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A Comparative Study of Growth, Challenges and Opportunities in FMCG of Rural Market

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Abstract – 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. 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. FMCG Industry in India is witnessing a **change** – a change in the pattern in which it is growing – needless to say, with the changing demographics, the pattern of marketing would also change. As **rural penetration** increases, the rural markets would command more and more share of the overall FMCG space. Though the urban markets are growing too, the **incremental addition** in consumers / households is much more in rural space as compared to urban markets. Rural marketing has become the latest marketing *mantra* of most FMCG majors. The rural India is vast with unlimited opportunities, waiting to be tapped by FMCG's. Hence the Indian FMCG sector is busy putting in place a parallel rural marketing strategy. Therefore a comparative study is made on growth, opportunity and challenges of FMCG's in rural market. This paper will provide detailed information about the growth of FMCG industry in rural market of India and examining the challenges, opportunities for the FMCG's in rural market with growing awareness and brand consciousness among people across different socio-economic classes in rural area of India and how the rural markets are witnessing significant growth.

Keywords – FMCG, Rural Market, Rural Consumer.

I. INTRODUCTION

FMCG companies in India have always enjoyed a vast potential market because of the large population of the country. The improved economic situation of both the rural and urban consumers has helped FMCG companies to further expand their market to the hinterlands of the country. The Indian FMCG companies enjoy a diverse industrial base and offer a variety of products to consumers, namely toiletries, personal care products, soaps, detergents, oral hygiene, packaged foods, beverages, grooming products, healthcare products, plastic products, bulbs, batteries, glassware etc. It is the fourth largest sector in India, creating employment for more than 3 million people in the country with a market size of over Rs 110,000 crore (around \$22 billion) and is estimated to grow to over Rs 185,000 crore (around \$37 billion) by 2014. FMCG Industry is characterized by a well established distribution network, low penetration levels, low operating cost, lower per capita consumption and intense competition between the organized and unorganized segments

Fast Moving Consumer Goods (FMCG) goods are popularly named as Consumer Packaged Goods. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals. The most common in the list are toilet soaps, detergents, shampoos, toothpaste, shaving products, shoe polish, packaged foodstuff, household accessories and extends to certain electronic goods. These items are meant for daily of frequent consumption and have a high return.

A subset of FMCGs are Fast Moving Consumer Electronics which include innovative electronic products such as mobile phones, MP3 players, digital cameras, GPS Systems and Laptops. These are replaced more frequently than other electronic products. White goods in FMCG refer to household electronic items such as Refrigerators, T.Vs, Music Systems, etc.

II. 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, according to an AC Nielsen survey. Some of the most popular consumer goods included 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.

In the Annual Global Investor Conference, 2011, conducted by Motilal Oswal, it is stated that the FMCG sector in India has registered a Compound Annual Growth Rate (CAGR) of 11.2% from 2000 to 2010, with an average annual volume growth of 8.5%. This growth has been attributed to factors like, increased consumption, rise in income levels, changes in lifestyles and demographic changes. The conference highlighted data from an AC Nielsen survey, stated that the rural sector in India accounts for about 33% of the total revenue every year. It also stated that the FMCG sector stood at \$30 billion in 2010. Food occupies the major chunk in this sector, with about 52%, followed by non-food 45% and Over the Counter (OTC) by 3%. According to Booz & Company, the Indian FMCG sector is expected to grow between 12% to 17% by 2020 and would reach a market size of ₹4,000 to ₹6,200 billion. According to a study by McKinsey Global Institute (MGI), 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.

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 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 as personal care, hot beverages, and fabric care.

III. 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 into 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 India 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 difference between rural and urban consumers always exist in India. Indian rural customer is large with 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 into 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. Since rural consumers are economically, socially and

psychologically different from the urban counter parts and are definitely the rural consumers are 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 in rural sales. Since rural population does not have the concept of storing goods and blocking too much capital into 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. Urbanisation has become more of a life style and is no longer bound to geographical areas.

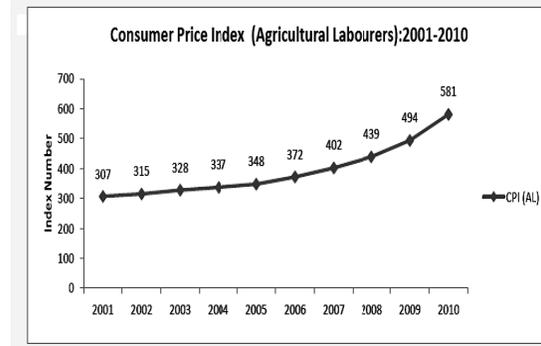
IV. MARKET SIZE FOR FMCG SECTORS IN RURAL INDIA

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 (according to the Census 2011). The rural market brings in bigger revenues in the country, as the rural regions comprise of 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. Thanks to infrastructure development happening in villages and

guaranteed employment programme (Mahatma Gandhi National Rural Employment Guarantee Act or MNREGA), people even at the bottom of the pyramid now have money in their hands. To maintain their purchasing power, the government had decided to link wages to consumer price inflation. As a result, the village, a symbol of poverty, few years ago, is becoming an engine of growth.

Consumer Price Index (Agricultural Labourers) 2001-2010:



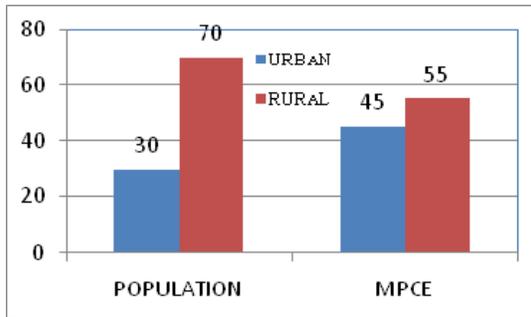
Price Indices are a good indicator of market condition and barometer of inflationary tendencies. The CPI for agricultural labourers was 307 in 2001 increased to 581 in 2010 (base year 2001) shows a positive trend for the FMCG sectors.

MPCE Based on 63rd Round of NSSO:

As per a strict measure used by the National Sample Survey in its 63rd round, called Monthly Per Capita Expenditure, rural expenditure accounts for 55% of total national monthly expenditure and can be seen in the above Fig. The rural population currently accounts for one-third of the total Indian FMCG sales.

Rural Urban Demand:

From the table we can see that percentage increase in demand of edible oils and packed biscuits is more in urban areas as compared to rural areas. Whereas in all other items like health beverages, shampoos, toilet soaps, washing cakes and washing powder the increase in demand is more in rural areas in comparison from urban areas. Therefore, we can say that the consumption of such items in rural areas is increasing at a high pace, even higher than the growing demand in urban areas. Thus, after studying the rural share in respect of stock of consumer goods, consumer demands, demand for consumables and difference in rural-urban demand we can say that the rural markets are becoming more and more lucrative for the FMCG marketers, because of growing demand in villages.



Difference in Rural Urban Demand(Consumables)

Items	Area	2001-02 (in '000)	2009-10 (in '000)	% Increase
Edible Oil	Urban	2328.0	3966.5	71.24
	Rural	4681.6	666.2	42.3
Health Beverages	Urban	96.5	223.4	131.5
	Rural	37.0	88.9	140.2
Packed Biscuits	Urban	550.4	1091.0	98.2
	Rural	294.4	521.6	77.1
Shampoos	Urban	13.6	31.4	130.8
	Rural	6.7	16.3	143.2
Toilet Soap	Urban	335.9	464.2	38.1
	Rural	469.4	657.7	40.1
Washing Cakes	Urban	510.7	616.5	20.7
	Rural	1351.7	2104.5	55.6
Washing Powder	Urban	847.1	1485.4	75.3
	Rural	1006.2	1847.8	83.8

Source :The Great Indian Market National Council of applied Economic Research

V. 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 all weather roads. Rural consumers are far less homogeneous than urban consumers. The main problems of rural marketing are discussed below:

Transportation problems: Transportation infrastructure is quite poor in rural India. Nearly 80 percentages of villages in the country are not connected by well constructed roads. Marketing activities require

transportation facilities. Due to poor transportation facilities, farmers and marketers find it difficult to reach markets.

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

Packaging: It is the first important step of product processing. If the packaging cost is high, it will increase the total cost of products. 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 peakcrop harvesting period, because this is the time at which 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 basic asset, itself is skewed. Thus the rural population presents a highly heterogeneous spread in the villages.

Low Level of Literacy Rate: The 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 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

VI. 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 labour 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. These days, 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 acceptances 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 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 Ammas are selected based on their popularity which allows faster access to products.

Affordability involves pricing the product in such a manner that the 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 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. 87,900 crore to a market size of Rs. 1,06,300 crore in 2012, which is a CAGR of 10%. Moreover, the global information and measurement company Nielson has revealed that around 80% of FMCG categories are growing faster in rural India as against urban India. 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.

VII. CONCLUSION

The new phase of rural consumption appears to provide a great opportunity for the FMCG sectors. Marketers will need to evolve new strategies to connect and communicate with a more aware and unreserved consumer than ever before, the study found. With this, product and brand development cycles will need to undergo a dramatic change. Today's rural consumer is not just indulgent, but 'smart' too: she wants products that carry the best of traditional wisdom and modern science, providing her convenience and individualism in one go. This means product and brand strategies that respond to these demands are more likely to succeed. This bolder and more individualistic consumer is

unafraid to exhibit and 'externalize' the need to indulge. Recognizing this and coupling it with ideas that offer 'individualized convenience' will separate the brands that will win from the others. The demand or prospect could be increased further if these companies can change the consumer's mindset and offer new generation products. Thus we can safely suggest that the future drivers of growth are the rural markets for the FMCG sectors.

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