distribution of rural income.

**D. Social Cultural Environment:** Socio-cultural environment comprises forces, such as society's basic values, attitudes, lifestyles, perception, and behavior. These forces help in determining that what type of products customers prefer, what influences the purchase attitude or decision, which brand they prefer, and at what time they buy the products. The socio-cultural environment explains the characteristics of the society in which the organization exists. It is very difficult to define a definite boundary for the identification of socio-cultural differences in a country. Because every country has different society and polity and that too varies from region to region. It also varies between sub-regions, different religious, caste and community groups. So, some common factors have been grouped together to form socio-cultural regions. The major factors which are used to construct different socio-cultural regions in an environment are:

- a) **Sociological factors:** It includes the habits, tastes, lifestyle and preferences of different consumers. The social constitution and changes in the constitutions influences these in a big way.
- b) **Anthropological factors** - Existence of regional cultures and sub-cultures plays a predominant role here.
- c) **Psychological factors** - It includes the consumer's attitude, interest, personality and mind set. These psychological factors influence more in the overall buying behaviour of consumers.

Sales promotional schemes, selling and distribution strategies, advertising are all influenced more by the above mentioned factors. So, the marketers are using these socio-cultural

regions as a yardstick for their market segmentation and targeting purpose.

## 12.7 SUMMARY

Rural marketing environment means all those factors like demographic - Physical, Economic, Social etc. which affect the rural marketing. When marketing activities are done in the rural areas, it is necessary to know the conditions of rural markets in terms of environment which is ever changing. Rural marketing environment encompasses the marketing team within an organization and includes all of outside factors of marketing that affect the marketing team's ability to develop and maintain successful customer relationship with that targeted customer group. Rural marketing requires an understanding of the rural environment in which companies have to operate to deliver product and services. Environment means external conditions or surroundings, those in which people live or work and it includes all elements, factors, conditions that have some impact on growth and development of certain organism. An environment is that which surrounds an organization. It is also important for marketer to realize the developments and trends in the environment. Rural marketing environment includes the internal factors (men, materials, machines, capital etc.) and the external factors (political, legal, social, technological, economic) that surround the business and influence its marketing operations. Some of these factors are controllable while some are uncontrollable and require business operations to change accordingly. Firms must be well aware of its marketing environment in which it is operating to overcome the negative impact the environment factors are imposing on firm's marketing activities. Rural marketing structure includes the various types of environments which are very important and to be understood by the marketers who want to sell their products in the rural areas.

## 12.8 GLOSSARY

- **Rural marketing environment:** Rural marketing environment means all those factors like demographic, physical, economic, social etc. which affect the rural marketing. Rural marketing requires an understanding of the rural environment in which companies have to operate to deliver product and services.
- **Internal Environment:** It refers to those elements which influence the internal activities of an organization. The internal environment includes all the factors that are within the organization and affects the overall business operations. These factors include: Men Money, Material and Machine

- **External Environment:** It refers to those elements which influence the outside activities of an organization like - Demographic, Physical, Socio-Cultural, Technological, Political and Legal influences.
- **Demographic Environment:** Demographic environment is the scientific study of human population in terms of elements, such as age, education, occupation, income, and location. These elements are also called as demographic variables.
- **Economic Environment:** The economic environment constitutes factors which influence customers' purchasing power and spending patterns. The factors economic environment is as follows: Inflation, unemployment, customer income, monetary and fiscal policy.
- **Physical Environment:** The physical environment includes the natural environment in which the business operates. This includes the climatic conditions, environmental change, accessibility to water and raw materials, natural disasters, pollution etc.
- **Social Cultural Environment:** Socio-cultural environment comprises forces, such as society's basic values, attitudes, lifestyles, perception, and behavior. These forces help in determining that what type of products customers prefer, what influences the purchase attitude or decision, which brand they prefer, and at what time they buy the products. The socio-cultural environment explains the characteristics of the society in which the organization exists.

## 12.9 SELF ASSESSMENT QUESTIONS

Q1. Define rural marketing environment.

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Q2. Explain the characteristics of rural marketing environment.

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Q3. Discuss the importance of studying rural marketing environment.

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### **12.10 LESSON END ACTIVITY**

- Q1. Discuss the concept of rural marketing environment.
- Q2. Explain the importance of study rural marketing environment.
- Q3. Explain the factors which affect rural marketing environment?

### **12.11 BOOKS RECOMMENDED**

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International
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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 13**

**UNIT - II**

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**PRODUCT STRATEGY IN RURAL CONTEXT**

**STRUCTURE**

- 13.1 Introduction
- 13.2 Objectives
- 13.3 Product Concepts and Classifications
- 13.4 Concept of Product Strategy
  - 13.4.1 Significance of Product Strategy
  - 13.4.2 Scope of Product Strategy
- 13.5 Competitive Product Strategies for Rural Markets
- 13.6 Summary
- 13.7 Glossary
- 13.8 Self Assessment Questions
- 13.9 Lesson End Activity
- 13.10 Books Recommended

### **13.1 INTRODUCTION**

A product is the item offered for sale. A product can be a service or an item. It can be physical or in virtual or cyber form. Every product is made at a cost and each is sold at a price. The price that can be charged depends on the market, the quality, the marketing and the segment that is targeted. Each product has a useful life after which it needs replacement, and a life cycle after which it has to be re-invented. In the emergent dynamic, competitive environment, multi-product firms are fighting hard to gain commanding market through their product strategies. It is through continuous design and redesign of product mixes a company lays its way to success and fame. In rural market, product strategy is the set of choices a company makes to achieve their rural market business objectives.

### **13.2 OBJECTIVES**

The objective of this chapter is to understand:

- the product concepts and classifications
- the scope of product strategy in rural context

### **13.3 PRODUCT CONCEPT AND CLASSIFICATIONS**

In marketing terms, a product is anything that can be offered to a market to satisfy a want or need. In other words, a product is the item(s) or service(s) that you are offering your customers. A product can be a physical object or a service and may refer to a single item or unit, a group of equivalent products or a group of goods or services. The term 'product' is widely used to refer a market offering of any kind. In its broadest sense this may be anything from the physical to the abstract - an idea or a moral issue. Generally, however, most products are made up of a combination of physical elements and services. This is true in services marketing, where the service offering can include tangible features, such as food in a restaurant, or be a 'pure' service, intangible in nature. A service product refers to an activity or activities that a marketer offers to perform, which results in satisfaction of a need or want of predetermined target customers. It is the offering of a firm in the form of activities that satisfies needs such as hair styling done by a barber.

According to Alderson, W., "Product is a bundle of utilities consisting of various product features and accompanying services".

According to Schwarte, D.J., "A product is something a firm markets that will satisfy a personal want or fill a business or commercial need".

Features of Product:

The main features of product are:

1. A product needs to be relevant: the users must have an immediate use for it. A product needs to be functionally able to do what it is supposed to, and do it with a good quality.
2. A product needs to be communicated: Users and potential users must know why they need to use it, what benefits they can derive from it, and what it does difference it does to their lives. Advertising and 'brand building' best do this.
3. A product needs a name: a name that people remember and relate to. A product with a name becomes a brand. It helps it stand out from the clutter of products and names.
4. A product should be adaptable: with trends, time and change in segments, the product should lend itself to adaptation to make it more relevant and maintain its revenue stream

Classification of Products: The classification of products is done on the basis of the following factors:

- Consumer goods
- Durability and tangibility
- Industrial goods

Rural Product Categories

In rural areas, products may be classified in different ways.

1. FMCG (Fast Moving Consumer Goods): Major FMCG players are HUL, Marico,

Dabur, Colgate, Nirma, Palmolive, CavinKare and Godrej

2. Consumer durables: The major consumer durables are Usha, Philips, Bajaj, Titan, Godrej, Videocon, Onida, Salora, Hero Honda, Hero Cycles, Mahindra & Mahindra and Tata. New entrants are LG, Samsung and Maruti.
3. Agricultural products: Agricultural inputs, such as seeds, pesticides, fertilizers, insecticides and implements (tractors, tillers and threshers). Major players are Rallis India, Monsanto, DCM Shriram, Chambal Fertilisers, IFFCO, Mahindra & Mahindra, Eicher and Escorts.
4. Services: Telecommunications (BSNL), health care, transport, banking (SBI), insurance (LIC) and education are the major service providers.

#### **13.4 CONCEPT OF PRODUCT STRATEGY**

Product is the most tangible and important component of marketing plan and programme.

To the marketers, product strategy is the core stone of the marketing mix. Product strategy is the critical vision of the product and affirmed where the product will cease. When a product strategy is developed, it becomes easy for firm to determine the direction of the product efforts. The product strategy forms the basis for executing a product roadmap and consequently product releases. Product decisions are first taken by the marketers and these decisions are central to all other decisions such as price, promotion and distribution of the marketing mix. Product strategy refers to the long-range competitive strategy which involving decisions related to products, product line and product mix to make proper utilization of resources and achieve marketing objectives. Today, majority of the multi-products companies combating hard to gain competitive advantage through their product strategies. It is only through continuous product modification, product diversification and product expansion a company achieves its way to success and fame.

##### **13.4.1 SIGNIFICANCE OF PRODUCT STRATEGY**

An effective product strategy offers the following benefits.



1. **Offer market based products:** Product strategy will be able to offer products based on market needs. Thus, it achieves market product fitness and avoids the drawbacks of marketing.
2. **Encourages innovativeness:** The key of product strategy is innovation with a view to fine tune the market offer to the current and future needs of customers. Product strategy relies on creativity processes, methods and techniques. Innovation is an in-built feature of product strategy.
3. **Provides competitive edge:** In this competitive era, marketers need to anticipate competitor's strategies before launching their new product. They will have to introduce new product strategy to combat competition, to guard their positions, and to achieve long-term sustainability.
4. **Optimum utilization of resources:** The product additions and deletions, based on rational appraisal of marketing and production strengths and weaknesses allow for better utilization of physical, financial and human resources. It thus helps achieve high productivity levels. Consequently, there will be no idle capacities and no demoralized work force.

#### 13.4.2 SCOPE OF PRODUCT STRATEGY

Product strategy consist three main decisions and these are:

- Product mix
- Product line, and
- Product item

Various strategies adopted at these levels are discussed in detail as under:

Level	Strategy
Product Mix	Product Width :New Product lines Product Length :New product items Product Depth : New product variants Product Consistency: New Product similarities
Product Line	Product line length Product line stretching :Upward, Downward & Both ways Product line filling Product line pruning
Product item	Product Quality Product Features Product Design Product Brand Product Package

**A. Product Mix Decisions:** Product mix involve decisions related to the adding a new or eliminating any existing product from the product mix, adding a new product line, lengthening any existing line, or bringing new variety of brands and products to expand the business and to increase the profitability of the firm. Product mix is also called product assortment refers to the number of product lines that an organisation offers to its customers. The product mix includes four common elements: Length, breadth, depth and consistency. A product mix has following four dimensions:

- 1. Product Width:** Product width refers to the number of product lines that organization is offering. Product Width, also known as breadth, refers to the number of product lines that is offered by the firm. For example, Kellogg's product lines consists ready-to-eat cereal, pastries, breakfast snacks, cookies, and frozen/ organic/natural goods. Similarly width of HUL product mix includes personal wash, laundry, skin care, hair care, oral care, deodorants, tea, and coffee.

2. **Product Length:** Product length refers to the total number of products or items in the product mix. Length refers to the total number of products in a firm's product mix.
  3. **Product Depth:** The depth of an organization's product mix pertains to the total number of variants of each product offered in the line. Depth refers to the number of variations within a product line. Depth is measured by the assortment of sizes, colors, and models offered within each product line. For example, Close-up, brand of HUL is available in three formations and in three sizes. Similarly soft drinks are available in 2-Liter bottles, six or 12-pack of cans. In the same vein dish soaps are available in liquid, powder or gel form.
  4. **Product Consistency:** Consistency of product mix indicates the similarities in different product lines. The consistency of an organisation's product mix refers to how closely related to the various product lines are in use, production, distribution, or in any other manner. In other words, consistency refers to how closely related to each product lines are to each other. It is in reference to their use, production, and distribution channels. For manufacturers, consistency refers to how closely related production processes are for various products. The more consistent production is, the more efficient and cost-effective. For retailers, consistency in a product mix makes it easier to perform suggestive selling and recommend close products.
- B. Product Line Decisions:** According to Philip Kotler and Ronald E. Turner "A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. Each product line consists of product items, which should be evaluated. First, the marketers must know the sales and profits of each item in the line. Second, they must understand how their product line competes with competitors' in the same markets. This provides information needed for making several product-line decisions. The understanding of product line helps the marketer to take line extension, line pruning and line filling strategies of the company. The major product line decisions are made based on the following:

1. **Product Line Length:** One of the major problems facing the product line managers is the optimal length of the product line. The issue of product-line length is influenced by company objective. Product line length represents the number of items in the product line. The marketers decide whether it requires longer length or shorter length and such decision is depend upon the company objective, competitive environment and market trend. If the product line chain is short than marketers can decide to add new products in the line and if it is lengthy then they can reduce the number of products in product line.
2. **Product Line Stretching:** Company lengthens it product line either by stretching upwards or downwards or both ways. Line stretching decision lies on the company to which side it want to stretch. It can stretch downside, upside or both also. Line stretching is said to be done when a company lengthens its product line beyond its current range. And such decisions are depend on three positions. First, when company operates in high end market may come up with mid class or low class targeted products. Second, when company operates in lower end of market may come up with high end market products. Third, when company operates in mid segment and comes out with low end product as well as high end product then it is stretching both ways. There are two type of line stretching:
  - **Downside Stretch.** Downward stretching occurs when a company located at the upper end of the market later stretches its lines downwards. The firm may have first entered the upper end to establish a quality image and intended to roll downwards later.
  - **Upward Stretch:** An upward stretch decision can be risky. The higher-end competitors not only are well entrenched, but also may strike back by entering the lower end of the market. Prospective customers may not believe that the newcomer can produce quality products. Finally, the company's salespeople and distributors may lack the talent and training to serve the higher end of the market.
3. **Line Filling:** Line filling is the practice of adding new products to a product range to make it more complete. A company may decide to lengthen the existing product line decisions(s) by adding more items rather than stretching into lower and higher-

end segments. There are several reasons for product line filling such as understanding and reaching for extra profits, satisfy dealers' demands in response to their complaints that they lose sales because of missing items in the lines, excess capacity pressures, and trying to fill up vacant item slots to keep out competitors. The major issue facing in product line filling is to make optimal product line decision. Product-line decision is influenced by company objectives.

4. **Line Pruning:** Line pruning involves the decision of how to detect and remove weaker product items from the product line. Product line pruning may be done when it is found that dead product is depressing profits, and it is found that the production capacity is limited and cannot handle all the existing products.
- C. **Product Item Decisions:** Product or service is an offer made by marketer that has the ability to satisfy the needs and wants of customer. Products are physical and tangible. Examples are fertilizers, mosquito repellants, analgesics and footwear. Services are intangible and people-based or equipment. Examples are soil testing, retailer advice, training and health care. The product concept intends that consumers will buy only those products that have better quality, price, and performance combination. Product concept is the understanding of the dynamics of the product in order to showcase the best qualities and maximum features of the product. Product is the offers of a company or bundle of all kind of utilities or all things offered to a market that customers purchase and consume for satisfy their specific needs and desires. These products may be material goods, services, persons, organizations, places and ideas. Products required and developed in rural areas may be classified at three levels.
1. **Core Products:** The core product satisfies the basic need of the consumer. The core product is complex because it is so individualized and the marketer must have a strong understanding of the target customer segments in order to accurately identify the core product.
  2. **Tangible Products:** Once the core products have been identified, the tangible aspects of the product become important. Tangible products are those products that can be touched and have physical attributes. This idea can be expanded to also include the. It includes physical characteristics such as features; quality level,

brand name, styling, and packaging of the product that directly touch the buyer in the buying decision. The significance of tangible products will vary across products, situations, and individuals. For example, in young age (twenty), a consumer choose a particular brand of new car (core product=transportation) based on features such as gas mileage, styling, and price (choice=Hyundai Creta); in mature age (forty), the core product remains the same, while the tangible components such as quality level, power, features, and brand prestige become important (choice=Audi A6). Any product consists five tangible components and these are:

- a. **Quality:** It is the first characteristic of a product and service. The quality signifies the ability of product to meet the consumer expectations. It includes:
  - Durability- Product should last for long period
  - Capacity- Product should possess the necessary ability to function.
  - Efficiency- Product should function better to give desired outcomes.
  - Economical- Product operational cost, time and energy are less.
  - Reliability-It is trustworthy and reliable in providing the desired results.
- b. **Features:** Features are extras to a product, which are of value to the buyers. Features are of many types rational, problem-solving, emotional and fancy. Based on market research studies, one can identify several feature of the products based on different perspectives.
  - **Consumer perspective:** Desirability and affordability of consumer. What is the perceived value of the feature? What price is he willing to pay?
  - **Competition perspective:** Is it necessary, in view of competition? What are the features of the products of competitors? What features they propose to add? What features we have to add to become even with competitors?
  - **Company perspective:** Is the feature profitable? If cost-benefit analysis reveals that feature costs are lower than the price, the feature is viable. It can be added.
- c. **Design and Style:** Design means the color, form, shape the arrangement of parts etc. that reflect attractive shape and functional structure of the products. Style

represents the characteristic manner of appearance and function of the product. While designing product a designer has to give consideration to the functionality, aesthetics, and convenience of operation, ease of repair and service and costs. Good design contributes to product usefulness and attractiveness. Design descriptors include words like compact, sleek, elegant, sensational, unusual etc.

- d. **Packaging:** Every product requires a package and label. Packaging is providing a container or wrapper for a product. Packaging is done at three levels.
  - **Primary Package:** It holds the product for example, bottle.
  - **Secondary package:** It holds the primary package for example, Cardboard Box.
  - **Shipping Package:** It helps carry the packed products from one place to another for example, corrugated box.

Now, let us examine some benefits and examples of packaging:

- Attractive to reuse: Good to store bottles are often reusable.
- Easy to evaluate: Purchase decisions are based on evaluation of the following.
  - Product quality
  - Product use information
  - Life period of the product.
- Through labeling and packaging, product evaluation process is made easy. Packages are becoming interactive to permit easy evaluation.
- **Branding:** Branding is the process of giving a meaning to specific organization, company, products or services by creating and shaping a brand in consumers' minds. It is a strategy designed by organizations to help people to quickly identify and experience their brand, and give them a reason to choose their products over the competition's, by clarifying what this particular brand is and is not. Contemporary marketing relies on branding to give products an identity, personality, image, equity, and attractiveness. Brand is a name, term, sign, symbol, design or coloring or a combination of them, which help identify seller's products and

differentiate them from those of competitors. Branding is made up of countless elements few of which are:

- Name: The name which we use to identify the product with.
- Logo: A symbol or other design adopted by the business to identify its brand.
- Colour: A colour mostly used by the business in its marketing messages to describe or complement the brand.
- Vision: The group of goals or objectives behind the brand that help guide its activities and its future.
- Message: the value proposition of the brand which it conveys through the brand personality to set the brand positioning.
- Shape: Either the distinct shape of the offering or the shape of the packaging.
- Aroma: The distinct smell which the user experiences before, during, or after he uses the offering.
- Graphics: The uniform and distinct aesthetics used in the marketing messages.
- Sound: The sound used in the marketing messages to reinforce your brand identity.
- Branding in Rural India: In rural area, branding involves the following features:

Brand association is mostly with colours, numbers, and visuals and not necessarily with the name of the brand. Retailers play a main role in brand promotion. Due to strong bonding and trust between customers and retailers, coupled with low brand awareness, consumers often donot ask for the product by brand, but instead will request the retailer. First mover brands become generic brands: Detergent powder came to be identified with surf, mosquito coil with Kachua Chaap, vegetable oil with Dalda. Brand building in rural India involves the following steps:

- Brand name development: Facilitates easy brand recall and in drawing any colour, visual or numeric, association. E.g., Ajanta for toothpaste, Sansar for sewing machines.
- Creating a brand identity: Involve the need to relate the brand with the



rural lifestyle, or with appropriate status, symbols, or with the rural environment. E.g., Britannia Tiger Biscuits created an identity associated with an active, smart and sharp child.

- Building a brand image: Brand should have a personality of its own. E.g., Mahindra & Mahindra has maintained their sterling image in rural areas.

### 13.5 COMPETITIVE PRODUCT STRATEGIES FOR RURAL MARKET

In recent time the marketers used various competitive products strategies to cater the needs of rural consumers. These are as follows:

1. **Leader:** A company which holds leading position in the market can adopt all or any one of the following strategies:
  - a) Product innovation strategy
  - b) Quality improvement strategy
  - c) Multi-brand strategy
  - d) Brand extension strategy
  - e) Superior service strategy
  - f) Image building strategy
2. **Challenger:** A challenger company can adopt all or any one of the following strategies:
  - a) Cheaper goods strategy
  - b) Prestige goods strategy
  - c) Economy goods strategy, and
  - d) Reacting or Pro-acting strategy
3. **Follower:** A follower company can adopt these strategies:
  - a) Innovative imitation strategy, and
  - b) Other strategies of leader and challenger maintaining low profile

4. **Niche :** A niche company can adopt following strategies:

- a) Innovative imitation strategy, and
- b) High quality strategy
- c) Narrow product line
- d) Superior service, and
- e) Unique and differentiated strategy

From the above list, the following competitive strategies are enlisted for the consideration of marketers and these are as follows:

1. **Identity Strategies:** These are those strategies that describe the nature and identification of the company and these are as follows:

**a) Commodity Strategy:** Commodity describes the nature of products and services that are highly standardised perceived to be homogenous. They are unbranded products Examples are food grains, vegetables, fruits, edible oil, sugar, steel, and edibles. In rural households many products like sugar, oil, wheat and rice are unbranded and locally branded. When these products sold as commodities, the marketer can differentiate them on the basis of following ways:

- Grading
- Delivery
- Services
- Relationships

**b) Branding Strategy:** According to marketing researcher "Branded goods comprise 65 per cent of sales in villages today. The share of non-branded goods is shrinking dramatically". With the growth of branded product demand in the rural market, Castrol branded lubricants successfully in a product category where consumers bought the product as a commodity:

They forcefully targeted nonconventional outlets like automobile and mechanical shops and built awareness and loyalty for their lubricant brands through powerful advertising. Brand names make products familiar and easily remembered.

This has become true when LG Electronics of India named or branded its one of the TV set as Sampoorna for the rural market. The word is a part of Bengali, Hindi Marathi and Tamil language. This strategy worked as it is found that about rupees 114 crores worth TV sets were sold in the rural areas in a year. In this case branding strategy is gaining strength.

2. **Customer Value Strategies:** Based on customers, the marketers adopt following strategies:
  - a) **Mass Product Strategy:** It is found that urban consumers are more brand conscious and rural consumers are more price sensitive. Rural consumers are more concerned about functional benefits of the products and the value for money that they paid. Accordingly, several companies have launched economical products to attract rural consumers and low-end urban markets. For example, Tata Tea launched 'Agni' as an economy brand in rural areas to compete with loose tea powder.
  - b) **Premium Product Strategy:** Rural consumers show similar preferences to those of urban consumers in case of some products. Historically, most of the consumer durable product companies, believed that cheap products do well in the villages. That is necessarily true. Premium brands are gaining wide acceptance in the rural bastions.
3. **Innovation Strategies:** Sometime marketers adopt innovative strategies to cater the needs of rural consumers and these are as follows:
  - a) **Rural-Urban Common Product Strategy:** Sometime companies adopt common product strategy for those products that are common to rural and urban markets. For examples: cosmetics, washing powders, communication services, postal services, etc.
  - b) **Special for Rural:** Some companies choose to develop products especially to

meet rural consumer needs. For example, small sachet packing is specially created for rural and poor people. HUL sells Shampoo and Hair oil in sachet packs in rural areas, Cavin Kare Ltd., has launched a sachet priced at 50 paise for its Chic Shampoo.

4. **Quality Strategies:** Quality is one of the major differentiators. Many companies consider qualitative aspect to win the customers heart. In the organized sector, competition requires quality improvements.

**a) Quality Improvement Strategy:** Rural consumers loved to buy those quality products and they believed that product should be strong, long-lasting enough and should be easily accessible. For example, Rajdoot Motorcycle manufactured by Escorts Ltd. is very popular in rural areas because of its adaptability, low maintenance costs, minimal breakdown and easy accessibility of service and repairs.

**b) Spurious Goods Strategy:** Marketing researchers found that in rural areas many unorganized companies adopt spurious goods strategy to serve the rural consumers. They used similar pack designs and pack sizes. In case of bottled products, they printed company logo with little modification. The primary motive is to capitalize on the trust built by established brands. Spurious products are look-alike products with similarity in packaging and minor alterations in the name like Lifebuoy as Loveboy and Tata as Teta. The marketer of spurious products has less experience and limited resources. So, to tackle the problem of spurious products, the marketers have found that different encounter strategies are required to the companies in order to understand the consumer needs and wants, their perceptions of products and weak points. These strategy components are:

- **Complicated Packaging:** Packaging could be made more difficult to replicate. Liquid soaps in tetra packs with design patterns as complicated as currency notes with a hologram. It is expensive but unique strategy.
- **Low-end Products:** A range of products targeted for the rural consumer could be launched with low price and low quality to counter the spurious products. This can be done by developing franchisee units to manufacture low-end products with a highly localise.
- **Rural Pull Promotion:** Rural sales schemes to reach consumers and enlist support

of retailers should be envisaged.

- **Promoting Quality Consciousness:** Local promotion in rural markets could be an effective route to educate and aware them regarding the spurious products.
  - **Boosting Ego Needs:** In the highly status conscious village society with rigidly defined community structures, the spurious brands can be depicted as the ideal fit for the down and out.
5. **Packaging strategies:** Packaging is the most vital component in the marketing mix. According to Marketers, lower prices/smaller packaging has been the most common strategies adopted by FMCG companies to penetrate rural markets. At the same time, innovative packages are necessary to add value to the premium products. Particularly, innovations, which help lower the price, are desirable. Small packs and combi-packs have become a major attraction in rural India.
- a) **Small Unit Packing Strategy:** Rural consumers receive daily wages and at the same time their income is uneven in nature. Hence, they can't buy products in large quantities. The reasons for high preference to small pack low-unit prices are:
- **Affordability:** The income of rural consumers is uneven and the sources of income as well as the size of income earned per day vary. Hence, they cannot make planned to and in large quantities. Small pack sizes help the rural consumer pick the product at a price that he can afford.
  - **Usage:** In rural households, certain products like detergent and paste are bought in larger quantities because these products are common to family members whereas individual-use products like shampoos, toilet soaps, eatables etc. are usually preferred in small packs.
  - **Storability:** The storage capacity of the product is also hinder the process of large buying because the shelf space of rural households is also limited as they live in small huts or semi-pucca houses. Some edibles, for example, cannot last long unless preserved and kept under ideal conditions.
  - **Benefits to Retailer:** The small packet sachets are convenient to the retailer to

do his business and promote the national brands. The shelf space of rural retailers is less.

- **Display:** Smaller sizes are easy to display. They increase the visual appeal and the colours on the smaller packs are looked at with more interest.
- (b) **Combi-Packs Strategy:** Another packaging innovation is 'combi-packs'. When related products are packed together and sold at economy prices, the consumer finds it a better option to buy. The combi-Pack may become an 'assortment' when more than two products are packed together. For example: Johnson & Johnson's baby care assortment package consists of powder, soap, shampoo, hair oil and cream with just price of rupees 175.
- (c) **See-through Packs Strategy:** Many companies are coming up with new packages that are attractive as well as economical. The transparent packing of new Palmolive Naturals is best example of see-through pack.

**6. Brand Strategies: These are as follows:**

- a) **Brand Extension:** Brand extension is using an existing brand to promote a product or a brand in a different category altogether. Brand extension or brand stretching is a marketing strategy in which marketers developed product using the same brand name in a different product category. The new product is called a spin-off. Organizations use this strategy to increase brand equity (value of the brand). Some of the brand extension strategies that marketers used are as follows:
  1. Re-positioning same product in a different form.
  2. Re-positioning different product in the same form.
  3. New distributor, franchise or relationships.
  4. Brand name or design change
  5. Price changes

**Advantages of Brand Extension :** Brand extension has following advantages:

1. Easy acceptance of new products.

2. Increases brand image.
3. Reduce consumer risk.
4. Reduces advertising, selling and promotional costs.
5. Consumers seek variety of product.
6. Increase packaging and labeling efficiencies.
7. The expense of introductory and follow up marketing programs is reduced.
8. The image of parent brand is enhanced.
9. Clarified brand meaning.
10. Enhance market coverage as it brings new customers.
11. Increase customer base.
12. Enhance customer retention rate.

#### **Disadvantages of Brand Extension**

1. Brand extension in unrelated markets may lead to loss of reliability if a brand name is extended too far.
  2. Sometime new product may damage the image of the core/original brand.
  3. There are chances of less awareness and trial because the management may not provide enough investment for the introduction of new product assuming that the spin-off effects from the original brand name will compensate.
  4. New product will fail if brand extensions have no advantage over competitive brands, then it will fail.
- b) Multi-Branding:** A company may introduce several brands in a product line with different features to appeal to different categories in the same customer group. Many FMCG companies follow this strategy. For example, HLL company introduced multi-brand soaps such as Lifebuoy, Liril and lux. Procter & Gamble (P&G), an american consumer goods company, that sells different brands such as Tide, Pampers, Gillette, Ace, Head & Shoulders, etc.

### **Merits of Multi-Branding:**

1. Flanking of the major brand
2. Occupying more shelf space of retailers
3. Gaining more profits.
4. Leaving less shelf space for competitors.
5. Effectively using brand-switchers, who love to experiment with different brands.

### **De-Merits of Multi-Branding:**

1. Each brand may have a small market share.
  2. High development costs as many brands are to be developed.
  3. Confusion caused by overlapping segments, which will result in brand switching.
  4. The public image of brand may become profit oriented, rather than the customer.
  5. Sometime failure due to poor management.
  6. Failure from wrong business choices.
- c) **Co-Branding:** When a marketer offers one brand with another brand of the same company or another company it is called co-branding. Co-branding is a marketing partnership between at least two different brands which are independent providers of goods or services. This co branding effort can result in various types of promotions such as sponsorships or advertisements. For example, HUL can promote a packet of Knorr soup with a packet of Bru coffee (both brands belonging to HUL). Snapdeal offering 5% discount on HDFC debit cards is also an example of co-branding

### **Types of Co-branding**

There are two types of co branding - Ingredient and Composite

1. **Ingredient Co-Branding:** Under this type of co-branding, one brand is famous and renowned but the other is not. The objective of such a co-branding is to get the later brand famous and renowned. For example, if a new detergent brand is



introduced with Rin or Surf excel which are both famous brands. This is called as ingredient co-branding.

2. **Composite Co-Branding:** Dell and Intel is the best example of composite co-branding, where both the brands are renowned and the composite result of combining the branding exercise is better than advertising the brand on its own.

**Merits of Co-Branding:**

1. Shared resources
2. Shared risk - The risk is not borne by individual brand
3. Gaining more profits and reduced costs.
4. Boosting brand especially if both the brands are renowned
5. Financing becomes easier as two brands are joined together.
6. Technological benefits
7. Gaining more customer trust.
8. Wider scope because of joint advertising.

**De-Merits of Co-Branding:**

1. If anything goes wrong, the image of the both brands are affected.
2. Brand alliance might be positive or negative in consumers mind.
3. If any brand enters too many co-brand exercises, it dilutes self identity.
4. Co-branding exercise may fail, if the vision, values, and ethics of the ingredient brands are different.

## 13.6 SUMMARY

Product is the most tangible and important component of marketing plan and programme. To the marketers, product strategy is the core stone of the marketing mix. Product strategy is the critical vision of the product and affirmed where the product will cease. When a product strategy is developed, it becomes easy for firm to determine the

direction of the product efforts. The product strategy forms the basis for executing a product roadmap and consequently product releases. Product decisions are first taken by the marketers and these decisions are central to all other decisions such as price, promotion and distribution of the marketing mix. Product strategy refers to the long-range competitive strategy which involving decisions related to products, product line and product mix to make proper utilization of resources and achieve marketing objectives. Today, majority of the multi-products companies combating hard to gain competitive advantage through their product strategies. It is only through continuous product modification, product diversification and product expansion a company achieves its way to success and fame.

### 13.7 GLOSSARY

- **Product strategy:** Product strategy is the critical vision of the product and affirmed where the product will cease. When a product strategy is developed, it becomes easy for firm to determine the direction of the product efforts.
- **Branding:** Branding is the process of giving a meaning to specific organization, company, products or services by creating and shaping a brand in consumers' minds. It is a strategy designed by organizations to help people to quickly identify and experience their brand, and give them a reason to choose their products over the competition.
- **Co-Branding:** When a marketer offers one brand with another brand of the same company or another company it is called co-branding. Co-branding is a marketing partnership between at least two different brands which are independent providers of goods or services.
- **Multi-Branding:** A company may introduce several brands in a product line with different features to appeal to different categories in the same customer group. Many FMCG companies follow this strategy. For example, HLL company introduced multi-brand soaps such as Lifebuoy, Liril and Lux.
- **Product Line Filling:** Product line filling is the practice of adding new products to a product range to make it more complete. A company may decide to lengthen the existing product line decisions(s) by adding more items rather than stretching into lower and higher-end segments.

### **13.8 SELF ASSESSMENT QUESTIONS**

Q1. Explain the scope and significance of product strategy.

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Q2. Discuss the competitive strategies for rural markets.

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Q3. What are the main components of product mix decisions?

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### **13.9 LESSON END ACTIVITY**

Q1. What are the classifications of rural products?

Q2. Explain the concept of product mix.

Q3. Explain the various competitive product strategies for rural market.

### **13.10 BOOKS RECOMMENDED**

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International
- Balkrishnan, Mandira Dutta (1978), "Rural Marketing: Myth and Reality", Economic and Political weekly, August 1878, M-75 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies. Dey, N.B and Adhikari, KingShuk (1998) "Rural Marketing challenges and opportunities",
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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 14**

**UNIT - I**

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**RURAL CONSUMER BEHAVIOR**

**STRUCTURE**

- 14.1 Introduction
- 14.2 Objectives
- 14.3 Concept of Rural Consumer Behavior
- 14.4 Characteristics of Rural Consumer
- 14.5 Consumer Buying Behavior Model
- 14.6 Factors affecting Buying Behavior Model
- 14.7 Consumer Buying Process
- 14.8 Summary
- 14.9 Glossary
- 14.10 Self Assessment
- 14.11 Lesson End Activity
- 14.12 Books Recommended

**14.1 INTRODUCTION**

The understanding of consumers has to always come from the consumer. Various factors, such as economic, social and psychological govern the purchase act by a consumer.

Consumer behavior is seen to involve a complicated mental process as well as physical activity (purchase decision). Consumer behavior is a decision process and physical activity individuals engage in, when evaluating, acquiring, using or disposing goods and services. Consumer behavior refers to the acts of individuals directly involved in obtaining and using goods and services and includes the decision process that provides a purchase. Consumer behavior is not barely the study of what people consume, but also 'where', 'how often' and 'under what conditions' the product is consumed.

## **14.2 OBJECTIVES**

The objective of this chapter is to understand:

- nature and behavior of rural consumer
- rural consumer buying decision process

## **14.3 RURAL CONSUMER BEHAVIOR**

Consumer behavior reflects the behavior of final consumers (individuals and households) who buy goods and services for personal consumption. Consumer behavior is not only the study of what people consumes but it is also represent where, how and under what conditions the product is consumed. Consumer behavior refers to the acts of individuals directly involved in obtaining and using goods and services and includes the decision process that provides a purchase. The consumer behavior is governed by various factors such as economic, social and psychological. Consumer behavior involves both intellectual as well as physical activity (purchase decision) of the consumers. Consumer behavior is a decision making process and physical activity of the individuals which consists evaluating, acquiring, using or disposing goods and services. Rural consumers have certain unique features. Understanding the background of rural consumers will help the companies to formulate suitable marketing strategies. Rural consumers will be slower to pick up trends or brands but will remain loyal when accepted. Therefore, rural marketing is grooming at a greater speed than its urban counterpart. Let we understand the characteristics and lifestyle of rural consumer.

## **14.4 CHARACTERISTICS OF RURAL CONSUMER BEHAVIOR**

The characteristics and lifestyle of rural consumer are as follows:

1. Demonstrations, targeting opinion leaders and employing trained sales persons
2. Lack of strong brand-consciousness
3. Generally ask for the product and not the brand
4. Indian consumers, on an average, try about six brands of same package goods product in one year and compared to two for Americans.
5. Dependence on natural factors for employment and incomes is high.
6. Highly dependent on natural factors for livelihood, employment and household needs
7. Majority of the rural population are depending on small scale agricultural occupations
8. Rural consumer is very religious.
9. Rural consumers prefer to work hard themselves. Machines have to be sold on the basis of benefits offered and not on the basis of comfort and convenience.
10. Strong family ties and respect for family values.
11. Rural consumers have fatalistic attitude.

#### **14.5 CONSUMER BUYING BEHAVIOR MODEL**

Consumer decision-making process varies with the type of purchase decisions. Expensive and complex purchases are likely to involve more buyer discussions and more participants. Based on the degree of buyer participation and involvement in buying decision process, Henry Assael identified four types of consumer-buying behaviour.

1. **Complex buying behavior:** When consumers are highly involved in a product's brands and their qualities, they engage in complex buying behavior. Such type of behavior is generally occurring when the product is expensive and risky. The marketer requires differentiating the brand's features, use print media to describe the brand's benefits and motivate store sales personnel and the buyer's acquaintances to influence the final brand choice e.g., automobile, two-wheelers, consumer durables, etc.

2. **Dissonance-reducing buying behavior:** The consumer sometimes is highly involved in a purchase, but sees minute difference in the brands. The high involvement is based on the fact that the purchase is expensive, infrequent and risky. For example, consider carpet buying. After buying, the consumer may experience dissonance that stems from noticing certain disquieting features of the carpet or hearing favorable things about other carpets. Thus, marketing communication should aim at supplying evaluations and beliefs that help the consumer feel good about his or her brand selection.
3. **Habitual buying behavior:** A lot of products are bought under conditions of low consumer involvement and the absence of significant brand differences. Consider salt. Consumers have slight involvement in the product category. They go to the store and reach for the brand. If they keep getting the same brand, it is out of habit, not strong brand loyalty. It happens with mainly low-cost, regularly purchased products. Marketers find it effective to resort to advertisement repetitions, price and sales promotions to stimulate product trial.
4. **Variety-seeking buying behavior:** A few buying situations are characterized by low-consumer involvement, but significant brand differences. Here, consumers frequently do a lot of brand switching. Think about cookies. The consumer may get another brand out of boredom or a desire for a different taste. The marketer will try to encourage habitual buying behavior by dominating the shelf-space, avoiding out of stock conditions, sponsoring frequent reminder advertising, offering lower prices, deals, coupons and free samples.

#### 14.6 FACTORS AFFECTING CONSUMER BUYING BEHAVIOR

The various factors that affect buying behavior of in rural India are:

1. **Environment of the consumer:** The environment in which the consumer exists has a very strong influence on the buyer behavior. E.g.:- electrification, water supply effects demand for durables.
2. **Geographical Location:** The geographical location of the rural consumer also talks about the buying process of the consumer. For instance, South Indian rural population accepts technology quicker than other parts of Rural India.

3. **Occupation:** The land owners and service people buy more luxurious products than agriculture farmers.
4. **Place of purchase:** Company's need to access the influence of retailer on both consumers at village shops.
5. **Creative use of product:** The study of product and provides indicators to the company on the need for education and also for new product ideas.
6. **Economic Factors:** The economic factors also have significant affects on consumer buying behavior which are enumerated as follows:
  - a) **Level of Competition:** A healthy and strong competition brings overall improvement in economic activities. It also fetches good quality, good quantity and fair price.
  - b) **Behavior of Consumers:** Today, consumer is well-educated and particular. His progress and well being should be the aim of any economic activity.
  - c) **Pricing Policy:** Pricing is a sensitive issue, it should be market and consumer friendly that means not too high or too low. The marketers should adopt fair price mechanism.
7. **Social Factors:** The social factor consists of the following three factors:
  - a) **Sociological factors:** Consumer society or the community is also affecting the consumer buying behavior. The social setup influences consumer life style, taste, habits and preferences.
  - b) **Cultural factors:** The reasonable cultures and subcultures, beliefs, values, customs, traditions and living patterns also influence the various marketing strategies related to selling, advertising sales promotion and packing.
  - c) **Psychological factors:** Consumer behavior, attitudes, perceptions and personality and are vary person to person. The study of consumer buying behavior is very important to develop appropriate marketing mix.
8. **Technological Factors:** Changes in technology factors also have great affects



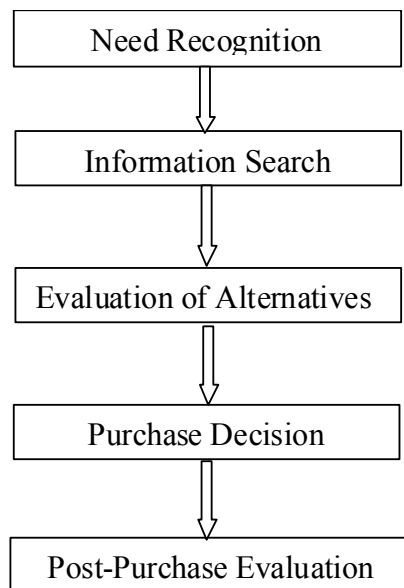
on consumer behavior. The rapid growth of technological factors like mobile phones, TV networks, internet network have provided opportunities for rural people to keep in touch with the rest of the world. The faster and efficient communication and transport systems gives an edge to the marketers to delivery message about product and services and transfer goods and services respectively to rural people. So, with the fast changes in science and technology, the marketers have used new marketing tools and facilities which are adaptive to the change in environment and ensure success in rural areas.

9. **Political Factors:** Political factors such as government policies towards trade and commerce, internal taxation, political ideology, political philosophy, preferential treatments and government intervention also have an influence on the marketing strategies. The marketing environment has to meet the political framework in which a government is made to work. Today, government has taken various initiatives for economic and social development of rural areas. Government has invested huge in electricity, agriculture, and infra structure facilities like roads, hospitals, communication, school, colleges and banking. These initiatives are useful to lead rural prosperity and provide opportunities for the marketers to expand their business operations.
10. **Physical Factors:** Availability of transportation and storage facilities also play an important role in the physical distribution of goods and reaching the consumers. Efficient and cheaper logistics help the marketers to transfer the right goods to the right people, at right time and at right place.

#### 14.7 CONSUMER BUYING PROCESS

Consumer buying process involves following five stages:

1. Need recognition
2. Information search
3. Evaluation of alternatives
4. Purchase decision
5. Post purchase behavior



**Figure 4.2: Buying Process**

The following five stages in consumer buying process are listed below:

**Stage 1:** Need recognition: Need recognition is the first step in the buying decision process. A rural consumer first recognizes his unmet needs and accordingly thinks of purchasing the product. The need is a source or force of buying behavior. It is a difference between actual need and a desired need. The need can be triggered either by external or internal stimuli. Internal stimuli include basic needs like hunger, thirst, or comfort; on the other hand external stimuli consists external factors for example when a person watches a new television at shop, he desires to buy it.

**Stage 2:** Information search: After the need has been identified, the next step is to search information. The information search process is almost the same as for the urban consumers as for the rural consumers. It includes various sources such as:

1. Personal sources: Family, friends, neighbours and peers.
2. Commercial sources: Advertisements, Salesforce, Dealers, Agents

3. Public Sources: Mass media, Consumer rating organizations

**Stage 3:** Evaluation of alternatives: This third step is to evaluate the various alternatives with certain choice of criteria and pick the best option from the available. In this step, the consumer makes a decision about what features he wants or does not want in the product. Accordingly ranks are given to the alternatives. The following criteria are considered while evaluating alternatives.

- a) Price
- b) Qualities, features and performances
- c) Repair and maintenances
- d) Warranties
- e) Reliability

**Stage 4:** Purchase decision: This is the stage that when consumer plan to purchase a specific product that suits his needs and is within his budget, etc. It involves the actual purchase of the product. However, it may differ from the decision due to time-lapse between the purchase-decision and the actual purchase or may also depend upon the availability of the product.

**Stage 5:** Post-purchase behavior: This is the final stage of consumer buying decision process. The consumer's relationship with the seller does not come to an end with the purchase of goods. Rural consumers may or may not be satisfied after buying the products. If consumer is satisfied, he will become loyal to the same brand otherwise he may switch to other brands.

Buying Behavior of Rural and Urban Consumer		Urban
Need recognition	High involvement product - efficiency drives consumer's recognition for need.	High-involvement product-comfort, status, drives consumer's recognition for need.
Information search	First hand information collected from a fellow owner, dealer, friends and family.	First hand information collected from TV, Internet, Newspaper Ads, fellow owner and dealer.
Evaluation of alternatives	<ul style="list-style-type: none"> <li>• Lower education and awareness.</li> <li>• Consults opinion leader like progressive farmers.</li> <li>• Live field demonstration.</li> </ul>	<ul style="list-style-type: none"> <li>• Educated/aware</li> <li>• Understands and analyses technical specifications.</li> </ul>
Purchase decision	Collective decision by buyer, adult son, mechanic and progressive village farmer.	Normally buyer makes final decision. Family influences colour and looks.
Post- purchase decision	<ul style="list-style-type: none"> <li>• Higher satisfaction, lower disagreement. Because risk taking is lower and expectation level is low.</li> <li>• Lack of technical knowhow, low confidence on after sales service.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher satisfaction or dissatisfaction because of greater risk factor. Higher risk taking ability, because of wanting experimentation.</li> <li>• After sales service no issue</li> </ul>

## 14.8 SUMMARY

Consumer behavior is a decision process and physical activity individuals engage in, when evaluating, acquiring, using or disposing goods and services. Consumer behavior refers to the acts of individuals directly involved in obtaining and using goods and services and includes the decision process that provides a purchase. Consumer behavior is not barely the study of what people consume, but also 'where', 'how often' and 'under what conditions' the product is consumed. Consumer decision-making process varies with the

type of purchase decisions. Expensive and complex purchases are likely to involve more buyer discussions and more participants. Consumer buying process involves following five stages: need recognition, information search, evaluation of alternatives, purchase decision and post purchase behavior

#### 14.9 GLOSSARY

- **Consumer behavior:** Consumer behavior refers to the acts of individuals directly involved in obtaining and using goods and services and includes the decision process that provides a purchase. The consumer behavior is governed by various factors such as economic, social and psychological.
- **Complex buying behavior:** When consumers are highly involved in a product's brands and their qualities, they engage in complex buying behavior. Such type of behavior is generally occurring when the product is expensive and risky.
- **Dissonance-reducing buying behavior:** The consumer sometimes is highly involved in a purchase. The high involvement is based on the fact that the purchase is expensive, infrequent and risky. For example, consider carpet buying. After buying, the consumer may experience dissonance that stems from noticing certain disquieting features of the carpet or hearing favorable things about other carpets.
- **Habitual buying behavior:** A lot of products are bought under conditions of low consumer involvement and the absence of significant brand differences. Consumers have slight involvement in the product category. They go to the store and reach for the brand. If they keep getting the same brand, it is out of habit, not strong brand loyalty. It happens with mainly low-cost, regularly purchased products.
- **Variety-seeking buying behavior:** A few buying situations are characterized by low-consumer involvement, but significant brand differences. Here, consumers frequently do a lot of brand switching. Think about cookies. The consumer may get another brand out of boredom or a desire for a different taste.

#### 14.10 SELF ASSESSMENT QUESTIONS

- Q1. Differentiate between rural and urban buying process.

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**Q2. Explain rural consumer behavior.**

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**14.11 LESSON END ACTIVITY**

Q1. Discuss consumer buying behavior model.

Q2. Explain the process of buying decision.

Q3. What are the various factors that affect consumer buying behavior?

**14.12 BOOKS RECOMMENDED**

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International
- Balkrishnan, Mandira Dutta (1978), "Rural Marketing: Myth and Reality", Economic and Political weekly, August 1878, M-75 to M-80.
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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 15**

**UNIT - I**

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**RURAL MARKET SEGMENTATION AND  
PRODUCT STRATEGY IN RURAL CONTEXT**

**STRUCTURE**

- 15.1 Introduction
- 15.2 Objectives
- 15.3 Definitions of Market Segmentation
- 15.4 Characteristics of Rural Market Segmentation
- 15.5 Bases of Rural Market Segmentation
- 15.6 Significances of Rural Market Segmentation
- 15.7 Product Strategy in Rural Context
- 15.8 Summary
- 15.9 Glossary
- 15.10 Self Assessment
- 15.11 Lesson End Activity
- 15.12 Books Recommended

## 15.1 INTRODUCTION

Rural market is comparatively special, which has different consumer society, located in the different geo-climatic region and has different consumer demand. Therefore, when a company introduces product for rural market, they should focus more on searching the rural consumer's need and requirement. The company needs to adjust the product structure and improves product quality in such a way which is suitable for the rural market. Similarly, marketers should consider rural consumer psychology, custom and belief before packing and branding the products. The relevant aspect is that the company must focus on the enhancement product functions, which can not only reduce product cost and price, but also helpful to enhance the company's brand image.

## 15.2 OBJECTIVES

The objective of this chapter is to understand:

- nature and behavior of rural consumer
- rural consumer buying decision process
- product strategy in rural market

## 15.3 DEFINITIONS OF MARKET SEGMENTATION

**According to Philip Kotler:** "Market segmentation is the sub dividing of a market into homogeneous subsets of consumers, where any subset may conceivably be selected as a market target to be reached with a distinct marketing mix."

**According to American Marketing Association:** "Market segmentation refers to dividing the heterogeneous markets into smaller customer groups having certain homogeneous characteristics that can be satisfied by the firm."

**According to William J. Stanton:** "Market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub markets or segments each of which tends to be homogeneous in all significant aspects."

**According to Schiffman and Kanuk:** "Market segmentation can be defined as the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix."



## 15.4 CHARACTERISTICS OF RURAL MARKET SEGMENTATION

Rural market segmentation is a marketing concept which divides the rural market set up into smaller subsets comprising of consumers with a similar taste, demand and preference. It is a useful strategy that allows companies to better satisfy the consumer's needs. While segmenting the rural market, the marketers should consider the following characteristics:

**1. Measurable:** Market segment must be clear, distinct and measurable in order to calculate the market potential. The size, profit and other relevant characteristics of the segment must be measurable in terms of data and monetary value. Without such information, segmentation cannot be carried out.

**2. Accessible:** The segment should be easily accessible by the people at an affordable price. Before segmenting the rural markets, it is important for marketers to ensure that the segmented market is conveniently reachable to them to deliver products to the rural market.

**3. Differentiable:** Rural market is identified as a different segment of market as rural people and their responses are different from the urban people in case of some products and services. For instance, in case of buying wrist watches, rural consumers give more importance to cost and their durability whereas urban consumers look for brands, qualities, designs and styles.

**4. Substantial:** Rural segment should be large enough so that marketing becomes profitable to the company. It should consist of people, who are similar in perceptions, learning, attitude, preferences and actions.

**5. Actionable:** The segments that a company needs to peruse must be actionable in the sense that there should be sufficient finance, personnel and capability to take them.

**6. Stable:** The segment that emerge speedily and disappear quickly will not be a good segment. The segment should be relatively stable over a period of time.

**7. Other characteristics:** Apart from the above features, rural segment must has growth potential, has competitors, carries no unusual risk and must be suitable, practicable and attractive.

## 15.5 BASES OF RURAL SEGMENTATION

There is not only one way of segmenting the rural market. There are several bases available for segmenting the market. A marketer may use one or more or combinations of all bases viz., geographic, demographic, psychographic and behavioral, to distinguish and describe their market segments. The bases of market segmentation have gone a long way through different stages. It started with demographic segmentation then it moved on to geographic segmentation, geographic segmentation, psychographic segmentation and behavioral segmentation. These segmentations are explained as below:

**1. Demographic Segmentation:** Demographic Segmentation is also most important and purposeful and commonly used basis. Demographic basis has various advantages. These are easy to recognize and easy to measure. Demographic information is easily available. Rural consumers can be segmented on the basis of demographic factors like age, income, family structure, landownership etc. Some of the demographic variables are explained below:

**a) Age and Life Cycle:** Consumer needs and brand preferences are also changes with the changing life cycle stage. This fact is true for both rural and urban consumer. For example, in rural Market, young adults make preference for mobile handsets with latest features and technology whereas elders are satisfied with second hand mobiles with simple and basic features.

**b) Family Structure:** In rural areas, family structure is an important factor which affects purchase decision. As the family size increases, so does the consumption of products. Big families have more bread winners, which ultimately increase their income level and consumption pattern also.

**c) Occupation:** It is an important base to segment the rural market. The major occupations in rural Market are agriculture farming, labourer, shopkeepers, poultry, and artisans. The variation in the major occupation groups necessitates the segmentation of rural markets on a different basis. Therefore, marketers should consider occupation patterns while segmenting the rural market for their product category.

**d) Income:** In rural area, the flow of income is mostly seasonal (post-harvest for farmers or weekly/ daily for wage earners). The salaried class with a regular monthly

income constitutes a very small segment of rural consumers.

**e) Education:** Majority of the rural population are illiterate. But due to government launched various literacy programmer in rural area, there is a considerable raise in the literacy level. Despite that, rural people thinking capabilities, in terms of divergence and association with images may be different to the urban.

**f) Religion and Caste:** Religion and caste also play an important role in influencing the social economic, political and cultural behavior of rural population. The settlement of villages has historically taken place on the basis of caste and religion. The influence of religion and caste dynamics on the consumer purchase behavior is an important consideration for marketers.

**g) Landownership:** Rural livelihoods, security, property are basically linked to land. Rural segmentation on the basis of land should consider the following factors such as size of land holding, quality of land and area under cultivation, irrigation method, agricultural productivity and crop mix etc. Therefore, rural markets can also be segmented on the basis of land holding size into the following categories 'large farmers, medium farmers, small farmers, marginal farmers.

**2. Geographic Segmentation:** Geographic segmentation is the most popular basis for market segmentation. The market could be divided into urban and rural markets. While urban population is highly concentrated, rural population is scattered over a wide geographical area. Rural consumers can be segmented on the basis of following geographical factors like region, state, district, village and climate.

**a) Regions:** The region is divided into four zones-North, South, East and West. Regional diversity within rural areas also provides real challenge to the marketers in understanding the fragmented rural consumers. Marketers need to evolve effective strategies around products that fulfill functional needs and the need gaps of different regions.

**b) Village Population and Density:** The rural life style changes with size of village due to a variation in the level of infrastructural and economic development. So far, most companies have targeted highly populated

villages, which have better infrastructural facilities and high purchasing power.

c) **Climate:** Climate conditions also play a significant role in segmenting the rural market. Agro based technology companies segment Market into different geo-climatic conditions such as hot, cold, rainy, hilly, plain etc.. The climate conditions have great impact over the purchase decision of the consumers. For example coolers and Ac are normally sold in hot areas. Moreover, the demand for woolen dress materials is high in north hilly area during winter season.

**3. Psychographic Segmentation:** The psychographic segmentation is at the mind level of the consumers. It segment the market on the basis that how people act. Psychographics include factors such personality traits, lifestyle and value system, social class, culture are explained as below:

a) **Life Style:** Lifestyle reflects the overall manner in which persons live and spend time and money. People with the same demographic group or social class can show different lifestyles and psychographic profile. With the growth of technology like Television and Cable networks all across the country, the rural people have been exposed to the rich life styles. Landlord, farmers and educated rural population are bared to an urban environment and they are aspiring to match with urban lifestyle.

b) **Culture:** Culture reflects the attitudes of the people who live there, their relationships and power structure. Cultural identities have become watery to some extent in urban areas due to the influence of western culture, but it is largely intact in rural areas.

c) **Personality:** Personality represents the psychological and physical characteristics of an individual that determine human behavior. These characteristics are unique, making individuals different from one another. Personality can be premeditated with the help of characteristic like self-confidence, sociability, authority, creativity etc. For example, Socialized people are most likely to prefer picnics, parties, photography. So it is important for the marketers to understand the personality traits of rural population before segmenting the rural market.

d) **Social Class:** Society represents a hierarchy of classes of people. The social class may be classified as upper class, lower class, middle class etc. Upper class

demands expensive and luxurious products like as a mobile phones, cars etc. Middle class demands comforts products like cooler, scooter, furniture, crockery etc. Lower class demands necessity products. The buying behavior of these classes differs significantly. This can also be used as base for segmenting the markets.

**4. Behavioral Segmentation:** Behavior of consumers is a better guide to market segmentation. It consist various factors like occasions, benefits sought, user status, loyalty status etc. Behavioral segmentation is based on the consumer response to his requirements.

- a) **Occasions:** Rural consumers can be segmented on the basis of the occasions on which they purchase a product. In rural areas, most durables products are purchased after the harvest season. Like the Baisakhi season in Punjab, Onam and Ugadi in South Market and Diwali and Dussehra in most parts of the country, are important festival occasions when villages prefer to buy new items. Rural people prefer buying, when melas are organized.
- b) **Benefits Sought:** Customer satisfaction depends upon product benefits such as economy, performance, durability, status, task etc. Many marketers segment the markets on the basis of the benefits sought by the consumers. The benefits sought from a product vary from consumer to consumer. Rural consumer may buy a motor bike seeking one or more benefits like economy in purchasing, status symbol, convenience of transport.
- c) **User Status:** On the basis of product usage, consumers may be categorized into first time user, regular user, potential user and non-user. In rural markets, the majority of consumers fall within the categories of potential users or first time user for most product categories. Therefore, a focus on product trials and demos is very crucial in rural areas.
- d) **Usage Rate:** On the basis of usage rate, consumers may be categorized into light, medium and heavy users. Taking this into account, marketers have introduced packet-serve strategy to meet the requirements of different users. Now days, most of goods like shampoo, beauty cream, hair oil are

available in sachet packs for rural consumers and family packs for joint and large families.

- e) **Loyalty Status:** A marketer can be segmented on the basis of customer loyalty for particular brands. The philosophy of brand stickiness works in rural areas, which helps marketers to win customer loyalty and customer retention for longer periods with minimal efforts. Rural consumer take long time to make purchase decision with regard to particular brand or product, but once they are convinced, they are generally become more loyal to respective brand than the urban consumer. Segmentation based on loyalty help the marketers to tailor the communication and product appeal to retain the loyal consumers or to attract new consumers from rival brands or converts non loyal buyers into loyal buyers.
- f) **Place of Purchase:** Rural consumers buy different product and services from different markets place. In rural areas, place of purchase changes with change in product categories. But in urban markets, customers purchase most of their products from one place or even from one super market. Taking this advantage, marketers needs to promote their products in those places place where potential buyers assemble most often and from where, they prefer to buy specific products.

## 15.6 SIGNIFICANCE OF RURAL SEGMENTATION

Market segmentation can be very effective strategy to identify those markets that are heterogeneous with respect to their products and customers. Rural market is heterogeneous in nature and it is advisable to be segmented. Market segmentation ensures higher customer satisfaction and improves effectiveness of market programmes. It helps the marketers to delivery products to the consumers according to their needs, wants, desires and requirements. It is a beneficial strategy for both marketers and customers. The significance of rural market segmentation:

1. **Understand consumer's requirements:** Market segmentation helps the marketers to understand why consumer do or do not buy certain product or services. It also provides an understanding to the marketers that how they can modify their products

according to the changing demands and requirements of the consumers.

**2. Create strong, positive and unique brand position:** By segmenting the market in an effective manner, marketers are able to increase the sales volume of their products. When marketers are able to satisfy consumer needs in a highly customer oriented manner, then they are able to establish strong image of their organization in the market.

**3. Formulate different marketing strategies and programmes:** When customer needs are fully understood, marketers are able to formulate and implement different marketing strategies and programmes. Without market segmentation, a strong marketing strategy and programme will not be framed and which will not be effective for all consumer groups. As the marketers are aware about consumer needs, they they are able to develop a customized marketing strategy and programme that can delight the consumer with benefits and the experience.

**4. Helps in cutting the wasteful expenditure on unwanted consumers:** Rural market segmentation helps in cutting the wasteful expenditure on unwanted consumers. Marketers can focus on those particular customer segments which will be profitable for them.

**5. Matches needs and wants of specific consumer group:** Market segmentation helps the marketers to match the needs and wants of specific group of buyers with firm's setting. All marketing activities are directed towards the satisfaction of consumers and with the help of segmentation it becomes easy for the company to fulfill the specific customer group's needs by considering their resources and overall objectives.

**6. Stimulate demand through multi products for multi-segments** Rural market segmentation also helps in stimulating demand through multi products for multi-segments. In practical life, the marketer does not use single variable for market segmentation, rather it uses multi attribute segmentation.

**7. Helps in knowing company capability and assessment of the competitors:** With the market segmentation, the marketers are able to understand the strength and opportunities and controlling weakness and threat of their respective companies. SWOT analysis details out the strength and weakness within the company and opportunities and threat outside the company. It keeps the marketer to adopt different

strategies for different markets, especially in rural markets. It is also helpful to know the level of competition in each segment.

**8. Provides opportunities to expand market and hence enhances market efficiency:** By segmenting the market, the marketers are able to create new markets for their products. It enhances marketing efficiency by offering specific pricing, sales promotion and distribution channel as per the requirement of different segments.

### **15.7 PRODUCT STRATEGY IN CONTEXT OF RURAL MARKETS**

Product strategy is the critical vision of the product and affirmed where the product will cease. When a product strategy is developed, it becomes easy for firm to determine the direction of the product efforts. The product strategy forms the basis for executing a product roadmap and consequently product releases. Product decisions are first taken by the marketers and these decisions are central to all other decisions such as price, promotion and distribution of the marketing mix. Product strategy refers to the long-range competitive strategy which involving decisions related to products, product line and product mix to make proper utilization of resources and achieve marketing objectives. Today, majority of the multi-products companies combating hard to gain competitive advantage through their product strategies. It is only through continuous product modification, product diversification and product expansion a company achieves its way to success and fame.

#### **15.7.1 SIGNIFICANCE OF PRODUCT STRATEGY**

An effective product strategy offers the following benefits.

**1. Offer market based products:** Product strategy will be able to offer products based on market needs. Thus, it achieves market product fitness and avoids the drawbacks of marketing.

**2. Encourages innovativeness:** The key of product strategy is innovation with a view to fine tune the market offer to the current and future needs of customers. Product strategy relies on creativity processes, methods and techniques. Innovation is an in-built feature of product strategy.

**3. Provides competitive edge:** In this competitive era, marketers need to



anticipate competitor's strategies before launching their new product. They will have to introduce new product strategy to combat competition, to guard their positions, and to achieve long-term sustainability.

**4. Optimum utilization of resources:** The product additions and deletions, based on rational appraisal of marketing and production strengths and weaknesses allow for better utilization of physical, financial and human resources. It thus helps achieve high productivity levels. Consequently, there will be no idle capacities and no demoralized work force.

### 15.7.2 RURAL PRODUCT STRATEGIES

Rural Product strategies are as follows:

**1. New product development:** Given the rising interest of companies in the rural market, developing new products suitable for the rural market has become very important. For e.g., Jolly battery operated colour television, 5 kg cooking gas cylinder by HPCL, Philips free power radio, LG Washing Machine, Kisan Credit Card, Max Gas LPG cylinder, etc.

**2. Sturdy products:** Village people believe that the product should be sturdy enough to withstand rough consumers handling and storage. Rajdoot Motorcycle manufactured by Escorts Ltd. is very popular in rural areas because of its adaptability, low maintenance costs, minimal breakdown and easy accessibility of service and repairs. LG Electronics has devised a semi-automatic washing machine with double the capacity of their urban based machines.

**3. Brand name:** A brand should have a name, short, simple, easy to pronounce, can be remembered easily and should lend itself to virtual interpretation. In rural markets, consumers give their own brand name or the name of an icon. Many a times, rural consumers ask for peeli tikki or neeli tikki in case of washing soaps. E.g., LG Electronics branded one of the TV set as Sampoorna. Fertiliser companies normally use a logo on the fertilizer bag.

**4. Small unit packing:** Rural consumers receive daily wages and at the same time their income is unsteady. Hence, they can't make purchases in large quantities. E.g., HUL sells Shampoo and Hair oil in sachet packs in rural areas. Cavin Kare Ltd., has launched a sachet priced at 50 paise for its 100 ml Shampoo.

**5. Low-priced packing:** Tata Tea launched 'Agni' as an economy brand in rural areas to compete with loose tea powder.

### **15.7.3 NEW PRODUCT DEVELOPMENT IN RURAL MARKET**

The various steps in new products development are explained in the paragraphs given below.

**1. Consumer Adoption Process:** Consumer adoption process involves the following:

- a) The adoption of new products and services is slow among rural consumers in comparison to urban consumers due to poor awareness of new products, because of low media access and resistance to trying new products in the absence of demonstrations.
- b) The sarpanch, the school teacher, and salaried people who have better media access and market exposure become early adopters, some of who in turn act as opinion leaders for other potential buyers.
- c) The inducement of product trials and demonstrations works well in rural for the adoption of new products.

**2. Product Life Cycle:** Product life cycle involves the following:

- a) In most cases, the product is developed for the urban market and is later pushed into the rural market. Only in recent years have companies started customizing their products for rural markets. E.g., LG Television, Philips Free power radio.
- b) PLC of a product in the rural market is often longer due the multiple challenges involved in the distribution, communication and adoption of the product.
- c) Low growth in the rural market has forced companies to reengineer their products (Free power Radio) or introduce low price packs (sachets, 200 ml Chota Pepsi, etc.).
- d) They are also trying to change consumption patterns through consumer education (increasing soap usage frequency from weekly to daily) and

adopting alternate channels to reach deeper (HUL's Project Shakti, haats, mandis, etc.) to grow the market.

**3. Product Mix:** Product mix involves the following:

- a) The product mix is simple in rural markets.
- b) Mostly only one product of a particular company registers its availability on rural shelves.
- c) Limitations of investment in stocks, the slow movement and replenishment of stocks and the dominance of the retailer in rural markets are some of the important factors responsible for the smaller range of products available at retail shops in rural areas.
- d) HUL has good product width, with a presence in toothpaste, shampoo, detergent, etc.

**4. Packaging in Rural Market:** Packaging in rural Market needs special focus because of the following factors:

- a) Poor transport system (poor road conditions)
- b) Difficulties of safe storage (rats, moisture, heat, rainwater, etc.)
- c) Poor facilities (erratic power supply leading to poor cold-storage facilities for food products)

**5. Products for Rural Consumption:** The product for rural should possess the following qualities:

- a) Have a longer shelf life than the products for urban areas.
- b) Be able to withstand extreme weather condition.
- c) Be able to withstand sudden and jerky movements on dusty roads.
- d) Have alternate storage arrangements (ice box for cold drinks).

**6. Packaging Aesthetics:** Aesthetics of packaging involves the following:

- a) Bright colours like red, yellow, green, etc.

- b) Use of local languages on the pack and images.
- c) Texla TVs: Launched new range in bright red and yellow colour as the old one with black and grey cabinet was a failure.
- d) ITC: Goldflake with a yellow cover in the south, whereas golden colour in north, because yellow is associated with ill-health and jaundice in north.

**7. Branding in Rural Market:** Branding in rural Market involves the following:

- a) Brand association is mostly with colours, numbers, and visuals and not necessarily with the name of the brand.
- b) Retailers play a main role in brand promotion. Due to strong bonding and trust between customers and retailers, coupled with low brand awareness, consumers often do not ask for the product by brand, but instead will request the retailer, 'Paanch rupaye waali chai dena'. It is up to the retailer to push the brand.
- c) First mover brands become generic brands: Detergent powder came to be identified with Surf, mosquito coil with Kachua Chaap, vegetable oil with Dalda.

**8. Brand Building in Rural Market:** Brand building in rural Market involves the following steps:

- a) Brand name development: Facilitates easy brand recall and in drawing any colour, visual or numeric association. E.g., Ajanta for toothpaste, Sansar for sewing machines.
- b) Creating a brand identity: Involve the need to relate the brand with the rural lifestyle, or with appropriate status symbols, or with the rural environment. E.g., Britannia Tiger Biscuits created an identity associated with an active, smart and sharp child.
- c) Building a brand image: Brand should have a personality of its own. E.g., Mahindra & Mahindra has maintained their sterling image in rural areas.

**9. Brand Loyalty Vs Stickiness in Rural Market:** Brand loyalty vs. Stickiness:

- a) Low-levels of literacy and awareness make rural people less likely to switch brands as they do not have the required knowledge or information to exercise a choice. They are more comfortable in purchasing tried and tested brands. They are therefore, brand sticky rather than brand loyal.
- b) First/early mover advantage: Whichever brand enters a village market first seems to gain acceptance in the community through 'word of mouth' communication and thereafter many prefer to stick to this particular brand.

**10. Fake Brands in Rural Market:** Rural markets suffer from the problems of low penetration and poor availability of branded products. Hence, although there exists a huge demand for branded products, there are no distribution channels to make the product reach the customer. This has led to the growth of fake brands. The examples are as follows:

- Ponds has been replaced by Bond's talc
- Fair & Lovely by Fair & Lonely
- Lifebuoy by Likebuoy

**11. The Fakes Market:** The fakes market includes the following:

- a) Lookalikes: Products where the colour scheme on the packaging material closely resembles that of a popular brand, but the pack carries a different name. Shagun for Lifebuoy, Lalita Amla for Dabur Amla.
- b) Spellalikes: Fakes of original brands packaged in colours and designs similar to those of the originals, but have names that are subtly and cleverly misspelt. E.g., Paracut for Parachute, Fair & Lonely for Fair & Lovely.
- c) Duplicates: Exact replicas of original brands. The colour, design, and name on the package are the same as those of the original brands.

**12. Strategy to Counter Fakes:** Strategies to counter fakes are as follows:

- a) Introduce upgraded packaging which is hard to copy: Dabur replaced its plastic blow-moulded container with a premium four-colour shrink-sleeve

packaging, which has a grainy texture and water bubbles. The packaging is difficult to replicate. Tetra packs for Juices.

## 15.8 SUMMARY

Rural market segmentation is a marketing concept which divides the rural market set up into smaller subsets comprising of consumers with a similar taste, demand and preference. It is a useful strategy that allows companies to better satisfy the consumer's needs. Rural market is heterogeneous in nature and it is advisable to be segmented. Market segmentation ensures higher customer satisfaction and improves effectiveness of market programmes. It helps the marketers to deliver products to the consumers according to their needs, wants, desires and requirements. It is a beneficial strategy for both marketers and customers. There is not only one way of segmenting the rural market. There are several bases available for segmenting the market. A marketer may use one or more or combinations of all bases viz., geographic, demographic, psychographic and behavioral, to distinguish and describe their market segments. The bases of market segmentation have gone a long way through different stages. It started with demographic segmentation then it moved on to geographic segmentation, geographic segmentation, psychographic segmentation and behavioral segmentation.

Product strategy is the critical vision of the product and affirmed where the product will cease. When a product strategy is developed, it becomes easy for firm to determine the direction of the product efforts. The product strategy forms the basis for executing a product roadmap and consequently product releases. Product decisions are first taken by the marketers and these decisions are central to all other decisions such as price, promotion and distribution of the marketing mix. Product strategy refers to the long-range competitive strategy which involving decisions related to products, product line and product mix to make proper utilization of resources and achieve marketing objectives. Today, majority of the multi-products companies combating hard to gain competitive advantage through their product strategies.

## 15.9 GLOSSARY

- **Market segmentation** "Market segmentation refers to dividing the heterogeneous markets into smaller customer groups having certain homogeneous characteristics that can be satisfied by the firm."

- **Rural market segmentation** Rural market segmentation is a marketing concept which divides the rural market set up into smaller subsets comprising of consumers with a similar taste, demand and preference. It is a useful strategy that allows companies to better satisfy the consumer's needs.
- **Demographic Segmentation:** Demographic Segmentation is also most important and purposeful and commonly used basis. Demographic basis has various advantages. These are easy to recognize and easy to measure. Demographic information is easily available. Rural consumers can be segmented on the basis of demographic factors like age, income, family structure, landownership etc.
- **Geographic Segmentation:** Geographic segmentation is the most popular basis for market segmentation. The market could be divided into urban and rural markets. While urban population is highly concentrated, rural population is scattered over a wide geographical area. Rural consumers can be segmented on the basis of following geographical factors like region, state, district, village and climate.
- **Psychographic Segmentation:** The psychographic segmentation is at the mind level of the consumers. It segment the market on the basis that how people act. Psychographics include factors such personality traits, lifestyle and value system, social class, culture

#### 15.10 SELF ASSESSMENT QUESTIONS

Q1. Define rural market segmentation.

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Q2. Explain the characteristics of rural market segmentation.

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Q3. Discuss the different bases of rural market segmentation.

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### **15.11 LESSON END ACTIVITY**

- Q1. What is rural market segmentation?
- Q2. Write down the characteristics of rural market segmentation?
- Q4. Explain the bases of rural market segmentation with the help of appropriate examples?
- Q5. Explain the significance of product strategy?

### **15.12 BOOKS RECOMMENDED**

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International
- Balkrishnan, Mandira Dutta (1978), "Rural Marketing: Myth and Reality", Economic and Political weekly, August 1878, M-75 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies. Dey, N.B and Adhikari, KingShuk (1998) "Rural Marketing challenges and opportunities",
- Shukla, R.K., (1997), "New Perspective in Marketing, Rural Marketing: Thrust and Challenges", National Publishing House, New Delhi.
- Gopalaswamy, T.P. (1997). Rural Marketing -Environment, Problems" Wheeler Publishing, New Delhi.
- Gopalaswamy, T. P. (2009) "Rural Marketing - Environment, Problems And Strategies (3ed). Vikas Publishing House Pvt Ltd.

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## **B.A. SEMESTER V (Industrial Marketing)**

**COURSE CODE : MK-501**

**LESSON NO- 16**

**UNIT - V**

### **PRICING STRATEGIES, POLICIES AND PRICING IN RURAL INDIA**

#### **STRUCTURE**

- 16.1 Introduction
- 16.2 Objectives
- 16.3 Pricing in Rural Market
- 16.4 Pricing Policies
- 16.5 Pricing in Rural India
- 16.6 Summary
- 16.7 Glossary
- 16.8 Self Assessment
- 16.9 Lesson End Activity
- 16.10 Books Recommended

#### **16.1 INTRODUCTION**

Price is an important element in the marketing mix. Pricing strategy can help a company use pricing to achieve its goals, such as achieving penetration, market share or profits. However, much of the pricing theory fails in rural marketing. This is because

companies have to work around low purchasing power, availability of local brands that are priced cheaply and price points that are convenient for customers. That is why; prices for rural markets must fit market conditions and satisfy the need for affordability. In addition, the pricing must cover costs, which are quite high in rural markets. Arrival at the right selling price is essential in a sound marketing mix. Right price can be determined through pricing research and by adopting the test market techniques. A price policy is the standing answer of the firm to recurring problem of pricing. It provides guidelines to the marketing manager to evolve appropriate pricing decisions. If competition is mainly on a price basis, then each company generally prices its products at the same level as its competitors. Pricing policies and its strategies must be formulated with care and caution. Price level, discounts and rebates, then credit and installment facilities are important considerations while setting prices for rural specific products. Normally, the low-priced products always attract the rural buyers, but rarely some rural customers are quality and status conscious.

## **16.2 OBJECTIVES**

The objective of this chapter is to understand:

- pricing strategies in rural market
- Pricing policies in rural market

## **16.3 PRICING STRATEGIES IN RURAL MARKET**

Price is one of the most important elements in the marketing mix. Price refers to exchange value of the product and it includes maximum retail price, discounts, credit, terms of delivery and maintenance charges. Rural retailers generally require credit and, therefore, product pricing has to be adjusted to meet their requirements. .

**1. Low pricing strategy:** This strategy is widely adopted by marketers and it is follows from the product strategy. A rural customer is price-sensitive because of his relatively low level of income. Pricing the product at a lower price really attracts rural population for trying and buying the products. Today, many companies adopted small unit of packing strategy to reduce the price of products and carter the basic needs of the rural consumers. Small unit packs of shampoo face cream, hair oil, and toothpaste, biscuits, and bathing soap are the best examples of this strategy.

**2. Refill packs / Reusable packaging:** In urban areas most of the health drinks and beverages are available in jars and containers. These containers and jars can be put to multipurpose uses. By giving refill/ reusable packaging, marketers can add value to the pricing of the product. Such types of product packing can have a significant impact in the rural market. For example, the rural consumers can efficiently reuse the plastic bottle of hair oil. Similarly the packages of edible oil, health drinks, tea, coffee, ghee, etc., can be reused.

**3. Application of value engineering:** This is an internationally used technique, which helps organizations not only lower costs but enhance value to customer. The concept has been implemented by a few firms in tapping the rural markets. For example: Nirma detergent powder, over a period of ten years has become the largest selling brand in rural India. The success of Nirma is due to affordable price, medium quality, availability at village shops and use of rural specific mass media. Similarly, in food industry, Soya protein is being used instead of milk protein. Milk protein is expensive while Soya protein is cheaper, but the nutrition content of both is the same. The basic aim is to reduce the value of the product, so that a larger segment can afford it, thus, expanding the market.

**4. Large volume-low margins (Rapid or slow penetration strategy):** Marketers have to focus on generating large volumes and not big profit margins on individual products. If they price their product at a level which can lead to good volumes, then they can still generate good returns on the capital employed.

**5. Overall efficiency & passing on benefits to consumers:** For rural products, the strategy should be to cut down the production, distribution and advertising costs and passing on these benefits to the customers to further increase the turnover. Most often, it has been observed that advertising has less to do with product sales in the rural areas. If an organization gets the price point right, then it can work in rural market.

**6. Low volume-low price strategy:** This strategy of reducing prices by reducing the package size in order to make it appear more affordable, is delivering very good results for a large number of FMCG product categories, in the rural markets of India. In categories where maintaining the price point is extremely critical, this strategy is delivering very good results.

**7. Discounts:** Discounts are offered to motivate the retailers to sell more of the companies' products. A discount of about 10 per cent is given on the maximum retail price

in the case of fast-moving consumer goods. Many Companies offer attractive additional discounts to motivate the retailer to stock the products during off-season.

**8. Ensuring price compliance:** Rural retailers, most of the times, charges more than the MRP. The manufacture has to ensure price compliance either through promotional campaigns, as was done by Coca Cola, or by ensuring the availability of products at the retail outlets directly.

#### **16.4 PRICING POLICIES**

A price policy is the standing answer of the firm to recurring problem of pricing. Pricing policies provides guidelines to the marketing manager to evolve appropriate pricing decisions. If competition is mainly on a price basis, then each company generally prices its products at the same level as its competitors. It is essential for the manufacturers to devise a pricing policy which suits for rural population without making any compromises with the quality of the product. Today, many firms have tied up with financial companies for financing schemes for its products. Some selected pricing strategies are adopted by marketers in rural areas are:

1. **Price in Line (Pricing at the Market):** The selling product at current market price is desirable under free competition only when a customary price level exists. It is preferable when product differentiation through branding is minimum, buyers and sellers are well-informed and we have a free market economy. Under such conditions price loses its importance as a weapon of competition and sellers have to adopt other means of non-price competition, e.g., branding, packaging, advertising, sales promotion, credit, etc., to capture the market.
2. **Market-Plus (Pricing above the market):** The selling product above the market prices under free competition is profitable only when product is distinctive, unique and it has prestige or status in the market. Customer is inclined to put a greater value on the product if the package is very good or the brand is well-known. Otherwise, it will be a killing price policy, especially if the customer is price-conscious.
3. **Market-Minus (Pricing below the market):** The selling product below

the market price, particularly at the retail level, is profitable only to large chain stores, self-service stores and discount houses. These large retailers can sell well known nationally advertised brands 10 to 30 per cent below the suggested retail prices, list prices or fixed resale prices by the manufacturers.

4. **Skim-the-Cream Price (High Pricing):** A marketer introducing a new product may adopt this pricing strategy deliberately to build up the image of quality and prestige for his new product. In the earlier stages of product life cycle, a strategy of high price associates with heavy expenditure on promotion, and at the later stage of the product life cycle, a strategy of lower prices with normal promotional expenditure pays a rich dividend.

#### **Reasons for Skimming Price Policy**

There are a few reasons supporting skim-the-cream pricing for a new unique product in its introduction stage:

- a) In the initial stage, price is less important in purchase decisions. There are buyers who are not sensitive to price and they do not mind higher price. As the product is new and distinctive, there is little competition.
- b) When entry of rivals is difficult, costs are uncertain, life-cycle is short, we should prefer skimming price.
- c) Skimming price enables the firm to take the cream of the market, at a higher price and then it may attempt to appeal price-sensitive sections of the market by adopting penetration, i.e., lower price.
- d) High initial price can provide a large margin which generates revenue easily, and if the price is too high, it can be easily lowered. Reverse is not practical.
- e) High initial price can keep demand within limit of productive capacity.

#### **Disadvantages of skimming price policy**

- a) There are two disadvantages of skimming price
- b) It attracts competition.

- c) If entry of rivals is easy, this policy is risky.
- 5. **Penetration Pricing (Low pricing):** The policy is favorable under the following conditions:
  - a) Product has greater elasticity of demand.
  - b) Mass-production provides substantial reduction in unit cost of production.
  - c) Very strong competition in the market.
  - d) High-income section of the population is not adequate. Majority of the population lies in the middle and lower income group.
- 6. **One-Price vs. Variable Price Policy:** Under one-price policy, a seller charge same price to all similar types of buyers and there will be no discrimination among the buyers of the same commodity. There is no question of negotiation, bargaining and no favoritism is shown to any buyers. Terms and conditions of sale are same for similar product. Discounts and allowances are granted on equal terms to all buyers. It is a fair trade practice. It gains customer confidence. A fair and fixed policy in line with the normal market price and providing for normal margin of profit is the best pricing policy.

Under variable-price or negotiated price policy, the seller will sell same quantities to different buyers at different prices. Certain favored customers are offered lower prices. The terms of sale, e.g., discounts and allowances are granted on unequal terms to buyers. In developing countries, sellers commonly use variable pricing for most consumer items.

#### **Advantages of One Price Policy**

- a) No favoritism and uniformity in pricing
- b) Saving of time in sale as no question of price bargaining.
- c) Customer confidence is secured.
- d) The seller can maintain his goodwill.

- e) It is eminently suitable for self-service retailing and mail order selling.
- f) Large retailers follow this policy.

#### **Advantage of Variable Price Policy**

- a) Seller can have flexibility in his dealings with different customers.
- b) Certain valuable customers can be offered lower price.
- c) Flexible price policy enables to attract customers of other competitors and thus new business can be secured.
- d) When the size of the transaction is large, price should be negotiable.
- e) The sellers of consumer durables often adopt variable price policy.
- f) On the whole, it has been found that one-price policy is the best policy. Variable price policy will spoil the seller's reputation. It can lead to a price war and unhealthy competition.

**7. Cost-Plus or Mark-up Pricing:** This is the best approach to pricing. It is based on the seller's per-unit cost of the product plus 'an additional margin of profit. Under this, there are four variables are used in determining the sale price:

- 1. Cost of producing/ acquiring goods.
- 2. Cost of operating/selling expenses.
- 3. Interest, depreciation, etc.
- 4. Expected profit margin-mark-up.

The mark-up is indicated as a percentage of the cost of goods. The mark-up as a percentage of selling price is a very common practice particularly in retail trade. Cost-plus pricing is very popular in retail trade and wholesale trade.

**a8. Psychological Pricing:** It is used to create an illusion of a bargain. It is a popular practice of setting the prices at odd points, e.g., 49 00, 995, etc. This policy is usually followed by consumer goods industry. Prices of

consumer durables such as cars, refrigerators, etc., are usually fixed in odd amounts. Such pricing strategy is based on the belief that buyer is mentally prepared to pay a little less than the rounded figure, e.g. 999 instead of 1000 for a product. Even prices create an impression that the product is of high quality.

**9. Product- Bundle Pricing:** Product - bundle pricing is combining several products and offering the bundle at a reduced price. Companies very commonly use this pricing policy during period of inflation. It helps to generate sales and attract consumers in highly competitive markets. It is extensively used during the festival and marriage seasons by durable goods manufactures to sell various goods bundled together at reduced prices. For example: HLL launched a combo pack comprising a clinic shampoo bottle, a tube each of pepsodent and Fair & Lovely and pond's Dream flower talcum for rural areas. HLL provided hampers at discounted prices Rupees. 5, 10, 15 and 20 each in addressing issues of consumers awareness, attitudes and habits.

**10. Charge What the Traffic will bear:** Charge what the traffic will bear. It points out demand price. It is usually adopted by railways in our country. Professionals like doctors, lawyers, chartered accountants, consultants, etc., adopt this pricing strategy. They charge their fees on the basis of ability to pay.

**11. Right Pricing:** In the long run, the best pricing policy in a competitive market is the market based method of pricing. It is safer to follow the prices of important competitors who dominate the market. Such a price policy will prevent price war, and assure normal profits.

**12. Discounts:** Discounts are price concessions offered to traders or buyers in the form of deductions from the list price or from the amount of a bill or invoice. They are forms of indirect price competition. The common forms of discounts are:

**a. Trade Discount:** Trade discount is a kind of functional discount. It is usually given to the wholesaler or retailer, in payment for marketing functions which these traders are expected to perform. Sellers quote price less discount rather than net price.

#### **Advantages of Trade Discount**

a) Trade discount can act as a weapon of price competition.



- b) It makes price structure flexible.
- c) The seller can offer a larger trade discount to attract business from the rivals.

### **Limitations of Trade Discount**

- a) The manufacturer may offer a larger trade discount to the wholesaler and retailer. But the traders may pass on the additional margin to their customers in the form of price reductions rather than using it for additional sales promotion efforts.
  - b) The increased discounts given to the traders may lead to unhealthy competition.
- b. Cash Discount: It is merely a rebate or a concession given to the trader or consumer to encourage him to pay in full by cash or cheque within a short period of the date of the bill or invoice. It is a deduction from the amount of the bill or invoice amount to be paid. Cash discount is calculated on the net amount due after first deducting trade and quantity discounts from the initial price list.

### **Purpose of Cash Discount**

- a) The wholesaler need not have a larger working capital as he need not sell on credit to the retailer.
- b) There is relief in the recovery of debts and no danger of bad debts. To the seller cash sales are always welcome.
- c. Quantity Discount: In order to encourage a customer to make bulk or large purchases at a time or to concentrate his purchases with the seller, quantity discount may be offered to large buyers. Quantity discount can reduce the prices for bulk purchase order. Purposes of Quantity Discount
  - a) Sales of slow moving items can be stimulated.
  - b) Manufacturer can have real economies in production as well as in selling. This will reduce his total costs.
  - c) The manufacturer will have no problem of accumulated stocks or

inventories.

- d. Seasonal Discount: The manufacturer may offer additional seasonal discount of say 5, 10 or 15% to a dealer or a customer who places an order during the slack season. This will ensure better use of his plant and production facilities.

**13. Allowances:** The manufacturer may offer promotional allowances, e.g., advertising allowance, window display allowance, free samples, free display materials, free training in sales demonstration and sales talk, etc. It amounts to a price reduction of an equal amount of service expected.

#### **Benefits of Discounts and allowances**

- a) Discounts and allowances are rarely given in selling to the ultimate consumers. They are offered to resellers only.
- b) They are common in wholesale and retail trade-in the sale of manufactured goods.
- c) Such price concessions are good weapons of healthy competition and sales promotion.
- d) If these price concessions are given to all dealers and merchants without discrimination there is no problem of ill-will in trade.

#### **Disadvantages of Discounts and allowances**

- a) Discounts and allowances are not offered to all competing customers on Proportionally equal terms, in which case they are considered as unfair and unwise trade practices.
- b) In many countries, promotional allowances are controlled by law to ensure fair trading. 5. We also come across secret or confidential discounts given by manufacturers to preferred customers. These are given in highly competitive lines or especially during a trade depression.
- c) These are also undesirable and unfair trade practices. It is difficult to control these malpractices by legislation alone.

#### **14. Non-Price Competition**

The seller should rely more on non-price factors to capture the consumer demand. At present in many countries business firms avoid price reduction as a means of competition.

With or without price competition, increasing emphasis is being given on the various weapons of non-price competition. Non-price competition devices are:

- a) Branding,
- b) Attractive packaging,
- c) Service after sale,
- d) Liberal credit,
- e) Free home delivery,
- f) Money-back guarantee (return of goods),
- g) Sales promotion,
- h) Advertising,
- i) Personal salesmanship, and
- j) Product improvements and innovations.

Price is not the sole determinant of purchasing. Besides fair price, consumers demand better services, better quality and reliability, fair trade practices, personalized relation with sellers, quality guarantee, credit, etc. Non-price factors are important selling points, in addition to price. Non-price competition tends to increase as buyers put more stress upon quality, fashion, variety, style, finish and service than on price.

#### **16.5 PRICING IN RURAL INDIA**

Price is the central element of marketing mix, particularly, for rural markets. It is believed that rural consumers are most price sensitive due to their relatively lower income level. The marketers will have to examine methods by which they can make the product more affordable for the rural consumer. Pricing is an area of paramount significance in the overall rural marketing strategy. Pricing is an important strategic issue because it is related

to product positioning. Furthermore, pricing strategy affects other marketing mix elements such as product features, channel decisions and promotion campaigns. Depending on the company's business objectives and the influence of internal and external factors, marketers can follow a particular pricing strategy or a blend of various pricing strategies. Before formulating pricing strategies and policies for rural population, the marketers must need to understand rural income and occupation patterns and other related factors properly as these have a direct relationship with rural pricing decisions.

Rural pricing has to keep the following factors in focus before formulating pricing policies and strategies for rural markets:

- a) **Low Purchasing Power:** A major problem in rural areas is the lack of purchasing power. The census 2011 for rural India shows that more than half of rural households depend on manual labour for livelihood and 75 percent of the rural population earn less than 5,000 per month. This means lower pricing strategy is more important for rural population.
- b) **High Selling and Distribution Cost:** Salesmen travelling over long distances, sending small quantities of goods and collecting small payments add to high sales and distribution costs. Companies have to figure out how these costs can be recovered.
- c) **Gaining Consumer Acceptance:** Prices have to be set keeping in view consumer acceptance. Usually the problem is in trying to sell high priced brands when similar unbranded products are available at cheaper prices.
- d) **Difficulty of Communicating Value:** High prices imply that the company is able to communicate value to the customers. This is often a difficult task in villages and it depends on direct selling.
- e) **Local Brands are Cheaper:** While in urban areas brands can use competition-based pricing, competition in villages comes from unbranded or local brands, which offer reasonably good quality. These products also have substantial loyalty. Companies have to figure out ways to fight these products that are priced much cheaper than bigger brands.

Based on the aforementioned reasons it has been found that rural pricing decisions are not easy because markets are imperfect. **2.1.1 Marketing in rural areas can only succeed if**

prices are made affordable. Many of the pricing policies methods like market skimming will fail because of the unique nature of rural India. Innovative approaches are more likely to succeed than time tested methods used in urban markets. Some of the important innovative pricing strategies which are adopted by the marketers in rural India are:

**1. Low pricing strategy:** This strategy is widely adopted by marketers. Pricing the product at a lower price really attracts rural population for trying and buying the products. Today, many companies adopted small unit of packing strategy to reduce the price of products and cater the basic needs of the rural consumers. Small unit packs of shampoo face cream, hair oil, and toothpaste, biscuits, and bathing soap are the best examples of this strategy.

**2. Refill packs / Reusable packaging:** In urban areas most of the health drinks and beverages are available in jars and containers. These containers and jars can be put to multipurpose uses. By giving refill/ reusable packaging, marketers can add value to the pricing of the product. Such types of product packing can have a significant impact in the rural market. For example, the rural consumers can efficiently reuse the plastic bottle of hair oil. Similarly the packages of edible oil, health drinks, tea, coffee, ghee, etc., can be reused. Low pricing Strategy

**3. Psychological Pricing:** This method of pricing is also called as odd pricing. Under this, prices of the products are fixed in such a way that they have some kind of psychological influence on the buyers. For example, a price conscious customer may pay Rs. 299 for a pair of shoes by Bata and may not like to buy the same pair at Rs. 300.

**4. Product-Bundle Pricing:** Product - bundle pricing is combining several products and offering the bundle at a reduced price. It is extensively used during the festival and marriage seasons by durable goods manufacturers to sell various goods bundled together at reduced prices. For example: HLL launched a combo pack comprising a Clinic shampoo bottle, a tube each of Pepsodent and Fair & Lovely and Pond's Dream flower talcum for rural areas. HLL provided hampers at discounted prices Rs. 5, 10, Rs. 15 and Rs. 20 each in addressing issues of consumer's awareness, attitudes and habits.

**5. Special event pricing:** For rural India, this type of pricing could be offered at the time of harvest, or the wedding season or during festivals like Diwali.

Price is an important element in the marketing mix. Pricing strategy can help a company use pricing to achieve its goals, such as achieving penetration, market share or profits. However, much of the pricing theory fails in rural marketing. A price policy is the standing answer of the firm to recurring problem of pricing. Pricing policies provides guidelines to the marketing manager to evolve appropriate pricing decisions. If competition is mainly on a price basis, then each company generally prices its products at the same level as its competitors. Pricing is an area of paramount significance in the overall rural marketing strategy. Pricing is an important strategic issue because it is related to product positioning. Furthermore, pricing strategy affects other marketing mix elements such as product features, channel decisions and promotion campaigns. Depending on the company's business objectives and the influence of internal and external factors, marketers can follow a particular pricing strategy or a blend of various pricing strategies. Before formulating pricing strategies and policies for rural population, the marketers must need to understand rural income and occupation patterns.

## 16.7 GLOSSARY

- **Price:** Price refers to exchange value of the product and it includes maximum retail price, discounts, credit, terms of delivery and maintenance charges.
- **Pricing Policies:** Pricing policies provides guidelines to the marketing manager to evolve appropriate pricing decisions.
- **Discounts:** Discounts and allowances are price concessions offered to traders or buyers in the form of deductions from the list price or from the amount of a bill or invoice.
- **Refill packs / Reusable packaging:** In urban areas most of the health drinks and beverages are available in jars and containers. This containers and jars can be put to multipurpose uses. By giving refill/ reusable packaging, marketers can add value to the pricing of the product. Such types of product packing can a significant impact in the rural market.
- **Product-Bundle Pricing:** Product - bundle pricing is combining several products and offering the bundle at a reduced price. It is extensively used during the festival and marriage seasons by durable goods manufactures

to sell various goods bundled together at reduced prices. For example: HLL launched a combo pack comprising a clinic shampoo bottle, a tube each of pepsodent and Fair & Lovely and pond's Dream flower talcum for rural areas.

- **Special event pricing:** For rural India, this type of pricing could be offered at the time of harvest, or the wedding season or during festivals like Diwali.
- **Psychological Pricing:** This method of pricing is also called as odd pricing. Under this, prices of the products are fixed in such a way that they have some kind of psychological influence on the buyers.

### 16.8 SELF ASSESSMENT QUESTIONS

Q1. Define rural pricing.

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Q2. Explain the various pricing strategies are adopt by marketer in rural market.

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Q3. What are the various pricing policies?

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### 16.9 LESSON END ACTIVITY

Q1. Define pricing.

Q2. Write down the various pricing policies of rural market.

Q3. Explain the various factor of pricing has to keep in mind before formulating various policies and strategies in rural market.

Q4. Explain pricing in rural India.

#### **16.10. BOOKS RECOMMENDED**

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International
- Balkrishnan, Mandira Dutta (1978), "Rural Marketing: Myth and Reality", Economic and Political weekly, August 1878, M-75 to M-80.
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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 17**

**UNIT - V**

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**DISTRIBUTION CHALLENGES IN RURAL CONTEXT**

**STRUCTURE:**

- 17.1 Introduction
- 17.2 Objectives
- 17.3 Distribution Challenges in Rural Context
- 17.4 Rural Logistics Management
- 17.5 Rural Coverage Decisions
- 17.6 Decisions About Various Rural Distribution Systems
- 17.7 Summary
- 17.8 Glossary
- 17.9 Self Assessment Questions
- 17.10 Lesson End Exercise
- 17.11 Suggested Readings

**17.1 INTRODUCTION**

A distribution channel is generally seen as a chain of intermediaries, who pass the product down the chain to the subsequent unit, until it lastly reaches the consumer or end-

user. Each aspect of the chain has its individual specific requirements, incentive and capability to deliver in a distinctive operating environment, which the company must keep in mind, alongside with those requirements of the end-user. Newest improvements in rural distribution models have extended the role of the distribution partner. The distributor role is no longer limited to physical delivery of products only, but has also stretched to the provision of some other inputs, which influence a consumer's purchase decision, for instance credit and post-sales service.

## **17.2 OBJECTIVES**

At the end of this chapter, you will be able to understand:

- prevalent rural distribution channels
- the distribution challenges in rural context
- rural logistics management and rural coverage decisions.

## **17.3 DISTRIBUTION CHALLENGES IN RURAL CONTEXT**

The challenges of distribution strategy are as follows:

- Large number of small markets
- Dispersed population and trade
- Poor road connectivity
- Multiple tiers
- Poor availability of suitable dealers
- Low density of shops per village
- Inadequate banks and credit facilities
- Poor storage system
- Low investment capacity of retailers
- Poor visibility and display of products on rural shop shelves
- Poor communication of offers

There are many problems to be tackled in rural marketing despite rapid strides in the development of the rural sector. Some of the common problems are discussed in the paragraphs given below.

### **Transportation**

This is an important aspect in the process of movement of products from urban production centres to remote villages. The transportation infrastructure is very poor in rural India. Due to this reason, most of the villages are not accessible to the marketing man. In our country, there are six lakhs villages. Nearly 50 per cent of them are not connected by road at all. Many parts in rural India have only kachcha roads. During the monsoons, even these roads become unserviceable. Regarding rail transport, though India has the second largest railway system in the world, many parts of rural India however, remain outside the rail network.

### **Communication**

Marketing communication in rural markets suffers from a variety of constraints. The literacy rate among the rural consumers is very low. Print media, therefore, have limited scope in the rural area. Apart from low levels of literacy, the tradition-bound nature of rural people, their cultural barriers and their overall economic backwardness add to the difficulties of the communication. Post, telegraph, telephones are the key components of the communication infrastructure. These facilities are extremely inadequate in the rural parts of our country. In rural areas, the literacy percentage is still low, compared to urban areas. In India, there are 18 recognised languages. All these languages and many dialects are spoken in rural areas. English and Hindi are not understood by many people. Due to these problems, rural consumers, unlike urban consumers do not have exposure to new products.

### **Availability of appropriate media**

It has been estimated that all organised media in the country put together can reach only 30 per cent of the rural population of India. The print media covers only 18 per cent of the rural population. The radio network, in theory, covers 90 per cent. However, actual listenership is much less. TV is popular and is an ideal medium for communicating with the rural masses. As it is not available in all interior parts of the country, it is estimated

that TV covers 20 per cent of the rural population. However, the actual viewership is too little. The cinema, however, is a good medium for rural communication. These opportunities are very low in rural areas.

### **Warehousing**

A storage function is necessary, because production and consumption cycles rarely match. Many agricultural commodities are produced seasonally, whereas demand for them is continuous. The storage function overcomes discrepancies in desired quantities and timing. In warehousing too, there are special problems in the rural context. The central warehousing corporation and state warehousing, which constitute the top tier in public warehousing in our country, have not extended their network of warehouses to the rural parts. It is almost impossible to distribute effectively in the interior outlets in the absence of adequate storage facilities. Due to lack of adequate and scientific storage facilities in rural areas, stocks are being maintained in towns only.

### **Village structure in India**

In our country, the village structure itself causes many problems. Most of the villages are small and scattered. It is estimated that 60 per cent of the villages are in the population group of below 1,000. The scattered nature of the villages increases distribution costs and their small-size affects economic viability of establishing distribution points.

### **Rural markets and sales management**

Rural marketing involves a greater amount of personal selling efforts compared to urban marketing. The rural salesman must also be able to guide the rural customers in the choice of the products. It has been observed that rural salesmen do not properly motivate rural consumers. The rural salesman has to be a patient listener as his customers are extremely traditional. He may have to spend a lot of time on consumer visits to gain a favourable response from him. Channel management is also a difficult task in rural marketing. The distribution channels in villages are lengthy involving more intermediaries and consequently higher consumer prices. In many cases, dealers with required qualities are not available.

### **Inadequate banking and credit facilities**

In rural markets, distribution is also hampered due to lack of adequate banking and credit facilities. The rural outlets require banking support to enable remittances, to get replenishment of stocks, to facilitate credit transactions in general, and to obtain credit support from the bank. Retailers are unable to carry optimum stocks in the absence of adequate credit facilities. They are not able to offer credit to the consumers, because of this problem. All these problems lead to low marketing activities in rural areas. It is estimated that there is one bank for every 50 villages, showing the poor banking facilities in rural areas.

### **Market segmentation in rural markets**

Market segmentation is the process of dividing the total market into a number of sub-markets. The heterogeneous market is broken up into a number of relatively homogeneous units. Market segmentation is as important in rural marketing as it is in urban marketing. Most firms assume that rural markets are homogeneous. It is unwise on the part of these firms to assume that the rural market can be served with the same product, price and promotion combination.

### **Branding**

The brand is the surest means of conveying quality to rural consumers. Day-by-day, though national brands are getting popular, local brands are also playing a significant role in rural areas. This may be due to illiteracy, ignorance and low purchasing power of rural consumers. It has been observed that there is greater dissatisfaction among the rural consumers with regard to selling of low quality duplicate brands, particularly soaps, creams, clothes, etc., whose prices are often half of those of national brands, but sold at prices on par or slightly less than the prices of national brands. Local brands are becoming popular in rural markets in spite of their lower quality.

### **Packaging**

As far as packaging is concerned, as a general rule, smaller packages are more popular in the rural areas. At present, all essential products are not available in villages in smaller packaging. The lower income group consumers are not able to purchase large and medium size packaged goods. It is also found that the labelling on the package is not in the

local language. This is a major constraint to rural consumers understanding the product characteristics.

#### **17.4 RURAL LOGISTICS MANAGEMENT**

Distribution strategy is explained in the paragraphs below.

##### **Ensuring reach and visibility**

The thing which is important is to get the Stock Keeping Unit right, as rural retailer can't afford to keep many different SKUs. Being first on the shelf in the product category and develop a privileged relationship with the retailer is a source of competitive advantage to consumer goods companies, in such an environment.

##### **Reaching up to mandis, towns, semi-urban centres**

Organisations can cater to rural requirements for consumer durables, clothes, kitchen equipment and agri-input by making their products available up to feeder towns, semi-urban centres or mandis.

##### **Targeting larger villages**

There are just 85,000 large villages out of more than 6, 38,000 villages. However, they have 40% of the rural population and 60% of total consumption.

##### **Understanding of peak seasons**

Peak season times in rural parts are harvest, festivals and marriage seasons. Bulk of the demand for the consumer durables is concentrated during these times. The rural consumers have the cash at this time for shopping and are willing to buy. Organisations have to ensure that their products are available at these times.

##### **Collaboration for distribution**

Organisations with comparatively lesser distribution reach can work together with organisations that already have achieved high penetration levels in rural areas. E.g., P&G had tie-ups with Godrej, Marico Industries and now it's planning one with Nirma for distribution of Camay soaps.

### **Converting unorganised sector manufacturers into distributors**

Small-scale manufacturers have good knowledge of the territory and have good sales network. Organisations like Exide are attempting to change these small-scale manufacturers to become their dealers.

#### **Company's own distribution network**

Project Shakti of HUL is the example of a company's own distribution network.

### **17.5 RURAL COVERAGE DECISIONS**

Decisions regarding distribution channels in rural India are discussed in the paragraphs given below.

#### **Use of cooperative societies**

There are more than 4 lakh co-operatives operating for different purposes like credit, marketing and dairy cooperatives in rural areas. E.g., for rural consumers Farmers Service Co-operative Societies function like a mini super market, where they sell soaps, detergents, cloth, fertilizers, seeds, pesticides, etc., at economical and reasonable prices. As these societies have necessary infrastructure for storage and distribution, companies may contact these societies to sell their products.

#### **Use of public distribution system**

The public distribution system is well organised in India. There are about 4.37 lakh fair price shops operating in the country. As the PDS outlets cover the entire country, they can be utilised for marketing consumable items and low value durables in rural areas.

#### **Utilisation of petrol pumps**

These petrol pumps, in addition to petrol/diesel, oil and lubricants are also selling consumables, such as soaps, detergents, biscuits, etc., particularly on the highways. These bunks may also think of stocking certain consumable agricultural inputs like fertilizers, seeds and pesticides.

#### **Agricultural input dealers**

In the country, there are about 2, 62,000 fertilizer dealers. Most of the dealers

don't have business during off season; hence the companies may try to motivate them, so that they can sell other products also during their free time.

### **Shandies/Haats/Jathras/Melas**

Shandies are periodic markets which operate in a weekly cycle. They offer a ready distribution network and are cheap, steady and appropriate. 'Haats' can be effectively used for demonstration; distribution and sampling of the daily need products. 'Melas' work best for introducing new brands and building brands through the organisation of events at the venue.

#### **Accessing Rural Markets: Coverage Status in Rural Markets**

##### **Rural markets can be accessed as follows:**

- Marketers have to ensure the reach of their product to retail outlets, and they also need to motivate retailers to stock their product or brand.
- 50% of the rural population resides in the 1 lakh odd large villages. These villages are connected by all-weather roads and they account for 60% of rural wealth.
- At the other end are 2.3 lakh tiny villages, which have hardly any shops.
- Eveready, HUL, ITC, etc., are the companies that have the most deeply penetrated rural distribution system just to about cover the retail network up to the 2000+ population villages.

##### **Rural Distribution Channels**

For the movement of products from the company depot to the interior village markets, five layers of distribution channels are identified as follows:



Table 17.1 Five layers of distribution channels

Layer	Channel Partner	Location
Layer 1	Company depot / C&F A	National/state-levels
Layer 2	Distributor/van operator/super stockist/rural distributor	District-level
Layer 3	Sub-distributor/ retail stockist/sub-stockist/ star seller/shakti dealer	Tehsil HQ, towns and large villages
Layer 4	Wholesaler	Feeder towns, large villages and haats
Layer 5	Retailer	Villages and haats

## 17.6 DECISIONS ABOUT VARIOUS RURAL DISTRIBUTION SYSTEMS

Evolution of rural distribution systems are as follows:

- Historically, the rural distribution system has included retailers, wholesalers, mobile traders, vans and weekly haats.
- In the feeder markets, retailers act as wholesalers and vice versa to sell to small retailers who come from surrounding villages.
- Some town retailers send their salesmen to villages to book orders and supply goods to these small retailers.

### Wholesaling

Wholesaling involves the following:

- 50% of rural consumption is still routed through wholesalers, because they are located in nearby feeder markets, which are frequented by village retailers to replenish stocks.
- Indian wholesaler is a trader, rather than a distributor and as a result tends to support a brand during periods of boom and withdraws support during periods of slump.
- Rural markets were neglected by most companies due to the low density of retail outlets and the small off-take per retailer. Wholesalers based in feeder towns took advantage of this situation as village retailers found it convenient to buy from these places. This resulted in the hold of the market by these wholesalers, who often indulged in trade malpractices in the channel.

### **Rural Retail System**

- Rural retail system functions as follows:
- Rural India accounts for 65% of retail outlets in the country. The logistics of feeding the 35 lakh retail outlets spread over 6 lakh villages is a tough task.
- The high distribution costs due to geographical spread and low volumes per outlet act as a barrier to the entry of products in rural markets.
- The average monthly sale per village shop is less than Rs. 5000/-, which restricts the variety and range of the products stocked.
- " As a significant portion of the sale is on credit, it puts most village shops in a self-limiting sales cycle.
- Despite the same product being available in the village shop, 58% of villagers prefer to buy these from a haat because of better price, quality and variety.

### **Stock Turnover**

- Stock turnover involves the following:
- Average value of stock per product category in interior villages is about a third of that in feeder villages.

- Off-take of packaged food stuff and tobacco is higher in interior villages, whereas toiletries have a higher take-off in feeder villages in comparison to other products.
- The cash outlay of rural retail outlets is very low and most of it is invested in fast moving brands and high-margin commodities.
- The low off-take, low stocks and lower stock turnover ratio together pose a challenge to the marketer of a new product that how to occupy retail shelf space in rural markets.
- Rural retail shelf space can be occupied by offering consumers a combination of attractive margins, credit facility and servicing that is superior to that offered by the competition.
- Rural retail shelves: Unlike urban retail shelves, rural retail shelves are flooded with local and regional brands with promises of higher margins and longer credit periods to retailers.
- The number of product categories stocked by rural and urban stores does not vary significantly. However, what does vary is the number of companies/brands. This difference in stocking pattern is because of poor reach and difficulty in servicing stores.
- The first task is making brands available, but simultaneously marketers also need to make efforts to ensure their visibility on rural retail shelves. Products are stocked in a cluttered and disorganised way.
- Slow-moving products covered with dust accumulated over a period of time are a common sight. The visibility of brands is very poor due to the absence of proper racks and display boxes and stands.
- Brands that are advantageous to the retailer's business are displayed prominently.
- Marketers need to devise strategies to occupy rural retail shelf space by providing display and storage systems. (Wall mounted display strips for fairness creams and ice boxes for soft drinks.)

### **Vans**

- The uses of vans are as follows:
- Mobile vans have an important place in the distribution and promotion of products in villages.
- In this system, the salesman loads the van with stocks from the nearest stockist or company stock point and works the surrounding markets.
- Once he has covered all such markets, he moves to the next stock point and starts covering the villages surrounding that stock point.
- Eveready batteries and torches are market leaders. It established an extensive distribution network that includes 1000 vans, 4000+ distributors and 44 warehouses. These vans reach 6 lakh retail outlets directly, each van making 50 to 60 calls per day. The company ensures that the van revisits a retailer every 15 days. The stock for these vans is supplied by the small town distributors.

### **Rural Mobile Traders-The Last-Mile Distribution**

Rural mobile traders-the last-mile distribution has the following features:

- Mobile trading is an age-old, unorganised distribution system, direct to home in rural India.
  - Sell a variety of daily-need products, mostly local brands ranging from detergent, cosmetics and personal care products to garments and footwear.
  - They carry their products on mopeds, bicycles, handcarts or on foot.
  - Mobile traders have a deep reach, since they target small villages to avoid competitions from shops in bigger villages. Their direct selling approach ensures high involvement on the part of consumers and since they have a fixed and committed consumer base, mobile traders enjoy a good rapport with their clients.
- " Mostly sell fakes and local brands.

### **Haats/Shandies**

Haats are the periodic markets and the oldest marketing channel in India. These

markets provide people an opportunity not only to purchase consumer goods, but also to sell surplus agricultural and allied products. They provide a first-contact point for villagers with the market, a means for distributing local products and exchanging rural surplus, an opportunity for buying daily necessities as well as farm supplies and equipment and a place for social, political and cultural contact. Each haat caters to the need of a minimum of 10 to a maximum of 50 villages, drawing around 4000 persons who come to buy and sell a range of daily necessities and services.

### **Public Distribution System (PDS)**

PDS is a system of distribution for necessary commodities to a large number of people through a network of FPS (Fair Price shops, often referred to as 'ration shops'). The commodities are rice, wheat, sugar, edible oil and kerosene. PDS has been evolved to reach the urban as well as the rural population in order to protect consumers from the fluctuating and escalating price syndrome.

It has emerged as a major instrument of the Government's economic policy aimed at ensuring availability of food grains to the public at affordable prices as well as for enhancing food security for the poor. PDS has a network of about 4.76 lakh. FPS is the largest distribution network of its type in the world.

#### **Behaviour of the Channel**

- Behaviour of the channel involves the following:
- Credit facilities to customers: Credit sales account for as high as 60 to 70% of the total rural business, while in others it is only 15 to 20%, in some districts. Consumers usually have a running account, a part of the outstanding dues is cleared every month, but the final settlement takes place at the harvest time.
- Pricing by the channel: Sometimes, retailers in interior villages sell at a price higher than the maximum retail price. They justify doing this on the ground that they spend time and money to fetch the products from town wholesalers. A town wholesaler may deliberately cut the price of a fast-moving brand to increase his business.
- Reason for stocking a product/brand: Rural retailers stock a particular item usually

because consumers demand it and to a lesser extent because of the wholesaler's push or because a competitor stocks the item too.

- Seasonal pattern of stocking: Seasonal pattern is probably because the main buying season for rural consumers during the harvest and retail stocking of toiletries, cosmetics, ribbons, bangles, clothes, fertilisers and seeds also follows this pattern.
- Information source and influence: Wholesaler is the most important source of information and also most important influence on the retailer.
- Purchase source: Retailers in interior areas are not visited by agents of distributors. Retailers go to the nearby town/large feeder village once or twice a month to buy their stock.
- Channel credit: Small retailers and retailers in the interior villages must buy in cash, while large retailers in feeder markets are offered credit.
- Purchasing cycles: In high turnover feeder villages, rural shopkeepers often visit the neighbouring urban wholesale market for their purchases, sometimes as frequently as three to four times a week. In other areas, where rural shopkeepers depend only on counter sales and not on wholesale purchases, they may buy once a week or once a fortnight.

## **17.7 SUMMARY**

Distribution is important from firm as well as economy point of view. 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 direct or 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 mediaries.

## 17.8 GLOSSARY

**Distribution:** Distribution means to spread the product or service throughout the marketplace such that a large number of people can buy it.

**Logistic:** Logistics refers to the overall process of managing how resources are acquired, stored, and transported to their final destination.

**Distribution channel:** A is a chain of businesses or intermediaries through which a good or service passes until it reaches the final buyer or the end consumer.

## 17.9 SELF-ASSESSMENT QUESTIONS

Q.1. Discuss the various distribution challenges in rural context?

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Q.2. Elaborate the concept of Rural Logistic Management?

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## 17.10 LESSON ENDED EXERCISE

Q.1. Explain the various strategies for rural logistic management?

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Q.2. Discuss how a company can take decisions regarding rural coverage?

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### **17.11 SUGGESTED READINGS**

- Rural Marketing: Text and Cases By Krishnamacharyulu C.S. and Lalitha Ramakrishnana, Pearson.
- Francis Cherunilam (2011) Industrial Marketing. Third Revised Ed
- Krishna K Havaladar (2006) Industrial Marketing. Tata McGraw Hill. Third Reprint. New Delhi.

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## **B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 18**

**UNIT - V**

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### **Industrial & Rural Marketing**

#### **STRUCTURE:**

- 18.1 Introduction
- 18.2 Objectives
- 18.3 Rural Retailing
- 18.4 Rural Retail Outlets
- 18.5 Types of Rural Retail Outlets
- 18.6 Rural Distribution Strategies
- 18.7 Latest Trends in Rural Retailing and Emerging Distribution Models
- 18.8 Summary
- 18.9 Glossary
- 18.10 Self Assessment Questions
- 18.11 Lesson End Exercise
- 18.12 Suggested Readings

#### **18.1 INTRODUCTION**

The retail market in the country continues to be unorganised and fragmented with a pronounced rural bias despite a market size worth \$180 billion. According to the 'Retailing

in India' report by Price waterhouse Coopers, 98 per cent of the 12 million retail outlets in the country are in the unorganised sector (the largest number in the world). The report said this sector provides jobs to 15 per cent employable adults and perhaps makes the largest contribution to the GDP. The organised retail sector-which constitutes just two per cent, is expected to grow sixfold by 2006 with food and grocery accounting for about 40 per cent of the total market. Organised retail chains are expected to generate 50,000 to 60,000 direct jobs in the next five years. By the turn of the 20th century, the face of the Indian retailing industry had changed significantly. The retailing industry, which, until the early 1990s, was dominated by the unorganized sector, witnessed a rapid growth in the organized sector with the entry of corporate groups such as Tata, RPG, ITC and Bennett Coleman & Company into the retailing market. With the liberalization and growth of the Indian economy since the early 1990s, the Indian customer witnessed an increasing exposure to new domestic and foreign products through different media, such as television and the Internet. Apart from this, social changes such as increase in the number of nuclear families and the growing number of working couples resulting in increased spending power also contributed to the increase in the Indian consumers' personal consumption. These changes had a positive impact, leading to the rapid growth in the retailing industry. Increased availability of retail space, rapid urbanization, and qualified manpower also boosted the growth of the organized retailing sector.

## **18.2 OBJECTIVES**

After studying this unit, you will be able to:

- Comprehend the conceptual knowledge of rural retailing.
- describe the retailing environment in rural India
- understand the types of rural retail outlets.

## **18.3 RURAL RETAILING**

The term retailer also implies that he deals directly with the end user or consumer. Being the last link in the distribution channel by which the manufacturer reaches the end user consumer, the retailer has more knowledge of the customer's aspirations and needs and can influence the end user buying decisions.

Any business entity selling products and services to consumers is 'retailing'. The goods may be sold in a shop, in person, by mail, on the internet, telephone or a vending machine. It could be sold in a shop, on the street or in the home of the consumer. Just as for products, retail also has a life cycle. Newer forms of retail come up to replace the old- this is faster in the Western World, but it is catching in India. Retailing includes all the activities involved in selling or renting consumer products and services directly to ultimate consumers for their personal or home consumption. End customers make most of their purchases in retail stores, which are independent of the producer.

Rural Retail Market is a huge market, but dispersed, in terms of size. There are developed and non developed rural markets. The income shift from lower to higher is taking place faster in rural areas. Cable TV has revolutionized minds, especially those of women and children. They are the main demand -generators. They now aspire to lifestyle products, not just basic ones. Word-of mouth is extremely important here. One to- one efforts are imperative. It takes a totally different mindset to understand the intricacies of marketing for this segment. There are problems with distribution, with language, the products themselves may not be in the right sizes and at the right process, there is not much infrastructure, literacy levels are low, so is per capita income, the number of rural retail outlets is low, rural credit is lacking, banking facilities are inadequate, spurious brands flourish, demands are seasonal and villagers are highly suspicious of the big city types, they feel exploited - all these factors make the rural markets a tough nut to crack.

Of late, India's largely rural population has also caught the eye of retailers looking for new areas of growth. ITC launched the country's first rural mall 'Chaupal Saga', offering a diverse product range from FMCG to electronics appliance to automobiles, attempting to provide farmers a one-stop destination for all of their needs. There has been yet another initiative by the DCM Sriram Group called the 'Hariyali Bazaar', that has initially started off by providing farm related inputs and services but plans to introduce the complete shopping basket in due course. Other corporate bodies include Escorts, and Tata Chemicals (with\Tata Kisan Sansar) setting up agri-stores to provide products/services targeted at the farmer in order to tap the vast rural market.

### **Features of Rural Markets**

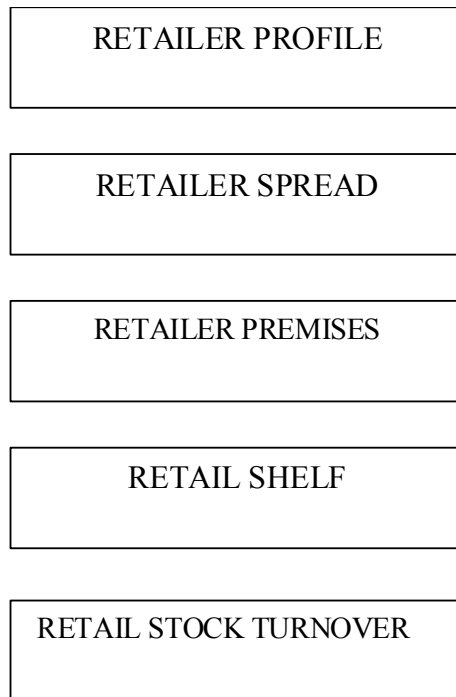
- **Large and Scattered market:** The rural market of India is large and scattered. It consists of over 63 crore consumers in about 6,00,000 villages spread across the country.
- **Major income from agriculture:** Agriculture is the main occupation in rural India. Over 60 % of the rural income is from agriculture. Hence rural prosperity is tied with agricultural prosperity.
- **Low standard of living:** The consumer in the village area have a low standard-of living because of low literacy, low per capita income, social backwardness, low savings, etc.
- **Traditional Outlook:** The rural consumer values old customs and traditions. They do not prefer changes. There is wide spread illiteracy and poor awareness about modern lifestyles.
- **Diverse socio-economic backwardness:** India is a huge country. There are large differences in culture and lifestyle from region to region. Rural India is socio-economically backward.
- **Poor Infrastructure Facilities:** The Infrastructure facilities like roads, warehouses, communication system, and financial facilities are inadequate in rural areas. Many villages in India are inaccessible by roads. Most villages do not have power and water supply. Most villages are very small. There is a very small market. Hence it is often not economically viable to reach these villages. Hence physical distribution becomes costly due to this. 87% of rural markets do not have access to any sort of organized marketing and distribution. The rural bazaar is booming beyond everyone's expectation. This has been primarily attributed to a spurt in the purchasing capacity of farmers now enjoying an increasing marketable surplus of farm produce. In addition, an estimated induction of Rs 140 billion in the rural sector through the government's rural development schemes in the Seventh Plan and about Rs 300 billion in the Eighth Plan is also believed to have significantly contributed to the rapid growth in demand. The high incomes combined with low cost of living in the villages have meant more money to spend.

## **The Challenges**

Though rural markets present a great opportunity to companies, they also impose major challenges. The main challenges in rural marketing are:

- High initial market development expenditure
- Problems related to market research
- Physical Distribution - It is a formidable challenge because it asks for physical distribution of goods over a network of over 35 lakh village shops. The average monthly sale per village shop is less than Rs. 5,000
- Channel Management
- Inability of the small rural retailer to carry stock without adequate credit facility
- Promotion and Marketing Communication

Even today the biggest challenge is distribution. The cost of reaching the goods and services to rural India is prohibitive. It is not commensurate with the returns that the marketers expect. Generating consumer awareness about goods and services pays dividends only when, simultaneously steps are taken to ensure constant availability of the advertised products in the market. In rural India in particular, availability determines volume and market share, because the consumer usually purchases whatever is available at the outlet, influenced largely by the retailers' advice and recommendation. Very few corporates are really 'walking the talk' when it comes to rural marketing. Except the original rural marketing giants such as Hindustan Lever Ltd (HLL) and ITC, who continue to dominate the scene with their constant innovations in this area (Project Shakti of HLL and e-Choupal of ITC), most corporates pay only lip service to the subject. Of course, there are a few who have started establishing separate rural sales and marketing teams and allotting special rural budgets (though, proportionately very low). The emphasis for the present seems to be on distribution, which is to ensure availability of their brands even in smaller markets. The main challenges in rural retail distribution are:



### **Retailer Profile**

There was a time when rural consumers purchased most of their requirements from nearby towns. Recently it has been observed that there has been a greater shift towards purchasing locally. This change has an important implication for the rural marketer. There is need to access retailer in small towns and larger villages and promote products there. Products that are purchased locally must be available in smaller retail outlet in villages.

### **Retailer Spread**

The retail profile examined here with the above chart i.e. the rural market comprises small-dispersed village settlements, infrequent retail outlets and low off-take per retailer. The high distribution cost due to the geographical spread and the low volumes result in a barrier to entry of products in the rural market. The high distribution costs become a barrier when volumes are low. To build volumes there is need to invest in distribution frequent visits to rural villages, but high costs make this unviable. The "distribution cost - volume cycle" require a substantial marketing effort to reach the retail shelf. The entry into

rural markets requires a long-term perspective rather than a short-term gain, in other words the cost is to be treated as investment and not expenditure.

### **Retail premises:**

A village retailer operates under a number of infrastructural constraints i.e., lack of sufficient space, inadequate or no power supply, lack of proper storage system, financial constraints etc. Retail shops in rural areas in India have the lowest retail space per capita in the world; nearly three out of four shops have less than 100 sq. ft. area and its maintenance cost is negligible especially in remote areas; here expense is mainly on travel and transportation.

### **Rural retail shelves:**

Mostly retail outlets stock a few product categories and retailers also carried very few items within a category. No. of units per product category is again very low because of these the following two reasons:

- Want of capital and credit facilities from the marketers or distributors
- Less Shelf space: Therefore one who comes first can occupy the shelf space and no room for the new products. Three out of four shops in rural areas are small beedi shops or provisions stores selling almost all important consumer products. Only in feeder towns one could see specialised shops such as chemists, repair shops etc.

### **Stock Turnover**

The cash outlay of rural retail outlets is extremely low and most of it is invested in fast moving brands and high margin commodities. The low off take, low stocks and low stock turnover ratio together pose a challenge to the marketer of a new product. To achieve this goal one should offer consumers a combination of attractive margins and credit facilities.

## **18.4 RURAL RETAIL OUTLETS**

The small local stores have dominated Indian retailing over the decades and are present in every village and local community, addressing the needs of the population in the area and being the point of contact with the consumer. The distribution networks of brands

extend right up to this point to stay in touch with customer needs and preferences.

Corporate India is already firming up concrete plans to tap the \$100 billion-dollar rural retail market with innovative schemes and human resource policies. What has prompted India Inc's to turn its energies to rural retailing are a slew of facts that rural markets are growing at double the rate of urban markets, more than 70% of the country's 1.12 billion population live in rural areas.

Of late, India's largely rural population has also caught the eye of large retailers looking for new areas of growth. Organised retail chains are establishing their operations in rural India. They are innovating new formats to meet the needs of rural India. ITC launched the country's first rural mall 'Chaupal Sagar', offering a diverse product range from FMCG to electronics appliances to automobiles, attempting to provide farmers a one stop destination for all of their needs. ITC's e-chaupals have revolutionized distribution of farm produce. They offer advice to farmers on crop yield and farming practices and guide them to get best prices for the farm produce. There has been yet another initiative by the DCM Shriram Group called the 'Hariyali Bazaar', that was initially started off by providing farm related inputs and services but plans to introduce the complete shopping basket in due course. DCM Shriram launched its Hariyali Kisan Bazar in 2002 in Punjab, Haryana, Rajasthan, Madhya Pradesh, Uttar Pradesh and Uttaranchal. It has more than 70 stores with an average store area of 9000-10000 square feet. These stores serve a catchment area with a radius of 25 kilometres.

Tata Chemicals too launched its Tata Kisan Sansar (TKS) in Punjab, Haryana, UP, Bihar, West Bengal and has already more than 800 TKS franchisees with an average store area of 300 sq. ft and catchment area of over 10 km. Even public sector companies entered the fray. Indian Oil Corporation's (IOC) rural retail initiative was launched last year in UP, Madhya Pradesh, Punjab, Tamil Nadu, Karnataka and Bihar with more than 1,400 stores and an average store area of 4,400 sq. ft attracting customers from a catchment area covering a radius of 10-15 km. Reliance Retail's Rural Hubs (procuring-cum-processing hub & one-stop farmer shop) has plans for Punjab, Maharashtra, West Bengal, Andhra Pradesh and Gujarat. Pantaloon also plans a similar procuring-cum processing hub for setting up farm input malls in rural areas.

Bharti-Wal-Mart joint venture, plans to invest substantially in the next 3-4 years



for establishing supply-chain network in rural India. This will procure directly from the farmers and carry the farm produce for further processing or sale through a very efficient transportation system.

The corporates are taking special efforts to ensure the quality of products and services offered to rural customers. The 'trust' factor has been highlighted to their employees in rural retail. Unlike urban retail customers, in rural retail there are fix set customers. The area that would be addressed is within 25-30 km range. And again unlike urban retailing, customers come from far-flung areas and are visitors from other states. The relationship factor is stronger in rural and smaller towns. They just keep coming to the outlet or stop if they are not convinced about the quality, price or service.

## **18.5 TYPES OF RURAL RETAIL OUTLETS**

### **The Retail Outlet on Wheels**

Mobile vans have an important place in distribution and promotion of products in villages. In this system the salesman, the sales man loads the van with stocks from the nearest stockist or company stock points and works the surrounding markets. These vans can be your mobile retail outlets - for spot sales against cash in bazaars, melas, festivals and mandirs. The company could simultaneously ply vans that stock its products to create not only sales volumes, but to build up stockists' confidence and improve cash flows. Furthermore, the company's mobile distribution network and the executives who operate it could build up considerable clout with the rural sub-stockists and retailers by providing them with useful tips for healthy homes and imparting information on improvements in farming.

### **Rural Mobile Traders**

This is an age old, direct to home, unorganised distribution system in rural India. They sell a variety of daily need products, mostly spurious and local brands ranging from detergents cosmetics, bangles garments etc. they carry their products on bicycles, handcarts, on mopeds, jeeps or on foot. They visit one to two villages and 40-50 households per day. It could possibly emerge as one of the cost effective ways of selling directly to rural retailers or consumers. The lack of motorable roads and high distribution costs the bugbear of any rural marketer are not a hindrance any more.

### **Haats and Melas**

There are 47,000 haats or markets (more than the total number of retail chain stores in the US) and 7,000 commissioned mandis servicing lakhs of visitors each week. In spite of well-developed markets, these temporary markets play a vital role in the rural economy. These could be a regular platform to reach out to rural consumers. These markets provide people an opportunity not only to purchase consumer goods, but also to sell surplus agricultural and allied products. They provide a first contact point for villagers with the market, a mean for distribution of the local products and exchanging rural surplus, an opportunity for buying daily necessities as well as farm supplies. Each haat caters to the needs of a minimum of 10 to a maximum of 50 villages, drawing around 4,000 persons who come to buy and sell a range of daily necessities and services. The average number of outlets in a haat is 314 and sales exceed Rs. 2 lakh on the haat day. Also, there are more than 25,000 melas held in India each year, but 90% or so of these melas are religious gatherings and have limited scope for commerce.

### **Public Distribution System (PDS)**

PDS is a system of distribution of essential commodities to a large number of people through a network of FPS (Fair Price Shops). The commodities are wheat, sugar, edible oil and kerosene. It has emerged as a major instrument of the Government's economic policy aimed at ensuring availability of food grains to the public at affordable prices as well as for enhancing food security for the poor. PDS with a network of about 4.76 lakh FPS is perhaps the largest distribution network of its type in the world. Out of the total number, 3.8 lakh i.e., 80% are in rural areas.

### **Cooperative societies:**

They occupy an important place in India's rural economy in terms of their coverage of population and their share in the total supply of agricultural inputs, including credit. India has the largest network of cooperatives in the world, constituting more than 4 lakh cooperatives spread across the country, even in the remotest villages.

## **18.6 RURAL DISTRIBUTION STRATEGIES**

### **Effective utilisation of wholesalers**

There is a great need for revitalization of wholesalers for effective reach. It is necessary to adopt a conservative, go-slow approach. A separate sales representative must be appointed to take care of nearby rural outlets or a mobile van should be provided to him for rural distribution. Avoid direct service plans to rural areas in order to protect the interest of the wholesalers.

### **Effective utilisation of rural retailers**

The retail establishment where most rural consumers purchase their day-to-day goods is at a kirana or street shop. These small open stalls line the streets and are approximately the size of a living room. Consumers purchase everything from bananas to razors at a kirana. With over 2.5 million kiranas throughout India's rural towns and villages, keeping store shelves stocked is one of the main challenges to consumer goods manufacturers (Bullis, 1997). In order to reach these local shops and establish a brand presence in them, companies need substantial amounts of working capital and a large committed sales force (Dawar and Chattopadhyay, 2002). The rural customer generally goes to the same retailer to buy goods. Naturally there's a very strong bonding in terms of trust between the two. Also with the low education levels of rural sector the rural buying behavior is such that the consumer doesn't ask for the things explicitly by brand but like "laal wala sabun dena" or "paanch rupee waali chai dena". Now in such a scenario the brand becomes subservient to the retailer and he pushes whatever brand fetches him the greatest returns. Thus, as there is a need to understand the rural consumer, similarly need is there to study the retailer, as he is a chief influencer in the buying decision.

As a result the retailer plays a significant role:

- Creditability
- Influence leader
- Brand promoter
- Relationship marketer

### **Extending availability**

Rural marketing in India has traditionally revolved around two strategies. One focuses on ensuring that the product reaches deep into the countryside, while the other stresses communication of the brand's values to rural consumers. It could be achieved by making use of interactive communication formats such as road shows to build its brand equity among rural consumers. The company could simultaneously ply vans that stock its products to create not only sales volumes, but to build up stockists' confidence and improve cash flows.

Furthermore, the company's mobile distribution network and the executives who operate it could build up considerable clout with the rural sub-stockists and retailers by providing them with useful tips for healthy homes and imparting information on improvements in farming.

#### **Wall Paintings for effective communication on retail outlets**

Wall Paintings are an effective and economical medium for advertising in rural areas. They are silent unlike traditional theatre. Retailer normally welcomes paintings of their shops, walls, and name boards. Since it makes the shop look cleaner and better. Their shops look alluring and stand out among other outlets. Besides rural households shopkeepers and panchayats do not expect any payment, for their wall to be painted with product messages. The greatest advantage of the medium is the power of the picture completed with its local touch. A good wall painting must meet some criteria to generate awareness and remind consumer about the brand

- Extending credit to rural retailers
- Training and Development of rural retailers
- Effective strategy to counter the pass-off, counterfeits and spurious products on retailer shelves

Another very important factor that needs to be looked at is the proliferation of spurious products. Rural masses are illiterate people and they identify a product by its packaging (color, visuals, size etc.). So it becomes very easy for counterfeit products to eat into the market share of established reputed brands. The retailer also gets a larger

profit on selling the counterfeits rather than the genuine products and hence is biased towards the fakes. Brands such as "Jifeboy", "Bonds Talcum", "Funny & Lovely" etc., which are doing the rounds of the rural markets, pose considerable challenge to rural marketers.

### **Focus on Haats, Bazaars and Shandies**

These markets have different names in different regions. But they are strikingly similar in what they are sell. They offer good scope for distribution for the corporate because of its convenience, attractiveness and availability. Melas are also another low cost distribution channel for marketers. By participating in haats and melas, the marketer can not only promote the products but also understand the shared values, belief and perceptions of the rural consumers that influence their buying behaviour.

### **Effective utilisation of unofficial channels for distribution:**

#### **For Ex: Hero - Honda**

In last 18 months, its 365 dealers all over the country have reported the emergence of an unofficial channel of distribution- Village mechanics, Local real estate agents, shop keepers who sell non durables and non durables and so on. The people are taking motorcycles from the

official dealers usually in two's or three's and - displaying them outside their premises and closing a sale. These instances are forcing companies to review their distribution set-ups to ensure that they are present even in the smallest city.

### **Effective use of PDS:**

The Fair Price Shops run by government can be utilised to sell consumables and low value durables.

### **Petrol Bunks:**

In India, there are over 15,000 petrol pumps spread across the country, 60% of which are located on highways close to villages. Petrol bunks have become multi purpose distribution centers at some places. Such a concept can be effectively utilised. Theses pumps apart from selling petroleum products have also started selling consumables like

food products and toiletries. Some retailers have also started selling agri inputs and other rural based items. For Ex: Reliance and Shell.

### **Agricultural Input Dealers:**

Fertilizer companies have retail outlets with in a range of 5 Kms to any villages. They offer a better scope for marketers

### **NGOs:**

Another alternative is working with Non Government Organisations, which reach interiors of villages. Ideologies and methods may vary but most NGOs have programmes focusing on sustainable development and empowerment of rural women and eradication poverty etc. Companies may join hands with them to mutual benefit. With NGOs undertaking distribution, companies realizing benefits accruing from infrastructure and gross root level networking. Such association with companies in turn could yield employment opportunities for local residents.

### **Delivery Vans**

One of the ways could be using company delivery vans, which can serve two purposes- it can take the products to the customers 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 the bigwigs can adopt this channel. The companies with relatively fewer resources can go in for syndicated distribution where a tie-up between noncompetitive marketers can be established to facilitate distribution.

### **Bare foot salesmen**

Companies may train the local village unemployed youths to operate as barefoot salesmen. Fluency in the local dialect and familiarity with persons and terrain in the area of operation would be among the factors enhancing the efficiency of this approach. Generally he will be appointed as a commission agent plus mobile retailer and also he can be delegated the work of booking orders from the rural retailers especially in the remote locations.

### **Other Important strategies**

The in-house sales force tries and creates an urge among the rural shops to push the brand to consumers from the mofussil areas.

- The business model for rural retail can be successful only when integration between the profit and social motive is apparent. The social angle needs to be pronounced for it to be acceptable.
- Empowerment in terms of economic power, purchasing power, knowledge and information dissemination is crucial for rural retail ventures to succeed. The model should empower the rural consumer and at the same time take advantage of this empowerment through creation of demand for its own products and that of its partners.
- Syndicate Distribution: There are cases wherein companies or distributors do not have resources for running exclusive vans for delivery of goods to the rural market. In this case, the firm or distributors selling noncompetitive consumer goods come together and operate delivery van to service the rural retailer
- Satellite Distribution: The Company should appoint stockists in important towns. These stockists are responsible for placing orders with the company, receiving stocks, sorting of stocks and supply the goods in small lots to the rural retailers and merchants.
- Coverage strategies: A market aiming to extend distribution to rural areas might be confronted by the following issues Which villages merit direct coverage at all? What would mode of coverage be? Direct distribution to village settlements less than specific population or number of outlets would not be viable. Yet for future payoffs, systematized distribution efforts are imperative to consolidate brand shares and monitor product movement in a high growth market segment. Marketer has to evaluate the plans to cover the villages by vans and participation in the market.

## **18.7 LATEST TRENDS IN RURAL RETAILING AND EMERGING DISTRIBUTION MODELS**

With entry of new players in rural markets, marketers are innovating new cost effective approaches to reach these markets Looking at the bottle necks of rural distribution, the solution is likely to centre on maximizing the existing infrastructure and ensuring the participation and economic sustainability of all the stakeholders. In rural markets, as new approaches to marketing have emerged, distribution has also changed with the items. The

market trends that have engineered these changes are:

- a) Value seeking behaviour
- b) Brand to category management
- c) High media exposure
- d) IT Revolution

### **1. Rural Malls: Chaupal Sagar**

Chaupal Sagar is one of the first organised retail forays into the hinterland. It was soft-launched on 15 August. It is actually a warehouse for storing the farm produce that ITC buys through its e-choupals. The mall has come up in one part of this warehouse. It has been set up by the international business division of tobacco major ITC. It has been initiated as rural shopping-cum-information centers in Madhya Pradesh. The first rural mall has come up 40 odd kilometers journey from Bhopal towards Sehore. ITC Spent 3 years and Rs.80 crore on research and development of this concept including investments in E-choupal.

Facilities: Spread over 5 acres of land at Sehore in Madhya Pradesh: -

- Rural shopping malls will be open from 6 am to 9 pm.
- Features and facilities at these ITC malls can overshadow those in the metros. The ITC store sells everything that a rural consumer may ask for - sarees to kurta-pyjamas to shirts (in the range of Rs 99-500), footwear, groceries, electronic durable from TVs to microwaves, cosmetics and other accessories, farm consumption products like seeds, fertilisers, pumps, generators and even tractors, motorcycles and scooters.
- Banking and automated teller machines will be standard at the malls.
- Insurance products for farmers.
- Entertainment facilities, restaurants, public facilities and parking space will also be available.
- There is even a fuel pump in tie-up with BPCL and a cafeteria.



- Parking lot for 160 tractors.
- There will be a primary healthcare facility to be serviced by a private healthcare service provider.
- Information centres: The company will create the facility for providing online information on commodity rates and weather.
- Shopping malls will have a training facility on modern farm techniques.
- Farmers can come and log on to the Internet and check the pricing and sell their commodities.
- There will also be godowns for storing the wheat and soybean and also for stocking products retailed at the mall.

## **2. Haryali Bazaars Bring Organised Retailing to Farmers**

- Having successfully pioneered a new concept of Haryali Kissan Bazaars in 2002 in Hardoi, agri-inputs focused DCM Sriram Consolidated Ltd. (DSCL) opened eight more (Ladwa in Haryana, Ferozepur in Punjab, Kota in Rajasthan and four locations in UP).
- The store complex is spread over 2-3 acres and caters to all the farmers requirements (both DCM Sriram products & other sources): farm inputs (fertilizers, seeds, pesticides, animal feed), farm implements, spare parts, irrigation equipment, spraying equipment. Further, the uniformed salesman, an agricultural graduate, gives free agricultural related advice in personal interactions or through mobile phones (averaging 20 calls a day). Twenty such stores, each catering to 100 villages, are planned by 2005.

## **3. Innovative Rural Retail Models**

Indian FMCG firms with rural experience have typically used three rural retail methods-direct distribution structures, van operations and superstockist structures. Each of these methods need to be evaluated taking into consideration the current network, cost impact of the proposed structure and quality control issue associated with each of these structures.

## **Direct Retail/Distribution Structures**

### **Project Shakti**

Project Shakti - Hindustan Lever Ltd.'s (HLL) rural self-help group initiative to push the penetration of its products to reach areas of low access and low market potential. The effort is to create a WIN-WIN situation.

Through a combination of microcredit and training in enterprise management, women from self-help groups have turned direct-to-home distributors of a range of HLL products and helping the company plumb hitherto unexplored rural hinterlands.

### **Strategy for Success**

#### **1. Social Angle**

- Create "income-generating capabilities for underprivileged rural women by providing a sustainable microenterprise opportunity".
- To improve rural living standards through "health and hygiene awareness".

#### **2. Commercial Angle**

- For HLL, it is "enlightened self-interest".
- Creating opportunities to increase rural family incomes puts more money in their hands to purchase the range of daily consumption products - from soaps to toothpastes - that HLL makes.
- It also enables HLL access hitherto unexplored rural hinterlands.

### **How Does It Work?**

To get started the Shakti woman borrows from her SHG and the company itself chooses only one person. With training and handholding by the company for the first three months, she begins her door-to-door journey selling her wares.

A Shakti entrepreneur receives stocks at her doorstep from the HLL rural distributor and sells direct to consumers as well as to other retailers in the village.

## **HLL-SHG Business Model**

Hindustan Lever Ltd (HLL) India's largest consumer goods company has a large distribution network comprising 5,000 re-distribution stockists and 40 C&FAs (Clearing and Forwarding Agent). Yet this network covers only 75,000 villages directly out of the total 6,00,000 villages in

India. A tie up with SHGs can take HLL products to many more villages directly. Trading opportunities with stable companies with established rural brands (Lifebuoy, Lux, Wheel, Clinic and 3 Roses tea etc) could be a boon to women members of SHGs.

### **How Does It Work?**

A pilot project (christened Project Shakti) was launched in Nalgonda in December 2000 in a small cluster of 50 villages with 50 SHGs and 3 MACTS (Mutually Aided Co-operative Thrift Society, a federation of around 20 SHGs). There are 3 partners and their roles are: -

**MACTS/SHGs:** sell/retail HLL products

**HLL:** supplies products, provides marketing and promotion support

**MART:** facilitates the process, provides business training inputs

### **Project Streamline**

The Company had earlier also launched Operation Streamline to further increase its rural reach with the help of rural sub-stockists. It had appointed 6,000 such stockists, the distribution network directly covering about 50,000 villages reaching about 250 million consumers. HLL conceptualised Project Streamline to enhance its control on the rural supply

chain through a network of rural substockists based in these villages. This gave the company the required competitive edge, and extended its direct reach to 37 per cent of the country's rural population.

### **Key Points**

- To increase the reach in rural areas.

- Rural Distributor will have around 20 stockists attached to him who performs the role of driving distribution in villages using unconventional means of transport such as tractor, bullock, etc.
- This gave the company the required competitive edge, and extended its direct reach to 37 per cent of the country's rural population.
- This strategy has supposed to increase the market share of HLL in rural areas by about 3%. Control on the rural supply chain through a network of rural sub-stockists, who are based in the villages only

#### **4. Others**

Marico launched a major initiative into rural markets by appointing 2,400 substockists in the last two years. Recently, Dabur also finished a pilot project for its super-stockists in Patna and has now rolled it out in Bihar, Madhya Pradesh and Rajasthan. Reckitt has also adopted the super-stockist system in Tamil Nadu and plans to set up such a system all over the country in the next year, with the target of covering one million outlets in the next three years.

#### **5. Van Operations**

##### **Project Bharat**

In 1998 HLL's personal products unit initiated Project Bharat, the first and largest rural home-to-home operation to have ever been prepared by any company. The project covered 13 million rural households by the end of 1999. During the course of operation, HLL had vans visiting villages across the country distributing sample packs comprising a low-unit-price pack each of shampoo, talcum powder, toothpaste and skin cream priced at Rs 15. This was to create awareness of the company's product categories and of the affordability of the products.

#### **18.8 SUMMARY**

The rural marketing process needs to be evolutionary and not revolutionary. It has to be considered as an investment today for a better future tomorrow. Company should focus on nurturing the markets and have a long-term perspective rather than concentrating on the achieving the short-term objectives. Definitely there is lot of money in rural India.

But there are hindrances at the same time. The greatest hindrance is that the rural market is still evolving and there is no set format to understand consumer behaviour. Lot of study is still to be conducted in order to understand the rural consumer. Only FMCGs with deeper pockets, unwavering rural commitment and staying power will be able to stay longer on this rural race and hence. Since the big problem in rural markets is getting distribution, one solution often mooted is for (non-competing) companies to do it together, pooling resources to reduce overheads. Some companies with existing distribution networks have attempted to distribute others' products on a contract basis. In practice this doesn't work. Rural retailers have limited liquidity, so companies are unlikely to sacrifice their share of this for other companies. Getting rural distribution is difficult, but not impossible if you have the patience, so you're much better off doing it on your own. Understanding the available distribution networks in rural India is crucial to making a successful entry into the rural Indian market. Packages need to be designed to withstand more distribution abuse due to poor roads and more primitive modes of transportation. Finally, when creating a package for rural India, small sizes allow consumers to try new products. It also caters to the fact that most rural Indians have low disposable incomes and little storage space at home. By applying these lessons that have been learned from multinational corporations in the past, the task of entering the rural Indian market should be promising.

## **18.9 GLOSSARY**

**Retailing:** Retailing is a distribution process, in which all the activities involved in selling the merchandise directly to the final consumer.

**Retail outlet:** A retail outlet or store is a retail sales establishment which has a genuine retail activity and which therefore has a sales area.

**Public distribution system (PDS):** PDS is a system of distribution of essential commodities to a large number of people through a network of FPS (Fair Price Shops).

## **18.10 SELF-ASSESSMENT QUESTIONS**

Q.1. Discuss the concept of Rural Retailing?

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Q.2. Elaborate the features of Rural Retailing?

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### **18.11 LESSON ENDED EXERCISE**

Q.1. Explain the various types of rural retail outlets?

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Q.2. Discuss the various strategies for Rural Retailing?

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### **18.12 SUGGESTED READINGS**

- Rural Marketing: Text and Cases By Krishnamacharyulu C.S. and Lalitha Ramakrishnana, Pearson.
- Francis Cherunilam (2011) Industrial Marketing. Third Revised Ed
- Krishna K Havaladar (2006) Industrial Marketing. Tata McGraw Hill. Third Reprint. New Delhi.

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**B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501****LESSON NO- 19****UNIT - V**

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**RURAL COMMUNICATION  
Industrial & Rural Marketing****STRUCTURE:**

- 19.1 Introduction
- 19.2 Objectives
- 19.3 Challenges in Rural Communication
- 19.4 Rural Media
- 19.5 Electronic Choupal Application
- 19.6 Summary
- 19.7 Glossary
- 19.8 Self Assessment Questions
- 19.9 Lesson End Exercise
- 19.10 Suggested Readings

**19.1 INTRODUCTION**

With economic growth, advertising goes hand-in-hand. With increasing rural prosperity and economic liberalisation, marketers are eager to inform villagers about the benefits of buying and consuming their products and services. In 1990s prior to the introduction of economic liberalisation, there was a little incentive for marketers to advertise

their products, and services, as rural markets were mainly a seller's market. The electronic media influence, in particular television, video and Hindi film industry, is contributing to the growth of rural aspirations, which are being manifested in rural India in the form of increasing consumerism. Reaching out to rural consumers is a big challenge as understanding the dynamics of the rural market in India.

Around 50 percent of the villages are today connected by all weather roads and can be accessed throughout the year. But there are states, which are almost 100 percent connected with the metal roads. Road networking besides enhancing the mobility of rural consumers has increased their exposure to products and services. By watching such a scenario in these areas Korean consumer durable companies have decided to look beyond their noses. They are now placing their bets on rural markets. Two giants namely LG and Samsung have already made their strategies for entering into rural India. As per survey conducted by Indian Market Research Bureau (IMRB) 77 percent of the villages are covered by TV network. Now even villages are going for dish antennas and they have already been enjoying exposure to various products through advertisements. All the villages are about to be connected with telephone facilities in the near future and already there are some villages, which are connected with this facility. Apart from this, internet is not a distant reality. Recently Mr. Ram Vilas Paswan, the minister for communication has announced that in the coming days there would be 100 percent connectivity through telephones in the rural areas. Seeing these types of opportunities and interests of the ruralites, Tata cellular has already entered into rural India by making its first entry into Andhra Pradesh. Tata cellular has created India's largest cellular 'corridor' to provide connectivity to non-metro and rural centres.

## **19.2 OBJECTIVES**

After studying this lesson you will be able to:

- Learn the concept and challenges of Rural Communication.
- Know the significance of Electronic Choupal Application.

## **19.3 CHALLENGES IN RURAL COMMUNICATION**

In rural communication, there are many challenges. Low-literacy levels; poor media reach and exposure and vast, heterogeneous and diversely spread rural audiences



characterised by variations in culture, language and lifestyle-all these factors pose multiple challenges to marketers looking to take their messages to the largely media-dark or media-grey areas, of rural markets.

### **Heterogeneity and Spread**

The communication pattern is a part of its culture in any society. No communication medium can be in a cultural vacuum. Communicating the message to the rural consumers has caused vast challenges to the rural marketer, because of the large number of consumers scattered across the country, the problem is further compounded by the heterogeneous nature of consumers. There are 16 scheduled languages and 114 local vernaculars. For e.g., the dialect used in the Vidharbha region is different from that used in Marathwada, which in turn is different from the dialect spoken in the Konkan region.

Some key characteristics of the heterogeneous rural markets are as follows:

- Widespread geographical dispersion (6,38,000 villages) many of them are still away from the reach of conventional media.
- Vast variations in levels of literacy
- Literacy (Kerala 90, Bihar 44%)
- Variations in reach of electronic media (Kerala 63%, Bihar 17%) and print media (Kerala 65% and Bihar 9%)

The limited reach of the mass media imposes limitations on universal communication to rural consumers. Therefore, the requirement is threefold as follows:

- To identify the most suitable medium to ensure maximum spatial reach.
- To develop region-specific consumer profiles to understand the characteristics of the target market.
- To design the most effective and persuasive communication and promotional strategies to induce the target audience to buy the product. Understanding the rural audience.

It is not enough to understand rural communication challenges as stated; rather,

what is equally important is the need to understand the behavioural and psychographic characteristics of the rural audience, in order to develop an effective rural communication strategy. There are two distinct sets of audiences in rural India as follows:

- A growing number of educated, upwardly mobile, middleclass people with aspirations and high exposure to mass media and with considerable purchasing power, in many ways similar to their urban counterparts.
- The illiterate masses, who are poor and who cannot be easily reached through the mass media.

Interpersonal communication accounts for over eighty percent of the rural communication process. Any communication package aimed at rural audiences should create a lot of 'word of mouth' publicity, so that the brand remains on 'top of the mind', when the rural customer is finally ready to make a purchase. In terms of economic progress, rural India is divided into two:

- Developed states (Punjab, Haryana, Kerala, Tamil Nadu, Andhra Pradesh, Karnataka, and Maharashtra)
- Underdeveloped or developing states (all other states)

### **Profiling the target audience**

One of the cardinal principles of marketing is 'know your customer', be it rural or urban India. Basing the marketing decisions completely on data and numbers could prove to be counterproductive. Now we probe and profile the rural consumer by examining social classes and intentions, brand consciousness, receptivity, lifestyles, purchase needs, buying roles and value propositions relating to community and money.

### **Social classes and intentions**

The product purchases priority varies across income levels. The poor buy essentials, whereas the rich purchase premium products. Rural consumers, though heterogeneous, mainly focus on purchasing value-for-money products and productive assets that enhance their income levels. Revital (a health capsule from Ranbaxy) is a premium-priced product that may not find much space in middle-class urban homes. However, it is quite popular

among daily-wage earner, farm labourers and ironically, in poverty-ridden and underdeveloped states like Bihar and West Bengal, because consumers feel that Revital increases their concentration and performance levels, which is reflected directly in their earnings.

### **Consumer Receptivity**

Those who are less exposed to the external environment and who are less literate require a linear communication message that is simple and easy to understand. They associate well with primary colours and numerals and rarely buy products by asking for brands' name.

### **Growing brand consciousness**

The influence of purchase behaviour in small towns and surrounding large villages is being increasingly reflected in small villages. Marketers know the fact that villagers are becoming more brand savvy with the rising penetration of the mass media into the interiors. The penetration of premium products is beginning to take place in lower socioeconomic groups. Consumers are going for a brand recognising the value of a quality product. The brand-recall for products like Colgate, Clinic Plus shampoo, Lifebuoy, etc., is high among rural consumers.

### **Lifestyles**

Urban women tend to be more independent, liberated and decisive compared to rural women. Urban-oriented advertisements usually show the urban woman as a hard-working and loving companion to her husband, a caring and fun-loving friend to her children and an achiever and sincere worker in her career. In comparison, Indian rural society is still tradition-bound and such portrayals may be inconsistent with the value system of rural women and at times viewing such advertisements may even prove awkward to them and their families.

### **Buying Roles**

In rural areas, a process of collective decision-making prevails. In a typical situation say, involving the purchase of tea, the housewife will be the user, the breadwinner of the family, who will give the money, will be the investor; the purchaser will be a youth who

goes to a nearby feeder town and the influencer will be the retailer. The company needs to customise its communication message and address each intermediary involved in the purchase process. In the urban scenario, however, for the same product category, the user, the investor, the purchaser and the influencer may end up being the same individual.

### **Children**

As the value of education assumes greater importance even in rural areas, children, especially the youth, commute to nearby towns to pursue their studies. They are exposed to wall paintings, hoardings, and other mass media and new trends in urban areas. The young in turn act as brand messengers and communicators within their families and communities and subsequently influence purchase decision.

### **Purchase Needs**

The marketing team discovered that many rural people believe that tobacco smoking leads to impotency during the pilot test launch of vardaani bidi. The company decided to redesign its communication strategy, to stress the fact that Vardaan is a tobacco-less bidi and does not cause loss of vitality.

### **Community and the Personal-Value Proposition**

Pepsi and Coca-cola used the planks of affordability and value for money successfully to drive penetration and boost volumes by introducing smaller 200 ml bottles priced at Rs. 5. These aspects were key ingredients in their communication as well.

### **Increased Brand Awareness**

Increased brand awareness is not only one of the most common marketing communication objectives; it is also typically the first for a new company. Initially, when you enter the market, you have to let people know that your company and products or services exist. This might include broadcast commercials or print ads that portray the image of your company and constant repetition of your slogans, brand name and jingles. The whole objective is to become known and unforgettable. Established companies often use a closely-related goal of building or maintaining top-of-mind awareness that means customers think of you first when considering your product category.

### **Change Attitudes**

Another common communication objective is changing company or brand perceptions. At times, misconceptions develop in the market about your company, products or services. Advertising is a way to address them directly. In other cases, negative publicity results because your company is involved in a business scandal or unsettling activities. British Petroleum invested millions of dollars in advertising to explain the company's clean up efforts to the public following its infamous Gulf of Mexico oil spill in mid-2010. Local businesses normally don't have that kind of budget, but local radio or print ads can do the trick.

### **Influence Purchase Intent**

To motivate customers to buy is a key communication objective. This is normally done through persuasive advertising, which involves emphasis of your superior benefits to the user, usually relative to competitors. It is important to strike a chord with the underlying need or want that triggers a customer to act. Commercials of sports drink showing athletes competing, getting hot and sweaty and then taking a drink afterwards are regular approaches to drive purchase intent. These ads usually include benefits of the drink related to taste or nutrients.

### **Stimulate Trial Purchase**

Two closely related but separate communication objectives are to stimulate trial use and drive repeat purchases. To persuade customers to try your product for the first time free trials or product samples are common techniques. The purpose is to take away the risk and get the customer to experience your brand. Once you get them on the first purchase, you have to figure out how to convert that into a follow-up purchase. Discounts on the next purchase or frequency programmes are ways to turn one-time users into repeat buyers and, ultimately, loyal customers.

### **Drive Brand Switching**

Driving brand switching is another objective closely tied to stimulating trial use. This is a specific objective of getting customers who buy competing products to switch to your brand. Tide detergent is normally pitted against 'other leading brands' in comparative

ads intended to motivate brand switching. The advantage with this goal is that customers already buy within your product category. This means the need is established. You just need to persuade them that your product or service is superior and induce them to try it out.

### **Message Content**

The communicator must identify an appeal or theme that will produce the desired response. There are three types of appeals:

#### **Rational appeals**

Rational appeals relate to the audience's self-interest. They show that the product will produce the required benefits. Rational appeal messages may show a product's quality, value, economy, or performance. In its ads, Mercedes offers cars that are 'engineered like no other car in the world', stressing engineering design, performance, and safety. Buckley's Mixture took its most recognisable quality, the bad taste of its cough syrup, and turned it into an award-winning campaign linked by the tag line, 'It tastes awful. And it works'.

#### **Emotional appeals**

Emotional appeals try to stir up either negative or positive emotions that can motivate purchase. Communicators can use such positive emotional appeals as pride, love, joy, and humour. Advocates for humorous messages claim that they attract more attention and create more liking and belief in the sponsor. Cliff Freeman, the advertiser responsible for Little Caesars' humorous "Pizza, Pizza" ads, contends that: "Humour is a great way to bound out of the starting gate. When you make people laugh, and they feel good after seeing the commercial, they like the association with the product". However, others maintain that humour can detract from comprehension, wear out its welcome fast, and overshadow the product. Communicators can also use negative emotional appeals, such as guilt, fear, and shame, which get people to do things they should (brush their teeth, buy new tyres), or to stop doing things they shouldn't (smoke, drink too much or eat fatty foods).

#### **Moral appeals**

Moral appeals are focussed to the audience's sense of what is 'right' and 'proper'. They often are used to urge people to support such social causes as a cleaner environment

and aid to the needy, or combat such social problems as drug abuse, sexual harassment, discrimination, and spousal abuse. An example of a moral appeal is the March of Dimes appeal: "God made you whole. Give to help those He didn't."

### **Message Structure**

The communicator must decide which of three ways to use to structure the message. The first is whether to draw a conclusion or leave it to the audience. Early research showed that drawing a conclusion was usually more effective; however, more recent research suggests that the advertiser is often better off asking questions and letting buyers draw their own conclusions. The second structure issue is whether to present a one-sided argument-mentioning only the product's strengths or a two-sided argument touting the product's strengths, while also admitting its shortcomings. Buckley's Mixture built its entire business around this technique: Usually, a one-sided argument is more effective in sales presentations except when audiences are highly educated, negatively disposed, or likely to hear opposing claims. In these cases, two-sided messages can enhance the advertiser's credibility and make buyers more resistant to competitor attacks. The third message structure issue is whether to present the strongest arguments first or last. Presenting them first gets strong attention, but may lead to an anticlimactic ending.

### **Message Format**

The marketing communicator needs a strong format for the message. In a print ad, the communicator has to decide on the headline, illustration, copy, and colour. To attract attention, advertisers can use novelty and contrast; distinctive formats; eye-catching pictures and headlines; message size and position; and colour, shape, and movement. If the message will be carried over the radio, the communicator must choose sounds, words, and voices. The 'sound' of an announcer promoting banking services, for example, should be different from one promoting quality furniture.

If the message is to be carried on television or in person, then all these elements plus body language have to be planned. Presenters plan their facial expressions, gestures, dress, posture, and hair style. If the message is carried on the product or its package, the communicator has to watch texture, colour, scent, size, and Buckley's Mixture has won world renown by using simple and humorous two-sided advertising, "It tastes awful, and it

works". Shape, colour plays a major communication role in food preferences. When consumers sampled four cups of coffee that had been placed next to blue, brown, red, and yellow containers (all the coffee was identical, but the consumers did not know this), 75 percent felt that the coffee next to the brown container tasted too strong; nearly 85 percent judged the coffee next to the red container to be the richest; nearly everyone felt that the coffee next to the blue container was mild; and the coffee next to the yellow container was seen as weak. Therefore, if a coffee company wants to communicate that its coffee is rich, it should probably use a red container along with label copy boasting the coffee's rich taste.

Marketing communications can be defined as the following process:

- Presenting an integrated set of stimuli to a market target with the aim of raising a desired set of responses within that market target.
- Setting up channels to receive, interpret and act on messages from the market to modify present company messages and identify new communications opportunities.
- As both a sender and a receiver of market-related messages, a company can influence customers to buy its brands in order to make profit. At the same time, it can stay in touch with its market so that it can adjust to changing market conditions and take advantage of new communications opportunities.

### **The Source of the Message**

Often, receivers of a message are greatly influenced by the nature of its source. If an audience perceives a communicator as credible, then they will be more likely to accept his or her views. If, on the other hand, the audience believes that the communicator has underlying motives, particularly ones of personal gain, then he or she will be less persuasive than someone the audience perceives as being objective. Some advertisers use 'candid' television interviews with homemakers in order to enhance their credibility and eliminate intent to persuade, sometimes asking 'consumers' to explain why they buy a particular brand or asking them to trade their chosen brand for another.

To increase credibility is to have the product endorsed by an expert with appropriate education and knowledge on a given subject is another method used by companies. This



source will be more successful in changing audience opinions. Specialised sources of information are often perceived as expert sources, and are successful due to the fact that messages are aimed at selected audiences, for example, the use of sports professionals as promoters for brands.

The credibility of a source is also a function of its perceived status or prestige. The higher the perceived status of a source, the more persuasive it will be. If a receiver likes a source, it will be more persuasive. It is clear that age, sex, mannerisms, dress, accent and voice inflection all affect source credibility and subtly influence the way an audience judges a communicator and his/her message.

A source high in credibility can change the opinion of receivers, but available evidence suggests that this influence disperses in a short time after the message is received. It has also been observed that where an audience initially receives a message from a low-credibility source, their opinion change increases over time in the direction promoted by the source. This is referred to as the sleeper effect. Another aspect of this is that when a high-credibility source is reinstated, for example, by a repeat advertisement, it has been found that audience agreement with the source is higher after a period of time than if the source had not been reinstated. For a low-credibility source, reinstatement results in lesser agreement with the source than with no reinstatement, and it is said that under these circumstances reinstatement negates the 'sleeper effect'.

### **Selecting the Communication Channels**

The communicator must select efficient channels of communication to carry the message. Communication channels are of two broad types, personal and non-personal.

#### **Personal communication channels**

Personal communication channels involve two or more persons communicating directly with each other. They might communicate person to audience, face to face, over the telephone, or through mail.

#### **Personal communication channels are further divided into:**

- Advocate channels consists of company salespeople who contact buyers in the target market. Dalmia Consumer Care has assembled a team of rural sales promotion (RSPs) to promote their non-tobacco bidi brand Vardaan in rural areas. In addition to

performing their routine sales jobs, the RSPs also target consumers directly at haats.

- Expert channels consist of independent experts who make statements to target buyers. Marketers of building/construction products like cement and GC sheets target masons to promote their brands. Expert communication channels command more credibility in rural as they are considered insiders and possess the required technical knowledge.

- Social channels consist of neighbours, friends, family members and associates who talks to target buyers. In the rural context, the social channel is the first channel to which potential consumers automatically turn, before they solicit views and opinions from the outside world.

### **Deciding the promotion mix**

Companies face the task of distributing the total promotional budget over the five promotional tools:

- Advertising
- Sales promotion
- Direct marketing
- Public relations
- Sales force (personal selling)

Each promotional tool has its own unique characteristics and costs. Marketers have to understand these characteristics in order to select the most appropriate and useful tool.

### **Creating Advertisement for Rural Audiences**

Communication experts are required to keep the following factors in mind, when creating advertisements for rural audiences:

- Understand the mindset of potential customers, including their fears, hopes, aspirations and apprehensions conducting qualitative study (Focus group discussion) among the target audience would help in better understanding of the

consumer mindset.

- Pick up 'gems' in the form of idioms, words, expressions, etc., in relation to the product category for later use in the creative.
- Tricky, gimmicky, clever, or even suggestive advertising does not work with rural audiences. 'Flicks' using very expensive computer graphics without any human presence go over the heads of rural audiences.
- When targeting rural audiences combining education with 'entertainment' is a good route to take. Using locally popular film stars or even featuring religious events (melas) popular in the region, helps to strike a chord with rural audiences.
- 'Short television commercials' do not register well with rural audiences. Advertising agencies need to provide for ample time and space to communicate a message properly and effectively to the intended audience. This is seen for instance, in the popularity of the two-minute theatre commercials screened in rural cinemas.

#### **19.4 Rural Media**

Rural media can be broadly classified into conventional mass media, non-conventional media and personalised media.

##### **Conventional mass media**

A medium is called a mass medium when it reaches millions of people. However, poor exposure to the mass media and the ineffectiveness of universalised communication aimed at heterogeneous rural audiences make it difficult for the mass media to address the communication needs in rural markets in an effective manner. The conventional mass media includes the following:

- Radio
- Television
- Cinema
- Print

##### **Non-conventional media**

Non-conventional media includes the following:

- \* Outdoor media:
  - Wall printing
- \* Folk media:
  - Folk theatre
  - Folk songs
  - Folk dances
  - Magic shows
  - Puppet shows
  - Interactive games
  - Video van
  - Haats
  - Melas
- \* Personalised media includes the following:
  - Point of Purchase (POP) displays and demonstration
  - Direct mail

### **Reaching the Opinion Leader**

Contrary to popular belief, the press, particularly the regional press, plays a very important role in reaching opinion leaders in villages, who are generally literate and exposed to rural masses and the mass media. As opinion leaders are few and can be identified easily by name, address, direct marketing efforts, such as road shows, direct mailers and one-to-one contact programmes specifically aimed at them can help create a favourable image about a product. In addition, messages conveyed through the mass media like television and radio are understood by these opinion leaders in the same way as they are by urban audiences. Dealers too, play a major role in influencing the choice of a brand at the point of sale for both the target audiences.

### **Media Innovation**

This section gives a brief account of emerging communication channels, whose primary aim is to address the immediate problems or issues of social importance at the local-level, such as literacy, gender, sanitation, disaster relief, health and family welfare, etc., that affect the life of rural people and village communities.

### **Influence of Consumer Behaviour on Communication Strategies**

Consumer behaviour exercises a major influence on communication strategies. The process of making a purchase passes through different states of readiness on the part of the buyer and this in turn dictates the communication objectives adopted by the marketer.

#### **State of readiness of the consumer**

Consumer behaviour's state of readiness is observed during the decision-making process to purchase a new product, as compared to a new brand. The consumer first becomes aware of the product. He may or may not be convinced about the product's benefits and uses. Once he is convinced, he purchases the product. When harvester combine was launched for expediting the process of harvesting and threshing of wheat and rice in Punjab and Haryana, the initial communication efforts aimed to create awareness, then interest, followed by knowledge among potential consumers. Agricultural officers who educated the farmers about the combine harvesters and their benefits carried out the process of education. The conviction among consumers was created and reinforced through field demonstration.

#### **Involvement levels and communication strategies**

The involvement level of a rural buyer varies with the purchase of different items. Generally, daily-use FMCG items like salt and soap are low-involvement purchases for rural buyers and hence efforts to seek information are low. For an FMCG marketer, the need is to get the information to the consumer at a comparatively low cost.

In the case of a high-involvement durable product, the consumer seeks information to reduce the risk of purchase and is willing to invest time and effort in making a purchase decision. Buying a tractor tyre is considered a high-value, high-involvement purchase. Appollo tyre have branded their 100 star performing dealer shops as Appollo Pragathi

Kendras to educate farmers on ways to select the right type of tyre, depending on the purpose for which the tractor is used.

## **19.5 ELECTRONIC CHOUPAL APPLICATION**

e-choupal is a Hindi word which means "village meeting place". Market is a meeting place where vendors and customers come together to do transactions. e-choupal is a virtual market place where farmers can transact directly with a processor and can realize better price for their produce. e-choupal has the advantages of the market but spans very large varieties of vendors and customers. Geographical distances do not restrict participation in the e-choupal. The main disadvantage of conventional market is that information asymmetry is inherent in the market where as e-choupal provides for transparent transactions. This enables the participation of smaller as well as larger players. Elimination of some layers of intermediaries allows for larger share of profits to reach the lower end of value chain. The main attractiveness of e-choupal is that it can be used for connecting large producers/small producers and small users/large users, thereby eliminating the need for hierarchy of brokers. Internet is used as a low transaction cost backbone for communication. Physical delivery of produce to the processor is still done through the existing intermediaries. e-choupal does not attempt total elimination of intermediaries, as intermediaries are indispensable in economy like India where intermediaries are adding value to the every step of value chain at a low cost. Intermediaries have the expertise in storage, transportation, quality assessment and counter party risk reduction, which are difficult to replicate. e-Choupal provides farmers with all the market information and this helps them to become market oriented. In e-choupal intermediaries are leveraged but they are disintermediated from the market information flowing to the farmers.

### **ITC e-Choupal and the Strategy**

A private initiative has been taken by ITC Ltd in the state of Madhya Pradesh. It has helped the farmers in many ways, such as developing of local leadership, shared ownership of the assets created in this initiative, access to the latest knowledge for the agro-sector, sustainable income levels and skill development for productivity improvement.

This initiative from ITC has become a benchmark today in the ICT initiatives in agro sector.

Several best practices can be learned from this initiative, namely:

- ease of replicability and scalability
- customization to meet the specific local needs and
- organizational commitment

The success of e-chaupal has heralded a new era in the Indian agro-sector. The work needs to be carried forward and replicated in the other untapped areas. Creating business channels that can create a win-win situation both business and farming community has enormous economies of scope.

ITC followed a different media/communication strategy which is more elaborate and extensive in rural marketing so far, which benefits both the farmers and the organisation. The strategy is the use of the Information Technology bridging the information and service gap in rural India which gives an edge to market its products like seeds, fertilizers and pesticides and other products like consumer goods. With this strategy, it can also enhance its competitiveness in global market for agri-exports.

A pure trading model does not require much capital investment. The e-Choupal model, in contrast, has required that ITC makes significant investments to create and maintain its own IT network in rural India and to identify and train a local farmer to manage each e-Choupal.

The company has initiated an e-Choupal effort that places computers with internet access in rural farming villages; the e-Choupals serve as both a social gathering place for exchange of information (choupal means gathering place in Hindi) and an e-commerce hub. The computer, typically housed in the farmers house, is linked to the internet via phone lines or, increasingly, by a VSAT connection, and serves an average of 600 farmers in 10 surrounding villages within about a five kilometre radius. Each e-Choupal costs between US \$3,000 and US \$6,000 to set up and about US \$100 per year to maintain. Using the system costs farmers nothing, but the host farmer, called a sanchalak, incurs some operating costs and is obligated by a public oath to serve the entire community; the sanchalak benefits from increased prestige and a commission paid him for all e-Choupal transactions. The farmers can use the computer to access daily closing prices on local

mandis (government-mandated markets), as well as to track global price trends or find information about new farming techniques either directly or, because many farmers are illiterate, via the sanchalak (the village farmer who runs the e-Choupal and acts as ITCs representative in the village). In addition, they can also know about weather forecast (local) and best practices in the world from e-Choupal website. They also use the e-Choupal to order seed, fertilizer, and other products, such as consumer goods from ITC or its partners, at prices lower than those available from village traders; the sanchalak typically aggregates the village demand for these products and transmits the order to an ITC representative. At harvest time, ITC offers to buy the crop directly from any farmer at the previous day's closing price; the farmer then transports his crop to an ITC processing centre, where the crop is weighed electronically and assessed for quality. The farmer is then paid for the crop and a transport fee.

Launched in June 2000, 'e-Choupal', has already become the largest initiative among all Internet-based interventions in rural India. 'e-Choupal' services today reach out to more than 3.5 million farmers growing a range of crops, soyabean, coffee, wheat, rice, pulses, shrimp - in over 31,000 villages through 5200 kiosks across six states (Madhya Pradesh, Karnataka, Andhra Pradesh, Uttar Pradesh, Maharashtra and Rajasthan).

### **Unique Business Model: e-Choupal**

The e-Choupal model has been specifically designed to tackle the challenges posed by the unique features of Indian agriculture, characterized by fragmented farms, weak infrastructure and the involvement of numerous intermediaries, who block critical market information from passing to the farmers and use that information for getting a big margin for themselves. The intermediaries capitalized on the economies of information and economies of physical things, which are tied together in a bundle. Due to this, the farmers does not get the proper price of its product & they continue to live below the poverty line. But e-Choupal sets things in order as it smoothen the flow of information to the farmers by disinter mediating intermediaries from the chain of information flow and at the same time leverages the physical transmission capabilities of the them as they deliver critical value at every link for a very low cost in a weak infrastructure environment. The structure of e-choupal is shown in Fig 1.



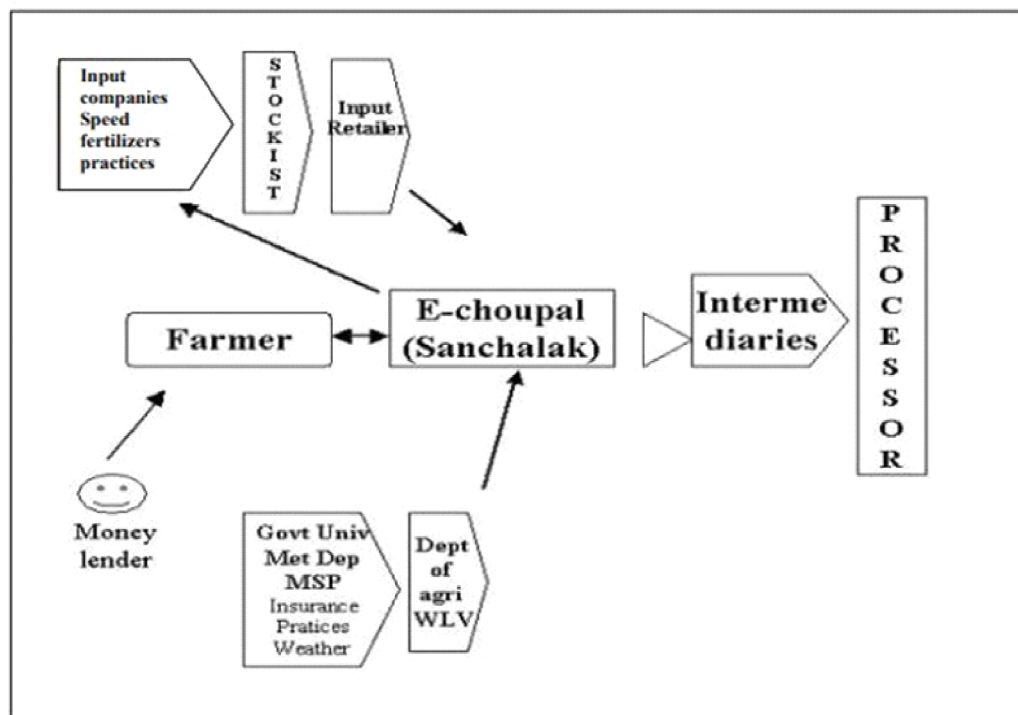


Figure 1: e-Choupal, a new business model

e-Choupal is an ICT platform that facilitates flow of information and knowledge, and supports market transactions on line.

- It transmits Information (weather, prices, news),
- It transfers Knowledge (farm management, risk management)
- It facilitates sales of Farm Inputs (screened for quality) and
- It offers the choice of an alternative Output-marketing channel (convenience, lower transaction costs) to the farmer right at his doorstep
- It is an interlocking network of partnerships (ITC + Met Dept + Universities + Input COs + Sanyojaks, the erstwhile Commission Agents) bringing the "best-inclass" in information, knowledge and inputs.

e-choupal is, thus, distributed transaction platform that brings together sellers, buyers along with information and service providers. e-choupal is a model with a

number of non-conventional characteristics namely:

- customer centric
- capable of being used for many commodities and multiple transactions
- easily scalable once it is verified · uses local talent and local people and develops local leaders
- can be extended to local as well as global procurers
- stimulates local entrepreneurs to extend their innovativeness
- uses all the existing institutions and legal frameworks and
- many others can join the market as transaction time is low.

e-Choupal has been most successful initiative to wire rural India and to involve the farmers in learning. ITC has envisaged on various plans to replicate the success achieved to other states and expand the services offered to other commodities like spices. ITC has also identified e-Choupal as an important driver for exports, which are targeted at \$ 400 million by 2005. e-Choupal has also attracted attention from the renowned academicians, since e-Choupal has managed to innovate the supply-chain, and model applied by ITC has enough potential to be replicated in the under-developed and developing countries [12]. ITC has been successful in making the farmer feel the sense of ownership and enthuse him to generate additional revenue by eliminating middleman. ITC through e-Choupal has bought various accolades such as "Golden Star Trading House" for showing impressive track record in exports of agricultural commodities. Participating farmers have been able to enhance their income and eliminate the delay in getting the payment once the product is sold. It has helped in reducing debt burden of the farmers. The success of e-Choupal has given new lessons to the corporates in the India and abroad. The gains from the novel initiative are manifold to ITC, the farmers and other companies. e-Choupal has helped the farmers to improve their productivity and get better prices, whereas ITC has benefited by better sourcing of raw materials and building a backbone to market the end products which is vital for the FMCG companies like ITC.

## **19.6 SUMMARY**

There are many challenges to communication in rural like Low literacy level, poor

media reach and exposure. A vast, heterogeneous and diversely spread rural audiences characterized by variations in language, culture and lifestyle-all these factors pose multiple challenges to marketers looking to take their messages to the largely media-dark or media-grey areas, of rural markets.

The rural environment is different from the urban and therefore communication to potential customers in a proper and effective manner is a major challenge for corporate marketers.

The limited reach of the mass media has imposed limitations on universal communication for rural consumers. These factors has lead to poor message comprehension and negligible impact, which fails to translate into consumer awareness and hence failure in generating consumer pull.

e-choupal has been heralded as the attempt at making ICT platforms enhance the market access, by eliminating the use of middlemen. ITC had the vision to conceptualize and implement this procurement cum marketing platform. It is a low cost/multi business model operated by the farmer representative. It has been validated, scaled and sustained for many businesses by ITC. By embarking on this initiative, ITC has shown that ICT platforms can benefit even if the marginal farmers.

## **19.7 GLOSSARY**

**Communication:** Communication is simply the act of transferring information from one place, person or group to another.

**Rural Communication:** Rural communication is an interactive process in which information, knowledge and skills, relevant for development are exchanged between farmers, extension/advisory services, information providers and research either personally or through media such as radio, print and more recently the new "Information and Communication Technologies" (ICTs)

**E choupal:** . e-choupal is a virtual market place where farmers can transact directly with a processor and can realize better price for their produce.

## **19.8 SELF-ASSESSMENT QUESTIONS**

Q.1. Discuss the concept of Rural Communication?

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Q.2. Elaborate the concept of E choupal?

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### 19.9 LESSON ENDED EXERCISE

Q.1. Explain the various challenges for effective Rural Communication?

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Q.2. Discuss the Unique e-Choupal Business Model ?

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### 19.10 SUGGESTED READINGS

- Rural Marketing: Text and Cases By Krishnamacharyulu C.S. and Lalitha Ramakrishnana, Pearson.
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## **B.A. SEMESTER V (Industrial Marketing)**

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**COURSE CODE : MK-501**

**LESSON NO- 20**

**UNIT - V**

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### **STRUCTURE:**

- 20.1 Introduction
- 20.2 Objectives
- 20.3 Marketing of Services to Rural Consumers
- 20.4 Marketing of Social Campaigns to Rural Consumers
- 20.5 Agricultural Marketing
- 20.6 Future of Rural Marketing
- 20.7 Summary
- 20.8 Glossary
- 20.9 Self Assessment Questions
- 20.10 Lesson End Exercise
- 20.11 Suggested Readings

### **20.1 INTRODUCTION**

There is a huge market in rural areas for services like telecommunication, health, education, transport, drinking water, housing, electricity etc. Many organizations still believe that these services cannot be provided profitably to rural consumers and these services can be provided only by the government.

It also defines the logic that the organizations consider the rural consumers to be prosperous enough to buy consumer durables, automobiles etc., but they do not consider the same rural consumers rich enough to send their children to private schools or to buy an apartment or to avail expensive medical treatment.

All these services can be profitably distributing in rural areas because rural consumers are now eager to go for these kinds of services. Good private schools in cities attract children from the outskirts too.

Rural consumers have now realized that government provides them free services but they are not of good quality. These days they do not want to send their children to the local village primary schools because they know that teaching quality does matter for the development of their children.

They also do not want to take any risk when it comes to the health of their loved ones. They would rather get examined at a private hospital instead of going to the local government run hospitals and risk wellbeing.

## **20.2 OBJECTIVES**

After going through this lesson you will be able to:

- Learn about the marketing of services to rural consumers
- Know about the marketing of social campaigns to rural consumers.
- Get the knowledge about agricultural marketing and future of rural marketing.

## **20.3 MARKETING OF SERVICES TO RURAL CONSUMERS**

Services are (usually) intangible economic activities offered by one party to another. Services marketing typically refers to both business to consumer (B2C) and business-to-business (B2B) services, and includes marketing of services such as telecommunications services, financial services, all types of hospitality services, car rental services, air travel, health care services and professional services. Service marketing is marketing based on relationship and value. It may be used to market a service or a product. Marketing services is different from marketing goods because of the unique characteristics of services namely, intangibility, heterogeneity, perishability and inseparability. The American Marketing Association defines services as - "Activities, benefits and satisfactions which are offered

for sale or are provided in connection with the sale of goods."

### **Seven Ps of Service Marketing Mix**

The first four elements in the services marketing mix are the same as those in the traditional marketing mix. However, given the unique nature of services, the implications of these are slightly different in case of services.

1.     **Product:** In case of services, the 'product' is intangible, heterogeneous and perishable. Moreover, its production and consumption are inseparable. Hence, there is scope for customizing the offering as per customer requirements and the actual customer encounter therefore assumes particular significance. However, too much customization would compromise the standard delivery of the service and adversely affect its quality. Hence particular care has to be taken in designing the service offering.
2.     **Pricing:** Pricing of services is tougher than pricing of goods. While the latter can be priced easily by taking into account the raw material costs, in case of services attendant costs - such as labor and overhead costs - also need to be factored in. Thus a restaurant not only has to charge for the cost of the food served but also has to calculate a price for the ambience provided. The final price for the service is then arrived at by including a mark up for an adequate profit margin.
3.     **Place:** Since service delivery is concurrent with its production and cannot be stored or transported, the location of the service product assumes importance. Service providers have to give special thought to where the service would be provided. Thus, a fine dine restaurant is better located in a busy, upscale market as against on the outskirts of a city. Similarly, a holiday resort is better situated in the countryside away from the rush and noise of a city.
4.     **Promotion:** Since a service offering can be easily replicated promotion becomes crucial in differentiating a service offering in the mind of the consumer. Thus, service providers offering identical services such as airlines or banks and insurance companies invest heavily in advertising their services. This is crucial in attracting customers in a segment where the services providers have nearly identical offerings.

5. **5. People:** People are a defining factor in a service delivery process, since a service is inseparable from the person providing it. Thus, a restaurant is known as much for its food as for the service provided by its staff. The same is true of banks and department stores. Consequently, customer service training for staff has become a top priority for many organizations today.
6. **Process:** The process of service delivery is crucial since it ensures that the same standard of service is repeatedly delivered to the customers. Therefore, most companies have a service blue print which provides the details of the service delivery process, often going down to even defining the service script and the greeting phrases to be used by the service staff.
7. **Physical Evidence:** Since services are intangible in nature most service providers strive to incorporate certain tangible elements into their offering to enhance customer experience. Thus, there are hair salons that have well designed waiting areas often with magazines and plush sofas for patrons to read and relax while they await their turn. Similarly, restaurants invest heavily in their interior design and decorations to offer a tangible and unique experience to their guests.

### **Promotional Strategies**

The rural market has changed drastically in the past one decade. A decade ago, the rural market was more unstructured and was not a prioritized target location for corporate. Marketers must be very careful while choosing the mediums to be used for communication. Only 16% of the rural population has access to a vernacular newspaper. So, the audio visuals must be planned to convey a right message to the rural folk. The rich, traditional media forms like folk dances, puppet shows, etc., with which the rural consumers are familiar and comfortable, can be used for high impact product campaigns. Radio is also very popular source of information and Entertainment, Adds on radio can also be a helpful tool for marketers.

#### **Some other Strategies to be followed in Indian Rural Market-**

- Decentralizing rural markets by detaching them from the urban bases. A give-and-take two-way approach should replace the present one-way exploitation.



- The salesman in rural markets should be selected from the educated unemployed villagers, trained well and appointed as salesmen. The town-to-villages shuttling salesmen are to be replaced by stationary salesman in villages.
- Companies should also adequately concentrate on educating the villagers to save them from spurious goods and services.
- Rural markets are laggards in picking up new services. This will help the companies to phase their marketing efforts.

Some of the other strategies that may be adopted by Companies for Rural Marketers for their Services:

### **Best Promotion and Quality Perception**

Companies with new technology are properly capable to communicating its products and services to their customer. There is a trade-off between quality a customer perceives and a company wants to communicate. Thus, this positioning of technology is very crucial. The perception of the Indian about the desired services is changing. As a rural Indian customer always wanted value for money with the changed perception, one can notice difference in current market scenario especially in case of services given by the companies.

### **Easy-Way Communication especially for Rural Market**

The companies have realized the importance of proper communication in local language for promoting their services especially in rural market. They have started selling the concept of quality with proper communication and easily understandable way of communications. Their main focus is to change the Indian customer outlook about quality.

### **Changing Pattern of Rural Customers**

Now-a-days, villagers are constantly looking forward for new branded products and good services. Indian customer in rural market was never price sensitive, but they want value for money. They are ready to pay premium for the product if the service is offering some extra utility for the premium. Cultural values play major role in deciding what to buy. Furthermore, rural people are emotional and sensitive. Thus, to promote products and services we should regard their social and cultural values.

### **Focus on Customer Requirement**

Every customers want value for their money. They do not see any value additional associated with the services. They aim for the basic functionality. However, if the sellers provide frills free of cost, they are happy with that. They are happy with such a high technology that can fulfill their need. Promoting products and services with right person in case of celebrity endorsement companies are picking up Indian models, actors for advertisements as this helps them to show themselves as an Indian company.

### **Promoting Indian Sports Team**

Companies are promoting Indian sports teams so that they can associate themselves with India. With this, they can influence Indian mindset like during Cricket World Cup.

### **Product/Services Campaign like "Be Indian"**

Companies are now talking about Be 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.

### **Developing Specific Products for Specific Segment**

Many companies are developing rural-specific products. Keeping into consideration the requirements, a firm develops these products. Electrolux is working on a made-for India fridge designed to serve basic purposes:

chill drinking water, keep cooked food fresh, and to with stand long power cuts. In Service Sector like Insurance they are focusing on Micro insurance products for rural segments.

### **Effective Media Modes of communication**

Traditional media or the modern media used for rural marketing is being used by companies. The traditional media include melas, puppetry, folk theatre etc. while the modern media includes TV, radio, echaupal. LIC uses puppets to educate rural masses about its insurance policies. Govt of India uses puppetry in its campaigns to press ahead social issues. ITC's e-chaupal (chaupal is the common place where villagers gather) has been the most elaborate and extensive venture in this field so far. Conceived by ITC's international

business division and launched in 2000, the e-chaupal project has since grown to around 2,700 chaupals covering a population of around 1.2 million in five states - Madhya Pradesh, Karnataka, Andhra Pradesh, Uttar Pradesh and Maharashtra.

### **Adopting Best localized way of Distributing Channels**

Proper distribution channels are recognized by companies. The distribution channel could be big scale Super markets and they thought that a similar system can be grown in India. However, they were wrong. It was soon they realized that to succeed in India, they have to reach the nook and the corner of the country. They have to reach the "local Paanwala, Local Baniya or Kirana Shop Owners" to succeed. Big Multinational companies in India capture the rural market share in India if they have to go the local market shoe sellers and with the low priced products and services.

## **20.4 MARKETING OF SOCIAL CAMPAIGNS TO RURAL CONSUMERS**

Social marketing is the application of commercial marketing principles for social good rather than for profit. Social marketing seeks to change people's knowledge, attitudes, and beliefs so that they eventually want to change their behavior. Just as systems of care should be family-driven and youth-guided, the audience you are trying to reach should guide social marketing efforts.

Leaders of children's mental health around the country use social marketing strategies to:

- Raise awareness of mental health needs of children, youth, and young adults;
- Demonstrate that systems of care improve outcomes for youth who have serious emotional disturbances (SED) and their families, and provide an excellent return on investment (ROI);
- Develop community support to create, expand, and sustain the system of care approach in counties, states, tribes, and territories; and
- Create a shared vision of what the system of care can achieve and how the partners will do this collaboratively.

Social marketing is the practice of using commercial marketing strategies to drive behavior change around a social issue. Social marketing follows a strategic process.

It is helpful because it encourages you to appreciate and consider the barriers and benefits to behavior change in your audience. What is keeping your audience from thinking, feeling, or acting a certain way? To learn more about the social marketing process, contact your social marketing TA Provider and ask for the "Social Marketing Planning Guide," which provides detailed information about the strategic process for social marketing.

### **Common Challenges in Rural Communities**

The most successful social marketing efforts reflect a deep understanding of the intended audience's attitudes and beliefs. Effective social marketing also considers what is preventing an audience from certain actions (barriers), as well as what might motivate them (benefits). While all rural communities are different, many face common challenges related to accessibility, availability, and acceptability of seeking care. Some of these common challenges faced include:

o Limited access to remote areas and lack of transportation

- Limited financial resources
- Limited technology
- A wide range of cultures and beliefs across large geographic areas
- Scarcity of media outlets
- Scarcity of primary care providers, child and adolescent psychiatrists, therapists, and social workers (especially bilingual providers)
- Siloed services and limited collaboration between systems
- Historical skepticism around accessing services and supports through health institutions
- Lack of awareness and understanding of the need to treat children and youth with mental health challenges
- Prejudice and discrimination against people dealing with mental health challenges

- Lack of privacy due to of close social networks
- Common Opportunities in Rural Communities While there are many challenges to reaching rural audiences, there also are unique characteristics that serve as opportunities for social marketing efforts.

Strengths of some rural communities that can be leveraged for social marketing may include:

- Tight-knit community that understands the importance of helping neighbors
- The commonality of word of mouth communications
- Existing collaborations and informal communications networks
- Agencies and organizations that are willing to partner, such as the Cooperative Extension System
- Natural community leaders who are easily identifiable (because of the smaller community) and willing to partner
- Audiences that may be more likely to read traditional print publications (such as local newspapers, local magazines, or church bulletins)
- Media coverage may be more accessible because of lower competition (compared to urban areas)

### **Tips for Rural Social Marketers**

There is much to be learned from social marketers who have worked with rural systems of care! In addition to all prior tips offered, social marketers recommend these nine key tips for working with rural communities:

1. Take advantage of traditional print campaigns (newspapers, bulletins, and magazines), billboards, and local, trusted media.
2. While outreach materials can be very useful, person-to-person messaging is often even more effective.
3. Use natural partnerships to the fullest.
4. Make yourself accessible and get to know your audience by physically going to the area to interact with them.

5. Find natural champions within the community and engage them as channels.
6. Use cultural brokers to convey your message, including peer messengers and family leaders.
7. Connect with existing leaders and innovators.
8. Use technology to connect with remote partners or audiences when possible.
9. Remember, families are the experts in their own care!

## **20.5 AGRICULTURAL MARKETING**

Agricultural marketing and international trade in agricultural commodities are assuming importance in the background of growth of agricultural productivity and free trade. It has been improving the living standards of farm families, making India hunger free and turning poverty into prosperity. Agricultural Marketing is a process, which starts with a decision to produce a saleable agro product and involves all aspects of market system, functional and institutional, which is based on the technical and economic considerations. An efficient agricultural marketing is essential for the development of the agriculture sector. It provides outlets and incentives to increase production, the marketing system contribute greatly to commercialize the subsistence farmers. Worldwide Governments have recognized the importance of liberalized agriculture markets. Today the worldwide trend is to encourage direct farmer sales and promote contract farming. Today there is a need to integrate farm production and retail chains. There is a necessity to integrate farm production with national and international markets and to enable farmers to undertake market oriented production plan and adoption of modern marketing practices.

### **Meaning of Agricultural Marketing**

Agricultural marketing system is defined in varied ways as below :

Marketing includes all the business activities during the flow of goods and services from the initial point of agricultural production, till the reach in the hands of ultimate consumers."

Moore, Johi and Khusro have defined foodgrain marketing as -

"Foodgrain marketing includes all those commercial activities undertaken by

marketing functionaries in a marketing channel to take the foodgrains to consumers from producers, by way of time (storage), place (transportation) from (processing) and the transfer of ownership in different stages."

J. C. Abot has defined agricultural marketing as "Agricultural marketing includes all those activities by which food item and raw material reach the consumer from a farm."

But normally it can be defined as the physical and institutional setup to perform all activities involved in the flow of products and services from the point of initial agricultural production until they are in the hands of ultimate consumers. This includes assembling, handling, storage, transport, processing, wholesaling, retailing and export of agricultural commodities as well as accompanying supporting services such as market information, establishment of grades and standards, commodity trade, financing and price risk management and the various institutions, involved in performing all these functions.

Current agricultural marketing system in the country is the outcome of several years of efforts of government policy. The system has undergone several changes during the last 60 years, regarding the owing to the increased marketed surplus; growing 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 policies of government. There are three important aspects of an agricultural marketing system. These are market structure, conduct and performance.

**In agricultural marketing, government intervention is necessary.**

The intervention of the government always influences it. An important characteristic of agricultural produce markets in India has been that private trade has continued to dominate the market. Millions of wholesalers and retailers handle the trade in foodgrains. Apart from traders, processors also play an important role as they also enter in the market as bulk buyers and sellers. Agricultural development continues to remain the most important objective of Indian planning and policy. The experience of agricultural development in India has shown that the existing systems of delivery and marketing of agricultural output have not been efficient in reaching the benefits of technology to all the sections of farmers. The timely, quality and cost effective deliveries of adequate inputs are still a dream, even though there are a few marketing attempts of the corporate sector and the developmental programmes of the state. Also, the farmers are not able to sell their surplus produce properly.

There are plenty of distress sales among farmers both in agriculturally developed as well as backward regions. There are temporal variations and fluctuations in the markets and the producers' share in consumers' money has not been satisfactory, with the exception of a few commodities.

### **Importance of Agricultural Marketing**

The study of agricultural marketing includes all the operations, and the agencies, involved in the movement of farm-produced foods, raw materials and their derivatives, from the farms to the final consumers and their effects. Normally, we can say that the agricultural marketing is the study of all the activities, agencies and policies involved in the production 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. A growing, agricultural field requires various things from the non-farm area, such as fertilizers, pesticides, farm equipments, machinery, diesel, electricity and repair services etc. The expansion in the size of farm output again requires transportation, storage, milling or processing, packaging and retailing to the consumers.

Agricultural marketing plays an important role not only in stimulating production and consumption, but in accelerating the pace of economic development also. In this way, agriculture marketing system plays a dual role in economic development of the countries like India, whose resources are primarily agricultural. Marketing system transmits the crucial price signals.

- Agricultural Marketing has a direct bearing upon the prosperity of the cultivators, as India is an agricultural country and about 70% of its population depends on agriculture.
- Most of the total cultivated area (about 76%) is under foodgrains and pulses. Approximately 33% of the output of food grains, pulses and nearly 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 introduce the specialization in agriculture.



- Agriculture supplies raw materials to various industries and therefore, marketing of such commercial crops like cotton, sugarcane, oilseeds etc. assumes greater importance.
- With the introduction of green revolution, agricultural production in general and foodgrains in particular has substantially increased. In this reference, the agriculture, as a subsistence sector, slowly changing to a surplus and business proposition.
- The interaction among producers, market intermediaries consumers and government, determine the cost of marketing and sharing of this cost among the various participants.
- The producer, middlemen and consumer look upon the marketing process from their own individual point of view. The producer is primarily concerned with the selling of his products. Any increase in the efficiency of the marketing process, which results in lower costs of distribution at lower prices to consumers, always brings about an increase in the national income.
- A reduction in the cost of marketing is a direct benefit to the society.
- Marketing process brings a new varieties, qualities and beneficial goods to the consumers and therefore, marketing acts as a line between production and consumption.
- Scientific and systematic marketing stabilizes the price level.
- An improved marketing system can stimulate the growth of number of agro based processing industries.
- A marketing system can become a direct source of new technical knowledge and influence farmers to adopt updated scientific methods of cultivation.

Therefore, marketing is playing an important role in the economic development and stability of a country's economy.

### **Objectives of Agriculture Marketing**

The farmer has realized the importance of adopting new techniques of production and is making efforts for more income and higher standards of living. While the trade is

very organised the farmers are unorganized, the marketing system is becoming more and more complicated. The cultivator is handicapped purposely by other factors. Due to this, the farmer sells his produce at an unfavourable place, time and price. That's why the agricultural marketing has got an important place, which must work/function with following objectives. .

- To enable the primary producers to get the best possible returns
- To provide facilities for lifting all produce of the farmers to sell at an incentive price
- To reduce the price difference between the primary producer and ultimate consumer
- To make available all products of farm origin to consumers at reasonable price without impairing on the quality of the produce.

#### **Facilities Needed for Agricultural Marketing**

In order to have the best advantage in marketing of farmer's agricultural produce, he should get certain basic facilities.

- He should have proper facilities for storing his goods
- He should have holding capacity, in the sense, that he should be able to wait for times when he could get better prices for his produce and not dispose of his stocks immediately after the harvest when the prices are very low.
- He should have adequate and cheap transport facilities, which could enable him to take his surplus, produce to these market rather than disposing it in the village itself, to the village moneylender-cum- merchant at low prices.
- He should have clear information regarding the market conditions as well as about the ruling prices, otherwise he may be cheated. There should be organized and regulated markets where the farmer will not be cheated by the dalals and others.
- The number of intermediaries should be as small as possible, so that the middleman's profits are reduced. This will surely increase the profit of the farmers.

#### **20.6 FUTURE OF RURAL MARKETING**

From the last couple of years, the empowerment spree of rural India is on its high

due to which the economy pertaining to this section is showing remarkable growth. The propellers for this progress include government initiatives and schemes, industry projects across the country, infrastructure development and the emphasis on local-employability.

Rural Indians are bringing desire for personal care products, packaged foods, consumer durables and IT products, two and four-wheelers and fashion accessories. Over the last five years, some consumer product companies have identified the potential of rural markets and invested time and resources to tap into this opportunity, understanding and segmenting the consumer, based on their lifestyles.

Some companies have even re-engineered pricing, products and packaging to customise features and value relevant for this market. For example, Vortex has launched low-cost ATMs, Godrej has introduced chotukool refrigerator and Nokia has developed Life tools, a mobile application that provides access to educational, agricultural and entertainment content. These innovative features and products have facilitated a better lifestyle for the people residing in hinterlands. Some players have developed new communication and distribution channels within the rural agents (HUL's Project Shakti; Tata Tea's 'Gaon Chalo') and some have created completely new products.

"Rural India is where the opportunity is, that is where the money will come from to drive current business and breed new entrepreneurs." The research facts support this claim; eight of the world's population resides in India's rural markets. Mere one percent increase in India's rural income translates to a large buying power of Rs 10,000 crore. Nearly two-thirds of all middle-income households in the country are in rural India. Close to half of India's buying potential lies in its villages. This is indeed a huge untapped market. What had hitherto prevented its conquest was the innate Indian problem due to lack of infrastructure to access this market. Rural India being an untapped market initially the successful strategy rested on the implementation of the 3 A's: Availability, Affordability and Acceptability.

Companies were forced to re-look at the rural markets owing to number of reasons during the last decade. The main reasons were the saturation of urban markets and immense market competition leading to flat or declining sales. The easiest way for growth was by reaching out to 150 million strong rural markets and tapping the latent demand there.

Microfinance and sachet marketing provided the means to do so. In particular sachet marketing, as rural populace could now buy products in smaller and affordable packs. Suddenly, marketers found that they had made great strides, as they unleashed a plethora of products and services with innovative financing schemes to back them up. Suddenly, the rural markets no longer appeared unviable.

Until some years ago, the rural market was not given importance by many companies and advertising to rural consumers was usually a hit and miss affair, the sudden realisation of the potential of rural India changed all that. It was realised that the communications that is rooted in urban sensitivities didn't touch the hearts and minds of the rural consumer. Organisations started looking at the right product and communications mix that would have a pan-Indian rural appeal. With their ad campaign, Coca Cola succeeded in providing just that. Pioneers like CavinKare came up with innovative ideas to target the rural markets. CavinKare came up with its brand Chic shampoo in small sachets. Bigger players like HLL took the cue and followed up with their own versions. HLL also launched Project Shakti, with a greater emphasis on volumes from the rural markets.

Nestle came with maggi ka chota pack, even Cadbury came with one rupee chocolate and very popular campaign like pappu pass ho gaya and cow campaign. On the other hand, ITC has totally brought new perspective to rural India's branding history by launching e-chaupal first at sagar district of Madhya Pradesh. This was a few years ago, currently things are changing fast. Thanks to the rising literacy level and media explosion, people in the rural areas are becoming conscious about their lifestyles and about their rights to live a better life. Brand consciousness is on the rise. This, clubbed with increasing disposable income of rural households, has made the rural consumer more demanding and choosier in his purchase behaviour than ever before. Studies indicate a slow, but determined shift in the use of categories in the rural families. There is a remarkable improvement in the form of products used. For example, households are upgrading from indigenous teeth-cleaning ingredients to tooth powder and tooth-pastes, from traditional mosquito repellent to coils and mats.

There is also a visible shift from local and unbranded products to national brands; from low-priced brands to premium brands. And now, the Indian rural bazaar is displaying

a market trend towards consumerism, outpacing the urban market in its ever-increasing demand for durable products like fans, wrist-watches, televisions, video cassette recorders and also non-durables like nail polish, ice-cream, lipstick, shampoo and mosquito repellents. All this has created the demand on the organisations to continue to prosper and develop in these untapped markets. As per Alvin Toffler's revolutionary book third wave the need gap of rural market can be put as following:

- The first wave was production
- The second wave was availability or distribution
- The third wave will be branding

Godrej Agrovet, ITC, DCM Shriram and other companies expanding in rural areas may eclipse the growth of their urban counterparts, including Reliance Fresh and the Future Group-owned Food Bazaar chain, helped by higher farm income that is spurring a boom in sales of fast moving consumer goods (FMCG), consumer durables and apparel. The FMCG sector in rural areas is expected to grow by as much as 40 per cent compared with the growth of 25 per cent in urban areas

The growth in rural income has been better than urban income, since the minimum support price for crops like wheat and paddy has been substantially hiked. Even prices of pulses, rice, oilseeds and milk have increased dramatically over the last one year. The disposable income with the farmer is still higher now. DCM Shriram Consolidated-promoted Hariyali Kisaan Bazaar runs 180 stores and is present in Uttar Pradesh, Haryana, Punjab, Rajasthan and Maharashtra. These stores saw a 30 to 40 per cent growth in FMCG sales and a three-figure growth in grocery sales during the April-June quarter.

The FMCG growth at 25 per cent in the April-June quarter (over the corresponding period last year) is higher than earlier years. Better prices for farm produce, the increased government spending and remittances from workers in urban areas have contributed to higher income. ITC has 23 stores in Uttar Pradesh, Madhya Pradesh and Maharashtra.

In fact, the sales of agricultural inputs have done even better. With higher prices for the produce providing the incentive, on the one hand, and shortage of labour spurring the use of inputs, on the other hand, there is an increase in sales of the farm input. Rise in

food prices is not the only reason. Large retail players like Spencers, Reliance and Subhiksha get farm commodities in bulk directly from the fields and this has cut out the middle man's commission, which farmers used to pay. Moreover, farm earnings do not attract income tax. The future is set to see a further improvement in the disposable income from agriculture due to the Rs 71,000 crore farm-loan waiver and increased government spending on raising the farm output through schemes. When disposable income goes up, a part of it is spent on apparel, FMCG and education. It seems that we are going through this phase. At the same time, the farm-loan waiver and debt-relief scheme, which became public has also been factored into by farmers.

### **The 4A Approach**

The rural market may be attractive, but it is not without its problems: Low per capita disposable incomes that is half the urban disposable income; large number of daily wage earners, acute dependence on the vagaries of the monsoon; seasonal consumption linked to harvests and festivals and special occasions; power problems; poor roads; and inaccessibility to conventional advertising media. However, the rural consumer is not unlike his urban counterparts in many ways. The more daring MNCs are meeting the consequent challenges of availability, affordability, acceptability and awareness. (The so-called 4 A's).

### **Rural Consumers' Preference for the Brands**

In rural India, the branding rules are distinctly different from urban markets. Not only the culture landscape differs, the factor that influences purchasing decisions differs too. Price and value for money are high on their list. Rural branding calls for a greater component of local media and less of the mass media. As these markets have specialised forum of their own like temple festival, melas, cinema halls, these can be the right path to promote brands. Somehow the direct marketing and events like road shows, film shows and street theatres can be right medium of brand promotion.

### **The following effects have been observed:**

- Rural purchasing power has grown faster than urban in the last six quarters.
- Faster growth in rural is not limited to penetration; today the rural consumer's frequency of consumption is growing faster as well, demonstrating their entrenchment in these categories.

- Instant noodle sales is growing nearly twice as fast in rural India compared to urban in both penetration and frequency.
- Seemingly 'urbane' brands in categories like deodorant and fabric softener are growing much faster in rural India than urban.

Several FMCG firms, including ITC and DCM, have been registering faster and higher growth in sales of their goods in the rural markets as compared to the urban markets. Some of the FMCG companies, such as Godrej Consumer Products, Marico, Dabur and Hindustan Unilever (HUL) have increased their hiring in rural India and small towns in order to establish a local connect and increase visibility. Swiss FMCG giant, Nestle plans to make further inroads into the rural markets. At present, rural consumers spend about US\$ 9 billion per annum on FMCG items and product categories, such as instant noodles, deodorant and fabric, with the pace of consumption growing much faster than urban areas.

There are certain factors which influence the rural consumer purchase as follows:

- The brand
- The size of the product
- The price of the product
- The product features

There are also some regional brands, which have developed good image due to the following reasons:

- Cable channel and their network
- Understanding
- Lower cost
- One-to-one relationship
- Entrepreneurship
- The Level of Penetration of Brands in Non-durable Products
- About 12 per cent of world population lives in rural areas in India. This is a huge

market by world standards. Rural consumers own only 64 percent of available consumer durables, even though they constitute 81 per cent of total households in India, according to an NCAER survey. According to this survey, on an average rural households owned three consumer durables as compared to seven consumer durables owned by an average household. It also showed that purchase and use of certain durables and non-durables by consumers in rural areas is more than that of the consumers in urban areas. The durable products are sewing machines, wrist-watches, radio/transistors; black and white television sets, cassette recorders, bicycles, table fans and pressure cookers. However, in case of non-durables, the following data shows that at least for six products, rural market has a larger share than the urban.

- The Level of Penetration of Premium Brands
- The personal and home care market is a mature one in urban area. For the past three years, it is witnessing a lot of changes in terms of product and usage patterns. Products in the soap, detergent and hair oils categories have high penetration level (over 70 per cent). The value growth is mainly through higher realisations and improvements in the product mix. The popular and economy segments currently dominate most of the product categories. With an increase in disposable incomes, the preferences of the target market would shift to the premium products.
- For products in the hair oil and dental care market, the thrust of the organised sector is to convert users of non-branded products to branded ones. The categories like shampoos, skin care and cosmetics continue to have low-penetration levels even in the urban areas and have achieved volume growth through packaging innovations and value growth through increased realisations.
- In the shampoo and detergent segment, sachet packs, which contribute to over 35 per cent of revenues, have been successfully used to break the price barrier and have offered convenience and affordability. In the product categories of mosquito repellents, where consumption is dictated by need, and shaving blades, which has low penetration levels, entry barriers are relatively high. Only players with strong brands can pass on cost increases.



- The Annual Size of the Rural Market
- Traditionally, consumers can be divided into two broad categories, individuals and households. The household sector is a major consumer of food products, user of manufactured goods ranging from low-priced durables, such as transistors, electric irons, etc., to high-priced colour TV sets, motorcycles, etc. This sector meets the needs of a wide range of consumer from rural to urban, from rich to poor, from wage earners to professionals. A rural market broadly comprises of consumer markets, institutional markets and services, being a relatively new entrant in this market.
- Consumer markets constitutes of Fast Moving Consumer Goods (FMCG) like personal care (oral care, hair care, soaps, cosmetics and toiletries and household care (fabric wash and household cleaners) and Consumer durables like home appliances, watches, bicycles, TV sets, radio, automobiles, etc. Institutional markets constitutes agricultural and allied activities like food processing, poultry farming fisheries, cottage industries, schools, NGOs, etc. It includes products like agri inputs, animal feed, fuel, engine oil, etc., and agri implements like tractors, pumps sets, etc. Services market constitutes banking, insurance, retail, healthcare, IT, power, communication, etc.
- The rural market in India is beginning to emerge as an important consumption area. The total size of the rural market is estimated at Rs.1, 23, 000 crore which includes FMCGs, durables and agri-products.
- Rural penetration rates in most cases are much lower than urban penetration rates. About 6 products exhibit rural penetration levels that are less than a fourth of the corresponding urban numbers. However, it doesn't necessarily mean that rural Indians don't want these products. Low penetration rates can be attributed to three factors, low-income level, inadequate infrastructure and different lifestyles like lack of electricity. The urban rural disparity is highest in case of electrical goods due to the non-electrification of more than 50 percent of rural households. The graph below displays consumer durable ownership patterns amongst SEC categories.

### **Important Points regarding Future of Rural Marketing**

- From the last couple of years, the empowerment spree of rural India is on its high due to which the economy pertaining to this section is showing remarkable growth.
- Rural Indians are bringing desire for personal care products, packaged foods, consumer durables and IT products, two and four-wheelers, and fashion accessories.
- Some companies have even re-engineered pricing, products and packaging to customise features and value relevant for this market.
- Rural India is where the opportunity is, that is where the money will come from to drive current business and breed new entrepreneurs.
- Companies were forced to re-look at the rural markets owing to number of reasons during the last decade.
- Organisations started looking at the right product and communications mix that would have a pan-Indian rural appeal.
- Brand consciousness is on the rise.
- Studies indicate a slow but determined shift in the use of categories in the rural families.
- The growth in rural income has been better than urban income, since the minimum support price for crops like wheat and paddy has been substantially hiked.
- In rural India, the branding rules are distinctly different from urban markets.
- Price and value for money are high on their list.
- The personal and home care market is a mature one in urban area.
- The rural market in India is beginning to emerge as an important consumption area.
- Rural penetration rates in most cases are much lower than urban penetration rates.
- Rural consumers are fundamentally different from their urban counterparts.

- The term 'consumer finance' refers to the activities involved in granting credit to consumers to enable them to possess goods meant for everyday use.

## **20.7 SUMMARY**

Rural customer understands and demands value for money in every purchase that he makes. Pricing therefore is a direct function of factors including cost-benefit advantage and opportunity cost. Price sensitivity is extremely high and comparison with competitive prices is common. It must be remembered that the rural consumer does not have a budget problem. He has a cash flow problem. This is because the village folk receive funds only twice a year. At these times, he is capable of making high volume purchases. At all times, however, the unit price is critical and so is the pack size. Because of this, in the lean season when there is a cash flow crunch, marketers need to provide financial products, schemes or solutions that suit the needs of the rural population. If the company wants to capture the rural market, they must first carry on the detailed and earnest analysis of the country side goal market, aiming at the particular characteristics of the rural market, and utilizing different marketing strategy according to concrete situations.

## **20.8 GLOSSARY**

**Social media campaign:** A social media campaign is a coordinated marketing effort to reinforce or assist with a business goal using one or more social media platforms.

**Agricultural marketing:** Agricultural marketing covers the services involved in moving an agricultural product from the farm to the consumer.

**Distribution channel:** A is a chain of businesses or intermediaries through which a good or service passes until it reaches the final buyer or the end consumer.

## **20.9 SELF-ASSESSMENT QUESTIONS**

Q.1. Discuss the marketing of services to rural consumers?

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Q.2. Elaborate the concept of Social media campaign?

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## **20.9 LESSON ENDED EXERCISE**

Q.1. Explain the various strategies for Agricultural Marketing?

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Q.2. Discuss the future of Rural Marketing?

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## **20.10 SUGGESTED READINGS**

- Rural Marketing: Text and Cases By Krishnamacharyulu C.S. and Lalitha Ramakrishnana, Pearson.
- Francis Cherunilam (2011) Industrial Marketing. Third Revised Ed
- Krishna K Havaladar (2006) Industrial Marketing. Tata McGraw Hill. Third Reprint. New Delhi.
- [https://www.nasmhpd.org/sites/default/files/Social\\_Marketing\\_in\\_Rural\\_and\\_Frontier\\_Communities.pdf](https://www.nasmhpd.org/sites/default/files/Social_Marketing_in_Rural_and_Frontier_Communities.pdf)

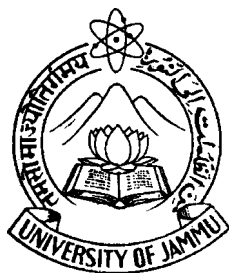
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# ***Directorate of Distance Education***

**UNIVERSITY OF JAMMU**

**JAMMU**



**SELF LEARNING MATERIAL**

**B.A. SEMESTER V**

**SUBJECT : INDUSTRIAL MARKETING**

**UNIT : I - V**

**COURSE NO. : MK501**

**Lesson 1 to 20**

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**B. A. SEMESTER - V**  
**INDUSTRIAL MARKETING**

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