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Unleashing Multiplier Effect of Rural India – A Review

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Abstract

Rural India's contributions to the nation's economic success and the obvious potential for profitable growth is just a part of the promise of wholehearted commitment of doing business beyond the Tier-I and Tier-II cities and suburbs. India's rural markets offer unprecedented opportunities for FMCG companies to experiment with approaches and business models and the successful models may be replicated in rural markets of other emerging economies.The increase in rural purchasing power is reflected in many ways. Rural incomes have been growing at more than 7 percent over the past few years, helping to account for almost 40 percent of India's total consumption of goods and services. Non-food expenditures are growing at an 8.2% annual compound rate.As per National Council for Applied Economic Research (NCAER), there is significant growth in rural market share of FMCG products in India.

Keywords: FMCG products, Rural Markets, Rural Marketing, Conventional Advertising

Introduction:

The present study is an attempt to understand the growing confidence of FMCG sector based on the timeline of FMCG sector growth witnessed by different survey results over the period of time. It shows the beliefs of business leaders who are willing to invest to grab the opportunities available in the untapped market of rural India and Bihar. This study also offers a framework that highlights the characteristics of high-performance FMCG companies in rural markets of India. The framework identifies three distinctive capabilities–the ability to create, shape and develop markets; the ability to adapt and optimize supply chains; and the ability to co-create value through innovative use of technology.

Rural India's contributions to the nation's economic success and the obvious potential for profitable growth is just a part of the promise of wholehearted commitment of doing business beyond the Tier-I and Tier-II cities and suburbs. India's rural markets offer unprecedented opportunities for FMCG companies to experiment with approaches and business models and the successful models may be replicated in rural markets of other emerging economies. On the other hand, it is about the enormous disparity in incomes, living standards, and lack of social infrastructure across India. Its firmly believed that, FMCGs that are benefiting by providing goods to rural consumers have a duty to bring more inclusive, sustainable, social and economic growth to those consumers' communities.

On the bases of different surveys conducted in the last ten years or so, it is evident that -

I. India is on the march. Its momentum is not only evident in metros— it is apparent in small towns and villages as well. Collectively, all over India's rural heartland and in its teeming cities, India is readying for an even more impressive era of economic growth.
II. There is no question that India's rural markets are becoming a powerful economic engine. As, one of the FMCG giants, HUL has proclaimed that, they are getting more than 50% revenue from rural markets of India.
III. The rural multiplier effect is what excites policy makers and business leaders alike. There is a growing realization that global investment and growth will increasingly come from rural populations, as their savings translate into consumption.

Reasons for Growing confidence of FMCG sector in rural opportunities –

I. Rural spending is no less dependent on farm income which now constitute 50% of the total rural income. Income remittances from migrant rural population and increases in nonfarm activities such as trading agro-processing are boosting nonfarm income.
II. The increase in procurement prices (the minimum price that farmers earn on produce sold to the government) is putting more money into the hands of the rural population.
III. The government has increased spending in rural areas.
IV. Improved access to finance and institutional credit has brought greater cash inflows to rural households.
V. Policy measures such as the US$ 13.9-billion waiver of agricultural loans and the National Rural Employment Guarantee Scheme (NREGS), which guarantee 100days of employment to one member of every rural household, have helped to reduce rural under-employment and raised wages.

The increase in rural purchasing power is reflected in many ways. Rural incomes have been growing at more than 7 percent over the past few years, helping to account for almost 40 percent of India's total consumption of goods and services. Non-foodexpenditures are growing at an 8.2% annual compound rate. Rural households are purchasing a wide range of products—cars, flat-screen televisions, microwaves—that until recently would have been beyond their reach. Some industrial sectors have seen surprising growth coming from rural consumers. Fifty percent of revenues from the fast moving consumer goods (FMCG) sector now come from rural sales.

As per National Council for Applied Economic Research (NCAER), there is significant growth in rural market share of all India market of many FMCG products in India. For example, the rural market shares of Shampoos in 1995-96, 2001-02, and 2009-10 is recorded as 27%, 32%, and 33% respectively, the rural market share of Toilet Soaps in 1995-96, 2001-02, and 2009-10 is recorded as 50%, 53%, and 55% respectively, the rural market share of Washing Cakes in 1995-96, 2001-02, and 2009-10 is recorded as 69%, 71%, and 76% respectively, and the rural market share of Washing Powder in 1995-96, 2001-02, and 2009-10 is recorded as 50%, 51%, and 55% respectively.

Macroeconomic data indicates a soaring potential of suburban markets in India is ahead. But the statistics neither giving clues to the FMCG companies about tapping the untapped potential rural market nor do they say whether companies are prepared to make the kind of investments that are required to unlock long-term value from rural markets.

Distinctive competitiveness of FMCG companies enable them to achieve high performance in Rural India - A growing number of FMCG companies, large and small, are steadily transforming their rural operations into viable profit centers. They have been successful in selling to unsophisticated buyers in geographically dispersed locations using appropriate “reach strategies.”

Key imperatives for profitable and sustainable growth of FMCG companies in rural markets in India may be –

I. Product localization and innovation
II. Pricing of the FMCG products
III. Supply chain and distribution efficiency.
IV. Promotion strategy
V. Collaborative business models.

On the basis of manysurvey reports regarding key imperatives for profitable and sustainable growth of FMCG companies, it can be concluded that, the supply chain and distribution efficiency is the most important key imperative, followed by product localization and innovation.

Essentially, the rural market leading FMCG companies have mastered product development and pricing, arrived at an optimal channel mix, and set up local partner networks that work well and generate revenue. They have been able to accelerate the adoption of their products and ensure consistent availability by investing in comprehensive market development and by making their supply chains as efficient as possible. And, they have effectively utilized technology and social networks to achieve the scale necessary to reach diverse consumer segments across rural India.

Drawing from the key learning of “distinctive competitiveness that enable FMCG companies to achieve high performance in rural markets of India,” a framework can be proposed to unlock long-term value from rural markets and become a high performance FMCG companies. The framework is headed by market focus and position involving selection of rural markets - a combination of products and geographies, which can best generate long-term value for the company. This decision to invest in rural markets is intrinsic to the core strategy of a FMCG company and is best guided by the company’s long-term vision and strategic fit.

At the base of the framework are the organizational imperatives that sustain high performance over the long-term. And, at the core of the framework is a set of three distinctive capabilities –

I. The capabilities that customers value highly and which competitors cannot easily copy. The leading FMCG companies’ ability to create markets is foremost; it involves highly effective market analysis, leading to product localization and innovation.
II. The leading FMCG companies’ ability to set up and extract value from supply chains enables to adapt to the varied and volatile demands of rural markets.
III. The leading FMCG companies understanding and mastery of enablers of supply chain efficiency is their third key capability.

All three distinctive capabilities are underpinned by the need for organizations to become part of the social fabric of the communities in which they work and to build social networks using local participation. The bulk of the discussion that follows will be about the three distinctive capabilities. Each merits a closer look on the following -

1. Leading companies effectively create, shape, and develop markets - Rural lifestyles and behavioral trends are increasingly coming to resemble urban patterns, in both form and variety. Like urban consumers, the rural middle class is buying more fairness creams, whereas many ofthe rural poor are keen to invest in a mobile phone connection. Growing aspirations are as much a factor in rural markets as price sensitivity and an acute sense of value for money. Success in those markets calls for knowing how to balance those factors.

Creation and development of markets in the hinterland involves building consumer understanding, product customization, relevant pricing, value engineering, and innovative modes of advertising and promotion—all designed to increase consumption and open up new markets. The following activities stand out:

I. Creating new categories - Businesses may need to develop new products tailored to the unique needs and circumstances of rural consumers.
II. Customizing products – Rural consumers typically define value in terms of the functional focus of a product – its durability, affordability, and fit for multiple uses.
III. Setting the right price points – The rural market leaders usually address their customers' price perceptions in two ways: by offering low-priced products in the first place, with a range of even cheaper variants; and by selling products as discrete units rather than in multiunit packs. Many FMCG companies, selling products ranging from biscuits to shampoos, have introduced smaller pack sizes to increase category penetration. The rural market experts may also practice value engineering, lowering the input costs by using alternative materials for raw materials or as packaging alternatives.
IV. Generating awareness and promoting products through the right media - Since rural consumers typically lack the product awareness, consumer education and generation of interest are first two steps for market creation.Non-conventional and interactive media such as Trade shows, NukkadNatak, Puppet shows, and live demonstrations in haats and rural fairs have proven effective. Hindustan Unileverran a brand awareness exercise called "Operation Harvest" that used the audiovisual media and delivery vans to provide "mobile entertainment" in the form of songs and film sequences, interspersed with the company's ads. The company targeted 30,000 "high potential" villages with at least 2,000 people each and good road connections. The vans traveled to six villages a day, distributing free product samples. The goal was to promote product trials and identify keydistribution and retail points based on audience interest.
V. Capturing and analyzing data in novel ways - Detailed information on the rural consumer continues to be elusive because of the dearth of mechanisms for capturing data and analyzing it. Organized retail units typically provide such mechanisms, but they do not usually operate in out-of-the-way communities. Further adding to the challenge is the lack of defining parameters such as income categories and ownership patterns across rural consumer clusters. However, small, focused initiatives are now under way, using consumer feedback as input for crucial marketing factors such as product design, price points and positioning in the right distribution channels.

2. Market leaders adapt and optimize their supply chains – By understanding many of the key barriers faced by FMCG companies to setting up efficient rural supply chains, it's found that, most of the FMCG companies citing inadequacies in physical infrastructure includes substandard or non-existing roads, rail, and electricity. Another major roadblock cited by FMCG companies is the absence of effective distribution and retail linkages. These are the facilities which, if businesses have to build them, usually involve heavy capital expenditure. Majority of the FMCG companies have these factors as major deterrents to doing business in rural markets. Investments in better transportation, warehousing, infrastructure and storage can boost returns over the long term for all participants in the supply chain. In an analysis it has been found that, the specific supply chain functions of sourcing, procurement and distribution offer the most scope for improvement and increasing profitability in rural marketing. But given the nascent character of the rural market, businesses need to view profitability there in terms of low margins and high volume. They must focus on building their market infrastructure properly from the start, with the right sourcing and procurement features and with supply chain linkages and structures that act as growth multipliers over the long term. Here are some of the most important supply chain activities:

(i) Optimizing sourcing processes – The transformation of farm-to-market linkages holds particular appeal given that India boasts the world's second largest farm output. Corporations can improve their sourcing processes by using the following initiatives:

(a) Replacing middlemen with direct manufacturer-to-producer linkages - By replacing the middlemen who had acted as its procurement agents, ITC forged direct links with producersthrough its e-choupal network, thus eliminating brokerage costs, better controlling end supplies, and developing its producer base for the long term.

The e-choupal network relies on self-driven computer kiosks with VSAT connections, manned by a Sanchalak, or conductor. Farmers can use this channel to quote their prices directly to ITC and to close deals promptly, leading to greater transparency and creating a level playing field for all producers. The channel is also used to transfer information that helpsfarmers earn better returns and survive market fluctuations. There are regular data feeds on crop and region-specific farming methods, weather and real-time crop prices.

The e-choupal network has since evolved into a retail format; more than 50 companies use this network tosell products ranging from seeds and fertilizers to bicycles and insurance policies. The e-choupal network relies on self-driven computer kiosks with VSAT connections, manned by a "sanchalak", or a "person in-charge".

(b) Process outsourcing: Contract farming has been steadily expanding in India. A relatively new phenomenon, the practice uses forward contracts between buyers and producers to reduce the risks involved in agricultural activity, guaranteeing timely raw materials at a fair price. Since large corporations dominate contract farming, professional help is readily available to provide seeds, fertilizers and free technical guidance, raising the quality bar and performance levels. The contract farming model also creates a virtual web of inter-relationships with indirect beneficiaries, attracting banks, insurance firms and even storage and equipment companies. Wheat farmers are using contract farming through an association among Hindustan Unilever, Rallis and ICICI Bank.

Farm process outsourcing, a variant of the contract farming model, involves a single corporate entity that acts as the buyer, with manufacturers as the customers. The model's strength lies in the market control that such a large buyer acquires, and also in the benefits of outsourcing. Manufacturers can better focus on their competencies. Soft drinks and snacks manufacturer PepsiCo India, for example, acts as a farm process outsourcer, leveraging its experience in contract farming. LT Overseas, a rice miller and owner of the popular Daawat basmati brand, is one of PepsiCo India's clients. With PepsiCo India taking care of its cost, quality and sourcing concerns, LT Overseas is the pre-contracted buyer for more than 4,000 rice farmers across Punjab and Rajasthan.

(c) Reaching the customer - Translating customer segmentation and analysis into strategies and tactics for reaching them is especially challenging in India's fragmented and unfamiliar rural markets. Sixty thousand villages in India have no form of retail outlet, making it very difficult to reach potential customers there. But, three million retail outlets exist in the remaining villages. The challenge is how to get products to those outlets and replenish them consistently and reliably. Any logistics problems spell additional costs for both supplier and retail outlet. The following approaches may help to overcome the distribution obstacles:

(i) Leveraging feeder towns, adopting a hub-and-spoke distribution model: Under the traditional dealer-distributor chain model, companies have a direct presence in certain towns, with a distributor/dealer at the district level, and, sometimes, sub-distributors or stockiest at the tehsil headquarter level. To increase penetration further, companies have historically relied on wholesalers. Yet within the rural distribution structure, small retailers and consumers use feeder towns (usually large villages) or Mandis as sourcing and replenishment points.

Most large companies lack a direct presence in the feeder towns. A possible solution would be to increase sub-distributor and sub-stockiest presence lower down the chain, a model that has worked very well for the FMCG industry.

The hub-and-spoke distribution model is another option for reaching customers in remote areas. Coca Cola uses this model; its products are transported from bottling plants to the hubs or large distributors and from the hubs to the spokes or smaller distributors in semi-urban areas. These small retailers then distribute products to village retailers.

(ii) Infrastructure-sharing among non-competing companies: By collaborating with companies that already have a well-entrenched reach, new entrants can quickly scale up and expect quicker returns. The infrastructure provider gains a steady source of revenue at no additional cost. For instance, Procter & Gamble has agreements with Godrej and Marico Industries, and also with Nirma, to distribute Camay Soaps.

India's postal service, a captive network with a deep rural reach, is the world's largest postal network, with more than 200,000 post offices, almost 89% of them outside urban areas. TATA tea has partnered with India post for selling their products.

(iii) Using mobile retailing and distribution options: Delivery vans and sales vehicles can reach the rural interior.

(iv) Key enablers to enhance supply chain efficiency – The factors that enhance the efficiency of rural supply chains. There are many key enablers that can enhance efficiency of rural supply chains –

(a) Improved rural infrastructure and linkages.

(b) Training and development of local talent.

(c) Improved data collection/information on rural markets.

(d) Technology.

(e) Access to financing.

(f) Favourable Government Policies.

(g) Social networks.

(h) Collaboration (Venturing into non-traditional partnerships)

(i) Many others.

3. High performers co-create value through innovative use of technology - The ability to create and nurture new markets and adapt and optimize supply chains are essential hallmarks to serve the rural markets. But high-performance businesses go beyond this: they employ technological platforms and solutions innovatively to co-create value by actively involving local resources. By utilizing technological platforms to gather authentic data on the customer base—companies actively find ways to improve their reach and scale as well as share the benefits. High -performance businesses also employ innovative approaches to overcome talent deficits. They utilize state-of-the- art technologies to nurture local human resource, thereby reducing their dependency on urban talent pools and unlock income opportunities in rural markets of India.

(i) Tapping rural sources to fill talent needs - Rural youth are often unskilled and have little or no familiarity with computers or with the English language. Trained, urban talent is unwilling to relocate to rural areas, leaving a huge demand-supply gap. Business models adopted by some of the vanguard outsourcing companies offer an interesting insight into bridging that gap. Fostera, the country's first rural BPO, located in Tamil Nadu, hires poor youth from neighboring areas and trains them to handle customer queries in English, Tamil, Telugu and Kannada. Fostera provides outsourcing services to many companies, managing their help desks and service-related queries. Such BPOs offer an employment and training model that may be a template for entry-level talent development while providing a service platform for other rural-facing industries.

(ii) Using technology as a differentiator - In many instances, companies have already adopted knowledge-based systems to streamline their logistics processes, increase efficiency and lower costs. These companies use a variety of tools to select the best delivery routes and reduce the number of vehicles needed to transport goods. During the next decade, as multinationals begin using the same sophisticated tools in India that they use elsewhere, their suppliers—both international and local—will follow suit.

Meticulous planning must precede any such technology initiative. Before moving to a rural location, the CIO needs to articulate how the company will overcome such basic obstacles as the lack of IT awareness, weak electrical power availability, poor communications connectivity, and lack of trained people. At the same time, it is necessary to keep track of IT assets and manage multiple locations across a large network.

Developing the required capabilities and applying the same -

It is one thing to exhibit appropriate capabilities from time to time, or in certain circumstances. But doing so as part of normal working behaviors is a different matter entirely, and is a hallmark of true high performance. Many experts believe that the habitual application of such capabilities requires buy-in from all the relevant players in the organization. When it comes to serving rural markets effectively, it is necessary for everyone across the organization to think and act in concert with those objectives. Here is what is required to promote that mindset:

Rural Markets must be considered in to core strategy of FMCG companies - Treating a rural market foray as an experiment or an exercise in image creation is very unlikely to bring positive results. "The entire organizational philosophy has to be geared towards treating rural markets as a key part of the business," said one executive. The company's leadership team must closely match the organization's core growth strategy with the drivers for growth in the rural market. First, the executives need to assess whether the company's core value proposition—its product portfolio, price points, and overall brand image—will appeal to the rural consumer. Once the points of convergence are clear, management must make a strategic commitment to the rural effort, backed by a long-term financial investment and by clear messaging to the entire organization. A senior executive of an FMCG company that now thrives in rural markets noted that, "Any organization wishing to grow in rural must be willing to invest and be patient. It has taken us many years to build this edge."

Secure top-down commitment and advocate constantly - Following the strategic commitment, management must develop clarity on how to proceed, including mapping organizational capabilities and market conditions. Top managers must continue to advocate for rural initiatives, visibly and vocally. Even hugely successful initiatives like e-choupal and Project Shakti have reached the critical mass of volume only after many years of investment in scale and reach.

Reshape your operating model and mindset - Organizational priorities may need to shift to meet the rural mandate. A business model that has leaned towards higher margins and lower volumes may need to adapt to a low margin, high volume approach for the rural business operations, substantially affecting financial planning and organizational culture.

Invest in the future workforce - A long-term rural strategy requires strong capabilities in talent creation, planning and management, both at the top and the bottom rungs of the skills pyramid. A key challenge is that trained staff is reluctant to move to villages while local labor is unqualified for most jobs. This capability gap requires innovative talent-creation models that tap the intrinsic strengths of local labor; it also calls for strong leadership commitment. Top managers can convey the seriousness of their organization's rural commitment by personally serving stints in the hinterland. The top-down message conveyed is that professional growth lies in helping to drive rural market growth.

At the same time, the organization must build its rural workforce carefully. Different skills and competencies are needed, such as cultural congruence and adaptability; employees do need to be willing to live in rural areas and do need to show empathy and sensitivity towards rural consumers and their needs. They also require knowledge of the local language, the ability to handle several product lines, and of course, the creativity and enthusiasm to carry it all through in often adverse circumstances.

Conclusion:

A large number of businesses merely scratched the surface of the potential for profitable growth in rural India. And, they have made only a dent in the social infrastructure challenges that keep so much of India's population in the shadows. But many research reveals, there is now real momentum on both fronts. Whether it is HUL's impressive market-creation activities, Kevincare's customer outreach during village festivals or online content services by ITC's e-choupal helping farmers to protect their crops, there are now abundant stories to demonstrate that businesses can and should make rural markets a central plank of their long term strategy for growth.

There is ample evidence to indicate that the best businesses help lift up the lives of those less privileged. In a nation where income disparities and differences in living standards are so stark, it is the obligation of those tapping rural markets to help boost education levels, to provide employment, and to think in terms of their long-term involvement in and contributions to the rural communities in which they work.

The high-performance businesses will be those that deliberately learnt from their experiences in India and quickly apply those experiences elsewhere, not only in other emerging markets but in highly mature markets as well. These are the companies that also understand that today's multi-polar world of dispersed economic power does not simply refer to the growing economic might of hubs such as Mumbai, Sao Paulo, and Dubai. It also means that global investment and growth will come increasingly from rural regions and populations the world over.

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