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RURAL MARKETING IN INDIA- A TOOL TO MINIMIZE THE IMPACT OF GLOBAL MELTDOWN

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ABSTRACT

Recession is a general slowdown in economic activity over a long period of time, or a business cycle contraction. In some cases, when a country faces negative real economic growth, for two or more successive quarter of a year, that's also termed as state of recession. In general, recession affects a country's overall economic activities, including, investment, employment rate, profits data of companies etc. Till date, the world has witnessed a number of economic recessions that affected the trade market very badly and taught the economist valuable lessons for future. This paper will try to define the term 'recession' in a selective manner. Global economic meltdown has affected almost all countries. It started its journey from American passed on to European nations and penetrated its roots in economies that were attached to the former two bodies in terms of trade and services. Various companies in US, EU and Japan are facing severe crisis of liquidity and credit. India & China are not insulated, either. The pinch of recession is felt by both the economies. India actually witnessed the slowdown in its economic activities instead of complete recession. Thumbs up to the role of our Central bank prevailing dominantly in the mixed economy! This paper aims to throw the light on the impact of US Recession-2008 on Indian retail market. However, India's cautious approach towards reforms has saved it from possibly disastrous implications. Therefore, in tough times many Indian companies come out with innovative strategies to generate business and expand their crippling market shares. In their bid to successfully survive the shock of economic disorder, some Indian companies took Rural Marketing as a tool to minimize the negative impact of recession. This paper will try to throw light on the concept of Rural Marketing and how Indian companies used their resources to cater rural markets and successfully shield themselves during the economic slowdown.

Objectives:

- To explore the impact of US recession on Indian Retail Market empirically.
- To learn the strategies of the Indian companies to minimize the impact of recession.
- To find out how rural marketing can act as a substitute of other well defined already existing markets for Indian Companies.

Literature Review

After proper study the researchers found that lot of work were done in reference to Recession and its impact on global economy in general but very little work has been done in reference to Rural retailing as a tool to minimize the impact of recession. The researchers have made efforts to define rural marketing that can be use as a tool to mitigate the loss caused by recession.

Introduction

The continuing financial crisis has been escorted by economic slowdown in many countries. Economies of many advanced countries have witnessed synchronized recession in the mid-70s, early 80s, early 90s and early 200s. Because of the dependence of many world economies the recession in United States have affected these economies directly or indirectly. Rural India, with all its nuances and differentiations, poses infinitely more challenges to marketers than Urban India possibly can. Because of this fact a number of the big as well as small companies in India are moving towards rural markets in order to mitigate the losses caused by the recession. Moreover many Multinational companies have also started their projects in rural India. Their main aim is not only to channelize their business but also to come out from the dark shadows of recession.

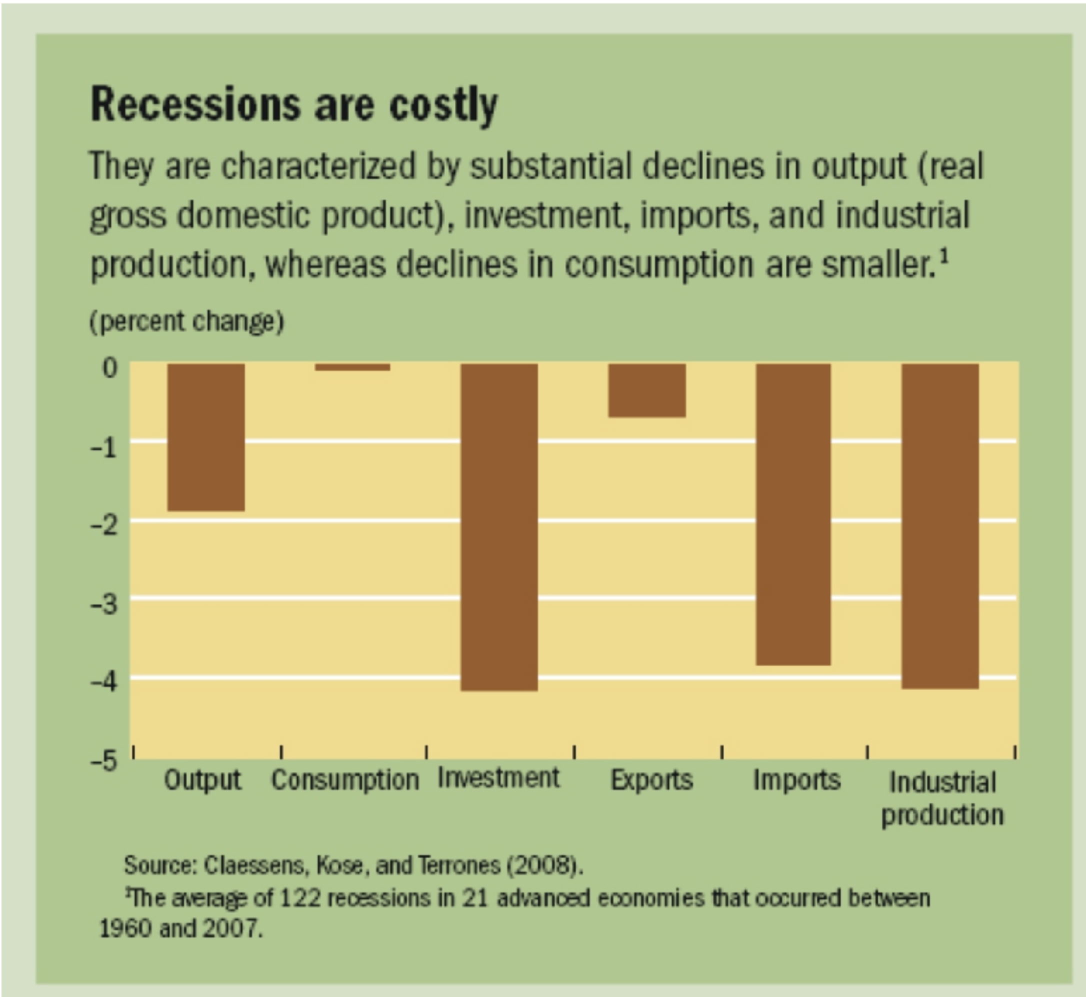
First Things First.....
What is Recession?

There is no universally accepted definition of recession. The term recession refers to a period of decline in economic activity. In economies, a recession is a business cycle contraction, a general slowdown in economic activity over a period of time for more than two consecutive quarters1. Why do recessions happen?

Understanding the causes of recessions has been one of the challenging fields of research in economics. There are a number of reasons responsible for recession. Some of them are related with deep changes in the costs of inputs used in producing goods and services. For example, an unexpected increase in gas prices can be an alarming signal of coming recession. A country's decision for reducing inflation by employing contractionary monetary or fiscal policies can also be a participating event for recession. If used unnecessarily, these policies can give birth to a contraction in demand for goods and services, resulting in recession.

In spite of the fact that each recession possesses unique features, recessions in many instances reveal a number of common characteristics:

- An economy tends to go into a recession for about 6 months to 2 years and many times results in a significant output cost. Particularly a recession is also associated with a fall of 2% in GDP (see chart)[2]



- Fall in consumption normally leads to recession because the consumers lose confidence in the growth of economy and avoid spending more. But the fall in industrial production and in investment overtakes the fall in GDP because it is much larger than that.
- As decreased demand for goods and services leads to recession which in turn results in the curtailment of jobs leading to unemployment.

- Investors usually avoid huge investment in financial market as they fear that the stock values will fall and thus stock market falls negatively.

History of U.S. Recession[3]

1907-1908

'Panic of 1907' was the first biggest financial crisis to take place in the U.S. in the 1900s. The panic of 1907 was actually a huge decline in the money supply that showed itself as a recession.

1918-1921

The Post-World War I recession was characterized by a hyperinflation in Europe, which was transmitted to North America. It was the result of the end of wartime production coupled with the return of the troops who needed jobs, caused severe unemployment.

August 29-June1938 (10 months)

Crash of stock market occurred on Black Tuesday, October 29, 1992 was one of the most dramatic, worldwide economic landslide. It led to one of the worst economic depressions in U.S. history led the failure of 900 banks.

Recession of 1948 (11 months)

1948's recession drove unemployment to a level of 7.9 %. GDP took a dip of 5 % for the year coupled with the decline in production.

1953 Recession (10 months)

Recession of 1953 was mainly the result of different financial challenges faced after the Korean War. During this period unemployment was at the peak of 6.1%. GDP declined by 6.2% in fourth quarter.

Recession of 1957 (8 months)

It resulted in high unemployment percentage. GDP fell down by 4.2% in fourth quarter then float upright at a rate of 10.4% it was mainly due to strict monetary policy of the Federal Reserve.

1960 Recession (10 months)

Recession of 1960 was characterized by high rate of unemployment, high inflation and a poor Gross National Product rating. All these reasons led to the lack of confidence of consumers resulted in the failure of business. During this period GDP took a dip of 2% in quarter 2 and 5.1% in quarter 4. Rate of unemployment was 7.1% in May 1961.

1970 Recession (11 months)

This recession was also characterized by unemployment and unhealthy GDP but it was not as severe as its predecessor recessions. GDP was declined 4.2% in quarter 4, while unemployment was at the peak of 6.1% in December 1970.

1973-1975 Recession (16 months)

The 1970s crisis actually started in 1973 when OPEC quadrupled prices. This, coupled with the increased government spending because of Vietnam War, resulted in severe stagflation. During this period unemployment reached 9% in May 1975, 2 months after the recession technically ended. GDP was remained negative for 3 consecutive quarters.

Recession of 1980-1982 (22 months)

Iranian Revolution was the main reason of 1980s recession this recession led to a sharp increase in prices worldwide, causing the 1979 energy crisis. GDP growth was negative for six quarters during this period. It was dropped by 6.4% in quarter 1 and 7.8% in quarter 2 which was the poorest quarterly decline since the Great Depression. Unemployment reached 10.8% in November 1982.

1990-1991 Recession (8 months)

It was caused by the affect of a number of adverse financial forces on the economic environment of US in the early 90s. During this recession GDP declined by 3% in quarter 4 of 1990 and by 2 % in quarter of 1991. Black Monday, which occurred in October 1987, led to a decrease of 22.6% of the Dow Jones Industrial Average.

2001 Recession (8 months)

A number of reasons are responsible for 2001 recession. One of the main was the failure of the Internet business. Also the 9/11 attack caused huge unrest in the world economy.

December 2007- Present Day

The late 2000s recession was responsible for breakdown of the housing market. The housing industry faced uncertainty regarding their assets, especially mortgage assets. The stock market faced severe crash in late 2007 and unemployment was at the peak.

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Dates (Peak - Trough)	Duration (In months)	% change In Real GDP
August 1929-March1933	43	-26.60%
May 1937-June 1938	13	-3.50%
November 1948-October 1949	11	-1.80%
July 1953-May 1954	10	-2.70%
August 1957-April 1958	8	-3.70%
April 1960-February 1961	10	-1.60%
December 1969-Novembr 1970	11	-0.60%
November 1973-March 1975	16	-3.10%
January 1980-July 1980	6	-2.20%
July1981-November 1982	16	-2.90%
July 1990-March 1991	8	-1.30%
March 2001-November 2001	8	-0.20%
December 2007- ?	14	-
Post War Average	10	2.00%

*From quarter of highest real GDP before recession to lowest GDP during the recession.
Source: NBER, BEA, ISI Group

Impact of Recession

Business:

Due to recession productivity varies to a great extent between different firms. Infect productivity takes a negative dip in the starting phase of recession and then moves upward because of the shutdown of weaker and sick firms.

Unemployment:

Unemployment is the most dangerous affect of recession. Actually the full fledge shadow of recession may not be felt for few quarters. Usually low educated and low skilled suffers a lot due to unemployment caused by recession.

Social effects:

Because of recession people lose their jobs and sometimes suffer from frustration because they fix their standards according to their wages and salaries. So these people suffer badly than those who depend on fixed income or welfare benefits.

Impact on India

Because of the fact that US is one of the major super powers, any slow down mild or deeper in US economy will definitely have global consequences. The crisis rapidly developed and became a global economic disaster, leading to the failure of many European banks, decline in stock indices, and huge reductions in the value of equities and commodities.

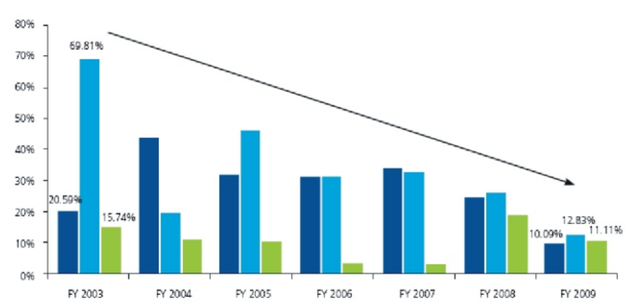
A recession in US economy was no doubt a bad news for India because India has most outsourcing deals from the US. India's exports to US have also substantially increased over the years. But India in spite of all these bad effects has successfully faced the great financial tsunami of September 2008. GDP of India has grown around 6 percent in every quarter of the most terrified 12 months in recent history.5

GDP Growth Trends over last year (%)

	2007-08	2008-09		
	Q3	Q1	Q2	Q3
Agriculture	6.9	3	2.7	2.2
Mining	4.3	4.8	3.9	5.3
Manufacturing	8.6	5.6	5	0.2
Electricity	3.8	2.6	3.6	3.3
Construction	9	11.4	9.7	6.7
Trade, Hotels, Transport, Communications, Finance,Insurance, Real Estate	11.6	11.2	10.8	6.8
Business Services	11.9	9.3	9.2	9.5
Community, Social & personal services	5.5	8.4	7.6	17.3
GDP at Factor Cost	8.9	7.9	7.6	5.3

*at 1999-2000 prices
Source: Economic Times, February 28, 2009

The above table shows -2.2% growth rate for agriculture for quarter ending December 08 against growth of 6.9% in December 07. Manufacturing growth is -.2% in December 07. 5.3% rate of GDP growth for the quarter ended December 08 against 8.6% in December 07.



India felt a dive in IT Sector, ITES and domestic market, as shown below.

Source: NASSSCOM

The above graph depicts the slowdown in the number of employs over the years in all these three sectors i.e. IT services exports, ITES exports and the domestic market. The ITES Sector felt a large decline from 69.81% in FY 2003 to 12.83% in FY 2009. The high attrition rate together with the current economic meltdown can be the sources attributed to huge decline in the numbers6.

Why did the Great Financial Tsunami affect India so little whereas swept away the biggest economies of the West?

Many factors are responsible for relatively small impact of recession on Indian Economy. Indian financial institutions and banks have almost avoided the entry of foreign investment7. India avoided buying mortgage- backed securities and credit default swaps that became dangerous and swallowed Western financial institutions. Sudip Bandyopadhayay, director and CEO, Reliance Money, says "In the globalised world, complete recouping is impossible but India may remain relatively less affected by adverse global events". Actually, a number of small and medium companies have already begun strengthening trade ties with China and European nations to normalize the big losses.

Says Manish Sonthalia, head, equity, Motilal Oswal Securities, if the US economy contracts much more than anticipated, the whole world's GDP growth which is estimated at 3.7% by the IMF will contract, and India would be no exception.8 The IT and IT- enabled services, textiles, jewellery, handicrafts and leather segments felt a hit since a majority of Indian IT institutions drive 75% or more of their revenues from the United States, may referred to a classic of having put all eggs in one basket. If Fortune 500 companies slash their IT budgets, Indian firms could be adversely affected9. Despite the global financial disaster foreign Direct Investment remained high in 2008-09. Monetary policy was obliging in 2008. The RBI also lowered rates of interest and increased credit. Indian government cut excise duties to fell demand. All these factors helped India to mitigate the adverse affects of recession. In addition to these factors, one intensive reason that helped India in successful survival of economic meltdown finds its ties in rural India. In adverse period, a number of Indian companies developed an innovative strategy to generate business and increase their weaken market shares. In order to survive successfully the adverse impact of economic disaster, some Indian companies adopted" Rural Marketing" as a tool to mitigate the brunt of recession.

Defining Rural

A place is termed as rural if at least 75% of the population is agro based. Around 70% or approximately 700 million of Indian population live in rural areas10. Understanding the Indian Rural Market

Actually, a rural market indentifies a community in rural area. In recent years, rural markets have acquired an important place in countries like India and China. Among the few markets that have readily recovered from the economic meltdown worldwide, India continuous to travel on its positive growth path, at an anticipated growth rate of 6% to 7% over the next few years11. With a population of one billion people, India has caught the attention of multinational companies as a hub of opportunities for exploring new markets. While a portion of Indian population would be considered rich or middle class by Western standards, a much larger portion is low income. Because of this fact they spend income and use goods and services differently as compared to the countries having the origin of multinational corporations12. Particularly rural areas illustrate these differences. The unique features of Indian rural market make the corporations to enter into it. On account of the green revolution in India, the rural areas are consuming a large quantity of industrial and urban manufactured products13. In 2008, the rural markets grew at an impressive rate of 25%as compared to the growth of 10% in urban market. The rural population contributed for 33%in India's total saving because India's rural population has a high tendency of saving14. The rural India adds almost 45% to the country's economic output. It has caught the eye of corporate not only because of its size, but also because of impressive growth potential. Moreover the GDP of rural India has been experiencing powerful growth in the last four years (average of 4%)15. In this context, an important marketing tool, namely rural marketing has taken shape. Rural marketing consist of providing manufactured or processed goods and services to rural population involving producers and consumers. A number of factors are responsible which increases the importance of rural marketing:

- Increase in population and standard of living and hence increase in demand
- Financial help from government for rural development

programmes.

- Widening the social circle of rural people with their urban counterparts because of wide and cheap transportation and communication network.
- Enhancement in the level of education.
- Inflow of foreign remittances and foreign tagged products and services into rural areas.
- Change in land holding system leading to change in the patterns of ownership following substantial changes in the buying behavior of rural people.
- Rural people are less active in catching up new brands. This helps the companies to sell inventories of products discarded in urban markets.

The table given below shows the percentage sale of durables by rural population. The sale of durables have added an impressive percentage from 2001-02 to 2009-10. A Growing Market

Rural share of consumer durable sales (%)

	2001-02	2009-10
Car	5.8	8.2
vacuum cleaner	5.8	8.2
washing machine	18.7	18.8
Refrigerator	18.7	18.8
Mixer-grinder	38.6	39.5
Scooter	38.6	39.5
Colour television set	38.6	39.5
Electric Iron	38.6	39.5
Moped	38.6	39.5
Pressure cooker	38.6	39.5
Motorcycle	49.1	49.8
Fan	49.1	49.8
Television (b&w)	49.1	41.8
Wristwatch	63.1	63.3
Transistor	63.1	63.3
Bicycle	63.1	63.3
All products	52.4	54.2

Source: NCAER

Because of this ever increasing sale the market players have started looking towards unexplored market i.e. rural market to extend their product channels

Rural ITC was the first to launched the rural mall "Chaupal Sagar' providing a large range of products from FMCG to electronic appliances to automobiles, trying to provide rural population a one-stop destination for all their needs. 'Haryali Bazaar' is another rural initiative started by the DCM Sriram Group attempting to provide farm related goods and services. HUL have started a project i.e. 'Project Shakti' aiming not only to earn revenue for their company but also to help the rural ladies to get some earnings so as to increase their purchasing power.

Rural Marketing as a tool to minimize the impact of Global Meltdown

Rural India, which accounts for roughly 70% of the country's one billion population. Almost 6,27,000 villages are home to 790 million Indians today16. The Indian rural market has gone up by 25 % in 2008 when urban demand has dipped due to economic slowdown.

Rural marketing has become the newer strategic tool for corporate. A number of big and reputed companies like Maruti Suzuki, Hindustan lever Ltd., Britannia, Colgate, Palmolive, Tata Tea and many Multinational companies (MNCs) namely Coca Cola, Pepsi, Philips, Cavin Kare are all targeting the Indian rural market to channelized their business and even to set off the losses caused by recession.

Maruti Suzuki

The most immediate effect of global meltdown has been a dip in Indian Car Industry. The rate of growth in industry was 11% from April to October 2007which declined to 3% in 2008. In order to compensate the losses caused by recession the major automakers especially Maruti Suzuki planned to make inroads into rural markets. It has stepped up its rural marketing strategies and has shown an increased percentage in car sales. To cater the rural population Maruti appointed 2,000 sales executives and started various schemes and welfare programmes for village panchayats, rural officers and teachers. The company sells Maruti 800, Maruti Alto, and Maruti Versa in rural markets and put a mobile van on standby to provide car servicing facilities at cheaper rate to the rural people. The company also offered an attractive range of discount on various models in rural areas. The villages and middle class cities have pushed the sales of the company during the period of recession thereafter currently, the per capita penetration of passenger vehicles is.5% in rural India, compared to 10-12% in urban areas, in case of two-wheelers, it is between 2-3% in rural markets and 10-12% in urban markets, according to

Datamonitor India17.

Mobile Industry

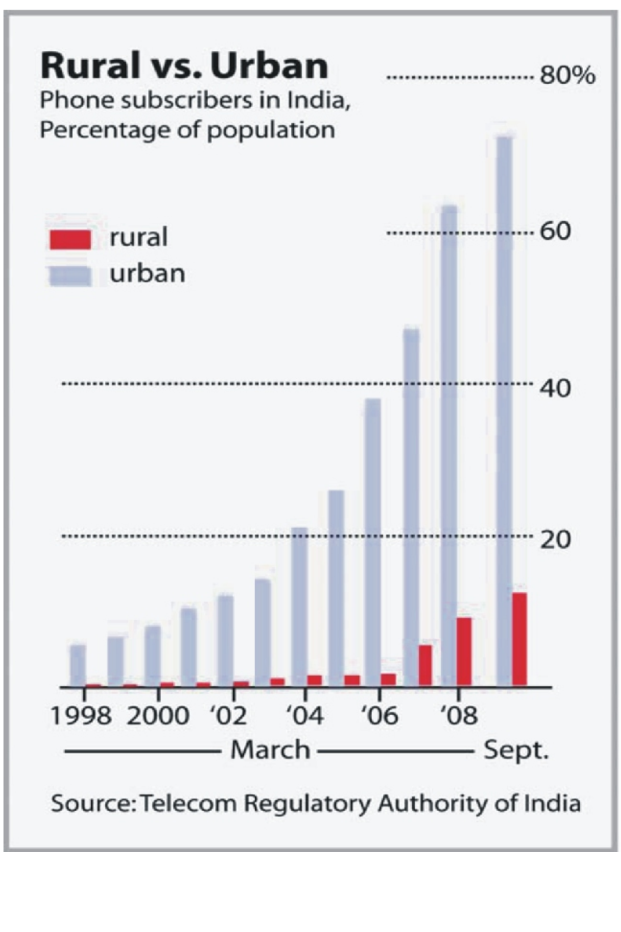
Mobile Industry in India got lesser skock of global crisis as compared to stock market and IT-BPOs. The mobile operators added lakhs of subscribers every month. The percentage of mobile subscribers grew by 48% in 2008, 347 million customers and 25 million new mobile subscribers added in April 2008 to June 2008, out of this percentage 8 million were from rural areas, the perecentage is more than 30%18.

Rural Tele-density (Phones per 100)

Division	2000	2005	% increase
Rural	0.7	1.74	148%
Urban	8.2	26.2	220%
All 2.9	9.08	213%	

Source: TRAI, 2005 & Census 2001

The above table shows that rural telephone density has gone up by 148% in the last 5 years, every 500+ pop is connected by STD.



The above graph shows the increasing percentage of rural subscribers. An impressive number of subscribers have added from 1998 to 2008.

According to financial services firms CLSA, four operators- Bharti, Vodafone, Idea and BSNL- account for 77% of rural subscriber. Bharti has the biggest share at 27%, followed by Vodafone at 19% 19 .

Tata Tea

During the worst time of recession Tata Tea also took steps to cater the Indian rural market. Tata tea reports increased sales after employing rural strategy. For this purpose Tata tea came with an initiative named "Gaon Chalo" in UP meaning "Let's go to villages" in December 2005. Around 12 NGOs joined hands to flourish this initiative across rural UP. By the end of 2006 nearly 20,000 retailers, including 500 new rural distributers were added with Tata Tea. They spread it successfully over 10,000 villages allover UP. Tata tea employed a very unique way of distribution of products at district level y giving credit t the main distributors. These distributers visited a fixed number of villages randomly to supply tea to small rural retailers and these small retailers sold products t the rural people. This initiative of Tata Tea provides employment to a large range of rural bachelors. It is important to be notice that during this period the market share have sinked from 21.2% to 18.9% and the share of Tata Tea gone up from 18.1% to 26.6%20.

Post Recession Strategies

Major domestic players like Reliance, Godrej, IC and AV Birla and many others have already linked their projects with rural India.

E-Chupal

E- Chupal is a rural initiative and backbone of rural malls. E-Chupal provides the rural farmers necessary information about the quality of soil, weather and prices and provides a healthy platform to sell their agricultural products and purchase seeds and other farm and household items under the same umbrella.

Hryali Bazaar

DCM Shriram Consolidated Ltd. (DSCL) is a leading diversified Indian corporate house. DCM took a rural initiative called DCM Haryali Kisan Bazaar. DCM launched this project in 2002 in Rajasthan, UP, Haryana, Punjab and

Uttaranchal. Its main aim was to provide support to Indian rural farmers so that they can improve their productivity and profitability. Now DCM has around 302 stores in UP, Rajasthan, Haryana, Chhattisgarh, Maharashtra, MP and AP.

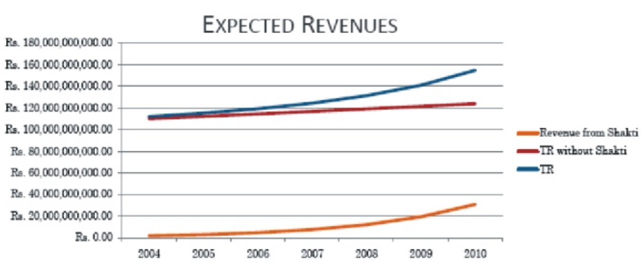
Procet Shakti

Hindustan Unilever tried to tap the inaccessible villages by sticking with a project called "Shakti Project", started in 2001. HUL has been keenly engaged in rural development since 1976. Now this project is operating in around 200 villages with a population of 4.994 residents21. This project earned a total revenue of 154,8 billion rupees in 2010 and the yearly growth of Shakti consumers is 25.8%.

CURRENT STATE & GOALS22

Current State & goals	2004	2006	2010
Revenue from Shakti (bln Rs.)	1,4*	4,8*	31*
Consumers (mln)	48*	100	250
Entrepreneurs (k)	12	25	100
Villages (k)	50	100	400*

**Numbers brought up from assumptions*



The red line represents expected total revenue of Hindustan Unilever Ltd., excluding expected revenue from project Shakti. This data was derived from TR in 2004. Expected growth rate was estimated at 2% yearly. The orange line represents the Revenue that should come from the project Shakti. The numerical goal in 2010 was set from the percentage goal i.e.20% of TR should come from project Shakti. Starting with initial 1,4 billion rupees.(assumption) The target trend was estimated from target yearly growth trends of average consumption 27% and increase in number of consumers 25,8%. The blue line is the sum of red and orange lines.

Conclusion

Recession is an inevitable phenomenon. The world has become a global village and the shadow of recession can be far reaching. The downturn invited largely by the financial crisis in the US gave a huge shock to the global economy. In spite of the fact that the rich countries are facing worsen climate the developing countries cushioning the global economy and the big developing economies are moving at an impressive rate and will continue to do so.

Limitations of the study

This study has been conducted by taking the impact of recession on India into consideration, though there are many more countries that can be considered. The data of only few Indian companies has been taken for the study. Though these companies are comprehensive enough in depicting the impact of recession on India and Indian rural market. Only few companies are studied that have reached to the Indian Rural market to normalize the losses caused by recession, though many more can be taken for further study.

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