

# **MARKETING OF FINANCIAL SERVICES IN RURAL AREAS**

**UNDER THE GUIDANCE OF  
MR. TARA CHAND SAXENA**

**Submitted By  
SANCHIT ANURAG  
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**School of Business  
Galgotias University**

## **Abstract**

Banking in India now looks very different due to the rise of private banking organisations. Almost every major city and town in the country now has a private bank serving its citizens. However, as a result of urban market saturation, these banks' growth rates are declining. Even though there is a sizable untapped population potential in cities, private financial institutions have begun to expand into rural markets in an effort to maintain a healthy growth rate. Traditional Indian economies have long relied on informal financial services, and most Indians have easy access to semi-formal and formal services through banks and agricultural cooperatives. Such services are provided by a vast network of financial institutions, including commercial banks, cooperative banks, regional rural banks, and others. Mutual funds, insurance firms, provident funds, and non-bank financing companies (NBFCs) round out the list of financial organisations. Financial services are provided by approximately 60,000 branches of 27 public sector commercial banks, 196 regional rural banks (RRBs), and 4,700 branches of 55 smaller private banks in India. There is an increasing presence of foreign banks as well, although their 200 branches mainly serve the major cities.

**Keywords:** Financial inclusion, Rural marketing, India, Microfinance, Financial literacy, Technology adoption, Community engagement, Trust-building, Product innovation, Partnership

## 1. Introduction

The rural market is undergoing a transformation and is luring multinational companies to market their products in this segment. For any marketer, the key to success in this market is to understand the psyche of the rural consumers, which is completely different from that of their urban counterparts. Marketers can reap the benefits of an untapped rural market- increased consumption of durables and non-durables, increased income level, low competition, increased literacy levels, and increased brand awareness. In the mean time they must overcome the challenges like the lack of proper storage facilities, transport and communication infrastructure, proper distribution channels and uneven distribution of purchasing power.

### 1.1 Defining Rural

Seventy percent of India's population, or approximately 700 million people, live in rural areas (Moorthi, 2002). As of the 2000 census, this equates to just fewer than 2.5 times the population of the U.S. A location is defined as rural if at least 75 percent of the population is agrarian. With such a large number of potential consumers, it is clear why multinational corporations would like to successfully penetrate the rural Indian market.

The only constant thing in an evolving market is the change in consumer dynamics in the market. Over a period of time, the Indian market has come to stand as distinctly divided like the religions and castes of India. The Indian market is classified as urban and rural markets. Each of these markets has its characteristics and potential. Today, rural markets are in the focus of Indian marketers for various reasons that include the current and future potential of the market. The size of the market covers 2/3<sup>rd</sup> of the country's population and half of the national income comes out of the rural population. The country is divided into more than 400 districts and around 63,000 villages, which can be classified on the basis of literacy levels, fragmented income levels, different degrees of penetration and geographic distance from the urban mobs. These classifications help in arriving at a market size that puts forward opportunities and challenges to marketers. For the purpose of convenience, we would take the definition by the Government of India that **"whatever is not urban is rural"**. The Government of India defines urban as one that follows any of the following two sets of criteria:

1. Presence of a municipal council, cantonment, etc, or a minimum population density of 5,000 persons.
2. Population density of 400 persons per square kilometers.
3. at least 75% of the male population engaged in non- agricultural activities.

Strategic success of rural market is a big challenge and is uncertain in nature. At least, this is evident from the number of product launches and failures in Indian rural markets in last few years. The marketers used to credit rural marketing success to a mere chance or luck. The rural markets need to understand the social fabric of India at large, attitude variations among different segments, and purchase parity across different regional areas of Indian rural market.

While the rural market certainly offers big attraction to marketers, it is one of the most difficult markets requiring from the marketer, considerable amount of investment. However, it should be mentioned here that more than investments, what is required is the understanding the psyche of the rural consumer. This is indeed the most daunting task as reflected in the failure of many major organizations in the rural markets.

## **1.2 Rural Income**

With an average income equivalent to \$42 per month (\$504 dollars per year), rural Indians have a very low disposable income (Kripalani, 2002). Most rural homes have minimal storage space and no refrigeration. Very few people own or have access to cars. As a result, rural Indian purchasing habits tend to be of an “earn today, spend today” mentality. Rather than buying in bulk, which would mean paying more for a large quantity upfront, rural Indians tend to buy what they need for short segments of time (Dawar and Chattopadhyay, 2002). These factors result in consumers buying products locally, as well as on a daily basis. In addition to the fact that income levels are low, rural incomes also vary greatly depending on the monsoons. When a monsoon hits, this devastates the livelihood of most rural consumers because they are dependent on agricultural work for income. Corporations are also directly affected because this makes it difficult to predict demand (Kanaan, 2001).

## **1.3 Why go Rural?**

There are various reasons why every industry is taking a very serious look at rural markets:

- ☐ About 285 million live in urban India whereas 742 million reside in rural areas, constituting 72% of India's population resides in its 6, 00,000 villages.
- ☐ The number of middle income and high income households in rural India is expected to grow from 80 million to 111 million by 2007 while urban India is expected to grow from 46 million to 59 million.
- ☐ Size of rural market is estimated to be 42 million households and rural market has been growing at five times the pace of the urban market.
- ☐ More government rural development initiatives.
- ☐ Increasing agricultural productivity leading to growth of rural disposable income.
- ☐ Lowering of difference between taste of urban and rural customers.

Many companies like Colgate-Palmolive, HLL, Godrej etc have already made forays into rural households but still capturing the markets is a distant dream. Most marketers still lack in depth knowledge to analyze the complex rural market.

#### **1.4 Characteristics of Rural markets**

There are certain characteristics of rural India, which every prospective marketer needs to be aware of before unleashing his product:

- ☐ Low income influenced by seasonal fluctuations
- ☐ Low literacy
- ☐ Diverse customs, languages and social structures
- ☐ Resistant to change
- ☐ Price sensitive
- ☐ High brand loyalty
- ☐ Influenced by traditions
- ☐ Moderate aspiration levels
- ☐ Quality Conscious
- ☐ Low to moderate risk taking ability

#### **1.5 Rural Marketing: Opportunities and Challenges**

The following are some of the opportunities and challenges that a rural marketer has to face in Indian Rural markets:

##### **Untapped Potential**

It offers a great chance for different branded goods as well as services for the larger number customers and the untapped potential. It is estimated by HLL that out of five lakh villages in India, only one lakh has been tapped so far, which goes on to indicate the market potential of the rural market.

##### **Market Size**

The size of India's rural market, stated as a percentage of world population is 12.2%. This means 12.2% of the world's consumers live in rural India. In India, rural households form about 72% of the total households and this constitutes a huge market by any standards.

### **Current Consumption**

The purchase and consumption of certain goods and services by consumers in rural India is more than that in urban areas. Some of the products for which the demand of products is more than of urban areas are: sewing machines, radios, wrist watches, bicycles and etc. it is estimated that for durables the annual growth has been at the rate of 25%, which is outstanding by any standards.

### **Increasing Income**

Different programs undertaken by the government has helped to improve the economic situation of the rural areas. The increase in income is seen in both absolute values as well as on the increase in average number of days of occupation in a year.

### **Accessibility of Markets**

Though the road network has not developed to the best possible extent, a fair amount of development has been made in many regions, making these regions accessible from the urban region and making it easier for supplying and distributing products and services to these regions.

conomic status of the household.

### **1.6 Obstacles in Rural Marketing:**

These typical characteristics of the rural market make it evident that there are huge challenges, which a marketer will face. These challenges need to be tackled using appropriate strategies and proper planning. The major **obstacles** can be classified as follows:

- ☐ Poor infrastructure facilities, which hamper the effective distribution of products and make the task of reaching the target consumer difficult.
- ☐ Traditional media is ineffective due to illiteracy and non availability.
- ☐ There is insufficient past research to provide some insight about consumer behavior.
- ☐ Disposable income is highly dependent on good monsoons and a rich harvest.
- ☐ Varying linguistic and socio-cultural norms compel the marketer to vary his marketing message for different parts of the same country.
- ☐ Role of women in buying process is still not independent of family constraints.
- ☐ Inadequate credit availability hampers the ability of rural retailers to carry stocks.

Understanding the psyche of the rural consumer and gauging the complexity of the rural market has to be given utmost priority by marketer. Creative marketing solutions need to be devised to combat these barriers.

### **1.7 Finance in the Rural India**

Finance is an effective tool in spreading economic opportunity and fighting poverty. Its relevance is more pertinent when applied to rural India, where the infusion of funds in planned economic activity is likely to trigger growth in opportunities and leads to reduction in poverty. This economic principle set the agenda for the Government of India to develop a network of financial institutions offering essential financial services. An impressive financial infrastructure comprising 32,000 rural branches of commercial banks, 32,000 branches of co-operative banks and more than 1,35,000 post offices is now available in rural India.

Post- offices have been instrumental in mobilizing rural small savings, while the banks have played the role of the creditors. However, loans have been largely confined to agricultural credit, extended through various government schemes. The National Bank for Agriculture and Rural development (NABARD) is the apex refinance body, through which agricultural credit schemes are managed until recent there was no focus on consumer finance, because the purchasing power was limited. This situation is beginning to change and the need for consumer finance is being felt strongly in rural India.

## **2. The Rural consumer behaviour**

### **2.1 Introduction**

To meet the wants and needs of select customers, it is important to understand the consumer behavior. It is this behavior that guides and directs the entire set of activities that constitute the marketing program. Demand estimation, segmentation, targeting, product development, positioning, developing the four P's of the marketing mix and finally the marketing efforts to eliminate post purchase dissonance and ensure customer retention.

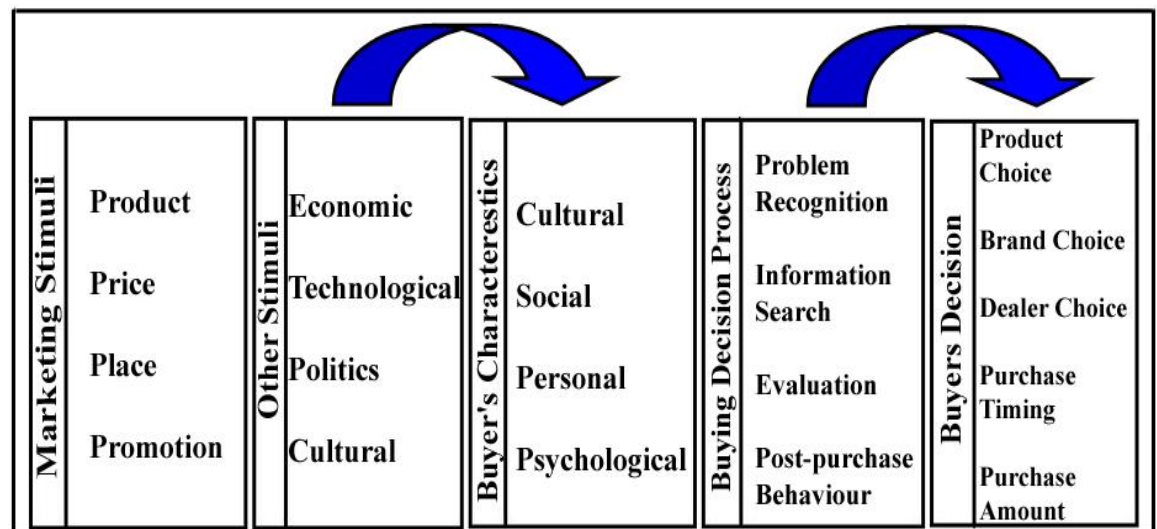
Unfortunately, consumer behavior is extremely complex to study and understand, despite the most precise procedures for mapping and prediction. An uncertainty that is even more difficult to get a fix on in India, because of the demographics of the country.

Consumer behavior in the rural markets is even more perplexing because of a singular lack of consistency in groups which are homogeneous in parameters of demographics- Age, occupation, education and income. This is compounded by the influences of caste and religions and the undercurrents of power and politics in society. Add to that the sudden presence of the outside world, in the midst of thatched roofs and grazing buffalos, computers and STD booths in the heat and dust.

## 2.2 Consumer Buying Behavior Models

Developing a model for such behavior therefore, must include a large number of variables each with a weightage factor that will vary from market to market. An in-depth study therefore, needs to be made of different target market, most such markets being totally new to any organized scientific research.

The starting point for understanding consumer behavior is the basic model applicable to consumers universally. This model does explain consumer behavior in rural India. But the rural scenario being far from being a homogeneous mass, due to so many factors like cast, culture, social groups, etc, create difficult and complex challenges, to slotting the behavior patterns of rural people, in the modules shown in the universal well defined behavior models.



Generic explanation of the behavior to some extent is possible, but rural India has its own customs, traditions, beliefs, which impact the process of decision making.

## 2.3 Factors Affecting Consumer Behavior

There is a whole gamut of influences that affect overall consumer behavior in rural India. Influences like traditions, social customs and caste determine behavior in everyday life. In urban India, on the other hand, these factors have limited influence, evident largely during marriage and festivals. On a day-to-day basis, urban priorities are determined by economic and time pressures in the relentless effort to succeed and be socially accepted. Therefore, the needs and wants can be quite deferent for rural and urban India.

### **2.3.1 Cultural Factors**

#### **Culture**

Culture is the most fundamental determinant of person's behavior. This is fundamentally true, more so in rural India than for urban India and its residents, because rural India lives in a society which is bound by culture. As a child grows up in the rural environment, he/she acquires a set of values, perceptions, preferences and behaviors, through the family or other key institutions involved at each stage of his life. The time tested true behavior exhibited by a collective group is therefore is determined by culture. The degree of impact culture will have on behavior however, will depend on the insularity of a culture, or its intermingling with other cultures, the influence of subcultures and the evolving of a hybrid culture.

#### **Collective Social Sanction**

Our societies are bound by definitive norms being followed by the set of people. These norms dictate the ways and means of behaving, working, addressing and conducting ourselves in society. Due to a variety of factors, like the pace of life and economic priorities, these norms are not so rigidly followed in urban India. However, in rural India, these norms are strong and are rigorously followed. Violation of all deviations from, these social norms in rural India can lead to being caste out of that society. Most behavior in rural societies is governed by the acceptance of particular norms in general by the community, or of those in authority, who initiate the process, finally becoming collective social sanction.

#### **Influence of Social Systems**

Customs are socially acceptable norms that have been in practice over a long period of time. Rural India being until now largely isolated from new practices and customs, tends to follow the customs of its traditional society. In urban India however, in the due course of time, many of the customs have changed and continue to change, a change that is accelerated when a new generation adopts new value systems and practices in order to fit into perceived modernity.

#### **Traditions**

Traditions are long standing beliefs that are believed to be true in nature and often practiced in a ritualistic manner, without knowing the origin, or questioning the need to do so. However, traditions do influence the way humans behave and could therefore lead to the acceptance or rejection of behavior (and therefore the product associated with it). People in rural India are definitely are staunch believers in tradition and therefore do not view violation with any degree of positive associations.



### **The Influence of caste**

Caste plays a key role in the behaviors of the community. In rural India, the upper and the lower caste differences still continue and is considered an important facet of everyday life. The difference can also be made out when we see the dwellings of the different castes in rural India. The upper caste houses will be located on one side of the village, whereas houses of the lower caste will be on the other. There will be clear demarcation between the two areas, including natural resources such as drinking water and grazing lands for cattle. In the urban areas, limited physical space, pressure on limited natural resources, interaction based on economic status and vocations rather than on basis of caste leads to an absence of such division.

### **Sub-Culture**

#### **Regional Influences**

Regional Influences can be defined as a set of attributes exhibited in clothing, certain type of cereals; food preparations etc. on moving from rural areas to urban India, people carry these regional preferences along with them.

On embracing modernity in the city, they still retain their regional preferences, though now it is asserted more occasionally while adopting the lifestyle of the city in their day to day lives. However, in rural areas, there is little or no desire to change and regional preferences remain daily fair.

#### **Social Class**

Social classes are defined on the basis of occupation and education in the urban sector. In rural India, it is difficult to do so due to multiple and changing occupations related to opportunities in different seasons. This creates difficulties in estimating their annual income with accuracy and consistency. Also, the fact that they do not file income tax returns complicates the problem.

Urban socio-economic classification is defined using an occupation and education matrix whereas in rural matrix 'house type' substitute occupations whereas education remains the common parameter.

#### **Socio-Economic Class (Rural)**

The break up of population class wise for rural and urban is indicative of the relative potential buying power of the two market segments.

Education	Type of House		
	Pucca	Semi-Pucca	Kuccha
Illiterate	R4A	R4A	R4B
Below SSC	R3A	R3B	R4A
SSC/ HSC	R2	R3A	R3B
Some College but not Graduate	R1	R2	R3B
Graduate/ PG (General)	R1	R2	R3A
Graduate/ PG (Professional)	R1	R2	R3A

Where,

Socio-Economic Classification	Behavior, Aspirations and Lifestyles
R1	Landlord farmers, educated, exposed to urban environment, children in school/ colleges in nearby towns, technology adopters, experiment with modern farming methods, eager for additional sources of income, socially and politically well spender and own durables.
R2	Rich farmers with about 5acres of land may not be educated but wants children to be educated, urban relatives, owns durables.
R3	Average land holding is 2-5 acres, small savings, children send to village schools, low risk taker, opts for time tested technology, own durables.
R4	Has little or no land, agricultural labor, living below poverty line, a major purchaser from public distribution system.

The purchase behavior of R1 is often different from other SECs. They generally make bulk purchases from nearby town markets, as they look for more variety and better quality products.

R2 and R3 prefer to purchase from weekly haats, which offers opportunity to bargain.

### 2.3.2 Sociability

Sociability refers to the level of interaction between one another in the human context. In the urban scenario there is very little informal interactions with friends, relatives and social groups on regular basis. Largely there is a formal interaction at parties and gatherings and other occasions. In rural areas, however, each person meets the other almost on a daily basis without need for an occasion. Due to leisurely pace of rural life, more time is spent on interaction within the community.

Rural people spend more time with family and friends and these constitute reference points for everyday life. Besides this, there is a marked difference in the way interaction takes place on a daily basis or visits to each others home.

### **2.3.3 Technological factors**

The rapid entry of contemporary technology and its applications has changed the way urban India lives, works and seeks entertainment. It has also compressed the world and shrunk distances. Rural India too, is beginning to experience this impact of technology, leading to major changes that are transforming the countryside. Opportunities, products, services, knowledge, information are all exploding.

Introduced with the purpose and need to create an instance network for good governance, telecommunications have transformed rural India in so many other ways that is of interest to marketers. The growing presence of telecommunications has led to new patterns of consumer behavior.

The advent of information technology encouraged by government as part of the need to access data and information for faster decision making and monitoring has brought the cyber world to rural doorsteps. The presence of this magic took has created bridges to networks in India and overseas.

### **2.3.4 Economic Factors**

To understand whether the rural customer really constitutes a market in terms of ability and affordability, it is important to understand the economic factors that make rural India a fertile ground for marketing, ready to accept goods and services provided to them, if available on their reference terms of wants and needs.

The entire economic environment of rural India shows a much improved prosperity due to repeated, benevolent monsoons, new and improved techniques, higher quality of inputs and increasing awareness and education on agriculture. More and more land previously not put to productive use is now being harnessed for agriculture. Improved rural channels and infrastructure have come up and are expanding rapidly to market additional agricultural produce.

Farmers are becoming conscious of supplementing agricultural incomes from other sources, leading to a host of non-agricultural-linked industries and enterprises in the rural India, where the soul occupation earlier was only linked to land.

Women, too, conscious of opportunities of additional income and the potential of investing and spending with the same are looking at income generation, even if on a small scale.

Banking is reaching out to the doorsteps of more and more farmers. Finance is now more readily available and so is credit.

There is a substantial increase in the number of bank accounts in rural India and investment in fixed deposits and mutual fund schemes, indicating that the masses in the rural sectors now prefer to save and invest in formal financial instruments rather than block their money in gold and land.

## **2.4 Characteristics of Rural Consumers**

Consumer behavior is a complex phenomenon that is influenced by various factors such as income occupation, education, lifestyle and geographical location. To use a single factor to understand rural consumer behavior could be misleading. Also, the assumption of urban marketers that the rural consumer is no different from his urban counterpart is a mistake that has led to many a failure in rural marketing.

### **Age and Stages of the Lifecycle**

The purchase of products and services and their forms and nature is influenced by age and life cycle stages of the consumers. This gives direction to the estimation to the demand, segmentation, targeting of markets and product mix decisions.

## **3. Financial Services**

### **3.1 Introduction**

Home to the largest population in the world, India has been a natural candidate for experimenting with microfinance as a tool for poverty alleviation. With a nationalized formal banking sector that has emphasized rural and development banking for several decades now, India's involvement with small credit targeted primarily at the rural poor is a new yet an essential venture. Recent years have witnessed unprecedented interest in microcredit and microfinance especially because of the facility of collateral less group lending. In fact NABARD has successfully generated the largest microfinance networking the world by linking the various Self-Help Groups with the banks. This is called the SHG-Bank Linkage programme.

Directed priority sector is an essential feature of the formal banking sector. This has lent the Indian banking sector a very impressive coverage. A survey conducted by Bhatt and Thorat in 2001 state that together the (Regional and Rural

Banks) RRBs, the nationalized commercial banks and the credit cooperatives, comprising of Primary Credit Societies(PACS) and Primary/ State and Land Development Banks (P/SLDBs) have one branch per 4000 rural residents. In spite of such an impressive coverage, the formal banking sector has had a limited impact on lending to the poor. The objective of setting up the RRBs in mid 70s was to reduce the dominance of the wealthy landlords in the cooperative banks and also because it was felt that the commercial banks have a rural bias. Yet since prudent lending practices could not be followed the initial years totaled a loss of about Rs 3000 crores in 1999.

After the Narsimham Committee recommendations, the interest ceiling of the RRBs was considerably eased. These RRBs could now also invest in the money market. These twin recommendations helped the banks tide over their losses and almost 80% of the RRBs witnessed a profit margin. However, this focus on financial sustainability witnessed a locational shift of the bank branches away from the rural areas. This resulted in a sharp decline in the share of rural and small loans in the portfolio of the banks. At the end of 2001-2002, the share of agricultural outstanding credit if the scheduled commercial banks was less than 10%, which, if compared with urban areas, was less than the share of personal loans. Hence it was the focus of the banks that was the root cause of this shift out from the rural areas. As soon as the banks became more business oriented, they naturally started to shift out from this low cost segment.

This is where microfinance comes in to play a key role. Microfinance provides an important way to balance the outreach among the rural poor while keeping the cost of lending low. To the extent that the cost of credit risk assessment and monitoring can be reduced with the help of NGOs, banks can actually reach out to a large number of rural households without incurring heavy financial losses.

### **3.2 Need for credit**

Economic activities in rural areas can be classified into farm and non-farm activities (trading, product and services). Farm activities include agriculture, fish farming, dairying, livestock rearing etc, which like any enterprise requires investments and short-term funds.

Broadly, credit requirements are for productive and consumption purposes. Production credit in the farm sector is for input purchases (seeds, fertilizers, pesticides/ insecticides, equipments) and for non-farm activities (including the purchase of material and tools). Production inputs like seeds, fertilizers and insecticides are purchased every cropping cycle, farm implements are purchased for use over long periods.

Credit needs also arrives to meet the expenses of social obligations and occasions weddings, births and deaths and to finance other consumption areas such as house construction, education and health care. In recent years, rising rural prosperity and changing lifestyles have created an additional credit need for the acquisition of refrigerators, televisions, two-wheelers and other durables.

Financial requirements can be broadly classified on the basis of following periods:

**a. Short-term (less than 15 months)**

These funds are required to cover the costs of cultivation or to meet some high cost social expenses. Money may also be required to tide over periods of poor crop production. Farmers usually repay these loans after the harvest.

**b. Medium-term (15 months to 5 years)**

Requirements to buy tools for production (purchasing agri implements, improving land, buying tools for artisans work) require higher amount of credit and longer repayment schedule.

**c. Long-term (More than 5 years)**

Requirements arise when technology based improvements are designed for improvement in production. The purchase of tractors, harvesters and expensive equipment in production works require larger funds and long-term repayment schedules.

For short-term and long-term credit requirements, farmers and artisans work traditionally forced to depend on unorganized moneylenders, who charged exorbitant rate of interests. As a result, the high cost of credit never encouraged farmers and artisans to improve quality or expand business or innovate and therefore their earnings remained low, with little or no surplus. This economic insecurity was further accelerated when natural calamities struck and farmers were forced to borrow additional funds until the next crop cycle.

### **Rural Indebtedness**

The constrained financial environment has made rural people habitual borrowers and almost everyone has taken a loan at some time or the other in their life. The average debt of cultivators is two times compared to that of non-cultivators. In addition, the incidence of indebtedness is much higher among cultivators. This indicates a higher credit requirement among cultivators for meeting agricultural production costs. Since agricultural production has a lead time of four to five months between sowing and harvesting, the need for credit becomes a necessity.

Debt in Rural Households						
Year	Cultivators		Non-Cultivators		All	
	Avg Debt (Rs)	Incidence of indebtedness(%)	Avg Debt (Rs)	Incidence of indebtedness(%)	Avg Debt (Rs)	Incidence of indebtedness(%)
1971	605	46.1	223	34.3	500	42.8
1981	803	22.3	205	12.4	661	20.0
1991	2294	25.9	1151	18.5	1906	23.4
Source: Reserve Bank of India bulletin, May 1999						

The table below shows that the use of productive credit has been declining steadily from 50% of all credit requirements in 1971 to only about 22% in 1991. On the other hand, the incidence of use of credit to meet other expenditures had increased more than four times between 1971 and 1991.

Distribution of cash credit by purpose of loans of all rural households				
Sr. No.	Purpose of Loan(figures in %age)	1971	1981	1991
A	Productive Expenditure	50.1	69.2	22.5
1	Farm Business	44.7	60.1	14.7
2	Non-farm Business	5.4	9.1	7.8
B	Household Expenditures	40.9	22.3	40.1
C	Others	9.0	8.5	37.4
Source: Reserve Bank of India bulletin, May 1999				

According to the rural finance access survey by NCAER- World Bank 2003, 44% households availed informal borrowings in the last 12months. Amongst the households, 11.6% used the loans for the routine household expenditures and 18.5% used it for social expenditure. About 28.8% households spent their informal loan on family emergencies. The financial need of rural households for consumption is therefore significant and formal financial institutions can benefit fro this business opportunity by rendering these services.

Use of last informal loan, by %age of households	
Areas to spend in last informal loan	%age of HHS
Purchase assets (land, house, agri-machinery, livestock)	21.5
Purchase Agri-inputs	3.9
Family Emergency	28.8
Illness of livestock animals	1.4
Social expenditure	18.5
Routine household expenditure	11.6
Repay other Loan/ Debts	1.2
Others	13.1
Total	100
<b>Source: Rural Finance Access Survey, 2003, NCAER-World Bank</b>	

Though, the need for credit is high, only 30% of rural households avail of some banking services compared to about 50% in urban areas. Formal institutions have largely shied away from extending services in rural, which has restricted the availability of finance in rural compared to urban.

Households availing Banking Services		
	No. of Households (Crores)	No. availing Banking Services (Crores)
Rural	13.82	4.16 (30.1%)
Urban	5.37	2.65 (49.5%)
Total	19.19	6.82 (35.5%)
<b>Sources: CMD, Indian Bank in FICCI Rural Marketing Summit, Mumbai, 5-6 October 2004</b>		

The overall rural scenario regarding access to formal finance is unsatisfactory, but it is encouraging to note that among large farmers 66% have a bank account and about 45% have access to formal loans. They makeup the rural rich and hence constitute potential customers for consumer durables and other high value products and services. These farmers can afford to make cash down purchases, but the provision of easy finance facilities could reduce their planned schedule for buying durable goods.



Rural Borrowing Trends			
Classification of Households (HHs)	With Accounts (%)	With Formal Loans (%)	Informal Borrowings in Last 12 Months (%)
Marginal (<2 acres HHs)	29.6	13.0	48.2
Small (2-4 acres HHs)	55.3	30.8	39.8
Large (>4 acres HHs)	66.1	44.4	35.9
Commercial ( Income from non-farm sources exceeding ½ of total HH income)	42.0	16.8	39.1
Others (income from land & non-farm sources but latter being less than ½ of HH income)	60.9	29.5	42.8
Total	41.2	21.0	44
Source: World Bank- NCAER Rural Finance Access Survey, 2003			

About 55% of small farmers also have accounts and about 30% have access to formal credit. More than 60% did not access informal borrowings (only 39.8% small farmers had informal borrowings) in the previous twelve months, indicating greater self-dependence. Though these farmers may not have large resources, if formal finance is made available to them they could become potential consumers for durables. Access to easy finance for the hire-purchase of durables can bring about a change in perception among small farmers regarding a number of durables like refrigerators, washing machines and two-wheelers in bringing these items into their consideration set, for owning them.

### 3.3 Consumer Finance

The financial sector reforms that were initiated in the Indian economy in the early 1990s brought with them consumer finance products. Initially, consumer finance was limited for housing and vehicles loans. The advent of non-banking finance companies (NBFCs) and private sector banks improved the scenario by inducing competition in the urban centers, in the area of durable goods financing.

Growth in the purchase of white goods(%age) per annum				
	1992-93 to 1995-96		1998-99 to 1999-2000	
	Growth in purchase of white goods	Growth in financed purchase white goods	Growth in Purchase of white goods	Growth in financed purchase white goods
Urban	21.4	19.6	17.2	17.4
Rural	23.7	20.4	22.4	39.6
Total	22.0	19.8	18.9	23.9
Source: Indian Market Demographics Report, NCAER 2002				

Rising incomes since the 1990s led to an up search in demand for consumer durables. In the city this was fueled by the easy availability of consumer finance driven by young population with access to disposable income and easy finance options, the consumer market for passenger vehicles sales crossed the 10lakh mark in 2004- 2205. Color televisions recorded a 14% value growth and the sale of washing machines grew by over by 17.3% over the previous year. In spite of poor supply of electricity and poor availability of access to finance, the rural market for white goods grew at a faster rate (22.4%) compared to the urban market (17.2%) in 1999-2000 over 1998-99. consumer finance has only recently made an entry into rural India and hence an impressive growth is over a small base of the previous year.

A fact pertinent to the rural consumers is that the farmers has never been averse to taking loans, he habitually takes loan to buy agricultural inputs or tractor purchase. However, he prefers taking loans for productive purpose rather than for consumption. Rich farmers have habitually purchased durables against payments. The salaried class, businessmen, petty shopkeepers have also been reluctant to make finance purchases.

Financial institutions and marketers of various durables have a major role to play in seeing that rural consumers overcome the mental barriers and perceptions that they have about consumer finance involving cumbersome procedures. Ending institutions need to be more active in communicating the message about the ease of getting loans under financing schemes and marketers will have to handhold consumers through the loan sanction process. From the financial institution side, the issues in rural and largely poor documentation and no standard collateral as security.

Banks in small towns have limited their portfolios to tractor financing or other productive equipment loans. It is mostly private finance companies that are giving housing and personal vehicle loans. Financing of white goods has not been given much attention even by private companies. Some dealers run their own durable goods finance schemes.

### 3.4 Sources of Credit

The sources of credit traditionally were moneylenders, who were either rich farmers, shopkeepers or a community whose traditional occupation was money lending. With the intervention of British Government in 1904, cooperative credit societies were enacted with the aim of providing easy and low cost credit. The next notable step in the direction was the nationalization of banks in 1969, when Government policies necessitated the establishment of rural branches. The next major change aimed at making credit available in rural took place in 1975, when the RRBs were established. The last major intervention was the founding of NABARD in 1982, which was mandated to refinance all rural credit and developmental funds.

Unorganized Finance	Private Money Lenders
Organized Credit Providers	Banking: Nationalized Banks, Grameen Banks, Co-Operative societies/ Co-Operative Banks. Non-Banking: Peerless, Sahara & others
Innovative Credit Systems	Micro-Finance (SHGs), Chit Funds

Even after intervention by the Government and the establishment of financial institutions, various types of credit providers co-exist in the rural. Credit providers in rural India can be classified into two groups, Organized and Unorganized.

Sources of Debt (%)	1993-94	1999-2000
Government	8.3	5.4
Co-operative societies	7.9	13.1
Employers	11.4	6.9
Banks	18.9	17.2
Moneylenders	27.6	31.7
Shopkeepers	7.3	7.1
Relatives & Friends	12.4	15.1
Others	6.2	3.5
Source: Ministry of Labour, Government of India		

Though banks, co-operative societies and Government institutions are primary source of credit in rural, private moneylenders continue to be important among credit providers.

### **Unorganized Finance**

Historically, private moneylenders have provided the much needed credit in rural India against gold, jewellery, land and house as collateral. Access to finance was informal and easy as it did not require any paper work. Money lenders are of four types:

- ☐ Rich Farmers who lend to fellow villagers and farmers.
- ☐ Village shopkeepers
- ☐ Professional moneylenders who belong to a particular community.
- ☐ Commission agents.

The agricultural marketing systems set up by the government include commission agents who help build the interface between the farmers and buyers. While the Government procures some of the agri products from the farmers for its food reserves, the remaining produce is sold through commission agents called artiyas. Over the years, these artiyas have become private financiers of the farmers for the productive and consumption needs of the lender, thereby ensuring that the farmers sell their products only through them.

Some artiyars have set up their own agri inputs outlets in the mandi from where the supply seed and fertilizers to farmers on credit. This system has established its own cycle of financing and repayment separate from the institutional structure of the government. The private moneylender continues to exist (despite the availability of banks) because:

- ☐ He gives credit for productive/ non-productive purposes for both the short-term and long-term requirements of farmers without much documentation.
- ☐ He is accessible and maintains a close and personal contact with the borrowers often having relations with the family extending over generations.
- ☐ The business module is simple and elastic.
- ☐ He has local knowledge about the borrower and therefore adopts methods to protect him against defaults.

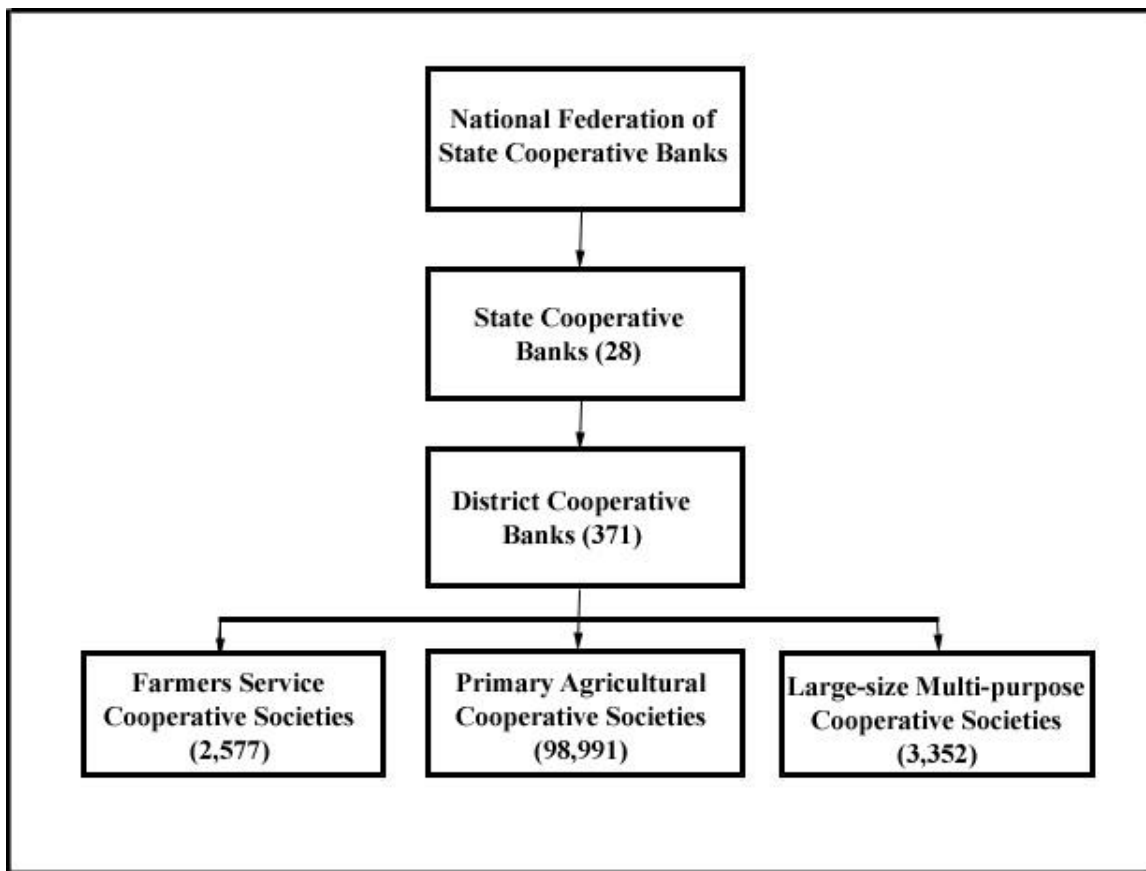
### **Organized Sector**

Rural finance in the organized sector has been spearheaded by the co-operatives, commercial banks and RRBs under Government programs to provide timely, cheap and adequate credit, to benefit small and marginal farmers and the weaker sections of the society.

The co-operative credit system was introduced by the British government in 1904, it played a crucial role in the dispensation of credit for agriculture and rural development. With a wide network extending even to remote villages, the system has been meeting the credit requirements of farmers and artisans through co-operative societies.

Primary agricultural co-operative societies were set up under the Co-operative Credit Societies Act, 1904, as thrift and savings societies to help farmers generate their own funds. A society can be formed with ten or more persons who raise capital for the purpose of giving loans and supporting the essential activities of the members. PACS have a mandate to supply agricultural inputs and services to members at remunerative prices and also assist in arranging for improved irrigation on land.

### Network of Agricultural Co-operative Societies



There were about one lakh PACS in the country at the end of March 2002, having deposits of Rs. 14845 crores, the cumulative borrowings of members was Rs. 29475 crore.

<b>Direct Institutional Credit for Agriculture &amp; Allied Activities: Short-Term Loan Issues (Rs. In crores)</b>			
<b>Year</b>	<b>Cooperative Banks</b>	<b>Scheduled Commercial Banks</b>	<b>Regional Rural Banks</b>
1990-1991	3,448	2,048	125
2000-2001	12,315	10,704	3,095
2001-2002	12,923	12,661	3,810
<b>Source: RBI Bulletin, 2003</b>			

They are associated with 371 co-operative banks and channel credit to there members. The PACS members also access the co-operative bank for loans to buy tractors and agricultural implements which require higher investments.

<b>Scheduled Commercial Bank Branches</b>				
<b>Year</b>	<b>1969</b>	<b>1980</b>	<b>1993</b>	<b>2003</b>
Rural	1,833	15,105	35,389	32,303
Semi-Urban	3,342	8,122	11,465	14,859
Urban and Metro	3,087	9,192	14,315	19,373
Total	8,262	32,419	61,169	66,535
<b>Source: CMD, Indian Bank in FICCI Rural Marketing Summit, Mumbai, 5-6 October 2004.</b>				

The nationalization of banks resulted in many new branches being opened in Rural India under directive from the Government of India. This was a process aimed at extending the formal credit for agricultural and allied activities in rural areas. Out of the 66,500 branches of nationalized commercial banks as many as 32,300 i.e. 48% are in rural India.

Due to the low penetration of the commercial banks in rural areas and poor rural reach, the RRBs emerged on the rural credit scene in 1975 to meet the credit needs of small and marginal farmers and the weaker sections of the society. In order to meet the growing demand for production and investment credit for agriculture and rural development activities, the RRBs have expanded their coverage to 14,506 branches of 196 RRBs as on 31<sup>st</sup> March 2004.

70% of the loans from the RRBs have one to the priority sector lending. Agriculture alone absorbed 46% of the priority sector advances. As on 31<sup>st</sup> March, 2002, the outreach of RRBs, in terms of the number of deposits and advances, was 5 crores and 1.2 crore respectively. The clientele for loans and deposits in the rural sectors is large in number but low in value.

Commercial banks, including RRBs, provide both short and medium term loans for agricultural and allied activities, while the co-operative societies/ banks provide loans for agriculture only.

### **Non- Banking Financial Institutions**

Non-Banking financial institutions like peerless and Sahara have tapped the rural and small town markets for deposits. They point educate rural youth from the same locality as agents and ensure that they are sensitive to local sentiments and culture. These agents approach families individually, suggest a suitable scheme, help in filling of documents and deliver receipts.

These institutions initiated the system of daily and weekly system under which the agents collect a small amount from the daily or weekly earnings of the daily wage earners or petty traders. These door-to-door services could bring these households into the formal savings instruments that the banking instruments have failed to tap.

These institutions have flexible recurring and fixed deposit schemes, which offer interest rate highest than post office and bank savings rate.

The savings products also offer additional benefit like death plans and scholarship schemes. Under one, Sahara death plan, the nominee gets twice the maturity amount in case of the early death of the insured.

The above mentioned formal financial institutions have popularized formal savings, replacing the traditional investment in land and gold. These institutions have revealed the potential of banking among rural people who have till now been ignored by the regular banking institutions.

## **4. Researching consumer finance**

### **4.1 Introduction**

Indian rural market is very large and diverse. It grows at the rate of four percent and introduces 1.2 million new consumers every year. In India 620 million rural populations, living in 6.25 lakh villages use the services of 36.98 lakh rural retail outlets. Consumer finance is that part of financing that provides monetary assistance to buy consumer goods and services. It is one of the potential areas of growth. It indirectly helps in the increase in the sales of consumer durables. Companies are easily using consumer financing as marketing tool. It helps as an incentive to consumers to upgrade their products goes in for multiple product options. With payment being phased over a few months, it is more manageable for a household compared with a one time payment.

The friendly financial schemes have increased off-take for both consumer electronics and consumer durables in urban and semi-urban areas. There is flexibility in term of spreading payments over a time, in turn making it much easier. In fact, it is a win-win situation for all concerned- consumer, dealer, manufacturer, as well as financial institutions. NCAER, 2003 reported that the growth in purchase of white goods that were financed is significantly higher than those, which have not been financed. Rural demand for white goods grew 22.40 percent in 1999-2000, whereas the growth of financed white goods was 39.60 percent. With more communication targeted at rural market, the demand can be satisfied only when sufficient funds are available. Providing consumer loans with terms and conditions that satisfy the consumers would increase the demand for consumer finance. If the promotions were made after understanding the mind set of the consumer, it would bring better results. Banks have come up with many kinds of consumer loan schemes to attract the consumers. The interest rates are also competitive. So the consumer finance sector is a potential area of growth in rural market and can be looked upon for better results in the future.

An attempt was made to study the awareness and willingness to avail consumer finance on purchasing the durable in rural households of Chandepura (U.P).

### **4.2 Objective of the Study**

1. The major goal is to make sure that people in rural areas, especially those who are already disadvantaged, have easier access to financial services. In order to empower individuals and promote economic growth, it is necessary to increase the reach of banking services, encourage savings habits, and make credit and insurance products more accessible.



2. The effectiveness of financial services programmes depends on the credibility and trustworthiness that are established within rural communities. Promoting open and honest communication, showing that we care about social issues, and establishing trustworthy, long-term relationships with our customers are all goals in this area.
3. Promoting responsible financial behaviour and reducing risks associated with financial transactions requires educating rural customers about financial concepts and products. Personalised guidance, easily accessible educational materials, and financial literacy programmes are all part of the plan to help consumers make smart choices.
4. The end goal is to generate long-term growth by making rural areas a good place to get financial services. Building partnerships with local stakeholders to generate value and assure long-term sustainability, creating innovative products and delivery channels that are customised to rural needs, and utilising technology to overcome infrastructure challenges are all part of this process.

#### **4.3 Research Methodology**

To evaluate the objective of the study Chandepura village was selected. 80 people from the village were selected at random. Primary and secondary data was collected with pretested interview schedules. Percentage analysis was used to study the socio-economic character like age, education and rural income of households.

- ☐ **Research Design:**  
Exploratory cum Descriptive study have been adopted.
- ☐ **Sampling:**  
Simple Random Sampling has been adopted.
- ☐ **Sample size:**  
Chandepura: 80
- ☐ **Sample unit:**  
Rural Consumers

#### **4.4 Data Collection Method:**

- ☐ Structured questionnaire was designed for collecting data.
- ☐ Personal interview is conducted for collecting information.

#### 4.5 Hypothesis

**1.Hypothesis:** Limited access to formal banking institutions in Chandepura leads to a higher reliance on informal lending sources.

**A. Null Hypothesis (H0):** There is no significant difference in reliance on informal lending between Chandepura villagers with access to formal banking institutions and those without access.

**B. Alternative Hypothesis (H1):** Chandepura villagers without access to formal banking institutions exhibit a higher reliance on informal lending sources compared to those with access.

**2. Hypothesis:** The lack of financial literacy programs in Chandepura results in low awareness about savings and investment opportunities among villagers.

**A. Null Hypothesis (H0):** There is no significant relationship between the availability of financial literacy programs and awareness about savings and investment opportunities among Chandepura villagers.

**B. Alternative Hypothesis (H1):** Chandepura villagers with access to financial literacy programs demonstrate higher awareness about savings and investment opportunities compared to those without access.

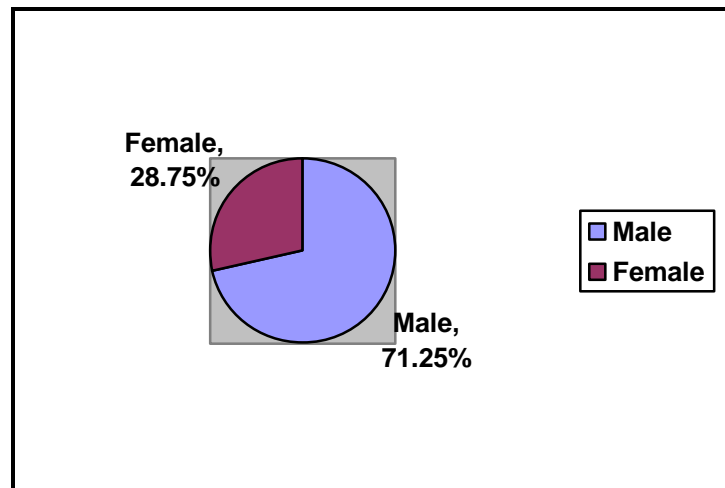
## DATA ANALYSIS

### 4.5 Demographics

#### Sex

n=80

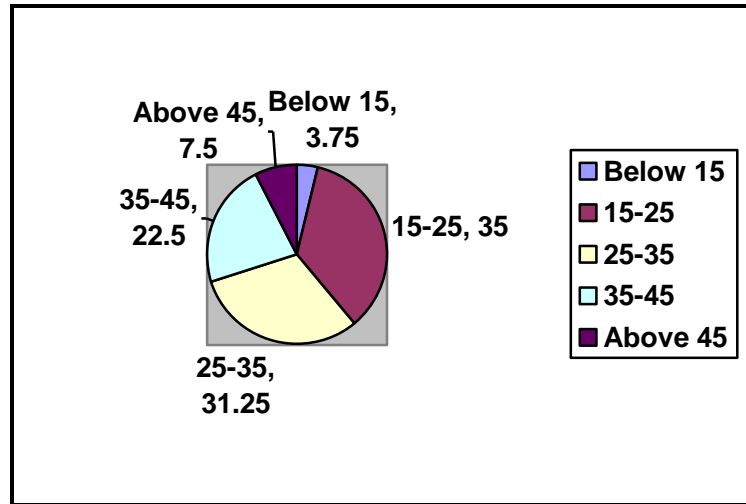
Respondents	Frequency	%
Male	57	71.25
Female	23	28.75



#### Age

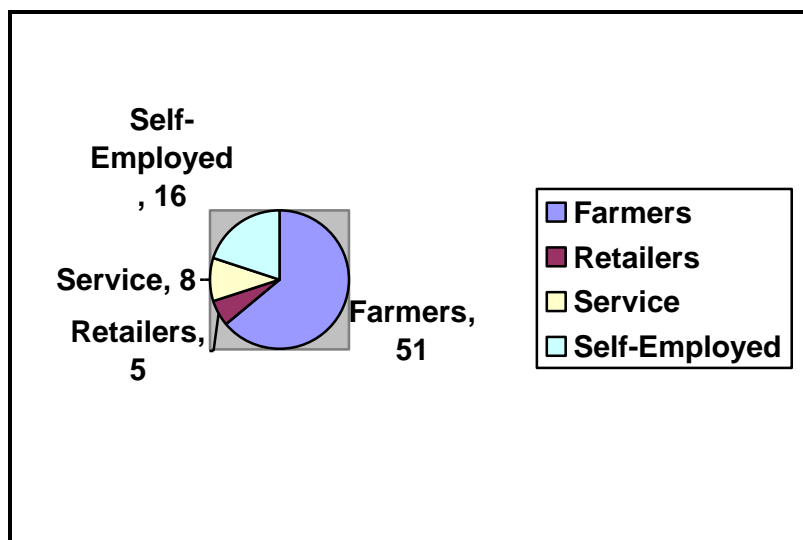
n=80

Responses	Frequency	%
Below 15 years	3	3.75
15-25	28	35
25-35	25	31.25
35-45	18	22.5
Above 45	6	7.5



### Occupation

	n=80
Responses	Frequency
Farmers	51
Retailers	5
Service	8
Self Employed	16



## 4.6 Findings

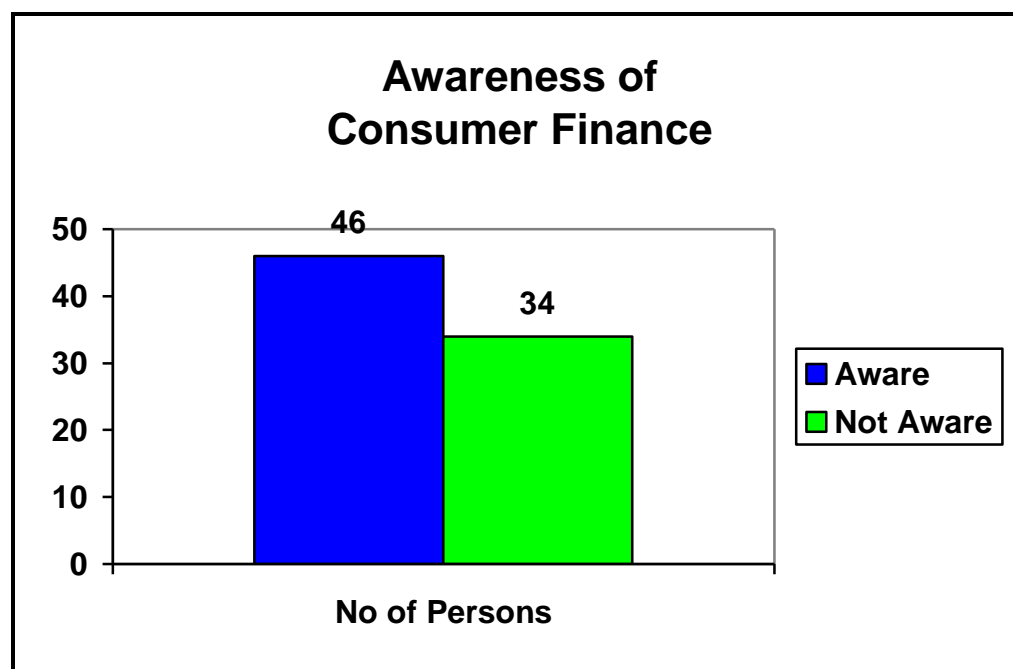
### Awareness of consumer Finance

It is inferred from Table 1, that 52% of the sample respondents were aware of consumer finance, indicated scope for further potential. 48% of the sample respondents were not aware need aggressive communication.

**Table 1: Awareness of Consumer Finance**

**n=80**

Serial No.	Details	No. of persons	Percentage
1	Aware	46	57.5
2	Not Aware	34	42.5
	Total	80	100



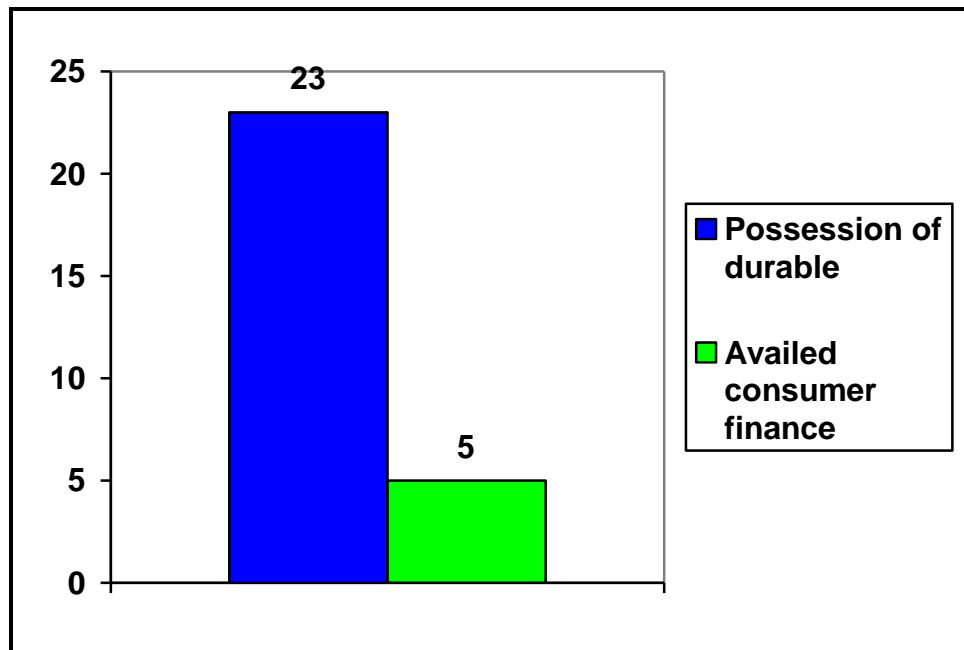
### Possession of Durables

It is quite clear from the table below that 28.75% of the sample respondents possessed a durable like a television, mixer grinders, and vehicles etc. 6.25% of sample respondents and the persons who owned durables availed consumer finance from the banks. This indicated that there is huge potential of durable and institutional consumer finance in rural market.

**Table 2: Possession of Durables & Accessibility of Consumer Finance**

N=80

Serial No.	Details	No. of Persons	Percentage
1	Possession of durable	23	28.75
2	Availed consumer finance	5	6.25

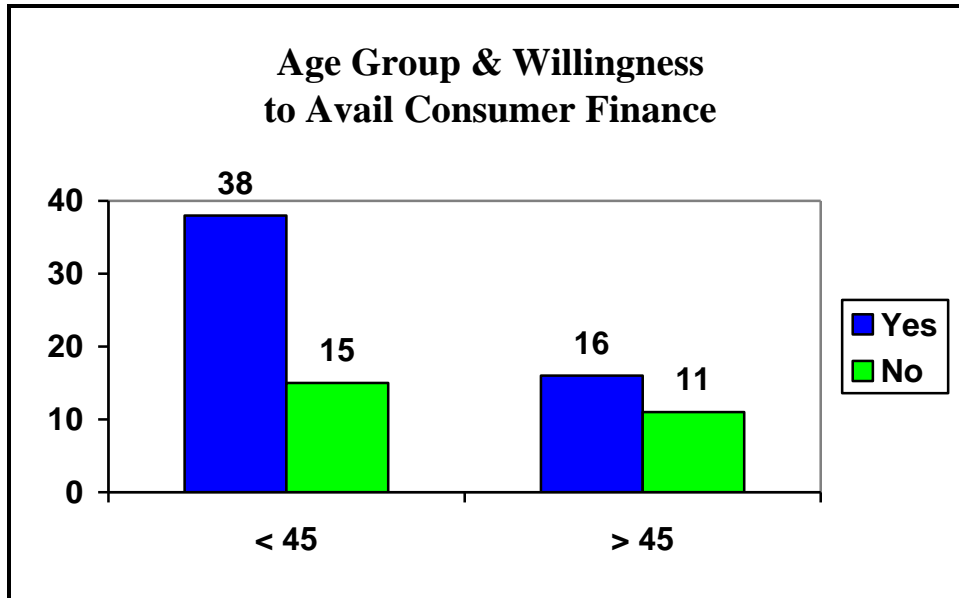


### Willingness to Avail Consumer Finance

It could be seen from the table below that 67.5% of the respondents who were aware of consumer finance, willing to avail the same. It was interesting to note that a higher percentage 47.50% of young people is willing to avail. It indicated the changing perceptions of people on consumer finance and willingness to avail the consumer finance.

**Table 3: Age Group and Willingness to avail Consumer Finance**

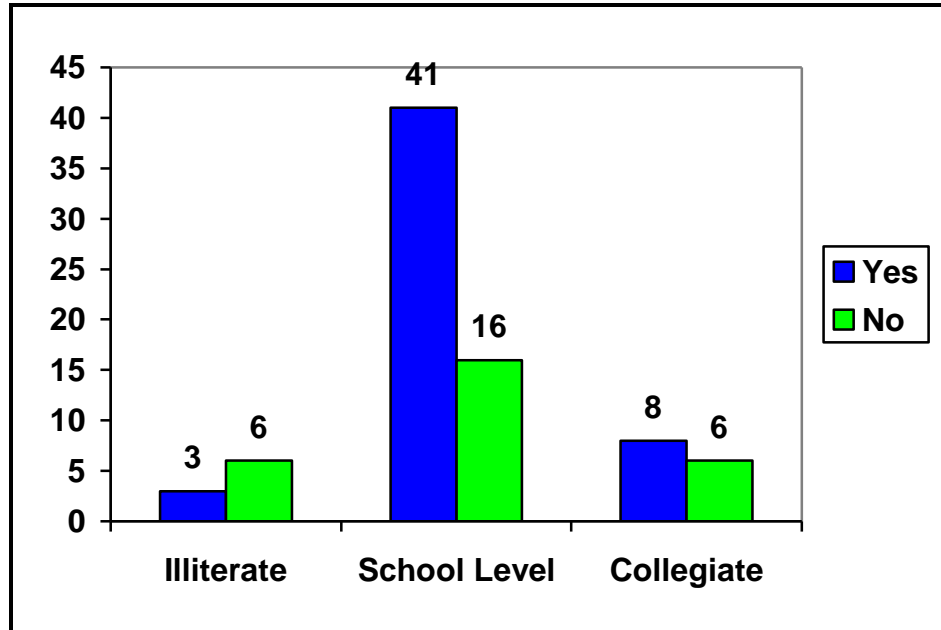
Serial No.	Age	Willingness		
		Yes	No	Total
1	< 45	38 (47.5%)	15	53
2	> 45	16	11	27
	Total	54 (67.5%)	26 (32.5%)	80



It can be observed from table 4 that maximum respondents 51.25% who are willing to avail had school education. It was also interesting to note that 17.5% of the sample respondents had collegiate level of education, of which more than 57.14% of them are willing to avail consumer finance.

**Table 4: Educational status and Willingness to avail Consumer Finance**

Serial No.	Educational Qualification	Willingness		Total
		Yes	No	
1	Illiterate	3	6	9
2	School level	41	16	57
3	Collegiate Level	8	6	14
		52	28	80

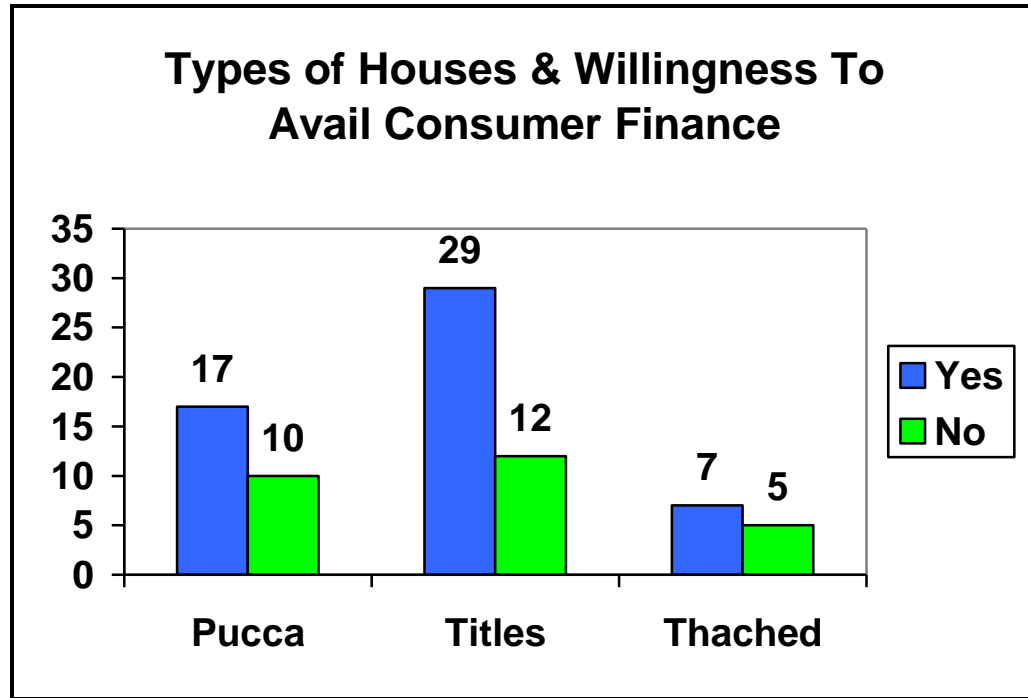


It is inferred from the table below that 36.25% of the household with tiles house are willing to avail consumer finance.

**Table 5: Type of House and Willingness to avail Consumer Finance**

Serial No.	Type of House	Willingness		Total
		Yes	No	
1	Pucca	17	10	27
2	Tiled	29	12	41
3	Thached	7	5	12
	Total	53	27	80

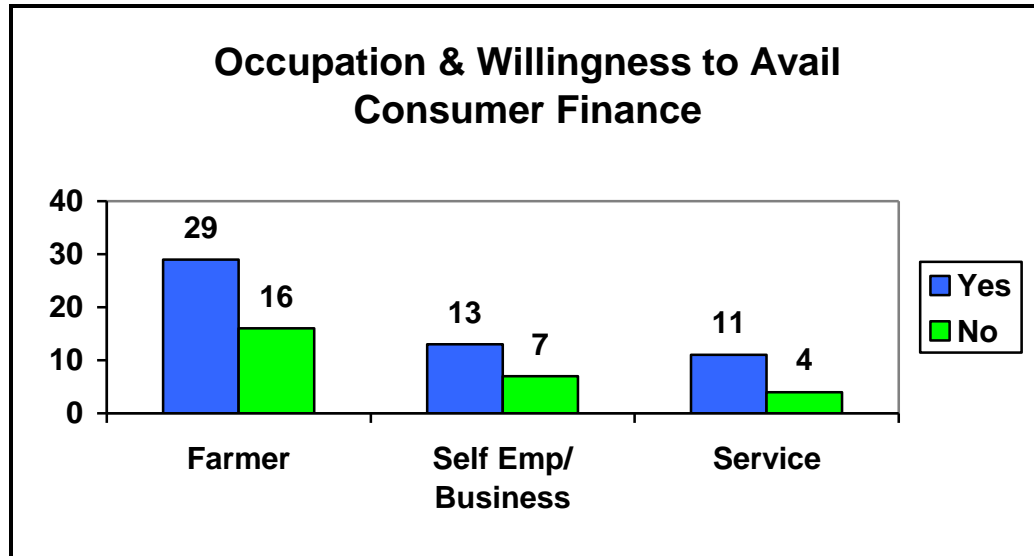




Occupation and willingness to avail consumer finance is analyzed and presented in the table 6 below. The analysis revealed that agriculture is the dominant occupation 56.25% followed by business 25%. The people belonged to service was 18.75% of which 13.75% are willing to avail consumer finance.

**Table 6: Occupation and Willingness to avail Consumer Finance**

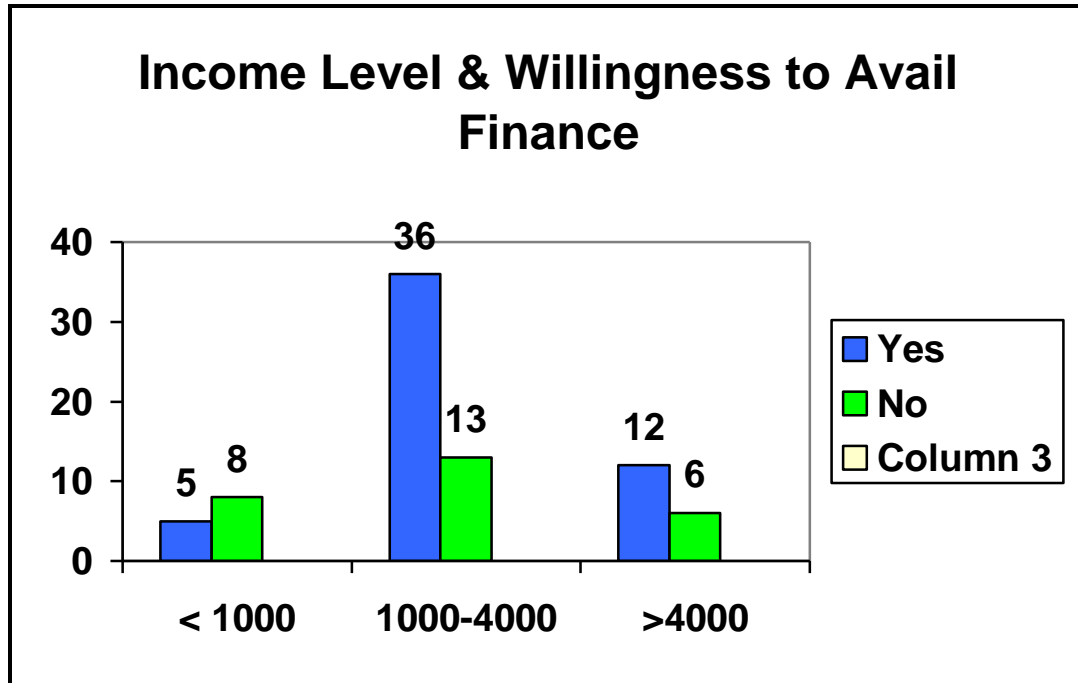
Serial No.	Occupation	Willingness		Total
		Yes	No	
1	Farmer	29	16	45
2	Self Employed/ Business	13	7	20
3	Service	11	4	15
	Total	53	27	80



It was observed from table no 7 that, 61.25% of the rural households were receiving income of Rs. 1000 to Rs. 4000 per month

**Table 7: Income Level and Willingness to avail Consumer Finance**

Serial No.	Income Level	Willingness		Total
		Yes	No	
1	, Rs.1000	5	8	13
2	Rs( 1000- 4000)	36	13	49
3	>Rs. 4000	12	6	18
		53	27	80

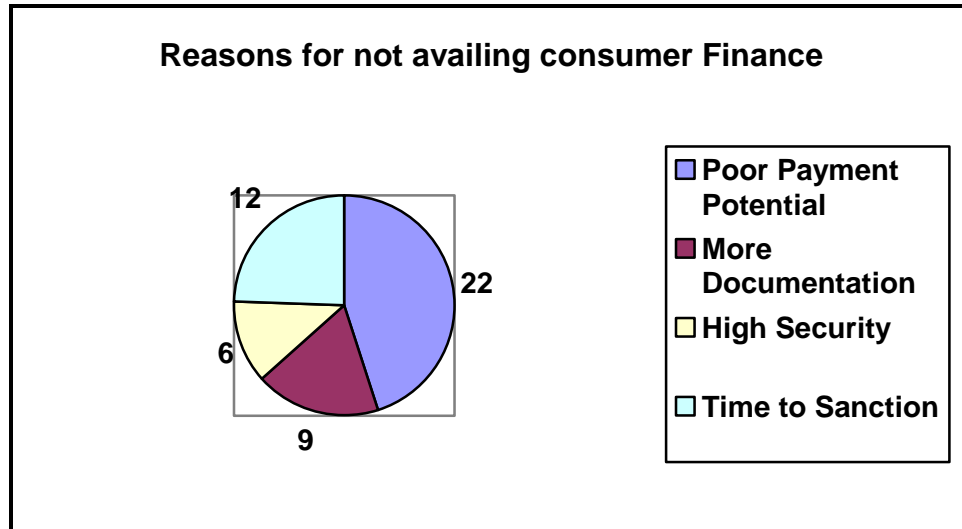


#### Reasons for not availing Consumer Finance

The reasons for not availing Consumer finance is analyzed and talked in Table no. 8. It could be seen from the table that 44.9% of the respondents who are aware but not willing to avail because of poor prepayment potential. Mode documentation 18.4% and high security 12.2% followed it.

**Table 8: Reasons for not Availing Consumer Finance**

Serial No.	Reasons	No. of Persons	Percentage
1.0	Poor Repayment Potential	22.0	44.9
2.0	More Documentation	9.0	18.4
3.0	High Security	6.0	12.2
4.0	Time to sanction	12.0	24.5
	Total	49.0	100.0



### Opinion about banks on Consumer Finance

Opinion about the bank finance is analyzed in table 9. It is found that demanding high security was ranked as the foremost important constraint in availing consumer finance. The next was the repayment period. Paper work and the delay in sanction were ranked as third and fourth followed by recovery procedures.

**Table 9: Opinion about banks on Consumer Finance**

Serial No.	Opinion	Average Score	Rank
1	High Security	78	I
2	Repayment Period	64	II
3	Paper Work	52	III
4	Delay in Sanction	49	IV
5	Recovery Procedure	40	V

### 4.7 Suggestions

More number of installments of loans with floating rate of interests would be considered to penetrate in the rural market. People who repay the loan at the right time should be given an incentive. The corporate which vision for rural marketing can use optimum mix of consumer finance policies of the banks and sales strategy for specific product based on socio-economic factors and infrastructure of rural banks.

### 5. Limitations

In this new competitive environment of globalized trading practices, the marketing of financial services posed the following challenges to the service sector in the market place:

- ☐ Deregulation in the financial service sector has given rise to emergence of various spurious companies and many mal practices. This has badly affected the marketing practices of financial service sectors.
- ☐ Increased competition from global and domestic players has led to saturation in the market, thus generating a need to tap the rurals.
- ☐ Integration of rural markets and growing volumes of financial transactions.
- ☐ Coping with advanced information and technology in the marketing function.
- ☐ High level of volatility in the financial markets.
- ☐ Increased sophisticated consumer demands.

### **Conclusion**

The road ahead is definitely strewn with challenges. Scaling up of projects and bringing in millions of people within the fold of microfinance is no mean task. The most convincing feature of this form of financing is the near-perfect repayment rates. The biggest challenge faced by these units is the development of investment potential and improvement of skill levels of the borrowers. A glut of low skilled services is an unwelcome substitute for scarcity of credit. As micro credit alleviates the credit availability problem, the need for micro-consulting, business planning and services like marketing, are being felt with greater acuteness. Micro credit cannot be expected to be a panacea to rural developmental problems. In some sense, its role is similar to that of credit in the general economy. It is a string that can hold back progress, but it is almost impossible to push on a string. There is a very real need of investments that yield higher returns than the sustainable microcredit interest rates for the microcredit initiative to be truly successful.

However, so far the evidence – largely anecdotal – points to the several beneficial side-effects of microcredit. In particular, empowerment of women and the inculcation of financial training and discipline amongst the poor will undoubtedly have long-term socioeconomic benefits. The principles of self-help and microcredit thus hold the key to economic and socio-cultural freedom for India's millions of poor, opening the gates of a hitherto untapped reservoir of human enterprise.

Doubtlessly, a lot needs to be accomplished in terms of outreach to make a serious dent on poverty. However, the logic and rationale of SHG-based microfinance have been established firmly enough that microcredit has effectively graduated from an “experiment” to a widely-accepted paradigm of rural and developmental financing in India. This is no mean achievement. In fact to the extent that people's mindsets are the biggest roadblock in the success of an innovation, it may well be one of the most important steps in the saga of microfinance.

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