

# ARCHNA SHUKLA

Archna Shukla began her journey in Journalism in 1999. Currently, she is working with Mint as its Deputy Features Editor in New Delhi. Her primary interest is writing on Media, Marketing, Advertising, Management and Strategy. Prior to Mint, she was with Business Today for three years as an Assistant Editor. Some of her earlier stints were with Business Standard, The Economic Times and The Sunday Times (London). Archna is a winner of the Chevening scholarship. With a Marketing background, Archna started her career in Journalism focusing on sub-editing and production work.

Archna won The PoleStar Award for the 'Best Feature in Business Journalism' for 2006, for her story titled, 'Confessions of a rural marketer', published in Business Today.

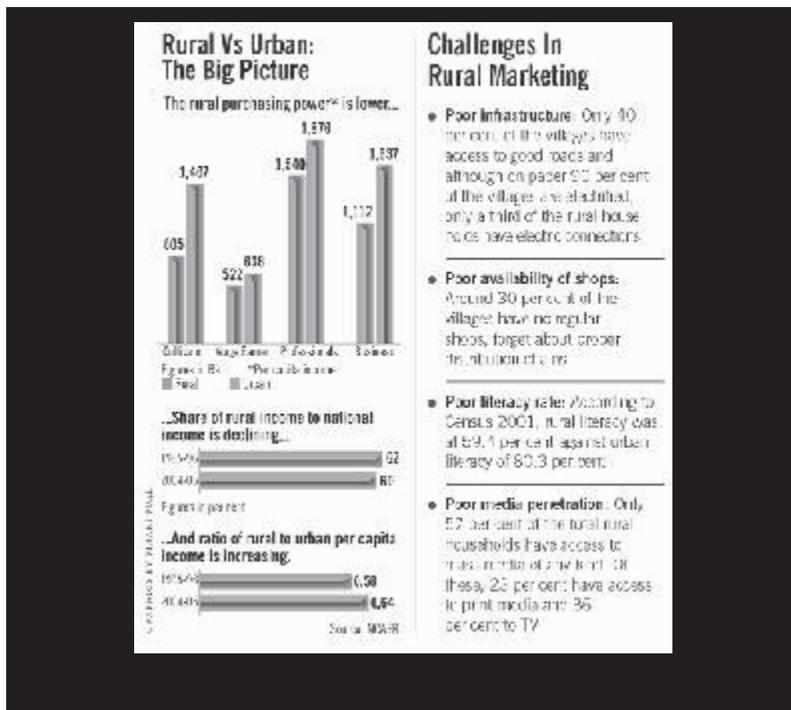


## CONFESSIONS OF A RURAL MARKETER

Archna Shukla gets marketer John Doe to spill the consumer industry's best-kept secret: No one has a clue how to sell profitably to the bottom of the pyramid. When marketers say rural, they actually mean small towns. Read on.

Hi you know me. I am your typical marketer: I've done the drill; been to an engineering college, onwards to a B-school, before landing up at this big marketing machinery. My job, as that of everyone else in my profession, is to figure out how to sell to you, the consumer, more and more of what my company makes. And today, I am going to make a confession, tell you a secret, if you will: Thank you, C.K. Prahalad, but none of us knows how to sell to India's teeming poor, almost all of whom live outside of our big cities and towns. Yes, you do have urban poor, but they are not really poor

at least, compared to the rural poor. So, here I go: Do me a favour, shoot the guy who said that India was a market of one billion people. There is no denying the fact that Indian market, being one of the fastest growing in the world, offers immense prospects, but the fact is big opportunities exist only at the top of the pyramid, comprising around 300 million people, and not at the bottom, as many marketers would have you believe. The truth is that almost 60 per cent of the market, which is loosely called rural, is yet to turn into a real market. Right now, it is just a promise. In fact, many a hapless



marketer like me who took the plunge into this “unexplored virgin market” in the hope of hitting a goldmine has come back bruised (just ask my friends at Coke and Pepsi). Sure, there are guys at Hindustan Lever and ITC Foods who are at it. But for them, it is an investment in the future and not a present opportunity. And those who claim to be making hay from rural markets are not talking of real rural markets at all.

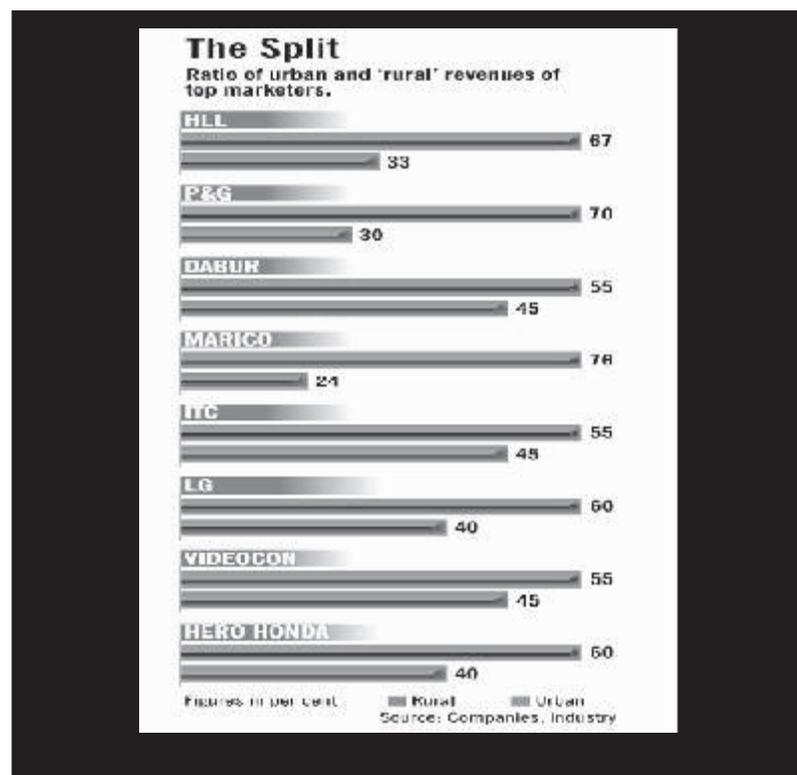
Don’t believe me? Listen to what this guy who spent a lot of time spearheading HLL’s rural initiative, Project Shakti, until just about a year ago told me. “Topline or bottom line, growths should not be the objective of getting into rural markets. For as of now, all these markets offer is a future opportunity. One can’t really make fortunes out of these markets as yet,” said Sharat Dhall. He says the investments being made, both in terms of efforts and capital, in rural markets would take a long time to yield worthwhile results. “Rural marketing, as of now, is all about seeding the markets, creating awareness about brands and promoting a culture for consumption,” he told me recently.

Guess what? Dhall’s isn’t the lone voice. “Rural markets provide a marginal utility (as of now). Incremental margins from these markets are not huge,” S. Sivakumar, Chief Executive (Agri Businesses), ITC, confided in me recently. Part of the problem is that penetrating a rural market takes a lot of money, thanks to the poor infrastructure (see Challenges In Rural Marketing), bigger and diverse nature of these markets and low per capita incomes of consumers. “It’s only those who have a cost-effective distribution channel like ours can sustain themselves in these markets,” explained Sivakumar, trying hard not to boast. I agree with him. According to Census of India 2001, around 750 million of our countrymen live in some six lakh villages. The 35 metros (mainly state capitals) house only around 110 million people, 359 Class-I towns have 90 million and the urban rest, which is around 4,000 towns, houses another 90 million. Interestingly, HLL and ITC, which my friends tell me are the most spread out companies, have a direct presence in only around 2-2.5 lakh villages and another 1-1.5 lakh are connected through Project Shakti and ITC’s e-choupal. (My peers at consumer durables and automotive companies haven’t even touched the real villages as yet). The rest, as is evident, are yet to be cracked.

## A Misplaced Bet?

I know what you are itching to ask me: Why did we start looking at the rural markets at all? Well, there was a time-in the late 90s and early 2000 - when we marketers thought that to continue growing, we would need to tap rural markets. “Urban markets seemed more or less saturated around early 2000. Back then, disposable incomes were spent on durables, vehicles, houses and entertainment, while spends on FMCG were taking a beating,” my friend who heads the home and personal care business at an FMCG major told me the other day when we were talking about rural markets. In other words, rural India was virgin territory and, hence, a land of great promise.

The result was companies such as HLL, P&G, ITC, Coke and Pepsi made a beeline to rural households. In a bid to make their products more relevant to rural consumers, they either cut prices or launched smaller and cheaper versions. The strategy helped as volumes in most cases grew tremendously. “Our volumes grew 39 per cent in 2003-2004 because of a huge walk-in from rural consumers,” a top cola company executive I know told me a few days ago. But soon, it started hurting because the growth in volumes was not commensurate with value. “We were to realise the mismatch a little later as the value growth was only around 20-25 per cent,” he added.



Soon, it became evident that rural markets were a tough nut to crack. Most companies took a hit on their bottom lines and came back a little wiser. Most of them increased prices—HLL and P&G, for instance, rolled back the price cuts initiated in 2003, Coke and Pepsi increased prices by 30-40 per cent last year, and LG and Samsung, which played their own version of



price-cutting game to attain volumes, also increased prices of their products this year. “Rural markets don’t lend a model for value growth,” I remember Dhall telling me. Another of my friends at LG, Girish Rao, who is Vice President (Sales), said something interesting too: “Value led growth comes from the top-end premium products, which are not relevant for rural markets.” “Rural markets are about low-price high volume growth,” says ITC’s Sivakumar.

Actually, the point Rao and Sivakumar are making is corroborated by an AC Nielsen study, which reveals that villages (around six lakh as mentioned earlier) contributed 30 per cent to total FMCG consumption in 2005, while the top 35 towns contributed 29 per cent. While, on the face of it, it might seem that opportunity at the bottom and the top ends of the market is almost the same, experts I know point out a dichotomy. “The 30 per cent rural demand came in from 750 million consumers, whereas the 29 per cent demand was on account of only 110 million consumers living in the top 35 towns,” Bhuwan Singh, Director (Client Services), ORG-GFK, had pointed out to me recently. Put differently, rural markets have yet to achieve an economy of scale and become more accessible to warrant a business model around them.

## Just What Is Rural?

It is not what it is considered to be.

According to the Census of India, villages with clear surveyed boundaries not having a municipality, corporation or board, with density of population not more than 400 sq. km and with at least 75 per cent of the male working population engaged in agriculture and allied activities would qualify as rural. According to this definition, there are 585,764 villages in the country. Of these, only 0.5 per cent have a population above 10,000, and 2 per cent have population between 5,000 and 10,000. Around 50 per cent of the villages have populations between 200 and 1,000, and another 18 per cent has a population less than 200.



Defining rural: Go by the headcount, says Videocon's Dhoot

Interestingly, for FMCG and consumer durable companies, any territory that has more than 20,000 and 50,000 population, respectively, is rural market. So, for them, it is not rural India which is rural. According to them, it is the Class-II and III towns that are rural. According to the Census of India

2001, there are more than 4,000 towns in the country. It has classified them into six categories-around 400 Class-I towns with one lakh and above population (these are further classified into 35 metros and rest non-metros), 498 Class-II towns with 50,000-99,999 population, 1,368 Class-III towns with 20,000-50,000 population, 1,560 Class-IV towns with 10,000-19,999 population. It is mainly the Class-II and III towns that marketers term as rural and that partly explains their enthusiasm about the so-called "immense potential" of rural India.

## Not Quite Rural, Then?

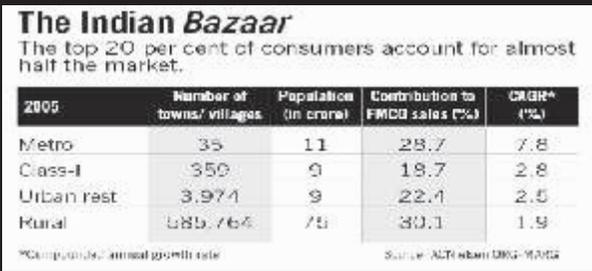
'So what about companies that claim to be deriving 30 to 40 per cent of their sales from rural markets?' You ask me. My answer: Ask them how they define rural. Incidentally, I did ask my buddy P. S. Sunder, who heads marketing at Hero Honda, that and this is what he had told me: "Rural is defined by the character of the territory. Loosely, we term 400 towns beyond top 50 as rural." Around 7.5 million two-wheelers were sold in the country in 2005 and, according to Sunder, 35 per cent of these were sold in 'rural markets'. Interestingly enough, according to IRS 2005 data, only 8.4 per cent of rural households have two-wheelers.

Consumer durable companies like LG, Samsung, Videocon also follow more or less the same definition. I remember Venugopal Dhoot, Chairman, Videocon Group, telling me: "For us, markets with a population of less than one lakh are rural." He's another one who claims to be generating 45 per cent of his sales from rural markets, and once again, penetration figures for various product categories don't support such claims. According to IRS 2005, colour television penetration in rural households was only 11 per cent, black and white TVs were no better at 19 per cent and refrigerators, a bare 4.2 per cent. "For most marketers, rural is semi or non-urban, which is

not actually rural,” is what Madhukar Sabnavis, Director (Discovery and Strategy), Ogilvy & Mather, had told me when I called to check.

## The Indian Bazaar

The top 20 per cent of consumers account for almost half the market



**The Indian Bazaar**  
The top 20 per cent of consumers account for almost half the market.

2005	Number of towns/villages	Population (in crore)	Contribution to FMCG sales (%)	CAGR* (%)
Metro	35	11	28.7	7.8
Class-I	350	9	18.7	2.8
Urban rest	3,974	9	22.1	2.5
Rural	685,764	78	30.1	1.9

\*Compound annual growth rate  
Source: A C Nielsen, 2005-2008

Don't get us marketers wrong, though. When we say that rural India has immense potential, we really mean semi-urban, which is the towns beyond the top 35. And it is not just instinct that tells us so. The A C Nielsen study, for example, terms the Class-I towns housing 90 million people as emerging India. The study says that though metros remain the hot-spot of consumption, Class-I towns offer future growth. As my friend Singh says, the benefits of a growing economy are gradually trickling down to this population. The per capita income is on the rise and hence, consumers are exhibiting a propensity towards consumption. This explains the enthusiasm of the marketers about the so-called rural markets.

Although this is my story, I'll let my buddy Rahul Malhotra, Head (Marketing), P&G India, have the last word: "There is potential for growth at all levels. It is only that winning in rural and urban India requires different go-to-market approach," he keeps telling me. But as any book on strategy will tell you, you can't be everything to everyone. You have to pick your customers. That means, the real rural markets will have to wait till we get to them. ■■■■