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Survival of business by turning towards Rural Markets

ABSTRACT

A recession is a decline in a country's gross domestic product (GDP) growth for two or more consecutive quarters of a year. A recession is also preceded by several quarters of slowing down. An economy which grows over a period of time tends to slow down the growth as a part of the normal economic cycle. An economy typically expands for 6-10 years and tends to go into a recession for about six months to 2 years. A recession normally takes place when consumers lose confidence in the growth of the economy and spend less. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment. Investors spend less as they fear stocks values will fall and thus stock markets fall on negative sentiment. Economic recession hit the urban pockets badly and forced companies to train their guns on rural India, which was witnessing a major change in its aspiration and lifestyles and even had an income that translated into increasing volumes. Certainly, rural marketing holds the key to success of FMCG companies, which are desperate to find ways out to gain deeper penetration. Not just the rural population is numerically large; it is growing richer by the day. Of late, there has been a phenomenal improvement in rural incomes and rural spending power.

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1. RECESSION

Recession is defined as a slump in economy of the country for a minimum two quarters of the year. If this has been happening for two or more years, the country has been hit by a recession. It is a total state of irrevocable economic failure. When a country is doing well all round its Gross Domestic Product (GDP) is on the rise.A recession is a decline in a country's gross domestic product (GDP) growth for two or more consecutive quarters of a year. A recession is also preceded by several quarters of slowing down.

2. WHAT CAUSES IT?

An economy which grows over a period of time tends to slow down the growth as a part of the normal economic cycle. An economy typically expands for 6-10 years and tends to go into a recession for about six months to 2 years. A recession normally takes place when consumers lose confidence in the growth of the economy and spend less. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment. Investors spend less as they fear stocks values will fall and thus stock markets fall on negative sentiment.

3. OPPORTUNITIES IN RURAL MARKETING IN RECESSION*(SHIFTING TO RURAL MARKET TO COPE WITH RECESSION)*

Coca-Cola India doubled the number of outlets in rural areas from 80,000 in 2001 to 160,000 in 2003, which increased market penetration from 13 per cent to 25 per cent. It brought down the average price of its products from Rs 10 to Rs 5, thereby bridging the gap between soft drinks and other local options like tea, butter milk or lemon water. It doubled the spend on Doordarshan, increased price compliance from 30 per cent to 50 per cent in rural markets and reduced overall costs by 40 per cent. It also tapped local forms of entertainment like annual haats and fairs and made huge investments in infrastructure for distribution and marketing.

Rural market accounts for 80 per cent of new Coke drinkers and 30 per cent of its volumes. The rural market for Coca-Cola grew at 37 per cent over the last year, against a 24 per cent growth in urban areas. Per capita consumption in rural areas has doubled in the last two years. The launch of the Rs 5 pack has reaped rich dividends in terms of sales and the bottles are expected to account for 50 per cent of the company's sales in 2003. Coca-Cola is just one example. A lot of fast-moving consumer goods and consumer electronic companies are aggressively targeting rural consumers. Speakers at the session on 'Going rural: The new marketing mantra' agreed that the rural market was the key to survival in India. The necessity arose because the growth rates of consumer products were slowing down not because the markets were getting saturated in terms of penetration as in the US, but because most consumer markets were getting cluttered. While overall volumes continue to grow reasonably well, there are too many players eating into each other's market share.

The companies, therefore, reduce prices in urban areas and invest heavily in sales promotion, intensifying the battle for market share. Operating margins come under pressure and new growth markets have to be explored. This is where the rural markets play an important role. The rural market was tempting since it comprised 74 per cent of the country's population, 41 per cent of its middle class, 58 per cent of its disposable income and a large consuming class, Coca-Cola India CEO Sanjiv Gupta said.

Today, real growth is taking place in the rural-urban markets or in the 13,113 villages with a population of more than 5,000. Of these, 9,988 villages are in seven states — Uttar Pradesh, Bihar, West Bengal, Maharashtra, Andhra Pradesh, Kerala and Tamil Nadu. For manufacturers of consumer goods, these are the markets to look out for. While the 1980s saw a boom in Class I towns with the spread of television, the Class II towns showed strong growth in the 90s propelled by reforms. According to the National Council for Applied Economic Research, the millennium belongs to the Class III and IV rural-urban towns. It estimates that an average rural Indian household will have five major consumer appliances by 2006, almost double of what it had five years ago. In order to efficiently and cost-effectively target the rural markets, the companies will have to cover many independent retailers since in these areas, the retailer influences purchase decisions and stock a single brand in a product category. In such an environment, being first on the shelf and developing a privileged relationship with the retailer is a source of competitive advantage to consumer good companies.

Most of the companies have started tinkering with pack sizes and creating new price points in order to reach out to rural consumers since a significant portion of the rural population are daily wage workers. Thus, sachets and miniature packs, as in the case of shampoo sachets priced at Re 1 and Rs 2 or toothpaste at Rs 10, have become the order of the day in hinterland India and help improve market penetration. Yet, driving consumption of goods in rural areas is not just about lowering prices and increasing volumes but also about product innovation and developing indigenous products to cater to their demands.

For example, soap makers use advanced technology to coat one side of the soap bar with plastic to prevent it from wearing out quickly.

Also, the companies need to turn to innovative methods of advertising like fairs or haats to reach their potential customer base. Two years ago, many companies congregated at the Ganges River for the Kumbh Mela festival, where about 30 million people, mostly

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from rural areas, were expected to come over the span of a month. The companies provided 'touch and feel' demonstrations and distributed free samples. This proved to be extremely effective in advertising to the rural market.

4. HOW DO WE EFFECTIVELY COPE WITH RECESSIONS? (*RURAL MARKETING STRATEGIES)*

With all of the talk of an impending recession, many foundry managers are looking to marketing for a solution to the problem of keeping in the black. This presents us with one of marketing's biggest challenges: How do we effectively cope with recessions? Before developing a marketing strategy to cope with a recession, it is important to try to forecast its duration, depth and diffusion. Duration describes how long the recession will last; depth, how deep it goes; and diffusion, how wide it spreads. Diffusion is particularly important because recessions don't affect all of our customer industries to the same degree. Speed of Response In a recession, casting sales volume inevitably declines. If, in addition, prices fall and costs continue to rise, you have the prescription for a red ink bath. The extent and speed of your response to declining volume will depend on how much foundry profits have shrunk, how deep you expect this recession to be, how long it will last and how price-sensitive the casting market will become. On the non-marketing side, foundries usually cope with recessions by reducing general overhead, laying off people, instituting more rigorous cost-reduction programs, tightening up their working capital control to increase liquidity, and watching their purchases more closely. All of these moves are designed to reduce the break-even point. If you expect a short, light and fairly confined recession, then less drastic marketing actions are warranted. In this more enlightened age, some foundries are already attempting to cope with the recession by reducing their marketing staffs. The logic used here apparently argues that sales and prof its produce dollars to be spent for marketing, not that well-invested marketing dollars generate profitable sales. Cost-cutting is certainly required, but not to the extent that it threatens to put you out of business. Marketing Options There are a number of marketing options available to help combat recessions. Chief among these are: intensifying sales and marketing efforts; changing the customer and casting mix; instituting cost-cutting casting design and redesign programs; and casting price adjustments. Just because sales competition is most fierce in times of recession, this is probably the best reason of all for intensifying your direct sales efforts. Establish higher call quotas and an increased level of sales effort. The last thing you want to do is reduce travel and entertainment expenses. Also, take a look at other elements of your marketing program. How about a concentrated direct mail effort? What about trade shows? Look for ways to increase your visibility in the marketplace and develop new sales prospects. It is a fact that most industries greatly increase their sales promotions expenditures in periods of recession. Aggressive efforts should also be made to re-evaluate your customer and casting mix. Particularly in slow business periods, you are better off without some customers and those jobs that are losers. Doing this takes careful attention and a good cost system, but when sales are down it is critically important to plug up all the profit drains. When it comes to reductions, focus on the buyer's interest and not on his pricing position. This will usually uncover alternative solutions to a negotiating problem. For example, a certain price may be a buyer's position. But, what about quality, delivery and service, which are important interests and should be key elements in the bargaining process? During recessions our customers experience declining sales, falling productivity, under-utilized capacity and a demoralized work force. Under terrific pressure to lower the break-even point, their purchasing departments search for lower prices, threatening to pull patterns if their present foundry sources don't reduce or hold prices. Thus, you have to employ price and value positioning to maintain your present customers. And this can sometimes be an opportunity in disguise. Foundries that seek ways to save their customers money through casting design and redesign will find the welcome mat out. At every opportunity you should endeavor to increase involvement of your engineering staff in customer casting design and redesign. A large potential exists for converting fabrications and forgings to castings. Engineering services are an important marketing asset and availability of your assistance in this area should be made widely known to both customers and prospects through sales promotion and direct sales contact with the customer's engineering and design people. Price Cutting When business is bad, cutting prices usually only makes things worse. Sales must be increased substantially to recover the dollars lost by the reduced pricing levels. When sales slow down, it takes a good marketing plan and lots of hard work and creativity to turn the situation around without sacrificing margins. If nothing seems to work, then the only way to increase sales and generate contribution may be to cut prices. However, this should be done only as a last resort and not as a knee-jerk response to try to help out the bottom line. The essential requirement for any price reductions is that profitability from the additional sales should exceed all increases in variable and fixed costs. Just how much discounted business you can afford to take on is a marketing decision and should receive careful consideration.

5. HOW TO BOOST DEMAND (*THE FIRST STEP OF MARKETING*)

Marketers have to take the initiative to boost demand. The relevance of marketing is greater in a recession than in any other stage. It's time to get back to the good old definition of marketing: meeting customer needs profitably.

A. TIME TO INTROSPECT

A recession is a good period for marketers to take an objective look at their brand portfolio. When there is euphoria, value takes a backseat and consumers indulge. When the going gets tough, consumers tighten their purse-strings and value takes the driving seat.

This is the time to see which brand in your portfolio offers the greatest value to the consumer. If your sales are going down sharply, it's time to re-engineer the brand's value proposition. Such introspection will also lead to a lot of ideas for new products. The changing needs of customers will create new opportunities for designing better offerings.

B. INVEST IN BRANDS:

Marketers' initial response to a recession is to cut marketing cost. On the contrary, this is the time to invest in brands. You will be heard when everyone else is shutting their marketing mouth. Bargain with the media over rates and invest in building your brand. Investing in brands does not mean that one should spend heavily on expensive advertising and promotions. During the cash crunch, marketers have to be innovative in identifying the most cost-effective media. Cost-effective options like public relations and social media should be exploited to maintain the brand's share of voice.

C. CUT COSTS

Even if you are selling a premium brand, cut costs as if the world is going to end. When cutting costs, you should have a clear understanding of which costs should be

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eliminated. Usually marketers' knee jerk reaction is to cut investments rather than costs. Instead cut costs and not investments. Invest in your brand, put out a lot of promotional campaigns but cut cost in media, raw materials etc. Strive to lower your brand's break-even points to new lows. Stick to the core in a slow economy, it's imperative that marketers stick to the core proposition of their offerings. It is vital to go back to the consumers and check whether they consider the brand relevant in the current environment. If customers do not feel that the brand's value proposition is meeting their new requirements then it's time for the brand to re-invent itself to become relevant. Change the marketing mixes if necessary to survive the downturn.

D. CASH IS KING

We have moved from an economic situation where credit was the buzzword into one where cash is king. This is applicable both to consumers and organizations. The much-celebrated consumer boom until last year was founded largely on cheap credit. Now both consumers and companies are facing the credit crunch. It's still not too late to hoard cash. Restructure the finances to get the cash flowing in and be miserly in letting go of cash. A wise strategy is to convert receivables into cash quickly. Renegotiate large contracts to save money.

E. SALES PROMOTION HOLDS THE KEY

Sales promotion is often considered the enemy of a brand. Too many free gifts and offers are bound to hamper the long-term equity of a brand. But extraordinary times call for extraordinary measures. It is important that firms should survive the slowdown to reap the benefit of long-term brand equity. For firms facing the problem of piling inventory, sales promotion is the only option to survive. However, sales promotions can be done creatively to lessen the impact on the brand's equity. The golden rule is to roll over the stock quickly together cash flowing in. Even during a recession, consumers have the urge to buy. Give them an offer that they cannot resist.

F. PARTNER YOUR STAKEHOLDERS

A company may not be able to survive a recession on its own. So partner the stakeholders, be they lenders, customers, employees or channel partners. Create a system of trust and kinship and face the downturn together. Talk to the suppliers and creditors and have the action plan ready to face the tough times together. It will be worth

focus on value. A slowdown in the economy often creates a bloody price-war. Fearing the flight of customers, brands often go on a price-cutting spree which leads to the worst form of competition – price. In a price-war, only big firms with lots of cash will win but that too at a heavy cost.

It is better for firms to concentrate on value creation rather than price. In a price-oriented strategy, firms concentrate on reducing price to win customers whereas in a value creation strategy, firms concentrate on creating value for customers. The idea is to bypass the price focus by concentrating on value.

Put yourself in the customer's shoes. Marketers get their best answers when they listen to the customers. Customers will tell you how to beat a recession. The only thing is: you have to ask them in the first place. At least understand them. So when customers start tightening their purse-strings, so can you. They will also tell you how much they can pay you. Listen to that and do it. It is true that it is riskier to invest in new products during a recession. If you cannot innovate then cut cost. If your company is the lowest cost producer then you have a better chance of survival.

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6. CONCLUSION

Economic recession hit the urban pockets badly and forced companies to train their guns on rural India, which was witnessing a major change in its aspiration and lifestyles and even had an income that translated into increasing volumes. India s agrarian economy is fundamentally strong. Rural India accounts for as much as 70 per cent 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. Companies such as HLL, Colgate and Britannia who already had a strong rural focus, stepped up the gas further. HLL unleashed its "Operation Bharat". Britannia pushed its Tiger biscuits to every nook and corner of the country, while Colgate went about wooing the rural masses by offering low-priced products in convenient packaging. Those who could not do it on their own went piggyback on somebody else. P&G, whose distribution is largely urban, chose to leverage Marico's retail reach. 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.

Certainly, rural marketing holds the key to success of FMCG companies, which are desperate to find ways out to gain deeper penetration. Not just the rural population is numerically large; it is growing richer by the day. Of late, there has been a phenomenal improvement in rural incomes and rural spending power.

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