SOCIAL CHANGES AND THE GROWTH OF INDIAN RURAL MARKET:
REFERENCE TO FMCG SECTOR

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ABSTRACT

The Fast Moving Consumer Goods (FMCG) sector is a cornerstone of the Indian economy. This sector touches every aspect of human life. The FMCG producers now realize that there is a lot of opportunity for them to enter into the rural market. The sector is excited about the rural population whose incomes are rising and the lifestyles are changing. There are as many middle income households in the rural areas as there are in the urban. Thus the rural marketing has been growing steadily over the years and is now bigger than the urban market for FMCG's.

Globally, the FMCG sector has been successful in selling products to the lower and middle income groups and the same is true in India. Over 70% of sales is made to middle class households today and over 50% of the middle class is in rural India. The sector is excited about a burgeoning rural population whose incomes are rising and which is willing to spend on goods designed to improve lifestyle. Also with a near saturation and cut throat competition in urban India, many producers of FMCGs are driven to chalk out bold new strategies for targeting the rural consumers in a big way. But the rural penetration rates are low. This presents a tremendous opportunity for makers of branded products who can convert consumers to buy branded products.

Many companies including MNCs and regional players started developing marketing strategies to lure the untapped market. While developing the strategies, the marketers need to treat the rural consumer differently from their counterparts in urban because they are economically, socially and psycho-graphically different to each other. This paper covers the attractions for the FMCG marketers to go to rural, the challenges, the difference between the rural and the urban market and the suitable marketing strategy with the suitable example of companies and their experience in going rural.

KEYWORDS

INTRODUCTION

The Indian Fast Moving Consumer Goods (FMCG) industry began to shape during the last fifty odd years. The FMCG sector is a cornerstone of the Indian economy which touches every aspect of human life. It has been divided for a long time between the organized sector and the unorganized sector. Unlike the US market for FMCG which is dominated by a handful of global players, India’s Rs. 460 billion FMCG market remains highly patchy with more or less half the market going to unbranded, unpackaged home made products. It shows a signal for tremendous prospect for manufacturers of branded products who can convert consumers to buy branded products.

Globally, the FMCG sector has been successful in selling products to the lower and middle income groups, and the same is true in India. Over 70% of sales are made to middle class households today and over 50% is in rural India. The sector is excited about a burgeoning rural population whose incomes are rising and which is willing to spend on goods designed to improve lifestyle. Also with a near saturation and cut throat competition in urban India, many producers of FMCGs are driven to chalk out bold new strategies for targeting the rural consumer in a big way.

Rural marketing has become the latest marketing mantra of most FMCG majors. True, rural India is vast with unlimited opportunities. All waiting to be tapped by FMCGs. Not surprising that the Indian FMCG sector is busy putting in place a parallel rural marketing strategy. Among the FMCG majors, Hindustan Lever, Marico Industries, Colgate-Palmolive and Britannia Industries are only a few of the FMCG majors who have been gung-ho about rural marketing. 70% of the nation's population that means rural India can bring in the much-needed volumes and help FMCG companies to log in volume-driven growth. That should be music to FMCGs who have already hit saturation points in urban India.

History of FMCG in India

In India, companies like ITC, HLL, Colgate, Cadbury and Nestle have been a dominant force in the FMCG sector well supported by relatively less competition and high entry barriers. These companies were, therefore, able to charge a premium for their products. In this context, the margins were also on the higher side. With the gradual opening up of the economy over the last decade, FMCG companies have been forced to fight for a market share.

Current Scenario

The growth potential for FMCG companies looks promising over the long-term horizon, as the per-capita consumption of almost all products in the country is amongst
the lowest in the world. As per the Consumer Survey by KSA-Technopark, of the total consumption expenditure, almost 40% and 8% was accounted by groceries and personal care products respectively. Rapid urbanization, increased literacy and rising per capita income are the key growth drivers for the sector. Around 45% of the population in India is below 20 years of age and the proportion of the young population is expected to increase in the next five years. Aspiration levels in this age group have been fuelled by greater media exposure, unleashing a latent demand with more money and a new mindset. In this backdrop, industry estimates suggest that the industry could triple in value by 2015 (by some estimates, the industry could double in size by 2010). In our view, testing times for the FMCG sector are over and driving rural penetration will be the key going forward. Due to infrastructure constraints (this influences the cost-effectiveness of the supply chain), companies were unable to grow faster. Although companies like HLL and ITC have dedicated initiatives targeted at the rural market, these are still at a relatively nascent stage. The bottlenecks of the conventional distribution system are likely to be removed once organized retailing gains in scale. Currently, organized retailing accounts for just 3% of total retail sales and is likely to touch 10% over the next 3-5 years. In our view, organized retailing results in discounted prices, forced-buying by offering many choices and also opens up new avenues for growth for the FMCG sector. Given the aggressive expansion plans of players like Pantaloon, Trent, Shopper’s Stop and Shoprite, we are confident that the FMCG sector has a bright future.

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 13.1 billion. The FMCG market is set to treble from US$ 11.6 billion in 2003 to US$ 33.4 billion in 2015. Penetration level as well as per capita consumption in most product categories like jams, toothpaste, skin care, hair wash etc in India is low indicating the untapped market potential. Burgeoning Indian population, particularly the middle class and the rural segments, presents an opportunity to makers of branded products to convert consumers to branded products.

**FMCG SECTOR IN RURAL INDIA**

Fast Moving Consumer Goods (FMCGs) have attracted Indian villagers to a larger extent. When the urban demands for the goods are getting saturated, the manufacturing companies look at this development as an opportunity. Large FMCG companies including multinational companies (MNCs) are planning their own strategies to enter this large and developing rural market the marketing strategies have to be tailor made to suit rural conditions. Leading companies in the FMCG sector in India have taken up a developmental approach to nourish this new market the companies are Hindustan Levers Ltd(HLL), Godrej, proctor and Gamble, Nirma, Karnataka soaps and detergents limited. HLL has done considerable pioneering work in developing FMCG products for the rural market and initiating collaborative and innovative strategies.
In those days, the rural market is one of the best opportunities for the FMCG sector, durable goods in India. It is wider and less competitive market for the FMCG goods. As the income level rural consumer is increasing, the demand of FMCG is also increasing continuously.

Major rural sales promotion tools for FMCG products are:

- Free samples
- Cash rebates/discount
- Price packs/gift attached to the pack
- Gifts
- Contest prizes, games
- Product warranties
- Free trials
- Point of purchase / sale counter displays, demonstrations
- Promotion of brands
- Trade promotion to stimulate wholesalers, retailers, and field workers with gifts and awards.

**FMCG (FAST MOVING CONSUMER GOODS)**

**Supply:** Abundant supply in metros. Distribution networks are being beefed up to penetrate the rural areas.

**Demand:** HLL expects the FMCG market to triple in market size by FY10, which highlights the potential.

**Barriers to Entry:** Huge investments in promoting brands, setting up distribution networks and intense competition, but the sector is not capital intensive.

**Bargaining Power of Suppliers:** Some of the companies are integrated backwards, which reduces the supplier's clout. Manufacturing is largely outsourced.

**Bargaining Power of Customers:** In case of branded products, there is little that the consumer can influence, but intense competition within the FMCG companies results in value for money deals for consumers (e.g. buy one, get one free concept).

**Competition:** Competition is faced from both domestic, MNCs and also from cheaper imports, which are increasingly visible in urban markets. Price wars are a common phenomenon

**New rural markets turn FMCG**
For some FMCG products, such as personal hygiene products like shampoos, face creams and cosmetics, the overall excise duty is very high (32 per cent) and 50 per cent where alcohol is issued as one of the inputs, like after shave. Of the 32 per cent, 16 per cent is special excise duty, which is not cenvatable. Consequently if a cosmetic product passes through more than one step, such as packing from bulk to small packs or affixing labels (to make it branded), there is double taxation. Said Marico Industries managing director Harsh Mariwala, who is also the chairman of Ficci sub-committee on non-durable consumer goods: "There needs to be a level playing field between branded versus non-branded goods, as well as organized versus unorganized sector."

The FMCG industry is also faced with what is called the inverted duty structure for import of raw materials. What this means is that currently the imports of raw materials and finished goods face similar duties. The industry fears that this could lead to dumping in the Indian market. Today, soap ingredients comprise 75 per cent of oil. 90 per cent of this Similarly, detergent inputs like soda ash and caustic soda have the same customs duty rates as detergents.

**Forecast 2010**

- Rural and semi-urban
- 128 million population thrice the urban
- Market size growth from 48k to 100k Crores (Growth of 50% at 10%CAGR)
- Increase penetration from the current less than 1%
- Problems in the rural sector
- Low per capita disposable incomes
- Large number of daily wage earners
- Acute dependence on vagaries of monsoon
- Seasonal consumption
- Poor infrastructure – roads and power supply Urban
- Market 16.5k to 35k Crores (Growth of 100% at 20%CAGR)
- Intense competition – severe pressure on margins – Focus on newer products, such as fruit juices

**FMCG EVALUATION**

1950’s-80’s – Low Investment in the sector

- Low purchasing power
- Govt’s emphasis on small scale sector
- HLL and other company’s urbane focus

Post liberalization

- Entry of MNCs
Focus shifted to getting to rural consumer first  
Others, like Nestle, remained with the urban population  
Latest fad to hit the market is the ‘sachet’ bug.

Mushrooming of regional brands

- Nirma enters and changes the focus to ‘Value for Money’ in the 70’s  
- Post liberalization, Jyothi Laboratories, ‘Ghari’ Detergent and ‘Anchor’ toothpaste giving the nation-wide brands a run for their money.

Rural market has following attributes and the following facts substantiate this: -

742 million people

Estimated annual size of the rural market –

<table>
<thead>
<tr>
<th>CATEGORIES OF RURAL MARKET</th>
<th>VALUE In Rs. Crore</th>
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<tbody>
<tr>
<td>FMCG</td>
<td>65,000</td>
</tr>
<tr>
<td>Durables</td>
<td>5,000</td>
</tr>
<tr>
<td>Agri Inputs (Including Tractors)</td>
<td>45,000</td>
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<tr>
<td>2/4 Four Wheelers</td>
<td>8,000</td>
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In 2001-02, LIC sold 55% of its policies in rural India.

Of two million BSNL mobile connections, 50% are in small towns / villages.

Of the 6.0 lakh villages, 5.22 lakh have a Village Public Telephone (VPT).

41 million Kisan Credit Cards have been issued (against 22 million credit-plus-debit cards in urban), with cumulative credit of Rs. 977 billion resulting in tremendous liquidity.

Of the 20 million Rediffmail sign-ups, 60% are from small towns. 50% of transactions from these towns are on Rediff online shopping site.

42 million rural households (HHs) are availing banking services in comparison to 27 million urban HHs.

Investment in formal savings instruments is 6.6 million HHs in rural and 6.7 million HHs in urban.

Rural marketing has become the latest marketing mantra of most FMCG majors. True, rural India is vast with unlimited opportunities. All waiting to be tapped by FMCGs.
Not surprising that the Indian FMCG sector is busy putting in place a parallel rural marketing strategy. Among the FMCG majors, Hindustan Lever, Marico Industries, Colgate-Palmolive and Britannia Industries are only a few of the FMCG majors who have been gung-ho about rural marketing. 70% of the nation's population, that means rural India can bring in the much-needed volumes and help FMCG companies to log in volume-driven growth. That should be music to FMCGs who have already hit saturation points in urban India.

**Developing Strategies to be Followed**

**Marketing Strategy**

Marketers need to understand the psyche of the rural consumers and then act accordingly. Rural marketing involves more intensive personal selling efforts while compared with urban marketing. Firms should abstain from designing goods for the urban markets and subsequently pushing them in the rural areas. To effectively tap the rural market, a brand must associate it with the same things the rural folks do which could be done by exploiting the various rural folk media to reach them in their own language and in large numbers so that the brand can be associated with the myriad rituals, celebrations, festivals, "melas", and other activities where they assemble.

**Distribution Strategy**

One of the ways could be using company delivery van which can serve two purposes - it can take the products to the customers in every nook and corner of the market, and it also enables the firm to establish direct contact with them, and thereby facilitate sales promotion. However, only the bigwigs can adopt this channel. The companies with relatively fewer resources can go in for syndicated distribution where a tie-up between non-competitive marketers can be established to facilitate distribution. Annual "melas" organized are quite popular and provide a very good platform for distribution because people visit them to make several purchases.

According to the Indian Market Research Bureau, around 8000 such melas are held in rural India every year. Rural markets have the practice of fixing specific days in a week as Market Days (often called "Haats") when exchange of goods and services are carried out. This is another potential low cost distribution channel available to the marketers. Also, every region consisting of several villages is generally served by one satellite town (termed as "Mandis" or Agri-markets) where people prefer to go to buy their durable commodities. If marketing managers use these feeder towns, they will easily be able to cover a large section of the rural population.

**Promotional Strategy**
Firms must be very careful in choosing the vehicle to be used for communication. Only 16% of the rural population has access to a vernacular newspaper. So, the audio visuals must be planned to convey a right message to the rural folk. The rich, traditional media forms like folk dances, puppet shows, etc., with which the rural consumers are familiar and comfortable, can be used for high impact product campaigns.

**Rural Vs Urban Consumers – Challenges**

The biggest mistake a FMCG company can make while entering the rural India is to treat it as an extension to the existing urban market. But there is a vast difference in the lifestyles of the rural and urban consumers. The rural Indian consumer is economically, socially, and psychologically different from his urban counterpart. The kind of choices that an urban customer takes for granted is different from the choices available to the rural counterparts.

The difference in consumer behavior in essence stems from the way of thinking with the fairly simple thought process of the rural consumer in contrast to a much more complex urban counterpart. On top of this there has hardly been any research into the consumer behavior of the rural areas, whereas there is considerable amount of data on the urban consumers regarding things like - who is the influencer, who is the buyer, how do they go and buy, how much money do they spend on their purchases, etc. On the rural front the efforts have started only recently and will take time to come out with substantial results. So the primary challenge is to understand the buyer and his behavior.

Even greater challenge lies in terms of the vast differences in the rural areas which severely limits the marketer’s ability to segment, target and position his offerings. The population is dispersed to such an extent that 90% of the rural population is concentrated in villages with population of less than 2000. So the geographical spread is not as homogeneous as it is with the urban areas owing to vast differences culture and education levels. Also with agriculture being the main business of rural sector the purchasing power of rural consumer is highly unpredictable which can lead to high variations in demand patterns.

One more gray area that needs to be probed into is the importance of retailer in rural trade. Rural consumer’s brand choices are greatly restricted and this is where the retailer comes into the picture. The rural customer generally goes to the same retailer to buy goods. Naturally there’s a very strong bonding in terms of trust between the two. Also with the low education levels of rural sector the rural buying behavior is such that the consumer doesn't ask for the things explicitly by brand but like "laal wala sabun dena" or "paanch rupey waali chai dena". Now in such a scenario the brand becomes subservient to the retailer and he pushes whatever brand fetches him the greatest
returns. Thus, as there is a need to understand the rural consumer, similarly need is there to study the retailer as he is a chief influencer in the buying decision.

**Distinguishing features of Indian FMCG Business**

FMCG companies sell their products directly to consumers. Major features that distinguish this sector from the others include the following:

**Design and Manufacturing**

1. **Low Capital Intensity** - Most product categories in FMCG require relatively minor investment in plan and machinery and other fixed assets. Also, the business has low working capital intensity as bulk of sales from manufacturing take place on a cash basis.

2. **Technology** - Basic technology for manufacturing is easily available. Also, technology for most products has been fairly stable. Modifications and improvements rarely change the basic process.

3. **Third-party Manufacturing** - Manufacturing of products by third party vendors is quite common. Benefits associated with third party manufacturing include (1) flexibility in production and inventory planning; (2) flexibility in controlling labor costs; and (3) logistics - sometimes it's essential to get certain products manufactured near the market.

**Marketing and Distribution**

Marketing function is sacrosanct in case of FMCG companies. Major features of the marketing function include the following:

1. **High Initial Launch Cost** - New products require a large front-ended investment in product development, market research, test marketing and launch. Creating awareness and develop franchise for a new brand requires enormous initial expenditure on launch advertisements, free samples and product promotions. Launch costs are as high as 50-100% of revenue in the first year. For established brands, advertisement expenditure varies from 5 - 12% depending on the categories.

2. **Limited Mass Media Options** - The challenge associated with the launch and/or brand building initiatives is that few no mass media options. TV reaches 67% of urban consumers and 35% of rural consumers. Alternatives like wall paintings, theatres, video vehicles, special packaging and consumer promotions become an expensive but required activity associated with a successful FMCG.
3. **Huge Distribution Network** - India is home to six million retail outlets, including 2 million in 5,160 towns and four million in 627,000 villages. Supermarkets virtually do not exist in India. This makes logistics particularly for new players extremely difficult. It also makes new product launches difficult since retailers are reluctant to allocate resources and time to slow moving products. Critical factors for success are the ability to build, develop, and maintain a robust distribution network.

**Growth in Market**

The purchasing power in rural India is on steady rise and it has resulted in the growth of the rural market. The market has been growing at 3-4% per annum adding more than one million new consumers every year and now accounts for close to 50% of volume consumption of FMCG. The growth rates of lot of FMCG are higher in rural markets than urban markets. In product categories like toilet soaps, talcum powder, cooking oil, vanaspati ghee, tea, cigarettes and hair oil, the share of rural market is more than 50%. The table above indicates the projected market size of FMCG products in 2001–02 and 2006–07 based on the annual growth rates compounded for 1994–99 period. The estimated annual business from rural markets was Rs 1,23,000 crore, comprising Rs 65,000 crore of FMCG, Rs 5,000 crore of durables, Rs 45,000 crore of agricultural inputs including tractors and Rs 8,000 crore of two-wheelers and four wheelers. Twenty nine per cent of the rural people own cars, 27 per cent own colour televisions, 24 per cent own refrigerators and 10 per cent own washing machines, which points to the untapped potential in the rural areas.

**Effectiveness of Communication**

An important tool to reach out to the rural audience is through effective communication. A rural consumer is brand loyal and understands symbols better. This also makes it easy to sell look-alike”, says Mr. R.V Rajan, CMD, Anugrah Madison Advertising. The rural audience has matured enough to understand the communication developed for the urban markets, especially with reference to FMCG products. Television has been a major effective communication system for rural mass and, as a result, companies should identify themselves with their advertisements. Advertisements touching the emotions of the rural folks, it is argued, could drive a quantum jump in sales.

**IT Penetration in Rural India**

Today there are over 15 million villagers in India who are aware of the Internet and over 300,000 villagers have used it! Ten years back, history was created with Public Call Office phone booths (essentially manually operated payphone facilities), opening in every corner of the country. This experiment was an instant success and contributed to hundreds of thousands of jobs. Over the next two years, WorldTel is expected to
provide 1000 centres in Tamil Nadu with 2 to 20 terminals in each centre. If successful, this experiment can be replicated easily to all 27 states leading to over half a million Internet users through this experiment alone! The existing 600,000 public call offices in India will soon be transformed into public 'tele-info-centres' offering a variety of multimedia information services. The rural consumers spend time and money to access higher level information. Studies have indicated that if the content has direct relevance and will result in commercial gains, people in rural areas are willing to pay for information services.

**Impact of Globalization**

The impact of globalization will be felt in rural India as much as in urban. But it will be slow. It will have its impact on target groups like farmers, youth and women. Farmers, today 'keep in touch' with the latest information and maximize both ends. Animal feed producers no longer look at Andhra Pradesh or Karnataka. They keep their cell phones constantly connected to global markets. Surely, price movements and products' availability in the international market place seem to drive their local business strategies. On youth its impact is on knowledge and information and while on women it still depends on the socio-economic aspect. The marketers who understand the rural consumer and fine tune their strategy are sure to reap benefits in the coming years. In fact, the leadership in any product or service is linked to leadership in the rural India except for few lifestyle-based products, which depend on urban India mainly.

**10% Increase In FMCG Rural Market Size Likely, Urban Size To Fall By 25%: ASSOCHAM**

An analysis undertaken by The Associated Chambers of Commerce and Industry of India (ASSOCHAM) on FMCG in Perspective reveals that its market size in Rural and Semi-Urban segment is likely to jump up by 10% and 6% by 2010 as their younger population of approx. 180 million has already developed a special fascination for such products to further fuel the FMCG demand, particularly when this pocket’s income levels are rising and life patterns changing rapidly.

Currently, FMCG products rural market size is estimated at 52% which is projected to reach at 57% and grow by 10% in next 3 years as against 6% growth of semi-urban FMCG demand which might touch 21% level from present level of 19%, adds ASSOCHAM analysis. However, in Urban India in which FMCG market size is currently estimated at 29% level is likely to come down to 22%, registering a fall of 25% as its consumer numbering about 120 million will renounce excessive FMCG products use to maintain their physique and shift away towards adoption of use of organic products, further adds ASSOCHAM.

**Rural Vs Urban Consumers – Challenges**
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Even greater challenge lies in terms of the vast differences in the rural areas which severely limits the marketer’s ability to segment, target and position his offerings. The population is dispersed to such an extent that 90% of the rural population is concentrated in villages with population of less than 2000. So the geographical spread is not as homogeneous as it is with the urban areas owing to vast differences culture and education levels. Also with agriculture being the main business of rural sector the purchasing power of rural consumer is highly unpredictable which can lead to high variations in demand patterns. One more gray area that needs to be probed into is the importance of retailer in rural trade. Rural consumer’s brand choices are greatly restricted and this is where the retailer comes into the picture. The rural customer generally goes to the same retailer to buy goods. Naturally there’s a very strong bonding in terms of trust between the two.

**Challenges for FMCG**

Today's changing environment is a result of a wide range of change they are as follows.

- Price consciousness on buyer / customer part
- Efficient low cost manufacturing
- In efficient distribution net work.
- Category growth, leadership in retail
- Loyalty
- Change buyer behaviour
- Technology

**What should the FMCG players do now?**
They should not only price their products competitively, but also offer their rural prospects maximum value for money spent. Certainly, reaching out to 3.33 million retail outlets is an uphill task. The only way out for Indian FMCG players: put in place an aggressive cost structure that would enable them to offer low-price and value-for-money products. But then, FMCG is a low margin business with a high cost of raw materials. Consider the case of Marico: its material cost works out to a high of 59 per cent on sales. Therein lays the rural marketing paradox.

However, customer-centric and market-savvy FMCG companies have always chased respects when they perceive there is a latent demand. For instance, Hindustan Lever's Rin, Surf and Lux are available even in India's most obscure villages. Hindustan Lever had given shape to its rural strategy a few years ago when it perceived that its urban market was shrinking due to an industrial slowdown. Its Operation Bharat that focused on personal care products made the most out of surging rural incomes.

**Conclusion**

In the end it is certain that FMCG companies will have to really gain inroads in the rural markets in order to achieve double digit growth targets in future. There is huge potential and definitely there is lot of money in rural India but the smart thing would be to weigh in the roadblocks as carefully as possible. The companies entering rural market must do so for strategic reasons and not for tactical gains as rural consumer is still a closed book and it is only through unwavering commitment that the companies can make a dent in the market. Ultimately the winner would be the one with the required resources like time and money and also with the much needed innovative ideas to tap the rural markets.

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