

Taking the Rural Route

With the expanding scope of FMCG products in rural India, SMEs must consider profitable business technologies

INDIA'S FMCG industry has emerged as a distinct sector over the last few decades. Unlike its largely organised US counterpart, the FMCG industry in India is highly fragmented. A huge segment of the market is currently flooded with obscure brands that are largely manufactured and distributed by small and medium enterprises. However, with the growing competition in the FMCG business, it has become difficult for SMEs to market their products sustainably. This is mainly due to the solidly established brand images of bigger players and the increasingly sophisticated demands of the urban consumer. SMEs also lack the capital investment needed to compete with bigger players.

However, with the growing economy, substantial business opportunities for FMCG products have emerged in the Indian rural sector. According to a study by the National Council for Applied Economic Research (NCAER), the rural FMCG market is growing with a CAGR of 3-4%. In the case of products like soaps, talcum powder, cooking oil, tea, cigarettes and hair oil, the share of rural market crosses 50%.

Says D Shivakumar, Business Head, Personal Products Division, Hindustan Unilever Limited, "The capital expenditure by urban consumers on FMCG products is Rs 49,500 crore, while that spent by the rural population is over Rs 63,500 crore. This is indicative of the growth rate and participation of rural FMCG markets in India."

Despite the huge scope for FMCG products in the fast-emerging rural markets, some grey areas need to be worked out before SMEs can establish sustainable businesses.

Fragmented Distribution Channels

A fragmented distribution system is a major challenge for SMEs in the FMCG sector. This results in demand and supply gaps, wastage and increased supply chain costs. From the perspective of rural distribution channels, the issue can be addressed by eliminating redundant intermediaries and establishing a network of distributors to cater to locality-specific demands and keep a tab on fluctuating demands. According to Mani Mulki, GM, Information Systems, Godrej Industries, "Looking at the granular demand in rural zones, a lean distribution channel with designated distributors and sub-networks can be an effective strategy for FMCG players."

For example, to improve its rural FMCG distribution channel, Coca Cola India appointed big distributors who were supplied with goods from the company's depot. These distributors, in turn, appointed sub-stockists, including SME players, who received goods weekly. This could be adjusted according to the demands. In a similar



case, Hindustan Unilever Limited (HUL) has also set up an integrated distribution channel by consolidating various product categories. The distribution channel consists of around 6000 SMEs sub-stockiest under company distributors to serve rural zones across India.

High Transaction Costs

Another major issue for FMCG businesses in rural zones is inefficient demand forecasting due to ineffective communication technology. This leads to wasteful intermediation and multiple handling across the supply chain, resulting in higher transaction costs. FMCG SME players can resolve this problem using IT-based real-time communication technologies.

SYNOPSIS

- The rural population in India is fast emerging as major consumer of FMCG products
- The buying behaviour of rural consumers is significantly different from that of their urban counterparts
- IT communication technology can play major role in filling the demand-supply gap

e-Choupal, a web initiative by ITC is an apt example in this case. Being a direct marketing channel linked to the agri market system for price discovery, the website reduces transaction costs by eliminating wasteful intermediation and multiple handling. "Thus, while the farmers get higher farm gate prices, ITC gets the benefits of a lower net cost of procurement, despite of offering the best prices," says YC Deveshwar, Chairman, ITC Limited.

Varying Purchasing Capacity

The rural consumer is economically, socially and psychologically different from his urban counterpart. Understanding rural buying behaviour is a challenge, but is essential for formulating effective pricing strategies for FMCG products. Variations in rural purchasing power also limit the capacity to segment, position and target products, especially for SMEs. For this, major FMCG companies have introduced their products in low-priced packs to suit rural spending capacities. For example, Coca Cola India has introduced 200 ml bottles of Diet Coke at Rs 10 each. This strategy aims to increase the consumer pie, rather than share it with players in existing categories. Following the suite, Godrej Consumer Products Limited (GCPL) for the first time has introduced low-priced packs of its soap brands such as Cinthol especially to tap the rural consumers. Available at as low as Rs 5, the products have become quite popular in the segment. Contemplating on Godrej's strategy, Mr Mulki says, "We generally believe in experimenting with alternate approaches to increase our sales volume. The low-priced product launch, thus, intends to leverage on our diverse strategies for product distribution and pricing points pertaining to rural areas."

Future Prospects

There is huge potential for FMCG businesses in rural India but the smart thing for SMEs would be to weigh the roadblocks with utmost prudence. While it is certain that most SMEs in the FMCG business will have to enter the rural markets to achieve their growth targets, they will also be forced to compete with bigger players who have the advantages of scale. The rural consumer is still very different from the urban consumer and will require a completely different marketing strategy. Moreover, with a huge variation in individual rural household incomes, it would be challenging for FMCG SME players to chalk out effective pricing strategies. Thus, it would require utmost commitment and dedication for SMEs to make a dent in the market.