

Shivam SAKSHI,
Pető KÁROLY

Doctoral school of economics and business, University of Debrecen

OVERVIEW OF INDIAN FAST MOVING CONSUMER GOODS SECTOR, FOCUS ON RURAL INDIA

Review
Article

Keywords

*Fast Moving Consumer Goods,
Indian FMCG,
Rural markets*

JEL Classification

M31

Abstract

The purpose of this work is to examine the Fast Moving Consumer Goods (FMCG) industry in India with an emphasis on rural India. This is a review article compiling information from various reports, articles and research papers in the related fields. This study shows how FMCG market is playing a vital role in the Indian economy and how rural areas of India are welcoming the FMCG sector. Predictions by various reports about the FMCG sector of India are also included in the article. It is understandable from this article that how world's well known nation for its traditions and values is now also adapting to the new dimension of living standards. In FY17, rural India accounted for 60 per cent of the total FMCG market, 80% of FMCG categories are growing faster in rural India as against urban India. Total rural income, which is currently at around US\$ 572 billion, is predicted to reach US\$ 1.8 trillion by FY21. India's rural per capita disposable income is estimated to increase at a CAGR of 4.4 per cent to US\$ 631 by 2020.

OBJECTIVES

The objectives of this contribution is to:

1. Provide an insight of Fast Moving Consumer Goods sector in India with an emphasis on rural markets.
2. To give an understanding of the growth rate of FMCS sector in the rural India

INTRODUCTION

With a population of over 1.3 billion, India stands at second rank population wise in the world. India is the 6th largest economy in the world with 2.45 trillion USD of nominal GDP and it stands at third rank in GDP in terms of purchasing power parity at 9.49 trillion USD (Investopedia, 2017). According to Dabur annual report 2016-17, the Fast Moving Consumer Goods (FMCG) sector ranks as the fourth largest sector in the nation providing 3 million employment opportunities which is almost 5% of the total factory employment. With the increase in the rural literacy levels and the exposure to media, people in rural area are also becoming conscious about their buying decisions like their urban counterparts (Gupta & Mittal, 2013). The rural marketing environment also becomes more challenging for the companies to understand the buying behaviour, the consuming pattern, the need and wants of the rural consumer (Gupta & Mittal, 2013).

Rural customers are very different from the urban customers in terms of more than a way. The income pattern, the literacy levels, the buying behaviour and even the decision making pattern is totally different and it needs a lot of work to make strategies to attract the rural customers. The usually known difference are the differences in financial status and literacy levels but there are more to it, like the cultural differences, traditional values, life style etc. All of these contribute to make it a different ball game to deal with the rural customers when compared to urban counterparts. Indian rural market is extremely diversified and hard to penetrate into for many reasons, for an instance, from my own experience, the traditions and habits. For example: Indian rural people usually use henna for colouring their grey hair and now breaking this habit and penetration into the hair dye market is very difficult until a proper strategy in terms of marketing, advertising, distribution etc. is done. Such a way there are a whole lot of things which rural people have as a substitute of many FMCG products and they have this strong belief that these traditional practices are far better than that of the technically advanced products. Now, it becomes difficult to the marketers to break through these beliefs and sustain in the rural market. Even though this is the case there are impressively a lot of

companies which have established their products in the rural areas and are not only sustaining but are doing extremely well. Companies like Hindustan Uniliver, Dabur, and BSNL etc. they all in fact have higher market demand in the rural market than the urban markets. According to IBEF reports, in India 60% of the FMCG sector is rural and only the remaining 40% is the urban sector. Also BSNL, a well-known mobile network connection company claims that half of its customers are rural.

FMCG IN INDIA

Fast-moving consumer goods (FMCG) sector is the 4th largest sector in the Indian economy with markets size of 49 billion USD, it is a very important contributor to India's GDP. According to Dr Maheskumar the Indian FMCG sector has a market size of \$13.1 billion. It's been anticipated that the FMCG sector of India will reach 104 billion USD by 2020 from 46 billion in 2016 at a CAGR of 20.6% (IBEF Report, 2018). A strong multinational presence is seen all across the FMCG value chain.

FMCG sector in India has another value dimension – employment. According to Assocham report, FMCG sector provides employment to around 3 million people accounting for approximately 5% of the total factory employment in India. The Indian FMCG shares 0.68% of the global FMCG market (Assocham report). The percentage share of various categories of FMCS products are listed in the table 1.

GROWTH OF INDIAN FMCG SECTOR

Over the years as the Indian economy flourished so did the buying capacity of consumers rose. According to AC Nielsen survey carried out in the year 2011, FMCG sector in the rural and semi-urban areas of India is estimated to rapidly increase and reach 20 billion USD by 2018 and by 2025 it may cross a 100 billion USD. According to McKinsey Global Institute study carried out in 2007, there could be a 3 fold growth in the incomes in India and the country could become the world's fifth largest consumer market by the year 2025. The FMCG sector in India generated revenues worth US\$ 49 billion in 2016. The growth of FMCG in India from year 2011 to 2016 is as shown in the figure 2.

EVOLUTION OF FMCG IN INDIA

According to IBEF report Household and Personal Care is the leading segment, accounting for 50 per cent of the overall market. Hair care (23 per cent)

and Food and Beverages (19 per cent) comes next in terms of market share. It is anticipated that the FMCG market in India grows to 103.7 billion USD by the year 2020 (IBEF Report 2018).

A comparison of FMCG market sector in the year 2000 to 2017 is shown in the table 2.

RURAL MARKETING IN INDIA

India is the second most populous country in the world with approximately 1.32 billion of population. There are about 630,000 villages across India and nearly 70% of the nation's population resides in rural and semi urban areas. The rural market is visibly very huge and evidentially untapped. Although the rural customers may not be interested in the luxurious products pertaining to their financial abilities, if the needs of the rural customer is understood and worked towards, it can make fortunes for the companies. As urban markets are getting near to saturation the flavour of rural markets is more attracting the companies. The growing income levels, literacy levels, standard of living, expectations has resulted in the whole new concept of rural marketing and now undoubtedly the rural markets and rural marketing are most discussed issues in the world of sales and marketing.

There is a lot of difference between a rural customer and an urban customer. They not only differ in terms of financial abilities or literacy rates but there are more to it. From traditional values to the customs they follow are all more particular when it comes to rural customers than their urban counterparts. Mostly rural population of India are dependent on agriculture and so the income is seasonal and depends on the nature, this effects the buying power of the customer. The literacy rates in rural areas are comparatively low and this is a problem when it comes to understanding the brand and making a decision. There are many more attributes which make rural customer very different to the urban customers like the price-sensitivity, acceptability, etc.

FMCG IN RURAL INDIA

According to the census 2011, the rural market size is approximately 83.3 million people which is around 68.84% of the total nation's population. This implies what kind of role rural market plays in the Indian GDP. As mentioned above, FMCG sector is fourth largest contributor to the Indian GDP and out of it the rural contribute approximately 60% and this shows the intensity of rural FMCG market (IBEF Report 2018). For the rural consumers accounts to be the major chunk of

population it is obvious that the rural markets get higher revenue than its urban counterparts.

According to IBEF report, in 2016 rural India has accounted for 60% of the total FMCG market. It is anticipated that the total rural income reaches 1.8 trillion USD by the financial year 2021 which is currently around 572 billion USD. India's rural per capita disposable income is estimated to increase at a CAGR of 4.4 per cent to US\$ 631 by 2020. (IBEF report 2018)

According to the third annual edition of Accenture Research, "Masters of Rural Markets: From Touchpoints to Trustpoints - Winning over India's Aspiring Rural Consumers," rural consumers are particularly aspiring or striving to purchase branded, high quality products. As a matter of fact, almost 70% of the Indian population lives in rural areas and is the largest contributor to the overall revenue generated by the FMCG sector in India and recorded a market size of around US\$ 29.4 billion in 2016-17 (IBEF Report 2018). The rural market in the last few years has grown on a faster pace as compared to its urban counterpart to reach 60% of the total market share.

Rural market in India is a highly diversified market which is most of the times influenced by traditional, religious and behavioural factors which are inherited since ages. According to AC Nielsen survey carried out in the year 2011, FMCS sector in the rural and semi-urban areas of India is estimated to rapidly increase and reach 20 billion USD by 2018 and by 2025 it may cross a 100 billion USD. It also revealed that growth in the FMCG sector in rural India increased 3.5 times from 2000 to 2010, as compared to 3.2 times in urban India.

CHALLENGES IN RURAL MARKETS

The distinctiveness of the nature of rural markets and rural consumers pose challenges to the marketers in reaching them effectively. There are a number of challenges when it comes to FMCG sector in rural markets in terms of reachability to acceptability. Few of the challenges which are understood are listed,

Literacy: Rural people are less literate. This makes it difficult in terms of promoting the products.

Income: Rural people's income is comparatively low and so the buying capability is low. Moreover, the seasonal income of the rural customers make it difficult for them to make buying decisions.

Infrastructure: Lack of proper infrastructure results in logistical disadvantage.

Transportation: Lack of proper road again cause difficulties in transporting products.

Promotions: Though media like television and radio provide a good platform for promotion and are extensively used for the promotion purpose, the problem is with the electricity supply. In rural India

electricity supply is interrupted on a regular bases and this is a huge issue when it comes to advertising. Thought mandis, haats, bazars are still used in many parts of India for promotion purpose, media would still be chosen over all of those traditions ways of promotions.

To list there are still countless challenges like acceptability, storage, low per capita income, seasonal demand, traditions, etc. There are appreciable efforts made by many companies who are trying to establish themselves in the rural markets but clearly it can take quite a lot of time before the rural market evolves completely and FMCG sector makes more positive moves in the rural areas.

CONCLUSIONS

No matter how difficult and challenging the rural markets are, the companies which are doing well are proving it repeatedly that if the customer's needs are addressed properly, there is always not only market but also demand to the product or service. The Indian rural markets appears to be offering a great deal of opportunities to the FMCG sector of India. According to the facts mentioned in the article, the rural FMCG markets has already chased and won the race with the urban market and now is leading, though the percentage ratio appears not justified, but still the ignored rural markets are highly positive in the response towards FMCG sector. Although a lot of development has been witnessed over the years in the FMCG sector of India there is a whole lot of possibilities to improve FMCG sector in the rural areas across the nation. The many challenges from literacy to infrastructure must be overcome to serve better to the rural customers. Many government initiatives like employment generation schemes etc., are also helping directly or indirectly for the growth of FMCG sector in the rural areas. Overall it can be confidentially said that the future of FMCG in rural India is going to be very bright.

REFERENCES

- [1] A C Nielsen survey. (2011). Indian Rural Consumer Market Reaches \$6 Billion. Retrieved from [http:// www.thinkindia.net.in](http://www.thinkindia.net.in).
- [2] Assocham report (2016). Indian FMCG market 2020. Retrieved from <https://www.techsciresearch.com>.
- [3] Gupta, S. L. & Mittal, A. (2013). A Study of Consumer Behaviour Aspects and Brand Preferences in Rural India with Reference to FMCG Sector. *Journal of Small Business Management*, 35(2), 80-94.
- [4] IBEF Report (2018). Fast Moving Consumer goods (FMCG). Retrieved from <https://www.ibef.org>.
- [5] Kashyap, P. and S. Raut (2006). *The Rural Marketing Book*. New Delhi: Biztantra.
- [6] Kumar, B. and Gogoi, M. (2013). Fast Moving Consumer Goods Industry in Rural Market of India: A Case of Mutual Reinvigoration. *Ushus-Journal of Business Management*, 12(4), pp.51-65.
- [7] McKinsey Global Institute Study (2007). Retrieved from <http://www.mckinsey.com>.

ANNEXES

Table 1: The percentage share of various categories of FMCS products

Categories	Percent share
Haircare	23%
Foods	18%
Health and Supplements	18%
Oral Care	15%
OTC and Ethicals	9%
Others	17%

Source: IBEF Report (2018)

Table 2: Comparison of FMCG market in 2000 to 2017

Financial Year 2000	Financial Year 2017
<ul style="list-style-type: none"> Indian FMCG Industry – US\$ 9 billion 	<ul style="list-style-type: none"> Indian FMCG Industry – US\$ 49 billion
<ul style="list-style-type: none"> Market size of chocolates - <US\$ 100 million 	<ul style="list-style-type: none"> Market size of chocolates – US\$ 1,766.6 million
<ul style="list-style-type: none"> Market size of personal care - <US\$ 3 billion 	<ul style="list-style-type: none"> Market size of personal care – US\$ 12.58 billion
<ul style="list-style-type: none"> HUL’s share in FMCG market (personal care) - >50% 	<ul style="list-style-type: none"> HUL’s share in FMCG market (personal care) – 37.4%

Source: Author’s own research

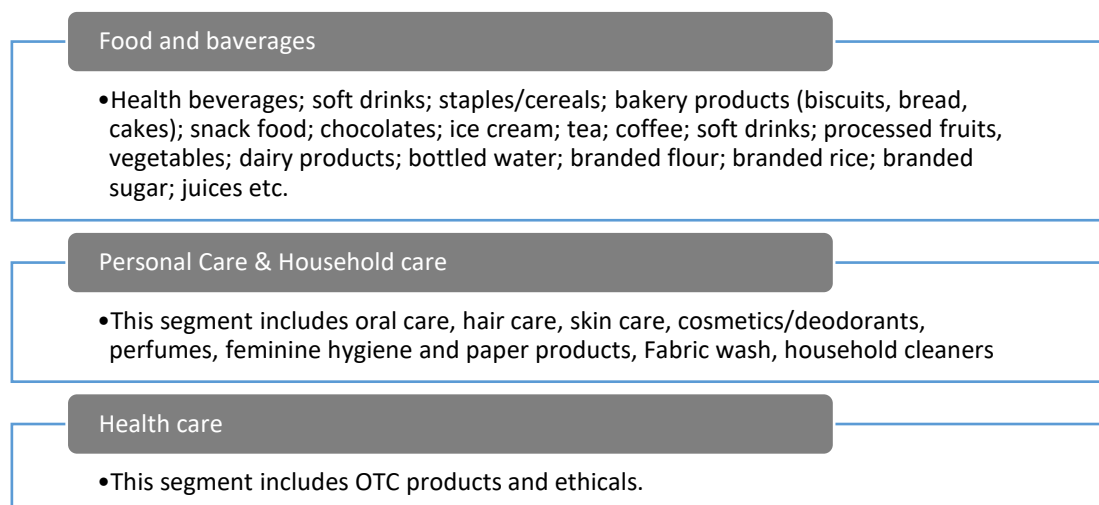


Figure 1: Segments of FMCG
Source: IBEF Report

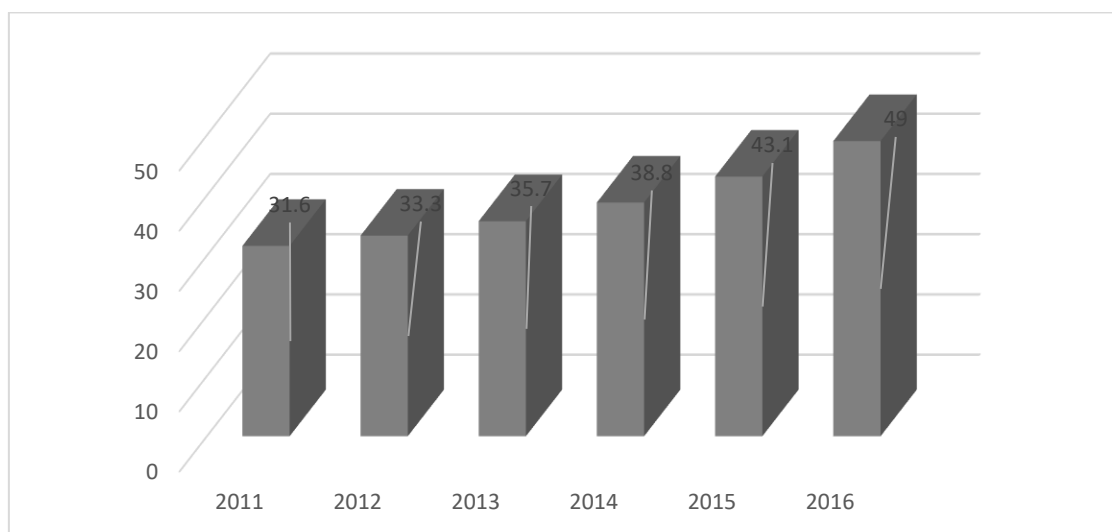


Figure 2: Growth of FMCG revenue over 6 years (in USD billion)
Source: IBEF Report 2018