

Rural Inroads: A Developmental Perspective

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Abstract

Rural India is a difficult business location. Transport, electric power, and information infrastructure are inadequate. Business practices are underdeveloped or outdated. Lack of access to modern resources has resulted in an under-trained workforce. Rural society is structured around subsistence and is unprepared for modern products and services. These constraints, along with many others, have discouraged most companies from taking on the challenge of rural commerce.

Yet the sheer size and magnitude of rural inhabitants have had every marketer hooked to the opportunity of turning gold by being able to sell to the rural fraternity. This engagement can serve a dual agenda: **bridging rural isolation and the resulting disparities of education and economic opportunity**, while at the same time **creating a potentially large profit opportunity for the organization** willing to tackle the inefficiencies. The key question is how to deploy modern resources and methods to profitably overcome rural constraints? Also important are the social impacts of such an engagement.

This paper will focus on how the businesses can associate rural people in production-distribution chain to profit and improve their incomes with a goal to "**Create Customers**" – A Case Study Approach.

Introduction:

The future lies with those companies who see the poor as their customers.

-CK Prahalad to Indian CEOs, Jan 2000.

According to C.K.Prahalad (2005) the reason for targeting the world's poorest as a potential market is the sheer size of that

market – an estimated 4 billion people constituting two-thirds of the world's population. More importantly, the market will grow to an estimated 6 billion people within 40 years because the bulk of the world's population growth is occurring among the poor. Despite the fact that these people subsist on annual per capita incomes of less than \$1,500, this "bottom of the pyramid" represents a multi-trillion-dollar market. Taken together, nine developing nations – China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa and Thailand – have a combined GDP that is larger, in purchasing power parity, than the combined GDPs of Japan, Germany, France, the UK and Italy. The bottom of the pyramid, Prahalad says, is "the biggest potential market opportunity in the history of commerce."

Though profits may be the predominant, but should not be the only reason to devise strategies, products and services for the bottom of the pyramid. Strategies aimed at the bottom of the pyramid will, by necessity, create jobs and improve incomes among those people, helping slow and possibly even reverse the widening income gap. Certainly such strategies can help avert social decay, political chaos, terrorism and environmental degradation.

Rural India - Market Potential

A look at some facts, which will clear the doubts of skeptics about the potential of rural markets in India: -

- About 285 million reside in urban India as compared to 742 million in rural India.

- The number of middle income and high-income household in rural India is expected to grow from 80 million to 111 million by 2009 while urban India is expected to grow from 46 million to 59 million.
- 53 per cent of all FMCGs and 59 per cent of all consumer durables are sold in rural India.
- Number of poor household is expected to shrink by half to 28 million in 2008-09 from 61 million in 1997-98, taking rural people from poverty to prosperity.
- Rural marketing involves addressing around 700 million potential consumers, over 40 per cent of the Indian middle-class, and about half the country's disposable income.
- The Indian rural market is almost twice as large as the entire market of USA or Russia.
- The rural market for FMCG is Rs. 65,000 crore, for durables Rs. 5,000 crore, for tractors and agri-inputs Rs. 45,000 crore and two- and four-wheelers, Rs. 8,000 crore. In total, a whopping Rs. 1,23,000 crore.

Today, marketing has changed the dynamics of the business. The business is becoming competitive day-by-day with the consumers getting informative. Marketers are seeking fresher challenges everyday and are looking to increase their sphere. The urban consumer has been coddled till now but this market is shrinking, prompting the marketer to now explore the rural consumers, which promises a huge potential. The market has enough scale to offer, and enough craving to consume.

Rural Marketing – A Competitive Advantage

According to Prahalad and Hammond (2002), Businesses can gain the following

three key advantages by serving the poor viz.

- A new source of revenue growth
- Greater efficiency
- Access to innovation

Out of all these innovation is the major tenet for success as there can be an innovative way of doing business for revenue growth. Rural markets are the hotbeds of innovation. This market can test all the business acumen a company has because it is comparatively difficult to market to these people than their urban counterparts not only in scale of operations but also in scope and sustainability.

Further, the source of competitive advantage for these companies lies in the following efforts:

1. Enabling technology as prime source of competitive advantage

All the elements of 4P, be it product, price, promotion or physical distribution, they all use technology as a prime source to build competitive advantage from the BOP market. Almost all the successful business models used today in the business world are making the best use of IT by developing some sort of kiosk or an interactive man-machine system to market its product or service to the BOP people. In other words, we can say that information technology is the starting point for all the innovations at the BOP.

2. Promoting Social entrepreneurship

It can be done in the following ways –

- Empowering rural women and making them self-reliant
- Employing local youth in the marketing efforts who would otherwise migrate to the cities and just add to the pool of the unemployed and leave the resources at the villages underutilized.

3. Creating Purchasing power at the BOP

As per the World Employment Report, released by International Labor Organization (ILO), nearly one billion people in the world are not able to support their families. The only way out to uplift them from the shambles of poverty is to increase their buying power.

4. Developing need based products and services for the market at the BOP

Before a company considers entering the rural market, understanding the types of products and packages that rural Indians typically use is crucial.

SKS MICROFINACE LTD. – A Case Study of Rural Development

Mission:

SKS Microfinance empowers the poor to become economically self-reliant by providing financial services in a sustainable manner.

Overview

Launched in 1998, SKS Microfinance is one of the fastest growing microfinance organizations in the world, having provided over **\$400 million (Rs 1600 crores)** and has maintained loans outstanding of **\$170 million (660 crores)** in loans to over 1,300,000 women members in poor regions of India. Borrowers take loans for a range of income-generating activities, including livestock, agriculture, trade (such as vegetable vending), production (from basket weaving to pottery) and new age businesses (Beauty Parlor to photography). SKS also offers interest-free loans for emergencies as well as life insurance to its members. Its NGO wing SKS foundation runs the Ultra Poor Program.

SKS currently has 601 microfinance branches in 15 states across India. SKS aims to reach 5,000,000 members by 2010. In the last year alone, SKS Microfinance has

achieved nearly 170 % growth, with 99% on-time repayment rate.

“SKS believes that access to basic financial services can significantly increase economic opportunities for poor families and in turn help improve their lives. Since inception, SKS has delivered a full portfolio of microfinance to the poor in India and we are proud of our current outreach. As a leader in technological innovation and operational excellence, SKS is excited about setting the course for the industry over the next five years and is striving to reach our goal of 5,000,000 members by 2010.”

Methodology

SKS delivers microfinance through a grameen (village) banking program that utilizes the joint liability model developed by the Grameen Bank of Bangladesh. SKS has adapted the methodology to suit the local conditions and currently uses the following three steps:

- Village Selection
- Sangam Formation
- Financial Transactions

Village Selection

Before entering a village, SKS staff members conduct a comprehensive survey to evaluate the local conditions and potential for operations. Some of the key factors include total population, poverty level, road accessibility, political stability and safety. After a village has been selected, SKS conducts a **Projection Meeting** with the entire village to introduce SKS, its mission, methodology and services. After the projection meeting, SKS holds a **Mini-Projection Meeting** to further explain SKS to interested parties and appeal directly to those who may not have attended the meeting because of religious, class, caste or gender barriers. Upon completion of the mini-projection meeting, **Sangam (Center) Formation** begins.

Sangam (Center) Formation

After SKS has selected a village and conducted informational sessions with its residents, interested women form self-selected five member groups to serve as guarantors for each other. This process is called **Group Formation**. Experience has shown that a five-member group is small enough to effectively enforce group peer pressure and, if necessary, large enough to cover repayments in case a member needs assistance. Group members must be between the ages of 18 and 59, cannot be related and must live close to one another.

Once a group is formed and meets the minimum requirements, it begins **Compulsory Group Training (CGT)**. CGT is a five day program consisting of hour-long sessions designed to educate clients on the processes and procedures of SKS and build a culture of credit discipline. Using innovative, visual and participatory teaching methods, SKS staff introduces clients to SKS' financial products and delivery methods. In addition, CGT teaches clients the importance of collective responsibility, how to elect group leaders, the SKS pledge and how to sign their name. During the training period, SKS staff also collects quantitative data on each client to make sure they qualify for the program and record base-line information for future analysis. On the fifth day, clients take the **Group Recognition Test** and are officially accepted as a SKS' client after successfully completing the test.

As additional groups are formed within a single village, a Sangam (Center) emerges. During **Sangam Formation**, groups are combined to form a center of 4 to 12 groups or 20 to 60 clients. The Sangam is responsible for the repayment of all groups, creating a dual joint liability system. If one group defaults the rest of the Sangam must repay. Once a Sangam is formed, **Financial Transactions** begin the following week.

Financial Transactions

After the formation of a Sangam, a leader and deputy leader are appointed to help facilitate meetings and ensure compliance with SKS procedures. Sangam meetings are held on a weekly basis by SKS' **Field Assistants** and all financial transactions (also see **Products & Services**) are conducted during the meeting. Meetings begin early in the morning so not to interfere with the daily activities of the clients. In addition to financial transactions, clients use the weekly meetings to discuss new loan applications, loan utilization and community issues. Sangam meetings are conducted with rigid discipline in order to sustain an environment of credit discipline created during CGT.

SKS Products & Services

SKS provides a full line of financial products and services specifically customized to meet the needs of its clients. SKS' core products are for income generating activities with the belief that its clients have the best understanding of how best to employ working capital. SKS is continuously working with its clients and partners to improve and extend its product offering.

Loan Products

AARAMBH

Purpose: Income Generation, asset development

The Income Generating Loan is available to all recognized SKS clients. Clients use Income Generating Loans for a variety of activities that generate income for their families. Clients submit a loan application and based on approval receive the loan after one week. Loans are paid in 50 equal, weekly installments. After completion of a

loan cycle, the client can submit a loan application for a future loan. SKS' guiding principle is to provide opportunity, not charity. Our approach is to enable the poor to lift themselves out of poverty by providing an unlimited stream of credit rather than one-time charitable grants that are short-term solutions to long-term economic problems.

VRIDDHI

Purpose: Income Generation, asset development

The Mid Term Loan is available to clients after 25 weeks of repaying their IGL loan. A client is eligible for a MTL if they have not taken the maximum amount of the IGL. The residual amount can be taken as a MTL. The terms and conditions of the MTL are otherwise exactly the same as IGL.

RAKSHA

Purpose: Emergency Loan (EL), All emergencies including maternal health, funerals, hospitalization

One Emergency Loan is available to all clients over the course of a fiscal year. The loan is interest free and the amount and repayment terms are agreed upon by SKS and the client on a case by case basis. The amount is small compared to the income generating products and is only given in times of dire need to meet expenses such as funerals, hospital admissions, prenatal care and other crisis situations.

SANJEEVINI

Purpose: Individual Loan (ILP), Income Generation, asset development

The Individual Loan is designed for SKS clients and non clients that have specific needs beyond the group lending model. Loans are given to an individual outside of the group lending process. Amounts are

typically higher than that of the income generating loan and repayments are less frequent. Applicants must complete a strict business appraisal process and have both collateral and a guarantor.

Insurance:

Loan Cover Insurance

SKS provides Life Insurance cover to our members to protect their financial loss arising from any untoward incident during the loan period. Accordingly, SKS currently deploys a Loan Cover Scheme. The SKS Loan Cover Insurance is a term life insurance scheme covering all SKS members and spouses. The policy is developed and executed in partnership with Life Insurance Corporation of India (LIC). SKS acts as the master policy holder for all insurers and handles all customer transactions and claim processing. The loan cover fee is 1% of the loan amount and the policy covers the entire loan amount with interest for the term of the loan or one year. In the case of a member or her spouse's death, the loan amount outstanding is written off and the principal paid is returned to the client's nominee.

SKS is currently exploring health and livestock insurance to further protect our clients from disaster.

Operational Geography:

SKS began operations in the Telangana region of Andhra Pradesh, part of the drought-prone, semi-arid Deccan Plateau, one of the poorest parts of India. Over the last 10 years, SKS has continued to work in regions which suffer from high rates of hunger and malnutrition. These regions have significant numbers of poor who are landless laborers or marginal farmers drawing a livelihood from subsistence agriculture. The income (most of them earn

less than \$1 a day) is not enough to provide their families with basic necessities like food, healthcare and education. SKS provides them loans to enable them involve in income generating activities like live stock, agriculture, trade, production and services.

SKS currently only targets women both because they are the most marginalized and because they tend to use resources more productively than men. Social science research has shown that women tend to undertake small, manageable activities rather than risky ventures and they invest the majority of their income into the household and for their children.

Currently SKS operates out of 507 branches in 14 states across India.

Financials:

SKS Microfinance emphasizes growth through a financially sustainable business model. SKS's focus on building the capacity to serve large numbers of clients through implementation of efficient operational processes and innovative management systems has allowed it to achieve consistent and impressive growth - close to 300% over the last two years while maintaining perfect portfolio quality and providing high quality service to its clients. As a financially sustainable institution, SKS can continue to provide permanent, stable access to finance for the poor.

Transformation

In order to meet our objective of serving over 1,000,000 by 2010, in January 2005, SKS successfully transformed from a non-profit NGO to a Non-Banking Finance Company (NBFC) regulated by the Reserve Bank of India (RBI). SKS now enjoys the following list of benefits as an NBFC:

- **Access to Funds:** Commercial lenders have greater comfort lending to a regulated company with transparent ownership.
- **Diverse Funding Source:** As a regulated for-profit company, SKS can raise equity and offer returns, enabling it to access commercial investors and international capital markets.
- **Outreach Potential:** With increased access to funds, SKS will be able to scale into a national organization.

Ownership Structure:

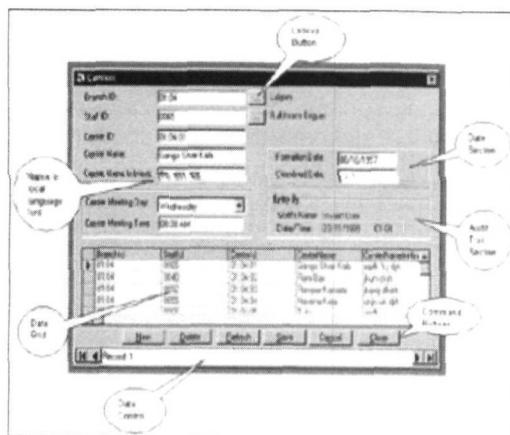
SKS provides the opportunity for all stakeholders to own a piece of the company and participate in its governance. This includes clients, management, employees and investors. SKS has been given grants that have been used to give its client community majority ownership over the NBFC. Simple trusts have been formed to serve as vehicles for this equity ownership.

Innovation in Technology

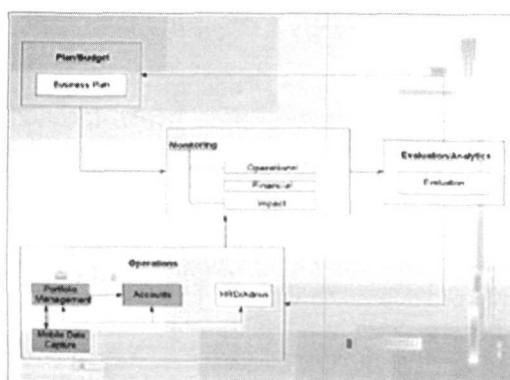
SKS is a widely recognized as a global leader in microfinance technology. Its award winning management information systems (MIS) and innovative delivery solutions have increased operational efficiency and reduced transaction costs. SKS believes that the future of the microfinance industry will be shaped by innovative technologies and it is focused on leading the global effort.

The SKS management information system (MIS) is the cornerstone of the organizations' technology platform. It enables SKS to manage small transactions efficiently, increase staff productivity, reduce operational costs, provide accountability for funds, and generate reports for effective and efficient management and decision-making. Below are specific features of the system:

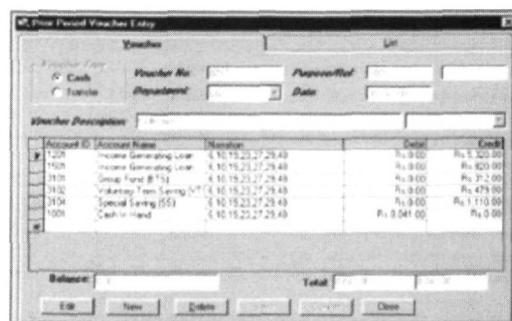
Accurate and easy to use. SKS staff members have little or no computer experience before joining SKS. Accordingly, the MIS was built with an easy to use graphical user interface (GUI) so that anyone could learn to use it in a matter of days regardless of education level or computer training. In addition, it is available in over 100 languages with associated fonts



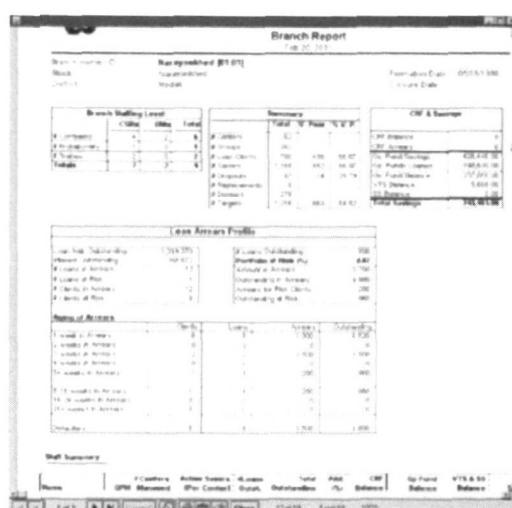
Designed for scale. SKS always envisioned rapid expansion and exponential growth. To support this, the MIS was designed and built as a series of modules that can be added and subtracted as the needs of the organization change. The MIS also has a high degree of flexibility, with the capability to track over 100 types of savings, loans and insurance products..



Integrated with accounts. SKS' financial portfolio is directly linked to its backend accounting function through the MIS. All outgoing transactions are automatically entered into the accounts module and tracked.

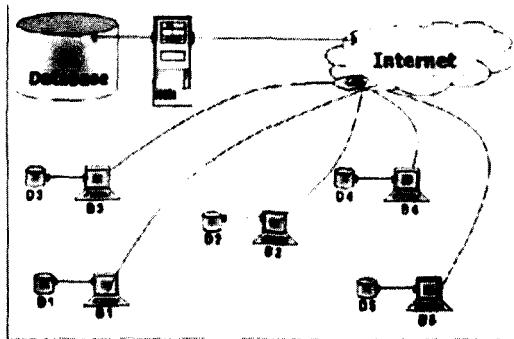


Extensive reporting. With thousands of clients in thousands of rural villages across India, it's extremely important for the organization to accurately track activity at a micro-level. The MIS reporting feature allows corporate office staff to see activity at an individual level and respond quickly to any problems in the field.



Real-time, Online Data Transfer. In order to stay up to date on all field level operations, SKS has developed an online data transfer system that allows it to send summary data back to the head office on a daily basis. All branch level transactions are consolidated

and compressed so that they can be sent over a dial-up connection in less than 2 minutes.



SKS – A Developmental Perspective to Rural Marketing

The business model of SKS allows it to meet the needs of the ultra poor on multiple levels making it a holistic program:

- Economic,
- Social, and
- Health

and aims to graduate members to mainstream development after a period of 18 months. Upon graduation, many members will choose to join microfinance organizations to sustain existing businesses or diversify income by starting new businesses.

Component I: Economic Development

Economic Development involves savings, enterprise selection and 3-6 days of skills training. Savings inculcates a sense of financial discipline in members and provides cushioning during crisis events. Members choose from a basket of options:

Asset Basket

1. Buffalo
2. Buffalo + Chickens
3. Goats
4. Chickens

5. Sheep
6. Non-Farm Package 1: Telephone + Small Goods Shop
7. Non-Farm Package 2: Telephone + Food Products
8. Non-Farm Package 3: Telephone + Tea Shop
9. Vegetable-vending
10. Horticulture Nursery

Component II: Health Development

The extreme poor are the least healthy group in society. SKS will tackle the incidence of sickness through a combination of preventive techniques and on-the-spot coverage. The health program is divided into: monthly visits, information sessions, screenings & camps, and health training for talented ultra poor members.

Monthly Visits

A Health Field Assistant (FA) visits each member on a monthly basis to provide basic care or referrals as needed. Special attention will be given to pregnant members.

Information Sessions

The Health FA delivers monthly presentations on numerous health topics including: family-planning, pregnancy-related care, women's health, safe water, sanitation, anemia, immunization and tuberculosis.

Health Screenings & Camps

SKS will link with existing providers – government doctors and health-focused NGOs—to host screenings and information awareness camps. Screenings will allow medical practitioners to determine the number of those afflicted, and provide appropriate treatment. Awareness camps will provide a forum for local doctors to discuss a variety of health-related issues.

Training of Ultra Poor Member

SKS will utilize the expertise of a doctor to train 1-2 ultra-poor members in each village on basic health services. These members will be equipped with the knowledge and basic medicines (provided free-of-cost by government) to serve as the touch-point for other members and their families who face health challenges such as dysentery, dehydration, gastrointestinal disorders, fever, de-worming, vitamin B deficiency, anemia and skin diseases.

Component III: Social Development

The extreme poor often exist in the margins of society. They have less confidence than other poor, which is one reason they avoid mainstream microfinance. Consequently, an important part of the Ultra-Poor program involves giving members the confidence to become active wage-earners in their families.

The components of the Social Development component are:

- a. Group Solidarity
- b. Increasing Social Awareness
- c. Back-Up Support

Group Solidarity will be encouraged through weekly group meetings. Ultra-poor members in each village will use this time to discuss concerns and develop methods to problem-solve. The FA, through feedback from members, will also discuss relevant social development topics for group discussion.

SKS staff will also foster linkages with governmental and non-governmental bodies, to both raise awareness and receive information from external stakeholders.

Microfinance, the provision of loans and insurance to the poor, has contributed much to India's economic advancement, and has focused its efforts on the 700 million rural poor around the nation. Today, microfinance

has been recognized as a proven poverty-alleviation mechanism in developing nations around the world, and SKS Microfinance has been a leader in bringing microfinance into the mainstream, providing financial services to hundreds of thousands of poor across the country.

Deliverables

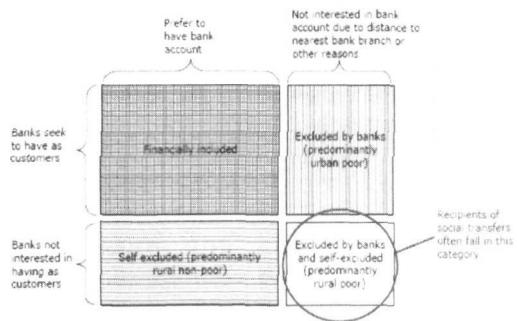
On 29 December 2003, former UN Secretary-General Kofi Annan said: *"The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives."*

According to the United Nations the main goals of Inclusive Finance are as follows:

- Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances
- Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required
- Financial and institutional sustainability as a means of providing access to financial services over time
- Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of

sound private, non-profit and public providers).

Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination should be the prime objective of public policy



Source: Center for Micro Finance (Institute of Financial Management and Research) study on Financial Inclusion & Delivery of Social Transfers Payments (<http://www.cga.nic.in/pdf/DougJohnson.pdf>)

Traditionally, the predominantly rural poor have been unable to receive loans. That's because they don't have anything to offer as collateral. As a result, they get stuck in a vicious cycle of poverty, living and working in poor, rural areas. Should adversity strike, they simply don't have the means to combat it.

The business model of SKS Finance allows this vast section of disadvantaged and low income groups (predominantly rural poor) an access to timely and adequate credit they need to save, invest, and create a sustainable lifestyle of financial

independence and growth. These loans are used productively by the poor to create their own businesses, grow their assets, which in turn helps create long-term financial independence in these poverty-stricken areas and sustained impact by educating recipients on how to create their own businesses and how to properly manage and grow their money.

Conclusion

Though there is no doubt that the rural India offers tremendous opportunity for any company to tap, but here the companies have to conceptualize rural marketing as an instrument to deliver standard of living rather than a process of exchange. There is a larger need of evolving new business models to associate rural people in production-distribution chain to profit and improve their incomes with a goal to create 'customers'.

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