

LECTURE NOTES

ON

Rural Marketing

IV Semester

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Unit – I

Introduction to Rural Marketing

Marketing:

Identifying the needs of customers and potential customers, providing products/services that satisfy their needs, and developing efficient processes or systems to deliver your product/service to the market when, where, and how consumers want it.

Rural Marketing:

Rural marketing is now a two-way marketing process. There is inflow of products into rural markets for production or consumption and there is also outflow of products to urban areas. The urban to rural flow consists of agricultural inputs, fast-moving consumer goods (FMCG) such as soaps, detergents, cosmetics, textiles, and so on. The rural to urban flow consists of agricultural produce such as rice, wheat, sugar, and cotton. There is also a movement of rural products within rural areas for consumption.

Features of Rural Marketing:

The main reason why the companies are focusing on rural market and developing effective strategies is to tap the market potential, that can be identified as follows:

1. Large and scattered population:

According to the 2001 census, 740 million Indians forming 70 per cent of India's population live in rural areas. The rate of increase in rural population is also greater than that of urban population. The rural population is scattered in over 6 lakhs villages. The rural population is highly scattered, but holds a big promise for the marketers.

2. Higher purchasing capacity:

Purchasing power of the rural people is on rise. Marketers have realized the potential of rural markets, and thus are expanding their operations in rural India. In recent years, rural markets have acquired significance in countries like China and India, as the overall growth of the economy has resulted into substantial increase in purchasing power of rural communities.

3. Market growth:

The rural market is growing steadily over the years. Demand for traditional products such as bicycles, mopeds and agricultural inputs; branded products such as toothpaste, tea, soaps and other FMCGs; and consumer durables such as refrigerators, TV and washing machines has also grown over the years.

4. Development of infrastructure:

There is development of infrastructure facilities such as construction of roads and transportation, communication network, rural electrification and public service projects in rural India, which has increased the scope of rural marketing.

5. Low standard of living:

The standard of living of rural areas is low and rural consumers have diverse socio-economic backwardness. This is different in different parts of the country. A consumer in a village area has a low standard of living because of low literacy, low per capita income, social backwardness and low savings.

6. Traditional outlook:

The rural consumer values old customs and traditions. They do not prefer changes. Gradually, the rural population is changing its demand pattern, and there is demand for branded products in villages.

7. Marketing mix:

The urban products cannot be dumped on rural population; separate sets of products are designed for rural consumers to suit the rural demands. The marketing mix elements are to be adjusted according to the requirements of the rural consumers.

Scope of Rural Marketing

Let us take at some of the points with respect to Rural India as per Census

- a. Population density of less than 400 per sq.km.
- b. At least 75% of the male working population is engaged in agriculture.
- c. No municipality or board.

If we go by statistics, roughly around 70% of the Indian population lives in the rural areas. That is almost 12 % of the world population. To expand the market by tapping the countryside, more and more MNCs are foraying into India's rural market.

Below are the few points why organizations are looking at rural marketing with a positive attitude

1. Population

According to 2011 Census rural population is 72% of total population and it is scattered over a wide range of geographic area. That is 12% of the world population which is not yet fully utilized.

2. Rising Rural Prosperity

Average income level has unproved due to modern farming practices, contract farming industrialization, migration to urban areas etc. There has been an overall increase in economic activities because during the planned rural development heavy outlay of resources on irrigation, fertilizers, agricultural equipment's and agro processing industry has been made. Saving habits in rural people also has increased. This too contributes in higher purchasing power

3. Growth in consumption

There is a growth in purchasing power of rural consumers. But, the average per capita house hold expenditure is still low compared to urban spending

4. Change in life style and Demands

Life style of rural consumer changed considerably. There has been increase in demand for durables and non-durables like table fans, radios, mopeds, soaps, etc. by rural consumers. This provides a ready market for the producers. Rural market is expanding day after day.

5. Market growth rate higher than urban:

The growth rate of fast moving consumer goods [FMCG] market and durable market is high in rural areas. The rural market share is more than 50% for products like cooking oil, hair oil etc.

6. Life cycle advantage

The products which have attained the maturity stage in urban market is still in growth stage in rural market.

7. Decision-making Units

Women in rural areas are beginning to make fast decisions for purchases. Studies reveal that 72.3% decisions are taken jointly in a family. With education and mass media, role of children in decision making is also changing.

Importance of rural marketing

Rural marketing implies applying marketing theory and directing marketing efforts to create and satisfy needs and wants of rural market (customers). Importance of marketing indicates the contribution of rural as well urban marketing.

Rural market is growing faster than urban, rural marketing results into overall balanced economical and social development. Rural marketing turns beneficial to business units, people residing in rural areas, people residing in urban areas, and to the entire nation. Let's see how growth and development of rural marketing contribute to overall prosperity and welfare.

1. Reduced Burden on Urban Population:

Rural marketing can contribute to rural infrastructure and prosperity. People can also live comfortably in villages due to availability of all goods and services in villages, even comparatively at low price. People, due to growth of marketing activities, can earn their livelihood in rural places. Population pressure on urban can be reduced.

2. Rapid Economic Growth:

Naturally, marketing acts as catalyst agent for economic growth. There exists more attractive business opportunities in rural than urban. Rural market is more potential for consumer durables and services. Rural population largely depends on agriculture and it can contribute nearly 50% to total national income. Agriculture enjoys significant portion in export business, too. Rural marketing improves agricultural sector and improved agricultural sector can boost whole economy of the country.

3. Employment Generation:

At present, nearly 70% of total Indian population feeds on agricultural activities in rural areas. Rural marketing can generate more attractive employment opportunities to rural and urban people. Growth of rural marketing leads to increased business operations, professional activities, and services that can generate a lot of employment opportunities.

4. Improved Living Standard:

Due to rural marketing system, rural buyers can easily access needed standard goods and services at fair prices. In the same way, rural marketing improves rural infrastructure. Additionally, rural marketing can also improve their income. These all aspects can directly improve living standard.

5. Development of Agro-based Industries:

Rural marketing leads to set up agro-based processing industries. Fruits, vegetables, cereals, pulses, etc., are used as raw-materials. Such industries can improve farmers' profit margin and employment opportunities.

6. Optimum Utilization of Rural Untapped Resources:

There are unlimited businesses opportunities exist in rural areas. Untapped and underutilized resources can be utilized at optimum level and that can further accelerate overall economic growth.

7. Easy Marketability of Agricultural Produces:

Growth of rural marketing improves whole marketing system. Multiple options are available to farmers and local producers to market their products. Big domestic corporate houses and multinational companies prefer to buy agricultural products directly from villages by their own or through agents and small firms. Rural producers can sell their produces easily at satisfactory prices. Their improved income level can improve their purchasing power that can further fuel to industrial demand.

8. Improved Rural Infrastructures:

Rural marketing and basic infrastructures go hand to hand. Growth of rural marketing leads to improved transportation, insurance, banking, communication, entertainment, and other facilities. Due to availability of basic infrastructural facilities, business units can easily reach the target rural buyers.

9. Price Stability:

Marketing results into better transportation, warehouses, and communication facilities. Agricultural products can be systematically marketed throughout the year. Huge gap between demand and supply can be avoided and, as a result, prices of most of commodities remain more or less stable.

10. Quality of Life and Reduced Crime:

Marketing can refine entire living style and system. Better quality products at reasonable price, improved income level, availability of facilities, etc., have direct positive impacts on quality of life. Quality of life improves and level crime reduces.

11. Balanced Industrial Growth:

The gap between rural and urban development can be reduced gradually. Rural development improves rural life and reduces pressure on urban life.

12. Others:

Apart from these points, there are a number of ways that rural marketing can significantly contribute to economic and social development.

Rural vs Urban Mindsets

Human settlements are classified as rural or urban depending on the density of human-created structures and resident people in a particular area. Urban areas can include town and cities while rural areas include villages and hamlets.

While rural areas may develop randomly on the basis of natural vegetation and fauna available in a region, urban settlements are proper, planned settlements built up according to a process called urbanization. Many times, rural areas are focused upon by governments and development agencies and turned into urban areas.

Unlike rural areas, urban settlements are defined by their advanced civic amenities, opportunities for education, facilities for transport, business and social interaction and overall better standard of living. Socio-cultural statistics are usually based on an urban population.

While rural settlements are based more on natural resources and events, the urban population receives the benefits of man's advancements in the areas of science and technology and is not nature-dependent for its day to day functions. Businesses stay open late into the evenings in urban areas while, sunset in rural areas means the day is virtually over goods/ service for some value in return such as Money". So the Market is same everywhere .But, the difference is in the consumer behaviour. 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 differs from the urban to rural market. The companies which have understood the phenomena of rural market have succeeded in the market, For Ex: HUL, ITC, Colgate, Rajdoot Motorcycle. These companies have done a perfect homework and Implemented in terms of effort and Operations. These companies approach shows that there is a difference between Rural and Urban Market.

The Differences can be Infrastructure, Economy, Lifestyle, Socio- Cultural Background, Availability or reach, Habits, Competition, and Consumer Behaviour.

Infrastructure: The facilities like Electricity, Internet, Roads and Buildings, Educational Institutions, Financial Institutions, Communication and Organized Market, Other Facilities differs in urban and rural market. In urban everything gets implemented soon and Availability is also there. Where as in rural market everything takes a good amount of time.

Economy: Here the Economy means, the earning Capacity in a rural Market. The cost of Living always depends upon their way of earning. So, the Income levels are unreliable, as Most of them are depended upon the seasons and Agriculture. So the Income levels cannot be a fixed one.

Lifestyle: The Lifestyle, that is living pattern of both the markets differ a lot. This can be important factor which influences the companies to think of when they approach rural market.

Socio- Cultural Background: Due to the illiteracy level, and Culture adaptability from long time the rural market always gets differ than the urban market. The superstition and other belief as well as the way of thinking towards products and goods differ in these two markets.

Availability or Reach: Due to the areas which are diverted geographically and Heterogeneous market the reach is very difficult. The logistics for rural market is a tough task than to reach the Urban Market.

Habits: The daily routine of the people makes them to cultivate different habits. Apart from due to the awareness is low in Media terms there will be a difference in the habits.

Competition: The competition in the market for brands and Companies always differ. As in rural markets it is always the channel Partner and Retailer plays a vital role. But where as in Urban Market Brand plays a great role.

Consumer Behaviour: Last but not least the consumer behaviour is the task for the task for the companies. The mindset of the rural consumer is completely different from Urban Consumer. The Mindset of the consumer is different .For Ex: In urban market, to buy Electronic Item the customer thinks of Brand and Its updated feature, where as in rural market he thinks of in so many ways, such as money, Durability, Buying Capacity and so on. So these mindset makes a difference in both markets.

Growth of rural markets

Rural markets are tomorrow's markets in India. They are big attractions to producers and marketers. For instance, Hindustan Unilever Ltd. (HUL), ITC, Parley Foods and many other companies are concentrating on the rural markets as the urban markets have become saturated. The scope of future expansion lies in the development of rural markets. In fact, rural marketing should be recognized as developmental marketing by big business firms.

In India it has gained greater significance these days as the overall growth of the economy has resulted into substantial increase in the purchasing power of the rural communities. On account of the green revolution in India, the rural areas are consuming a large quantity of industrial and consumer products produced near the urban areas. In this context, a special marketing strategy, namely, rural marketing has replaced agricultural marketing which was confined merely to selling farm machines and other inputs.

Due to competition in the urban market, the market is more or less saturated as most of the capacity of the purchasers has been targeted by the marketers. So the marketers are looking for extending their product categories to an explored market, i.e., the rural market. This has also led to the CSR activities being done by corporates to help the poor people attain some wealth to spend on the product they want. For instance, HUL's Project Shakti is not only helping the company earn some revenues but also helping the poor women of the village to earn some money which is surely going to increase their purchasing power. Similarly ITC's e-Chaupal, is helping the poor farmers get all the information about the weather as well as the market price of the food grains they are producing and those of inputs (seeds, fertilizers, etc.) they want to buy.

The Indian rural economy has not been impacted by the global economic slowdown, according to a recent study by the Rural Marketing Association of India (RMAI). The study found that the rural and small town economy which accounts for 60% of India's income has remained insulated from the economic slowdown. Moreover, rural incomes are on the rise driven largely due to continuous growth in agriculture over the years and increase in employment opportunities in the rural areas.

According to the Techno Pak study, rural demand for fast moving consumer goods (FMCG), pharma, auto and consumer durables is estimated to match sales generated in urban areas soon. While durable's market shrunk in urban India, rural market is seeing a 15% growth rate. FMCG sales are up 23% and telecom is growing at 13%.

40% of the revenue of Maruti Suzuki comes from rural India. That is why, the company is opening new showrooms in rural and semi-urban areas. Mahindra & Mahindra is bullish on the rural and semi-urban markets, with its utility vehicle, Scorpio clocking over 60% sales in 2011-12 from the rural markets as against 20% earlier. TVS Motor also registered around 50% of its sales from the rural and semi-urban markets during 2011-12.

Many leading consumer durable companies are now increasing their presence in rural India. Recently, LG set up 45 area offices and 59 rural and remote offices. Moreover, it has outlined plans to invest around US\$ 40 million towards development of entry-level products targeted at rural markets.

RURAL MARKETING V/S URBAN MARKETING

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 behaviour. 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, Rajdoot Motorcycle. These companies have done a perfect homework and

Implemented in terms of effort and Operations. These companies approach shows that there is a difference between Rural and Urban Market.

Parameters differentiating Urban & Rural Market

A. Environmental Differences

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.

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.

B. Social Relations Peculiarity

In the urban society, social dynamic represent a more liberated system.

- Large number of interactions with persons, less frequent between the same people.
- 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.

On the contrary, the outlook of rural society is a mixture of both of traditional and modernisms". The traditional picture is:

- Less number 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.

C. Low Exposure to Marketing Stimuli:

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 per 1000 population and high market reach, availability of wide range of products.

A different and apathetic situation we find in rural markets

- Low product exposure, low exposure to branded products.
- Low ad exposure, low comprehension of ads, low brand awareness.
- Low exposure to marketing researchers, limited sources of information and learning.
- Less convenient buying, low rate of retail outlets per 1000 population and low market reach, availability of limited range of branded products along with imitation products.

D. Dependence on Nature:

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

On the other hand, the rural life is dependent on

- Abundance of natural resources and high dependence on them for a large number of house-hold needs.
- Differential access to resources based on caste, political and money power etc.
- High dependence on livelihoods/employment and income on natural factors.

E. Employment and Incomes Variations:

The urban 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.

On the other hand, rural people work in a less certain environment

- Agrarian base, mostly small land holdings per house hold (two hectares or less) and 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)

S. No.	Aspect	Urban	Rural
1.	Philosophy	Marketing and societal Concepts, Green marketing and relationship marketing	Marketing and societal concepts, development marketing, and relationship marketing
2.	Market (a) Demand (b) Competition (c) Consumers Location - Literacy - Income - Expenditure - Needs - Innovation adoption	High Among units in Organized sector Concentrated High High Planned, Even High level Faster	Low Mostly from unorganized Units Widely spread Low Low Seasonal variations Low level slow
3.	Product - Awareness - Concept - Positioning - Usage method - Quality preference - Features	High Known Easy Easily grasped Good Important	Low Less known Difficult Difficult to grasp Moderate Less important

Rural Market Research

The systematic design, collection, analysis and reporting of data and findings relevant to a specific marketing situation facing by the company in rural market.

“The systematic planning, gathering, recording and analyzing data about problems related to marketing of goods and services.”

Rural Market Research Process

- Marketing research involves a sequence of steps-
- Step-I Defining a research problem
- Step-II Finalizing a research design
- Step-III Developing a research hypothesis
- Step-IV Planning the research methodology
- Step-V Data collection
- Step-V Data analysis
- Step-VI Conclusion and Recommendations

Sources and methods of Data Collection in Marketing Research

Data Collection in Marketing Research is a detailed process in which a planned search for all relevant data is made by researcher.

Types of Data

1. **Primary Data-** Primary data is the data which is collected first hand specially for the purpose of study. It is collected for addressing the problem at hand. Thus, primary data is original data collected by researcher first hand.
2. **Secondary data-** Secondary data is the data that have been already collected by and readily available from other sources. Such data are cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all.

Data Collection Approaches in Rural areas

A considerable number of rural people are not aware of the concept of market research. Along with that, they are also suspicious about the intentions of the market researchers or investigators. Although they are short of time like urban respondents, the investigators need to

first build a rapport with them, make them understand the importance of the research that he is conducting and break the barrier of hesitation and reluctance to participate in an activity that they are not familiar with and have not done in the past

Types of Rural Studies

- Quantitative studies
 - Since penetration and consumption of most products are low, the market is under development, hence quantitative studies cannot be done for most products
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 - Qualitative studies
 - 4As of Rural marketing – Acceptability, Affordability, Awareness and Availability
 - U &A (Usage & Attitudes) or KAP (Knowledge, Attitude and Practices)
 - Feasibility
 - Mapping distribution, promotion and communication channels

Sources & Method of Data Collection

- Ensuring the support of opinion leader
- Behaving in a manner to be liked by rural people
- Being at right places:
 - Village Chou pal
 - Retail outlet
 - Fairs
 - Huts

Methods

- Secondary Data –
 - Census of India, NCAER, CSO, DRDA, Panchayat office
 - Primary data
 - In-depth interview,
 - focus group discussion,
 - social research (PRA),
 - Questionnaire,
 - Sampling

Primary Data

- **PRA technique**
 - Is a set of approaches and methods to enable rural people to share, enhance and analyze their knowledge of life and conditions, to plan and to act.
 - **PRA Tools**
 - Social mapping : capture house location/ caste distribution
 - Resource mapping : availability of resources
 - Seasonality diagram : information on the basis of seasons
 - Venn diagrams : to identify various issues with relative importance

Advantages of PRA & FGD

PRA(Participative Rural Appraisal)	FGD(Focused Group Discussion)
Large and Heterogeneous	Small and Homogeneous
All people participate in Verbal & Non Verbal ways	Spokespersons Dominant the discussion in Verbal form.

Attitude and Behavioral oriented.	Action oriented
Spot analysis by Participant	Analysis done by Moderator

Research Tools for Rural Market

- Semiotic Analysis -appropriate colors, signs and symbols to avoid inappropriate ones. Helps advertising agencies in promotion mix
- Customer I.Q -quality, satisfaction and loyalty which provides information about brand equity
- Advanced Tracking Program (ATP) -tracking brand health and brand equity to analyze different brands performance

Limitations & challenges in Rural Marketing Research

- Nature of Rural Market
- Scarcity of Rural Marketing Research Budget
- Lack of Uniformity in Secondary Data
- Accessibility
- Lack of Facilities in Rural Areas
- Comprehension of Research Tools
- Sensitivity of Rural People

Do's and Don'ts in rural market research

- Wears simple clothes
- Familiar with local language or accompany a known person
- Spent time with villagers even though it is not needed to his research
- Purpose and its benefits to villagers should be explained in order to get correct data's.
- Issues sensitive to respondents should be carefully handled
- Male researchers should approach a woman through her husband or guardian of the woman.
- Avoid one- to-one interact as they gather as crowd.
- Researcher always carry food, water and first aid kit to avoid health problems

Classification of rural consumers

The rural consumers are classified into the following groups based on their economic status:

- **The Affluent Group:** They are cash rich farmers and a very few in number. They have affordability but not form a demand base large enough for marketing firms to depend on. Wheat farmers in Punjab and rice merchants of Andhra Pradesh fall in this group.
- **The Middle Class:** This is one of the largest segments for manufactured goods and is fast expanding. Farmers cultivating sugar cane in UP and Karnataka fall in this category.
- **The Poor:** This constitutes a huge segment. Purchasing power is less, but strength is more. They receive the grants from government and reap the benefits of many such schemes and may move towards the middle class. The farmers of Bihar and Orissa fall under this category.

Profile of rural consumers

IMRB (Indian Market Research Bureau) and NCAER (National Council for Applied Economic Research) have made available a few studies based on which rural consumers profile can be arrived at.

Literacy: 23% of rural Indian population is literate and people are getting added to this list year after year. There are still some villages which are underdeveloped. Maximum education is primary school or in some cases high school. To this group the marketing promotional strategy to be adopted is demonstration of product features and advantages. Print media and posters do not make any impact.

Income: An average rural consumer has a much lower income than his urban counterpart. The disposable income has increased in the recent years to considerable extent. In spite of this, the common traits of rural consumers are low purchasing power, low standard of living, low per capita income and low economic and social positions.

Density: Rural population is scattered across 7 lakh villages. This implies that rural demand is scattered and urban demand is concentrated. · **Influencers:** There are many reference groups in a village. These include teacher, doctor, panchayat members, health workers, bank manager and co-operative board workers. These influencers need to be kept in mind when a marketer decides on rural marketing.

Occupation: The main occupation is agriculture. The size and ownership of land determines the basis for differentiation and consumption patterns.

Culture: Rural consumers are traditional in their outlook. They associate faster with messages that match their cultural behavior.

Language: English is not a language of rural India. Hence a marketer should aim for communication in the local language.

Media Habits: Television, radio, video and theatre are some of the traditional media that a rural consumer identifies with.

The above are some of the factors that differentiate the rural consumer from his urban counterpart. A marketer has to decide on all the above parameters while designing a marketing plan.

Changing profile of rural consumers

Rural consumers as studied are dependent on agriculture and were not very literate about products and services available. This scenario is slowly changing due to increase in literacy and disposable income. Not long ago, rural consumers went to a nearby city to buy "branded products and services". Only select household consumed branded goods, be it tea or jeans. Earlier, big companies flocked to rural markets to establish their brands. Rural markets today are critical for every marketer - be it for a branded shampoo or a television. Earlier marketers thought of van campaigns, cinema commercials and a few wall paintings to entice rural folks under their folds. Today a customer in a rural area is quite literate about myriad products that are on offer in the market place, thanks to television. Many companies are foraying into the rural markets and educating them on newer products and services. The rural youth today are playing a far more significant role in influencing the purchase decisions. They travel frequently out in the village and are the drivers of purchase decisions regarding radios, television (black and white as well as color), automobiles and other goods. They may not be the end customers but often are the people who influence the purchase of high value products and they decide on which brands to choose. Penetration levels of consumer durables in the rural sector have risen dramatically in the last decade or so. Even the rural woman is coming out of the closet. She is exercising her choice in selecting categories - the choice of brands may still be with the males of the household. The prerogative of making the final purchase decisions stills rests with the chief male. In other words, the "chief wage earner" syndrome still applies in the rural markets.

Influencing the rural consumers

The biggest challenge today is to develop a scalable model of influencing the rural consumers' mind over a large period of time and keep it going. This needs to be achieved in a limited or a reasonable budget. That's where the marketers who really understand rural markets and advertising agencies can make a difference and develop a scalable media/communication model.

The mass media has the drawback that the time gap between the point of exposure and the time of purchase is long. Hence it is difficult to use it in rural communication.

The most important element in rural communications is that the marketer has to integrate 3 things in communication.

1. Exposure of a message
2. Trial or demonstration
3. Final sale.

There is minimal brand loyalty in rural consumers. This is mainly due to a bigger problem of brand recognition. There are a lot of looks alike in the rural market. The challenge is to create communication that would help the rural consumer in recognizing brands, logos, visuals, colors, etc., so that he or she actually buys the actual brand and not something else.

Unit- II

Rural Marketing Segmentation

Bases of market segmentation

First level segmentation could be done on the basis of occupation, i.e. farm and nonfarm activities. The compilation of an index could then be attempted with farmers categorized into five prosperity levels, ranging from very poor to very prosperous.

Geographic Segment

- Regions : East, West, North and South
- Village size : <500, 501-1000, 1001-2000, 2001-5000, >5000. Rural lifestyle changes with village size due to variation in the level of infrastructural and economic development.
- Density: Low, moderate, high (Villages with high population density have better infrastructural facilities and higher purchasing power.
- Climate : Summer, Rainy, Winter (Talcum Powder is used more in hot and humid regions)
- Culture (culture affects language, dress, food habit and location)

Demographic Segmentation

- Age and life cycle : Children, teenagers, young adults, elders, seniors (Confectionary and toys are more desirable in childhood, whereas young adults seek motorcycles, soft drinks, trendy clothes and music systems)
- Family structure : Nuclear, joint (Family pack or economy refill packs work very well with joint families, Joint family translates to greater consumption of products).
- Gender : Male, female
- Income: Due to irregular income patterns and multiple sources of income, assessment of rural income is difficult.
- Landownership: Land owners, rich farmers, small or marginal farmers, agricultural laborers. Segmentation on the basis of: size of landholding, area of land under cultivation, irrigation method, crop mix and rate of money realization. Education & House type.
- Occupation: Cultivators, shopkeepers, poultry, artisans.

- Religion & Caste: Settlement of villages on the basis of religion and caste. Eg. Rajput village.

Psychographic Segmentation

- Social class –Social class is determined by a combination of factors like education, occupation, income, wealth and others. Classified rural consumers into five classes:
- Affluent, The Well off, The Climbers, The Aspirants and the Destitutes on the basis of three variables: Education of the chief wage earner, Ownership of durables, and Type of house.
- Lifestyle –Overall manner in which a person lives and spends time and money.
Personality

Behaviour Segmentation

- Occasions: Festival, mela, jatra, weekly haat. In rural areas, most durables are purchased during or after the harvest season because this is when farmers have cash in hand after selling their agricultural produce. Melas offer products at attractive prices and weekly haat days are the time to purchase daily-use products, vegetables and spices.
- Benefits sought: Quality, convenience, value for money, service. Rural consumers are more concerned with the utility of the product than its appearance and sophistication.
- User status –Rural consumers fall into the category of first-time users for most product categories. Therefore, the focus on product trials and demonstrations is very crucial in rural market. Tag line for Ghariwas Detergentkarein‘induce customers to try out the product.
- Usage rate –Usage for most FMCG products is relatively low among rural consumers due to poor affordability. Marketers have launched sachet packs for rural consumers and family packs for joint families.
- Loyalty status –Rural buyers take a long time to decide on a particular brand, but once they are convinced, they are more brand loyal than their urban counterparts.
- Place of purchase –Village shops (Tea, kerosene), Haats (Food grain, pulses, vegetables), Nearest town (Fertilisers, seeds), Melas (Clothes, cheap jewelry)

Multi-variable segmentation

Very rarely, marketers depend on a single variable for segmentation. Target market to be meaningful requires the use of several variables. One of the recent developments in multi-variable segmentation is geo-demographic segmentation.

(a) Thompson Rural Market Index (TRMI):

Hindustan Thompson Associates Ltd. developed TRMI as a guide to segment markets in the rural areas in 1972 and improved it in 1986. They compiled a data out of 335 districts, based on 26 variables. Further, they collected the value of agricultural output data for each district. It is considered to be the overall indicator of rural market potential as it has strong correlation with 10 selected agriculture-related variables viz.,

- Agricultural laborers
- Gross cropped area
- Gross irrigated area
- Area under non-food crops
- Pump sets
- Fertilizer consumptions
- Tractors
- Rural credit
- Rural deposits and
- Villages electrified

Based on the index number, the districts have been classified as A, B, C, D and E class of markets as shown in table below.

Table: Classification of Markets

Class of Mar kets	Index Range	No. of Districts	Percentage of Market
A	60.00 to 100.00	22	17.8
B	40.00 to 59.99	39	20.5
C	30.00 to 39.99	54	20.4
E	20.00 to 29.99	86	23.0
	Below 20.00	154	18.3
	Total	355	100.00

(a) **Lin: Quest:** Initiative Media developed Lin: Quest, a software package that provides marketers with data on rural India. The data can be sorted on five parameters:

- Demographic
- Agricultural
- Income
- Literacy
- Civic amenities

Depending on the product being launched, marketers will be interested in certain parameters such as literacy levels, male-female ratios, bank deposits, income levels, accessibility (via road, rail and water), dispensaries, schools, and distance from the nearest town. The software allows marketers to assign a weighted average on each of these. The package then lists all the places that satisfy the marketer's criteria. For the rural launch of a regional daily newspaper the parameters could be villages (population over 10,000), income (over Rs.2000) distance from the nearest town (not more than 45 km) and literacy levels.

Lin: Quest provides a list of districts and villages within the district.

(b) **MICA rating:** MICA has developed "MICA Rural Market Rating". It is available in a CD-ROM with digital maps and provides the relative market potential of a particular district.

The ratings have been arrived at by using six parameters.

- Total value of agricultural output
- Bank advances
- Cropped area
- Irrigated area
- Number of cultivators, and
- Fertilizer consumption

It also highlights the village haats- when and where they are held and the proximity to the center by road and rail.

Classification of rural markets

This can be classified as follows:

a) CONSUMER MARKET:

Constituents: Individuals and Households.

Products: Consumables, Food- Products, Toiletries, Cosmetics, Textiles and Garments, Footwear etc.

Durables: Watches, Bicycles, Radio, T.V, Kitchen Appliances Furniture, Sewing Machines, Two Wheeler etc.

b) INDUSTRIAL MARKET:

Constituents: Agricultural and allied activities, poultry farming, fishing, Animalhusbandry, Cottage Industries, Health center, School, Co-operatives, Panchayat office etc.

Products: Consumables, seeds, Fertilizers, Pesticides, Animal feed, Fishnets, Medicines, Petrol diesel etc.

Durables: Tillers, Tractors, Pump sets, Generators, Harvesters, Boat etc.

c) SERVICES MARKET

Constituents: Individuals, Households, offices and Production firms.

Services: Repairs, Transport, Banking credit, Insurance, Healthcare, Education, communications, Power etc.

Rural Vs urban markets

It is important to understand why rural marketing is different from urban marketing. Due to significant differences in almost all the major marketing variables, it becomes very difficult to optimally tap the rural market potential with an urban mindset. In most cases, it requires a modified approach, philosophy and marketing mix.

Therefore the domain of rural marketing is significantly different from the way marketing is planned and implemented in urban areas. The positive results achieved by HLL's Project Shakti, Colgate's Project Jagaruti, etc., because they had structured their rural marketing in terms of planning, effort, operations, distinctively from their urban marketing. This proves the justification for treating and approaching rural marketing distinctively from urban marketing.

A regulated market is set up under the law either for a specific commodity or a group of commodities. These markets are set up under the APMC Acts of State governments.

This market is administered by a market committee which consists of representative of the State Government, the legal bodies (like the District Board), the traders and the farmers themselves. The committee is appointed by the government for a fixed period for management of the market. The committee fixes the market charges like the commission etc. it ensures that no 'dalal' represents either the buyer or the seller. The committee prevents unauthorized deductions from the price paid to the farmer and ensures that correct weights and measures are used.

The committee is responsible for the licensing of brokers and weigh men and is empowered to punish anyone found guilty of dishonest and fraudulent practices. It hears all the complaints and in case of disputes, it arranges for arbitration.

The chairman and Vice-Chairman of the Committee are from the farming community. The regulated market system has proved a good source of generating income for the marketing boards and this income is used for creating rural infrastructure.

Regulated markets predominate in areas where commercial or non-traditional crops are grown. Cooperative marketing and distribution and banking are also linked with the regulated markets. At present, nearly 80 per cent of agricultural produce is sold in regulated markets.

Regulated Markets

Regulated market is wholesale market where buying and selling is regulated and controlled by the state government through the market committee.

It aims at the elimination of unhealthy and unscrupulous practices reducing marketing charges and providing facilities to producers and sellers in the market. The poor standards of primary and secondary markets where producer convert their produce into cash. The prevalence of various malpractice's such as short-weights, excessive market charges, unauthorized deduction, adulteration of produce and the absence of machinery to settle disputes between sellers and buyers were recognized as the main hindrances in agricultural marketing. These defects and malpractices can be recover by the establishment of regulated marketing there country may be regulated either by local bodies or under state legislation was suggested first in 1928 by the Royal commission on Agriculture. The movement of regulation of market gained momentum only after 1930. The Bombay Agricultural produce market act of 1939 was passed in respect all agriculture produce Viz., cereals, fibers and fruits etc. Regulated markets usually handle tobacco, cotton, groundnut, grains, coconuts, arecanuts, potatoes and turmeric etc.

1. **MARKET COMMITTEE:** Market committee is comprised of representatives from different sectors of society that is farmers, traders, government local bodies and co-operative. In general it is observed that market committee consists of 15 members 10 from farmers 3 from traders and 1 each from the government and local bodies.
2. **AREA OF OPERATION:** The concerned state government notifies that its intention to regulate trade practices in specified area such an area of operation is laid down either as a municipal limit or district or even it may be a region. In Maharashtra area of operation of each regulated market restricted to one taluka.
3. **METHODS OF SALES:** In regulated market the sale of agril. Produce is undertaken either by open auction or by close tender method these sales method ensure a fair and competitive price for the produce and prevent the cheating of farmers by market functionaries. By these methods, the sale is carried out under the supervision of an official of the market committee.
4. **LICENSING OF MARKET FUNCTIONARIES:** All the market functionaries including traders working in the regulated market have to obtain a license from the market committee after paying the prescribed fee to carry on their business, the licensed traders have to keep proper record and maintain accounts in accordance with the buy-laws of the market committee.
5. **MARKET LEVIES OR FEES:** Growers and traders have to pay market fees which are calculated on the basis of value of volume of a commodity bought and sold in the markets. Sometimes it may be based on cartload or truckload.

To meet its administrative expenditure and in order to create infrastructure facilities in the market area the market committees gets funds from the following sources:

1. Market fees on the produce brought for the sales in the market yard.
2. License fee, renewal fee of market middlemen functioning in the area.
1. **SETTLEMENTS OF DISPUTES:** Disputes arising between producer seller and traders by reason of the quality of the producer, accounts and deductions of unauthorized charges are solved by the sub-committee of the market committee this avoid the legal complications and unnecessary expenditure.

Advantages of regulated markets: -

1. Market charges are clearly defined and specified.

2. Market practices are regulated and undesirable activities are brought under control.
3. Correct weighment is ensured by periodical inspection and verification of scales and weights.
4. Suitable arrangements for the settlement of disputes is provided.
5. Reliable and up to date market news are made available to the farmers.
6. Suitable quality standards and standard terms for buying and selling are conveniently enforced.
7. Reliable statistics of arrivals, stocks, prices are maintained.
8. Other facilities like shades for the sale of produce, space for parking carts, drinking water facilities and cisterns of cattle, rest houses, grading and warehousing facilities are provided.
9. Open auction method is strictly followed.
10. Propaganda for agricultural improvement is more conveniently carried out. Taking over all picture regulated markets have produced a whole some effect on marketing structure and have generally raised the efficiency or marketing at the primary level.

Organization of regulated markets and constitution of market committee

The primary object of regulating the market is to safeguard the interest of the producer sellers raise the standards of the local Markets where the first exchange of the goods takes place. With a view to achieve the object in each of the regulated markets. Market committees are established consisting of the representatives of the growers, traders, local bodies, sellers, co-operative shops and the state government nominees. Producers are generally in the majority on these committees. The market committee should consist of 12 to 18 members depending on the size of the market and other considerations, which are responsible for utilizing the fund for

- a. Maintenance and improvement of the markets and its buildings.
- b. Maintenance of standards of weights and measures.
- c. Pay and pension of the staff
- d. Payment of interests of loans.
- e. Collection and dissemination of market information.

3.4. ROLE OF REGULATED MARKETS IN AGRICULTURE

DEVELOPMENT

Regulated markets are the controlling centers of agricultural marketing, and have an important role not only in stimulating production and consumption, but also to accelerate the face of economic development. Modern economic development involves a high-degree of functional and vocational specialization and therefore requires an efficient marketing system of agricultural products that has been provided through regulation and establishment of regulated markets. Though regulated markets are set up to ensure fairer market practices in purchase and sale of agricultural produce and to provide physical prerequisites for efficient and orderly marketing, yet these markets act as controlling centers of economic activity. Apart from the facilities of credit, marketing, storage, etc., a number of agricultural input supply establishments and agro-processing industries are also coming up in these focal points. These regulated markets are also becoming important centers of business and points for distribution of consumer goods and farm inputs. Therefore, regulated markets also provide vast employment opportunities, both directly and indirectly.

Regulated markets are an integral part of the economic structure not only of a city/town but also of its surrounding regions. They, provide spatial linkages between town and its surrounding region by procuring not only trade and commerce service but other services and necessary goods including farm inputs. These centers are also indicators of agricultural development of the region. So far, we have discuss the various organizational and functional aspects of the regulated markets in India, but their role in development has not been discussed and therefore, the present chapter has been designed to explain their role in development.

Defects of Regulated Markets

These markets have proved a boon for farmers over the years even since they are being set up since 1951. There are nearly 8,500 such markets in the country. However, with changing times, these markets have been exposed to some serious limitations as follows.

- a. Failure to adopt new innovative market technologies.
- b. They have not helped in exchange of market information.
- c. They have restricted smooth supply of raw materials for agro producers.
- d. They have restricted development of alternative form of markets.
- e. They have become too monopolistic in the sense that the authorities do not permit alternate and competitive markets in an area where there is regulated market.
- f. Also, no transaction is permitted outside the regulated market. For any such transaction, one has to obtain a license and pay requisite fee to the market committee.
- g. Cold storage facilities exist in less than 10 percent of these markets which implies poor infrastructure.
- h. Grading, cleaning and standardization facilities exist in just one third of these markets.

In view of these limitations and problems relating to regulated markets, the centre set up Shankar Guru Committee in 2001 and also set up an inter-ministerial expert group to review the system of regulated markets. These committees, inter-alia, made the following observations and recommendations.

- These markets have become too restrictive and instead of promoting free and fair play market forces, have become too monopolistic.
- These markets have failed to reflect situations of scarcity or plenty and particularly in respect of food grains have led to stock piling by FCI.
- Government intervention in agricultural markets should be selective and confined only to situations of extreme scarcity.
- Essential Commodities Act should be repealed.
- Government should review all the relevant legislations relating to agricultural marketing.

Based on these, the Centre enacted a model APMC Act in 2003 urging State governments to adopt this, legislation by carrying out suitable amendments in their APMC Acts. The model APMC Act 2003 has three major objectives viz, deregulation of agriculture markets making these markets competitive and permitting private sector investment in market infrastructure.

Salient features of the Model Act are as follows:

- Farmers and traders should not be permitted to sell their produce in regulated market
- Farmers and traders should be permitted to set up purchase centers for direct sale of their produce to consumers.
- States should encourage farmers, traders, local authorities to set up parallel markets.
- Separate markets should be set up for perishable commodities like fruits and vegetables.
- Public private partnership should be encouraged in management and development of agricultural markets.
- There should be regulation and promotion of contract farming.

Regulated markets are dominated by intermediaries and middlemen. The high costs of intermediation have a cascading effect on prices. The committee on Agriculture Reforms set up in 2013 recommended, inter-alia, a barrier-free national market for the benefit of farmers and consumers.

The committee noted that by and large, the APMCs have emerged as some sort of government sponsored monopolies in supply of marketing services/facilities with all drawbacks and inefficiency associated with a monopoly.

Thus, the APMC Act has not achieved the basic objective of setting up a network of physical markets. There are some successful initiatives in direct marketing, such as April Mandi In Punjab, Uzhavar Sandhai in Tamil Nadu, Shetkari Bazaar in Maharashtra, Hadaspur Vegetable market in Pune, Rythu Bazaar in Andhra Pradesh, Krushak Bazaar in Odisha and Kisan Mandi In Rajasthan.

Rural Communication

Here are different aspects to effective communication strategy in rural marketing which includes not only the communication message but also the language, media used, social & behavioral influences etc- There are many variables across all these aspects in the rural marketing especially India. However, the basic communication process remains the same even in the rural market.

The Communication Process Model in Rural Marketing

The communication process model remains standard for both rural and urban markets. The sender sends the encoded message using a selected media which receiver receives and decodes to understand the message. This is more or less same as in urban markets. However, there are many variables in the model in case of communication strategy in Rural Marketing. e.g. There can be language barrier and the message doesn't get decoded the right way and gets wasted as 'noise'. Also due to unavailability of mature media in rural markets the message might not be hitting the right target audience.

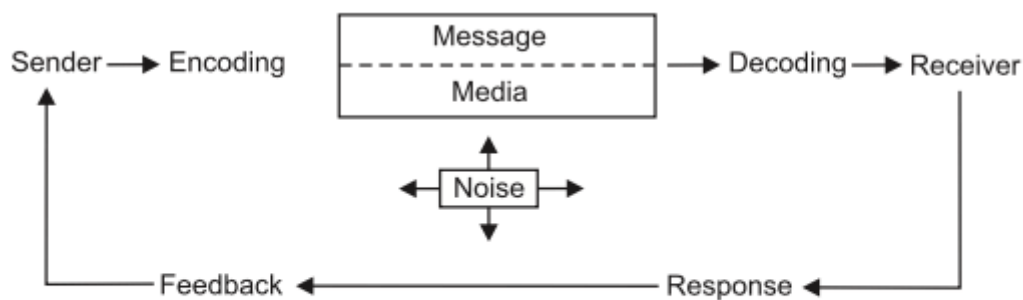


Fig. 7.1: The Communication Process Model

[Source: Velayudhan (2002), p. 90.]

The rural environment plays an important role in the way the message is understood by the consumer. Below are prime three reasons because of which the target audience might not understand the desired message:

1. Selective Attention – The consumer may not even notice the stimuli
2. Selective Distortion – The message is indirect and twisted making it difficult to understand for the rural audience
3. Selective Recall – The consumer retains only a fraction of the communication.

All the above three conditions add to the 'noise' in the communication process model and thereby play an important role while making the communication strategy in Rural Marketing.

Effective Messaging in Rural Marketing

This is a major challenge in rural marketing and most of the times an organization resorts to specialist agencies to answer this question. The rural consumer should connect and relate to the message. Broadly, below are the heads to be taken care of while crafting a rural message.

1. Languages – The message should be easily understood by the rural consumer. It should be simple and use appropriate key words for instant connect. Message should reflect culture and religious sentiments of the audience. e.g. Dabur distributed religious calendars in rural markets.
2. Pictorial Presentation – Considering the literacy levels of rural markets, pictorial representation of message becomes an important part of communication.
3. Message Form – The message should be native to the place and have utility for the consumer.
4. Source – Many times the source from where the message is coming from adds to the credibility in the rural market. The message source can be
 - a. Likeable
 - b. Trustworthy
 - c. Expert

Role of media in rural markets

Rural media can be classified broadly into conventional mass, non-conventional media and personalized media. The various media vehicles are as follows:

Conventional mass media	Non-conventional media	Personalized media
Television	Haat and mela	Direct mailer
Radio	Folk media (puppet show, magic show)	Point of sale(demonstration, leaflet)
Press	Video van	Word of mouth
Cinema	Mandi	Interpersonal communication
Outdoor: wall painting, hoarding		Animator

INOVATIVE MEDIA

OUTDOOR MEDIA: WALL PAINTING

This medium is the most widespread form of advertising and is the favourite of the Indian rural masses, as they can view it at their leisure. Wall paintings are important because they constantly remind rural people about name and logos in addition to highlighting the key brand promise. They also reflect the vibrant economic and social life of the area.

Characteristics of wall paintings

- They are economical as compared to other traditional media forms, as the manpower and infrastructure requirements are low.
- They can easily be customized in accordance with regional language variations without this impacting their artistic content.
- Audience recall rates are high.

Limitations

The lack of availability of wall space at prominent locations is an issue. The quality of the wall space available is not always satisfactory. The base of rural wall structures is generally not smooth and this impacts the final output. No exclusive wall rights are given to the company. It may happen that a company gets a wall painted and after sometimes when the company executive passes through, he finds that the painting has been replaced by the advertisement of some other company. The quality of the painters available is also low. Companies prefer hiring painters locally as they are familiar with the area and the cost of hiring them is lower when compared to the cost of hiring painters from outside.

FOLK MEDIA

- They are a face-to-face and personal form of communication.
- The essential characteristics of folk media are that are interactive, repetitive and narrative Folk media consist of folk songs, folk dances and other theatrical forms, including puppetry, street theatre and magic shows, which are an intrinsic part of the culture and heritage of the land.
- They are capable of communicating message about contemporary issues, topics and concerns as per the needs and demands of a changing society.

Kinds of Folk Media

- Folk theatre
- Magic show
- Puppet shows
- Interactive games

Folk Theatre

Folk theatre, interspersed with folk song and dance, is a simple and entertaining form of communication. It can also be informative and educational. In the past, folk theatre has been used to arouse public opinion against the British Raj, to draw attention to atrocities against the girl child and raise public consciousness about other socially relevant issues.

Folk songs

Folk songs are basically simple and direct compositions that are usually transmitted orally from one generation to the next and not through the written word. The structure of the folk song is characterized by simplicity and uniformity in rhythm. The songs consist of many stanzas sung in more or less the same tune. Each region and state has its own particular traditions of folk songs and ballads.

Folk Dances

Folk dances are basically simple and rhythmic and mostly religious in nature. Communication takes place through dramatic gestures and the accompanying music. Folk dances are visually very arresting, attracting audiences with their elaborate costumes and stage settings.

Magic shows

Magic shows are another very entertaining form of folk entertainment and draw large crowds, particularly because of the curiosity factor and the use of hypnotic effects.

Puppet Shows

The kathputli puppet performance is the most common form of this folk tradition. The origin of puppet theatre is closely linked to the performance of religious ceremonies. The connection between rituals and the use of puppets is found in almost all the states in India.

Traditional puppeteers were mostly itinerant performers who depended on royal patronage for their survival. Even today tales of chivalrous kings like Prithviraj Chauhan and Amar Singh Rathor are narrated through puppet performances in the villages and towns of Rajasthan.

The different forms of traditional puppetry are glove, rod, string-rod and shadow puppets. The differences exist not only in name but also in form, structure, manipulation techniques and geographical origin spread.

Problems in rural communication

The Rural market is not only large, but highly scattered geographically. It should also be recognized that it is not that easy to operate in rural market because of several daunting problems that adversely affect the growth of the rural market are also to be enlisted. According to Bose, the rural markets remain untapped because of three Ds: distance, diversity and dispersion.

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 are 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 bitter pill to swallow Poor roads power problems; and inaccessibility to conventional advertising media.

It exhibit linguistic, regional and cultural diversities, and it can easily be considered as more complex than the market of a continent as a whole. Inability of the small retailer to carry stocks without adequate credit facility.

Product promotion is the biggest challenge facing rural marketers today and only those who can overcome it will emerge successful. According to Rajan, “A problem advertiser’s face is the lack of a single agency to provide rural marketing services under one roof, resulting in a fragmented approach that’s not conducive to effective brand-building in rural markets.” (Arathoon 2002). There’s no surprise in learning that over 70%, (roughly 670 million) of India’s teeming masses live in rural areas. Of these, some 260 million live in almost complete media darkness, without access to TV, radio, and beyond the reach of newspapers and magazines. Widespread illiteracy allied with the multitude of languages and dialects puts the most of these people beyond the reach of conventional media planning.

UNIT-III

RURAL MARKETING STRATEGIES

1) Product strategy

In India, rural market is relatively special, which has the different consumer community, located in the different physiographic region and the different consumer community, has the difference consumer demand. Therefore, when a company launches product for the rural market, they should pay great attention to meet the rural consumer's need, emphasizing difference research. The company needs to take meet farmer's expense demand as the guidance, then adjusts product structure, increasingly improves product quality, ameliorates product function and develops practicable, solid which are suitable for the rural market. At the same time, product packing and brand also should conform to farmer's consume psychology and the consumer custom. The most important aspect that the company must focus is on the enhancement of product's basic function and the reduction of unpractical accessional function, which can not only reduce the product cost and price, but also can help the dissemination of company's brand effect.

Positioning: Product positioning plays a crucial role in marketing of rural products. Marketer has to position their products after understanding the unique characteristics of the rural market environment.

Positioning involves three tasks-

- Identifying the unique features of the company's offer with respect to the competitor's offers.
- Selecting the differences that have greater competitive advantage.
- Communicating such advantages effectively to the target audience.

Companies can reposition their existing products in rural markets. For example, refrigerator manufacturing companies can launch a refrigerator of bigger size because most of the families in rural areas are joint, big families and they require big refrigerators having bigger storage capacity. Secondly in India most of the villages are facing acute shortage of water; here companies can reposition their washing machine, which require less water than any ordinary washing machine

Segmentation And Targeting - Right segmentation and targeting principles are key to achieve faster success in rural market. 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. Segmentation can be done based on one or more variables like demographic, geographic, psychographic and behavioral aspects.

- **Geographic:** As the rural market is spread over a large area, companies can divide the market area into small sectors having some geographic similarity to consolidate their distribution network.
- **Demographic:** The market can be divided on the basis of demographic variables like income, education, lifestyle, gender, marital status, family size, occupation and religion. Due to unequal distribution of income, the Indian market for detergents is structurally shown like a pyramid.
- **Psychographic:** Market is divided into different segments based on psychographic factors like social class, life style and personality. E.g. in some parts of Gujarat, it is reported that farmers are going in for big, 50 hp (horse power) tractors, when there need was for much smaller, typically 25 hp to 30 hp ones. The reason, when asked was the compulsion to -keep up with the neighbors and to replicate their lifestyle.
- **Behavioral:** The following factors play important role to segment the market; occasions, benefit sought, user status, usage rate, loyalty status, place and product possession category.

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. Therefore, national and international brands should focus more on satisfying the needs of the rural consumer by providing the same branded products, which these rural folks lure for.

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 labeling on the package is not in the local language. This is a major constraint to rural consumers understanding the product characteristics. Hence, companies should take into consideration proper packaging and the size of the packs before diffusing their products in rural areas. Many FMCG companies, selling products ranging from biscuits to shampoos, have introduced smaller pack sizes to increase category penetration. For example, the products like shampoos, soaps, hair-oil, toothpaste, spices, pickles, jams, ketchups, tea, coffee sachets, confectionery products, medicated products like Vicks, pain-relieving ointments, etc. are now being offered in sachets in rural markets. The rural market experts may also practice value engineering, lowering the input costs by using alternative materials for raw materials or as packaging alternatives. It is generally believed that markets are created, not found. This is especially true in case of the rural market, where the demand is created by promoting urban specific products to rural consumers.

Customized products: Rural consumers typically define value in terms of the functional focus of a product or service—its durability, affordability, and fit for multiple uses. Rural lifestyles and behavioral trends are increasingly coming to resemble urban patterns, in both form and variety. Growing aspirations are as much a factor in rural markets as price sensitivity and an acute sense of value for money. Success in those markets calls for knowing how to balance those factors. Creation and development of markets in the hinterland involves building consumer understanding, product customization, relevant pricing, value engineering, and innovative modes of advertising and promotion—all designed to increase consumption and open up new markets. A close observation of rural household items indicates the importance of redesigning or modifying the products. The manufacturing and marketing men can think in terms of new product designs specially meant for rural areas keeping their lifestyles in view. People in rural areas are more interested in bright flashy colors such as red, blue, green etc., and feel that products with such colors are sturdy. The product meant for rural areas should be sturdy enough to stand rough handling and storage. The following strategies could be in line with product customization strategy –

- **Straight extension strategy**

In straight extension strategy, the same product could be marketed to the rural customers with minimum or least modifications; i.e. the contents remain the same but say, the packs may differ.

E.g. the products like FMCG could be marketed in small packs or sachets like hair oil, toothpaste, washing powder, shampoo, etc.

- **Product adoption strategy**

The product adoption strategy states that the products are modified to suit the specific need of the corresponding segment. E.g. a torch provided in the mobile phone marketed among rural customers, promoting detergent powder in urban markets whereas promoting detergent cakes in rural markets.

- **Backward invention strategy**

This strategy involves selling less complex and simple products. E.g. electric sewing machines are introduced in urban markets and manually operating machines in rural markets.

- **Forward invention strategy**

This strategy includes developing entirely new products for the rural customers. E.g. Introducing a tractor as a product for rural customers.

- **Creating new product categories**

Businesses may need to develop new products tailored to the unique needs and circumstances of rural consumers. For example: BP Energy India saw an opportunity to offer a cleaner fuel alternative for the traditional charcoal- and wood-fired stoves used in the countryside—a move that the company believed could convert 3.6 billion potential consumers to more environment- friendly energy solutions. The company bought patented technology from the Indian Institute of Science (IISc) that used fuel pellets made from agri-waste to run smokeless stoves; it had successfully sold the pellets to nearly 200,000 households by early 2008.

2) **Price strategy**

Pricing strategies are very much linked to product strategies. With low disposable incomes, products need to be affordable to the rural consumer, most of which are on daily wages. Some companies have addressed the affordability problem by introducing small unit packs. Some of these pricing strategies are mentioned below –

Income variability:

India's wide income distribution implies that there exist multiple segments with very different levels of purchasing power. The challenge for consumer goods companies is to

develop more rural specific products that are able to capture bigger share of the rural markets.

Focusing on volume not margins:

The companies must concentrate on the lower segment which is quite sizeable in number. A significant portion of the rural population is paid daily wages. Daily wage earners tend to have little stock of money, and, therefore, tend to make purchases only to meet their daily needs. Therefore, the marketing strategies in rural India must be to concentrate on large volumes over low margins and thus the overall profitability can be maintained.

Lower prices:

Many companies tend to bring their existing products at a much higher price and follow marketing strategies that are not in sync with what is required to sell to the consumer in rural areas. Hence, they end up serving the high-end niche players. In reality, consumers in the rural areas are highly price conscious. They tend to purchase only those products, which are inexpensive in nature, may it be local brands. This gives the local or regional companies an edge over the MNCs in the rural areas. Moreover, companies have adopted an unwritten policy to dump second grade quality products to sell them at lower prices in the rural market.

Credit facility:

This holds true for marketing of consumer durable and automobiles. As the purchasing power of the rural customer is quite low, they tend to purchase high ended products on credit. The companies should make use of this opportunity to sell products. They have started collaborating with banks and other financial institutions to sell their expensive products on credit.

Even, some of the least expensive products could be sold on daily credit basis such as mixers, iron, DVD players, DTH players, etc. For selling these products on daily installment basis, even the rural dealers could be encouraged by the companies apart from banks so as to avoid cumbersome paper work. But a point of caution exists here. The rural credit facility may become useless if the connectivity (both infrastructure and communication) is not developed because the person will not be able to utilize finance and repay back. Hence all the exercise of providing finance will become futile.

3) Distribution Strategy

Studies reveal that the bigger villages of above 5000 population are fairly covered by the marketing people of various companies manufacturing consumable and durable products. The

smaller villages are not fully touched due to various reasons like accessibility, small markets and far distances from towns and villages. Strategies for distribution to various rural segments are discussed as under:

Small Villages:

In order to reach smaller villages, two types of strategies have to be adopted i.e., reach all villages above 2000 population and reach all those within 50 km radius of big towns and cities. This will help cover about 50% of the rural population and even this extent of coverage means approximately 350 million populations and this is a massive coverage. Very small villages below 500 populations can be ignored at this stage as the output will not compensate the input. There should be distribution vans to cover villages on fixed period (at least once a week) so that the shopkeepers as well as the public are sure of supplies from the feeder centre, which will be nearby a town or city. The village shop keeper of 2000 population in towns should be used as a distribution channel for shop keepers of very small villages around it. This is essential as some of the smaller villages are not having motorable roads.

Agro Input Dealers:

Agricultural input dealers have know how and scope to deal with rural public as they are already in touch with them for essential inputs like fertilizers, seeds and chemicals. In their transactions, they are managing credit arrangements and hence are in a better position to take care of consumer goods also. This method needs to be tried seriously. Some of the farmers from agriculturally well off states like Punjab, Haryana, Western UP have improved their per capita income to the level of urban people and can afford to buy more and more consumer goods. With affluence, their awareness of modern goods and facilities also has increased. In addition to this, the areas where cooperatives of sugar and dairy are stronger, the farmers have better income level and cash flow is steady. It is in such places that the efforts to sell consumer goods give results. These farmers will set a trend for other farm communities.

Activating Co-operative Societies:

Though cooperatives have been started mainly for input and output of rural produce, there is scope and possibility to use these premises and offices for marketing of consumer goods to rural people throughout India, there are more than three lakh cooperative offices working under different names like marketing cooperatives, credit cooperative society, farmers service cooperative societies and various local level cooperatives. There are organizations, some active and some not so active. The premises and manpower can be better utilized by introducing the consumer, durables and consumables required by the rural population. The approach has an institution backing the marketing executives can feel safe to keep goods and

give credit on institution and hence basis than on the individual basis. The premises of cooperatives is also a good place to keep hoardings and display of items kept for sale.

Utilizing P.D.S Stores and Petrol Pumps:

These are two unexplored areas to develop market. Public Distribution Systems (PDS) are available throughout the country and even in villages. Similarly petrol pumps are available on all highways, state highways and link roads to towns and big villages. These are two places which are not fully utilized. In cities, the petrol pumps are very busy and cannot do anything other than giving petrol and diesel to hundreds of vehicles coming to them day and night. In urban and rural areas and less busy roads the petrol pumps have adequate spare time to attend additional functions. Similarly PDS stores which are in private hands have ample time three weeks in a month. PDS stores have now-a-days become least active due to decreasing importance of this scheme and very little gap between market price and PDS prices. This naturally gives scope to make better utilization of these outlets.

Towns as Feeder Centers:

Towns are frequently visited by rural people for education, cinema, dramas, purchases, medical treatment and various functions. It will be convenient if the town market is used as a distribution channel for various villages surrounding towns. One or two traders in town need to be used as feeders to village stores and also to sell directly to villagers coming to towns. This method is already working in many places and can be further strengthened. The distribution strategy can be changed based on the changing life style, communication and conveyance facilities. The strategies discussed thus far are the possibilities for the current situation.

4) Promotion Strategy

Various types of promotion methods work as integrative systems between producers and consumers. In case of consumer goods, this is done on large scale whereas for rural products, it is on small scale or specific target wise done. The producers and processors think in terms of –How to reach our customers|| and –How our customer can reach us||. Due to technological innovations people can now communicate through both traditional and newer methods of media. Both mass communication and / or target communications can be used as per requirements. Very commonly used media of communication are newspapers; magazines, radio, TV, telephone, computers, fax, pagers and mobile phones. These usage proportions differ from product to product.

For five marketing related functions like (1) Advertising (2) Sales promotion (3) Public Relations (4) Personal selling and (5) Direct marketing, there is a different way of approach in urban and rural markets.

The product package, shape, color, pricing and sales persons get up and general impression are no more monopoly of consumer goods, dealers. Now even for rural related commodities like dairy products, flour, pickles, high quality grains and fruits and foods are neatly packed, branded, weight, contents, price are written. Slowly and steadily, the marketing of rural produce in towns and cities and marketing of consumer goods in rural sectors is taking a professionalized approach. The basic difference is in organizational strength, permanent address and executive to attend any type of call for consumer goods. Such facility is a far cry for rural products. Since the literary level of rural population is low, it pays to do promotions through mass media like TV, cinema and radio advertisements. In print media, mostly hoardings and wall paintings will help more. These promotional strategies are covered as under:

Cinema:

For the last 60 years, cinema continues to be influencing factors in style, tastes, dress materials and total Indian culture. The effect of cinema is much more in Southern India than elsewhere. In the South, 76 % rural people view cinema regularly whereas elsewhere it is around 25 %. This justifies why Tamil Nadu and Andhra Pradesh had cinema actors as Chief Ministers for a long time. Despite TV being parallel popular, the hold of cinema on rural sector and urban middle class and labour class continues. Product advertisements before a movie and during intervals get good publicity. All the theaters do this with the help of slides and 1 or 2 minutes movie type advertisements to highlight the product performance and utility. This method will continue to be popular as many villagers like to see movies in theatres than on TV.

Television:

Since the last two decades, TV viewing has been a regular pastime for all Indian public. The TV serials like ‘_Mahabharat’, ‘_Ramayan’, ‘_Humlog’ and cricket matches have made TV very popular. Infact, Doordarshan covers 85 % of India and private channels have started operating at continental, national and regional levels. The advertisers have choice of segment to be touched.

For all India coverage, important and popular serial intervals are best to advertise on TV. Further, DD has special programs on specific days and time for farmers. Advertising before

and in between this programme also gets good effect. The only constraint is that such prime time advertisements cost more. Only products which can absorb such high costs can afford this.

Radio

Listening to Radio for a longtime has been for news, commentary (sports) and category songs. It has been a recent trend since two-three various last decades to use radio programmes for advertisements. The first and most famous commercial on Radio was ‘Binaca Geethmala’ on Radio Ceylon. Subsequently, many programs have come on –Vividha Bharati’ and local languages. Film songs are popular and playing advertisements in between to attract attention by the listeners. Coverage of radio stations is wide and serves the purpose. Rural people have the habit of carrying transistor radio sets and hence they play the radio wherever they go. About 75% of the rural population listens occasionally. Both local language stations and ‘Vividh Bharti stations are popular and hence advertising through these channels serves the purpose.

Print Media

Due to low literacy rate and poor reading habits, this is not a popular promotion strategy. However, some advertisements are made through the local language low priced dailies. Rural people normally read newspapers on Fridays and Sundays when there is more coverage about the movies being shown and the forth coming movies. So the promotion of cinema viewing is best done by the newspapers as far as rural people are concerned.

Hoardings

Hoardings on village entry junctions, writing and painting on walls of public buildings in villages, compound walls of private people will be more appealing and readable. The rural inputs like fertilizers and pesticides are advertised like this. The picture of product and catchy slogans are considered to be the best promoters.

Village Congregations/ Gatherings

Certain places have specific market days which can be used for mass communication to speed awareness of products. Similarly particular places have local deities and Jathra or fairs along the festival type celebrations. These occasions help to promote sales, explanation or product awareness. If some promotional schemes are kept in those occasions, it will be a more appealing effort. On these occasions, audio visual shows can be made for better explanations.

The implication is that pack size and price points are critical to sales, and importantly, that rural consumers view the purchase-tradeoff dilemma across a much wider range of product categories. As a result, the nature of competition is much greater; a beverage manufacturer is not only competing with other manufacturers in its category, but also with other products that consumers may consider one-off luxury purchases such as shampoo.

Hindustan Lever, a subsidiary of Unilever coined the term sachet. In tiny pillow-like plastic packets that contain about 20 millimeters of product, Unilever sells shaving gel, dishwashing liquid and toothpaste, to name just a few items. The sachets answer the needs of rural consumers who cannot, or are not used to, buying larger sizes and enables them to buy on a more frequent basis. This strategy provides a viable entry-level price for many rural consumers who want to try new products, and allows companies to drive volume sales. Today, Hindustan Lever's estimates- its shampoo sachets are sold in around 400,000 of India's 600,000 villages.

The success of Nirma is an example. In the late 1980s, Nirma started offering detergent products and later toilet soaps for poor consumers mostly in the rural areas. Today, the brand Nirma has become so popular among the tier 4 segments that it has captured a market share of nearly 35% by value in the detergent segment and 20% market share in the toilet soap segment. In cassettes, the T-series brand was extremely successful with its low pricing and at the same time providing value with its more songs per cassette

Ratan Tata, Chairman of Tata Group, had announced that Tata was planning to manufacture a car made from different low cost components like cycle parts, which would be priced at Rs.1,00,000. At such a price, it might be able to expand the car market by attracting new customers with lower disposable income and also by luring away some of the existent two wheeler users. Creating buying power: For any product to sell, consumers need to have disposable income. The consumers in tier 4 segment have desire to buy products, but they do not have the purchasing capacity, as majority of the products are priced higher. To meet their desires, companies need to take steps so that these customers could have access to credit and have higher earning capacity. Many companies, however, might argue that it is not their responsibility to increase the earning capacity of the consumers to get access to credit. A few companies, however, proved it wrong. Way back in 1920s, Henry ford increased the wages of his employees to increase the sales of his Ford cars and he was successful.

Hindustan Lever Ltd. (HLL) the Indian subsidiary of unilever has started a programme

targeting villages with a population of less than 2000. Under the program, the company provides self-employment opportunities to villagers through Self-Help groups (SHGs). SHGs operate like direct to home distributors wherein groups of 15-20 villagers who are below the poverty line (Rs. 750) are provided with an opportunity to take micro-credit from banks. With the help of this money, villagers are able to buy HLL's products and sell them to other villagers, thereby generating employment and income for themselves and also increasing the reach of HLL's products.

Generally, the poor have difficulty in getting access to commercial credit, as the traditional banking system does not normally lend money without collateral security. However, some institutions, like the Grameen Bank in Bangladesh, are helping the poor to access money through innovative solutions such as micro lending. In the Grameen Bank model, one group of rural women took out a loan for as little as \$ 25 to start a business. Only when she repaid could the next woman in the group borrow.

The success of Grameen Bank (initiated by Nobel laureate Mohd. Yunus) has helped to spread the idea of micro-lending throughout the world. In Bangladesh alone, there are now around 10 million people who have taken the help of micro-finance to start business. It is now planning to replicate the success in rural India. The above banking model can fit well in the already existing cooperative banking models with some changes, to initiate the concept of micro lending.

Not only this, the success of Grameen Bank had also led to its offshoot, Grameen Phone, a provider of village phone service. As mentioned in the article serving the World's Poor, Profitably by Prahalad C. K. and Hammond Allen, under the Grameen Phone, a single entrepreneur in a village borrows money from Grameen Bank to buy a mobile phone (GSM standard), which is being used by the entire village generating an average monthly revenue of around \$90 for the entrepreneur.

METHODS OF SALE

The methods of sale or fixation of rate prevalent in agricultural markets may be as follows:

(1) Under Cover (Haththa) Method

In this method, the buyer or his broker and commission agents join hands under the cover of cloth usually a towel or a dhoti or front portion of kurta or shirt. The price is settled by

pressing the fingers. The negotiations go on in this secret manner till they are called off due to failure in arriving at as on agreed price, or a price is settled. The commission agent then informs the seller and asks for his consent to sell. He is, however, not told anything about the price offered by other buyers. The under cover method of sale is advocated to be advantageous by the middlemen group. This method has ample scope for malpractices against the interests of sellers because of secret negotiations. Now-a-days, traders are shifting from this method to private negotiations.

(1) **Auction Method**

Under this method, the prospective buyers gather around separate heaps of grains and announce their bids loudly. When the bids have reached the highest, the auctioneer who is generally a commission agent, in consultation with the seller, sells the produce to the highest bidder. The auction system is definitely better than the undercover system as this increases competition among the buyers and the rates are very likely to rise if there is fairly strong demand for the product. Moreover the chances of malpractice are also minimal.

(2) **Private Negotiations**

This is the most common method of sale. Under this method, individual buyers or their brokers visit the shops of commission agents, inspect the quality of grains and offer rates as they think appropriate. Both the parties then negotiate on the rates and if both agree on rates, the deal is struck.

Sales force management in rural marketing

Sales force management: as a general rule, rural marketing involves more intensive personal selling effort compared to urban marketing.

Rural marketing calls for some specific traits on the part of salesman

- 1. Willingness to be located in the rural areas:** first of all, only those who feel happy in living and working in the villages can become good rural salesman. It is common knowledge that the rural areas lack modern compared with the urban areas. Because of this factor, well qualified salesmen are often reluctant to live in the rural areas.

- 2. Cultural congruence:** location is just the straight point. The sales man must be well acquainted with the cultural aspects of rural life. Since the cultural patterns of the rural commodities differ from one another, a background that gels with the culture of the given community is to be preferred.
- 3. Attitude factors:** attitude factors are of particular significance in the rural context. For example, the rural salesman must have a great deal of patience, as their customer is a traditional and cautions person. Preserve is another essential trait. It will not be possible for the rural salesman to clinch the sale quality.
- 4. Knowledge of the local language:** rural salesman should also be conversant with the local language whereas his urban counterpart can successfully manage with English and a working knowledge of the local language, the rural salesman should be quite familiar with the local language.
- 5. Ability to handle several product lines:** often rural salesman is required to handle several product lines. While urban salesman can generate an economic size business through a few product lines, rural salesman are compelled to handle a large variety of products, as they do not generate economic volume of business with a few products.
- 6. Creativity:** rural selling also involves greater creativity. Often, the products connected may be very new in the rural context. The rural salesman have to make special endeavours to introduce them.

Solving Sales Force problems by managing sales force in rural areas

Managing the Rural Sales Force

In tune with the special requirements which the rural sales force has to meet, the task of sales force management too carries certain added dimensions in the rural context. In selecting the salesmen, in giving them orientation, in motivating them and in developing them the sales manager has to adapt to the unique requirements of rural selling. For example, while providing orientation to the newly recruited rural salesmen, the sales manager may have to devote a longer time. And mere classroom training will not meet the requirements of orientation of rural salesmen. The salesmen need comprehensive on the job coaching in selected village markets. And they need to be educated about the rural marketing environment in addition to being trained in salesmanship and selling techniques. The rural sales manager must also

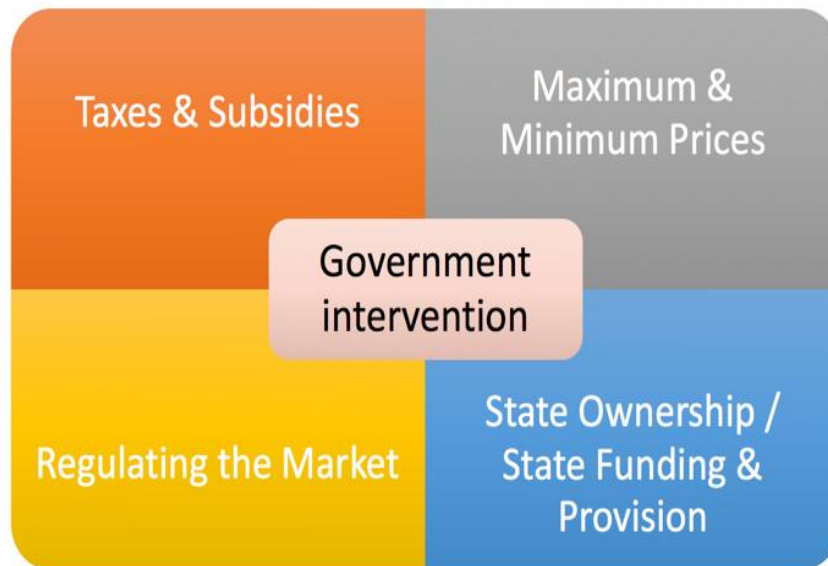
support his salesmen with non-conventional means of market promotion suitable to the rural consumers. Rural salesmen also need more intensive sales training & as they have to handle a variety of products.

In short, sales force management in the rural context becomes an exacting job, especially when the firm has big stakes in rural marketing and when it operates on a nationwide basis. For example, Hindustan Lever's rural salesmen have to cover 70,000 rural locations. Administering such a large and scattered sales force, supervising them, supporting them in sales calls, coaching them on the job, attending to their official and personal problems and above all, motivating them for better results in an exacting task for the sales manager.

UNIT –IV

ROLE OF GOVERNMENT IN DEVELOPING AGRICULTURAL MARKETING

It provides an overview of the different forms of government intervention in markets Government intervention



What is laissez faire economics?

- In a free market system, governments take the view that markets are best suited to allocating scarce resources and allow the market forces of supply and demand to set prices.
- The role of the government is to protect property rights, uphold the rule of law and maintain the value of the currency.
- Competitive markets often deliver improvements in allocative, productive and dynamic efficiency
- But there are occasions when they fail – providing a case for intervention.

What are the main reasons for government intervention in markets?

The main reasons for policy intervention by the government are:

1. To correct for market failures
2. To achieve a more equitable distribution of income and wealth

3. To improve the performance of the economy

Role of Agencies

Council of State agricultural Marketing Boards

Marketing of agricultural produce is gaining importance all across the world in general and developing world in particular. Agricultural marketing policy in India has been characterized by State participation in production activities; state intervention in procurement and distribution of food grains; directing agricultural economy through regulatory mechanism such as licensing and control on movement, storage; creation of facilitating centers in the form of regulated markets; encouraging co-operative marketing; creation of supporting infrastructure like storage and warehousing; and construction of link roads, market information network, marketing extension, etc. Over the years, to achieve an efficient system of buying, selling, storage and processing of agricultural commodities most of the State Governments enacted Legislations (Agricultural Produce Marketing (Regulation & Development) Act's to provide the regulation for marketing and establishment of infrastructure for agricultural produce. The establishment of regulated wholesale markets has helped in creating orderly and transparent market conditions and also in increasing the access of farmers to such orderly markets.

The government of India supports organized marketing and as such physical markets are meant to make sure that the farmers get reasonable profits by creating an atmosphere of fair play. The fairness is with regard to the forces of supply and demand as well as regulation of market practices and transparency in transactions. Wholesale market is a unique place for buying, selling and value addition for food grains and fruits and vegetables, which are centrally located in cities. This is the place where genuine price of farmer's produce is determined and exchange of goods with services take place. The main function of wholesale market is to facilitate the break up of the large quantities of perishables supplied to the city into assortments, which meet the requirements of different retailers and end users. But apart from this a wholesale market can itself be an integrated business center for various other commercial activities.

Currently, there are more than 7,000 such markets in the country. Most of these regulated markets are wholesale markets. Other than these markets are 27738 rural periodical markets of which 15% function under the ambit of regulation. The rest 85% are managed by local self government institutions or government departments.

Whereas the different institutions have been promoted for undertaking marketing functions on behalf of the farmers structure consisting of :

- Directorate of marketing and inspection
- National Institute of Agricultural Marketing
- National council of state agricultural marketing boards
- State agricultural marketing boards
- Agricultural produce marketing committees

Role of such institutions in promotion of agricultural marketing has been and well recognized in India since independence. The state agricultural marketing boards under the control of provincial Governments are implementing respective schemes and programs for development of market infrastructure including wholesale markets. The National level autonomous body acting as association of State Agricultural Marketing Boards, popularly known as COSAMB (National Council of State Agricultural Marketing Boards) is actively engaged in coordinating activities and mutual sharing of meaningful information between member Boards. It has the mandate of coordination with international agencies, inviting technologies and systems for improving agricultural marketing in the country.

Now we are on threshold of re defining our roles and restructuring ourselves to meet the fast changing dynamics of agri business world and the rising expectation of the modern farming practices. Today we seek to help our farmer to get maximum benefit by providing latest market information in prices and particularly trade practices. It is the need of the day to respond to the changing trends in agriculture at global level.

COSAMB/SAMB's lay focus on bringing professionalism in management of wholesale markets and encouraging investments in the sector. The focus in recent times has been on improvement of modern marketing infrastructure in general and modern wholesale market yards including terminal markets in particular. Recently, the Government of India has opened up this sector de-monopolizing the Government owned agencies and inviting private investment in development and owning of wholesale markets. The COSAMB/SAMB's has been playing catalytic role to achieve this endeavor. As per recent reforms brought in by Government of India, the role of State Marketing Board has been envisaged as "Regulator" instead of an enforcement agency. This would provide a level playing field for private and government investment. In such circumstances, the role of COSAMB would be

evolved much more at the National level to coordinate between various agencies in the interest of member Boards. The National status of COSAMB is now well recognized and member states are taking part in day to day activities more aggressively.

CO-OPERATIVE MARKETING IN INDIA

Marketing is a comprehensive term covering a large number of functions. Recently the concept of marketing has broadened considerably. It includes not only purchases and sales of products, but also the various business activities and process involved in bringing the products from the producer to the consumer. So an efficient and organized marketing is essential for the healthy growth of any community.

Marketing is one of the major problems of Indian agriculture. Owing to lack or shortage of suitable market, infrastructure, farmers are compelled to dispose off their produce at very low prices and, thus, they are deprived of the real income which they should get out of their venture. At this condition, co- operative marketing can prove very beneficial and of course the only solution.

According to the Reserve Bank of India, a co-operative marketing society "is an association of cultivators formed primarily for the purpose of helping the members to market their produce more profitably than possible through the private trade." In general it is a process of marketing of products which enables the growers to market their produce at better prices, followed by the intention of securing better marketing services and ultimately contributing to improvement in the standard of living of members.

Agricultural marketing begins at the farmers field. It includes several activities like assembling the produce, grading, storage, packing, processing, value – addition, gathering market information, transportation, selling etc., There are certain special features attached to agricultural marketing which is different from that of manufactured goods. These are; perishability of the product, seasonability of production, bulkiness of products, variation in quality, irregular supply, small size and scattered production, processing etc.,

Marketing Difficulties:

Even though the conditions have improved over the years with regard to agricultural marketing still there are problems like long chain of middlemen, multiplicity of market charges, adulteration and

lack of grading, traditional method of sale, weighing procedure, delayed payment, low marketable surplus, inadequate storage facilities, defective transport, lack of market information, insufficient number of regulated markets, financial problem, inefficient management, lack of integration between production and marketing etc.,

Importance of co-operative Marketing:

Organized marketing is of considerable significance to the economy of a country. In fact, a well-organized co-operative marketing structure is an essential pre-requisite for large scale increase in co-operative credit. Under the crop loan system, there is a shift in the emphasis from land to crop as the main security, and linking of credit with marketing would provide a built – in mechanism for recovery of production loans also.

Apart from the above the prevailing hurdles in agricultural marketing can be solved through co-operative marketing system in a country like India. The following are some of the important reasons which justify the establishment of co-operative marketing structure.

- To overcome the malpractices.
- To reduce the price – spread between the producer and the consumer.
- For large-scale expansion of co-operative credit.
- For integration.
- To improve the economic conditions of the producers by strengthening his bargaining power.
- To educate the farmers.
- To overcome the problem of unwanted participation of multi-national companies in domestic marketing.

Role of co-operative marketing

Co-operative marketing plays a significant role in the following areas;

- Optimization in resource use and output management.
- Widening the markets
- Growth of agro-based industries
- Generates Employment

- Increase in farm income.

Aims and objectives of co-operative marketing

The broad aim of co-operative marketing societies is to rationalize the whole marketing system so that it may be beneficial to the producer. Its basic objective is to strengthen the bargaining capacity of the farmer so as to secure him better price and eliminate the superfluous middlemen.

Objects and aims

- Strengthen the bargaining capacity of the cultivation.
- Secure the member a better price for their produce.
- Eliminate the middlemen.
- Provide members the needed finance.
- Persuade the farmer to grow better quality products.
- Stabilize the price.
- Developing fair trade practices.
- Provide the facility of grading and transportation.
- Act as an agent of government for procurement and implementation of price support policy as well as market intervention scheme.
- Promote the economic interest of its members by encouraging self help, thrift and better farming among members.
- Act as a distributive center for agricultural requisites such as seeds, implements etc.,
- Help in the expansion of co-operative credit programme by linking marketing with credit.
- Educating the farmers.

Structure and Organization

The structure of co-operative marketing societies in India consists of;

- National Agricultural Co-operative Marketing Federation (NAFED) at the National level.
- State Marketing Federation at State level.
- District or Regional Marketing Societies at the intermediate level and
- Primary Marketing Societies at grass root level.

National Agricultural Co-operative Marketing Federation (NAFED)

NAFED is the federal organization of state level apex cooperative marketing societies in India. It was established on 2nd October 1958. The objects of NAFED are to organize, promote and develop marketing, processing and storage of agricultural produce, distribution of agricultural machinery implements and other inputs, undertake inter state, import and export trade, wholesale or retail as the case may be and to act and assist for technical advice in agricultural production for the promotion and the working of its member and cooperative marketing, processing and supply societies in India.

MARKFED

The Punjab state Cooperative supply and marketing federation Ltd (MARKFED) was registered in 1954. It plays a pivotal role as a catalyst for integrated development and growth in the rural areas of Punjab. It helps in stabilizing the market rates of farm produce, ensures supply of quality goods. Helps in generating employment and contributes substantially towards earning foreign exchange. At present, about 3069 members and has emerged as Asia's largest marketing cooperatives. Markfed is not only marketing the products in the domestic markets but also in the international markets. It is exporting canned products, bottled products, agro-chemicals, edible oils, animal feeds etc., to Australia, Canada, Greece, Italy, U.K and U.S.A. It is contributing to research and development through Punjab Agricultural University.

HAFED in Haryana

The Haryana state cooperative supply and Marketing federation Limited is the largest apex cooperative federation in Haryana state. It came into existence in 1966. Since then it is playing a leading role in serving the farmers of the state as well as customers in India and overseas by providing hygienic and safe quality consumer products. It has 712 members societies.

TANFED in Tamil Nadu

The Tamil Nadu co operative Marketing Federation Ltd was started in 1959. It is an apex level organization of the state having the membership of 111 primary cooperative marketing societies. This federation is having its own fertiliser production unit. One of the special features of this is it provides mobile telephone services to farmers through co operatives.

The Karnataka State co-operative Marketing Federation Ltd.,

It plays a major role in supplying chemical fertilizers, pesticides, agricultural implements etc., It is also engaged in marketing of certain consumer products. The Federation has 477 members and

consists of its own pesticide formulation Unit.

Processing Co-Operatives

Processing of food grains and other agricultural commodities is the most important stage in preparing them fit for ultimate consumption. Almost all the agricultural products have to undergo one or more stages for processing before they reach the consumer. This is carried out by the co-operatives in crops like sugar, cotton, Jute, groundnut, fruits, vegetables, arecanut, coffee etc. Leading Multi-state co operative Marketing and processing societies.

- ❖ CAMPCO
- ❖ COMARK
- ❖ RUBBER MARKETING AND PROCESSING
- ❖ MAMCOS
- ❖ APCOS
- ❖ DAIRY
- ❖ COIR

District marketing Societies

These societies exist only in few states these are expected to co-ordinate the functions of primary marketing societies both in regard to marketing of agricultural produce and distribution of agricultural inputs and consumer goods. Along with these they are also undertaking processing and inter-district trade etc.,

Primary marketing societies

These are by and large located at the secondary market or wholesale assembling centers. However, in few states, marketing societies were organized at the headquarters of the block or Taluk. These societies are arranging the agricultural produce of the members for sale, provide transport, encourage members to grow improved and standardized varieties of produce, process raw material, supply inputs, acts as commission agency, undertakes outright purchase, advances pledge loans, provides storage facilities etc.,

An Evaluation

The marketing of agricultural produce on cooperative basis has not, however, achieved success to

the extent desired. Several studies revealed that these societies have made a negligible impact on the cultivators about their ability and scope as good marketing institutions. Most of the primary societies did not effectively cover all the villages in term of membership of growers and collection of agricultural produce. Many of the state-level societies did very little marketing business and they were involved in distribution and supply functions. Their role in promoting an inter-state or inter-district and in helping the primary society in disposing of their produce was negligible.

The main reasons why members do not sell their produce through these societies are;

- Dealing with the co-operative marketing societies resulted in much botheration and were serious delays.
- Lack of arrangements for lifting the stocks from the villages and the farmers found it costly to take produce from their farm to the co- operative marketing societies.
- Many members did not have adequate knowledge of the functioning of the co-operatives, therefore, they did not know as to what were the advantages in selling to the societies.
- The price offered to the members in the open market is generally more than offered by the societies.
- Members have little confidence in the co-operative societies and their personnel.
- Lack of personal care and contact.

Why poor performance?

Even though our co-operative movement has a long history and base, still the performance of the co-operative marketing societies are not encouraging due to the following causes;

Departmental initiate

One of the basic weakness of these societies has been that they have been organized on the initiative of the departmental officials and not through the efforts of the farmers.

Absence of Targets

There is a wide gap between the targets and the actual achievements due to the unrealistic nature of targets and inadequate planning.

Unplanned set-up

Lack of attention to have appropriate norms with regard to the coverage of area, the volume to be handled, the financial resources etc.,

No Integration of tiers.

So far no serious efforts have been made to link with the district or regional marketing societies. In many cases credit societies are also not linked to marketing societies.

Efforts are not made to link marketing societies in between the states.

- Competition from credit societies
- Bias towards individual membership
- Poor management
- Favoritism and malpractice
- Lack of supervision
- Concentrations on distribution activities
- Purchase through private traders.
- Weak economic base
- Poor membership participation
- Absence of common brands
- Lack of shopping environment
- Loss and increasing NPAs
- Absence of professional management.

What morphing is needed?

Co-operatives today are viewed as failed institutions encircled by inefficiency and corruption. This should be changed. For this regard what is needed is their morphing into new design of working so that these weaknesses can be managed effectively.

- Raising the share capital
- Making the business attractive
- Altering the working pattern
- Be professional

- Educating the members
- Develop new products
- Adding value in the services
- Converting the existing societies in to retail shops.
- Providing incentives to the farmers for their active participation.
- CO-operation among the cooperatives.
- Going for R & D
- Respecting the views and innovative ideas of the members.
- Attracting customers through advertisement and marketing strategies.
- Providing unique services.

Agricultural products are marketed in India still through traditional manner where the scope for middlemen participation is higher. So as to solve this the country has to rebuild the cooperative marketing societies. In this regard marketing co-operatives should be owned by the producers in real sense. For gaining success in cooperative marketing society it should have its own macro network and it has to take up the responsibilities of collection, transportation, storage, processing and sale of agricultural output. Along with these it has to make arrangements to have direct contact between the farmers and the consumers through cooperative network. Thus, the sale of agricultural products takes place from one cooperative to another, and in principle, the profitability for the producer increases while the purchase price for the consumer decrease.

National Cooperative Development Corporation

Formed	1963
Jurisdiction	India
Headquarter	New Delhi
Minister	Radha Mohan Singh, Minister of Agriculture
Managing Director	Shri Sundeep Kumar Nayak, IAS (2017-incumbent)
Ministry	Ministry of Agriculture & Farmers Welfare
website	www.ncdc.in

National Cooperative Development Corporation (NCDC) was established by an Act of Parliament in 1963 as a statutory Corporation under Ministry of Agriculture & Farmers Welfare.

Functions

Planning, promoting and financing programmes for production, processing, marketing, storage, export and import of agricultural produce, food stuffs, certain other notified commodities e.g. fertilisers, insecticides, agricultural machinery, lac, soap, kerosene oil, textile, rubber etc., supply of consumer goods and collection, processing, marketing, storage and export of minor forest produce through cooperatives, besides income generating stream of activities such as poultry, dairy, fishery, sericulture, handloom etc.

NCDC Act has been further amended which will broad base the area of operation of the Corporation to assist different types of cooperatives and to expand its financial base. NCDC will now be able to finance projects in the rural industrial cooperative sectors and for certain notified services in rural areas like water conservation, irrigation and micro irrigation, agri-insurance, agro-credit, rural sanitation, animal health, etc.

Loans and grants are advanced to State Governments for financing primary and secondary level cooperative societies and direct to the national level and other societies having objects extending beyond one State. Now, the Corporation can also go in for direct funding of projects under its various schemes of assistance on fulfillment.

Organization and Management

The Management vests in 51 member widely represented General Council to give shape to its policies and programs and Board of Management with 12 members to cater to day-to-day activities. Besides its Head Office, NCDC functions through 18 Regional/State Directorates. The Managing Director is the Chief Executive. Various functional divisions look after the programs. The field offices play an important role in project identification/formulation and oversee its implementation. NCDC is endowed with in-house technical and managerial capabilities in the areas of Cooperation, Organization & Methods, Financial Management, Management Information Systems, Sugar, Oilseeds, Textiles, Fruits & Vegetables, Dairy, Poultry and Live stock, Fishery, Handlooms, Civil Engineering, Refrigeration and Preservation to help cooperatives to identify/formulate projects and successfully implement them.

Currently it has eighteen Regional Directorates at Bengaluru, Bhopal, Bhubaneswar, Chandigarh, Chennai, Dehradun, Gandhinagar, Guwahati, Hyderabad, Jaipur, Kolkata, Lucknow, Patna, Pune, Raipur, Ranchi, Shimla and Thiruvananthapuram to provide the financial assistance to Cooperatives/Societies/Federations.

Public Distribution System (PDS)

Public distribution system means the regulated and controlled distribution of essential goods among people. Under the system, essential consumer goods are provided to people at fair prices through government agencies. Public distribution system means the regulated and controlled distribution of essential goods among people. Under the system, essential consumer goods are provided to people at fair prices through government agencies.

Main Constituents of Public Distribution System

Fair Price Shops or Ration Shops

Public distribution system ensures supply of essential commodities through a network of fair price shops. At present, there are about 4.50 lakh fair price shops in India, out of which about 3.60 lakh shops are operating in rural areas and 0.90 lakh shops are operating in urban areas. Each shop is envisaged to serve a population of about 2000.

Consumers Co-operative Stores

Consumer co-operatives play an important role in the supply of quality goods at reasonable rates to common people. There is a three-tier structure of consumer co-operative societies in India. They are primary consumer co-operative societies, central consumer co-operative stores and state level consumer federations. More than 50,000 village level societies are engaged in the distribution of consumer goods in rural areas.

Shops selling Cloth at Controlled Prices

These shops sell cloth at controlled prices to consumers on the basis of their ration cards. More than 66,000 shops are selling such cloth throughout the country.

Super Bazaars

Super bazaars are the bazaars which provide all the goods of daily needs at controlled prices. These markets enable the consumers to complete their purchases from one place. These bazaars are working in almost all the major cities of India.

Kerosene Retailers

In some states, kerosene is distributed through fair price shops while in other states, specific retailers have been licensed for the purpose.

Commodities of Distribution

Six key essential commodities viz., wheat, rice, sugar, imported edible oils, kerosene and soft coke are distributed to consumers through public distribution system. Besides, state governments are empowered to include other essential goods in the system.

Responsibility of Supply of Commodities

Different institutions have been assigned the responsibility of procurement, allocation and distribution of different goods as under:

- Food Corporation of India for wheat, rice and other food grains,
- Indian Oil Corporation and Ministry of Petroleum for Kerosene,
- Coal India Limited for soft coke,
- National Textiles Corporation, and
- State Trading Corporation for imported edible oils.

DIRECTORATE OF MARKETING AND INSPECTION

The Directorate of Marketing and Inspection (DMI), an attached Office of the Department of Agriculture and Cooperation under Ministry of Agriculture, was set up in the year 1935 to implement the agricultural marketing policies and programmes for the integrated development of marketing of agricultural and other allied produce in the country with a view to safeguard the interests of farmers as well as the consumers. It maintains a close liaison between the Central

and the State Governments The Directorate is headed by Agriculture Marketing Adviser to Government of India and has its Head Office at Faridabad (Haryana), Branch Head Office at Nagpur (Maharashtra) and 11 Regional Offices/ Sub-Offices headed by Dy. Agricultural Marketing Advisers (Dy.AMAs.) at Delhi, Mumbai, Chennai, Kolkata, Hyderabad, Chandigarh, Jaipur, Lucknow, Bhopal, Kochi and Guwahati and the Central Agmark Laboratory at Nagpur. Besides, there are 26 Sub-Offices and 11 Regional Agmark Laboratories (RALs) spread all over the country.

Functions

The main functions of the DMI are the following:-

- Rendering advice on regulation, development and management of agricultural produce markets of the States/Union Territories;
- Promotion of Standardization and Grading of agricultural and allied produce under the Agricultural Produce (Grading & Marking) Act, 1937;
- Development and Implementation of Agricultural Marketing Research and Information Network(MRIN) scheme;
- Promotion and Implementation of Rural Go down;
- Implementation of Agricultural Marketing Infrastructure Grading and Standardization scheme;
- Training of personnel in agricultural marketing; and
- Marketing Extension;

National Institute of Agricultural Marketing

NIAM is a national level institute set up by the Ministry of Agriculture, on 8 August 1988 at Jaipur, Rajasthan, to cater to the needs of agricultural marketing personnel and to offer specialized Training, Research, Consultancy and Education in Agricultural Marketing in India and South East Asian countries. The institute is dedicated to Chaudhary Charan Singh, the fifth prime minister of India from where it derives its full name, "Chaudhary Charan Singh National Institute of Agricultural Marketing". The Union Minister for Agriculture is the President of the General body of NIAM and Secretary, Department of Agriculture and Cooperation is the Chairman of the Executive Committee.

Training

NIAM imparts training to various level functionaries in the thrust areas identified in the field of agricultural marketing for client organization. The training is imparted to senior and middle level executives of agricultural and horticultural departments, agro- Industrial Corporation, apex level cooperatives, commodity boards and commercial banks. Besides these target clients, the institute also has a mandate to reach out to farmers to impart training on management.

Education

NIAM offers a two-year PGDM (ABM) (AICTE approved) program for students with graduation and post-graduation in agriculture and allied sciences. The postgraduate diploma in Agribusiness Management combines the best of an MBA with unique skills required for a career in agribusiness. It churns out professionals to cater to the needs of various sectors of agribusiness sectors like food retailing, exports, Agri-input, Tractor & Farm machinery, Dairy, commodity trading, microfinance, banking, agribusiness consultancy etc.

Program design

The curriculum here consists of 37 core courses and over 4 electives totally comprising 118 credits spread over two years. The PGDABM course is composed of a mix of core courses, electives, seminars and industry interaction.

Research and Consultancy

NIAM has been engaged in preparing development proposals and providing required consultancy services for institutions and corporations dealing with agricultural marketing.

Unit –V

Agricultural Credit and Crop Insurance

Introduction

Agriculture credit is an important prerequisite for agricultural growth. Agricultural policies have been reviewed from time to time to provide adequate and timely availability of finance to this sector. Rural credit system assumes importance because for most of the Indian rural families, savings are inadequate to finance farming and other economic activities. This coupled with the lack of simultaneity between income realization and expenditure and lumpiness of agricultural capital investments. The institutional credit system is critical for agricultural development and its role has further increased in the liberalized economic environment. In India a multi-agency approach comprising co-operative banks, scheduled commercial banks and regional rural banks (RRBs) has been followed to allow credit to agricultural sector.

Types of Agriculture Credit:

The agriculture credit can be classified on the basis of:

- (1) **According to Tenure of Agricultural Credit** i.e. the credit requirement based on the time period of loans. It can be of three types:
 - (a) **Short-Term:** It refers to the loans required for meeting the short-term requirements of the cultivators. These loans are generally for a period not exceeding and repaid after the harvest. For example loans required for the purchase of fertilizers, HYV seed, for meeting expense on religious or social ceremonies etc.
 - (b) **Medium-Term:** These loans are for a period up to 5 years. These are the financial requirements to make improvements on land, buying cattle or agricultural equipment's, digging up of canals etc.
 - (c) **Long-Term:** These loans are for a period of more than 5 years and are generally required to buy additional land or tractor or making permanent improvements on land.
- (2) **According to Purpose of Agriculture Credit:** The agriculture credit on the basis of purpose for which the credit is used can be of two types:

- a) **Productive:** Productive loans are the loans that are related to agricultural production and economically justified. For example purchase of tractor, land, seeds etc.
- b) **Unproductive:** Unproductive credit are used for personal consumption and unrelated to productive activity for example loans for expenditure on marriages, religious ceremonies etc.

Source of Agricultural Credit in India:

There are two broad sources of agricultural credit (Chart1) in India:

(1) Non-Institutional Sources

(2) Institutional Sources

(1) Non-Institutional Sources: The non-institutional finance forms an important source of rural credit in India, constituting around 40 percent of total credit in India. The interest charged by the non-institutional lenders is usually very high. The land or other assets are kept as collateral. The important **sources of non-institutional credit** are as follows:

(i) Money-Lenders: Money-lending has been the widely prevalent profession in the rural areas. The money-lenders charge huge rate of interest and mortgage the property of the cultivators and in some cases even the peasants and members of his family are kept as collateral.

(ii) Other Private Sources:

(a) Traders, landlords and commission agents: The agents give credit on the hypothecation of crops which when harvested is used to repay loans.

(b) Credit from relatives: These credits are generally used for meeting personal expenditure.

(2) Institutional Sources: The general policy on agricultural credit has been one of progressive institutionalization aimed at providing timely and adequate credit to farmers for increasing agricultural production and productivity. Providing better access to institutional credit for the small and marginal farmers and other weaker sections to enable them to adopt modern technology and improved agricultural practices has been a major thrust of the policy. National Bank for Agriculture and Rural Development (NABARD) is an apex institution established in 1982 for rural credit in India. It doesn't directly finance farmers and other rural people. It grants assistance to them through the institutions described as follows:

1. Rural Co-Operative Credit Institutions:

Rural Credit cooperatives are the oldest and most extensive form of rural institutional financing in India. The major thrust of these cooperatives in the area of agricultural credit is the prevention of exploitation of the peasants by moneylenders. The rural credit cooperatives may be further divided into **short-term credit cooperatives** and **long-term credit cooperatives**.

The **short-term credit cooperatives** provide short-term rural credit and are based on a three-tier structure as follows:

- (a) **Primary Agricultural Credit Societies (PACs):** These are organized at the village level. These societies generally advance loans only for productive purposes. The main objective of a PACS is to raise capital for the purpose of giving loans and supporting the essential activities of the members such as supply of agricultural inputs at cheap price, improving irrigation on land owned by members, encourage various income-augmenting activities such as horticulture, animal husbandry, poultry etc. In India, around 99.5 percent of villages are covered by PACs.
- (b) **District Central Cooperative Banks:** These cooperatives are organized at the district level. The PACS are affiliated to the District Central Co-operative Banks (DCCBs). DCCBs coordinate the activities of district central financing agencies, organize credit for PACs and carry out banking business.
- (c) **State Co-Operative Banks:** The DCCBs are affiliated to State Co-operative Banks (SCBs), which coordinate the activities of DCCBs, organize provision of finance for credit worthy farmers, carry out banking business and act as leader of the Co-operatives in the States.

Long-term credit Cooperatives: These cooperatives meet long-term credit of the farmers and are organized at two levels:

- (i) **Primary Co-Operative Agriculture and Rural Development Banks:** These banks operate at the village level as an independent unit.
- (ii) **State Co-Operative Agriculture and Rural Development Banks:** These banks operate at state level through their branches in different villages.

2. Commercial Banks: Commercial Banks (CBs) provide rural credit by establishing their branches in the rural areas. The share of commercial banks in rural credit was very meager till 1969. The All India Rural Credit Review Committee (1969) recommended multi agency approach to the

rural and especially agricultural credit. It suggested the increasing role of the CBs in providing agricultural credit. Further, under the Social Control Policy introduced in 1967 and subsequently the nationalization of 14 major CBs in 1969 (followed by another six banks in 1980), CBs have been given a special responsibility to set up their advances for agricultural and allied activities in the country. The major expansion of rural branches took place and CBs introduced Lead Bank scheme and district credit plans for rural areas. Banks were asked to lend 18 percent of their total advances to agriculture within the quota of 40 percent of priority sector lending. This expansion of rural credit remained till the late 1980s. However, during late 80's, CBs suffered huge losses due to waiving of agricultural loans by the government. The financial liberalization process with the adoption of Narasimham Committee report in 1993 has necessitated the banks to focus on profitability and adopt prudential norms. The proportion of bank credit to rural areas especially small borrowers has come down steadily.

3. Regional Rural Banks (RRBs):

RRBs are the specialized banks established under RRB Act, 1976 to cater to the needs of the rural poor. RRBs are set-up as rural-oriented commercial banks with the low cost profile of cooperatives but with the professional discipline and modern outlook of commercial banks. Between 1975 and 1987, 196 RRBs were established with over 14,000 branches. As a result of the amalgamation, the number of RRBs was reduced from 196 to 133 as on 31 March, 2006 and to 96 as on 30 April 2007. RRBs covered 525 out of 605 districts as on 31 March 2006. After amalgamation, RRBs have become quite large covering most parts of the State. Increased coverage of districts by RRBs makes them an important segment of the Rural Financial Institutions (RFI). The branch network of RRBs in the rural area form around 43 per cent of the total rural branches of commercial banks. A large number of branches of RRBs were opened in the un-banked or under-banked areas providing services to the interior and far-flung areas of the country. RRBs primarily cover small and marginal farmers, landless laborers, rural artisans, small traders and other weaker sections of the rural community. However, even after so many years, the market share of RRBs in rural credit remained low and have suffered huge losses. In recent years Government has initiated reform process to improve the functioning of RRBs.

Efforts are made to increase the capital base and investible fund of these banks. The financial support is provided to improve training, technology development including computerization in these banks. The structural consolidation process has been initiated by amalgamating these

banks. This has resulted into pooling of resources including experienced work force, common marketing efforts and thus better customer services. Further, RRBs have been able to derive the benefits of increased area of operations and enhanced credit exposure. These measures have provided remarkable improvements in the financial performance of RRBs. The number of RRBs incurring losses and the levels of non-performing assets has reduced dramatically.

4. Micro Finance Institutions (MFIs):

Banks offer concessional interest rates for the rural credit. However; small farmers are unable to access them because of borrower-unfriendly products and procedures, inflexibility and delay, and high transaction costs, both legitimate and illegal. Thus, Non-Government Organizations (NGOs) are providing alternative means to enhance access to credit by the poor since mid-70's. After pioneering efforts by organizations like SEWA, MYRADA, PRADAN and CDF, in 1992 the RBI and NABARD encouraged commercial banks to link up with NGOs to establish and finance self-help groups (SHGs) of the poor. The RBI has included financing of SHGs under priority sector lending. At present, there are three groups of SHGs viz. SHGs formed and financed by the banks (20 percent); SHGs formed by other formal agencies but financed by banks; SHGs financed by banks using NGOs and other agencies (8 percent). These institutions provide small loans to the poor at low interest rates without collateral.

The experience of micro-finance scheme in India suggests that i) It is the cost effective way of financing the rural poor; ii) The repayment rate of SHGs is more than 95 percent due to peer pressure; iii) It reduces transaction costs of borrowers as well as lenders; iv) It inculcates the habit of thrift among members and provide timely credit.

Trends in Agricultural Credit

Over time, spectacular progress has been achieved in terms of the scale and outreach of institutional framework for agricultural credit. Some of the major discernible trends are as follows:

1. Increasing Dependence on Institutional Credit

One of the major achievements in the post-independent India has been the widening of the spread of institutional machinery for credit and decline in the role of non-institutional sources. The share of institutional credit, which was little over 7 per cent in 1951, increased manifold to over 66 per cent in 1991, reflecting a remarkable decline in the share of non-institutional credit from around

93 per cent to about 31 per cent during the same period. However, the latest NSSO Survey reveals that the share of non-institutional credit has taken a reverse swing which is a cause of concern.

2. Trends of Overall Institutional Credit Flow

Over time, the flow of credit to agriculture and rural sector has expanded impressively (Table 2). The ground level credit flow had registered an increase from Rs. 1675 crore in 1975-96 to Rs.86891 crore in 2003-04 and further to Rs.203297 crore in 2005-06. This rate of growth was even higher than the growth rate of Gross Domestic Product (GDP) originating in agriculture.

Despite this growth, the credit needs of agriculture have not been met fully and overwhelming numbers of farm households have not been able to borrow from institutional sources. While short-term credit has remained the dominant component of total credit, its relative importance declined from 70.3 per cent in 1975-76 to 58.1 per cent in 2006-07.

3. Agency-wise Credit Flow

The analysis of agency wise credit flow indicates that the cooperative banks were the major source of agriculture credit in 1975-76 constituting around 71 percent of the total ground level credit flow followed by commercial banks at 24.2 percent and regional rural banks at 4.9 percent . Though cooperative banks had dominated agriculture credit supply till the early reform period, commercial banks and RRBs recorded impressive growth rates. As a result, in 2006-07, the share of cooperative banks in the total institutional credit flow receded to 20.1 percent and that of commercial banks advanced to 69.1 percent. Although the quantum of disbursement from cooperative banks increased, it could not keep pace with commercial banks in enhancing credit flow due to several reasons including its poor financial health, dual control, lack of internal controls and corporate governance norms and excessive dependence on other financial institutions.

Although the share of cooperative credit is now much lower than that of commercial banks, the reach of cooperative credit societies is much wider. Cooperative credit societies have more than twice the number of rural outlets and four times more accounts than those of scheduled commercial banks and RRBs put together. Low recovery rates and mounting overdues have clogged the process of recycling of credit by cooperatives, impaired their ability to avail of refinance facilities from (NABARD), increased transaction costs and more importantly, have deprived potential borrowers

of the opportunity to avail of credit facilities from the cooperatives. As a result, cooperatives have been losing their capacity to meet the growing credit needs of agriculture.

4. Size-wise Credit Flow

Despite impressive growth in direct credit to farmers from the scheduled commercial banks between 1991-92 and 2003-04, contrary to expectation, credit disbursement to small and marginal farmers has not been encouraging. Though the number of accounts increased for small farmers yet the credit flow favored the richer farmers.

5. Region-wise Credit Flow

While analyzing the pattern of credit flow, it is observed that the proportions of bank deposits and credit shares have moved in favour of the South, West and North regions. While the share of loans in the total disbursement of credit for agriculture and allied activities were the maximum for the South region, it was the minimum for North-east region.

Recent Initiatives

Government of India & Reserve Bank of India: In order to increase credit flow to the agriculture sector, the policy of doubling of agricultural credit in three years was introduced in 2004-05. In order to expand the outreach of the banking services, banks made available basic banking 'no-frills' account with low or nil minimum balances as well as low or no charges in 2005. The regional rural banks were also specifically advised to allow limited overdraft facilities in 'no-frills' accounts without any collateral or linkage to any purpose.

National Agricultural Insurance Scheme (NAIS): NAIS is implemented since Rabi 1999-2000 season with the objectives to provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crops as a result of natural calamities, pests and diseases and to encourage the farmers to adopt progressive farming practices, high value in-puts and higher technology in agriculture and to help stabilize farm incomes particularly in disaster years.

Government of India & NABARD

i. Rural Infrastructure Development Fund: RIDF was established in 1995-96 with a corpus of Rs. 2,000crores with the major objective of providing funds to state governments and state owned corporations to develop rural infrastructure such as rural roads, rural bridges, irrigation works, soil

conservation, flood protection, drinking water, infrastructure for rural education etc. The total corpus of RIDF till 2007-08 (RIDF-I to RIDF-XIII) amounted to Rs.72, 000 crores with 2008-09 budget further adding the amount of RIDF XIV of Rs. 14,000 crores to this corpus. The total sanctions and disbursements as on 30 June 2007 aggregated Rs. 61312.27 crores and Rs.38581.82 crores respectively.

ii. Micro Finance Innovations: The credit accessibility for the poor from conventional banking is limited due to lack of collaterals and information. Micro finance has emerged as an alternative financial vehicle that provides micro credit or small loans granted to the poor without any collateral. These loans are provided through micro finance institutions (MFIs). NABARD plays a key role in developing the MFIs by providing them refinance facility at low interest rates.

iii. Kisan Credit Card Schemes: The kisan credit cards (KCC) scheme was introduced in 1998-99 to facilitate short-term credit to farmers. Each farmer is given with a kisan credit card and a pass book for providing revolving cash credit facilities. NABARD provide refinance facility to commercial banks and cooperatives to provide credit under this scheme.

iv. Refinance under Swarnajayanti Gram Swarozgar Yojna (SGSY): NABARD provides refinance facility to institutions that support SGSY.

v. Co-operative Development Fund: NABARD has set up the cooperative development fund in 1993 with objective of strengthening the co-operative credit institutions in the areas of resource mobilization, recovery position etc. the assistance is provided to cooperatives by way of soft loans or grants.

Weaknesses in Rural Credit Structure

- **Overemphasis of Monetary Credit:** The rural credit institutions have given overemphasis on the financial assistance to the cultivators. While the finance is very important factor but it should be complemented with the extension of services in form of guidance, expertise and counseling on agricultural issues.
- **Multiplicity of Institutions:** The rural credit structure is based on multi agency credit system whereby there exist numerous organizations providing similar kind of financial services. There is a lack of coordination in the system and the commercial viability is adversely affected in this scenario.

- **Lack of Motivation:** In order to fill the gap that occurred due to the failure of rural cooperative societies Government gave increasing role to the commercial banks. However, commercial banks lack the desired skills and expertise in the agro-credit. The banks have enough financial resources but the service consultancy is not available. Thus, there is a failure to provide complete package of assistance to the farmers. Further, financial sector reforms have put pressure on banks to improve their financial position and so these banks are now concentrating on selected clientele of large borrowers
- **Financial Exclusion:** Despite of a large network of the institutional credit system, it has not been able to adequately penetrate the informal rural financial markets and the non-institutional sources continue to play a dominant role in purveying the credit needs of the people residing in rural areas. The results of the All-India Debt and Investment Survey (AIDIS, 2002) also indicate that the share of the non-institutional sources, in the total credit of the cultivator households, had increased from 30.6 percent in 1991 to 38.9 percent in 2002.
- **High Interest Rates:** The rate of interest charged by rural financial institutions (RFIs) from farmers continues to be considerably higher than those charged by financial institutions from urban consumers. The owners of small or marginal farms, which are non-viable or viable at the margin, and self-employed in the informal sector, cannot afford to bear the level of interest charged by RFIs.
- **Procedural Delays:** There is a problem of considerable delays in processing of loan applications and collaterals. Thus farmers shy away from institutional financing and increase their dependency upon non-institutional sources.
- **Poor Recoveries:** Banks are shying away from rural financing mainly because of poor recoveries which is inflicting the system. It is ironical that the recoveries position is adverse amongst rich farmers than amongst the small farmers. The political decisions of waiving off loans are further putting pressures on the financial system.

Suggestions for Improving Institutional Rural Credit System:

- **Financial Discipline to Improve Recovery:** A national consensus among political parties should be evolved for not politicizing the RFIs and resist from announcement of loan or

interest waiver schemes and giving calls for not repaying the institutional loans. However, given the risk involved in the agriculture credit the recovery system should be flexible and humane.

- **Revamping the Cooperative Credit Structure:** The Cooperative Credit Structure should be strengthened to make use of its wider reach. These have to be recapitalised so as to provide funds for improving their financial positions. There is a need of capacity building, human resource development, institutional restructuring to ensure democratic functioning, and improving the regulatory regime to empower the Reserve Bank of India (RBI) to enforce prudent financial management.
- **Better Physical, Social and Economic Infrastructure:** The long term policy framework needs to be designed to improve infrastructure facilities so as to boost rural economic growth. This requires **increased public expenditure** on social infrastructure (like education, availability of drinking water, health facilities), physical infrastructure (like roads, power) and economic infrastructure like (irrigation, modern agricultural techniques). These measures would help to improve the debt paying capacity of rural poor and provide greater opportunities to RFIs.
- **Financial cum Consultancy Approach:** RFIs needs to provide extension services like consultancy about seeds, availability and use of modern inputs, marketing strategies etc to the cultivators so that a holistic package of assistance can be provided to them.
- **Group Approach to Lending:** The lending to homogenous farmer's groups needs to be organized to improve credit delivery. This would help to improve recovery because of peer pressure. Further, group lending tends to be cost-effective. Involving NGOs or rural educated youths in organizing farmers or rural families in groups, scrutinizing applications, disbursement of loan and effecting recoveries would help RFIs in reducing lending costs.
- **Autonomy to RRBs:** RRBs should be given more autonomy and flexibility in planning and lending policies, so that their comparative advantage in rural lending is restored.
- **Greater involvement of Micro Finance Organizations:** The banks need to involve micro-finance agencies like SHGs, NGOs etc. and other grass root level financial intermediaries who have better understanding of the credit needs and recovery situations.

- **Technological Up Gradation:** Technological improvements like computerization can be critical in building up a reliable credit information system and database on customers, reducing transaction costs and facilitating better pricing of risk, improving the efficiency of the financial system, and thereby increasing the access of un-banked rural people in an efficient manner
- **Information Dissemination to Rural Poor:** Credit counseling, awareness and financial education regarding the benefits of institutional financing are important for effective expansion of financial services in rural areas. To do this, banks may utilize the services of non-governmental organizations, village youth clubs, village panchayats, farmer clubs and self-help groups into confidence.

Crop insurance is purchased by agricultural producers, including farmers, ranchers, and others to protect themselves against either the loss of their crops due to natural disasters, such as hail, drought, and floods, or the loss of revenue due to declines in the prices of agricultural commodities. The two general categories of crop insurance are called crop-yield insurance and crop-revenue insurance.

Agriculture in India is highly susceptible to risks like droughts and floods. It is necessary to protect the farmers from natural calamities and ensure their credit eligibility for the next season. For this purpose, the Government of India introduced many agricultural schemes throughout the country.

Pradhan Mantri Fasal Bima Yojana

The new Crop Insurance Scheme is in line with One Nation – One Scheme theme. It incorporates the best features of all previous schemes and at the same time, all previous shortcomings/weaknesses have been removed.

The highlights of this scheme are as under:

- There will be a uniform premium of only 2% to be paid by farmers for all Kharif crops and 1.5% for all Rabi crops. In case of annual commercial and horticultural crops, the premium to be paid by farmers will be only 5%. The premium rates to be paid by farmers are very low and balance premium will be paid by the Government to provide full insured amount to the farmers against crop loss on account of natural calamities.

- There is no upper limit on Government subsidy. Even if balance premium is 90%, it will be borne by the Government.
- Earlier, there was a provision of capping the premium rate which resulted in low claims being paid to farmers. This capping was done to limit Government outgo on the premium subsidy. This capping has now been removed and farmers will get claim against full sum insured without any reduction.
- The use of technology will be encouraged to a great extent. Smart phones will be used to capture and upload data of crop cutting to reduce the delays in claim payment to farmers. Remote sensing will be used to reduce the number of crop cutting experiments.

National Crop Insurance Programme (NCIP) / Rashtriya Fasal Bima Karyakram (RFBK)

NCIP is a Central Sector Scheme formulated by merging National Agricultural Insurance Scheme (NAIS), Pilot Weather Based Crop Insurance Scheme (WBCIS), Pilot Modified National Agricultural Insurance Scheme (MNAIS) and and Pilot Coconut Palm Insurance Scheme (CPIS). The scheme came into force from Rabi 2013-14 and covers all districts.

Loanee farmers will be covered on compulsory basis under the component- scheme of NCIP notified by the concerned state, while non-loanee farmers will choose either MNAIS or WBCIS component.

Private sector Insurers with adequate infrastructure and experience will be permitted to implement NCIP besides Agriculture Insurance Company of India (AIC).

For the detailed guidelines of the scheme, [click here](#).

Insurance Products from Agriculture Insurance Company of India Limited (AIC)

Agriculture Insurance Company of India Limited (AIC) has been formed at the behest of Government of India, consequent to the announcement by the then Hon'ble Union Finance Minister in his General Budget Speech FY 2002-03 that, "to subserve the needs of farmers better and to move towards a sustainable actuarial regime, it was proposed to set up a new Corporation for Agriculture Insurance".

AIC has taken over the implementation of National Agricultural Insurance Scheme (NAIS) which, until FY 2002-03 was implemented by General Insurance Corporation of India. In addition, AIC also transacts other insurance businesses directly or indirectly concerning agriculture and its allied activities.

Presently the following insurance products are offered by AIC.

- Pradhan Mantri Fasal Bima Yojana

- National Agricultural Insurance Scheme
- Bio - Fuel Tree / Plant Insurance
- Cardamom Plant & Yield Insurance
- Coconut Palm Insurance Scheme (CPIS)
- Potato Crop Insurance
- Pulp Wood Tree Insurance Policy
- Rainfall Insurance Scheme For Coffee (RISC) - 2011
- Rubber Plantation Insurance
- Varsha Bima / RainFall Insurance
- Weather Insurance (RABI)