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Pricing Strategies in Indian Rural Market: Less (Price) Means More (Revenue)

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Abstract: Indian Rural market is not an organized market but with the increase in urbanization rate, literacy rate, income and change in the preferences of rural people, visible structural modifications are seen. These changes grabbed the attention of national and International marketers towards the unexplored potential of rural population. This paper delineates the potential of rural market and attempts to suggest some cautions which should be taken by the companies while forming strategies pertinent to product pricing before entering into the Indian rural market. To penetrate successfully in this segment, they need to study few factors which can affect the demand tremendously. Price is one of those important factors. Price sensitivity exists in both rural and urban market but the degree of sensitivity differs. Rural market is more sensitive to price as compared to urban market. Low or irregular income persists in rural population which makes pricing a very crucial factor to hold on rural market. Per capita consumption of rural area is much lower than urban areas and well-planned pricing strategies can induce consumption and fill this gap by providing them value for money.

Keywords: India; Rural Market; Price Sensitivity; Pricing Strategies; Revenues.

I. INTRODUCTION

With the changes in the income and preferences of rural population, rural market contribution has been growing faster than urban. Census 1961 of India defined “urban area as:

1. All places with a Municipality, Corporation or Cantonment or Notified Town Area.
2. All other places which satisfied the following criteria:
 - i. A minimum population of 5,000.
 - ii. At least 75% of the male working population was non-agricultural.
 - iii. A density of population of at least 400 sq. Km. (i.e. 1000 per sq. Mile)

Areas which are not covered under urban areas are Rural Area”.

TABLE 1.
Indian Population & Literacy Rate

INDIAN POPULATION (%)			
AREA	2011		
Rural	68.84%		
Urban	31.16%		
LITERACY RATE (%)			
AREA	2001	2011	Difference
Rural	58.7	68.9	+10.2
Urban	79.9	85	+5.1

Source: Census 2011

Census 2011 showed that 68.84% of Indian population is living in rural areas and % increase in literacy rate is twice in rural areas as compared to urban areas (table 1). Higher the level of literacy scopes for higher and easier penetration into rural areas as literacy brings awareness. Infrastructure improvement, an increase in prices of agricultural output and various programs run by government for generating employment leading to higher incomes of rural population. This exhibited that Indian population encompasses a large number of potential consumers living in rural areas which can make any company profitable and because of this Indian and Multi-National Corporations (MNCs) are trying to enter into Indian rural market. All these things indicate that there is a great potential in the rural market. In spite of all this, rural market is still the most price sensitive segment. The reasons for being price sensitive could be many but its ultimate effect on the profitability of the company would be severe in the absence of proper planning and product price related decision making.

II. PRICE SENSITIVITY

Law of demand is applicable everywhere whether it is a rural market or urban market but it only tells the negative relationship between price and quantity demanded keeping other factors constant. The question that matters more is how much or the degree to which the price of a product affects consumers purchasing behaviors i.e., price sensitivity which is measured by price elasticity of demand. The degree of price sensitivity varies from product to product and consumer to consumer. To make the 'urban product' acceptable in rural market is a big challenge for the companies that are eager to exploit the mass of rural areas. For this, companies not only need to present their product in proper packaging but also, they have to prove rural consumers its utility and value for money. Reasons for keeping the price lowest are low or irregular income of rural people, which is due to seasonal nature of work. By keeping price low and affordable incite the consumers to try that product which enhances its demand.

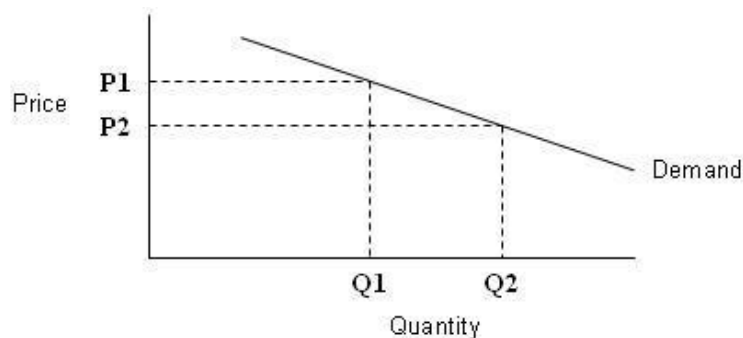


Figure 1. Price-Demand Relationship: Highly Elastic Demand

Ex. In rural areas, people mostly prefer 200ml bottle of cold drink and Coca-Cola and PepsiCo in India are trying to hold on this segment. In 2003, prices were cut in this segment when Coca-Cola introduced its affordable pricing strategy, priced its 200 ml bottle at ₹ 5. The same strategy was followed by Pepsi but later both the companies withdrawn as their profitability suffered which might be due to incorrect planning and pricing. Coca cola is again planning to reduce its price for 200 ml. It would affect its sales tremendously as this 200 ml segment mostly caters to the rural areas where people have a lower disposable income which makes it an extremely price elastic segment (figure 1). Suggesting that a change in price can lead to a significantly larger change in quantity demanded by rural customers. This increase in demand would help Coke to achieve mass production and consequently lower average total costs in the long run due to benefits of economies of scale.

4 A's FOR SELECTING BEST PRICING STRATEGY

(Availability, Affordability, Acceptability, and Awareness)

Rural market has a large number of potential customers and if a company is able to capture this market there are good chances of generating maximum revenues. Therefore, most of the companies are keen to invest in this market. Keeping price low for product doesn't mean that rural customers would compromise with the quality as they also demand value for money like urban customers. Four A's (figure 2) that help rural marketers in pricing their products are:

i. AVAILABILITY

Availability of the products in remote areas is a challenge for the marketers. Distribution of the product becomes difficult for the marketers because of poor infrastructure in Indian rural areas. High distribution cost will make the product costly for the rural customers which is neither desired by the company nor by the customers. Therefore, the need is to develop such a distribution channel that is not only cost effective but which also make the product easily available when demanded by the customers.

ii. AFFORDABILITY

People living in rural areas generally have low or irregular income due to this they are more price sensitive than urban. Indian rural purchasing habits tend to be of an “earn today, spend today” attitude rather than buying in large quantity they buy what they need for short segments of time [4].

iii. ACCEPTABILITY

Need and lifestyle of the rural people are different from urban. Customization of the product that suits their need is requisite of the rural market.

iv. AWARENESS

The approach of spreading awareness in rural areas is different from urban. To make rural people aware about the product, the marketers need to use innovative, cost effective and simple ways to reach the customers.



Figure 2. Four A's

III. PROFITABILITY: LOW PRICE HIGH REVENUE

Profitability will depend upon the right price for the product to suit the rural incomes and at the same time not compromising with the utility and sturdiness of the product to provide rural customers ‘value for money’.

STRATEGIES FOR KEEPING LOW PRICE AND GENERATING HIGH REVENUE**1. Price can be kept low by small unit packing:**

There is always a problem of storage in rural areas, rather they don't have the concept of storage. This is the reason why sachets are popular in rural areas as they are not only inexpensive but also occupy less space. They allow consumers to experiment with new products which they may never have tried before [1]. Packaging in smaller units clearly helps to increase the affordability of products for rural Indian consumers. Therefore, Small packs are growing faster as they drive penetration especially in rural markets and offer convenience of use. An up-gradation from sachets to bottles is not much seen. Small units with mass production will enhance revenue generations.

2. Simple packaging:

People living in rural areas look for a product that offers them convenience and utility. Simple packaging helps the company to reduce cost. A company has to spend lot on packaging while offering it to urban customers. Coca Cola is going to offer sparkling drinks to its rural consumers in 100 ml serves priced at ₹5 through its fountains-mounted trucks and through “Splash bars”, which are low-cost chillers with dispensers in rural regions.

3. Reusable packaging:

Rural customers find a product more attractive if its Packaging is reusable and refilled. It boosts the demand for the product and ultimately increases the company’s revenue.

4. Reducing cost of distribution:

'Happiness-on-the-go' is an initiative started by Coca-Cola through a portable fountain machine installed on a small van for interior areas where due to unavailability of chilling equipment, selling cold drinks seem difficult job. Such initiatives help to reduce cost of distribution as cost of running these operations would be less.

IV. CONCLUSION

Globalization brought drastic changes not only to the India’s urban environment but also to its rural environment. Shifting of companies’ attention towards rural market is inevitable now. The latent potential of this market as a new revenue generation avenue for the companies are now revealed. They have numbers; unlimited needs or desires due to limited facilities and constraints; and everything that are required to raise demand for the products that can fulfill those needs. Simple packaging, small units, and utility of the product are sufficient. Due to change in preferences in recent years, rural customers are demanding the same products which are used by urban customers and also preferring it over local products. Rural consumption rate is not much but it has potential to grow, therefore, expansion to rural markets would be profitable. Companies should conduct surveys, thorough market study and make proper strategies before pricing their products so that both the expectations i.e. low price desired by customers while high revenue and low cost desired by producers, are met at the same time.

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