

Growth of Indian Rural Market: An Invitation to FMCG Sector

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<<< Abstract

Fast moving consumer goods (FMCG) have attracted Indian villagers, when the urban demands for the goods are getting saturated, the manufacturing companies look at this development as an opportunity, Large FMCG companies including multinational companies (MNC) are planning their own strategies to enter this large and developing rural market. The marketing strategies have to be tailor made to suit rural conditions the FMCG producers now realize that there is a lot of opportunity for them to enter into the rural market. The sector is excited about the rural population whose incomes are rising and the life styles are changing there are as many middle income house holds in the rural areas as there are in the urban. 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% sales is made to middle class households to day and over 50% of the middle class in rural India. Many companies in the FMCG sector in India have taken up a developmental approach to nourish this new market. This paper covers to rural, the challenges, the difference between the rural and the urban market and the suitable marketing strategy with suitable example of companies and their experience in going rural.

1. INTRODUCTION

The Indian fast moving consumer goods (FMCG) industry began to shape during the last fifty old years. The FMCG sector is a cornerstone of the Indian economy. The sector touches every aspects of human life, Indian FMCG market has been divided for a long time between the organized sector and the urorganized sector, unlike the US market for FMCG which is dominated by a handful of global players, India's Rs. 500 billion FMCG market remains highly fragmented with roughly half the market going to unbranded, unpackaged home made products. This presents a tremendous opportunity for makers of branded products who can convert consumers to buy branded products.

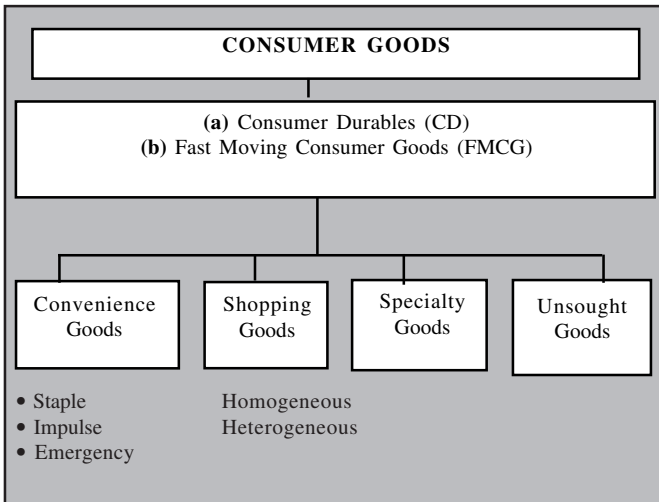
The vast size and large demand base of the India rural market offers great opportunities of FMCG companies. India has been classified into 450 districts and approximately 6,50,000 villages. In august 2008 around 710 million people, approximately 75% of the Indian population was engaged in agricultural activity and contributed to one-third of the country's GNP. Many producers of FMCGs are driven to chalk out bold new strategies for targeting the rural consumer in a big way.

2. CONSUMER GOODS- DEFINITION AND CLASSIFICATION

Consumer goods are regular purchase and use items and consist of a large range of products. These goods are further classified into four categories: convenience,

shopping, specialty and unsought goods. The classification is shown below in table-1.

Table-1
Classification of Consumer Goods



(i) **Convenience Goods:** Customer purchase convenience goods. Frequently and without efforts such as soaps, detergents and newspapers. Convenience good consist of three distinct sub-groups:

- **Staples:** Routine purchases like toothpastes, biscuits, washing soaps.
- **Impuse:** Without any plan to purchase, the purchasers by goods based on impulse or appeal. These are chocolates, candies and news magazines due to their convenient and attractive displays.
- **Emergency:** Due to immediate needs, the goods are purchased like rain coats, batteries or umbrellas.

(ii) **Shopping Goods:** The customer here compares quality, price, suitability and style and then buys the goods,

Examples: Appliances, clothing and furniture. Here there are two types: homogeneous, where the quality of goods is similar and hence price is cross checked and compared. The second is heterogonons type, where features are different and price is secondary. The customer chooses the type he likes as per his taste and requirements.

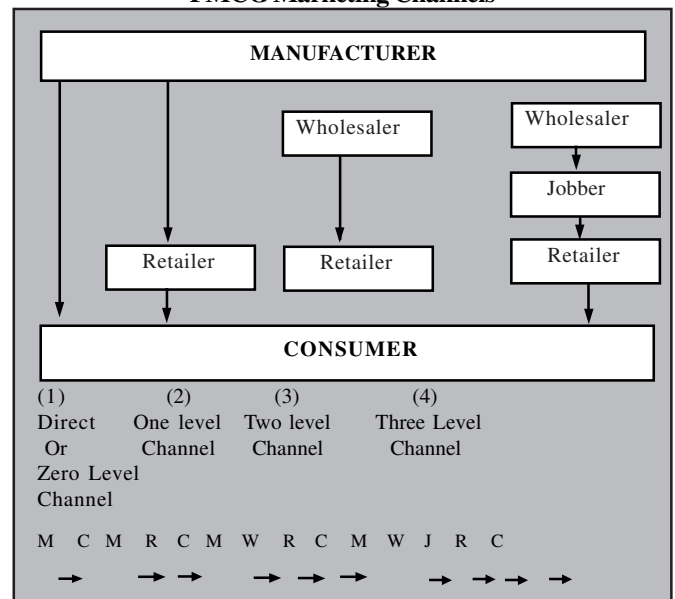
(iii) **Specialty Goods:** Goods of unique characteristics and brands are purchased by buyers in large quantities. Fancy goods and well-known brand product go in this category, examples are sony stereo and even BMW car.

(iv) **Unsought Goods:** Unknown goods where a customer normally does not think of buying Examples are food processors, insurance or the encyclopedias.

3. FAST MOVING CONSUMER GOODS MARKETING CHANNELS

There are generally four levels of marketing channels or trade or distribution channels. These are shown in Table-2

Table-2
FMCG Marketing Channels



Channel-1 is zero level or direct selling where manufacturer reaches the final customer.

Channel-2 is with one intermediaries usually a retailer.

Channel-3 has two intermediaries, usually a whole saler and a retailer and

Channel-4 has three intermediaries. One more than channel 3 is a jobber who distributor goods from wholesaler to the retailer.

4. GROWTH OF RURAL SALES PROMOTION FOR FMCG PRODUCTS

The sale of FMCG products in urban markets is coming to a saturation point. Considerable work has been done in educating villagers, substantial penetration and creating brand awareness.

Since the last one decade, sales promotion activities for FMCGs in rural India is catching up the pioneering efforts have been put by HLL, Godrej, Nirma and Colgate Plamolive. Now many more companies have

joined the band. The marketers are seeing and targeting a large population and with increasing incomes. Rural FMCG market projections are detailed in Table-3

rural markets and the industrial segment, This was because of its strategy to focus on its 'power Brands' aimed at sustaining profitable growths in slow market. As a result HLL's financial results clearly depicted its

Table-3

Rural FMCG Market Projection (Source: Business Intelligence Unit and NCAER, Business world 11 Oct. 2008)

Category	Growth %	2001-02		2006-07		Rural market Share
		Total	Rural Share	Total	Rural Share	
Toilet Soap	13.4	9645	6021	18,086	11,291	62.4
Body Talcum Powder	23.65	1445	793	4,086	2,292	54.1
Toothpaste	23.50	3198	1441	9376	4,140	45.1
Cooking Oil	10.91	20,946	15,731	35,295	25,806	73.4
Vanaspati	7.63	4,549	2,846	6648	4,108	62.6

Each company has its own rural promotion policy, tools and objectives. The marketer uses incentive type promotions to attract new customers for the trials, to reward loyal customers and to increase repurchase rates of occasional users.

Major rural sales promotion tools for FMCG products are:

- Free samples,
- Cash rebates or discounts,
- Price packs or gift attached to the packs,
- Gifts,
- Contests, prizes, games,
- Product warranties,
- Free trials,
- Point of purchase or sale counterdisplays, demonstrations,
- Promotion of brands and
- Trade promotion to stimulate wholesalers, retailers and field workers with gifts and awards.

FMCG sector growth rates, the industry feels, are not good enough. Growth rate can accelerate if government policies in taxation are helpful. The FMCG industry has made a strong case for reduction of excise duty.

Case study of Hindustan Lever Ltd. (HLL),

Related to 'Power Brands'

The year 2001 was a tough year for the Indian FMCG sector due to the country is growth slowing down to 4% from 6.4% in 2000. However, HLL was able to post significant gains despite a slowdown in both the

leadership position in most of the product categories it operated in from Rs. 17.57 bn in 1992 sales increased to Rs. 109.71bn in 2001. profit after tax also increased from Rs. 985mn to Rs. 15.4 bn in 2001.

HLL was undoubtedly the company that had virtually shaped india's FMCG market over the decades. The company had built some of the most advertising campaigns had became part of the company's advertising folklore. Amongst the 110 brands that it owned, HLL called the 30 Best selling brands as 'Power Brands' - a title well deserved. This was because brands such as fair & lovely, Ponds, Pepsodent, close-up, Sunsilk, Clinic, Lakme, Sun, Rin, Wheel, Lifebuoy, Lux, Breeze, Vim, Kwality, Broke Bond, Lipton, Annapurna, Kissan and Dalda has become on integral part of almost every Indian House hold.

Table- 4

Indian FMCG Companies Overall Rural Market Penetration

Company	Household Penetration(%)
HLL	88
Nirma Chemical Work	56
Colgate Palmolive	33
Parle Foods	31
Malhotra Marketing	27

Source: www.estrategicmarketing.com

5. CONCLUSION

Rural marketing activities encompass all the business activities and consist of the creation of place, time and possession utilities, the rural marketing consists broadly of two parts namely (a) marketing in, that is,

purchases by the villager for his agricultural activities or production and for his own consumption. The second is (b) market out, that is selling of his produce as grown or after further grading, packing or processing.

The rural marketing system is a complex and expensive network of channels that facilitates the production, distribution and exchange of nation's food supplies. The historical development and growth of markets are also discussed.

The FMCG sector is gaining importance in Indian rural markets since the last two decades. The basics of consumer goods have been detailed. The size of the market and the growth in the area have attracted large companies. With all the efforts, the penetration is low. A

multi-dimensional marketing approach to progress FMCG growth is necessary.

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

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