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**AN EMPIRICAL STUDY ON THE BEHAVIOUR OF RURAL CONSUMERS TOWARDS FMCGS**

**JYOTI PRADHAN**  
**LECTURER**  
**DEPARTMENT OF MANAGEMENT**  
**SURANA COLLEGE**  
**BANGALORE**

**DR. DEVI PRASAD MISRA**  
**PROFESSOR**  
**DEPARTMENT OF M.B.A.**  
**FAKIR MOHAN UNIVERSITY**  
**BALASORE**

**ABSTRACT**

*Over the years there has been a great change with regard to income and lifestyle of Indian rural population. Yet there is a significant difference between the purchase behavior of rural and urban consumers. Marketing strategies always gave rise to core competencies and helped taking advantage of the increasing competition. While developing the strategies, the marketers need to treat the rural consumer differently from their urban counterparts because they are economically, socially and psycho-graphically different from each other. To satiate huge base of rural consumers a proportionately large investment is needed which is a risky venture. So, whatever strategies FMCG (Fast Moving Consumer Goods) companies follow must mutually benefit people at the bottom of the pyramid as well as them. This paper is an attempt to study marketing strategy adopted by FMCG companies in the rural India. Consumer characteristics like repeat- purchase- recommendation and loyalty are also being studied herewith. The study has focused on consumer behavior related to consumables, 4P's (product, price, place, promotion) and 4 A's (acceptability, affordability, availability and awareness). The researchers have used structured questionnaire technique and surveyed on the population in the rural areas of Odisha. The researchers tried to bring about similarities and differences of urban and rural India which indeed helps in framing of strategy in rural India.*

**KEYWORDS**

Rural markets, FMCGs, Marketing strategy, Haat.

**RURAL INDIA- A GREENER PASTURE**

**W**hat is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win-win scenarios where the poor are actively engaged and, at the same time, the companies providing products and services to them are profitable".

**C.K.Prahalad**

Liberalization of an Economy has its own pros and cons. The decision to liberalize the Indian Economy at the beginning of the 1990s had far-reaching consequences. On the marketing front, there was the arrival of many well-known MNCs, which are household brands in the international market today. A relevant example is of Hindustan Unilevers, the largest FMCG Company generating half of its annual income from rural market.

The rural India comprises almost 75 percent of the population living in 6.4 lakh villages, speaking 33 languages, 1652 dialects and has diverse sub-cultures and diverse requirements. More than 80 percent of the rural consumers depend upon agriculture and allied activities for their livelihood. The rural market has been growing steadily since the 1980s and is now bigger than the urban market for both fast moving consumer goods (53 percent share of the total market) and consumer durables (59 percent). An analysis of the National Samples Survey (NSS) data reveals that 75 percent of the expenditure on manufactured goods is accounted by rural India. Technological developments are taking place in rural areas at a rapid rate as is in the urban areas. The disposable income in rural India has increased manifold in the last five years than the urban area. Higher rural income means, the need for larger markets and at the same time they are exposed to large number of products so their brand awareness is magnified.

In the starting of FMCG companies' penetration into rural areas, it was considered that rural marketing is just synonyms to the farmers, those who rub their heels on fields day long and come back to homes with exhausted feet, just look food in the light of deeya (primitive light source) and lanterns and slept, and the story ends here. But, this is a misconception. Their life styles, their thinking, their choices and their selections have now turned to a new statistical height.

In the initial years, the focus was on the easily accessible, well-developed urban market. Soon there was a proliferation of brands and intense competition, resulting in the near saturation of the urban market. This forced companies to look for greener pastures, that is, new markets. All eyes turned to the world's most promising potential market of 742 million rural consumers, who had yet to taste the fruits of modernity, a promise that seemed ready to be fulfilled because of the explosion of the buying capacity in the rural sector.

Fuelled by good growth registered in the 1990s as a result of thirteen consecutive good monsoons, a 600 percent increase in the five-year plan outlay for rural development programmes, from the Eighth to Tenth plan; a 230 percent increase in the flow of institutional credit for agriculture between 1997-98 and 2004-05 and 41 million Kisan Credit Cards(KCC) issued and cumulative credit amounting to Rs. 97,700 crore sanctioned since the inception of the scheme in 1998, has all helped the growth of the rural economy and contributed to the increasing rural prosperity.

Agricultural revolution has resulted in the rapid rise of rural incomes. According to the NCAER, Indian Market Demographics Report 1998, the consuming class households (annual income between Rs. 45,001 and Rs. 2,15,000) in rural India equals the number in urban India. It is well known that for the same level of income, the disposable surplus in rural areas is much higher because food, shelter, primary education and health are virtually free, whereas in urban India 60-70% of the income is spent on these necessities. Keeping all these changes in mind, Marketers must be proactive to withstand the changes in rural environment. Strategy must be different from state to state. A farmer in rural Punjab is more progressive than that of farmer of Bihar or Odisha. The variation that is coming in the sector of Rural Marketing Areas now has turned the astonished eyes of the astonished FMCG Company toward the rural areas.

**Rural Markets:** The census of India defines rural as any habitation where the population density is less than 400 per square kilometer, and where at least 75 percent of male working population is engaged in agriculture, and where there is no municipality or board. The same is defined by Reserve Bank of India (RBI) as any location with population up to 10,000 will be considered as rural and 10,000 to 100,000 as semi-urban. Since ancient times, Indian villages had the concept of village markets popularly known as the village "Haats". The "Haats" are basically a gathering of the local buyers and sellers. The barter system is still continuing in a number of places even today though the degree is varying over a period of time.

**Rural Marketing:** Rural marketing is a two-way marketing process that includes the flow of goods and services from rural to urban areas and the flow of goods and services from urban to rural areas, as well as flow of goods and services within rural areas.

**Fast Moving Consumer Goods (FMCGs):** FMCGs or consumables comprise all non-durable goods like toiletries, cosmetics, foods and beverages, footwear etc. These products are consumed quickly and purchased frequently. These products have a quick turnover and relatively low cost. FMCG products are those that get replaced within a year. The major players in the FMCG category in rural markets are HLL, Dabur, Marico, Colgate-Palmolive, ITC, Nirma, CavinKare, Godrej, Procter & Gamble etc.

**FMCG market:** According to NCAER survey, the rural market accounted for 53 percent of total consumption in the country during 1998-99. The estimated size of the FMCG rural market was around Rs. 484 billion in 1998-99 at current prices. Another estimate by Francis Kanoi in 2002 puts the rural market size at Rs. 650 billion. The rural market has grown consistently in 1990s (except for decline between 1997-98 and 1998-99 due to low growth in agriculture and allied activities). After 1995-96 there was a boom in the rural markets, which was mainly because of awareness and aspirations to consume. (Kashyap and Rout, 2007).

**TABLE: 1-MARKET SIZE OF FMCG AT 1995-96 PRICE (Amount in Billion)**

| Year          | Urban | Rural | Total |
|---------------|-------|-------|-------|
| 1992-93       | 220.4 | 319.9 | 540.3 |
| 1998-99       | 317.3 | 415.5 | 786.8 |
| Source: NCAER |       |       |       |

## LITERATURE REVIEW

"If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity can open up". This looks a very simple proposition made by C. K. Prahalad in his book "The Fortune at the bottom of Pyramid". But it has a great impact on many MNCs to go rural. Improving the lives of the billions of people at the bottom of the economic pyramid is a noble endeavour; it can also be a lucrative one. According to the census of India, villages with clear surveyed boundaries not having a municipality, corporation or board, with density of population engaged in agriculture and allied activities would qualify as rural. According to this definition, there are 6.4 lakh villages in the country. Of these, only 0.5% villages have a population above 10,000 and 2% between 5000 and 10000. Around 50% of the villages have population between 200 and 1000 and another 18 percent villages have population less than 200. There are several myths regarding rural consumers. It is also incorrect to assume that the poor are too concerned with fulfilling their basic needs to waste money on nonessential goods. In fact, the poor often do buy luxury items. Adi Godrej, Chairman of the Godrej group that is in portfolio of businesses from real estate and personal care to agri-foods, has no hesitation proclaiming-"It is a myth that rural consumers are not brand and quality conscious".

An average Indian spends 40 percent of his income on grocery and 8 percent on personal care products. The large share of FMCG in total individual spending along with the large population base is another factor that makes India one of the largest FMCG markets.

The Indian rural market with its vast size and demand base offers a huge opportunity that MNCs cannot afford to ignore. With 128 million households, the rural population is nearly three times the urban (Bala Krishna & Siddarth, 2004). The importance of the rural market for some FMCG and durable marketers is underlined by the fact that the rural market accounts for close to 70% of toilet soap users and 38% of all two-wheeler purchased.

In his article, Suvi Dogra (2008) writes that winds of change are blowing across the FMCG market. Evidence suggests that for the first time, the rural market has grown faster than the urban market in key product categories in April-May 2008.

The FMCG sector in India is the fourth largest in the economy, with a market size of over Rs 110,000 crore (around \$22 billion) and is estimated to grow over Rs 185,000 crore (around \$37 billion) by 2014. A recent study by the Rural Marketing Association of India (RMAI) confirms that rural income levels are on the rise, driven largely by continuous growth in agriculture for four continuous years. Encouraged by growth in sales from rural India, FMCG companies are devising ways to tap this segment.

"Though rural markets are growing from a smaller base, the numbers can be stark in some categories. Mass products like soaps, hair oil and biscuits have good sales, and almost all companies are now relooking their strategy," explains Anand Shah, analyst with Angel Broking.

For Marico, 25 percent of its sales come from rural India. Milind Sarwate, head of human resources and strategy, says: "We have been making products primarily for urban India. Moreover, rural India has given the industry much to cheer about. So, going forward, we would focus on increasing our reach in rural areas. The fixed cost of reaching in rural India is higher. To justify that, we need to have a larger reach."

Emami, on the other hand, prefers to promote products through channel-level incentives in smaller towns, including wall paintings, door-to-door activities, in-shop promotions, activities in rural markets, fairs and festivals, kheti mela, mobile traders or shops on wheels, and video vans. Aditya Agarwal, Director, Emami Group, said, "While FMCG companies are seeing a volume growth of just 6-7 per cent in metros, the growth in rural markets is over 20 per cent. So, we have also initiated a new level of distribution to increase penetration in the rural areas. We have introduced new super-stockist networks for rural coverage, with a special focus on West Bengal, Andhra Pradesh, Uttar Pradesh and Maharashtra. The van operations model has also been introduced to make the products reach remote villages."

Godrej Consumer Products (GCP) has seen rural sales grow by 40 per cent in 2010-11, double of that in urban areas. H K Press, Vice-Chairman, said: "Currently, rural sales make up around 38 per cent of its turnover. We intend increasing it to 50 per cent within a year. We have project 'Dharti' for rural India and we cover close to 17,000 villages. We intend covering 50,000 villages soon. This also means that the 4,000 sub-stockists we have in rural areas in India would be more than doubled, creating more employment opportunities."

Dabur India's Vice Chairman Amit Burman said, "Sales in rural India continue to grow at a fast pace. Rural and semi-urban India account for almost 50 per cent of our domestic sales. New product introductions have always been key to Dabur's growth strategy. In fact, in the previous year when a majority of consumer products companies were slowing down on new product introductions, Dabur was on an innovation overdrive. In 2008-09, new product introductions accounted for nearly 20 per cent of our sales growth, and we expect this contribution to grow to 30 per cent in the current fiscal."

Hindustan Unilever (HUL) and ITC, too, have robust rural initiatives such as Project Shakti and e-choupals, respectively. "HUL has the highest sales mix coming from rural India. Its key category, soaps and detergents, is facing intense competitive pressure in rural markets", states a Reliance Equities report.

As a marketing strategy, the basic objective of sales promotions is to create an immediate need by adding an extra incentive to buy the product. These incentives have been divided into monetary (price off, Rupees off, coupons, etc.) and non monetary promotions (gifts, premium, sweepstakes, samples). It is general belief that the monetary promotions enjoy a higher patronage than non monetary promotions (France, 1997).

In the planning of sales promotions, price has become a very important market place cue. The pervasive influence of price is a result of the fact that at a minimum, it represents that the consumers will have to sacrifice in order to engage in a given purchase transaction. Negatively speaking, higher prices affect purchase probabilities, i.e. consumers would like to abstain from purchasing products that are high priced (Lichtenstein et al, 1993). Price perceptions have always had an impact on how consumers evaluated products. Price in a positive role has a positive relationship with quality and in its negative role has had a negative relationship on purchase probabilities. Price perceptions have been studied from several dimensions such as Value consciousness; coupon prone sale proneness etc., and these have been clubbed under price in a negative role as they influence purchases where none exists (Lichtenstein et al, 1993).

## PROBLEM STATEMENT

Due to increased competition, locally as well as internationally, organizations need a distinguishing element that will keep consumers identifying and buying their Product. With competition increasing annually, the traditional sources of competitive advantage no longer provide long term security for a company, product or marketer. In other words, leadership in price and quality is not enough to ensure the success of a product anymore. While general tendencies like price sensitivities are well known, we know little about how consumers actually respond to different brands and strategies adopted by FMCG companies. Without this crucial information it is problematic to guide executives to effectively leverage their marketing efforts within the confines of ethical business to



rural populace. In addition, it is possible, and even likely, that cross-cultural difference influence FMCG buying behavior. If this is the case, this has implications for the extent to which the FMCG marketing mix can be standardized across countries and regions, or whether and how it must be adapted to specific cultural contexts. The strategic approaches to FMCG marketing are also likely to vary among different industries, customer groups, and product categories. These are significant considerations for Multinational enterprises. The relevance and the usefulness of marketing theory in today's business environment is increasingly being questioned. The skepticism has led to the increased emphasis on how to translate the marketing theory into effective marketing practice. This information has a potential to understand the driving forces behind their current and future customer's decision making process when they interface with FMCG products. It is goal of the study to find the factors which influence the purchase decision of FMCGs and so to help the marketers in fine tuning their strategies.

### OBJECTIVES

1. To analyze the rural market potential for FMCGs.
2. To analyse the behaviour of rural consumers for FMCGs.
3. To find out important influencing factors of rural consumers for purchasing FMCGs.

### RESEARCH METHODOLOGY

The present research work is exploratory in nature. It is based on primary data as well as secondary data. The secondary data collected from several text books, journals, research papers, magazine, internet etc., try to answer the first objective of the research. The primary data was collected using a structured questionnaire and survey was conducted in one of the rural districts of Odisha which gives answer to rest of the objectives. In addition to this, unstructured discussion and observation were made by researchers wherever deemed necessary.

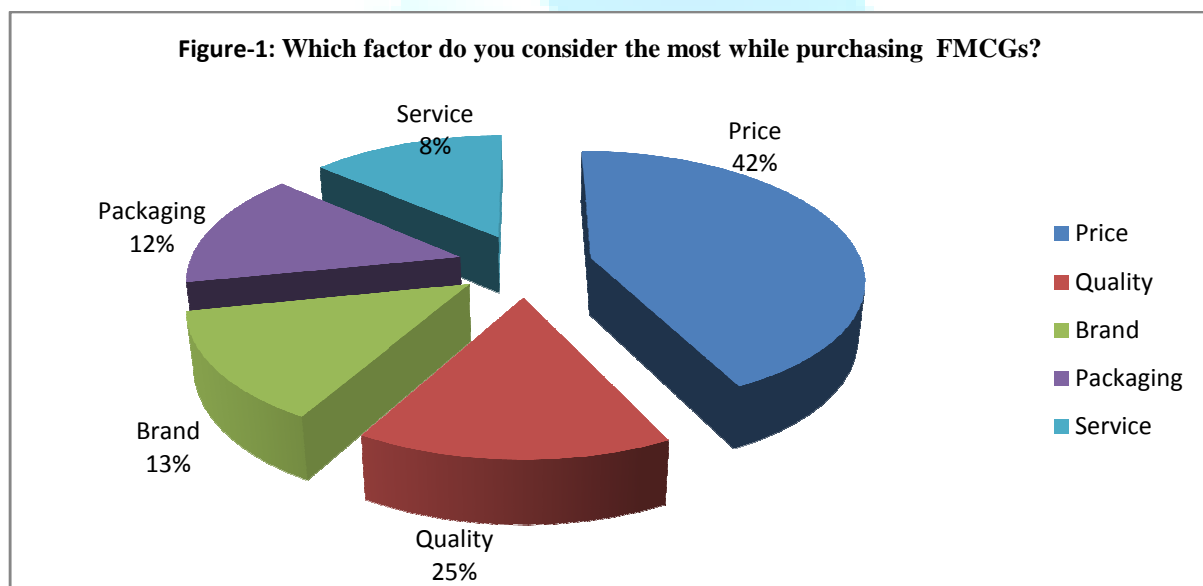
### DESCRIPTION OF SAMPLING REGION

The district of **Keonjhar** is the northernmost district of Odisha which borders Jharkhand. It is a rural district, rich in mineral resources and about 30 percent of its total area is covered with tracts of dense forests. But the district, in spite of its immense mineral and forest wealth, still remains economically backward. Most of the rural consumers rely on agriculture and allied activities for their livelihood. Even in the era of satellites, many a villagers are deprived of access to newspapers, televisions and other sources of communications. Purchasing decisions for FMCGs are made mostly based on reference groups and the information provided by retailers. The researchers have randomly selected six villages from the three subdivisions of the district.

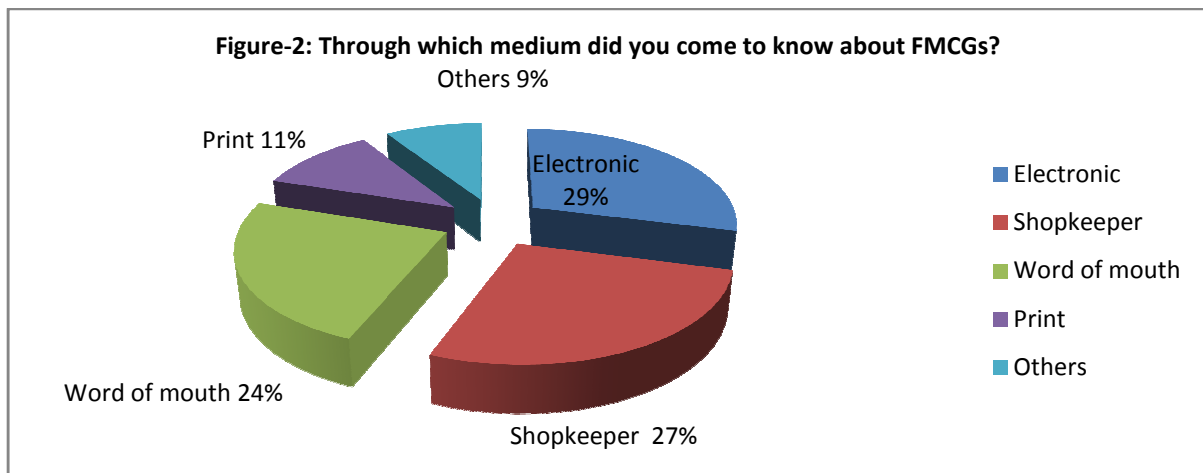
### SAMPLE

Respondents for the present study are the villagers, and more specifically the family heads. The nature of data in the present study is primary which has been collected by using a structured questionnaire. The area of research covers six villages (Rimuli, Rajia, Suakati, Banspan, Panchupalli and Mugpur) from three subdivisions (Champua, Keonjhar, Anandpur) respectively in Keonjhar District of Odisha. The sample size is 300 which include 50 respondents from each village. Data has been collected on the basis of random sampling; data is analyzed with the help of M.S.Excel software and presented through Pie chart and Bar charts.

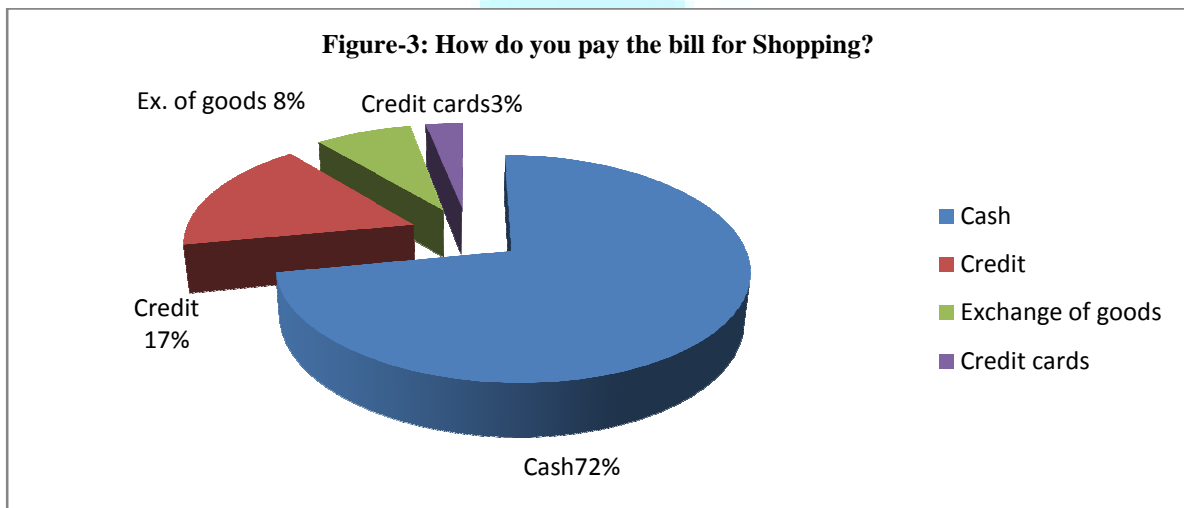
### RESULTS AND DISCUSSION



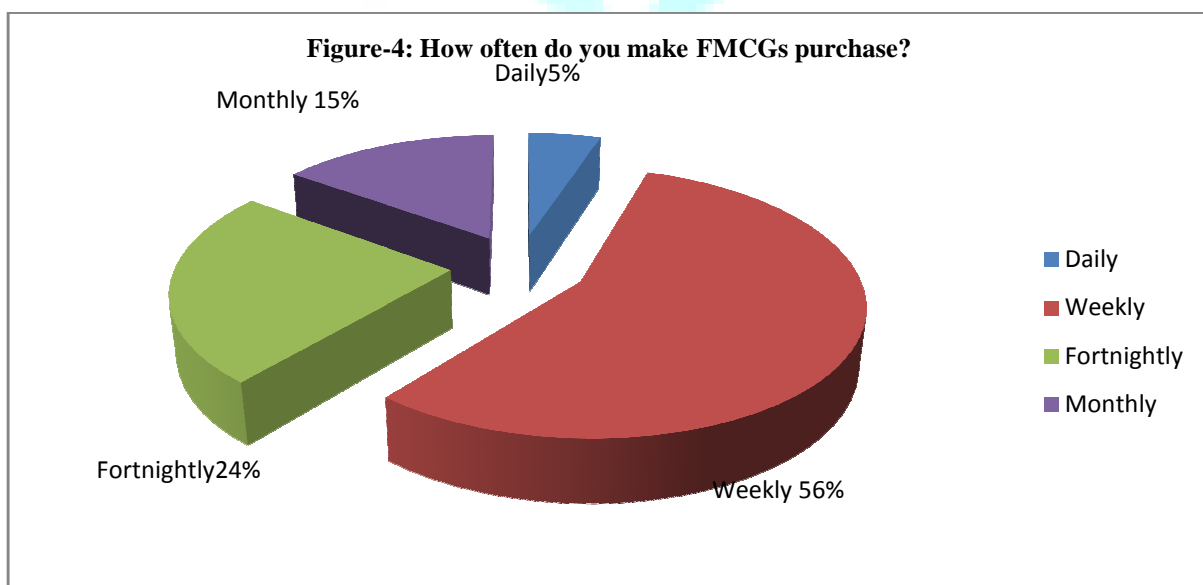
The above pie chart is the explanation about factors which are considered by a consumer before purchasing a product. On the basis of results researcher found that maximum people are price sensitive. 45% people are concerned about the price. Secondly, they are more concerned towards quality i.e. 25% people are concerned about quality. This signifies that it is a misconception to say that rural people are not quality conscious. Then, it is found that 13 percent rural people consider brand while purchasing the product. This smaller percentage indicates that they are not aware of all brands in a product category. After price, quality and brand, 12 percent rural people are affected by packaging. Rural area people are less affected by service because in rural area FMCG companies are not able to provide better services.



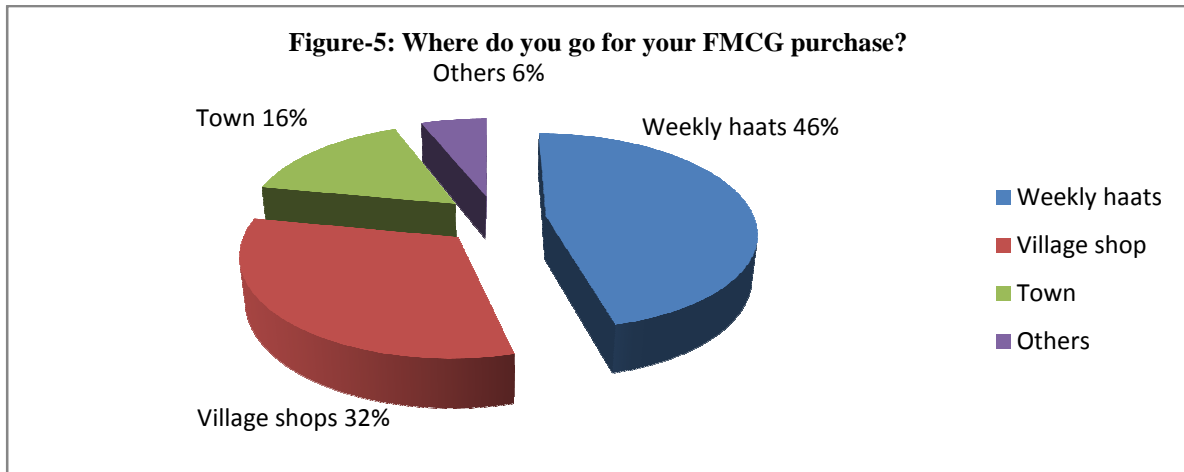
The above pie chart shows the opinion of rural people about medium of information about FMCG products. The researchers got maximum reply in the favour of electronic media, more specifically Television. Radio users are falling in number. Shopkeepers are a very rich source of information about the FMCGs and constitute 27%. Next, word of mouth is another major medium of awareness of FMCG products. Some people in rural area regularly read newspaper, magazines and through this also they know about FMCG products. Other factors include neighbours, friends, relatives who are also a source of information for rural people.



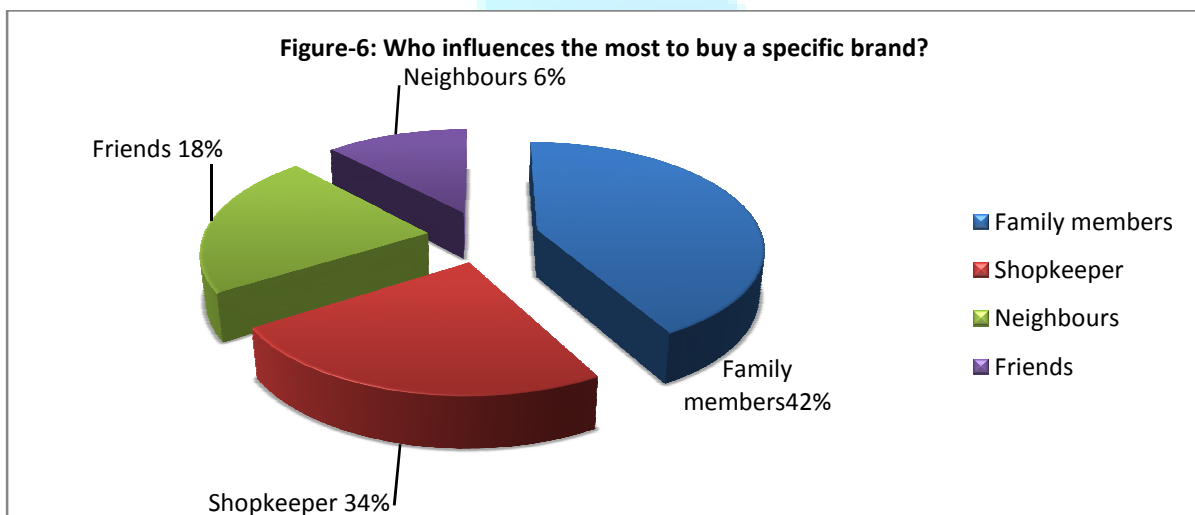
The above pie chart gives the result of how they paid the bill while shopping in rural areas. Mostly people purchase the FMCG product through cash. It is found that 72 percent respondents pay bill through cash and rest 17 percent respondents purchase the product on credit because in rural areas people have seasonal income. The Barter system could be seen in 8 percent of people in rural areas. Some of them use credit card too, especially those who are doing job in cities but the number is very less.



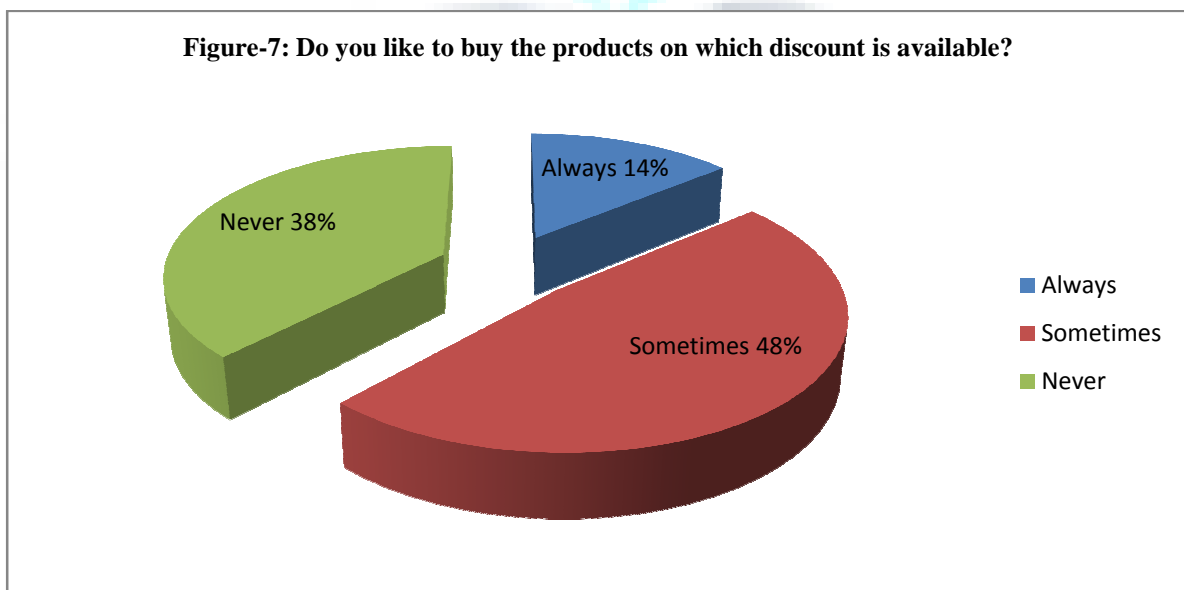
The above pie chart concludes on villagers about their frequency of purchase by rural consumers. Maximum people (56%) purchase the product weekly because of weekly 'haats', 24% of the villagers purchase fortnightly. Yet, 15% buy monthly and this category includes mostly those people who buy from towns in bulk. Only 5% buy daily which includes daily wagers, but not all the daily wagers make a purchase on daily basis.



The above pie chart explains the place of making purchase. Rural consumers got four relevant answers. About 56% respondents purchase the FMCG products from weekly haats. In rural area people also prefer "Kirana" store because it fulfills their untimely requirement and this accounts for 32%. Few consumers also buy from towns because of their visits during business trips. Other sources include seasonal and cultural fairs, network marketing retail outlets like RCM (Right Concept Marketing) etc.

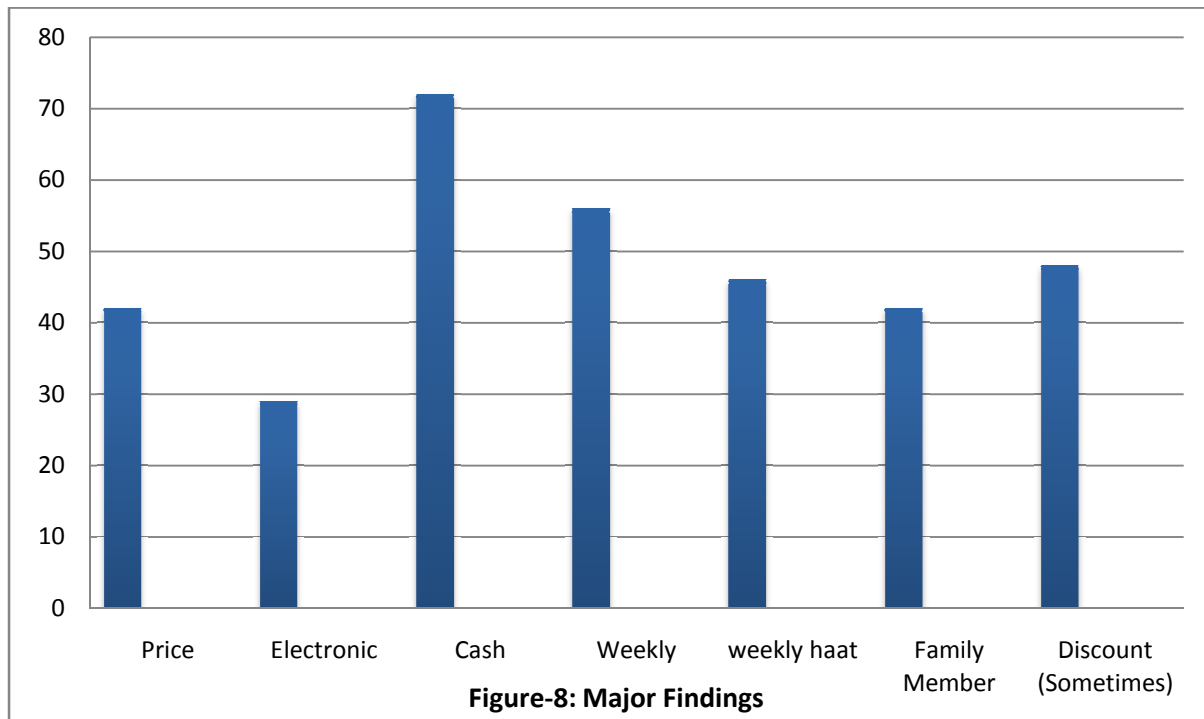


The above pie chart is the explanation about what plays the important role in influencing the specific brand choice. 42% of the rural people choose a specific brand because they are insisted by family members. 34 % respondents are convinced by the shopkeeper. 18% respondents are influenced by friends and rest 6% by neighbours.



The above pie chart shows the impact of discount on rural consumers. 48% consumers say that they buy discounted products only sometimes. This signifies that even rural people are becoming quality and brand conscious. 38% people responded that the discount doesn't make any difference to their purchase basket, because they think a lot of risk is present on discounted product. Only 14% respondents look for the products available on discount.

## FINDINGS



The above bar chart shows all the major findings in the rural areas. Researchers calculated that rural people consider the price as important factor while purchasing product (47%). Rural people get to know the FMCG products by the electronic media (29%). They pay the bill by cash (72%). Purchase frequency by the rural people is weekly (56%). Purchase place is weekly haats (46%). Their purchase decision is influenced by family members (42%) and they buy discounted products sometimes (48%).

## CONCLUSION

It is observed that the Indian rural market suffers from a variety of problems starting from distribution to marketing communication. To capture the lucrative rural market, companies need to formulate strategies, which can deal with issues pertaining to consumer psychographics and a right marketing mix. Companies must always know that the requirements of the rural market are still different from urban markets though the gap is narrowing down slowly but steadily. The companies need to develop special products and strategies for the rural consumer.

The success in rural market would certainly come by adopting 4P's of marketing to the 4A's in their strategies i.e., Awareness, Acceptability, Availability and Affordability. Due to the limited reach of the mass media, marketers have to augment their efforts with traditional media- melas, haats, jatras, to create awareness. In the coming years, companies should not fight only for profit making but must join hands with the government to increase the economic activity in the villages through micro enterprises and mainstream these efforts by linking them to the larger industries.

Getting a right combination of scale, technology, price, sustainability, and usability requires that managers start with "zero based" view of innovation for rural markets. Managers need a new philosophy of innovation, product and service delivery for the rural populace.

Affordability is the key driver in rural areas and recognizing this fact, companies should produce small packs by quoting price in the range of Re.1, Rs.2 and Rs.5. The only thing which is definite about the times to come is that the rural market will rapidly make way for urban. So, the FMCG giants have to gear up for future challenges that will be posed by rural market in addition to create a base and trust in rural consumers.

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