



## Prospects and Challenges for FMCG sector, with Special Reference to Rural India

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### Abstract

*Rural India is giving huge opportunity to the corporate world to explore new markets for their products. FMCG sector specially is completely banking upon the potential of rural India for their next big growth opportunities. FMCG companies are looking and working upon strategies for rural India, as due to various government initiatives income and general awareness level have increased and people in rural India also are wanting products which are popular in Urban India.*

*Key Words – Rural Marketing, Strategies.*

### Introduction to Rural India

*“India lives in its villages” – Mahatma Gandhi*

India is a country of villages and its development largely depends upon the development of its villages. 67 percent of the total population of country lives in villages. (2011 Census) and accounts for more than half of Indian consumption. Even with increasing urbanization and migration, it is estimated that 63 percent India's population will continue to live in rural area by 2025. In terms of economic output, rural India accounts for almost half of the country's economy and the rural market have the potential to reach \$500 by 2020.

Rural development has been receiving increasing attention of the governments across the world. In the Indian context rural development assumes special significance for two important reasons. First about two thirds of the population still lives in villages and there cannot be any progress so long as rural areas remain backward. Second, the backwardness of the rural sector would be a major impediment to the overall progress of the economy. However, it is an unfortunate truth that a large percentage of this population lacks even basic services like education, health, drinking water, sanitation and employment.

India is predominately an agricultural country and farming is their main occupation. In terms of methods of production, social organisation and political mobilization, rural sector is extremely backward and weak. Moreover, technical developments in field of agriculture have increased the gap between the rich and poor, as the better off farmers adopted modern farm technology to a greater extent than the smaller one's. The all India Rural Credit Review Committee in its report warned “If the fruits of development continue to be denied to the large sections of rural community, while prosperity accrues to some, the tensions social and economic may not only upset the process of orderly and peaceful change in the rural economy but even frustrate the It was therefore felt necessary to national affords to set up agricultural production.” make arrangements for the distribution of fruits of development to the rural weak and backward section of society.

A single approach to rural development would not be effective. In fact, rural development is the product of interaction between various physical, technological, economic, socio-cultural, institutional and environmental factors. Indeed, the rural sector should experience the required changes so that it can join the mainstream of national development and contribute its share for

economic development. It has been rightly said, "In the end, however, rural development should not be seen as a package of specific needs but as a transformation of rural like and conditions."

Globalisation, liberalisation and privatization have enabled the entry of several private traders, including large multinationals, who have transformed the Indian economy into a vibrant, rapidly growing consumer market. The markets are now flooded with different kinds of goods and services, substantially effecting and changing the purchasing pattern of the consumers. The rural markets, which were earlier ignored by most of the big international market players, are now being seen as a land of great business opportunity. The impact of globalisation is being felt in rural India as much as in urban. But it is slow. However, in the long run it will have its impact on target groups like farmers, youth and women. In some states, for e.g., the affluent farmers, today 'keep in touch' with the latest information and maximize both ends. They use their cell phones to be constantly connected to global markets. Surely, price movements and products' availability in the international market seem to drive their local business strategies.

According to the third annual edition of Accenture Research, "Masters of Rural Markets: From Touch points to Trust points - Winning over India's Aspiring Rural Consumers," rural consumers are particularly aspiring or striving to purchase branded, high quality products. Consequently, businesses in India are optimistic about growth of the country's rural consumer markets, which is expected to be faster than urban consumer markets. The report highlights the better networking among rural consumers and their tendency to proactively seek information via multitude sources to be better informed while making purchase decisions. Importantly, the wider reach of media and telecommunication services has provided information to India's rural consumers and is influencing their purchase decisions. In line with general trend, rural consumers are evolving towards a broader notion of value provided by products and services which involves aspects of price combined with utility, aesthetics and features, and not just low prices. The hinterlands in India consist of about 650,000 villages. These villages are inhabited by about 850 million consumers making up for about 70 per cent of population and contributing around half of the country's Gross Domestic Product (GDP). Consumption patterns in these rural areas are gradually changing to increasingly resemble the consumption patterns of urban areas. Some of India's largest consumer companies serve one-third of their consumers from rural India. Owing to a favourable changing consumption trend as well as the potential size of the market, rural India provides a large and attractive investment opportunity for private companies.

#### **Objective of Study**

1. To study the role of FMCG industry in Indian Rural market.
2. To determine challenges faced by FMCG industry in Rural Market.
3. To analyse future opportunities for FMCG industry in Rural Market.

#### **FMCG market in India**

Fast-moving consumer goods (FMCG) sector is the 4th largest sector in the Indian economy with Household and Personal Care accounting for 50 per cent of FMCG sales in India. Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector. The urban segment (accounts for a revenue share of around 60 per cent) 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. However, in the last few years, the FMCG market has grown at a faster pace in rural India compared with urban India. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50 per cent of total rural spending. For decades, the fast-moving consumer goods (FMCG) industry has been the bellwether of Indian corporations and the country's economy. Not only has it successfully met every Indian's daily needs, but it has also created aspirational brands, providing avenues for self-expression and emotional fulfilment. The industry has been at the forefront of innovation, providing world-class

products at affordable prices and making them available in the remotest parts of the country. The Retail market in India is estimated to reach US\$ 1.1 trillion by 2020 from US\$ 672 billion in 2016.

#### **Investments and developments in the FMCG Industry**

The government has allowed 100% FDI in food processing and 51% in multi – brand retail. This would help in generating employment and will high visibility of brands in organised retail markets, increasing consumer spending and encouraging more product launches. Some of the major developments in the FMCG sector are –

- a. Indian biscuit giant, Britannia Industries Ltd, is setting up its largest plant ever, in Maharashtra, with an investment of Rs 1000 crore.
- b. ITC Ltd has forayed food market with the launch of frozen prawns and further plans to launch frozen vegetables and fruits, in a move towards reaching Rs 1 trillion in revenue by 2030.
- c. Dabur India Ltd has set up its largest manufacturing plant globally, spread over 30 acres at a cost of Rs 250 crore in Tezpur Assam, which will produce complete range of Dabur's ayurvedic products, health supplements, and personal care products among others.
- d. Hatsun Agro Product Ltd, the fifth largest ice cream maker in India, plans to expand its business in Maharashtra and might acquire a Greenfield project or a farm state for the same.
- e. Overall economic progress is favouring FMCG industry, by overall development of the economy the FMCG industry is able to tap its own opportunities as well
- f. FMCG companies have increased their advertisement and sales promotion expenditure by about 10% in 2014- 15 on account growing competition and also an effort to reach out wider range of audience.
- g. FMCG companies are investing hugely in rural sector due to its vast market size and rise in income level.
- h. On account of increase in disposable income in rural areas FMCG companies are also able to take premium products in such kinds of markets

#### **Government Initiative for FMCG Sector**

- a. In the Union Budget 2017 – 18 the Government of India had proposed to spend more on the rural side with an aim to double the farmer's income in five years; as well as cut in income tax rate targeting the small tax payers, focus on affordable housing and infrastructure development will provide multiple growth drivers for the consumer market industry.
- b. The Government's decision to allow 100% FDI in online retail of goods and services through the automatic route has provided clarity on the existing businesses of e-commerce companies operating in India.
- c. With the demand for skilled labour growing among Indian Industries, the government plans to train 500 million people by 2022, many government and private players are working in this direction in providing skilled and well trained workforce to the industry.
- d. The Government of India has drafted a new Consumer Protection Bill with special emphasis on setting up an extensive mechanism to ensure simple, accessible, affordable, and timely delivery of justice to consumers.

#### **Opportunity for FMCG industry in Rural India**

- a. Rising income levels in rural India is set to drive the demand for FMCG industry. The annual per capita disposable income level in rural India is expected to reach 631(USD) by 2020.

- b. Recent government has started more focus on rural India for its upliftment through various initiatives such as allocation of funds for irrigation, road construction, increase in minimum support price for key crops, employment guarantee schemes etc, all such initiatives will drive demand in rural areas.
- c. Due increase in awareness level, rural consumers are also preferring health and wellness products, which gives FMCG companies a huge opportunity to showcase their health and wellness products.
- d. Personal care market is also growing two fold due to increase in purchasing power and growing consumer interest, according to industry sources this market is growing at an annual rate of 20%
- e. Food processing industry also have huge potential in rural India, this industry is ranked fifth in terms of production, consumption, export and expected growth, food processing industry accounts for approx 30% of total food market in India.
- f. Due to increase in disposable income in the hands of rural India, has given opportunity for premium brands to test themselves in the rural market.
- g. Due to focus on basic infrastructural development (like roads and electricity) in rural areas FMCG industry has huge potential to reduce cost and time in making available products in rural areas.

#### **Challenges for FMCG industry in Rural India.**

- a. Intense competition both in organized and unorganized sector gives huge challenge for FMCG firms to operate in rural India
- b. Due to low illiteracy level it is difficult to educate about the products and also duplicate products try to make their mark by copying the similarities of original products.
- c. Due to huge dependency still on agriculture for income, demand is seasonal in rural areas, which creates challenges in maintaining adequate amount to stock.
- d. Due to many languages and dialets, it's a challenge for FMCG firms to promote and advertise their products in every local language.
- e. Sale in rural areas is more driven by availability of products and this again is a huge challenge due to huge and vast market of rural India.
- f. Due to inadequate power supply media coverage for promotion of products becomes a huge and expensive task for companies
- g. Lack of proper warehouse facilities gives a challenge for FMCG companies to safely store products and make them timely available in market.
- h. Due to largely scattered market making product available timely and early than your competitor is a huge challenge for companies.

#### **Conclusion**

Rural consumption has increased, led by a combination of increasing incomes and higher aspirations levels, there is a increase demand of branded products in rural India. The rural FMCG market in India is expected to grow at CAGR of 14.6% and reach UD\$220 billion by 2025 from US\$ 29.4 billion in 2016.

On the other hand, the share of unorganized market in the FMCG sector is falling and organised market is rising due to strong level of awareness and thus increasing the demand of branded products. Also the increase in youth population and increase in penetration in internet has increased organizational approach in rural India.

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