Tapping India’s Rural Market

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Introduction

Ten years ago, foreign consumer products were scarce in India and only available to the affluent. Import restrictions prevented or severely hindered foreign consumer goods from entrance to India. With the economic liberalization that ensued, foreign brands are now prevalent across India (Luce, 2002). Today, multinational corporations view emerging markets such as India as prime opportunities for growth. According to Shanthi Kanaan, writer for The Hindu, rural markets are growing twice as fast as the urban markets (2001). With a rural population equal to just under 2.5 times the population of the entire United States as of the 2000 census, the potential consumer base is astounding. But generally speaking, success in India’s rural markets for multinational corporations has been mediocre at best. It is from these struggles and failures, however, that multinational corporations seeking to enter the rural Indian market can learn how to do so more wisely.

Kellogg’s, is an excellent example of a company that has struggled in the Indian market. Kellogg’s entered the Indian market in the mid-1990’s. They had the intentions of finding a new market, which would consist of over a million people, many of whom did not eat cereal. What Kellogg’s discovered was that they were introducing a completely new product category. This meant they would have to invest large sums of money to create new eating habits in consumers. The most common Indian breakfast consists of biscuits and tea (Dawar and Chattopadhyay, 2002).

While Kellogg’s was busy creating new eating habits, local competitors were able to snatch away portions of India’s already small cereal market by introducing local cereal flavors at lower prices (Prahalad and Lieberthal, 2003). The unimpressive sales that followed in their first three years resulted in Kellogg’s needing to completely realign their marketing to meet local needs as well as introduce a line of inexpensive breakfast biscuits. Disappointments like this have caused companies who seek to enter the rural Indian market to reevaluate their entire approach.
Understand the Rural Market

With a population already in excess of one billion people, India has captured the eye of multinational corporations across the globe as a place of opportunity for exploring new markets. While India has portions of its population that would be considered wealthy or middle class by Western standards, a much greater percentage of India’s population is low income. As a result, they spend money, live, and use products differently than the countries where most multinational corporations originate (Prahalad Lieberthal, 2003). Rural areas, in particular, exemplify these differences. Understanding the characteristics that make the people and the market in rural India unique can help corporations to enter this market with success. The key characteristics define the term rural, determine the amount and flow of income, and determine the types of products and packages that are typically used in rural India.

Defining Rural

Seventy percent of India’s population, or approximately 700 million people, live in rural areas (Mooirthi, 2002). As of the 2000 census, this equates to just under 2.5 times the population of the U.S. A location is defined as rural if at least 75 percent of the population is agrarian. With such a large number of potential consumers, it is clear why multinational corporations would like to successfully penetrate the rural Indian market.

Rural Income

With an average income equivalent to $42 per month ($504 dollars per year), rural Indians have a very low disposable income (Kripalani, 2002). Most rural homes have minimal storage space and no refrigeration. Very few people own or have access to cars. As a result, rural Indian purchasing habits tend to be of an “earn today, spend today” mentality. Rather than buying in bulk, which would mean paying more for a large quantity upfront, rural Indians tend to buy what they need for short segments of time (Dawar and Chattopadhyay, 2002). These factors result in consumers buying products locally, as well as on a daily basis.

In addition to the fact that income levels are low, rural incomes also vary greatly depending on the monsoons. When a monsoon hits, this devastates the livelihood of most rural consumers because they are dependent on agricultural work for income. Corporations are also directly affected because this makes it difficult to predict demand (Kanaan, 2001).

Products and Uses

Before a company considers entering the rural market, understanding the types of products and packages that rural Indians typically use is crucial. For example, urban Indian consumers would typically use toothpaste for brushing their teeth, while most rural Indians prefer using tooth powder (Balu 2001). As a company seeking to enter India’s market with an oral care product, this would be an important fact to know and consider during both the product and package development stages. Similarly, Hindustan Lever Ltd. (HLL), the Indian
subsidiary of Dutch-based Unilever, discovered that rural Indians tend to use the same soap for washing everything from hair to their bodies to clothing (if they use any soap at all). Because HLL manufactures products including various soaps and detergents, HHL product and packaging development processes have taken this rural habit into account by designing all-in-one soaps (Balu, 2001). By taking into account the low disposable incomes and the unique product and package needs of this market, consumer products that are designed and packaged for this market have great potential.

Strategically Align with Industry

Another key aspect to consider is how and where to produce and package the product. There are several options when a company is attempting to strategically aligning with industry. Companies can partner with an existing Indian company, buy out a local Indian manufacturer of a similar product, or strictly import products into India while keeping manufacturing facilities elsewhere.

Partnering

The first and best option for aligning with the Indian industry is for the multinational to partner with an Indian company that is already successfully producing and selling a similar type of product. In doing so, the new company can take advantage of the manufacturing facilities and distribution networks that are already in place rather than having to start from scratch. As a result of India’s colonial experience when it was controlled by Britain, many Indians have “…a profound mistrust of foreign brands” (Luce, 2002). By creating a partnership with an Indian company plays down the foreign factor and helps to dispel some of this mistrust.

Hindustan Lever is a multinational corporation that has found success with this method of aligning with industry. By partnering with local entrepreneurs who own and manage their own plants, Hindustan Lever is able to manufacture their products with minimal amounts of fixed capital. In these partnerships, the entrepreneurs agree to devote their plant’s capacity to manufacturing only Hindustan Lever products (Prahalad and Liebenthal, 2003).

Buy-Out

A second alternative for aligning a new industry to enter India’s rural market is to buy out a local Indian manufacturer. As with partnering, buying out a local manufacturer gives a company the ability to capitalize on existing manufacturing facilities and distribution networks. The disadvantage is that Indian consumers may view this negatively. Coca-Cola is an example of a multinational corporation that tried buying out a local distributor. In 1992, Coca-Cola made its second appearance to the Indian market. In an attempt to eliminate its biggest competitor, Coca-Cola acquired Thumbs Up, the local market leader in cola. When Coca-Cola tried to exchange its own brand on the regular Thumbs Up distribution network, Indian consumers looked unfavorably upon Coca-Cola. The company has been struggling ever since (Luce, 2002).
Importing

Additionally, companies can enter India’s rural market by importing products from manufacturing locations overseas. Importing has only been a viable means of getting consumer goods into India for just over ten years, when trade restrictions were eased (Luce, 2002). However, there are several disadvantages to this method of marketing to rural India. Without a manufacturing facility in India, a company has no ties to India’s already challenging distribution network, thus making sales even more difficult. In addition, Indian consumers tend to feel more loyalty and trust toward locally made products. The aforementioned Thumbs Up and Coca-Cola scenario also illustrates this fact. Though Thumbs Up is a cola of lower quality that Coke, it is a locally made Indian brand that rural consumers can relate with. Consequently, Coca-Cola is third behind Pepsi and Thumbs Up in the Indian soft drinks market (Luce, 2002).

Partnering with or buying out an existing Indian company, as well as importing from overseas, are all viable ways to get packaged consumer goods into rural India. Based on the past experiences of multinational corporations entering the market, partnering is the most successful option.

Tackle the Distribution Networks

Distribution networks in emerging markets tend to be very unique and often times disjointed (Dawar and Chattopadhyay, 2002). India is no exception. Before a multinational corporation even considers entering India’s rural market, it is important to first get an understanding of the current distribution system characteristics as well as the ways that the system is likely to change over time (Prahalad and Lieberthal, 2003). In doing so, a company can assess whether or not accurate and timely product distribution can be achieved without first investing in the distribution networks. Some of the characteristics unique to rural India’s distribution networks include the modes of transportation used as well as the point of sale. Despite the challenges of the rural Indian distribution environment, there have been distribution successes from multinational corporations.

Modes of Transportation

Over three million retail outlets in India are reached by companies that produce packaged goods. Methods of transportation used include camels, bull-drawn carts, bicycles, trucks, and trains (Prahalad and Lieberthal, 2003). In addition, poor roads and unreliable electricity are two additional obstacles common to the distribution networks in rural communities (Kripalani, 2002). Though glass bottles are popular in India, breakage can be a serious problem when the glass is carried over bumpy roads in the back of a truck (Prahalad and Lieberthal, 2003). Companies must be prepared to design packages for their products that will be capable of withstanding these types of conditions.
Point of Sale
The retail establishment where most rural consumers purchase their day-to-day goods is at a kirana or street shop. These small open stalls line the streets and are approximately the size of a living room. Consumers purchase everything from bananas to razors at a kirana. With over 2.5 million kiranas throughout India’s rural towns and villages, keeping store shelves stocked is one of the main challenges to consumer goods manufacturers (Bullis, 1997). In order to reach these local shops and establish a brand presence in them, companies need substantial amounts of working capital and a large committed sales force (Dawar and Chattopadhyay, 2002).

Success Stories
In spite of all the distribution challenges, there have been several multinational corporations that have experienced great successes in tackling the distribution networks. Hindustan Lever has been able to build a distribution network in India that directly serves 800,000 stores and uses wholesalers and distributors to reach another 3.5 million outlets (Dawar and Chattopadhyay, 2002). Not only does this help Hindustan Lever move products from manufacturing facilities to retail outlets, it also provides a large deterrent to potential competitors.

In addition to the distribution networks that reach local stores in India, Hindustan Lever began using an experimental concept called Shakti distributors. They implemented this tactic in 2000 to get their products into some of the most remote rural areas (Balu, 2001). Douglas Bullis calls this a multi-level marketing system, where independent distributors sell products directly to consumers and earn a commission on the products they sell, plus for other distributors they recruit (1997). It is similar to the way Amway and Mary Kay distribute products in the U.S. Shakti distributors are rural Indian women who partner with Hindustan Lever to receive training in micro-business skills, which includes a Personal Digital Assistant (PDA) to access product prices. They purchase HLL products at cost and sell them to their villages for a profit. This unique method of distribution gets products beyond the typical reach of HLL’s distribution networks (Merchant, 2003). In spite of the unusual modes of transportation and the challenge of supplying small kirana, creative distribution methods have produced success for several multinationals in the rural Indian market.

Create the Packaging Solution
When approaching the task of designing a package for the rural Indian market, all of the aforementioned factors must be considered. Multinational
corporations that have been successful with marketing and packaging consumer products for rural India have taken time to research the target market. They built an insightful and unbiased understanding of the characteristics that make it unique (Prahalad and Lieberthal, 2003). As a result of this research, two of the most effective elements of a package designed for rural India include the size and visual communication. Material usage is also another important element for the packaging engineer to consider.

**Think Small**

Due to the fact that rural Indians have small disposable incomes and very little storage space, one of the most popular concepts to hit the rural market has been sachets. Sachets are plastic pouches that contain approximately 20 milliliters (.68 oz.) of product (Bailay, 2003).

Sachets were first introduced to India in the 1990’s by an Indian company selling a 10-milliliter sachet of Velvette shampoo. Before the sachet, shampoo in India was only available in larger bottles, therefore limiting its sales success among people with small incomes (Moorthi, 2002). Sachets meet the needs of the rural consumer in several ways. Sachets are inexpensive, they occupy a small amount of space, and they allow consumers to experiment with new products that they may never have tried before (Bailay, 2003).

Coca-Cola is another company that has found success by thinking small. In a packaging change aimed directly at the rural and lower-income markets, Coca-Cola launched a new 200 mL (6.8 oz.) bottle for the equivalent of 10 cents in 2001 (Kripalani, 2003). After introducing the smaller size bottle, sales increased 34 percent by the end of the first quarter in 2002 (Kripalani, 2002). Packaging in smaller units clearly helps to increase the affordability of products for rural Indian consumers.

**Visual Communication**

The rural area is a market where large portions of the population are illiterate. So, when packaging consumer products for rural markets, companies must use prominent logo symbols and logo colors to assure that illiterate consumers will be able to recognize the products (Bullis, 1997). Therefore, communicating brand values through the package rather than with words becomes essential. Emotional Surplus Identity (ESI) is a concept that uses the shape, color, and content of a package to differentiate a brand in the eye of a consumer. By creating a bond with the consumer through the package, companies are able to establish a relationship that encourages repeat purchases. Loud, bright colors are typically used on packages to differentiate a product from the others on the shelf and to create a lasting impression in a consumer’s mind.
Another technique used by multinational corporations has been tailoring products, including changing brand names, to give them a rural image. In the eyes of the consumer, branded products are associated with quality and value. Nirma, the largest selling detergent in the world, found success in the rural Indian market by using unelaborate packaging to position their product as one that cleaned well yet was affordable (Bullis, 1997). While this technique is not the most eye-catching, it allows rural Indian consumers to experience the benefits of a branded product without requiring elaborate or expensive packaging on the part of the multinational corporation.

**Material Usage**

Cost is not only a factor that influences a consumer's decision. Multinational corporations also address cost when evaluating various packaging options. For example, meeting the needs of consumers by packaging products in small quantities increases the packaging costs for a company in comparison to a large bottle of product. One way companies are able to keep the prices of sachet-type packages down is partially due to lower government duties on small packs. In some instances, it can actually be cheaper for a consumer to purchase sachets rather than a bottle of product. For example, a 100-milliliter (3.4 oz.) bottle of Pantene shampoo retails for 61 rupees whereas 100 milliliters worth of sachets sells for 40 rupees (88 cents) (Bailay, 2003). By thinking small, using pronounced colors and logos, and planning for material usage, multinationals can create packages that meet the needs of the rural Indian consumer.

**Conclusion**

With an approximate population of 700 million people, the rural Indian market is important for multinational corporations to tap. Although rural Indians need to purchase consumer goods just as their Western counterparts do, rural Indian consumers have a different set of needs that must be met by both package and product. Spending time researching the rural Indian consumer as well as the market before diving in can help to prevent unnecessary struggles and failures. If the opportunity exists, partnering with an existing Indian company upon market entry can provide several key advantages to a company. Understanding the available distribution networks in rural India is crucial to making a successful entry into the rural Indian market. Packages need to be designed to withstand more distribution abuse due to poor roads and more primitive modes of transportation. Finally, when creating a package for rural India, small sizes allow consumers to try new products. It also caters to the fact that most rural Indians have low disposable incomes and little storage space at home. By applying these lessons that have been learned from multinational corporations in the past, the task of entering the rural Indian market should be promising.
References


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