

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Rural Entrepreneurs as Intermediary Entrepreneurs – A Promising Vehicle for Business and Economic Growth

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Abstract:

Economic development of a country is a choice loaded on its people. It is individuals who shape up a society and decide its progress and performance. Urban and rural are two sides of the same coin of economic development. Whereas the urban sector has always interested the corporate(s), lately it has been the rural sector which has shown a huge increase in the level of interest shown by the companies. The reasons for this are many and not discussed in the paper. This paper tries to establish a link between entrepreneurial activity and the rural economic development. It then identifies Pharmaceuticals, FMCG, Consumer Durables, Mobile Telecommunications and Life Insurance as specific industries where entrepreneurial opportunities are more intense. Further it builds on the positive correlation between economic development and the level of entrepreneurial activity and emphasizes on giving more thrust on the same especially in the rural context. The paper finally delves on the kind of entrepreneurs needed in this regard, who can actually explore and exploit the perceived business opportunities existing in these sectors for the overall economic development. The paper concludes by raising the immediate concerns to develop such intermediary entrepreneurs in the rural areas who can actually steer the economic development of the rural community and the country thus.

1. Introduction

Rural marketing is catching up fast in the corporate world. As urban markets mature and reach saturation, companies in various sectors are making a beeline for the rural markets. Already 53% percent of the FMCG revenue and 59% of the revenue for consumer durables comes from the rural markets. Market research firm Nielson expects India's rural FMCG market to reach a size of US\$ 100 billion by 2025. Another report by Mckinsey Global Institute forecasts the growth rate of annual real income per household in rural India to accelerate to 3.6% in 2025, from 2.8% in the last 20 years. Companies across sectors from the likes of HLL, Coke, Whirlpool, to Zee Turner to LG & Samsung to LIC and Bajaj Corporation are all heading for the rural markets. But it is still strange that there is no proper definition of rural market for business purposes in India, till date. According to the 2011 census of India still 68.84% of the total population in India is classified as rural population. But again the census does not define the term 'rural'. It only defines what is 'urban'. As per the census definition an urban unit includes an entire area that comes under the limits of Municipal Corporation, has more than 5000 people, 75% of the population of such an area is engaged in non agriculture related economic pursuits, and the density of population is at least 400 per square kilometer. Accordingly, the census says that anything which is not urban is rural. This definition may thus lead to interpret that any economic pursuit related with agriculture comes under rural and vice versa. Though the definition further classifies the agriculture related economic pursuits also, but it still lacks clarity in classifying as to what is rural in case it is not related to agriculture.

The above definition might work for the purpose of census but it does not really work for commercial purposes. A well conceptualized and systematically explained definition is thus needed for the business prospects in rural areas. The OECD has developed a typology of urban and rural areas based on three criteria: population density, percentage of people living in rural communities, and the size of urban centers which are used to identify three regional types:

1. Predominantly rural regions, in which more than 50% of the population live in communities with a density below 150 inhabitants per sq. km.
2. Significantly rural/intermediate regions, in which between 15-50% of the population live in communities with a density below 150 inhabitants per sq. km., or the existence of an urban centre of 200,000 or more, representing 25% or more of the population is found in an otherwise predominantly rural region.
3. Predominantly urban regions, in which less than 15% of the population live in communities with less than 150 inhabitants per sq km.

To further explain Peripheral rural areas are characterized by remoteness from major markets; depopulation; infrastructural deficiencies; and high dependence on land-based activities. Accessible or more central rural areas, by contrast, typically have higher population densities; closer proximity to markets; less dependency on agriculture; and a more diversified economic base (Meccheri and Pelloni, 2006). These variations between rural areas raise the definitional issue of what constitutes "rurality". In Europe, some authors have questioned whether it continues to make sense to speak of distinctly "rural" societies, in view of the changes that have

occurred in recent decades (e.g. Perrier Cornet and Hervieu, 2002). At the same time, other authors have emphasized the remaining shared characteristics of Europe's rural areas, in terms of low population density and the economic, social and symbolic significance of natural resources (Ferraio and Lopes, 2004). Referring to USA, Shields (2005) defined rural areas as, non-metropolitan areas, exhibiting low population density and low densities are commonly incorporated into most statistical definitions of rural areas.

Though agriculture contributes less than 1/5th of India's GDP, the rural market contributes to approximately 50% of the country's GDP, and still more than 60% of the rural market is still untapped, but what is missing is a clear definition of rural market. However, there is no doubt regarding the vast opportunities available in the rural market for the corporate world. The main issue here lies in how to develop the rural markets so that optimum benefits are derived not only by the companies but also by the rural consumers, and all this must take place along with the overall economic development of the rural area. Companies might be more interested in their net profits or business revenue whereas this might be just one of the several factors on which the overall economic development depends.

It is here that the role of an entrepreneur sets in. An entrepreneur is needed who must be a strategist with an overall long-term vision for the economic benefit and development of rural community as a whole. In order to understand the role played by entrepreneurs in developing an economy it is first important to understand the concept of entrepreneurship. The most appropriate definition for entrepreneurship in the rural context must take into account the skills needed to improve quality of life for individuals, and to sustain a healthy economy and environment. Hence the most appropriate definition of entrepreneurship is 'a force that mobilizes other resources to meet unmet market demand (Jones & Sakong, 1980); the ability to create and build something from practically nothing (Timmons, 1989); and the process of creating value by pulling together a unique package of resources to exploit an opportunity (Stevenson, et al, 1989). A series of international studies done under Global Entrepreneurship Monitor, with several countries participating in it indicate a strong and positive correlation; 0.7, between economic development of nations and the level of entrepreneurial activity there. It also says that countries with active and dynamic entrepreneurial communities achieve stronger economic performance. All this stands true for rural environment as well and thus the need for entrepreneurs in the rural area.

With regards to determinants of Entrepreneurship, in addition to individual and social determinants, entrepreneurship can be simulated through a set of supporting institutions and through deliberate innovative action which stimulates changes and fully supports capable individuals and groups. This has important implications for entrepreneurship development in rural areas. If entrepreneurial activities in a given rural area are not thriving it does not mean that entrepreneurship is something inherently alien to rural areas, however deliberate innovative action by the Government or corporates can actually kick start it.

Entrepreneurship orientation in rural areas is based on stimulating local entrepreneurial talent and subsequent growth of indigenous companies. This in turn would create jobs and add economic value to a region, as well as keep scarce resources within the community. According to Petrin (1992), to accelerate economic development in rural areas, it is necessary to build up critical mass of first generation entrepreneurs.

2. The Entrepreneurship Opportunities in the Rural Sector

The hinterlands in India consist of about 6.5 villages. These villages are inhabited by about 850 million consumers making up for about 70 percent of population and contributing around half of the country's gross domestic product. Consumption patterns in these rural areas are gradually changing to increasingly resemble the consumption patterns of urban areas. Owing to a favorable changing consumption trend as well as the potential size of the market, rural India provides a large and attractive investment opportunity for private companies. From an extensive literature survey five main sectors in the URBAN TO RURAL MARKETING have been identified where companies are going to go in a big way; because of a variety of reason such as saturation of urban consumer markets, increase in competition and even mandatory government rules for some sectors such as insurance, which are directed by the IRDA to do some minimum percent of business in villages. The sectors where huge entrepreneurial opportunities lie are thus mainly; FMCG, Pharmaceuticals, Consumer Durables, Mobile Phones (both GSM and CDMA) and Life Insurance. Several companies have already started with their strategies in all these sectors. It is these very sectors where unique, vast and strong entrepreneurial opportunities are concealed. Companies like Reckitt Benckiser, Bajaj Corporation, Mahindra & Mahindra Financial Services Ltd., Tata Sky, Tata Motors etc. are all strategizing to get a foray in the rural markets by rethinking their marketing strategies.

Of the various constituents of the marketing mix; product, price, place and promotion; product, price and promotion all require different marketing strategies for the rural consumers. For that matter even the fourth 'P', place requires that but the difference is that in the case of former three, power lies in the hands of the companies whereas distribution and logistics is a weak area for them. Penetration and reach to the end rural consumer is thus difficult for them as no readymade sophisticated vehicles such as advertising and structured distribution network is actually in place. Companies devise their own independent strategies and systems but the overall cost and efficiency is still a big issue for them to settle.

Hindustan Lever Ltd. which is regarded as the doyen of rural marketing for FMCG products started various programs such as Operation Bharat, Operation Streamline, and Operation Shakti as a part of its rural marketing drive. These initiatives are still in progress and are quite successful but even for a company like HLL, which is the oldest in rural marketing and has a powerful distribution network; distribution is still an area where it faces great difficulties.

3. Requisites for a Rural Entrepreneur Guaranteeing Overall Development

If an entrepreneur enters here (especially for the specified sectors in the beginning) he will actually link the companies to the rural consumer. Although he would need to develop a sound system but he must activate and involve the local rural people for that. He must be a man of vision who could safeguard the economic interests of the rural consumers, company and the development of the area. This is not to say that he must not have any personal interests instead his personal interests must be on these lines.

Several scholars such as Mc Clelland and Timmons have emphasized upon the necessary qualities that an entrepreneur must possess. In the given context the person who would act as an entrepreneur must necessarily have the following qualities; he must have a strong will to take up the cause, have a foresight and vision for the overall economic development of the community, be internally and emotionally strong ready enough to face the harshness and difficulties of life, must have commitment and determination to stick to the purpose, have the capability to take calculated risks, must display a strong leadership, possess perceptive power and obsession for opportunity, have a tolerance for risk, ambiguity and uncertainty, must have creativity, self-reliance and ability to adapt to situations, and have motivation to excel. In addition to all this he must have the ability to identify strategic relationships and network with various parties apart from the companies, such as the NGOs (Non – Government Organizations) and the SHGs (Self Help Groups). At this point it is very important to understand that entrepreneurship must be viewed here as a social process and not a personal activity.

4. The Need of the Hour

Mc Clelland has suggested that entrepreneurs are generally people with high need of achievement. The need of the hour thus calls for such individuals and not just commercial organizations (which would in any way head for) to move towards the villages. Literature identifies that even entrepreneurs can be classified and organized into various classes; such as potential entrepreneurs, aspiring entrepreneurs, active entrepreneurs and EGCs (Entrepreneurial Growth Companies). The EGCs exhibit the highest order of entrepreneurial activity and are the most contributory towards economic development. But to reach that stage of EGCs we as a country need to start with potential entrepreneurs especially in rural areas. Potential entrepreneurs are primarily youth who given a supportive environment, can acquire motivation and capacity to engage in entrepreneurial activity (Macke, 2001).

For the entrepreneurship opportunities in these sectors we thus need educated people, youth preferably with a clear sense of purpose and logic to move from the cities to villages to take up the task. Such entrepreneurs will enable empowerment for all and not just companies, middlemen, brokers or distributors. The primary concern thus at hand would be in making the youth aware of the potential in the rural area, and motivate them to take up the task here, since the present trend indicates that even the students who hold degrees in agriculture and allied activities want to migrate to the corporate world. They can indeed migrate to the corporate world but instead of serving urban markets they can take on the rural markets. Since these professionals would be more exposed and sensitive to the need of the rural community and might be able to provide better insights to the corporate(s) addressing the rural markets. This would in turn even utilize their past education which would else go unproductive, and thus align their personal progress with the country's progress.

Corporates are also awakening to the need of such rural entrepreneurs so as to ensure enhanced reach in the rural areas. Tata Motors, has added an indirect channel to augment its existing dealer network. Since 2010 the company has hired and trained local residents to become Tata Motors *gram mitras* ("village advisers"), who work on commission to generate leads for existing dealers' sales teams. Supplementing its direct dealer channel in this way has substantially increased the sales of Tata Motors' small commercial vehicles (SCVs) in the rural areas. After piloting the program in six states, the company is now rolling it out nationally.

Telecom service provider Idea Cellular, have found cost-effective ways to build entirely separate rural sales forces. To replicate its urban direct-distribution model, Idea has recruited and trained some 4,000 youths (named "sons of the soil") who reside in the villages near its cell towers. To extend its reach even further, Idea supplements these local workers with traveling *grameen pratinidhis* (Village representatives) who need extra income and are already visiting remote villages on business of their own.

Vodafone India has set up a network of mini stores known as *laal dukaan*, or "red stores," for the color of Vodafone's logo. The shops are run by locals who've invested Rs. 35,000 to Rs 50,000 to open them. They are designed to meet all the telecom needs of customers within an 18 to 32 kilometer radius, from sales to connectivity to technical support. The network has been so successful that the 94 million rural subscribers served by nearly 5,500 red stores now constitute 60% of Vodafone's customer base.

Banking services firm FINO PayTech has established a network of more than 38,000 self-employed *bandhus*, or banking correspondents. FINO provides them with appropriate technology and pays them a fee to take over banks' front-end operations—to perform the due diligence in such services as lending money, opening accounts, and providing insurance and remittances for rural customers. On average, the *bandhus* earn Rs. 2,000 to Rs. 3,000 a month in supplemental income while serving more than 76 million customers in 26 states.

5. Conclusion

Discussions in the paper have established that rural connect of the companies have shown encouraging outcomes in terms of increasing their market share & base along with growing sales revenue. In addition, it has created a spectrum for enterprising rural people, especially youth with necessary skills and entrepreneurial acumen, to enhance their earnings. Rural people lack in capital and other perquisites to launch large scale enterprises such as establishing manufacturing unit or starting independent services enterprises. But, they can easily assume the role of intermediary entrepreneurs, i.e., they can start and manage trading and service provider units as a channel partner of large companies. Once rural people excel in business operations and start earning enough to invest and take risks, they may be able to start their own and independent venture in their own vicinity which is likely to encourage more people to join the process. Thus, it is beneficial for both companies and rural people to widen and deepen the rural connect of large business houses. Moreover, various initiatives taken by the present government to support skill development and entrepreneurship at mass scale provide apt environment for development of rural entrepreneurship.

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