THE INTERNATIONAL JOURNAL OF HUMANITIES & SOCIAL STUDIES

Rural Marketing of FMCG in India

Amit Kumar
Research Scholar, gjus&t, India
Amit Kumar
Assistant Professor, Dayal Singh College Evening, India

Abstract:
India is a country who has more than 600,000 villages and about 70% of the population, rural India is becoming a massive consumer goods market. And FMCG is becoming a vital product under marketing because it's of consumption is rising more day by day.Companies marketing FMCG product Only in Urban areas must concentrate on rural areas also. For this they need to understand the crucial issues related to rural consumption behavior and their consumption pattern.

1. Introduction

1.1. Fast Moving Consumer Goods (FMCG)

Fast Moving Consumer Goods (FMCG) satisfies the elemental and day-to-day household needs other than grocery, ranging from packaged foodstuff, dairy products, cooking oil, bread, butter, cereals, beverages like tea & coffee, pharmaceuticals, confectionery, biscuits, glassware, stationary items, watches, toiletries, detergents, shampoos, skin care products, cosmetics, toothpaste, dish washing liquid, shaving cream, razor, batteries, shoe polish, energy drinks, soft drinks, clothing, furniture and household accessories to electronic goods like cell phones, laptops, computers, digital cameras etc. that are usually categorized as Fast Moving Consumer Electronics or FMCEs. A major portion of the monthly budget of each household is spent on FMCG products. The introduction of sachets made rural people who are traditionally not accustomed for bulk purchase, to buy branded FMCG Products like Rs1/- shampoo, nut powders, oils, detergents, cleaning powders & liquids, tooth pastes, etc. in rural shops. This changed the pattern of buying from traditional products to branded products. 'The Fast Moving Consumer Goods (FMCG) sector is one of the leading sectors of the Indian economy. FMCG is a great part of human life. The FMCG producers have realized that there is big demand for FMCG products & ample profits for them to enter into the rural market. Today we notice this shift towards branded FMCGs in rural areas as a result of Socio Economic & Political changes in the last 5 years. This has made rural areas more viable markets even compared to urban areas. The Socio Economic and Political changes contributed to a great extent for changes in the life styles of countryside people who patronized branded FMCG products. The Government policies to promote education in rural areas enhanced their brand awareness due to the presence of at least one higher education pursuing student in their family or neighboring family. The different Government policies are also being helpful for rural people contributed in enhancing people's income followed by a change in their lifestyles resulted in patronizing the branded products. According to the National Council of Applied Economic Research (NCAER) about 70 per cent of Indian Population living in villages, India has perhaps the largest potential rural market in the world. It has as many as 47,000 haats (congregation markets), compared to 35,000 supermarkets in the US. And of the total FMCGs demand in India, nearly 53 per cent comes from the rural market. At present Indian FMCG sector is worth Rs. 1300 billion and expected to be to reach at the value of Rs. 4000 to Rs. 6000 billion by 2020. Henceforth FMCG and its closest companion Retail sector, both have potential to create huge jobs opportunities in India in the coming years primarily in functions like marketing, sales, advertising, supply chain, logistics, product packaging and development, operations, general management, and so on.

1.2. FMCG Sector

FMCG sector is a cornerstone of the Indian economy. This sector touches every aspect of human life. Indian FMCG market 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 fragmented with roughly half the market going to unbranded , unpackaged home made products. This sector presenting a tremendous opportunity for marketers of branded products to make consumers buy their branded products. Globally, the FMCG sector is a leading successful sector in selling and offering products to the lower and middle income groups, and the same is also applicable in India. Over 50% sales are made in rural India. The sector is excited about having its focus on growing rural population whose incomes are rising and which is willing to spend on goods designed to advance their lifestyle. Also with a near cut throat competition in urban India, many producers of FMCGs are driven to set bold new STP strategies for targeting the rural consumer more widely . MART, the specialist rural marketing and rural development consultancy, has found that 53 per cent of FMCG sales and 59 per cent of consumer durable sales lie in the rural areas. Of two million BSNL mobile connections, 50 per cent went to small towns and villages; of 20 million Rediffmail subscriptions, 60 per cent came from small towns; so did half the transactions on Rediff's shopping site. According to a study by Chennai-based Francis Kanoi Marketing Planning Services Pvt Ltd, the rural market for FMCG is worth Rs.65,000 crore, for durables Rs 5000 crore, for tractors and agri-inputs Rs.45,000 crore and two- and four wheelers, Rs.8000 crore. In total, a whopping Rs.123, 000 crore.

1.3. What Rural Means?

FMCG recognize rural India by certain characteristics. These are: low in population , low median income, poor infrastructure [roads, electricity, communications], and mostly agrarian rather than industrial activity. Such rural areas are within the subject of influence of neighboring cities and metros. This influence determines their aspiration levels and their feasibility as markets for many FMCG companies.

2. Review of Literature

FMCG's growth story started following the deregulation of Indian economy in early 1990s which saw dismantling of the 'license raj', resulting in a spurt in new companies and entry of a number of foreign brands. With relatively lesser capital and technological requirements, a number of new brands emerged domestically as well while the relaxed FDI conditions led to induction of many global players in the segment. Both these factors helped in leading development of the FMCG market in India. The FMCG market in India is expected to further expand to Rs 1,80,000 crore by 2015.

Despite the strong presence of MNC players, the unorganized sector has a significant presence in this industry. Availability of key raw materials, labor at low costs and presence across the entire value chain has provided Indian companies with a key competitive advantage in the twenty-first century. In most categories, the unorganized sector is almost as big if not bigger as the organized sector. Unorganized players offer higher margins to stockiest in order to gain market share.

The FMCG sector in India with a market size of USD 14.8 billion have become the fourth largest sector in the economy. The FMCG market is set to double from USD 14.7 billion in 2008-09 to USD 30 billion in 2012. FMCG sector will witness more than 60% growth in rural and semi-urban India by 2010. Indian consumer goods market is expected to reach USD 400 billion by 2010. At present, urban areas accounts for 66% of total FMCG consumption, with rural accounting for the remaining 34%. However, rural India have more than 40% consumption in major FMCG categories like beverages ,personal care, and fabric care . In urban areas, home and personal care products, including skin care and household care will keep growing at relatively attractive rates. Within the foods segments, it is predictable that processed foods, bakery, and dairy are long-term growth categories in both rural and urban areas. The growing incline of rural and semi-urban folks for FMCG products will be mainly responsible for the growth in this sector, as manufacturers will have to deepen their concentration for higher sales volumes.

Major Players in this sector include HUL (Hindustan Unilever Ltd.), ITC (Indian Tobacco Company), Nestlé India, GCMMF (AMUL), Dabur India, Asian Paints (India), Cadbury India, Britannia Industries, Procter & Gamble (P&G) Hygiene and Health Care, Marico Industries, Nirma, Coca-Cola, Pepsi and others. As per the analysis by ASSOCHAM, Companies like Hindustan Unilever Ltd and Dabur India originates half of their sales from rural India. While Colgate Palmolive India and Marico constitutes nearly 37% respectively, however Nestle India Ltd and GSK Consumer drive 25 per cent of sales from rural India. With factors like rapid urbanization, increase in demands, presence of large number of young population, etc., a large number of opportunities are available in the FMCG sector.

3. Why FMCG Companies Desired to Go Rural

There are many reasons that have urged the FMCG companies to enter the uncharted territory of rural India. Some of the attractions are discussed below:

3.1. Large Population

The rural Indian population is large and its growth rate is also high. Over 70% India's one billion plus population lives in around 627,000 villages in rural areas. This simply shows the great potentiality rural India has to bring the much needed volumes and help the FMCG companies to bank upon the volume driven growth.

	Area	**Households Population**
Rural	72.6	74.6
Urban	27.4	25.4
All-India	100	100

Table 1: Percentage Distribution of Households and Income

3.2. Rising Rural Prosperity

India is now seeing a dramatic shift towards prosperity in rural households. To drive home the potential of rural India just consider some of these impressive facts about the rural sector. As per the National Council for Applied Economic Research (NCAER) study, there are as many 'middle income and above' households in the rural areas as there are in the urban areas. There are almost twice as many 'lower middle income' households in rural areas as in the urban areas.

3.3. Distribution of People Income-Wise

According to A report by National Council for Applied Economic Research's (NCAER) -The Indian middle class, target consumers for many companies, is expected to grow up to 267 million people in the next five years, up 67 percent from the current levels, thus creating a great market opportunity for firms,. NCAER Research report said by 2015-16, India will be a country of 53.3 million middle class households, translating into 267 million people falling in the category. As per the study, which uses 'household income' as the criterion, a family with an annual income between Rs 3.4 lac to Rs 17 lakh (at 2009-10 price levels) falls in the middle class category. NCAER also said - with increase in rural incomes and growing urbanization, the percentage of rural population in the total middle class of the country will attain 48.8 percent by 2025-26 from 37.4 percent at present. This apparently is the result of development work, which happened under the five years plans and other special programmes such as land reforms, rural electrification rural communication, and rural credit facilities, etc. The absolute size of the rural market is thus expected to double that of urban India. But despite the high rural share in these categories, the rural penetration rates are low, thus offering tremendous potential for growth. According to Mr. D. Shivakumar, Business Head (Hair), Personal Products Division, Hindustan Lever Limited, the money available to spend on FMCG (Fast Moving Consumer Goods) products by urban India is Rs. 49,500 crores as against is Rs. 63,500 crores in rural India.

4. Indian Competitiveness and Comparison with the World Markets

4.1. Availability of raw materials

Due to the diverse agro-climatic conditions in India, there is a large raw material available for food processing industries. India is the biggest producer of livestock, milk, sugarcane, coconut, spices and cashew and is the second largest producer of rice, wheat and fruits & vegetables. India also produces caustic soda and soda ash, which are required for the production of soaps and detergents. The availability of these raw materials gives India the location advantage.

4.2.Labor cost comparison

Low cost labor gives India a competitive advantage. After China & Indonesia, India's labor cost is amongst the lowest in the world. Low labor costs give the advantage of low cost of production. Many MNC's also have established their plants in India to outsource for domestic and export markets.

5. Case Studies

5.1.HindustanUnileverLimited (HUL) – Shakti

Hindustan Unilever Limited (HUL) to tap this market conceived of Project Shakti. With the aim of increasing the company's rural distribution reach as well as providing rural women with income-generating opportunities, This project was started in 2001. This is a case where the social goals are helping achieve business goals. The recruitment of a Shakti Entrepreneur or Shakti Amma (SA) begins with the executives of HUL identifying the uncovered village. The representative of the company meets the panchayat and the village head and identify the woman who they believe will be suitable as a SA. After training she is asked to put up Rs 20,000 as investment which is used to buy products for selling. The products are then sold door-to-door or through petty shops at home. On an average a Shakti Amma makes a 10% margin on the products she sells. An initiative which helps support Project Shakti is the Shakti Vani program. Under this program, trained communicators visit schools and village congregations to drive messages on sanitation, good hygiene practices and women empowerment. This serves as a rural communication vehicle and helps the SA in their sales. The main advantage of the Shakti program for HUL is having more feet on the ground. Shakti Ammas are able to reach far flung areas, which were economically unviable for the company to tap on its own, besides being a brand ambassador for the company. Moreover, the company has ready consumers in the SAs who become users of the products besides selling them. Although the company has been successful in the initiative and has been scaling up, it faces problems from time to time for which it comes up with innovative solutions. For example, a problem faced by HUL was that the SAs were more inclined to stay at home and sell rather than going from door to door since there is a stigma attached to direct selling. Moreover, men were not liable to go to a woman's house and buy products. The company countered this problem by hosting Shakti Days. Here an artificial market place was created with music and promotion and the ladies were able to sell their products in a few hours without encountering any stigma or bias. This model has been the growth driver for HUL and presently about half of HUL's FMCG sales come from rural markets. The Shakti network at the end of 2008 was 45,000 Ammas covering 100,000+ villages across 15 states reaching 3 m homes. The long term aim of the company is to have 100,000 Ammas covering 500,000 villages and reaching 600 m people. We feel that with this initiative, HUL has been successful in maintaining its distribution reach advantage over its competitors. This program will help provide HUL with a growing customer base which will benefit the company for years to come.

5.2. ITC - e-Choupal

The e-Choupal model has been specifically designed to tackle the challenges posed by the unique features of Indian agriculture, characterized by fragmented farms, weak infrastructure and the involvement of numerous intermediaries, among others. Appreciating the imperative of intermediaries in the Indian context, 'e-Choupal' leverages Information Technology to virtually cluster all the value chain participants, delivering the same benefits as vertical integration does in mature agricultural economies like the USA. 'e-Choupal' makes use of the physical transmission capabilities of current intermediaries - aggregation, logistics, counter-party risk and bridge financing, while dis-intermediating them from the chain of information flow and market signals.

With a judicious blend of click & mortar capabilities, village internet kiosks managed by farmers - called sanchalaks - themselves, enable the agricultural community access ready information in their local language on the weather & market prices, disseminate knowledge on scientific farm practices & risk management, facilitate the sale of farm inputs (now with embedded knowledge) and purchase farm produce from the farmers' doorsteps (decision making is now information-based). Real-time information and customized knowledge provided by 'e-Choupal' enhance the ability of farmers to take decisions and align their farm output with market demand and secure quality & productivity. The aggregation of the demand for farm inputs from individual farmers gives them access to high quality inputs from established and reputed manufacturers at fair prices. As a direct marketing channel, virtually linked to the 'mandi' system for price discovery, 'e-Choupal' eliminates wasteful intermediation and multiple handling. Thereby it significantly reduces transaction costs.

6. Summary Findings, Conclusion and Recommendation

The brand awareness in rural areas particularly in respect of beauty care and health care products is showing an increasing tendency. (Most of the people both from illiterate & literate groups prefer branded products with the belief that quality is assured as the manufacturers are reputed companies. For Ex: Colgate Tooth Paste, Head & Shoulder shampoo).People are not worried about the price of the product. They are showing willingness to spend higher price when they realize that they can afford to spend. Since the usage of branded products of reputed companies will elevate their status as well as stature in that village. This change in the attitude to spend more on the highly priced branded products (Example: Cinthol Soap, Gorniour Hair Oil) among high income groups in rural areas clearly suggests that there is an ample scope for such products to capture the markets in this areas by increasing the supply of these products. The marketing agencies are advised to conduct health awareness programs by educating the people about the need to use the health care products to overcome tooth decay, hair fall, dry skin, etc. These products can be made more popular and acceptable among the rural people.

7. References

1. Kar, S. and Iyer B. (2009), Bharat Rescues India Inc, Indian Management, Vol.48 (4), pp 12-21.
2. Kashyap, Pradeep and Raut, Siddharth (2007), "The Rural Marketing Book, Biztantra
3. Keller, K. L., Heckler, S. E. Heckler & Houston, M.J. (1998)
4. Kinra, N. (2006), The effect of country-of-origin on foreign brand names in the Indian market,
5. Krishnamoorthy, R (2008), Introduction to Rural Marketing, Himalaya Publishing House,Mumbai
6. Krishnamurthy, Jagadeesh (2009), "The challenges and opportunities of marketing in rural india,
7. Events Faqs Newsletter (EF), December, pp. 14-18.
8. Laurent, G., Kapferer, J. N. & Roussel, F. (1987) Philip kotler , Koshy , Jha Marketing management.
9. Marketing Intelligence and Planning, Vol. 24 (1), pp 15-30.
10. Michael J. Zenor :The profit benefits (1994)
11. Rao, S. L. (2001). The Rise and fall of Fast Moving Consumer Goods (FMCG)-A Marketing Story.
12. The journal of consumer research 17(2), 141-148.
13. William G .Zikmund: Business Research Methods
14. www.info.shine.com
15. www.fmcg-marketing.blogspot.com
16. www.independent.academia.edu
17. www.isrj.net.
18. www.ezinearticles.com
19. www.business.outlookindia.com