



## REACHING OUT TO RURAL CONSUMER: A STUDY OF FMCG SECTOR

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### ABSTRACT

India's vast rural market offers a huge potential for Fast Moving Consumer Goods (FMCG) marketers facing stiff competition in the urban markets. The opportunities in the rural market are unprecedented and humongous. As per a study, two-thirds of the middle-income households are in rural India and if the rural income goes up 1 percent, purchasing power of rural India will go up by Rs.10,000 crore. There are nearly 42,000 rural supermarkets (haats) in India which exceeds the total number of retail stores in U.S (35,000). Kisan Credit Cards (KCC) in rural India far exceeds credit and debit cards in urban India. Though the rural market potential for FMCG goods is huge, reaching out to 600,000+ villages remains the biggest challenge. Issues concerning rural distribution include fragmented markets, poor road connectivity, dispersed population and trade, high credit-driven market and low investment capacity of retailers. The challenge lies with FMCG companies in innovating with their reach and delivering their market offerings to the rural masses at their place. The paper analyzes, studies, and suggests innovative distribution channels that corporate India is and will be using to tap rural hinterland. The focus is on studying innovation by corporate in other sectors and their effectiveness in FMCG Sector. An attempt has been made to analyze the role of small time entrepreneurs in enhancing distribution capabilities of FMCG majors.

**KEY WORDS:** Rural Market, FMCG, Distribution, eChoupal, Innovative, Shaktiman

## **INTRODUCTION**

India has close to 70 percent of the population living in rural areas and they are the single largest market segment of the Indian market, accounting for substantial portion of sales of fast moving consumer goods (FMCG) companies. Businesses in India are optimistic about growth of the country's rural consumer markets, which is expected to be faster than urban consumer markets. According to an Indian Brand Equity Foundation (IBEF) report India's per capita GDP in rural regions has grown at a Compound Annual Growth Rate (CAGR) of 6.2 per cent since 2000. As per the IBEF report cited above 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. The attractiveness of Rural India has been the subject of animated discussion in corporate world as urban markets are getting saturated for several categories of consumer goods. And with rising rural incomes, marketing executives are going out and discovering the strengths of the large rural markets. Rural market presents a huge untapped opportunity as nearly 70 per cent of population lives in Rural India. Rural India with 12.2% of the world's population represents the single largest potential market and FMCG companies need to explore strategic tools for successful exploitation of this untapped market. Rural India accounts for 53% of FMCG and 59% of durable sale in India. The rural market has therefore become vital for the growth of most companies including FMCG firms. National Council for Applied Economic Research (NCAER), survey's confirm rise in rural incomes in pace with urban incomes and points to the fact that Rural India is on a consumption boom and companies across sectors including FMCG companies need to customize their reach to have their share of the consumption pie. This paper looks into successful distribution strategies of FMCG majors like HLL, ITC, and also investigates other successful models to reach out to Rural India. Towards this endeavour the paper profiles the Indian Rural market and explores the possibilities of reaching out to the consumers in the remotest part of rural hinterland.

### **WHAT is RURAL?**

Mahatma Gandhi's saying 'India lives in its villages' still holds true. Villagers comprise the core of Indian society and also represent the real India. Rural areas are also known as the 'countryside' or a 'village' in India. It has a very low population density. In rural areas, agriculture is the chief source of livelihood along with fishing, cottage industries, pottery etc. Census 2011 defines "rural sector" as any place which meets the following criteria,

- a population of less than 5,000
- density of population less than 400 per sq. km and
- More than "25 per cent of the male working population" is engaged in agricultural pursuits.

As per Census 2011, of the 121 crore Indians, 83.3 crore live in rural areas while 37.7 crore stay in urban areas accounting for rural–urban distribution of 68.84% and 31.16% respectively. The Census 2011 further reveals that Uttar Pradesh with 15.5 crore population accounts for 18.62% of the country's population. According to 2011 census there are 649481 villages in India.

#### **RURAL INDIA BEYOND AGRICULTURE**

Rural India has gone beyond its dependence on agriculture in order to augment incomes from non-agricultural activities. Non-agricultural activity in the rural areas is almost equal to the agricultural activity and accounts for a little less than half of the rural GDP. According to NSS data, 35 percent of households in rural India are engaged in non-agricultural activities. The data also shows that these households are far higher spenders than the 'agricultural' households. The number of middle and higher income families (having Rs 70,000 plus annual income) in rural India is almost on par with the number in Urban India. NSS data also reveals that many rural households are engaged in both agricultural and non-agricultural activities. NCAER (National Council for Applied Economic Research) occupation data shows a decline in cultivators and there is enough evidence of dual sector households. India's unemployment rate has declined to 4.8 per cent in February 2017 compared to 9.5 per cent in August 2016, as a result of the Government's increased focus towards rural jobs and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme. The National Bank for Agriculture and Rural Development (NABARD) plans to provide around 200,000 point-of-sale (PoS) machines in 100,000 villages and distribute RuPay cards to over 34 million farmers across India, to enable farmers to undertake cashless transactions. Magma Fincorp, a Kolkata-based non-banking finance company (NBFC) plans to expand its operations in South India, with specific focus on rural and semi-urban markets to help the company grow rapidly. Bharti Airtel is applying for a payments bank licence and has involved Kotak Mahindra Bank as a potential investor in the venture, in a bid to tap significant revenue opportunities from the Reserve Bank of India's financial inclusion initiative. Payments banks are meant to fan out into the rural, remote areas of the country, offering limited but critical services such as money transfers, loans and deposit collection. While banks have the knowhow, telecom companies have the network, making it an ideal match.

#### **RURAL PUSH – GOVERNMENT INITIATIVE**

The Government of India (GOI) has planned various initiatives to provide and improve the infrastructure in rural areas which can have a multiplier effect in increasing movements of goods, services and thereby improve earnings potential of rural areas subsequently improving consumption. The Government has introduced various reforms in the Union Budget 2017-18 to uplift the rural markets. Notable reforms for uplifting the rural market are as follows:

- Rs 187,223 crore (US\$ 28.08 billion) has been allocated towards rural, agriculture and allied sectors.
- The Allocation for Pradhan Mantri Aawas Yojana-Gramin has been increased from Rs 15,000 crore (US\$ 2.25 billion) to Rs 23,000 crore (US\$ 3.45 billion) in the year 2017-18 with a target to complete 10 million houses for the houseless by the year 2019.
- The pace of roads construction under Pradhan Mantri Gram Sadak Yojana (PMGSY) has been accelerated to 133 kms per day as against an average of 73 kms per day during the years 2011-14.
- The allocation to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has been Rs 48,000 crore (US\$ 7.2 billion) in the year 2017-18, which is the highest ever allocated amount.
- The Government of India is looking to install Wi-Fi hotspots at more than 1,000 gram panchayats across India, under its ambitious project called Digital Village, in order to provide internet connectivity for mass use, as well as to enable delivery of services like health and education in far-flung areas.
- In the Union Budget 2017-18, the Government of India mentioned that it is on course to achieve 100 per cent village electrification by May 1, 2018.

### **GO RURAL**

With urban markets getting saturated and FMCG sector being volume driven, the overwhelming mandate from marketers is to reach out to rural consumers. The biggest challenge in rural remains reaching your product to 600,000+ villages compared to 5,000 odd towns in urban India. This paper looks at the critical aspect of distribution by FMCG firms in reaching out to rural consumers. Some FMCG firms that have made headway are Hindustan Liver, ITC, Coca-Cola, LG electronics, Britannia, and Colgate Palmolive. ITC e-Choupal, HUL project Shakti are rural distribution and procurement models innovated by ITC e-Choupal and HUL Project Shakti.

### **EFFECTIVE DISTRIBUTION – REACHING OUT**

Distribution channels are probably the most visible aspect of any company's marketing efforts. Modern technology and innovation is fast transforming this sector beyond recognition. The focus of all these changes is on increasing the convenience to the end consumers either by increasing the benefits or delivering the benefits at lower rates. Stern and El Ansary (1992) define distribution channels as 'sets of interdependent organizations involved in the process of making a product or service available for use or consumption'. Distribution channels facilitate the process of exchange which is the essence of marketing. Rubinstein and Wolinsky (1987) attribute the emergence of distribution channels to the need for facilitating exchanges by speeding up the

time-consuming matching process between buyers and sellers. Morris and Sirgy (1985) define the channel members alter their function and adjust their organizations and programme to cope with the changing environment. The evolution and innovation of a channel system is an ongoing adaptation of organizations to economic, technological, and socio-political forces both within the channel and in the external environment. FMCG marketers' in their efforts to reach out have to address the above point. Some FMCG giants are doing the same and making all the effort to reach out to rural India. From low-cost handsets to tablet PC's, the Indian FMCG is latching on to technology and applications to reach out to rural India. Marico is using mobile technology innovatively to arm its field representatives in their procurement process. The company procures large quantities of safflower (kardi) seeds for its flagship product sunflower oil. Hindustan Unilever's (HUL) Project Shakti, ITC's Choupal Sagar has widely been discussed and researched in the area of new communication and distribution channels within the rural agents. Corporates like ITC (e-Choupal) and HUL (Project Shakti) have shown that innovation in distribution channels can help them in meeting the burgeoning latent rural market.

#### **SUCCESSFUL INTERVENTIONS**

**Hindustan Lever's Project Shakti:** Launched in 2001, Project Shakti involved working with rural self-help groups (SHGs) to educate rural women, while also making them part of the company's marketing network. Women from SHGs become Shakti entrepreneurs -- direct-to-home distributors [of Hindustan Lever products] in rural markets. The products distributed include a range of mass-market items especially relevant to rural consumers like soap, toothpaste, shampoo and detergent. A typical Shakti distributor sells products worth Rs 10,000-15,000 a month, which provides an income of Rs 700-1,000 a month on a sustainable basis. With help from Shakti distributors, Hindustan Lever has been able to reach rural consumers in thousands of remote Indian villages. The success of Project **Shakti** lies in creating income-generating capabilities for underprivileged rural women by providing a small-scale enterprise opportunity.

**Hindustan Lever's Shaktimaans Powering Rural Reach:** HUL pushed 25,000 'Shaktimaans' — distributors on cycles — into action in 1.5 lakh remote villages with population of less than 2,000 for tripling its rural presence. HUL has roped in 'Shaktimaans' to fulfill its ambition of reaching villages with population less than 2,000. Shaktimaans set out daily on a bicycle, provided by HUL to distribute products and sachets of popular brands like Wheel, Lifebuoy, Pond's, Brooke Bond, among others, to aspiring consumers. Earlier, these consumers had to satisfy their needs by purchasing products from nearby villages where the company has direct distribution. Now, their needs are met in their own villages by the visiting Shaktimaans. Each Shaktimaan covers 5-6 villages in his vicinity. According to the company sources one of the main triggers for the move is

the availability of better connectivity in the form of roads and infrastructure to remote villages across India. A Shaktimaan is a male member of a Shakti entrepreneur family and is chosen based on his locational advantage and proximity to villages which are to be covered.

### **ITC's eChoupal**

ITC's foray into an enhanced distribution network came from the recognition that the existing agri-produce distribution channels were inefficient. The company exports various agricultural products for which it needs to source them from farmers. In 2000, ITC embarked on an initiative to deploy technology to reengineer the procurement of soybeans from rural India. "Kiosks -- called eChoupals -- consisting of a personal computer with Internet access were set up at the villages. The soybean farmers could access this kiosk for information on prices, but had the choice to sell their produce either at the local market or directly to ITC at their hub locations. A hub location services a cluster of eChoupals. By purchasing directly from the farmer, ITC significantly improved the efficiency of the channel and created value for both the farmer and itself. EChoupal network was initiated to facilitate more efficient and effective procurement, the connectivity -- both physical and informational -- between the farmer and the market that it facilitated has allowed ITC to use it for distribution of goods and services from the market to the farmer. It has thus evolved into a business platform. The eChoupal infrastructure consists of: A kiosk with Internet access in the house of a trained farmer, called a Sanchalak. This kiosk is within walking distance of target farmers.

**Learning Outcomes:** Though Project Shakti and eChoupal are different in orientation -- one focuses on individuals while the other is corporate-based -- each has been very successful in its own way. Both the models have proved that trust and empowerment of rural citizens is the key to market success.

### **LEARNING FROM OTHERS: MODELS WITH PROMISING SOLUTIONS**

FMCG players can also learn from companies that have even re-engineered products, pricing and packaging to customize features and values relevant for these markets. Therefore this paper presents two case studies of effectively reaching out to Rural India.

#### **Case 1: Multi Commodity Exchange's (MCX) Gramim Suvidha Kendra (GSK)**

As part of their Corporate Social Opportunity (CSO) Group, in 2006 MCX started Gramin Suvidha Kendra (GSK), a private-public partnership with **India Post**—the national postal service—that brings futures information to Indian farmers in six states. In 2007, the company expanded its offerings and started selling seeds, water purifiers, micronutrients and solar lanterns to farmers. Each day the mail arrives in more than 155,000 branch post offices throughout India. In more than 450 of those branches, information about commodity futures and spot prices also arrives. The

program is one answer to the rural distribution challenge that constantly stifles entrepreneurs aiming to get their products and services to rural villagers.

**The Model:** GSK operates on a hub-and-spoke model. MCX approached India Post in 2006 to use their extensive network—155,516 post offices including 125,148 rural branches that reach 594,000 villages—to distribute information. The program uses the head post offices at the city level, sub-post offices at sub-city level and branch-post offices at the village level. Local youths staff the sub-post offices branches that are equipped with a computer, fax-copier-printer-scanner, and webcam and internet connection. At the village level—because of the lack of internet connectivity as well as the aim to create a low-cost model—branch postmasters use simple blackboards to display the price information. The whole model operates on trust and credibility and ability to make profit. MCX pays a small rent to the postal service for using the space at the sub-post office level. In addition, India Post shares the profits, while MCX makes money from the registration and the value added products it offers.

**Learning Outcome:** Piggyback off the successful outreach of established organizations—the Indian Post —to provide rural villagers with information. In rural distribution, trust is the key and using an existing network can help companies gain credibility for their services and products that much faster.

### **Case 2: Rural Relations - Entrepreneurial Might**

Pradeep Lokhande distributes used computers to schools in about 28,000 villages through his Pune-based rural consumer organisation, Rural Relations. Lokhande supplies computers, collects data in exchange, which is then sold to companies. The company now has a database of 35,000 schools. Besides tapping schools, Lokhande also strikes direct contacts with opinion leaders in villages and records obscure details of the local economy. The data that Lokhande collects is invaluable and is now being lapped up by FMCG firms towards designing their distribution strategies for rural reach. In 1996, Lokhande got his first customers for the data: Tata Tea and Parle. Today, he has clients like HLL, P&G, Marico, Asian Paints, Telco and DSP Merrill Lynch.

**Learning Outcome:** Instead of relying on data from syndicated services, FMCG firms can rely on savvy entrepreneurs like Lokhande to access village level data in a cost effective manner.

### **REACHING OUT – CONCLUDING THOUGHTS**

Long term commitment from top leadership is imperative to the success of rural marketers. FMCG marketers will be well served if they recruit students from specialized institutes such as the Indian Institute of Rural Management, or at least, management graduates who have studied the subject as an elective. FMCG firms have to explore new distribution models like HUL's Project Shakti, ITC's e-Choupal, and MCX's Gramim Suvidha Kendra. Commission marketing research studies to profile

rural consumers. Success in rural landscape calls for lots of patience on part of FMCG marketers and long term investment plan. HUL's strategy to use Shaktiman's to reach villages with less than 2000 population is the result of long-term commitment and detailed planning and ruthless execution. FMCG firms need to make use of large available infrastructure like Multi Commodity Exchange's (MCX) Gramim Suvidha Kendra (GSK). FMCG companies need to avail professional help from rural specialized agencies like Sampark Marketing and Advertising Solutions Pvt Ltd, MART, RuralRelations, O&M Outreach to understand rural markets. In the end it is certain that marketers 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 growing power of the rural consumer is an opportunity for the companies to flock to the rural markets. Technological innovations, infrastructure development and enrichment of human capital in rural areas, backed by factors like large population, rising rural prosperity, and IT penetration in rural India are strong impulses for corporate to tap the vast uncharted territory of rural India.

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