Chapter I

Introduction
CHAPTER I
INTRODUCTION

1.0 PREAMBLE

Gone are the days of manufacturers dominating the market scene. The globalized era has witnessed an increased supply of goods has resulted in a swarm of products entering into the market with a stiff competition among the producers in marketing their products with product innovation, pricing strategies followed. This has resulted in the conversion of the manufacturer led market to the consumer driven market. The consumers while entering into the market goes with a set of expectations and they are tempted to purchase that product or brand that satisfied their expectations. In this context, it can be noted that the expectations about the product are determined by a host of factors that include the socio-economic and demographic factors. Given the differences in the socio economic and demographic status between the rural and urban households logically it is expected that the factors influencing the preference for consumer durables is also to be significantly different. However, as predicted by the psychologists, the preference factors are not constant as the psychology of the consumers is ever changing. In the present study it is attempted to examine the Consumers’ preference for consumer durables in the context of rural and urban households of the district of Coimbatore, a district which is industrially well developed and has a major share of the population as the rural inhabitants.
1.1 RURAL MARKETING

1.1.1 MEANING OF RURAL MARKETING

Rural marketing is promotion of a company's products in the rural market by using strategies which differ from that of urban market, the rural market is more price sensitive but it has preference for quality.

1.1.2 RURAL MARKET: THE REVOLUTION IN MARKETING

The Indian growth story is now spreading itself to India's hinterlands. Rural India, home to about two-third of the population of the country, 1,145 million has not witnessed any increase in their income but also in consumption and production.

The recent interim Budget's focus on extending the National Rural Employment Guarantee Act (NREGA) to all states with a US$ 5.83 billion outlay for 2009-10 would benefit the rural economy as industry and services tend to have a better employment multiplier compared to the agriculture sector. According to a National Council of Applied Economic Research (NCAER) analysis, the combined share of industry and services in rural GDP has risen to 58.4 per cent in the current fiscal from 48.6 per cent in 1999-2000 on the back of strong growth in these sectors in the past five years.

The rural economy got a further boost with the farmer loan waiver of US$ 13.86 billion and the ambitious Bharat Nirman Programme with an outlay of US$ 34.84 billion for improving rural infrastructure, road connectivity and digital access to villages for marketers.

---

Additionally, the rural economy has not been impacted by the global economic slowdown, according to a recent study by the Rural Marketing Association of India\textsuperscript{5}. Significantly, the rural markets are also offering great opportunities to marketers who are trying to find a way out of the current economic crisis.

The rural and small town economy which accounts for 60 per cent of India's income has remained insulated from the economic slowdown as employment opportunity and income streams are intact and growing steadily with consistent demand for goods and services.

It can also be said that the rural incomes are on the rise driven largely due to continuous growth in agriculture for four consecutive years. A record harvest of 230 million tones of food grains last year coupled with a sharp increase of 40 per cent in minimum support price of wheat and paddy over a two-year period has resulted in farmer incomes rising sharply.

According to a McKinsey survey conducted\textsuperscript{6} rural India would become bigger than the total consumer market in countries such as South Korea or Canada in another twenty years. And it would grow almost four times from its existing size in 2007, which was estimated at US$ 577 billion.

As per the cellphone-user statistics provided by the Cellular Operators Association of India\textsuperscript{7} the B and C circles in India are outrunning major cities in terms of subscriber additions.

\textsuperscript{5} Rural Marketing Association of India, Survey of Rural Marketing, 2005.
\textsuperscript{7} Cellular Operators Association of India, Demand for Cell Phones, 2006
Therefore, after several global corporations like Microsoft, Intel and Shell, many other major Multinational Companies (MNCs) and domestic players are keen to foray into the rural Indian market to capitalise on its growing opportunities.

1.1.3 RURAL CONSUMERS

According to recent studies conducted by the NCAER, rural India, home to 720 million consumers across 6,27,000 villages, offers a huge consumer base for the companies to capture.

Significantly, the Rural Marketing Association of India\(^8\) in its study has also revealed that there has been no impact of the economic slowdown on the rural economy. Higher disposable surplus among consumers in these markets is leading to smart buying, especially in categories including house construction materials, apparels and durables. Most companies are looking at the huge potential offered by the rural markets and shifting their focus from the already saturated urban markets. The rural India success story is being replicated across a range of sectors in the rural markets.

1.1.4 RURAL CONSUMPTION

The rural consumers spend around 13 per cent of their income, the second highest after food (35 per cent), on Fast Moving Consumer Goods (FMCG), as per a Rural Marketing Association of India\(^9\) study.

The sector analysts predict that a combination of higher advertising spends, more product launches and increased level of localised promotions and growth in rural markets, is expected to lead consumer products companies to a steady 15-18 per cent

---

\(^{8}\) Rural Marketing Association of India, Survey of Rural Marketing, 2005.

\(^{9}\) Ibid.,
topline growth during October-December 2008. The FMCG industry in India was worth around US$ 16.03 billion in August 2008, and the rural market accounted for a robust 57 per cent share of the total FMCG market in India, overtaking the urban market (43 per cent)\(^\text{10}\).

According to a study by Nielsen\(^\text{11}\) (Global Nielsen, 2008) for the April-September 2008 period, the FMCG market especially in the skin creams and lotions, hair oils, toothpaste and candies categories witnessed a significantly higher volume and value growth than urban markets. Most FMCG companies are now working on increasing their distribution in smaller towns and focusing on marketing and operations programme for semi-urban and rural markets.

Industry analysts state that the increased consumption is also the result of a growing middle class base in these markets. The total number of rural household is expected to rise to 153 million in 2009-10 from 135 million in 2001-02, suggesting a huge market\(^\text{12}\).

1.1.5 RETAIL MARKETING

According to India Retail Report by Images FR Research, "India's rural markets offer a sea of opportunity for the retail sector. The urban-retail split in consumer spending stands at 9:11, with rural India accounting for 55 per cent of private retail consumption".


\(^\text{11}\) Global Nielsen, Consumer Confidence, Concerns, Spending and Attitudes to Recession, Nielson Consumer Confidence and Opinion Survey, June, 2008.

\(^\text{12}\) P. Balakrishna and B. Sidhath, “Selling in Rural India”, Business Line, February, 16, 2004
Rural India accounted for almost half of the Indian retail market, which was worth about US$ 266.05 billion in September 2008. With most of the retail markets getting saturated in tier-I and tier-II cities, the next phase of growth is likely to be seen in the rural markets\textsuperscript{13}.

Major domestic retailers like AV Birla, ITC, Godrej, Reliance, and many others have already set up farm linkages. Hariyali Kisan Bazaars (DCM) and Aadhars (Pantaloon-Godrej JV), Choupal Sagars (ITC), Kisan Sansars (Tata), Reliance Fresh, Project Shakti (Hindustan Unilever) and Naya Yug Bazaar are established rural retail hubs.

Also, buoyed by the success of Hindustan Unilever's innovative rural distribution model (Project Shakti) led by women's self-help groups, the Anglo-Dutch consumer goods major, Unilever is exporting the project to several developing world markets.

In order to capture the growing rural consumers, Goldplus from Tata, a jewellery retail venture of Titan Industries, adopted an innovative marketing strategy by driving small town consumers all the way from towns and villages to the chain's district outlet to showcase them the store and its product offerings.

1.1.6 CONSUMER DURABLES

The rural market is growing faster than the urban markets, although the penetration level in rural area is much lower. A survey carried out by Rural Marketing Association of India\textsuperscript{14} has revealed that 59 per cent of durables sales come from rural markets.

\textsuperscript{13} India Retail Report, 2009.
\textsuperscript{14} Rural Marketing Association of India, Survey of Rural Marketing, 2005.
The study further stated that during April-October 2008, the television segment in the rural and small towns witnessed a growth of 29 per cent, microwave ovens 26 per cent, air conditioners 17 per cent, washing machines 15 per cent and refrigerators 12 per cent. This growth is on the back of entry-level products and largely driven by rural and semi-urban markets.

Besides the strong growth of consumer goods in rural areas, the mobile revolution is also sweeping the hinterland of the country, which is completely changing the way one connects with rural consumers. Mobile connectivity is helping marketers transcend the traditional forms of communication with them.

Further, many leading consumer durable companies are now increasing their presence in rural India. Recently, LG has set up 45 area offices and 59 rural and remote-area offices. Samsung has also rolled out its 'Dream Home' road show which was to visit 48 small towns in 100 days in an effort to increase brand awareness of its products.

1.1.7 RURAL INFRASTRUCTURE – THE NEED OF THE HOUR

The development of rural infrastructure is an important priority for the government and out of the total projected investment of US$ 283.83 billion to be incurred by the centre and the states in the Eleventh Plan; US$ 80.82 billion would be spent entirely towards improvement of rural infrastructure (Planning Commission, 2008-09).

As per Rural marketing Association of India (RMAI), the rural per capita consumption of FMCGs would equal to current urban levels by 2017. Industry analysts also expect the FMCG sector in rural areas to grow 40 per cent against 25 per cent in urban. The telecom industry is also expected to grow from 100 million connections to 300 million by 2012 (Operations Research Group, 2000). Further, the semi-urban and rural life insurance market is expected to rise from US$ 5 billion to US$ 20 billion by 2012.
According to international consultancy firm Celent, rural markets in India will grow to a potential of US$ 1.9 billion by 2015 from the current US$ 487 million. Rural markets are growing at double the pace of urban markets and for many product categories, rural markets account for well over 60 per cent of the national demand.

1.2.1 URBAN MARKET

With incomes rising in India, spending and consumption are also on the rise with an increasing number of people purchasing many more items, going beyond the basic necessities. As more areas get urbanized, the country will see the creation of many new markets and further expansion of the existing ones.

According to a study by National Council of Applied Economic Research (NCAER) India is likely to see rapid urbanisation, with around 45 per cent of Indians living in urban areas by 2050, up from 30 per cent in 2007-08.\(^\text{15}\)

Further, according to a study by the McKinsey Global Institute\(^\text{16}\) Indian incomes are likely to grow three-fold over the next two decades and India will become the world's fifth-largest consumer market by 2025. In the given scenario, urban markets will continue to fuel the Indian economy for quite some time to come.

According to the Ministry of commerce, Indian consumer goods industry flourishes despite the gloom in the global markets.

India will continue to be the second fastest growing economy in the world and the Indian economy may well grow at over 7 per cent in 2008-09.\(^\text{17}\) Indian consumers and companies continue to be a confident, optimistic lot, with most Indian companies saying that there have been no cutbacks from consumers.

---


\(^{17}\) The Federation of Indian Chamber of Commerce and Industry, Consumer Durable Goods Survey, October, 2005.
1.2.2 URBAN RETAIL MARKETING

According to the recent report by McKinsey 'The Great Indian Bazaar, Organized Retail Comes of Age in India', India's overall retail sector is likely to grow to US$ 419.93 billion by 2015. 'The rise of Indian Consumer Market', estimates that the Indian consumer market is likely to grow four times by 2025\(^1\) (Jonathan Ablett, 2007).

In another joint study conducted recently by the Associated Chambers of Commerce and Industry of India (ASSOCHAM) and KPMG (Klynveld Peat Marwick Goerdeler), the following findings were revealed: 1) The total size of the retail market in India in 2008 was estimated at US$ 353 billion, 2) the annual growth of the retail market in India is expected to be around 8 per cent, 3) the total retail market size in India is likely to touch US$ 416 billion by 2010, 4) the present share of organized retail sector is estimated at 7 per cent, 5) the estimated annual growth of organized retail sector is 40 per cent, 6) the size of the organized retail sector by 2010 is expected to reach US$ 51 billion, 7) the estimated share of organized retail in total retail by 2010 is 12 per cent, 8) the expected investment into modern retailing formats over the coming 4-5 years is around US$ 25-30 billion and 9) despite the economic slowdown plaguing the western countries, retailers are still optimistic about the Indian growth story.

---

In fact, with 30-40 per cent drop in retail rentals, Indian retailers are a happy lot. Retailers are also foreseeing further drops in rentals in 2009 and they are optimistic about their expansion plans for 200919.

Aggressive marketing efforts and expansion plans by leading retailers are on. S T Dupont, a French luxury brand (which sells men's luxury leather goods, cigarette lighters, pens, watches and fragrances) will soon enter India. By 2011, Dupont will have around 8-9 retail outlets in India.

Mahindra & Mahindra (M&M) has entered the retail sector with the introduction of its specialty format, Mom & Me, to sell infant care and maternity products.

Retailers such as Spencer's Retail, Future Group, Shoppers Stop, Westside, Wills Lifestyle, Bata India, and Raymond have plenty of expansion plans for 2009.

In West Bengal, leading retailers like the Future Group and Spencer's Retail will be expanding and upgrading their present stores in 2009. Others like Wills Lifestyle, Turtle Ltd, and Bisk Farm, are planning to set up new stores, particularly in the suburbs.

1.2.3 URBAN CONSUMER DURABLE MARKET

The Indian consumer durables market seems to be relatively untouched by the economic slowdown. The expensive products like LCD televisions and laptops are witnessing higher growth than their cheaper counterparts.

Whirlpool is also on the expansion mode and is targeting a 22 per cent share of the US$ 423. 28 million washing machine market in India by the end of 2009, and is launching a range of new products with an investment of US$ 4 million for the same. Moreover, a large number of hi-technology durables are expected to flood the US$ 4.03

---

billion Indian durables market by March-April in 2009. Samsung, LG, Haier and Videocon are among companies planning new product launches in the coming months. The festival period saw a growth of 40-50 per cent.

Korean major Samsung is planning to launch LCD-led live emitting diode (LED) TVs at US$ 1410.72, and Blu-ray technology home theatres and cameras in 2009. Videocon Industries will also launch high-end LCD TVs and plasma TVs, along with air conditioners with technological compressors and new designs. Similarly, LG Electronics India is also planning to introduce air conditioners with new technology compressors and revamped designs.

1.2.4 URBAN MARKET
1.2.4.1 FAST MOVING CONSUMER GOODS SECTOR (FMCGS)

The FMCG sector will grow at 25 per cent, in spite of the current economic turmoil. In fact, the players continue to report good sales figures. Across urban markets, there has been a tremendous growth in the sales of value-added and aspirational products. These products are expected to drive the FMCG industry to grow by 16 per cent during 2008-09, against 14.5 per cent during 2007-08\(^\text{20}\).

Another promising trend is the growth of 'out-of-home consumption' which is emerging as a new section in the FMCG sector. With changing meal-time habits and the concept of three core meals fast vanishing, companies like Coca Cola India, ITC, and Dabur are venturing into this avenue and are bringing out new packaging for products in this segment.

1.3 LUXURY PRODUCTS

According to the Yes Bank Report of the “The Federation of Indian Chamber of Commerce and Industry” the luxury products market in India is estimated in excess of US$ 500 million and is likely to grow at a CAGR of 28 per cent to reach US$ 1.2 billion by 2010. The market is expected to double by 2015, touching US$ 2.5 billion\(^2\)

About eighteen months after foreign direct investment (FDI) was allowed in single-brand retail, around 37 foreign brands have made a foray into India and many are planning to set up shop in India. As a result, India remains the most important destination for international brands outside their home markets due to its solid economic fundamentals and growth opportunities.

Brands like Damro, Etam, Zegna, Fendi, Nike, Llardo, Rino Greggio and Lee Cooper were amongst the first brands to get FDI permission under the single-brand retail window. While many others like Armani, Dolce & Gabbana, Louis Vuitton, Salvatore Ferragamo, sportswear retailer Puma, Lerros and S Oliver, luggage brand Piquadro, Marks & Spencer, La Perla, Jimmy choo and Toy Watch have also forayed into India. At the same time, some brands are also waiting for the government to allow 100 per cent FDI in retail.

1.4 CONSUMER ELECTRONICS

The rapidly growing consumer electronics market in India has spurred many leading manufacturers of the world to get into partnerships with local companies to set up shop in the country. Companies planning to enter India include Japanese testing firm Saki, Hong Kong's surface mount technology (SMT) company WKK, Singapore's Mydata (SMT) and USA's Indium (solder paste).

\(^2\) The Federation of Indian Chamber of Commerce and Industry, Consumer Durable Goods Survey, October, 2005.
According to a report by Markets monitor, 'Booming Consumer Electronics Market in India', the Indian consumer electronics industry is expected to grow at a rate of 10 per cent to 12 per cent in the coming years. Further as per the report:

❖ There will be an increase in volume sales of washing machines in the fully automatic category during 2008-09 to 2011-12.

❖ In the television market preference is changing from CRT technology to Flat Panel Display Televisions (FPTV).

❖ Sales figures for frost-free refrigerators are growing rapidly compared to the direct-cool category.

❖ The AC market is expected to grow at 30 per cent to 35 per cent in the coming years.

❖ MP3 players and digital video appliances are expected to grow at a double-digit rate.

1.5 DIRECT SELLING

The direct selling market in India will benefit from the global recession with the segment posting 20 per cent growth annually to reach an expected US$ 1 billion by 2012. Leading direct selling companies like Amway India and Oriflame Cosmetics are planning to cover more areas in the country.

1.6 ENTERTAINMENT

With rising stress levels in urban lifestyles, fun is a very serious business in Indian cities. The repertoire is wide, from TV to music, cinema to reading, new age engagements like gaming and net-based activities, fitness, and even religion. The Indian media and entertainment industry has the potential to touch US$ 200 billion by 2015.
The number of TV channels is increasing rapidly. FM channels are proliferating small towns too. The spawning of multiplexes in India has spread to tier II and III cities like Ludhiana, Lucknow, Moradabad, Indore, Nashik, Aurangabad, Kanpur and Amritsar. Big players in the segment are Adlabs, Cinemax, Inox, Fame and PVR Cinemas.

1.7 E-COMMERCE

The increase in the PC and internet penetration along with the growing preference of Indian consumers to shop online has given a tremendous boost to e-tailing—the online version of retail shopping. Several online retailers are reporting good business in categories like travel, art, books and music. E-tailing in lingerie and fresh fruit businesses is also doing well.

According to Telecommunications Regulatory Authority of India (TRAI) there were 5.45 million broadband subscribers in India on December 31, 2008, up from 5.28 million in November.

Further, the Worldwide Interoperability for Microwave Access (WiMAX) Forum has projected that India will have more than 27.5 million WiMAX subscribers by 2012, accounting for almost 20 per cent of the global WiMAX subscriber base.

1.8 FURTHER SCOPE FOR URBAN MARKETS

The Indian consumer remains one of the most upbeat globally.

The Nielsen Global Consumer Confidence study, revealed that Indians are the most optimistic lot globally who think that their country will be out of the economic recession in the next twelve months\footnote{Global Nielsen, Consumer Confidence, Concerns, Spending and Attitudes to Recession, Nielson Consumer Confidence and Opinion Survey, June, 2008.}.
In fact, it is widely believed that the Indian market will fuel the growth of MNCs in the coming years. While most leading companies are cutting costs in the US and Europe, they see India as a strategic market, which can fuel their growth.

1.9 PROBLEM DESIGN

The Economic Theories have predicted that the effective demand determines the growth of the economy, as it encourages augmenting the level of output. In the Indian context, the consumer goods industry, the major market that determines the soundness of the economy has been experiencing a metamorphosis. This is due to the increasing income of the economy.

As a result, in recent times, the Indian consumer market is set to scale new heights. It is predicted by the Federation of Indian chamber of commerce and Industry that the aggregate consumer spending would be more than quadruple from around US$ 428.69 billion in 2005 to US$ 1.76 trillion in 2025 which is a ten-fold increase in middle-class population. This indicates the fabulous increase in the demand for consumer goods.

As a result, the twelfth largest consumer market in the world to become the fifth largest consumer markets in the world.

The pattern of consumption of the India indicates that the demand for consumer goods industry has increased manifold. As a result in increase in the per capita income from around US$ 450 in 2002-03 to US$ 800 in 2006-07, the growth in the demand for the consumer durable goods from 11 major listed FMCG companies have increased by more than 16 per cent during 2007-08. The total FMCG market is in excess of US$ 17.36 billion and is set to treble from US$ 11.6 billion in 2003 to US$ 33.4 billion in 2015.
In fact, the surge in consumer spending along with the changes in consumer tastes and low penetration levels of the organized sector in several commodities is likely to ensure high growth rate across a range of FMCG categories.

A combination of changing lifestyles, higher disposable income, greater product awareness and affordable pricing has been instrumental in changing the pattern and amount of consumer expenditure leading to robust growth of consumer durables industry. The continuous increase in the consumer demand has led to the industry clocking accelerated growth rates in the recent past. While the industry recorded growth rates of 8.5 per cent in 2005-06 and 11.5 per cent in 2006-07, it is estimated to grow by 12 per cent in 2007-08. Going by the industry figures, sales have rocketed by 22 per cent in value terms in 2007.

According to ORG-GFK data, the combined size of five big-ticket product categories-colour television, refrigerators, washing machines, air conditioners and microwave oven-rose from US$ 4.1 billion in 2006 to US$ 5.1 billion in 2007\(^\text{23}\) (Operations Research Group, 2000).

The higher growth in the sales value compared to volume growth rates can be explained by the surge in the sales of high-end consumer durable goods. Products like split air-conditioners (60 per cent), frost-free refrigerators (54 per cent), fully automatic washing machines (35 per cent), microwave ovens (35 per cent), high-end flat panel TV (100 per cent) are all estimated to record impressive growth rates in 2007-08. The Indian consumer remains one of the most upbeat globally. According to the AC Nielson Consumer Confidence and Opinion Survey, India is placed second in the 51-nation global survey.

\(^{23}\) The Federation of Indian Chamber of Commerce and Industry, Consumer Durable Goods Survey, October, 2005.
Also Indians are the most optimistic people regarding their personal finances (79 per cent) and second most optimistic people with respect to job prospects (86 per cent)- which opens attractive avenues for industries planning to tap Indian consumer market\textsuperscript{24}.

The consumer durable items include the Consumer Electronics goods, which is estimated to grow at the rate of around 11 per cent, the Automobiles goods which has grown at a Compound Annual Growth Rate of 14 per cent over the last five years.

The cause of increasing demand for consumer durables is manifold which is basically due to the changing dynamics of consumer behaviour. The Survey reflects the changing dynamics of consumer behaviour – luxury goods are now being perceived as necessities with higher disposable incomes being spent on lifestyle products. There is a discernible shift in the consumers’ preference in favour of higher-end, technologically superior branded products, the demand being spurred by increasing consumer awareness and preference for new models. This shift is also explained by the growing trend of products being manufactured in the organized sector of the economy and the narrowing down of the price differential between branded and non-branded goods. Competition has forced companies to offer efficient after sales service and support and this, in turn, has swayed Consumer preference for branded products.

Apart from these, the reason for quantitative expansion in demand for consumer goods is:

1. The availability of Quality products with superior technology and technology upgradation has helped the industry to achieve higher growth in terms of volume and also in higher realization in value terms.

2. There has been qualitative change in consumers’ preference – going for higher end products.

\textsuperscript{24} Operations Research Group, Indian Exss, Bombay, August, 24\textsuperscript{th}, 2000.
3. Because of growth in production in the organized segment and domestic availability of branded products due to lowering of import duties and other liberal measures.

4. The price difference between branded and unbranded goods has narrowed down.

5. The consumer durables industry appears to have two clearly differentiated segments.

6. Competitive strategies revolve around strong brand differentiation and prices.

7. Added with these, the bargaining power of Consumers is high due to availability of many brands.

8. Demand is Cyclical and seasonal. Increasing consumer awareness and preference for new models have added to the demand.

9. The MNCs have an edge over their Indian counterparts in terms of technology combined with a steady flow of capital. The domestic companies compete on the basis of their well-acknowledged brands, an extensive distribution network and an insight into local market conditions.

Attractive schemes of financial institutions and commercial banks are increasingly becoming suitable for the consumer. Consumer goods companies are themselves coming out with attractive financing schemes to consumers through their extensive dealer network. This has a direct bearing on future demand. The other factor for surging demand for consumer goods is the phenomenal growth of media in India.

The increased ability to import due to reduction in import duties which has a dual effect of reduction in the import price of the consumer items as well as a reduction in the input costs. Rural India, which accounts for nearly 70 per cent of the total number of households, offers plenty of scope and opportunities for the white goods industry. The urban consumer durable market for products including TV is growing annually by 7 to 10 per cent whereas the rural market is zooming ahead at around 25 per cent annually.
The unique feature of the Indian market is a rural based market. The Indian rural market with its vast size and demand base offers a huge opportunity that MNCs cannot afford to ignore. With 128 million households, the rural population is nearly three times the urban. As a result of the growing affluence, fuelled by good monsoons and the increase in agricultural output to 200 million tonnes from 176 million tonnes in 1991, rural India has a large consuming class with 41 per cent of India's middle-class and 58 per cent of the total disposable income.

The importance of the rural market for some FMCG and durable marketers is underlined by the fact that the rural market accounts for close to 70 per cent of toilet-soap users and 38 per cent of all two-wheeler purchased. The rural market accounts for half the total market for TV sets, fans, pressure cookers, bicycles, washing soap, blades, tea, salt and toothpowder. What is more, the rural market for FMCG products is growing much faster than the urban counterpart.

The rural market may be alluring but it is not without its problems: Low per capita disposable incomes that is half the urban disposable income; large number of daily wage earners, acute dependence on the vagaries of the monsoon; seasonal consumption linked to harvests and festivals and special occasions; poor roads; power problems; and inaccessibility to conventional advertising media.

However, the rural consumer is not unlike his urban counterpart in many ways. The more daring MNCs are meeting the consequent challenges of availability, affordability, acceptability and awareness (the so-called 4 A's)
The first challenge is to ensure availability of the product or service. India's 6.27 million villages are spread over 3.2 million sq km; 700 million Indians may live in rural areas, finding them is not easy. However, given the poor state of roads, it is an even greater challenge to regularly reach products to the far-flung villages. Any serious marketer must strives to reach at least 13,113 villages with a population of more than 5,000. Marketers must trade off the distribution cost with incremental market penetration.

The second challenge is to ensure affordability of the product or service. With low disposable incomes, products need to be affordable to the rural consumer, most of whom are relying on daily wage. The third challenge is to gain acceptability for the product or service. Therefore, there is a need to offer products that suit the rural market. With large parts of rural India inaccessible to conventional advertising media building awareness is another challenge.

Given that the Indian rural areas constitute the lion’s share of the geographical area, and low percapita income, seasonal demand for the consumer durable products due to the high dependence on agriculture, poor infrastructure, poor awareness on the part of the consumers, the rural and urban consumers are expected to have considerable differences in terms of source of awareness, the preferences for the products, brand, and even the factors determining the factors of preference for brand and the product.

In nut shell, the products bought by consumers are expected to last three years or more. These include automobiles, appliances, boats, and furniture. Economists look at the trend in consumer expenditure on durables as an important indicator of the strength of the economy, since consumers need confidence to make such large and expensive purchases.
Stock market analysts also classify companies that produce appliances, furniture, cars, and similar items as consumer durables manufacturers, contrasting them with consumer non-durables manufacturers, which make consumable items such as food or drugs.

Thus from the above discussion the following issues emerge in the context of the demand for consumer durables.

1. Whether there is a significant difference among the rural and consumer durables in terms of the source of awareness about the various consumer durables?

2. Whether the rural and urban consumers are significantly different in their purchase preference for the products?

3. Is there a significant difference among the rural-urban consumers on the factors determining the Consumers’ preference for products and brands?

4. Is there a significant difference among the rural-urban consumers on the preference for specific brands?

The present study attempts to examine these issues in the context of the urban and rural areas of Coimbatore district.

1.10 OBJECTIVES OF THE STUDY

Based on the above issues, the objectives formulated for the present study are as follows:

1. To study the socio economic background of the sample respondents.

2. To trace out the sources of awareness about the durable items and brands.

3. To estimate the factors determining the demand for consumer durables.

4. To identify the significance of the difference between the rural and urban consumers in terms of source of awareness.

5. To trace out the significance of the difference between the rural and urban consumers in terms of their preference for durable items and brands.

6. To provide suggestions to improve the market standards in the rural and urban areas.
1.11 HYPOTHESES OF THE STUDY

For the Effective Justification of the above stated objectives, the following hypotheses were framed:

1) There is a significant difference between the rural and urban consumers in terms of the source of awareness.

2) There is a significant difference between the rural and urban consumers in terms of the factors determining their preference for items of consumer durables.

3) There is a significant difference between the rural and urban consumers in terms of the brand preference.

1.12 SCOPE OF THE STUDY

The present study attempts to examine the Consumers' preference for consumer durables. In the light of this, the present study attempts to relate the psychology of the consumers with the marketing principles. In this context, it is exploratory in nature.

1.13 UTILITY OF THE STUDY

The present study attempted to examine the multifarious aspects of the Consumers' preference for consumer durables. In this context, the study is replete with policy implications of value to the manufacturers of consumer durables.

By highlighting the interaction between consumers' preference on the hand and socio-economic variables on the other, the study would focus on the extent of influence of these variables on the preference of rural and urban consumers. It will vindicate the possible factors accounting for differences in preference and would show extent to which socio economic status is a factor in producing inequality in preference. This would help the executives to evolve policies and work on such parameters which would correct differences in the preference.
1.14 METHODOLOGY OF THE STUDY

The present study depends mostly on the primary data, which were collected from both urban and rural villages of Coimbatore district. Secondary data were also collected for the study.

1.14.1 SOURCE OF DATA
1.14.1.1 SECONDARY DATA

Though the present project relies exclusively on the primary data, for the purpose of selecting the samples, the study has to rely on the secondary data also. The data on the number of households, distribution of sex and age and the size of population by district and by revenue villages of the district of Coimbatore are collected from the Primary Census Abstract of Coimbatore.

1.14.1.2 PRIMARY DATA

The primary data are proposed to collect from the rural and urban places through structured questionnaire. The proposed study area has been decided under 9 taluks such as Mettupalayam, Avinashi, Tiruppur, Palladam, Coimbatore North, Coimbatore South, Pollachi, Udumalpet and Valparai.

1.14.1.2.1 POPULATION AND SAMPLE SIZE

According to 2001 Census, in the district of Coimbatore, there are totally 10,95,354 households. Of which, 7,07,658 (ie. 64.61 per cent) are rural households while the remaining 3,87,696 (ie. 35.39 per cent) are urban households. This indicates that of the total households, almost 65 per cent (two-third) are rural households, while the remaining 35 per cent (one-third) are urban households. To have a fair representation, it was decided to have a total sample of 600 households with 300 samples selected each from the rural and urban areas.
The next step in the sample selection is the identification of rural and urban areas. From the census report of 2001 it was found that there are 9 taluks in the district of Coimbatore with a total of 424 rural areas (Table 1) and 15 urban areas (Table 2). Since there are a large number of inhabitant villages, it was felt impossible to cover all the villages in the selection of samples and hence, to have fair representation, to identify the sample villages, 10 per cent of the taluks were selected at random. However, in the case of urban areas, since there is only one urban agglomeration in each of the taluks, all the taluks were selected for the study. Thus the study could identify 10 percent of the villages as samples from each Taluks and all the urban limits.

### TABLE: 1.1

**TALUK WISE VILLAGES IN COIMBATORE DISTRICT**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>NAME OF THE TALUK</th>
<th>NO. OF VILLAGES</th>
<th>SAMPLES TAKEN FOR THE STUDY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mettupalayam</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Avinashi</td>
<td>52</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Tiruppur</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Palladam</td>
<td>54</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Coimbatore North</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>Coimbatore South</td>
<td>28</td>
<td>3</td>
</tr>
<tr>
<td>7</td>
<td>Pollachi</td>
<td>117</td>
<td>11</td>
</tr>
<tr>
<td>8</td>
<td>Udumalpet</td>
<td>88</td>
<td>9</td>
</tr>
<tr>
<td>9</td>
<td>Vaiparai</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Total Number of Villages</td>
<td>424</td>
<td>42</td>
</tr>
</tbody>
</table>

Given the selection of urban and rural areas, the public distribution outlets (ration shops) located in each of the selected areas were approached and the lists of households residing in these areas were prepared. The selected households were met and the data pertaining to the Consumers' preference, the source of awareness, the socio economic background like, the age of the decision maker in the family, the education qualification and occupation of the head of the household, the size of the family, monthly income etc. were collected with a help of a pre tested questionnaire for consumer durable items that were identified as the major item of purchase: 1) Air Conditioners, 2) Air Coolers, 3) Audio-video Systems, 4) Car, 5) Computers, 6) Fan (Ceiling Fans, Electric Fans , Fans), 7) Grinders, 8) Home Theatre Systems, 9) Iron box, 10) Microwave Oven, 11) Mixer, 12) Mobile Phones, 13) Motor Cycle, 14) Refrigerators, 15) Still cameras, 16) Television, 17) Washing Machine, 18) Water filters and 19) Water Heater.
1.14.2 TOOLS AND TECHNIQUES USED

To analyze the data collected, the simple tools like, the simple percentage method, and coefficient of variation, rank correlation, logic model and Analysis of Variance (ANOVA) were used.

More specifically, to calculate the relative share of each of the factors on the socio economic variables, the simple percentage method has been used. The simple percentage method is the percentage calculated for a particular distribution considered for analysis by keeping the total value as the base.

To estimate the significance of the difference between the rural and urban respondents in terms of source of awareness, preference etc. the chi square test has been used.

The formula for calculating the Chi square calculated value can be given as:

\[ \chi^2 = \sum_{i=1}^{n} \left( \frac{O_i - E_i}{E_i} \right)^2 \]

The chi square test has been used to estimate the relationship between the indicators of Socio Economic Status of the sample respondents and the factors of Preference. These include the measurement of:

1) Relationship between sex and portfolio investment
2) Relationship between sex and preference for consumer durables among
3) Relationship between sex and nature of purchasing consumer durables
4) Relationship between age and portfolio investment
5) Relationship between age and reason for preference
6) Relationship between the level of education and portfolio investment.
7) Relationship between the level of income and portfolio investment.

8) Relationship between the level of income and opinion on members taking decision.

The prime objective of the present piece of research is to examine whether there are differences between the rural and urban respondents in terms of the source of awareness and the preference for various products. This is being tested with the help of ‘F’ ratio (ANOVA).

The distribution used for the hypothesis test is a new one. It is called the F distribution, named after Sir Ronald Fisher, an English statistician. The F statistic is a ratio (a fraction). There are two sets of degrees of freedom; one for the numerator and one for the denominator.

To calculate the F ratio, two estimates of the variance are made.

1) Variance between samples: An estimate of \( \sigma^2 \) that is the variance of the sample means. If the samples are different sizes, the variance between samples is weighted to account for the different sample sizes. The variance is also called variation due to treatment or explained variation.

2) Variance within samples: An estimate of \( \sigma^2 \) that is the average of the sample variances (also known as a pooled variance). When the sample sizes are different, the variance within samples is weighted. The variance is also called the variation due to error or unexplained variation.

3) \( SS_{\text{between}} = \) the sum of squares that represents the variation among the different samples.

4) \( SS_{\text{within}} = \) the sum of squares that represents the variation within samples that is due to chance.
To find a "sum of squares" means to add together squared quantities which, in some cases, may be weighted. We used sum of squares to calculate the sample variance and the sample standard deviation in *Descriptive Statistics*.

MS means "mean square." MS\textsubscript{between} is the variance between groups and MS\textsubscript{within} is the variance within groups.

The Calculation of Sum of Squares and Mean Square is:

- \( k = \) the number of different groups
- \( n_j = \) the size of the \( j \)th group
- \( s_j = \) the sum of the values in the \( j \)th group
- \( N = \) total number of all the values combined. (total sample size: \( \sum n_j \))
- \( x = \) one value: \( \sum x = \sum s_j \)

Sum of squares of all values from every group combined is \( \sum x^2 \)

Between group variability: \[ SS_{\text{total}} = \sum x^2 - \frac{(\sum x)^2}{N} \]

Total sum of squares = \[ \sum x^2 - \frac{(\sum x)^2}{N} \]

Explained variation- sum of squares representing variation among the different samples

Unexplained variation- sum of squares representing variation within samples due to chance:

\[ SS_{\text{between}} = \sum \left[ \frac{\sum (s_j)^2}{n_j} \right] - \frac{(\sum s_j)^2}{N} \]

\[ SS_{\text{within}} = SS_{\text{total}} - SS_{\text{between}} \]

\( df \)'s for different groups (\( df \)'s for the numerator): \( df_{\text{between}} = k - 1 \)

Equation for errors within samples (\( df \)'s for the denominator): \( df_{\text{within}} = N - k \)

Mean square (variance estimate) explained by the different groups:
\[
\text{MS}_{\text{between}} = \frac{SS_{\text{between}}}{df_{\text{between}}}
\]

Mean square (variance estimate) that is due to chance (unexplained):
\[
\text{MS}_{\text{within}} = \frac{SS_{\text{within}}}{df_{\text{within}}}
\]

\text{MS}_{\text{between}} \text{ and } \text{MS}_{\text{within}} \text{ can be written as follows:}
\[
\text{MS}_{\text{between}} = \frac{SS_{\text{between}}}{df_{\text{between}}} = \frac{SS_{\text{between}}}{k-1}
\]
\[
\text{MS}_{\text{within}} = \frac{SS_{\text{within}}}{df_{\text{within}}} = \frac{SS_{\text{within}}}{k-1}
\]

The ANOVA test depends on the fact that \text{MS}_{\text{between}} can be influenced by population differences among means of the several groups. Since \text{MS}_{\text{within}} compares values of each group to its own group mean, the fact that group means might be different does not affect \text{MS}_{\text{within}}.

The null hypothesis says that all groups are samples from populations having the same normal distribution. The alternate hypothesis says that at least two of the sample groups come from populations with different normal distributions. If the null hypothesis is true, \text{MS}_{\text{between}} and \text{MS}_{\text{within}} should both estimate the same value.

**F-Ratio or F Statistic** can be given as:
\[
F = \frac{\text{MS}_{\text{between}}}{\text{MS}_{\text{within}}}
\]

If \text{MS}_{\text{between}} and \text{MS}_{\text{within}} estimate the same value (following the belief that \(H_0\) is true), then the F-ratio should be approximately equal to 1. Only sampling errors would contribute to variations away from 1. As it turns out, \text{MS}_{\text{between}} consists of the population variance plus a variance produced from the differences between the samples. \text{MS}_{\text{within}} is
an estimate of the population variance. Since variances are always positive, if the null hypothesis is false, MS_{between} will be larger than MS_{within}. The F-ratio will be larger than 1.

The ‘F ratio has been worked to test the significance of the relationship between:

1) Rural and urban respondents on portfolio of investment.
2) Rural and urban respondents in decision making.
3) Nature of purchasing a durable item outside the residing area.
4) Conditions to be satisfied for purchasing goods on credit.
5) Opinion on nature of bargaining the consumer durables.
6) Source of awareness about the consumer durables products.
7) Season of purchase of consumer durables.
8) Awareness about brands.
9) Duration of purchase of consumer durables.

One of the objectives of the present study is to examine the extent of relationship between the two set of variables and the extent of influence of the socio economic status on the preference for consumer durables have been measured using technique logit model. Before such an analysis is being made the degree of association is being measured using the rank correlation coefficients.

The logit model can be given as:

\[ DCD = a_0 + a_1 \text{Sex} + a_2 \text{age} + a_3 \text{Level of Education} + a_4 \text{Origin of Births} + a_5 \text{Marital Status} + a_6 \text{Occupational Status} + a_7 \text{Number of members in the family} + a_8 \text{Monthly Savings} + a_9 \text{Pattern of Savings} + a_{10} \text{Credit Purchase} \]
where,

\[ \begin{align*}
DCS & = \text{demand for consumer durables (Yes/No)} \\
S & = \text{Sex (Male -1, Female = 0)} \\
A & = \text{Age (in years)} \\
LE & = \text{Level of Education (in Years)} \\
OB & = \text{Origin of Births (Rural =1, Urban = 2, Semi Urban = 3, Metropolitan = 4 and Cosmopolitan = 5)} \\
MS & = \text{Marital Status (Married = 1, others =0)} \\
OS & = \text{Occupational Status (Business -1, Private Services=2, Government Services= 3 and Agriculture =4)} \\
NM & = \text{Number of members in the family} \\
MS & = \text{Monthly Savings (in Rs.)} \\
PS & = \text{Pattern of Savings} \\
NP & = \text{Nature of Purchase (Cash =1, Credit = 0)}
\end{align*} \]

The formula for rank correlation can be given as:

\[
r = \frac{6\Sigma d^2}{n(n^2-1)}
\]

where,

\[
\begin{align*}
 r & = \text{the rank correlation coefficient} \\
\Sigma d^2 & = \text{the square of the rank sum difference} \\
n & = \text{number of observations.}
\end{align*}
\]

To identify the opinion of the customers on the relative importance of price, quality and service backup a four point Likert scale has been used. The opinion includes: Highly Agree, Moderately Agree, Moderately Disagree and Highly disagree. These opinions take the value of 1, 2, 3 and 4 respectively.
1.15 PERIOD OF STUDY

As indicated already the present piece of research relied exclusively on the primary data collected from 600 respondents spread over the rural and urban areas of Coimbatore to have fair representation, the overall samples have been distributed equally and the required data were collected from the respondents by adopting a field survey. The researcher collected the primary data from the selected respondents for the period of two years from June 2006 to May 2008.

1.16 LIMITATIONS OF THE STUDY

However, the study is also hedged with some limitations: 1. This study is based on the cross-sectional primary data. Naturally, the study would have the weaknesses of this type of data. In the cross-section data, the respondents had to recollect and furnish some of the information from their memory. Hence 'recall bias' is inevitable. The primary data were collected by adopting a multistage random sampling technique. The normal sampling errors found in such techniques are also associated with this study. Further, the conclusions drawn from the study are applicable only to the area studied or any other similar situation and wide generalization to other dissimilar areas is not desirable.

1.17 CHAPTER OUTLINE

CHAPTER I provides a discussion on the need for the study, objectives, hypotheses, scope, utility and limitations of the present study.

CHAPTER II provides the concepts relating to consumerism and the review of available literature.

CHAPTER III outlines the profile of the study area.

CHAPTER IV sketches the socio economic status of the sample respondents and the factors that determine the preference for durables.

CHAPTER V examines the relationship between the socio economic status and the factors determining preference has been estimated.

CHAPTER VI summarizes the main findings of the study and outlines the emerging policy and research implications.