

A Study on Rural Outstretch for FMCG Companies – in Reference to HUL & ITC

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Abstract

The rural Indian population is large and its growth rate is also high. Over 70% India's one billion plus population lives in around 627,000 villages in rural areas. Being large no of people living in villages there is impulsive market opportunity, potential for FMCG (Fast Moving Consumer Goods) sector to grow, even a slight change or increase in rural income can bring about mind-blowing increase in buying power of rural people. Over viewing the current position of FMCG as compared to past years the sector of FMCG in India has been annually growing at a consistent rate of 11%. Currently, 66% of total FMCG consumption comes from urban India and 34% from rural India reflecting saturation in urban markets and move of FMCG companies towards tapping the rural markets.

Increasing demand of FMCG product and increasing purchasing power of rural Indians, speaks volumes about the growth prospects of the FMCG sector in India. The FMCG producers now realize that there is a lot of opportunity for them to enter into the rural market.

This paper covers a detailed review of rural markets environment, the attractions for the FMCG marketers to go rural, challenges, rural myths, future growth prospects, suitable marketing strategy with the suitable example of HUL and ITC and their experience in going rural.

Keywords: Rural India, Rural Marketing, FMCG sector, rural myths, marketing strategy.

INTRODUCTION

Penetration of FMCG sector towards rural India after an extensive research being conducted by FMCG companies shows the growth propensity in rural areas as compared to urban areas because of intense competition, lot many players offering similar types of products, price war, demand satisfaction of urban consumers finally leading to a saturated urban market. Thus increased demands talks of volumes for the growth, prosperity and higher development for FMCG sector in India. Basically FMCG includes all consumables (other than groceries/pulses) which people keep on buying at regular intervals. The most common in the list are toilet soaps, detergents, shampoos, toothpaste, shaving products, shoe polish, packaged foodstuff, and household accessories and

extends to certain electronic goods. These items are meant for daily use of frequent consumption and have a high return.

Consumable durable companies in India have to strive hard to keep up with ever-changing consumer preferences. They have to be continuously stay updated with changes in internal, external environment, market conditions and have to outdo competition, which is why growth in this sector is simply inevitable. In the era where companies focus and momentum has shifted to India's heartland i.e., Rural India, there is a need to reach out to the burgeoning rural market with the right set of marketing and communication tools. Fascination and challenges at the same time are increasing in the rural market of India. Steady growth and large size of the

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market offers large scope steady growth. Even a modest growth pushes up the sales of a product substantially, in view of the huge base.

Another point of attraction for marketers of FMCG products is that though rural markets are relatively quiet and urban markets are highly competitive still rural markets possess several problems & hurdles. The firms have to encounter them squarely and put in a great deal of effort, if they have to get a sizeable share of the market.

“Bharat Mata gram vasini” well quoted by a Hindi poet meaning mother India lives in the hearts of her villagers

If we look at the census of 1991, India’s population was 850 million, average statistics of which 75 percent lived in villages. According to Nielsen reports, the FMCG industry of India in December 2011 showed growth of 10.8% and 10.7% in urban and rural markets respectively. And in March 2012 a remarkable market growth was seen, where it reached 17.20% and 16.5% the very next quarter. Currently, 66% of total FMCG consumption comes from urban India and 34% from rural India. Major FMCG categories such as personal care, fabric care and hot beverages account for more than 40% consumption in rural India.

Home and personal care category in urban areas, include skin care, household care and feminine hygiene which keep growing at relatively attractive rates. Major Players in FMCG sector include HUL (Hindustan Unilever Ltd.), ITC (Indian Tobacco Company), and Nestle India, GCMF (AMUL), Dabur India, Asian Paints (India), Cadbury India, Britannia Industries, Procter & Gamble (P&G) Hygiene and Health Care, Marico Industries, Nirma, Coca-Cola, Pepsi etc.

An analysis by ASSOCHAM, says companies like HUL and Dabur India earn half of their sales from rural India. While Colgate Palmolive India and Marico in urban areas constitute nearly 37% share respectively, however 25% of sales in rural India comes from Nestle India Ltd and GSK. This study work is done in reference to HUL and ITC.

RURAL MARKETING ENVIRONMENT

The rural market environment need a separate examination as it varies significantly from that of the urban market. Marketer shall deal with the subject

under the three headings:-

1. The rural consumer - The rural market consists of more than 12 crores households, forming over 70% of the total households in the country. These rural consumer groups can be on the basis of location pattern, socio-economic position, literacy level, life style, consumer buying behavior, influence of culture, exposure to urban lifestyle etc.
2. The rural need – Requirements of rural need has also been changing specifically. In recent years, many new products have entered the consumption basket of the rural consumers. Steadily over the years rural demand has grown. Quantitatively and qualitatively markets have undergone a significant change.
3. Other aspects of the rural market environment - are Tapping the rural markets:-
Though looking at the market size rural India does constitute an attractive and sizeable market, FMCG firms have to work hard for securing a share of it. Practically in every task of marketing, rural marketing poses some unique problems. The major tasks that need unique handling in rural marketing are:
 - Segmentation and targeting.
 - Product management.
 - Physical distribution.
 - Channel management.
 - Marketing communications.

There had been many myths attached to the Indian rural marketing, some of these Rural Myths are like:-

- MYTH 1: Rural India is all about Agriculture
Rural India is way beyond agriculture First, agriculture’s contribution to India’s GDP has steadily come down to just 17.5 per cent. Further, almost half of the rural Indian economy is non-agriculture-based and a third of the households — around 50 million — are engaged in non-agricultural activities — people working in manufacturing, or as traders, shopkeepers, providing services such as electricity generation, construction, mining and quarrying, transportation and haulage.
- MYTH 2: Disposable Income is Low
Rural incomes CAGR was 10.95% compared to 10.74% in urban between 1970-71 and 1993-94.
- MYTH 3: There is high price inelastic in rural

markets. Rural markets are suitable for value for money products and not for premium quality products. However the real problem is with the companies who are not able to offer premium products at reasonable and affordable prices specific to rural demand.

- MYTH 4: Rural Consumers lack Purchasing Power While in 1998-99 over 83 per cent of rural households fell in the lower and lower-middle classes, the number has fallen to 70 per cent in 2006-07; the comparative fall for urban India is from 53 per cent to 27 per cent (NCA ER data). And if experts are to be believed, the number is set to fall at a rapid rate over the next 20 years.
- MYTH5: Growth in Rural is low. Investments Give Late Results
The growth of rural market is much faster than the urban markets in the rural market where seventy per cent of India's population is there , 56 per cent of its income, 64 per cent of its expenditure and 33 per cent of its savings come from rural India. It is time we did better than just 'assume' what these people desire, detest, appreciate and expect.

Looking at the above mentioned information, marketers need to break these myths and understand that there are huge potential and knocking opportunities in rural areas specially for FMCG companies. As marketing in India has for a long time meant urban marketing. But now rural marketing is being widely researched and discussed. As now a day's market is filled with a number of FMCG Companies; every company want to increase market share in rural areas as urban markets are saturated. While the rural market certainly offers a big attraction to marketers, it would be naive to think that any company can easily enter the market and walk away with sizable share.

There are various organizations which are working for welfare of rural areas and also supporting organizations by proving various useful data, one such fine example is Rural Outreach Pvt.Ltd (ROPL), they helps you in managing the movement and the growth of various FMCG companies. They analyze the present scenario and the brand's position and then create a path by conceptualizing innovative ideas/campaigns for all customers and specific markets. They ensure scalable and sustainable business development solutions through their wide bouquet of Services.

REASONS FOR RURAL OUTSTRETCH OF FMCG COMPANIES

In recent times rural markets has gained more popularity in India .The reason for the same is attributed to the growth of the economy which has eventually resulted in higher purchasing power among the rural masses.

There are many reasons that have forced the FMCG companies to enter the territories full of opportunities, some of these attractions are discussed below:-

Large Population: The last Indian census was carried out in 2011. It revealed that the population of India in 2011 was 1,210,193,422. It is appro 83.4 crore people reside in rural areas whereas rest reside in the urban areas as per CENSUS OF India 2011 released by the Govt of India. The size of rural market itself speaks of its potential.

Market Growth: more than one million new consumers are added every year in the market as market has been growing at 3-4% per annum, because of the green revolution in India there is a high rate of urban and industrial manufactured products by the rural masses.

Rising Rural Prosperity: - As per the National Council for Applied Economic Research (NCAER) study, there are as many 'middle income and above' households in the rural areas as there are in the urban areas. There are almost twice as many 'lower middle income' households in rural areas as in the urban areas.



Higher echelon has started using the modern consumer products which were not known to the rural folks. Analyzing the rural statistics of RBI in comparison to negative growth of -4% is real rural wages from 2000 onwards ,the average annual growth moved upto 6.3% .between 2008 and 2013.Bcause of the growth there was an impact on the per capita monthly expenditure which also noticed a growth of 5.5% between 2010 and 12 thus showing greater propensity for expansion of FMCG companies.

Newer Products: As growth has shown signs of slackening companies are increasingly focusing on key products and brands, cost efficiencies and rural markets. This is a sign of market sophistication, both from the manufacturer's point of view as well as the consumer's point of view. With rising consumerism and changing lifestyle the demand for value added products is increasing.

It Penetration In Rural India: One of the study from Times of India newspaper says that India has 110 million mobile internet users of which 25 million are in rural India. The growth of internet penetration in rural India is driven largely by the mobile phone; 70% of rural India's active internet population accesses the web via mobile phones. This may have to do with the difficulty in accessing Pcs.

Forty-two percent of rural India's internet users prefer using the internet in local languages. The high prevalence of content in English is a hurdle for much of rural India. So if television could change the language of brand communication in rural India, affordable Web connectivity through various types of communication hubs will surely impact the currency of information exchange. As the electronic ethos and IT culture moves into rural India, the possibilities of change are becoming visible.

Impact of Globalization: The impact of globalization will be felt in rural India as much as in urban. But it will be slow. It will have its impact on target groups like farmers, youth and women. Farmers, today 'keep in touch' with the latest information and maximize both ends. In fact, the leadership in any product or service is linked to leadership in the rural India except for few lifestyle-based products, which depend on urban India mainly. Buying behavior of the rural masses is also influenced by the urban lifestyles.

A VIEW OF FMCG CONSUMPTION IN RURAL AREAS

Companies like Hindustan Unilever Ltd., ITC, Colgate Palmolive, Parle foods, Malhotra Marketing have carved a niche for their products in the heart and minds of the rural masses .Products of the above mentioned companies have created a special liking for the rural people and thus the products have gained significant recognition amongst them. Because of the significant achievement of such products the products of the local brands lost their identity as people prefer the branded over the unbranded of the local brands.

Company	House hold penetration
HLL	86%
ITC	66%
Colgate Palmolive	33%
Parle Foods	31%

Source: Economic times

Expenditure pattern of the rural are follows...

- 44% food articles (tea coffee, biscuits etc)
- 20% on toiletries
- 13% washing materials
- 10% cosmetics
- 9% consumables.

Villagers accept the low value priced products brands as compared to high brands. There is a feel that low price products are what accepted by the masses however it comes as a surprise that the unbranded proportion is substantial

GROWTH PROSPECTS OF FMCG COMPANIES IN RURAL INDIA

Because of the huge rural base in India it is practically impossible for the Indian rural FMCG to over look the untapped market. FMCG sector is one of the most lucrative sectors which improve drastically with improving facilities. FMCG companies have prodigious opportunities for growth as the per capita consumption for the products in the country is low. Companies can immensely benefit if they are able to tap the untapped and offer the quality products at reasonable rates to the rural undoubtedly they can have a good run of trade in terms of growth in near future.

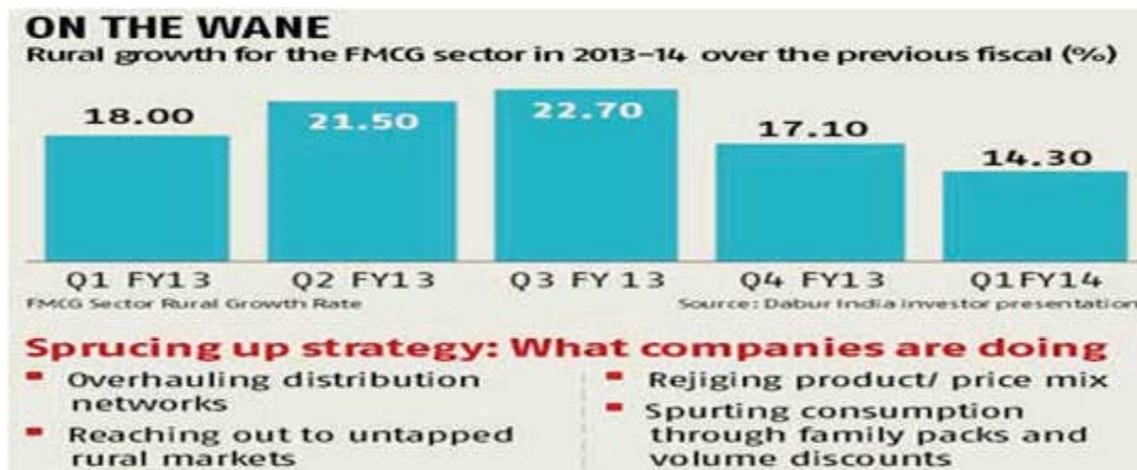
It is expected that the rural income will raise in future due to growing economy and reduction of underemployed people thus boosting purchasing power in the countryside. This has also led to the CSR activities being done by the corporate to help the

poor people attain some wealth to spend on their product categories. Here we can think of HLL (now, HUL) initiatives in the rural India. Similarly we can think of the ITC E-Chaupal, which is helping the poor farmers get all the information about the weather as well as the market price of the food grains they are producing. The chart below shows rural growth for the FMCG sector in 2013-14 over the previous fiscal year's quarters in terms of (%).

It is anticipated that the rural income shall get a hike in future thus giving more purchasing to the county folks. Weightage to the rural market is because of the urban saturation. This has facilitated CSR activities performed by the corporate houses to serve the dual purpose. Firstly to help the poor and simultaneously a boost to the advertisement activities so as increase their sales figure. That is why we can think about HLL(now HUL) initiatives taken by the company. Likewise we can think of the ITC e-chopal which is of great help for the farmers in every aspect the poor

farmers get all the information about the weather as well as the market price of the food grains they are producing. The chart below shows rural growth for the FMCG sector in 2013-14 over the previous fiscal year's quarters in terms of (%). There is optimism in the air that the increased disposable income of the rural and semi urban people along with rigorous advertisement will awaken the folks towards the FMCG products in a much better way so that they are able to reap the benefits of such products.

In a Press Release on January 3rd 2010, ASSOCHAM. (The Associated Chambers of Commerce and Industry in India) have forecasted an extremely robust growth of more than 50% in its Rural and Semi-Urban Segments by 2012 in the FMCG sector. which in totality is projected to grow at an CAGR of 10% to carry forward its market size to over Rs.1,06,300 crore from present level of Rs. 87,900 crores



EFFECTIVE RURAL MARKETING STRATEGIES MUST BE DEVELOPED

Different strategies are employed for different segment of the market. Different strategies are devised for rural and urban markets. Thus given below is a snapshot of the rural effective strategies which are being used by some companies and may be used by the other companies as well.

- Effective rural strategies include the followings
- Remote area and specific place promotion
 - Collaborative promotions
 - Regular supply of inputs

- Demand balancing
- USP Unique selling proposition
- Services should be extended
- Future partnerships
- Van Campaigns
- Customized Shows
- Wall Paintings
- Road Shows/Flash Mobs
- Community Programmes
- Video On Wheels

Strategies adopted for rural marketing by different FMCG Companies in reference to HUL and ITC:-

ITC's e-choupal :-

In the current era of information technology, industry and private companies can also creatively use ICT for building sustainable marketing linkages. This approach creatively leverages information technology (IT) to set up a meta-market in favour of small and poor producers/rural entrepreneurs, who would otherwise continue to operate and transact in 'unevolved' markets where the rent-seeking vested interests exploit their disadvantaged position. ITC e Choupal is the best example in this context. It eliminated the traditional 'mandi' system which involved lot of middlemen as a result of which farmers failed to get the right value for their produce these e-choupal are changing the lives of farmers tremendously as never done before by any organizations. The company is penetrating into the villages at a faster pace. It then is all being done at a negligible cost and the company is able to make money as well. It is a matter of appreciation that the e-Choupal is able to impart information to the cluster of value chain participants, providing the same benefits as the vertical integration does in the developed nations.

The powerful 'E'

The new concept of e-choupal has facilitated the elders to meet and have a healthy discussion on the important issues. E -choupal and the internet facilities have given a chance to the farmers to gather around and have a discussion with others who are spread across the country or even beyond the boundaries of a country. This is possible with the installation of ITC computers with solar charged batteries for power backup and a VSAT internet connection in few highlighted villages

A local farmer is deployed who is commonly known as Sanchalak who operates the system on behalf of the ITC. There are many services which are provided by the e-choupal to the villages masses. Firstly purchasing: - Farmers are free to purchase the seeds, pesticides and other products online. Almost 35 companies have become partners with e-choupal to sell their products. Secondly sales: Farmers have become better bargainers as they can check the prices of the produced on line and then sell the crops to the ITC centres or local market. Thirdly development Work: With the help of e-choupal NGO's are better able to offer their services relating to cattle breed

improvement, water harvesting and WSHG (women Self helped groups) which can now easily move in the remote areas. It is believed that the e-choupal has become the axis around which the local village community moves. It can be from accessing newspapers online or for checking the orders online. From entertainment (watching movies) to teaching and training. Almost each e-choupal covers five to six villages.

Another notable achievement or in other words initiatives is the "Choupal Pradarshan Khet" which facilitates the farmers and also imparts knowledge in terms of increasing the productivity of the produced crops. The best part of this initiative is the customized services which are offered to the farmers. This initiative has a multiplier impact and it has successfully covered thousands of hectares over 1.6 million farmers.

ITC foods are also making big rounds of success. They are leveraging the benefits from the paan shops to sell their packaged items. The company is also contemplating to sell Sunfeast biscuits, noodles(Yippie) and also its Vivel soaps through this extensive network of Paan Shops

Strategy Adopted By HUL

HUL has tapped rural market by expanding Project Shakti to reach the rural market:-HLL gets around 50% of its sales figure from the rural markets. Company was able to get this figure because of the program named Wheel for rural and lower income urban consumer launched and executed successfully way back in 1988. As a competition to the NIRMA products they introduced Wheel to demolish the market of NIRMA and to capture the rural market.

HUL's Clinic plus Shampoo: - HUL introduced Clinic Plus. They made the rural people to understand the product by demonstrating its uses to the people in public. They made the people understand the effect of using shampoo and they demonstrated how it makes the hair smooth.

Though company has specifically developed the brands for the rural market and they may be a hit as well. However the strategy should only focus on selling the recognized brands. For example lifeboy is a low priced carboic soap and is preferred by the rural consumer. The point to be noted is that the

company does not sell it as a cheap soap. The company has positioned as a hygiene brand which is suitable for both the rural and urban people.

One of the big strategy adopted by HUL was conceived in the year 2001 known as project Shakti which aimed at increasing the companies rural distribution as well providing the rural women with opportunities that can help to earn better. This is the case where both the objectives of the company were achieved that is to do CSR and simultaneously achieve business goals.

The vision behind the drive was to change the lives of women in 100000 villages by making them shakti dealers. This would help to accomplish dual objectives. Firstly to provide economic opportunities to poor and simultaneously strengthening the company's distribution channel which eventually help to tap the untapped market which has a whopping consumer base of millions of rural people.

The model is a growth driver for the company which has facilitated to get its 50% sale from the rural markets. Company experts anticipate having more than 45000 Amma's covering more than 150000 villages across the length and breadth of the country with giving hopes to many villages and peopling on the whole.

FUTURE PROSPECTS FOR FMCG COMPANIES

The importance of the rural market for some FMCG and durable marketers is underlined by the fact that the rural market accounts for close to 70 per cent of toilet-soap users and 38 per cent of all two-wheeler purchased.

The rural market are growing very fast in comparison to their urban counterparts, growth can be measured from the fact that rural markets accounts for half the total market for TV sets, fans, pressure cookers, bicycles, washing soap, blades, tea, salt and toothpowder showing greater scope for diversification in rural areas by FMCG companies.

FMCG companies have researched and pointed out that there are still some categories where rural penetration is quiet low and these can be opportunity areas for these companies. Like Godrej Consumer hopes to cater on the growing demand for few of its product categories like hair colour, Fast Card mosquito repellent and household insecticides. The

level of penetration of household insecticides range is just 25 per cent and that of hair colour is 45 per cent.

Basic tension for many FMCG companies is the higher incremental cost of acquiring new rural customers. R Vaidyanathan of IIM-Bangalore, has been tracking the FMCG sector for two decades, says that during any slowdown, regional and local brands gain significant attraction with price-conscious consumers. The credit squeeze faced by distribution channels is something FMCG companies have to deal with to spur rural demand, As Nitin Mathur of Espirito Santo puts it, 2014 could well be the toughest test for the Rs 2.5 lakh crore-FMCG sector's rural plans, which currently accounts for a third of its total sales.

SUGGESTION/ RECOMMENDATIONS

- Rural consumers should be made aware through rigorous advertisement campaigns of radio, press media to create brand awareness
- Distribution channel must be improved and thus made more strong
- Companies should focus more on brand awareness first
- Retailers must be given more profit margins
- Small and less price packets should made available to them along with attractive packing's
- Media mix for the rural markets must be meticulously designed so as to get the projected results.
- MNC's they do not tap the rural markets because of the anomalies associated with them, mostly related to infrastructure
- Advertisements must be done in the vernacular languages

CONCLUSION

After deep study and analysis about rural markets for growth of FMCG companies, conclusion is that higher penetration, per capita consumption, increasing population base, and rising household income continued to drive the opportunities in the area of FMCG sectors for forthcoming years.

Urban markets are saturated thus FMCG companies are moving towards the rural markets for their growth prospects... In spite of the income imbalance between urban and rural India, Rural regions, where nearly 70% of India's population resides, accounted for 34% of the off take for FMCG products. Since urban regions are already matured, the rural region is expected to be the key growth driver. In urban areas,

introduction of newer, convenience and higher end products propelled the growth. However there are many problems which are associated with rural market, concerns with respect to the increasing competitive environment, input cost pressures and infrastructure bottlenecks, lack of connectivity, negligible education and almost worst communication facilities. It is not possible for the retailers to mark their presence in every centers as they are too small that it is economically not viable to be present. Initiatives have been taken by the government to provide best possible measures to overcome the above barriers. Initiatives include like waiver of loans, guarantee employment schemes, increasing the disposable income etc has helped rural India to progress towards a better India.

The FMCG companies are, however, of the view that over the last few years the monsoon has not been playing as much of a role in pushing consumer demand as was the case a decade ago. Also, non-farm incomes in rural India are increasing, thereby opening the doors for FMCG companies to deepen the 'tentacles' in rural areas of the country. I hope little effort done by me in this field of research will be impetus for further research.

SCOPE FUTURE RESEARCH

If we have deep introspect then we shall find that there is lot of market potential in rural India for this sector. As the authors have already mentioned that in case there is one percent increase in the rural income then it would result in Rs 10000 crore of buying power. India being an agrarian economy, almost two third of the population are middle income group and lives in rural areas. Major chunk of the buying potential is still dominated by the people residing in India. Thus for every company in India there are prodigious opportunities available in the rural area those who want to see their sales soar high. For this reason corporate companies are investing huge money or in other words allocating huge budgets to tap the rural thrust areas.

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