

A Study of Consumption Patterns of Rural India with Special Reference to FMCGS

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Abstract

Majority of Indian population dwells in rural areas. In the last two decades, rural markets are growing in prosperity and demand. Now, almost all major players in the market are being forced to shift their focus on rural market which till now remained a dormant player in India. There is lot of potential for growth of rural markets since the initiation of development of infrastructure facilities in villages. Rural markets has witnessed prosperity and with that, a rise in per capita income. This article highlights the consumption fast moving consumer goods (FMCG) in rural markets and also the growth potential in future. Based on the consumption patterns of rural markets in India an attempt is to be made to suggest strategies for marketers to exploit this growth potential.

KEYWORDS: Rural marketing, FMCG, Marketing strategies, Rural consumption

INTRODUCTION

As described by Adi Godrej, Chairman, Godrej Group” The rural consumers are discerning and the rural market is vibrant. At the current of growth, it will soon outstrip the urban market. The rural market is no longer sleeping but we are.”

Since the beginning of the planning period, a number of initiatives have been taken to improve the quality of life of the people of the country and the main focus of planning has been growth¹ with equity. India is a big country with a population of more than 1.2 billion as per census of 2011. It may not be the biggest country in terms of geographical area but in terms of its population, it is the second largest country on this globe only next to China. Another fact is that a majority of population still lives in villages. Since independence India has been primarily an agrarian economy. According to the last census data of 2011, around 70 per cent of the total households in India (8.5 billion) resides in the rural areas.

OBJECTIVES

The objectives of this article are as under-

- To study the characteristics of rural population with respect to age, income, occupation and literacy.
- To study the consumption patterns of rural India
- To highlight the potential of rural India in terms of its consumption capacity and pattern.
- To suggest marketing strategies for rural markets in India.

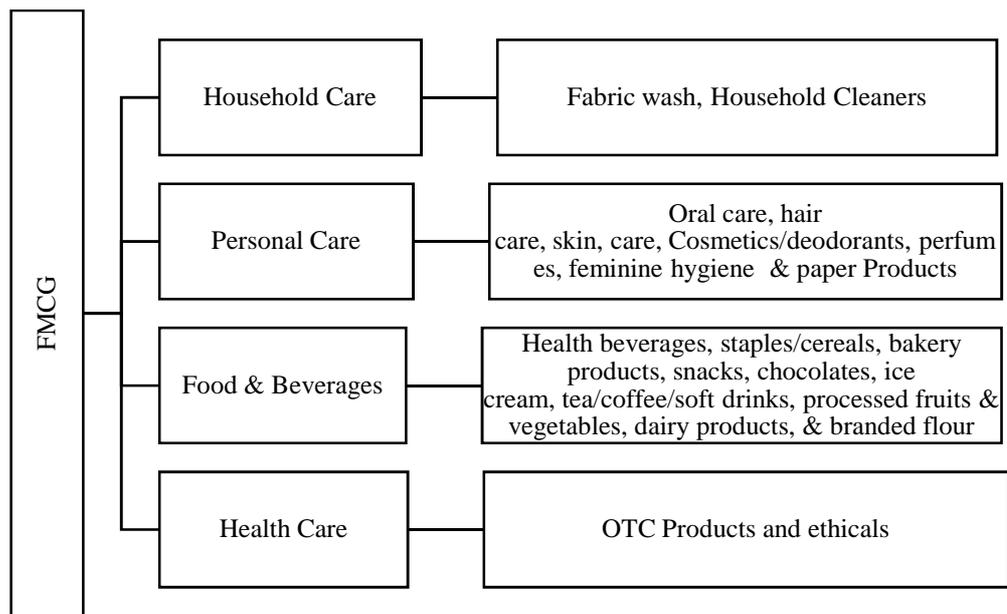
RATIONALE

This article tries to bring out the potential hidden in the rural market in terms of consumption and demand. With the growth in the Indian industrial and service sector, rural sector is seen as the largest beneficiary of this growth which is inclusive. In order to study this hidden potential, it is necessary to study the profile of the rural economy. On the basis of the study of profile of rural economy and the consumption pattern, it would be clear to establish the growth potential in this sector. Only growth potential is not enough for any organization or marketer to target rural market. Rural markets are in developmental stage and for that a sound rural marketing strategy is indispensable. Hence, through this article following is to be studied-

- Consumption pattern of rural markets in India
- Growth potential in these markets with reference to demand and consumption.
- Rural marketing strategies to exploit the opportunities presented by rural economy.

LITERATURE REVIEW

Fast Moving Consumer Goods (FMCG) Market.



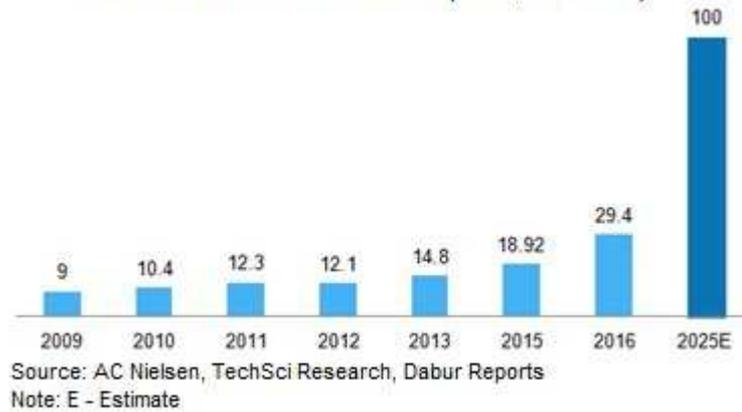
(Source: HUL)

Profile of Rural Markets.

There are approximately 650,000 villages in India. Around 850 million consumers live in these villages which contributes to 50 percent of the country's Gross Domestic Product (GDP). Over the years due to the overall growth of the economy, the consumption pattern of these rural consumers is becoming similar to those of their urban counterparts. Some of India's largest consumer companies serve one-third of their consumers from rural India². Looking at these facts, it is clear that there is a huge investment opportunities for various companies to market their products.

²<https://www.ibef.org/industry/indian-rural-market.aspx>

Rural FMCG market (US\$ billion)



According to a report published in the IBEF on their website, following key pointers highlight the attractiveness of Indian rural markets in the coming time.

- The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is estimated to cross US\$ 100 billion by 2025
- The rural FMCG market is anticipated to expand at a CAGR of 17.41 per cent to US\$ 100 billion during 2009–25
- Rural FMCG market accounts for 40 per cent of the overall FMCG market in India, in revenue terms
- Amongst the leading retailers, Dabur generates over 40-45 per cent of its domestic revenue from rural sales. HUL rural revenue accounts for 45 per cent of its overall sales while other companies earn 30- 35 per cent of their revenues from rural areas

India’s per capita GDP in rural regions has grown at a Compound Annual Growth Rate (CAGR) of 6.2 per cent since 2000. The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is expected to cross US\$ 20 billion mark by 2018 and reach US\$ 100 billion by 2025.

1. Age wise Distribution of Population in Rural Areas in 2011 (Percentage)

| Residence | Gender | Age Groups | | | |
|-----------|--------|------------|-------|----------|----------|
| | | 0-14 | 15-59 | Above 60 | Above 65 |
| Rural | Male | 31.5 | 60.7 | 7.8 | 5.1 |
| | Female | 30.3 | 61.3 | 8.4 | 5.8 |
| | Total | 30.9 | 61.0 | 8.1 | 5.4 |
| Urban | Male | 26.1 | 66.2 | 7.6 | 4.8 |
| | Female | 24.9 | 66.9 | 8.2 | 5.5 |
| | Total | 25.5 | 66.6 | 7.9 | 5.1 |
| Total | Male | 30.0 | 62.2 | 7.7 | 5.0 |
| | Female | 28.8 | 62.8 | 8.4 | 5.7 |
| | Total | 29.5 | 62.5 | 8.0 | 5.3 |

(Source: Census 2011)

As can be seen from the above table that the distribution of population in both, rural and urban areas is similar. Majority of the population is in the age group of 15 to 59 years. There is a greater demographic dividend visible here.

3. Village Classification by Population Size

| Ranges | Villages | Population (Millions) | % | Ranges | UAs/ Towns | Population (Millions) | % |
|----------------|---------------|-----------------------|------------|-------------------|-------------|-----------------------|------------|
| Less than 100 | 45276 | 2.274 | 0.31 | Less than 5000 | 192 | 0.668 | 0.23 |
| 100-199 | 46276 | 6.912 | 0.93 | 5,000-9,999 | 879 | 6.658 | 2.33 |
| 200-499 | 127511 | 43.96 | 5.92 | 10,000-19,999 | 1346 | 19.458 | 6.80 |
| 500-999 | 145402 | 105.274 | 14.18 | 20,000-49,999 | 1163 | 35.155 | 12.29 |
| 1,000-1,999 | 129977 | 183.294 | 24.69 | 50,000-99,999 | 404 | 27.832 | 9.73 |
| 2,000-9,999 | 80413 | 239.185 | 32.21 | 1,00,000-4,99,999 | 320 | 60.554 | 21.16 |
| 5,000-9,999 | 14799 | 98.112 | 13.21 | 5,00,000-9,99,999 | 39 | 27.504 | 9.61 |
| 10,000 & above | 3961 | 63.479 | 8.55 | 10,00,000-& above | 35 | 108.29 | 37.85 |
| Total | 593615 | 742.49 | 100 | Total | 4378 | 286.119 | 100 |

(Source: Census 2011)

The table shows that majority of the villages are in the population range of 200 to 2000. Only 2961 villages have population more than ten thousand. So it is clear that a majority (44.79%) of rural population is concentrated in these 4.02 lakh villages. Around 32% population resides in villages having population between 2000 and 10,000. This data is important from the point of view of rural marketing. Majority of Indian rural markets are concentrated in a zone of population size in excess of 2000 thus enabling marketers to market their product to a substantial market.

5. Literacy Ratio in Rural and Urban India for Males and Females

| Males | 2001 | 2011 | Difference |
|---------|------|------|------------|
| India | 75.3 | 82.1 | 6.8 |
| Rural | 70.7 | 78.6 | 7.9 |
| Urban | 86.3 | 89.7 | 3.4 |
| Females | | | |
| India | 53.7 | 65.5 | 11.8 |
| Rural | 46.1 | 58.8 | 12.7 |
| Urban | 72.9 | 79.9 | 7 |

(Source: Census 2011)

According to census 2011, the literacy rate is improving for females at a faster rate than males in both, rural and urban areas. There is overall increase in the literacy ratio in the country. The rising literacy ratio hints at the fact that consumer in rural markets will no longer remain ignorant about various products and services. He will be able to decide the best products and services in terms of satisfaction and delight.

Occupation of Rural India

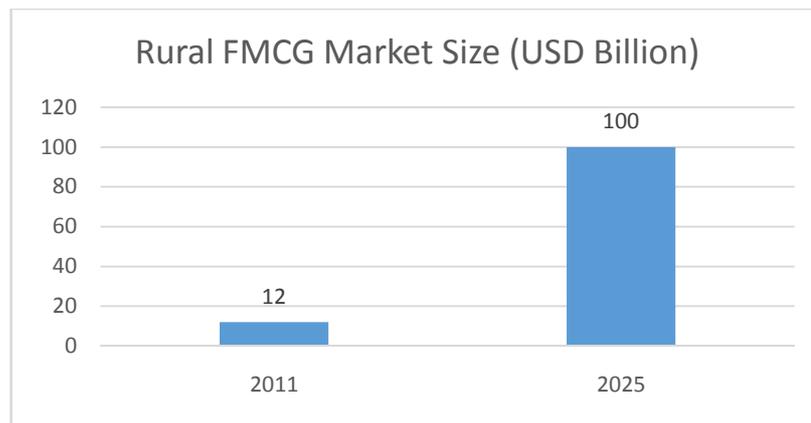
6. Distribution of Households by Occupation in Rural India (1000 Households)

| Occupation | 2001 | 2004 |
|---|------|------|
| Self Employed in non-Agriculture Sector | 145 | 144 |
| Agricultural Labour | 267 | 274 |
| Other Labour | 110 | 89 |
| Self Employed in Agriculture | 368 | 356 |
| Others | 110 | 89 |

(Source: NSSO, 2005)

As is clear from the above table, majority of the people in rural areas still depend on agriculture (63%). One notable fact is that this number used to be much higher in the past. This implies that non-agricultural occupations are on the rise in rural India. This has resulted in growth of per capita income of rural households.

Overview of FMCG Market in Rural India



(Source: IBEF Report 2013)

With an expected rise in rural per capita income of 411 USD in 2010 to 631 USD in 2020, it is expected that demand for goods will also rise. As per the study by IBEF, it is expected that rural market for FMCGs is likely to increase by 16.3% CAGR (Compounded Annual Growth Rate) and touch 100 billion USD by the year 2025.

Market Penetration of Companies in to Rural India

7. Rural Consumption Pattern ³

| Durables | Urban | Rural | Total (% of rural HH) |
|--------------|-------|-------|-----------------------|
| CTV | 30.4 | 4.8 | 12.1 |
| Refrigerator | 33.5 | 3.5 | 12.0 |

(Source : Article on Emerging trends in Rural Marketing)

³ Emerging Trends in Rural Marketing by S. Dhinesh Babu, A. Peer Mohamed Ariff and M. Ravichandran, www.indianmba.com ⁹ A report by KPMG for IBEF

From the above table it is visible that the penetration of durable goods like television and refrigerator is less as compared to the urban areas. Only 12.1% of the rural households have television and similarly only 12% households have refrigerator in rural India.

The consumer durables market in India was estimated to be around US\$ 4.5 billion in 2006-07. More than 7 million units of consumer durable appliances have been sold in the year 2006-07 with colour televisions (CTV) forming the bulk of the sales with 30 per cent share of volumes. CTV, refrigerators and Air-conditioners together constitute more than 60 per cent of the sales in terms of the number of units sold⁹.

The urban and rural markets in India are growing at an annual rate of 7 to 10 per cent and 25 per cent respectively. One of the key enablers of this growth has been the increasing penetration of organised retail. While there are established distribution networks in both rural and urban India, the presence of well-known brands and organized sector is increasing. At present around 96 per cent of the more than 5 million retail premises of all types in India are smaller than 50 sq mtrs. This situation is, however, transforming. Shopping malls are becoming increasingly common in Indian cities, and based on plans announced by key developers, a proliferation of new malls is expected over the next three years. Although many of the new malls would be much smaller than their western counterparts, Indian consumers will have a far larger number of attractive, comfortable, brand-conscious outlets in which to shop. As a result, the organised retail industry is expected to cover a market share of 15 to 18 percent by the end of 2010, from just 3 per cent at present⁴.

While income levels are rising across consumer segments in both urban and rural markets, the level of infrastructure development and facilities vary widely across these markets. This has resulted in the emergence of two separate consumer segments with different demands. Independent retail outlets, handcarts and kiosks serve rural areas. In cities, independent retailers, retail chains (including shopping malls), department stores and supermarkets are becoming increasingly common.

Non-Durable Goods

Non-durable goods are those goods which are purchased frequently as they are used on a daily basis and fulfill the basic needs of a person in his daily life. These products are also known as Fast Moving Consumer Goods (FMCG). As per the table given below, they are categorized into three parts. Household care products include all the products which are used for the use of entire family like soaps, detergents, insecticides, mosquito repellents, etc. Food and health beverages are consumable items which include food items like soft drinks, snacks, water, juices, etc. Personal care products are for individual purpose and include toothpaste, toothbrush, cosmetics, perfumes, etc. It has been felt that there is a great market potential for these type of products in rural areas. Non-durable goods can also be categorized as fast moving consumer goods (FMCG).

⁴ A report by KPMG for IBEF

8. FMCG Category and products⁵

| 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 Health beverages; | soft drinks; staples/cereals; Beverages 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 |

Around 70 per cent of the total households in India (188 million) resides in the rural areas. The total number of rural households are expected to rise from 135 million in 2001-02 to 153 million in 2009-10. This presents the largest potential market in the world. The annual size of the rural FMCG market was estimated at around US\$ 10.5 billion in 2001-02. With growing incomes at both the rural and the urban level, the market potential is expected to expand further.⁶

India is one of the largest emerging markets, with a population of over one billion. India is one of the largest economies in the world in terms of purchasing power and has a strong middle class base of 300 million.

9. Urban – Rural Penetration for FMCG

| FMCGs | Urban | Rural | Total (% of rural HH) |
|------------|-------|-------|-----------------------|
| Shampoo | 66.3 | 35.2 | 44.2 |
| Toothpaste | 82.2 | 44.9 | 55.6 |

(Source: Article on Emerging trends in Rural Marketing)

Rural markets are changing from the traditional products to the products used in urban parts. As is clear from the above table that the penetration of shampoo and toothpaste is reasonable at 44.2% and 55.6% respectively. This means that rural people, instead of using the traditional herbal or village made products for cleansing teeth are comfortable using toothpaste instead.

An average Indian spends around 40 per cent of his income on grocery and 8 per cent on personal care products. The large share of fast moving consumer goods (FMCG) in total individual spending along with the large population base is another factor that makes India one of the largest FMCG markets. Even on an international scale, total consumer expenditure on food in India at US\$ 120 billion is amongst the largest in the emerging markets, next only to China.⁷

⁵ A report by PricewaterhouseCoopers for IBEF

⁶ A report by PricewaterhouseCoopers for IBEF

⁷ A report by PricewaterhouseCoopers for IBEF

Growth Potential of Rural Market

With urban markets likely to saturate over time, rural markets are an option for marketers. Based on the secondary data available about the consumption pattern and growth of rural markets, it is wise to state that rural markets have a great potential in terms of demand for both durable and non-durable goods.

10. Growing Prosperity ⁸

| Classification | Income | 1995-96 | % | 2001-02 | Percent | 2009-10 | % |
|----------------|------------------|----------------|---------------|----------------|---------------|----------------|---------------|
| Deprived | <90 | 131,176 | 79.56 | 135,378 | 71.94 | 114,394 | 51.54 |
| Aspirers | 90 - 200 | 28,901 | 17.53 | 41,262 | 21.93 | 75,304 | 33.93 |
| Seekers | 200 - 500 | 3,881 | 2.35 | 9,034 | 4.80 | 22,268 | 10.03 |
| Strivers | 500 - 1000 | 651 | 0.39 | 1,712 | 0.91 | 6,173 | 2.78 |
| Near Rich | 1000 - 2000 | 189 | 0.11 | 546 | 0.29 | 2,373 | 1.07 |
| Clear Rich | 2000 - 5000 | 63 | 0.04 | 201 | 0.11 | 1,037 | 0.47 |
| Sheer Rich | 5000 – 10,000 | 11 | 0.01 | 40 | 0.02 | 255 | 0.11 |
| Super Rich | >10,000 | 5 | 0.00 | 20 | 0.01 | 141 | 0.06 |
| | Total | 164,876 | 100.00 | 188,192 | 100.00 | 221,945 | 100.00 |

(Income figs, in Rs. '000 per annum at 2001-02 prices, households in '000s)

In 1995-96, 80 per cent of Indian families earned less than Rs.90,000 a year, this fell to 72 per cent by 2001-02 and is projected to fall to 51 per cent by 2009-10.⁹ The table shows that population earning the least income has declined whereas all other income groups have shown a rise in proportion of people earning it. This provides a strong background as to why rural markets have a strong growth potential.

11. Increase in per capita consumption

| Rural India | 2005-06 over 2004-05 | 2004-05 over 1999-2000 |
|-------------|----------------------|------------------------|
| Lowest 33% | 15 | 7 |
| Middle | 15 | 13 |
| Highest 33% | 7 | 19 |
| All | 12 | 15 |

(Source: National Sample Survey on Consumption expenditure)

The above data suggests the growth in per capita consumption over a specified time period. As is indicated in the table that the consumption has grown by 15% for the lowest 33% consumers in rural markets. Also, the fact that all the three classes has shown an increase in consumption. This indicates that rural markets are on the upward move in terms of demand and consumption. On the other hand, there is a fear that urban markets are saturating in terms of demand. Thus, there is a big opportunity for organizations to exploit the rural market which is big in terms of population size.

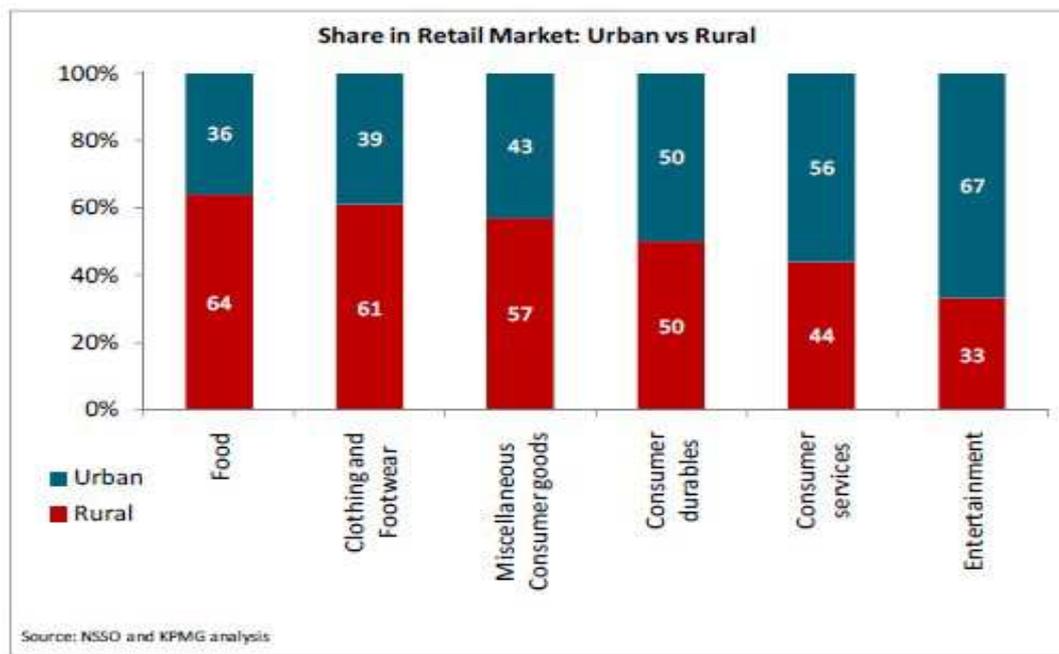
⁸ NCAER Report called "The Great Indian Market"

⁹ FADA and NCAER Report called "The Great Indian Market".

12. Aggregate Rural Consumption ('000 Crores)¹⁰

| 1985 | 1995 | 2005 (Estimated) | 2015 (Projected) | 2025 (Projected) |
|-------------------------------|------|------------------|------------------|------------------|
| 449 | 609 | 968 | 1670 | 2648 |
| compounded annual growth 3.9% | | | | |
| compounded annual growth 5% | | | | |

A study of the consumption pattern of rural India suggests that the consumption levels of villages is increasing and as per the projections of Government, the growth rate is likely to further increase signaling good signs for rural consumption and marketing of goods and services in rural areas.



A glimpse at the above chart shows that rural consumption share is competing shoulder to shoulder with urban consumption in India. As suggested in the above chart, rural population spends more income on basic necessities like food and clothing. However, its consumption of consumer durables is same as that of urban population suggesting a great market opportunity for durable products. The share of spending on entertainment is less. The reasons for this could be the lack of entertainment avenues apart from melas and few cinema halls. The consumption of rural population in case of consumer goods is 57% as compared to 43% in case of urban population again highlighting the importance of rural market in terms of growth potential.

13. Rural areas: driving growth (2008)

| Value growth (%) | Hair oil | Coconut oil | Shampoo | Toothpaste |
|-------------------|----------|-------------|---------|------------|
| All India - Urban | 14.3 | 13.5 | 14.6 | 12.2 |
| All India - Rural | 20.4 | 22 | 10.3 | 17.4 |

¹⁰ The Marketing White Book (2007-08) Businessworld December 2007

| Volume Growth (%) | | | | |
|--------------------------|------|------|-----|------|
| All India - Urban | 13.3 | 13.5 | 7.8 | 8 |
| All India - Rural | 19.8 | 21.2 | 7.4 | 14.6 |

Source: AC Nielsen.

There is a good growth potential in rural markets as has been indicated by Mr. Adi Godrej. This is clear from the above table which shows that the growth rate of rural markets for FMCG Products is decent. A value growth of 20.4% in hair oil, 22% for coconut oil, 10.3% for shampoos and 17.4% for toothpaste underlines the importance of rural markets. Even in terms of volume growth the growth potential is almost same as urban and in case of hair oil and toothpaste it is more than urban markets.

The rural markets were the main growth drivers. The number of households in rural areas using FMCG products has gone up from 136 m in 2004 to 143 m in 2007 implying a CAGR of 1.7%. Higher penetration was also witnessed. In 2008, the rural areas grew at a robust rate of 25% as compared to 10% growth in urban retail market. According to a McKinsey, rural India, would become bigger than the total consumer market in countries such as South Korea or Canada in another twenty years. It would grow almost four times from estimated size of US\$ 577 bn in 2007. While the per capita income is lower than urban areas, the customer base is thrice that of urban areas.¹¹

It is anticipated that rural markets will overtake urban markets in terms of growth rate. This fact is clear from the various data available from both government and non-government studies conducted. The reason for this growth is that there has been overall development of the country and that has trickled down to the rural parts also. Various initiatives for infrastructure development, post 1991 reforms, spread of irrigation facilities, other forms of alternate employment and lesser dependence on agriculture has resulted in rise of per capita income of rural areas. The share of employment of agriculture is the highest but its share in employment is decreasing and people are able to find employment in other sectors like cottage industries, infrastructure projects, etc. With rise in per capita income and availability of goods and services in rural areas, there is a strong possibility that rural markets will increase consumption which will lead to rise in demand for goods and services.

14. Employment by industry¹²

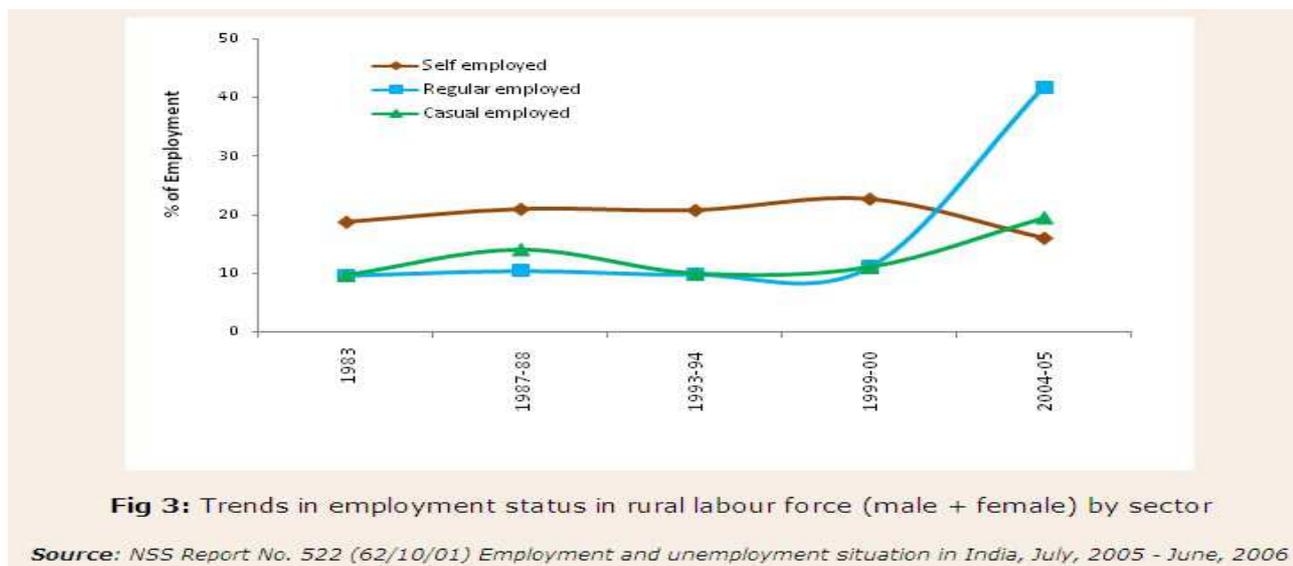
| | 1993-94 | 1999-2000 | 2004-05 |
|----------------------|----------------|------------------|----------------|
| Agriculture | | | |
| Rural males | 74.1 | 71.4 | 66.5 |
| Rural females | 86.2 | 85.4 | 83.3 |
| Urban males | 9 | 6.6 | 6.1 |
| Urban females | 24.7 | 17.7 | 18.1 |
| Manufacturing | | | |
| Rural males | 7 | 7.3 | 7.9 |
| Rural females | 7 | 7.6 | 8.4 |
| Urban males | 23.5 | 22.4 | 23.5 |

¹¹ Consumer Products : an article in www.equitymaster.com

¹²Recent Employment Trends in India and China: An unfortunate convergence? C. P. Chandrasekhar and Jayati Ghosh

| | | | |
|-------------------------------------|------|------|------|
| Urban females | 24.1 | 24 | 28.2 |
| Construction | | | |
| Rural males | 3.2 | 4.5 | 6.8 |
| Rural females | 0.9 | 1.1 | 1.5 |
| Urban males | 6.9 | 8.7 | 9.2 |
| Urban females | 4.1 | 4.8 | 3.8 |
| Trade, hotels & restaurants | | | |
| Rural males | 5.5 | 6.8 | 8.3 |
| Rural females | 2.1 | 2 | 2.5 |
| Urban males | 21.9 | 29.4 | 28 |
| Urban females | 10 | 16.9 | 12.2 |
| Transport, storage & communications | | | |
| Rural males | 2.2 | 3.2 | 3.9 |
| Rural females | 0.1 | 0.1 | 2 |
| Urban males | 9.7 | 10.4 | 10.7 |
| Urban females | 1.3 | 1.8 | 1.4 |
| Other services | | | |
| Rural males | 7 | 6.1 | 5.9 |
| Rural females | 3.4 | 3.7 | 3.9 |
| Urban males | 26.4 | 21 | 20.8 |
| Urban females | 35 | 34.2 | 35.9 |

The above table justifies the future potential of rural markets. As suggested, the dependence on agriculture is on the decline. It has declined from 74.1% in 1993-94 to 66.5% in 2004-05. On the other hand people employed in non-farm occupations like manufacturing (7.9% from 7% in 1993-94), construction (6.8% from 3.2% in 1993-94). In India there is overdependence on agriculture for employment and hence rural areas have remained economically backward. However, with the decline in people dependent on agriculture on one hand and increase in employment in other sectors augurs well for the rural sector. This would result in higher income levels and hence increase in consumption and demand.



The chart above depicts how many percent people are regularly employed. The trend shows that the number of people regularly employed has shown a sudden upward rise since 1999-2000. This means that people in rural areas are earning stable income throughout the year. Due to this rise in number of persons earning regular income, there is a likelihood of increase in consumption and demand in rural markets.

WHY RURAL MARKETS?

Rural markets have numerous opportunities for growth and increase in consumption. Following facts make this very clear-

Infrastructure is improving rapidly¹³ -

- In 50 years only, 40% villages have been connected by road, in next 10 years another 30% would be connected.
- More than 90% villages are electrified, though only 44% rural homes have electric connections.
- Rural telephone density has gone up by 300% in the last 10 years; every 1000+ pop is connected by STD.

Social indicators have improved a lot between 1981 and 2001 -

- Number of "pucca" houses doubled from 22% to 41% and "kuccha" houses halved (41% to 23%).
- Percentage of BPL families declined from 46% to 27%.
- Rural literacy level improved from 36% to 59%.
- Low penetration rates in rural areas, so there are many marketing opportunities –

15. Urban – Rural Penetration for Durables (NCAER)

| Durables | Urban | Rural | Total (% of Rural HH) |
|--------------|-------|-------|-----------------------|
| CTV | 30.4 | 4.8 | 12.1 |
| Refrigerator | 33.5 | 3.5 | 12.0 |

The penetration for the above representative durables in rural India is very low at around 12% for both, CTV and Refrigerator. This presents a great opportunity for durable manufacturers to explore these markets. With rising prosperity and per capita consumption there is a great opportunity to increase market share by tapping rural markets.

16. Urban – Rural Penetration for FMCG

| FMCGs | Urban | Rural | Total (% of Rural HH) |
|------------|-------|-------|-----------------------|
| Shampoo | 66.3 | 35.2 | 44.2 |
| Toothpaste | 82.2 | 44.9 | 55.6 |

(NCAER Report)

The penetration of shampoo is 44.2% which indicates that 44% of the total rural households use shampoo and 55.6% of the total people in rural sector use a shampoo. This means that almost 50% of the households are untapped. If marketers could

¹³www.jagooindia.com : C.K. Prahalad

devise a marketing strategy for rural markets, it could provide them with a great opportunity to increase their market share.

Marketers can make effective use of the large available infrastructure –

17. Infrastructure in Rural India

| Service | Number |
|---------------------------|----------|
| Post Offices | 1,38,000 |
| Haats (periodic markets) | 42,000 |
| Melas (exhibitions) | 25,000 |
| Mandis (agri markets) | 7,000 |
| Public Distribution Shops | 3,80,000 |
| Bank Branches | 32,000 |

- Proliferation of large format Rural Retail Stores, which have been successful also - DSCL Haryali Stores
- M & M Shubh Labh Stores
- TATA / Rallis Kisan Kendras
- Escorts Rural Stores
- Warnabazaar, Maharashtra (Annual Sale Rs. 40 crore)

Rural Consumer Insights¹⁴

Rural India buys -

- Products more often (mostly weekly).
- Buys small packs, low unit price more important than economy.
- In rural India, brands rarely fight with each other; they just have to be present at the right place.
- Many brands are building strong rural base without much advertising support.
- Chik shampoo, second largest shampoo brand.
- Ghadi detergent, third largest brand.
- Fewer brand choices in rural areas; number of FMCG brand in rural is half that of urban. Buy value for money, not cheap products.
- A number of factors have been recognized as responsible for the rural market boom to come into existence:¹⁵ Increase in population and hence increase in demand.
- A marked increase in the rural income due to agrarian prosperity.
- Standard of living is also increasing in rural areas.
- Large inflow of investment for rural development programmes from government and other sources.
- Increased contact of rural people with their urban counterparts due to development of transport and wide communication network.
- Increase in literacy and educational level and resultant inclination to sophisticated lives by the rural folks.
- Inflow of foreign remittances and foreign made goods into rural areas.

¹⁴www.jagoindia.com : C.K. Prahalad

¹⁵ Emerging Trends in Rural Marketing by S. Dhinesh Babu, A. Peer Mohamed Ariff and M. Ravichandran ²² data taken from www.plugged.in

- Change in the land tenure systems causing a structural change in the ownership patterns and consequent changes in the buying behaviour.

Rural markets are laggards in picking up new products. This will help the companies to phase their marketing efforts. This will also help to sell inventories of products outdated in urban markets.

Not only this but the following facts make it very clear why rural markets are the next big thing as far as markets are concerned²² -

46% of the soft drinks sales happen in the rural areas.

- 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.¹⁶ Rural India accounts for 49% of motorcycle sales.
- Rural India accounts for 59% of Cigarettes sales.
- 53% of FMCG sales happen at Rural India.
- Talcum powder is used by more than 25% of rural India.
- Lipsticks are used by more than 11% of the rural women and less than 22% of the urban women.
- Close to 10% of Maruti Suzuki's sales come from the rural market.
- Hero Honda, on its part, had 50% of its sales coming from rural market in FY'09.
- Rural India has a large consuming class with 41% of India's middle-class and 58% of the total disposable income accounting for consumption

Following facts about rural markets signify the growth potential of these markets¹⁷ -

- 742 million people
- Estimated annual size of the rural market
- FMCG Rs. 65,000 Crores
- Durables Rs. 5,000 Crores
- Agri-inputs (incl. tractors) Rs. 45,000 Crores
- 2 / 4 wheelers Rs. 8,000 Crores
- In 2001-02, LIC sold 55 % of its policies in rural India.
- Of two million BSNL mobile connections, 50% in small towns/villages.
- Of the six lakh villages, 5.22 lakh have a Village Public Telephone (VPT)
- 41 million Kisan Credit Cards issued (against 22 million credit-plus-debit cards in urban) with cumulative credit of Rs.
- 977 billion resulting in tremendous liquidity.
- Of 20 million Rediffmail signups, 60 % are from small towns. 50% transactions from these towns on Rediff online shopping site
- 42 million rural HHs availing banking services in comparison to 27 million urban HHs.
- Investment in formal savings instruments: 6.6 million HHs in rural and 6.7 million in urban

¹⁶ www.rediff.com

¹⁷ Emerging Trends in Rural Marketing by S. Dhinesh Babu, A. Peer Mohamed Ariff and M. Ravichandran

18. Middle Income Class Consumers in Rural India vis-a-vis their Urban Counterparts¹⁸

| Durables | Urban | | | Rural | | |
|----------------|---------|---------|--------|---------|---------|--------|
| | 2001-02 | 2009-10 | % | 2001-02 | 2009-10 | % |
| Motorcycle | 134.3 | 320.7 | 238.79 | 109 | 250.9 | 230.18 |
| Television | 942.8 | 1258.9 | 133.53 | 616.3 | 561.3 | 91.08 |
| Car | 31.4 | 52.2 | 166.24 | 1.6 | 3.5 | 218.75 |
| Edible Oil | 1000 | 1000 | 100.00 | 1000 | 1000 | 100.00 |
| Shampoos | 827.8 | 1000 | 120.80 | 354.5 | 458.4 | 129.31 |
| Washing Powder | 904.7 | 1000 | 110.53 | 775.4 | 946.9 | 122.12 |

Around 41 per cent of urban households owned two wheelers in 2001-02 versus around 11 per cent for rural areas and by the end of the decade this difference will change to 71 per cent versus 31 per cent.

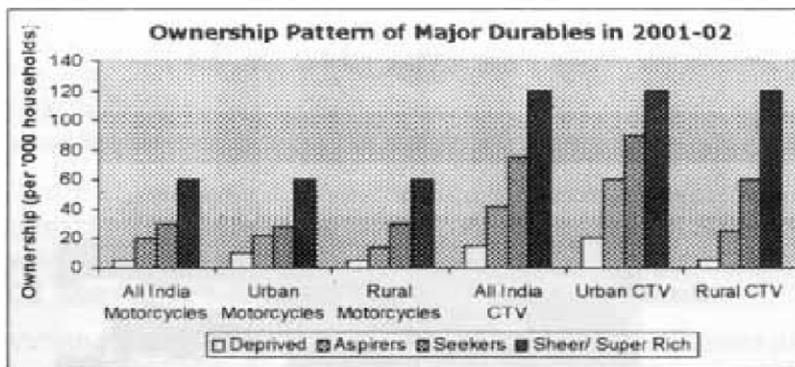
19. Consumption Pattern of Durables in Rural and Urban Consumers

| | Urban | | | Rural | | |
|---------------------|---------|---------|--------|---------|---------|--------|
| | 2001-02 | 2009-10 | % | 2001-02 | 2009-10 | % |
| Two Wheelers | | | | | | |
| Salary Earner | 495 | 834 | 168.48 | 286 | 755 | 263.99 |
| Professionals | 859 | 1539 | 179.16 | 521 | 1354 | 259.88 |
| Televisions | | | | | | |
| Salary Earner | 1080 | 1452 | 134.44 | 744 | 1056 | 141.94 |
| Professionals | 1128 | 1759 | 155.94 | 929 | 1201 | 129.28 |

(Source: FADA and NCAER)

The above table shows clearly the growth potential in Indian rural sector. The growth of salary sector in rural areas for durable commodities like two wheelers and televisions is more than in urban sectors. The growth in demand for two wheelers for salary earners is 263.99% as estimated in the year 2009-10. The same for professionals is similar at 259.88%.

While just two per cent of households who earned under Rs. 90,000 per annum owned motorcycles in 2001-02, this rose dramatically to 15 per cent in the case of households earning between Rs. 90,000 and Rs. 2 lakh and to 29 per cent in the case of the Rs. 2-5 lakh earning households. As more people come into the higher income groups, demand increases more than proportionately.



¹⁸ FADA and NCAER Report called "The Great Indian Market" 2005

(Source : FADA and NCAER)

The graph above shows that the ownership pattern for major durables like Motorcycles and television is similar for rural as well as urban markets. The percentage of ownership in both the markets is very similar.

As per the NSSO Survey, in the year 2006-07, rural sector spent 52% of their monthly per capita income on food and remaining 48% was spent on non-food items. Against this urban sector spent 39% of their monthly per capita income on food and remaining 61% was spent on non-food items. A study of nonfood consumption pattern revealed that there is not a significant difference when it comes to spending on durable items. Urban population spends 5% of their MPCE on durable items whereas rural population spends 4% of their MPCE on durable goods.

As per a paper published by ASSOCHAM in the year 2006, it is expected that rural and semi urban markets will increase their share of consumption of FMCG products in the country. As per the study the total market size shall increase to around Rs.1,23,363 crore from present level of Rs.70,000 crore.

ASSOCHAM is also of the view that the rural market may be alluring but it is not without its problems: Low per capita disposable incomes that is half the urban disposable income; large number of daily wage earners, acute dependence on the vagaries of the monsoon; seasonal consumption linked to harvests and festivals and special occasions; poor roads; power problems; and inaccessibility to conventional advertising media. However, the rural consumer is not unlike his urban counterpart in many ways.

STRATEGIES FOR RURAL MARKETS¹⁹

Rural markets have shown tremendous potential for growth in consumption and demand and hence many organizations are looking at rural markets as next big marketing opportunity. However, it is easy to look at rural population as a potential market but equally difficult to convince them to purchase a particular product or service. Hence, effective marketing strategies need to be developed and implemented to exploit this opportunity. Following marketing strategies could prove to be useful for targeting rural markets in India-

Marketing Strategy

Marketers need to understand the psyche of the rural consumers and then act accordingly. Rural marketing involves more intensive personal selling efforts compared to urban marketing. Firms should refrain from designing goods for the urban markets and subsequently pushing them in the rural areas. To effectively tap the rural market, a brand must associate it with the same things the rural folks do. This can be done by utilizing the various rural folk media to reach them in their own language and in large numbers so that the brand can be associated with the myriad rituals, celebrations, festivals, "melas", and other activities where they assemble.

¹⁹www.jagooindia.com : C. K. Prahalad and www.scribd.com

Product Strategy

The central decision in marketing mix strategy is product decision. In the emergent dynamic, competitive environment, multi-product firms are fighting hard to gain commanding market share through their product strategies. It is through continuous design and redesign of product mixes that a company lays its way to success and fame.²⁰ An effective product strategy offers the following benefits-

- Achieves product-market fit. Encourages innovativeness. Provides competitive edge
- Makes better use of resources.

Pricing Strategy

Low Price

Pricing the product at a lower price really attracts rural population for trying the products.

- For many FMCG companies, Rs.5 is an appropriate price point to draw new customers and increase consumption.
- Tata tea introduced Samunder salt in the economy category.
- Bharat Petroleum has introduced five kg gas cylinders to reduce initial deposits and refill cost for rural consumers. The deposits for 5 kg cylinder is Rs. 350.

No frills Products

The production cost can be lowered by using less sophistications and rather concentrating on sturdiness and utility of the product.

- Maharaja Appliances sold washing machine without a drier for rural market at Rs. 2990/-
- The rural markets operate on a price value proposition LG electronics has knocked off some of the frills in the products. The rural consumer does not require Golden Eye Feature and therefore base models do not have this feature. Again not all consumer need 200 channels and therefore they have provided 100 channels in the base model.

Value Engineering

This technique helps the organization not only lower cost but enhance the value. Nirma detergent powder over a period of ten years has become the largest selling brand in rural India. The success of Nirma is due to affordable price, medium quality, availability at village shops and use of rural specific mass media.

Pricing Methods

When price quality relationship is easy to associate marketer can employ the following methods of pricing

²⁰ Rural Marketing Text and Cases by C.S.G.Krishnamacharyulu and Lalitha Ramakrishnan

- Discriminatory pricing - Discriminatory pricing is employed to charge different customers grouped differently projecting in quality offer.
- Perceived value pricing - Companies add features to their products with a view to enhancing their customers’ perceived value. For each factures which enhance convince durability reliability attractiveness.

Promotional Strategy

Rural marketers have to skillfully communicate with a much larger but scattered audience characterized by variations in language, culture and life styles. Their poor message comprehension and low media exposure only add to the problem of communication through the requirement, therefore is three folds:²¹

- To explore the available media at different locations
- To develop region – specific consumer profiles to understand the characteristics of target market
- To design right communication and motivation strategies to induce target audience to buy the product.

Firms must be very careful in choosing the vehicle to be used for communication. Only 16% of the rural population has access to a vernacular newspaper. So, the audio visuals must be planned to convey a right message to the rural folk. The rich, traditional media forms like folk dances, puppet shows, etc., with which the rural consumers are familiar and comfortable, can be used for high impact product campaigns.

| Mass Media | Local Media | Personalised Media |
|------------|----------------------|----------------------|
| Radio | Haats, Melas, Fairs, | Direct communication |
| Cinema | Wall Paintings | Dealers |
| Press | Hoardings | Sales Persons |
| Television | Leaflets | Researchers |
| | Video Vans | |
| | Folk Media | |
| | Animal Parade | |
| | Transit Media | |

Distribution Strategy

One of the ways could be using company delivery van which can serve two purposes - it can take the products to the customers in every nook and corner of the market, and it also enables the firm to establish direct contact with them, and thereby facilitate sales promotion.

However, only the bigwigs can adopt this channel. The companies with relatively fewer resources can go in for syndicated distribution where a tie-up between non-competitive marketers can be established to facilitate distribution. Annual "melas"

²¹ Rural Marketing Text and Cases by C.S.G.Krishnamacharyulu and Lalitha Ramakrishnan

organized are quite popular and provide a very good platform for distribution because people visit them to make several purchases.

According to the Indian Market Research Bureau, around 8000 such melas are held in rural India every year. Rural markets have the practice of fixing specific days in a week as Market Days (often called "Haats") when exchange of goods and services are carried out. This is another potential low cost distribution channel available to the marketers. Also, every region consisting of several villages is generally served by one satellite town (termed as "Mandis" or Agri-markets) where people prefer to go to buy their durable commodities. If marketing managers use these feeder towns, they will easily be able to cover a large section of the rural population.

Distribution channel has remained in the background in the rural areas. Now distribution has to be virtually reworked from scratch with full orientation and awareness of existing rural channels of distribution. Historically available people and places for distribution include wholesalers, retailers, vans, weekly haats, bazaars and shandies. However, with a surge in rural demand, the structure and dynamics are altering. The new places for distribution include unofficial channels, cooperative societies, Public Distribution System (PDS), Petrol Bunks, Agricultural input dealers, NGOs, barefoot salesmen and syndicated distribution.²²

CONCLUSION

From the facts presented above, it is very clear that future could belong to rural markets, especially with urban markets saturating and competition becoming bloodier. Also, with the rise in literacy and income in rural India, the scope of rural marketing will expand in the years to come.

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