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Fast Moving Consumer Goods Industry in Rural Market of India: A Case of Mutual Reinvigoration

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Abstract

The present study has been undertaken to make an assessment of the growing eminence of FMCG industry in the era of enriching rural market in India. The Indian Fast Moving Consumer Goods (FMCG) industry began to take shape during the past five decades. The FMCG sector is a keystone of the Indian economy as it touches every aspect of human life. The FMCG sector, which offers tremendous growth prospects, are food and beverage sector, health care and personal care. Presently, rural India accounts for 34% of total FMCG consumption, but it accounts for more than 40% consumption in major FMCG categories like as personal care, hot beverages, and fabric care. Moreover, 80% of FMCG categories are growing faster in rural India as against urban India (Nielson, 2011). There is a huge growth potential for all the FMCG companies as the per capita consumption of almost all products in the country is amongst the lowest in the world. In recent years, rural markets have acquired significance in countries like China and India, as the overall growth of the economy has resulted in substantial increase in the purchasing power of the rural communities. On account of the green revolution in India, the rural areas are consuming a large quantity of industrial and urban manufactured products. The decades of opening of Indian economy to the outside

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world and the accompanying intervention in rural economy by the government in the form of various development schemes and programmes i.e., SGSY, NREGA Sampoorna Swachchta Abhiyan, Gram Vikas Yojna etc and also decentralization of power through panchayatiraj institutions have opened new vistas of opportunities to the rural people. These together have made the rural market attractive for FMCG industry in India. This relationship has grown over the years in a reinvigorating manner leading to the revitalization of the same.

Keywords: Rural market, Fast Moving Consumer Goods, Rural Marketing, Challenges

Introduction

The Indian Fast Moving Consumer Goods (FMCG) industry began to take shape during the last five decades. The FMCG sector is a keystone of the Indian economy as it touches every aspect of human life. The FMCG companies are now drawing benefits from that opportunity. In rural India, the income of the consumers is increasing and the lifestyles are changing. There are as many middle-income households in the rural areas as there are in the urban area. Thus rural marketing has been growing steadily over the years and is now bigger than the urban market for FMCGs. With the increase in the rural literacy levels and the exposure to media, people in rural area are also becoming conscious about their buying decisions like their urban counterparts (Gupta & Mittal, 2013). As a result of the significant rise in the exposure level and brand awareness among rural people, they are becoming choosier and more demanding than ever before. The rural marketing environment also becomes more challenging for the companies to understand the buying behavior, the consuming pattern, the need and wants of the rural consumer (Gupta & Mittal, 2013).

Indian rural market with its colossal size and demand base offers great opportunities to marketers. Two thirds of India's consumers live in rural areas where almost one third of the national income is generated. It is seen as a profusion of opportunities, whether for marketing durables, textiles and garments, personal care products or financial services (Sathyanarayana, 2011). A rural marketer is faced with an entirely different set of conditions and problems while marketing in the rural area as compared with an urban area. For most marketers planning to enter the rural markets, distribution poses a serious challenge. For the successful exploration of rural markets, a basic requirement is infrastructure. The absence of such an infrastructure is aggravating the distribution challenges in rural India. There are many other challenges that FMCG companies face in tackling rural markets, viz., geographically scattered nature of rural markets, their small size, remoteness, poor connectivity and tremendous heterogeneity. Low level of literacy, too many languages and dialects, cultural diversities, inadequate banking facilities, spurious products, low per capita disposable incomes, acute dependence on the monsoon seasonal demand, and media darkness are some other serious limitations. Therefore, the real problem for the marketers to penetrate into rural markets lies in understanding the heterogeneous rural consumers, reaching products to these remote locations, and communicating with media-dark rural spectators.

Statement of the Problem:

The fast-moving consumer goods (FMCG) sector is an important contributor to India's GDP and it is the fourth largest sector of the Indian economy. *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* (Kavitha, 2012). The sector is energized about an escalating rural population whose incomes are rising and who are willing to spend on goods designed to improve their lifestyle. As the growth potential in urban markets is reducing, to sustain and survive, it is necessary for all companies to look, reach and serve the rural markets and the rural consumers, for volume-based growth. As the rural penetration increases in India, rural marketing becomes the latest marketing mantra of most of the FMCGs companies in order to tap the unlimited opportunities and putting in place a parallel rural marketing strategy for attracting the rural consumers. The present study is undertaken to make an assessment of the growing eminence of FMCG industry in the era of enriching rural market in India.

FMCGs - An Overview

FMCG is the abbreviated form of *Fast Moving Consumer Goods*. In West, FMCG is also called consumer packaged goods. Any product that is used very frequently, sometimes daily and move relatively faster at the retailer end can be classified as FMCG. Examples are soap, toothpaste, batteries, beverages, cigarettes etc. Thus, FMCGs are essential, low priced goods which get repeat sales. FMCGs are also termed as non-durable goods – a tangible item that is quickly consumed, worn out or outdated and consumed in single use or few uses (Majumder, 1998). Consumer products used for personal, family or household use are further classified as three types: convenience, shopping and specialty categories . FMCG are also called as 'consumables' that are consumed by the consumer, typically sold in packaged form and generally branded. With respect to consumer behavior towards this category, consumers tend to spend minimum effort in comparison and buying them. But much of astute marketing activities have evolved from these products, where consumers show low involvement, get wider choice and are allured by a host of inducements (Majumdar, 1998)

FMCG Category and products:

Category	**Products**
Household Care	Fabric wash (laundry soaps and synthetic detergents); household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, metal polish and furniture polish).
Food and Beverages	Health beverages; soft drinks; staples/cereals; bakery products (biscuits, bread, cakes); snack food; chocolates; ice cream; tea; coffee; soft drinks; processed fruits, vegetables; dairy products; bottled water; branded flour; branded rice; branded sugar; juices etc.
Personal Care	Oral care, hair care, skin care, personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; feminine hygiene; paper products.

Source: (ibef,)

Characteristics of FMCG

FMCG industry is characterized by a few distinct factors:

- The sector touches every aspect of human life, looks to hygiene to palate.
- This industry is characterized by a strong focus on the four Ps : Product, Pricing, Place and Promotion.
- It is a high volume, low value driven industry in most categories.
- It is brand driven, rather than product driven.
- The capital investment required in plant and machinery is not high and any reasonably sized industrial house can enter the industry in manufacturing.
- The major area in the area of marketing: brand building and promotion.
- Distribution network is extremely vital for the success of an organization in the industry.

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: -

1. Design and Manufacturing:

a. Low Capital Intensity - Most product categories in FMCG require relatively minor investment in plant 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.

b. 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.

c. 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 is essential to get certain products manufactured near the market.

2. Marketing and Distribution:

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

a. 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.

b. Limited Mass Media Options - The challenge associated with the launch and/or brand-building initiatives is that there are 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.

c. 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. Super markets virtually do not exist in India. This makes logistics particularly for new players extremely difficult. It also makes the 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.

3. Competition:

Significant Presence of Unorganized Sector –

Factors that enable small, unorganized players with local presence to flourish include the following:

1. Basic technology for most products is fairly simple and easily available.
2. The small-scale sector in India enjoys exemption/ lower rates of

excise duty, sales tax etc. This makes them more price competitive vis-à-vis the organized sector.

3. A highly scattered market and poor transport infrastructure limits the ability of MNCs and National players to reach out to remote rural areas and small towns.

4. Low brand awareness enables local players to market their spurious look-alike brands.

5. Lower overheads due to limited geography, family management, focused product lines and minimal expenditure on marketing.

Growth of FMCG Sector in India

The Indian FMCG market offers a level playing ground for both domestic and international players. All Indian brands and international brands enjoy higher acceptance in the urban market, the rural market is often dominated by the regional and local producers. The Consumer Market, especially Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is estimated to cross $20 billion by 2018 and $100 billion by 2025(AC Nielsen survey, 2011). Some of the most popular consumer goods including fruit drinks, shampoos and biscuits are among the most bought items in rural and semi-urban India and will continue to be so. It also revealed that growth in the FMCG sector in rural India increased 3.5 times from 2000 to 2010, as compared to 3.2 times in urban India. Incomes in India are likely to grow 3 times over the next two decades and India will become the world's fifth largest consumer market by 2025 (McKinsey Global Institute study, 2007). Market share movements indicate that companies such as Marico Ltd and Nestle India Ltd, with domination in their key categories, have improved their market shares and outperformed peers in the FMCG sector. This has been also aided by the lack of competition in the respective categories. Single product leaders such as Colgate Palmolive India Ltd and Britannia Industries Ltd have also witnessed strength in their respective categories, aided by innovations and strong distribution. Strong players in the economy segment like Godrej Consumer Products Ltd in soaps and Dabur in toothpastes have also posted market share improvement, with revived growth in semi-urban and rural areas. Penetration level and per capita consumption in many product categories is very low compared to world average standards representing the unexploited market potential. Mushrooming Indian population, particularly the middle class and the rural segments, presents the huge untapped opportunity to FMCG players. Growth is also likely to come from consumer 'upgrading' in the matured product categories like processed and packaged food, mouth wash etc. A distinct feature of the FMCG industry is the presence of international players through their subsidiaries (HLL, P&G, Nestle), which ensures innovative product launches in the market from their parent's portfolio. The rural FMCG Market of India is on the verge of registering substantial expansion across the country.

The Indian Rural FMCG market is mostly unorganized and it is generally dominated by small time retailers. The organized FMCG market is only confined to the urban areas of India. Rural India mostly depends on agriculture, directly or indirectly for livelihood. Further, almost 68% of Indian population lives in rural India in around 6, 00,000 villages. Rural India offers tremendous growth prospects for the FMCG industry. Facilitation of better rural infrastructure like roads, telecommunication, electricity, supply chain, and transportation would propel the growth of the Rural FMCG Market of India. The FMCG sector, which offers tremendous growth prospects are food and beverage sector, health care and personal care. Presently, rural India accounts for 34% of total FMCG consumption, but it accounts for more than 40% consumption in major FMCG categories like personal care, hot beverages, and fabric care.

Rural Market in India

In recent years, rural markets have acquired significance in countries like China and India, as the overall growth of the economy has resulted in substantial increase in the purchasing power of the rural communities. On account of the green revolution in India, the rural areas are consuming a large quantity of industrial and urban manufactured products. In this context, a special marketing strategy, namely, rural marketing has taken shape. Rural India, mostly termed as “high opportunity” market, is no longer just an opportunity, but is now yielding results. The concept of Rural Marketing in Indian Economy has always played an influential role in the lives of people. In India, leaving out a few metropolitan cities, all the districts and industrial townships are connected with rural markets.

Rural Consumer: The differences between rural and urban consumers always exist in India. The Indian rural customer is marked by illiteracy and poverty. Illiteracy leads to an inability to identify brand differences and read the basic text on packages. Poverty and dependence on vagaries of monsoon result in a low and unpredictable purchasing power. Moreover, products are sold loose, giving high competition to branded sealed products. Ignorance and illiteracy are accompanied by strong influence leaders like the local panchayat members, caste and religious leaders etc. The rural consumers are economically, socially and psychologically different from their urban counterparts and are definitely price-sensitive.

Irregular income, dependency on the vagaries of monsoon induces the rural consumer to buy in small quantities. To address this issue, most FMCG companies have introduced products (such as tea, shampoos, biscuits etc.) in smaller packs and sachets to make the product more affordable for rural consumers and obtain a share of wallet. Small Coke worth Rs 5, Chick shampoo and Meera shampoo sachets has been credited with pioneering the sale of shampoos in sachets at Rs. 1 and Rs. 2, a trend that boosted rural sales. Since rural population does not have the concept of storing goods and blocking too much capital, it is important for rural marketers to provide products in small quantities as well as good credit systems for larger products. It is also important to induce first time purchase and trials so that customer is able to experience products he never has. Credit facility also needs to be extended to the wholesalers.

Rural customers have upgraded their lifestyles and as a result are purchasing lifestyle products like cosmetics, beverages, mobile phones, etc, which have become necessities for them. Urbanization has led to a better life style in the rural areas, which is no longer bound by geographical areas.

Market Size for FMCG Sectors in Rural India

The rural market in India is not a separate entity in itself and it is highly influenced by the sociological and behavioral factors operating in the country. The total size of the rural market is estimated at about 83.3 crore people or 68.84% of Indian population (Census, 2011). The rural market brings in bigger revenues in the country, as the rural regions comprise the maximum consumers in this country. The rural market generates almost more than half of the country's income. Rural India contributes a big chunk to India's GDP by way of agriculture, self-employment, services, construction etc. The rural population is empowered with rising income, improving education and awareness levels, enhanced contact with the outside world, evolving consumption patterns, emerging lifestyles and, most importantly, shift in occupation from agriculture to manufacturing, self-employment and construction.

The shift in rural income may not necessarily be happening due to rising food production, though it has a role to play, but the biggest change in the rural areas in the last few years has been the reducing dependence on farm income. The contribution of non-farm income to total rural income has increased.

Challenges Faced by FMCG Sectors for Rural Marketing

The peculiarities of the rural markets and rural consumers pose challenges to the marketers in reaching them effectively. While making out a case for opportunities that are rapidly developing in rural markets, one should not underestimate the several daunting problems in planning for growth. There are a large number of small villages which are not easily accessible because of weather beaten roads. Rural consumers are far less homogeneous than urban consumers. The main problems of rural marketing are discussed below:

Transportation problems: Marketing activities require transportation facilities. Due to poor transportation facilities, farmers and marketers find it difficult to reach markets. Transportation infrastructure is quite poor in rural India. Nearly 80 percentages of villages in the country are not connected by well constructed roads.

Warehousing: In the rural areas, there are no facilities for public as well as private warehousing. Marketers face the problem of storage of their goods.

Packaging: It is the first important step of product processing. If the packaging cost is high, the total cost of products goes up. It is suggested that the marketers should use cheaper materials in packaging for the rural markets.

Media Problems: Media have lots of problems in rural areas. Television is a good medium to communicate message to the rural people. But due to non-availability of power, as well as television sets, majority of the rural population cannot get the benefits of various media.

Seasonal Marketing: The main problem of rural marketing is seasonal demand in rural areas, because 75% of rural income is also seasonal. For example, the demand for consumer goods will be high during the peak crop harvesting period, because this is the time when the rural people have substantial high cash flow. Rural marketing depends upon the demand of rural people and demand depends upon income and consumer behaviour.

Low Per Capita Income: Per capita income is lower in rural areas compared to those in urban areas. Again, the distribution of rural income is highly skewed, since the land holding pattern, which is the basic asset, is skewed. Thus the rural population presents a highly heterogeneous spread in the villages.

Low Level of Literacy Rate: Literacy rate is low in rural areas compared to urban areas. This again leads to the problem of communication for promotion purpose. Print medium becomes ineffective and to an extent irrelevant in rural areas since its reach is poor.

Distribution: An effective distribution system requires village-level shopkeeper, Mandal/ Taluka- level wholesaler or preferred dealer, distributor or stockiest at district level and company-owned depot or consignment distribution at state level. The presence of too many tiers in the distribution system increases the cost of distribution.

Career in Rural Market: While rural marketing offers a challenging career, a rural sales person should require certain qualifications and specialized talent to deal with rural consumers.

Cultural Factors: Culture is a system of shared values, beliefs and perceptions that influence the behavior of consumers. There are different groups based on religion, caste, occupation, income, age, education and politics and each group exerts influence on the behavior of people in villages. There are several difficulties confronting the effort to fully explore rural markets. The concept of rural markets in India is still in evolving shape, and the sector poses a variety of challenges. Distribution costs and non-availability of retail outlets are the major problems faced by the marketers. . The unique consumption patterns, tastes, and needs of the rural consumers should be analyzed at the product planning stage so that they match the needs of the rural people. Therefore, marketers need to understand the social dynamics and attitude variations within each village though nationally it follows a consistent pattern and each group exerts influence on the behavior of people in villages.

There are several difficulties confronting the effort to fully explore rural markets. The concept of rural markets in India is still in evolving shape, and the sector poses a variety of challenges. Distribution costs and non-availability of retail outlets are major problems faced by the marketers. The unique consumption patterns, tastes, and needs of the rural consumers should be analyzed at the product planning stage so that they match the needs of the rural people. Therefore, marketers need to understand the social dynamics and attitude variations within each village though nationally it follows a consistent pattern.

Factors Accountable For Upcoming Paradigms of Rural Marketing

Increase in purchasing power and disposable income: Projects from the private companies and the rural employment initiatives by the governmental like NREGA (National Rural Employment Guarantee) schemes have given the rural population an opportunity to meet their daily needs. The loan waver in the agriculture sector and an increasing demand for labor in the urban areas, has given a boost to the income levels in the rural sectors. Consequent lifestyle up grade has added a new spectrum.

Accessibility of market: Improvement in the road systems linking the villages has led to a systematic product distribution system. Earlier, there was a "trickle down "of the stocks observed to the buyers in the interior villages. Nowadays companies use delivery cum promotion vans that travel 8-10 haats/markets daily as a part of direct contact with villagers.

Competition in the urban market: The urban markets have got extremely saturated with the presence of all big players. This is very much evident in the automobile market. Motorcycles and scooters often find more acceptance in rural market as compared to urban market, since there is more proliferation of brands in the latter markets.

Reduction of risk during recession: It has been observed that the companies which cater to both urban and rural markets tackle the recession in a better way. The demand for goods in the urban market often follows a cyclic trend whereas in the rural market it is steady. The companies are bound to tailor the strategies depending on various factors to appeal to the rural market. For example, Hindustan Unilever Limited came out with the concept of "Shakti Ammas" (female social entrepreneurs) which was an innovative way of marketing products. This much needed transition can be weighed according to the 4 A's model (Availability, Affordability, Acceptability and Awareness).

Availability deals with making the product reach the consumers. For this purpose a highly integrated extensive distribution network is necessary and in rural context, the company incurs higher cost towards the logistics as compared to urban areas. In case of Shakti campaign, the local Shakti Amma's are selected based on their popularity which allows faster access to products.

Affordability involves pricing the product in such a manner that people are attracted and at the same time it covers all the cost incurred.

Acceptability encompasses issues how the product or service could be made more acceptable to the rural consumers by incorporating attractive features. For example, Eveready came out with Jeevan-Sathi torches, with features like durable design and long life to make it more acceptable.

Awareness is linked to the issues of promotion of product in rural areas. The promotion strategy needs to be adapted to the village environment, the local language and means of communication used. The best places to promote could be the frequently visited local haats and melas, the local festivals. Agricultural cycles require a major consideration too. As rural households form 72% of total households and increasing levels of income coupled with more and more penetration to the rural markets is expected to take rural FMCG from the current Rs. 87,900crore to a market size of Rs. 1,06,300 crore in 2012. Moreover, 80% of FMCG categories are growing faster in rural India as against urban India (Nielson, 2011). There is a huge growth potential for all the FMCG companies as the per capita consumption of almost all products in the country is amongst the lowest in the world.

Conclusion

Following the decades of opening of Indian economy to the outside world and the accompanying intervention in rural economy by the government in the form of various development schemes and programmes i.e., SGSY, NREGA Sampoorna Swachchta Abhiyan, Gram Vikas Yojna etc, and also decentralization of power through panchayatiraj institutions have opened new vistas of opportunities to the rural people. These together have made rural market attractive for FMCG industry in India. This relationship has grown over the years in a reinvigorating manner leading to the revitalization of the same.

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