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Rural India offering opportunities to FMCG companies

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Abstract

This paper examines the potential that Rural India is offering a good opportunity to FMCG companies to gain a profitable share in rural markets. This share can be a key to future growth for FMCG companies. In rural India scenario is changing now the rural consumers have specialised wants and preferences. They are adopting the urban standard of living slowly as their rise in income, more employment opportunities, more opening of schools and colleges in rural areas, especially by private players are providing them with a new thinking and consumption pattern. This changing environment in rural areas gives FMCG companies an opportunity to grow and earn profitably by grabbing this opportunity.

Keywords: Rural marketing, FMCG companies, Rural FMCG growth

1. Introduction

India is blessed with a wide diversity. Rural India will make India to achieve its macroeconomic objectives by providing a wide range of consumers. India is a highly populated country with a population of 125.0 Crores and rural India constitutes 68.84 percent of the total population. The largest population in rural areas provides more opportunities in rural marketing. FMCG is one of the largest sectors in the Indian economy and the market size of FMCG in India is estimated to grow from US\$30Billion in 2011 to US\$74 in 2018.

2. Rural Marketing

Rural marketing is the process of communicating the value of goods and services to the rural consumers to satisfy their needs and wants, in other words, it is a process starting with an idea to know the needs and wants of rural customers and then using various tools and techniques to satisfy those needs and wants.

3. Literature Review

FMCG is growing very tremendously. The rural FMCG market in India has grown 15% in 2011 (Nielsen Report, 2012)

According to FICCI Technopak Report 2009, FMCG Industry is projected to grow by 12% and reach a size of US\$43 billion by 2013 and US\$74 billion by 2018.

The explosion in rural consumption and growing competition for scarce resources demands that we embrace a new collaborative model of development. All stakeholders-Government, NGOs, civil society and corporates-have a role in enabling this growth while overcoming the attendant challenges. With the right kind of public-private partnerships we can address these challenges by findings, innovative solutions and build on the opportunities. (Mr. Harish Manwani, HUL, Chairman) Rural market contributes 55% of total FMCG consumption in India (Economic Times).

The McKinsey Report (2007) on the rise of a consumer market in India predicts that in 20 years the rural Indian market will be larger than the total consumer markets in countries such as South Korea or Canada today and almost four times the size of today's urban Indian market and estimated the size of rural market at US\$577 billion.

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Rural India grew at about 14% urban India grew at about 8% from FMCG's (Dr. C. Rajendra Kumar) *¹⁴.

Items		2001-02 (figures in '000)	2009-10 (figures in '000)	Percentage Increase (%)
Shampoos	Urban	13.6	31.4	130.8
	Rural	6.7	16.3	143.2
Edible Oil	Urban	2328.0	3986.5	71.24
	Rural	4681.6	666.2	42.3
Health Beverages	Urban	96.5	223.4	131.5
	Rural	37.0	88.9	140.2
Packaged Biscuits	Urban	550.4	1091.0	98.2
	Rural	294.4	521.6	77.1
Washing Cakes	Urban	510.7	616.5	20.7
	Rural	1351.7	2104.5	55.6
Toilet Soap	Urban	335.9	464.2	38.1
	Rural	469.4	657.7	40.1
Washing Powder	Urban	847.1	1485.4	75.3
	Rural	1005.2	1847.8	83.8

Source: The Great Indian Market, National Council of Applied Economic Research.

4. Main drivers for FMCG companies to look into rural market: First is, Increasing population in rural India is one of the main drivers for FMCGs to go into rural markets as it provides a wide range of consumers who can consume their products and give them a profitable share.

	2001	2011
India	102.9	121.0
Rural	74.3	83.3
Urban	28.6	37.7

Source: Census of India 2011

The second trigger which drives rural consumption is availability of credit. Government efforts like choosing a credit card, priority sector lending, providing more teeth to National bank Agriculture and Rural Development (NABARD), Self Help Groups (SHG), and so on. The main

objective of all the institutions is to provide credit to rural masses, farmers and entrepreneurs doing business in rural areas.

Information Technology and Communication (ICT) revolution which is being witnessed by the both rural and urban India minimised the gap between the companies and rural consumers. India became the second largest smart phone user country in the world and in recent time with the advent of Social Network Marketing smart phones has become a handsome tool for communication among companies and consumers. As per the assertions made by smart phone venders companies the next level of will comes from rural markets, which is also a good sign for FMCG companies to place themselves on the good side w.r.t ICT platform.

Growing income level is one of the main drivers for FMCG companies to approach rural markets. Total disposable income and GDP per capita both are growing which is a boon for FMCG companies.



5. There are many factors of increasing income in rural areas. Few are discussed below

Migrated rural population to urban centres and foreign countries send money to their families living in the rural area which is mainly used by them for their consumption expenditure. As per a World bank report published in April

2014 India surpassed China for consecutive years in terms of remittance received from foreign countries stood at USD70 billion (INR 4,25,000 crore approx.) in 2013 whereas China received only USD60 billion (INR 3,65,000 crore approx.). It provides a deep pocket for Indian consumers. Remittances in USD million.



People in rural areas are not now only depending on agriculture, they are switching over to other jobs which increase both the level and stability of their income that does not prevail in the primary sector jobs like agricultural laborers, forestry, fishing, etc.

Introduction of Government policies like MGNREGA, budget allocation increased from Rs.11437 crore in 2004-05 to Rs.52000 crore in 2012-13. This scheme generated huge employment in the rural sector.

A program like "Aajeevika Skills" by Ministry of Rural Development, Government of India. "Aajeevika Skills" is the skill and placement initiative of MoRD, GOI. The programme's focus is on skilling and placement in the formal sector for rural youth who are poor. During the year 2013-14 a target of 5 lakh was set against which 2,08,843 persons were trained and 1,39,076 were placed till March, 2014.

Literacy growth has become a pillar in social and cultural changes.

Literacy Rates (in %)			
	2001	2011	Difference
Overall			
India	64.8	74.0	+9.2
Rural	58.7	68.9	+10.2
Urban	79.9	85.0	+5.1

- The improvement in literacy rate in rural area is two times that in urban areas
- The rural urban literacy gap which was 21.2 percentage points in 2001, has come down to 16.1 percentage points in 2011

Source: Census of India 2011

Minimum Support Price is also one the scheme which provide rural population a minimum price for their agriculture produce by which their income and confidence both rise and they can plan their consumption expenditure accordingly.

The role of cinema in adopting a high standard of living. Cinema has reached every home in the country which influences their living standard; people make television and cinema stars as their role model and try to follow them. Somehow this influence is also one of the reasons of their improving living standard and rural consumers also start using categories of products like skincare, toiletry etc.

Earlier	Now
Use traditional or natural things to brush their teeth	Use toothbrush
Handmade bags made up of jute, old clothes etc	Use ready made travelling and school bags
Ladies used to wash their head with "Lassi" or "Multani mitti"	Use shampoo
Did not use hair color to color their hair	Use hair colors, dye of different brands
Used to wear self-stitched clothes	Prefer and Wear readymade garments

6. Constraints for FMCG in going into rural markets

Rural population scattered in a wide range of geographical area, this of one the biggest hurdle and a challenge to reach them.

Cultural and social diversity is also a constraint for understanding the needs, preference, habits and taste of so diverse population.

A different language is also a barrier to understand these wide ranges of customers.

Habits of using traditional products and also have a habit of not spending too much in the products rather they are used to save more.

Lack of rural physical and financial infrastructure like good connectivity with urban centres, roads, banking and other financial institutions, established market in villages, warehouse facilities which makes doing business in rural areas harder and unviable to some extent.

Lack of transportation facilities is also a hurdle in reaching villages; railway network is not expanded well as only few thousands new railway track laid down after independence, and same thing happened to roads, highways and water ways.

Direct dealers or distributors are not available in rural areas which widen the gap between producer and consumers.

7. Summary & Conclusion

Rural markets offer FMCG companies a good growth opportunity. A slogan suits FMCG companies "**More Rural, More Profit**".

Rural FMCG Growth is a function of the increase in income level, changing lifestyle, reduced gap between producer and rural consumer, increased literacy rate, adoption of changes in the society, increasing demand, influence of urban population and cinema, more connectivity.

There are a few things which can make jobs of FMCG companies easy are:

- 1) Creating some rural-urban hubs where every village is within one hour of reach and could ensure a large percentage of population has easy access to urban areas and become the big markets of tomorrow.
- 2) Access to formal banking would eliminate the burden of informal financing as money lenders charge very huge percentage of interest for the money they lend and eliminate the unbearable debt for the poor. It will also bring capital investment into rural. This would improve agricultural productivity and also help in building Small Scale Enterprises and other commercial venture.
- 3) Skill building- a need for generating income opportunities in rural India. With the help of ITIs industrial skills can built up and young people can be prepared for their role in the flourishing retail, BPO, hospitality and other service related industries. For the same there is a need to set up institutions that would build similar skills.
- 4) Market penetration can be improved to reach consumers in rural areas. It can help in securing a significant share in rural market. Companies need to apply rigour to governance and control to make sure their strategies translate into required action and they have to develop novel strategies to serve rural

consumers. It is required to understand consumer's culture and needs to enter & sustain in rural markets.

- 5) FMCG companies can adopt such strategies which make rural consumer feel closeness like use folks of the region to advertise in that region, in the celebrity endorsement use person of their local region whom they see as their ideal.
- 6) Continuous research is required by FMCG companies to understand the changing needs and preferences of changing rural consumers and it is necessary to understand how they buy the products? How they make decisions at every step of their purchase? This will help companies to understand them thoroughly.

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