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Marketing to Rural India: Challenges & Opportunities

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Introduction

'India lives in villages' is still true. Approximately 70 percent of the India's population lives in rural areas, and accounts nearly for more than half of Indian consumption. As per McKinsey, even with increasing urbanization and migration, it is estimated that 63 percent of India's population will continue to live in rural areas in 2025.

Around 12.2 percent of the world's population resides in rural India. Many multinational organizations are recognizing enormous opportunity and are stepping up efforts to gain a stronger foothold in the rural markets. There is a significant rise in the penetration of mobile telephony, direct-to-home (DTH) television services and internet services due to the technological advancements. Access to technology has transformed the decision-making behaviour of rural households. Today, a large chunk of rural consumers is aware, aspirational, and has the ability to pay. The attractiveness of rural India has further increased due to the recent efforts of Indian government towards inclusive growth. Central and State governments have launched several schemes such as Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA), Jan Dhan Yojna, Direct Benefit Transfer (DBT) etc. that have changed the dynamics of rural India. The government's intention to create the JAM (Jan Dhan, Aadhar and Mobile) ecosystem is further going to change the rural landscape in India.

Rural markets in emerging economies such as India have been seen as both an opportunity and a challenge. The opportunity is based on the sheer population which resides in around 6,38,596 villages in India, and the challenge stems from the fact that reaching out to the consumers in these villages spread across the country is not easy. These villages are inhabited by about 833 million consumers making up for about 68.8 percent of the population (Census of India, 2011).

Defining Rural India

Some of the key opportunities and challenges are elaborated further, starting with the definition of 'rural'. The word 'rural' has been defined differently by different government agencies such as the Census of India, Reserve Bank of India, etc. The Census definition which is the most used one does not define what is rural but defines what is not rural.

Census of India	Definition of Rural
	Town - Areas which satisfy the following criteria: 1. Minimum population >= 5000 2. Population density >= 400/sq. km. 3. 75 percent of the male population engaged in non-agricultural activities. Rural - All other areas which can't be defined as a town.
Reserve Bank of India	Locations with population up to 10000 will be considered rural.

Private companies have their own way of defining rural markets. They follow the approach which is convenient and suitable for their requirements. Hence, there is a lot of confusion as various public and private agencies have a different definition of rural India. This leads to lack of quality data required to gain consumer insights. There is a need to develop uniform parameters to identify a particular area as rural or urban.

Opportunities in Rural India

The opportunities stem from the sheer population and rising income levels. While addressing a media roundtable in the year 2012, Dr. Siddhartha Roy, Economic Advisor, Department of Economics & Statistics, Tata Group mentioned that rural income is expected to reach $1.8 trillion by 2020-21 from $572 billion in 2009-10. The share of non-food expenditure in rural India is also increasing with the rise in income levels. According to Kapur et al. (2014), consumption in rural areas is growing at 1.5 times the rate in urban areas, and consumer goods market is expected to reach $100 billion by 2025. While urban demand for consumer products in India has been decreasing, rural markets are growing faster than ever. Spending by rural consumers between 2009 and 2012 outpaced their urban counterparts by approximately 25 percent and reached $69 billion.

According to a survey conducted by AC Nielsen, the FMCG sector in rural and semi-urban India is expected to cross $20 billion mark by 2018 and $100 billion by 2025. More than 80 percent of the FMCG products posted higher growth in rural markets as compared to urban ones. The increase in rural consumption has been led by a combination of increasing incomes and higher aspiration levels and there is increased demand for branded products in rural India.

Extreme poverty is waning in rural India. The share of people living under $1.90 (2011 PPP), the international standard of lower poverty line, fell to 21.2 percent in 2011 from 38.2 percent in 2004 whereas people living under $3.10 (2011 PPP), the upper poverty line, fell to 58 percent from 73.5 percent during the same period (World Bank, 2015). Some of the key reasons of rising rural prosperity are employment shifts from agriculture to jobs in construction, manufacturing, services, etc. Remittances from migrant workers and government supported programmes such as MGNREGA are also responsible for rural prosperity. Out of 62.97 million households of India with income level more than 0.5 million per annum, nearly 28.68

million i.e. 46 percent resides in rural India[1].

In terms of economic output, rural India accounts for about 48 percent of the country's economy, and rural India has the potential to reach $500 billion by 2020. The food related expenditure in rural India accounted for 55 percent in 2004-05. Another interesting finding is that increase in monthly per capita expenditure on food was 18.8 percent during the period 1999-2000 to 2004-05, while the increase in non-food expenditure was 53.83 percent. The fastest growing non-food expenditure categories are education, healthcare and consumer durables. As mentioned earlier these opportunities are accompanied by challenges, which are elaborated below.

Challenges in Rural India

The challenge for companies is to get products in the rural hinterlands and replenish them reliably and consistently. Lack of retail infrastructure is one of the key challenges. Despite all the development, more than 60,000 villages in India have no form of retail outlet, making it very difficult to reach potential rural customers there, though there are more than 3 million outlets in the remaining villages. Any logistics problem spells out additional costs for both supplier and retail outlets. Key external barriers to expansion in rural markets are: a) Inadequate infrastructure (e.g. roads, power, telecom.); b) Limited local distribution channel; c) Lack of information about rural markets; d) Inadequate access to financing; e) Cultural and language barriers; f) Lack of adequate warehousing facility; g) Widely dispersed consumers.

It has been acknowledged that reaching out to the rural parts of India is very expensive, and designing cost effective ways of distribution is the first step in penetrating these markets. Aithal (2012) identified the higher channel length for small retailers in rural India which further validates that reaching out to rural consumers is expensive. Establishing cost-effective ways to reach rural dwellers is the first critical step in penetrating these markets. It was found that smart companies focus on distribution even before identifying and approaching the target customers. Companies use a variety of strategies to reach out to the rural dwellers. Even the best conventional distribution systems have been unable to penetrate beyond about one-sixth of India's rural villages (Kashyap, 2012). An underdeveloped transportation infrastructure, inadequate distribution networks, and widely dispersed consumers make it costly to establish a profitable presence at scale.

Concluding Remarks

The increasing aspiration level of rural consumers with the rise in their income is attracting more and more companies to these markets. But companies are witnessing mixed results. The key reasons are inadequate distribution networks, partners with limited capabilities, long payment cycles and weak marketing channels (Satyam et al., 2017). Also, understanding and meeting the diverse, specialized needs and preferences of rural consumers pose major challenges to companies. Despite having periodic and chronic constraints, there is a

[1] Misra, S., Chadah, S., Singh, A. K., & Mishra, V. N. (2009). Consumer Awareness in Rural India - An Empirical Study, available at http://www.consumereducation.in/ResearchStudyReports/consumerawarenessinruraindia.pdf

need to design innovative strategies to establish sustainable business models to capture rural consumers.

Companies tend to innovate at the product and distribution level to overcome the challenges posed by rural markets in India. Markets are not static entities, and they evolve depending on the needs of the buyers and sellers participating in them, the nature of competitive forces, and the external environment. The case is true for rural markets as well. Organizations often make a mistake by treating rural consumers as a homogeneous market and offering them the same value proposition they offer to the urban markets. Companies need to redefine rural consumer segment. Although companies have started focusing heavily on rural market customer acquisition and reach, they have to further strengthen the customer retention efforts to become more important than the competitors who are vying to improve their market penetration. With increasing rural competition and high cost-to-serve, providing reliable and consistent after-sales service and optimizing the costs of a high-quality experience remain major obstacles. The wide geographic dispersion of a small number of customers drives high sales-service costs, and many businesses cannot provide a dedicated after-sales service network. Therefore, companies need to respond to these challenges to differentiate themselves in the rural marketplace. Success in rural markets in India primarily depends on the performance of companies on two key measures viz. company's growth agenda and rural focused innovation. This would also mean that companies need to help develop these markets rather than just capture the existing markets.

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Agro-marketing in West Bengal

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IMI Konnect: *How do you describe the rural marketing scenario in West Bengal?*

GM: Rural marketing in West Bengal is commodity based and includes marketing of agricultural produce, cottage and small scale industrial goods, handicrafts and traditional homemade products. The marketing structure and value chain for an agricultural produce are quite different from a non-agricultural produce. Production domain of an agricultural produce is always the rural areas. Hence, all transactions, right from the primary level to the terminal one related to the production and sale of an agricultural item come within the purview of rural marketing. Various government interventions in the state are normally aimed at smoothening the path of transfer of goods from the producers to consumers thereby minimizing the number of intermediaries or middlemen in the whole process.

It is a misconception that the rural areas are the producing regions of agricultural items, while the major consumption takes place in the urban regions. However, the consumption of such products by the urban populace in terms of quantity is much less compared to the rural populace. Nonetheless, in absolute value terms, the consumption by urban areas is substantial as compared to the rural regions. This is because value addition takes place at each stage during the transfer of goods from the hands of the farmers to the urban markets, and also, the urban consumers are mostly elite people who pay high price for the products in the cities.

IMI Konnect: *Is there any difference in the pattern of marketing of agro-products for the rural populace as compared to that for the urban populace?*

GM: Not really. The value chain is the same. It is just that the positioning of the participants in the chain differs. For instance, suppose in a village with a population of 800 people, 30 farmers may produce a particular vegetable. In this case, the village has a primary market for local consumption of that item. This market also caters to the wholesale aggregators and secondary level buyers. Hence there is no separate parallel value chain. It is only that the locations of the consumers differ and the price of the item depends on this factor.

IMI Konnect: *What initiatives are taken by the government related to rural marketing?*

GM: The state government in the past few years has attempted to make out only the point in the value chain where its intervention is actually required. Elimination of all intermediaries is never absolutely possible. It is just that the marketing scenario needs to be made more competitive. The two major types of interventions by the government are:

Primary Transaction Level Intervention: The government has established 'Krishak Bazar' in numerous blocks which are nothing but the primary markets. The producers are invited to come and sell the items directly to consumers. Maximum selling price and the procurement quantity are all stated clearly. The state government's own procurement in recent times has also gone up substantially because of the various projects undertaken by it.

Base Level Initiative – The 'Sufal Bangla' project provides market linkage to the farmers by offering avenues for directly selling the produce in the market. Initially, mobile vans were made available to them to reach the consumers and 'Sufal Bangla' stalls were set up. Subsequently, farmers were motivated to organize themselves into informal groups in order to form Farmers Producers Organizations (FPOs). These groups are being enrolled as formal organizations with 'Sufal Bangla' so that the financial transaction can be done directly through bank account of such organisations. Capital investment is done by the government which undertakes competitive bidding and provides all infrastructural support to the producers. Both procurement and consumer prices of items are displayed on the 'Sufal Bangla' webpage every day. The initiative also provides employment opportunity to the unemployed and aims at ensuring fresh vegetables at reasonable price at the consumer's door step.

IMI Konnect: *But rural people have very limited access to the internet. How aware are they of such initiatives?*

GM: The state started the process by engaging the farmers through direct contact. Hence they are quite aware of all the initiatives. Various display boards are put up at places and an *app* on such initiatives is now being planned.

IMI Konnect: *As West Bengal possesses surplus on various agricultural items, what are the major initiatives taken for marketing and selling rural produce to other states or for exporting to other countries?*

GM: Normally the state provides support like declaring transport subsidy, providing necessary infrastructure for cold storage and warehousing etc. to encourage sale of goods in other states, as and when needed.

The Gulf and the South-East Asian countries may be considered to be the major markets abroad. Recently Japan has shown great interest in importing chillies. Again, in some of the European countries, there is huge demand for some specific vegetables.

IMI Konnect: *What are the challenges faced by the unorganized markets due to the entry of convenient/self-service store formats that use highly developed technology and infrastructure?*

GM: Most of such stores do not consider marketing and selling of agricultural produce and perishables as the primary activity. Mostly elite consumers go to such stores to purchase. A major chunk of elite buyers too still prefers buying from the wet markets. Hence the role of such stores has been insignificant in this case, so far.

IMI Konnect: *What are the most promising agricultural produce for West Bengal?*

GM: First, aromatic rice viz. Tulaipanji, Kalo-nunia and Gobindobhog. The prices thus have increased a lot over time due to the rise in demand. Apart from these, high-value vegetables, viz., broccoli, red and yellow bell peppers and mushroom also have great potential. There is also great scope for increasing production of garlic.

IMI Konnect: *Is training and skill development considered to be an important aspect to help rural marketing?*

GM: Surely. There are training-cum-food processing centres at various blocks in the state for training of the rural populace. Many such centres focus exclusively on women empowerment in rural marketing. Additionally, there are many women who make jams, pickles, sauces etc. at home and sell to neighborhood markets, offices and schools. They have a consumer base of their own. This section of the people can also benefit through training in marketing.

Initiatives are also taken at the farm/village level to train jute farmers for quality improvement of jute and jute products.

Post-harvest loss of perishables in the country ranges from 20-30 percent. Training institutes are established to teach producers to be able to prevent this loss to quite some extent. Such programmes include residential ones covering 2-3 months. Programmes specifically designed to make producers/marketers aware of the banking and credit facilities are also undertaken. We are running such programmes effectively for only 5 years now.

Rural Marketing in India: Myths and Cases

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While many in India would assume that rural is almost synonymous to India, on the contrary the top 10 rural markets of the world include 7 countries in Asia and 3 in Africa. It would not be wrong to call rural as more of a developing world phenomenon. Interestingly, the top 10 rural markets of the world, viz., India, China, Indonesia, Pakistan, Bangladesh, Nigeria, Ethiopia, Vietnam, Egypt and the Philippines, collectively cover two-thirds of the world's rural population nearing 2.2 billion people. Despite preferences working for urban markets, trends and market estimates spell more optimism around these rural markets by the virtue of their size and steadily increasing indicators that fuel consumer spending and aspirations. The affluence of rural consumer base in these markets and those in Thailand, Myanmar and Bhutan is bringing massive opportunities for the consumer goods businesses across the globe.

Considering the potential wealth of the market in rural India, one must acknowledge that it is quite characteristic of its unique trade-offs. The rural phenomenon in India with an evidently astounding 800+ million residents and their rising levels of disposable income along with the growing affinity towards branded goods comes with its own challenges. Even when rural consumption has been growing at 1.5 times of that in the urban market, tricky situations in the form of underdeveloped infrastructure, unreliable communication and electricity, or inadequate distribution networks pose serious threat to the ambitious plans of many business giants including the Tata, ITC, Vodafone, Coca-Cola or the likes. Nevertheless, mixed results in most cases keep encouraging corporations to come up with ruralized stepping-up ideas in search of the real gold.

Given the rural story, sustainable economic growth could never be based on an urban-only prescription. Inclusive strategies covering the non-urban population are increasingly becoming the order of the day especially in the emerging markets. Given this trend, cases on rural markets are written for the academic and industry audience, for developing early insights to aid timely appraisal of the situation that prevails. A search on the Harvard Case Collection yields a greater number of cases that focus on rural India among all rural markets across the world. The cases reveal interesting dimensions on tackling the unchartered quarters and unearthing the hidden treasures in the form of unforeseen rural opportunities. The following paragraphs attempt to unravel a few myths around rural markets with evidences from the available cases.

MYTH 1: Rural India is One Big Homogeneous Market

To treat rural consumers in India as one big segment of agrarian, illiterate, deprived and marginalized class, could well become the biggest mistake for marketers. Over the years, the rural divide has increased, where it becomes imperative to consider developed, emerging and under-developed rural markets with more precision. Divergences in development and deprivation among rural markets need careful consideration. In many instances share of education in the consumption expenditure of the developed rural markets often surpasses that of many Indian towns. Hence, blanket marketing efforts would not be enough. Cases on rural champions like the Hindustan Unilever Limited highlight the importance of considering even the stark differences in media reach and the types of media available to differentiate rural zones for designing effective promotions. Largely successful initiatives like project 'Shakti' of HUL started off well by targeting rural areas with population of less than 1000. Again, the case of Aravind Eye Care Systems choosing location for setting up its vision centres (VC) across 15-20 villages to ensure easy access to 50,000 people within 5-7 radial distance had variances in outcomes. Naturally, some VCs attracted more footfalls than others. This not only signifies the differential treatments that the rural pockets demand but also puts forth the idea that step-by-step approach works well for steady penetration with lesser shocks.

MYTH 2: Marketing Innovations Work Only for Urban Markets

Success of campaigns like "Make a missed call and stay smiling" by fast moving consumer goods (FMCG) company Hindustan Unilever clarifies beyond doubt that innovation works when aligned well with the sentiments of the target market irrespective of the rural or urban setting. In the missed call marketing case, the challenges of media dark rural areas were carefully altered with innovative ideas that leveraged on the frugal behaviour across rural psychographics. Further, the missed call idea was nicely positioned around HUL's Wheel detergent brand's message and media communication "wheel gives more washes at a low cost" coupled with the star power of Bollywood actor Salman Khan among the rural audience. Whether talking about this highly successful mobile activation in media dark markets, or the pull of free entertainment in the form of 'kan khajura tesan' riding on the growing reach of mobile services over conventional media channels in otherwise media dark rural markets in North and Central India were all innovations that turned a concern into an opportunity.

Not just innovative communication strategies, Aravind as the largest eye care provider in the world pioneered many process innovations that have reduced the cost of eye treatment substantially to enhance the acceptance of eye care service by the rural consumers in India. Non-banking Financial Companies in India like the Mahindra and Mahindra Financial Services Limited have been serving the rural market with a wide product portfolio that includes vehicle loans, used vehicle financing, housing finance, personal loans, fixed deposits, mutual fund distribution, insurance broking, gold loans and loans for construction equipment. What works for them is their ability to understand the rural psyche and local approach to fit into the needs of the rural poor. Hence, innovative approaches like future cash flow projections to suit rural poor are used to substitute conventionally followed 'past credit history' factors while considering financing. Locally adapted innovative marketing strategies like those mentioned above or innovations around specific rural opportunities like start-up D.light Design's solar powered LED lamps to tackle power cut problems or that of start-up First Energy's alternative energy solution in commercializing the technology of biomass cooking stoves to provide clean and affordable cooking solutions to customers in rural India, are equally effective.

MYTH 3: Rural India is Essentially a Fast Moving Consumer Goods Market

Evidently, the stagnant market conditions in the urban markets pushed many FMCG brands to go rural with a vengeance but hardly can we suppose that the market in rural India is all about just that. Commercial opportunities in rural market exist in many forms; the key is to identify and fit with the real need. Starting from Non-banking Financial Companies in India like the Mahindra and Mahindra Financial Services Limited selling financing services to the rural poor to the electronics companies like LG Electronics going rural with their locally adapted designs, localized manufacturing, rural distribution, and cultural marketing, everything seems marketable provided it resonates well with the rural consumers in question. Market for alternate energy especially for power deficient zones stands as an opportunity. Interestingly, with the growing concern over education and health among rural population, host of businesses in the domain including Novartis, Aravind, Byrraju Foundation's SWEET Water Project are finding way to the rural markets. Electrical appliances like A-CAT Corp's voltage regulators, Godrej & Boyce Manufacturing's ChotuKool coolers were instant hits in the rural market by the virtue of their disruptive innovations that made it to the market at the opportune time. While it is good to be cautious, new e-commerce companies in India like the Infibeam have also been eyeing the rural markets to develop a new IT e-commerce rural platform in order to achieve its required growth estimates and raise capital for the upcoming projects.

MYTH 4: Going Rural is All about Best Practices in Corporate Social Responsibility

Talking about HUL's 'Shakti', ITC's 'e-Choupal', Byrraju Foundation's SWEET Water Project, or SEWA's producer's cooperative in the form of STFC it may be noted that while they may have started with the innate responsibility of big corporations to give it back to the stakeholders for the greater social goals, it didn't quite stay that way only. HUL's 'Shakti' has been an innovative approach to penetrate rural markets to tap the business and sustainability potential hidden in rural India. HUL have always conceived such initiatives with a win-win partnership perspective with rural female self-help groups. From the cases it is quite evident that going rural has been all about meticulously planned win-win strategies that could be scaled to cover the most potential sections of an untapped market. Even in the backdrop of under-served, over-exploited rural India the Indian conglomerate ITC not only did transform and economically uplift the lives of many rural Indians with its e-Choupal initiative but also at the same time mitigated the continuous problem of inefficient supply chain in rural agriculture to benefit the company. A delicate balance between achieving corporate profitability and making a social contribution has been crucial for making success stories out of the rural phenomenon.

To conclude, rural marketing holds huge opportunities for marketers who have mastered to balance perseverance and creativity. Considering the Indian rural market, it is time to introspect on the opportunities that lie in specific segments and factually plan for achieving sustainable growth over mythical recourses.

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Drivers of Marketing to Rural India

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We seldom refer to the German rural or the German urban market or Japan rural and urban markets. In an advanced country, rural-urban segregation as separate market segments is not made. The reason is that the country as a whole is developed and there are no distinct features for taking a separate marketing approach.

In India, and other similar developing countries, the development is largely skewed and lopsided. Advanced commercial farming is not yet in place. The farm sector is still subsistence-based. Another characteristic of the rural sector is that it is underdeveloped. Roads, electricity, housing, hygiene, sanitation, health service, literacy and education are all poorly developed. The average per capita income is low.

In the last two decades, with increasing focus on the social sector, pockets of relative affluence have come up, but the average standard of living of rural people is still low. Per capita and disposable income have been low and consumer purchasing power is limited. All these factors make rural India a different kind of market than its urban counterpart. At the same time, due to the sheer weight of population, the rural market is a vast, almost virgin territory for consumption, production and exchange. Because of the recognition of the distinct nature of rural India, rural marketing has emerged as a special discipline for study.

What is Rural?

What does the term 'rural' imply? There is no single answer. Collins Cobuild Dictionary (2001) describes the word as "places far away from towns or cities". From the sociological viewpoint, it is defined as a group of people who are traditionalists in outlook, rooted in the land and who resist change. However, the Census of India (2001) defines rural as 'that what is not urban'. But the term may not satisfy all, especially the marketers, because it does not define rural as what it is, but defines it as that what is not urban. It is also possible that, what is rural to Hindustan Unilever, may not necessarily be rural to Phillips, Electrolux, Godrej or ITC. Hence rural customers can be divided into three broad groups in terms of geographical and sociological characteristics – urban, rural and rurban (Jha, 2003). Rurban is a continuum from rural to urban. It is the overlap between rural and urban, with assumptions of being closer to urban in physical features, but with deep rural sociological moorings.

Factors Contributing to the Growth of Rural Marketing in India

Approximately 75 percent of India's population, equaling 12.2 percent of the world's population lives in 6,38,365 villages spread over 32 lakh square kilometers (Dogra, 2011). About 23 percent of these villages has population of less than 200 while another 21 percent has population between 200 and 500. Covering such a large and widely scattered geographical market, characterized by less population, raises the inventory and transportation costs and affects the viability of operations of distribution system and hence was completely ignored and neglected by the marketers till now.

Recently, rural economy has registered an impressive growth driven by eight good monsoons, 100 percent increase in minimum support price by the government to farmers for primary crops. There are more enterprises in rural India than in urban, contributing significantly to non-farm output. Rural is no longer a predominantly agrarian economy. Most households have multiple sources of income, so marketers no longer have to wait till harvest period to sell high value durables to farmers. The following factors make rural markets attractive to the marketers and contribute to their growth:

Rising Income

The rural income pyramid is fast transforming into a diamond with the bottom of the pyramid segment shrinking from 400 million to 250 million. This 150 million poor who will move into the middle segment will be the first time users of national brands. This will offer huge opportunities to multinational companies, provided they are able to create awareness about their brands and make them available at affordable prices. The rich segment will also treble from 50 million to 150 million consumers by 2020 (Kashyap, 2012).

Increasing Literacy Levels

Literacy levels have been rising rapidly during the period 2001-2011. There are more graduates in rural than urban. They are employed in nearby towns in banks, offices, schools and in private sectors. They earn urban salaries but since they continue to live in self-owned house in the villages, they have high purchasing power than their urban counterpart. This offers ample opportunities to the marketers to promote various products in the rural regions as well.

Improvement in Connectivity

With all 500 plus population villages now connected by an all-weather road, marketers can access 90 percent of rural wealth. Over 70 percent rural homes have electricity and they also account for 90 percent of rural wealth.

Increasing Rural Consumption

With rural consumption growing at a faster rate as compared to that in the urban markets and the rural population being 3 times larger than urban, marketers can look forward to a bonanza from the rural markets.

Rural Development Scheme

In a push to rural sector, in the Union Budget 2017-18, the Modi government announced an enhanced budget allocation of over ₹8,200 crores for rural development including MGNREGA for which funds have been increased by about ₹3,800 crores. With this, formation of self-help groups (SHGs) will be speeded up to promote multiple livelihoods. There is an average assistance of over ₹80 lakhs per gram panchayat. These funds are capable of transforming villages by providing livelihood security to the rural populace, increasing employment opportunities which in turn will raise the income level and therefore drive demand for various commodities.

Other Government Initiatives

In the Union Budget 2017-18, it has been announced that 300 rurban clusters will be developed under the Shyamaprasad Mukherjee Rurban Mission launched recently. These clusters will incubate growth centres in rural areas by providing infrastructure amenities and market access to the farmers. They will also expand employment opportunities for the youth.

Thus because of size, variety and deep unsaturated womb – the rural market is a vast opportunity and perhaps a firm anchor for survival and growth of large companies. At the same time, because of its scattered, unorganized nature and poor infrastructure, it is also a challenge for the aspiring marketer.

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Demonetisation: Little Gain and Severe Pain?

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There have been enough discussions, appreciations and criticism about the recent move of scrapping the currency notes of ₹500 and ₹1000 in India. Initially, it was lauded by many, even the common people despite the suffering they had due to the liquidity crisis. But as time passed, with imparted uncertainty by the Reserve Bank of India (RBI) and the Central Government in their currency replacement mechanism, people gradually came to terms with the reality of cash crunch seeming to be never ending and this probably led to challenge the belief that the move was really a welcome policy to punish black money holders.

We will mainly focus on the gains and pain points of the policy. There are some widespread misconceptions about black money. Someone's legal income, not taxable, or the gifted money saved in ₹500 and ₹1000 notes are mistaken to be considered as black money, but actually they are not. Black money may arise from two sources, viz. the part of taxable income (e.g. of self-employed persons) or illegal income not reported to the tax authorities and fake currency in circulation. The move is aimed at the stock of black money and does not target to curb the generation of new black money. While the move will wipe out the fake currency at one go, the benefit regarding the unreported part is not very clear. It will depend on the amount of unreported income held in cash that comes back to the banking system. There is serious doubt on that as one will be exposed of having black money, given the restrictions on converting the black to white money. Given past experiences, the demonetisation can at most remove only around 6-7 percent of the unreported money[1], which is nothing but the tip of the iceberg! The possible economic gains and losses from demonetisation are presented in Table 1:

Table 1: Possible economic gains and losses from demonetisation

Gains	Losses
The tax to the Central Government as a portion of black cash converted into white	Potential GDP loss (especially in unorganised sector) due to - Reduced demand - Reduced production
Complete eradication of old fake notes of ₹500 and ₹1000 denominations	Revenue loss of the Central Government due to loss in GDP
Increase in deposits of banks, hence lendable money increases	Cost of printing new currency notes
	Loss of revenue for state governments

[1]NIPFP (2012), Report on *An Account of Unaccounted Money in India.*

In the medium to longer run however, the move might inflict certain 'structural' changes in the economy like increasing awareness on digitization, apprehension about holding assets in cash etc.

Let us try to understand, in light of the traditional Keynesian macroeconomic theory, how the move leads to the fall in GDP growth. Firstly, one needs to clarify that the policy declaration is not 'demonetisation' per se. It was not intended to suck money from the system and should not be inferred as a contractionary monetary policy; it has however, changed the composition of the money supply dramatically - a major portion of the cash-in-hand (i.e. currency in circulation) has been converted to bank deposits. This may include a chunk of the "black money (unreported money held in cash)" that was otherwise in circulation. Hence, there is no reason to believe that the broad money supply has changed significantly.

In the very short run, when there is limited scope for the price and supply of output to adjust, the real money supply in the economy remains the same, i.e. the real purchasing power does not change. But, it has shrunk the demand for money for transaction purposes since a portion of the money kept for transaction is no longer a legal tender and the pace of replacement of the old notes is yet to catch up. A significant chunk of this cash holding has been deposited to banks. Large banks with such a deluge of deposits have purchased more bonds and the rate of interest has fallen.

Interestingly things may change in the medium run with the entry of 2000 denomination notes. It will reduce the velocity of money, i.e. the average number of times a currency note changes hands. Moreover, price of goods and services will fall as the consumption demand has fallen. Eventually, sluggish demand will cause the supply to fall as firms will produce less as they know they would not be able to sell.

Now, there may be more demand for loans owing to falling interest rates, but this channel seems to be working too sluggishly due to the weak growth perceptions. So, despite the greater lending potential of the banks due to increasing deposits, they will not have the scope to lend. Thus, both output and price will fall.

From this analysis, it seems that the gain from this move will be far outweighed by the pains, at least in the short and medium term. The move has targeted only the black cash, but not the black assets held in terms of gold, real estate and the like. If one compares the costs and benefits of the policy, the price the common people and the economy are paying for the move is not justified, at least, by any economic logic.

Ramifications in the Rural Economy

Although the epicentre of the black economic transactions was not the rural periphery, in comparison to its urban counterpart due to several obvious reasons such as lesser concentration of economic activities, the brunt of the blow of demonetisation has been more severe on the former. This is because, concentration of bank branches and ATMs that replaced the notes withdrawn, are significantly low in the surrounding of the rural belt as compared to the cities and suburbs. The digital literacy is yet to catch up in India, in general, not to speak of the rural segment. Therefore, the troubleshooting exercise in the form of a shift towards 'less-cash' online transaction mode, has been less successful and accommodative in this region.

Nonetheless, triggered by demonetisation, one can dream of a fast catch-up in the digital literacy and digitisation in the so far neglected rural economy, along with the innovations in the 'offline digital payment mechanism' that are in its early stage of inception.

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