



## FEATURED INSIGHTS

DELIVERING CONSUMER CLARITY

# HINTERLANDS BECOME FMCG'S TRUMP CARD

## HOW EMERGING HINTERLANDS ARE DRIVING GROWTH

- ▶ **There is a need for granular and region-focused marketing strategies instead of blanket marketing plans for brands to seek out avenues for growth amidst stagnation.**
- ▶ **The emerging state clusters of Madhya Pradesh and Chhattisgarh, Bihar and Jharkhand, and Orissa show potential as drivers of growth especially in impulse and indulgence categories.**
- ▶ **Orissa is growing three times faster than the national average in the fast moving consumer goods (FMCG) sector.**

Long prevalent stereotypes of consumption patterns across states and population strata are being decimated as Indian consumers evolve and physically relocate. Increasing urbanisation, higher levels of awareness and improved infrastructure are all contributing to the trend. As business leaders rush to make sense of these evolving patterns, some clear trends are emerging through market analysis.

Our studies have shown that the emerging hinterlands of Orissa, Madhya Pradesh, Chhattisgarh, Bihar and Jharkhand are at a pivotal stage and likely to drive the next wave of growth in India. For marketers who can optimise their strategies, these states can prove to be an effective buffer against declining sales figures.

## THE UNIQUE STORY OF THE HINTERLANDS

The states of Madhya Pradesh, Chhattisgarh, Bihar, Jharkhand and Orissa add up to about a quarter of India's population. They have a low rate of earning per household but a growth rate of 15%, which is at par with the rest of India. Broadly, this means that it is a region with more people, who have lower average spends but a good propensity for growth. Here are some of the top trends in these regions:

**URBANISATION:** In all these states apart from Madhya Pradesh, urban households are growing faster than rural. The inevitable repercussions of urbanisation are visible in these clusters, including smaller family sizes, a demand for premium products, the need for convenience and the popularity of discretionary offerings. Household spending on non-basic consumption items like consumer durables, personal vehicles and services—such as banking, insurance, education and entertainment, among others—are on the rise. Also, the proportion of aspirational spending to total household expenditures is at par with the national average. This is a particularly telling statistic since the average household earning and consumption spends in these states is 14%, which is below the national average.

**THE NEW RURAL:** Urbanisation may be growing, but those who have remained in rural areas have progressed considerably on the back of government initiatives. This is especially significant for this region because, of 181 million rural households in India, 27% are located here and account for 19% of rural household expenditure in India. Bihar, with 90% rural households, and Orissa, with 85%, have the highest densities of rural households in the country. Significantly, the two states also have a higher than national average growth rate when it comes to rural households.

**INCREASED AFFLUENCE:** Increased awareness fuelled by smartphone penetration and communication connectivity in general has led market analysts to predict an increase in aspiration among households. As per industry estimates, households within the income bracket of 1.8 lakh and 4.85 lakhs per year will increase from 14 million in 2012 to 25 million by 2025 in the three states of Madhya Pradesh, Orissa and Chhattisgarh.

The most relevant trend in these states is the prominent growth of high-income households with earnings of over 5 lakhs a year. Low income households that earn between INR 75,000 and INR 1.5 lakhs per year are a chunk of the population but declining steadily. It is the middle- and high-income households that seem to be on the rise, and this bodes well particularly for the FMCG sector, because it creates opportunities for innovation, new category proliferation, evolved product mix and a depth of range.

“

IT IS THE MIDDLE AND HIGH-INCOME HOUSEHOLDS THAT SEEM TO BE ON THE RISE, AND THIS BODES WELL PARTICULARLY FOR THE FMCG SECTOR BECAUSE IT CREATES OPPORTUNITIES FOR INNOVATION, NEW CATEGORY PROLIFERATION, EVOLVED PRODUCT MIX AND A DEPTH OF RANGE.

”

## GROWTH IS HERE TO STAY

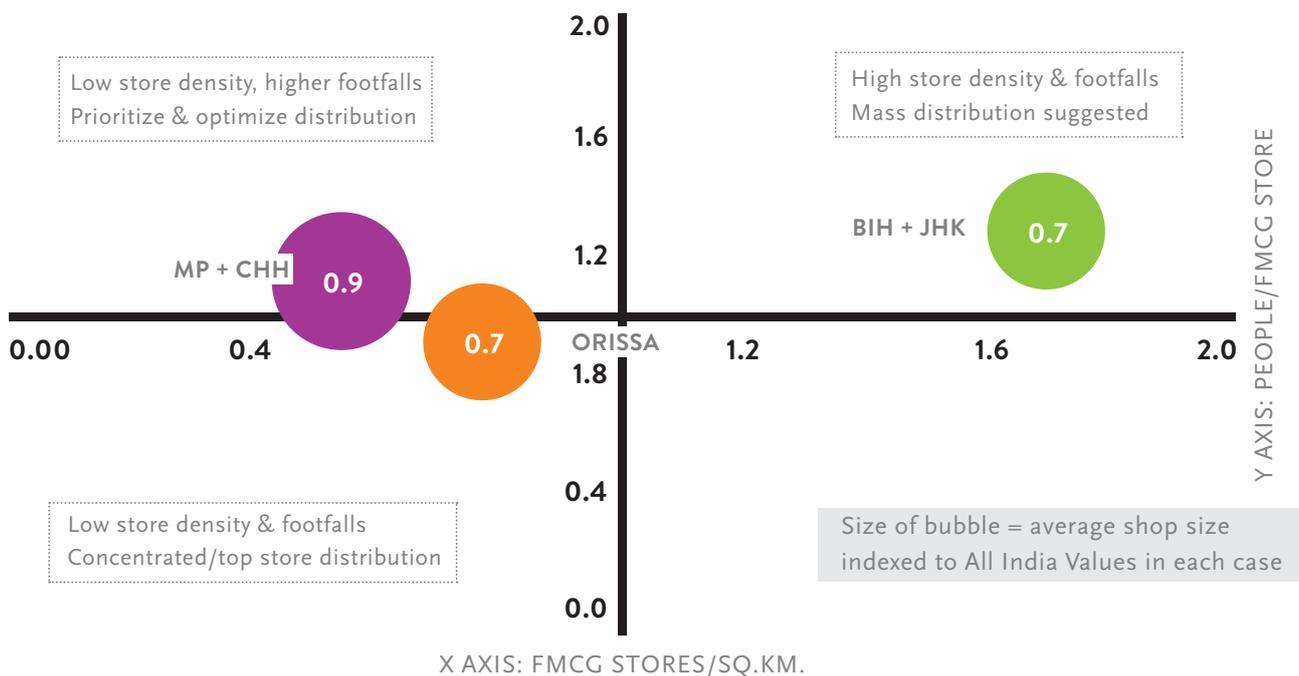
These state clusters have shown a gross domestic product (GDP) growth rate of 16%, which is higher than the national average, and comparable to some of the most developed states in India. At a granular level, it is Orissa, Bihar and Madhya Pradesh that have fuelled high growth. While all these state groups mirror all-India growth rates in the FMCG sector, Orissa is growing at three times the national average. Moreover, some pockets in these states like rural Bihar and Jharkhand, and urban Orissa have shown greater resilience in the slowdown over 2013-14 before FMCG trends started looking up since H2 2014.

## THE FMCG CHAPTER IN THE HINTERLANDS GROWTH STORY

While these states reflect a high aspirational quotient across segments like consumer durables, value-added foods, entertainment, travel and more, it is FMCG that reflects a sizeable opportunity given that it is the first step of evolution from basics to aspirational categories. So how can retailers better reach FMCG shoppers in these regions?

**SIZE AND CHARACTERISTICS:** The five states in question account for 16% of the INR 238,000 crore FMCG market (moving annual total, June 2014) and contribute 20% to incremental sales. However, the FMCG categories that drive growth differ amongst these hinterland markets. While incremental sales in Bihar and Orissa are driven by foods, in Madhya Pradesh and Chhattisgarh, they're fuelled by non-food categories.

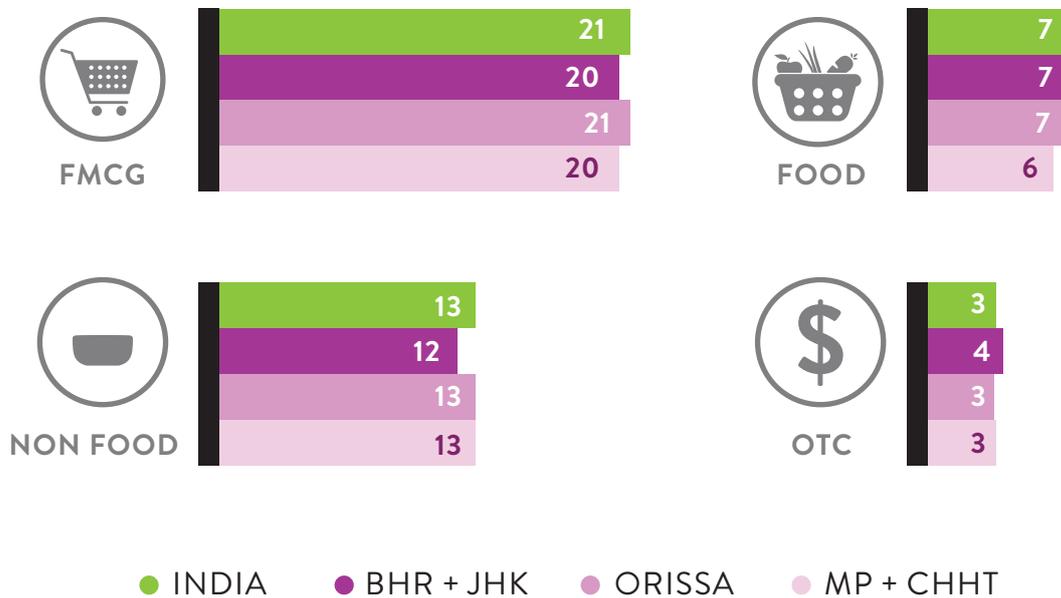
**FMCG RETAIL SPREAD:** The spread of retail FMCG stores in each of the clusters varies, indicating that marketers should customise their distribution strategy to maximise gains with the least investment.



Source: Nielsen

**SHELF SPACE:** Despite a lower than national-average per capita consumption, the category stocking pattern mirrors that of overall India. This is also evident from the fact that all the top five highest penetrated categories at the national level (shampoo, biscuits, soaps, washing powder and hair oils) have penetration levels higher in these five states than all-india figures. Functional categories like utensil cleaners, toothbrushes and antacids saw maximum increase (over the same period last year) in reach followed by indulgence and personal grooming categories. This is an indication of the widespread consumption of regular-use categories, implying that marketers should offer their full portfolio in these state outlets.

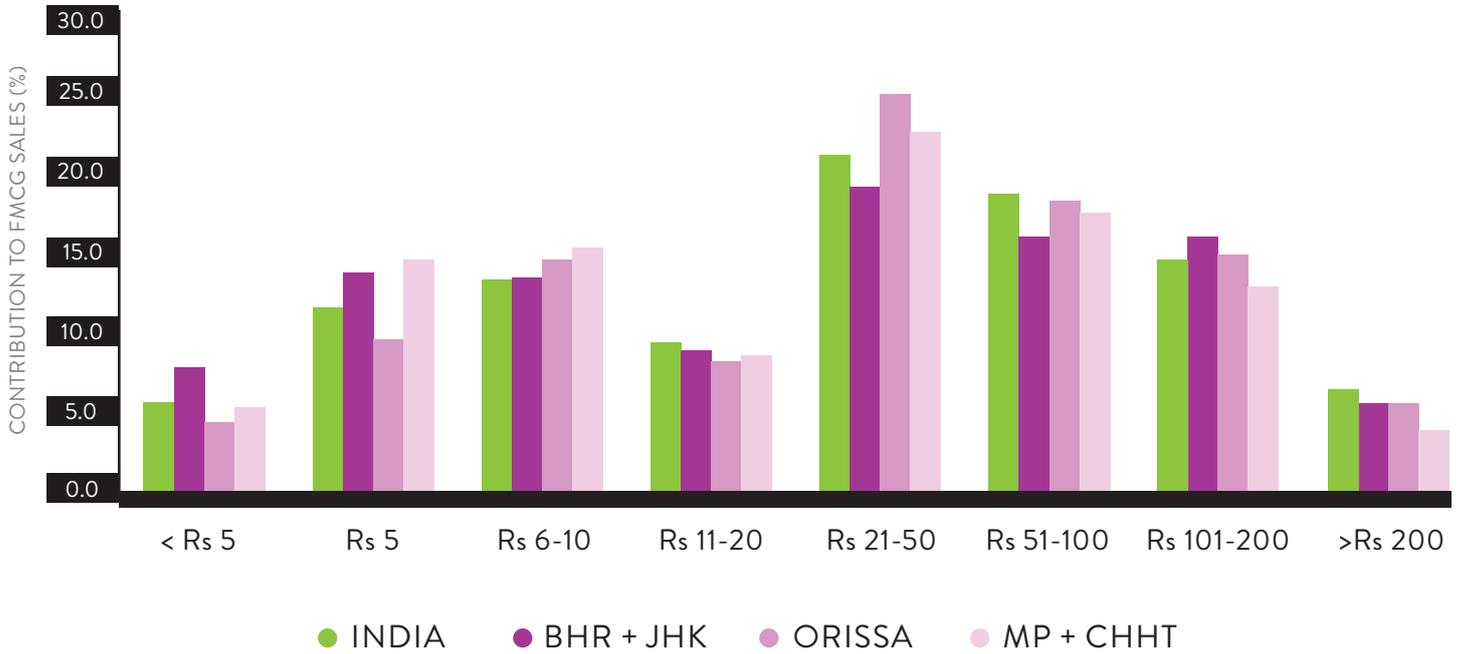
### FMCG CATEGORIES/ STORE



Source: Nielsen

**PACK SIZES:** While most of these states show a preference for smaller packs at lower price points for the purchase of impulse foods and personal care products, Orissa shows a preference for larger “family packs.” In a confirmatory trend that indicates an increasing ability to spend, the price band above the INR 100 range grew fastest in all three state groups. This may be led by price benefits offered by larger family packs on regular consumption categories, which marketers can use to drive volumes.

## FMCG PRICE POINT SALIENCE



Source: Nielsen

## CONSUMPTION PATTERNS: BEING DIFFERENT WHILE BEING THE SAME

At the outset, these states appear to be different in their consumption pattern. Branded FMCG spends in Bihar, Jharkhand and Orissa are skewed towards the food segment (55%) while Madhya Pradesh and Chhattisgarh spend 50% on non-foods. Orissa also stands out with 12.7% spends towards over-the-counter (OTC), which is double the national average due to categories like milk and baby food.

## TOP CONSUMPTION CATEGORY

**OVER INDEXED & GROWTH > FMCG**

BIHAR + JHARKHAND

NON REFINED OIL  
MILK FOOD DRINKS  
PALMOLIEN OIL

ORISSA

PALMOLIEN OIL  
MILK FOOD  
TOOTH PASTE

MP + CHHATTISGARH

REFINED OILS  
SKIN CREAMS  
TOOTHPASTE

**OVER INDEXED & GROWTH < FMCG**

BISCUITS  
WASHING POWDERS  
IODISED SALT

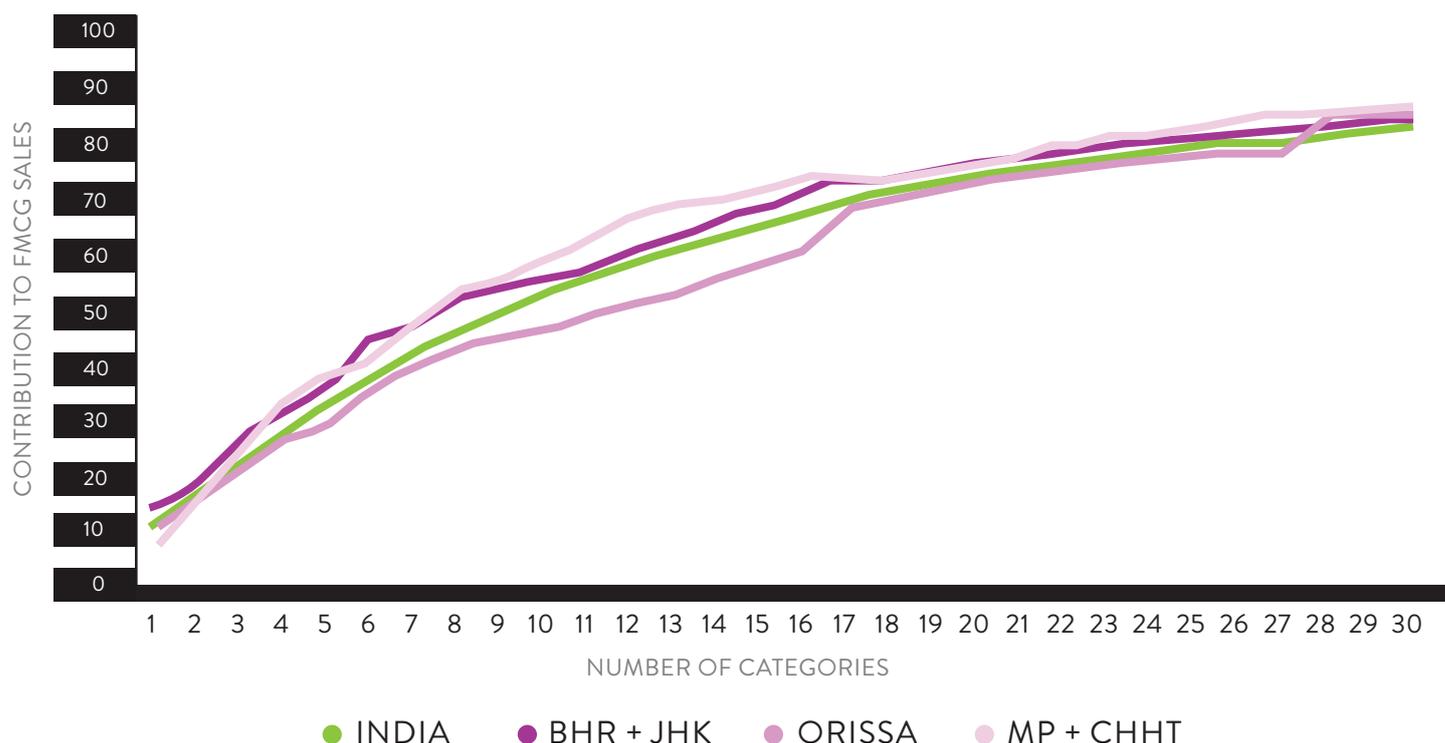
BISCUITS  
NON REFINED OIL  
MILK FOOD DRINKS

WASHING POWDERS  
TOILET SOAP  
PACKAGED TEA

Source: Nielsen

This state specific category skew is also evident in spend proportion across top categories. For the top 15 categories which account for 65% of FMCG at national level, Madhya Pradesh and Chhattisgarh's spends on these categories stood higher at 71% while Orissa was lower at 58%. The skew towards categories like cooking oils and salt in Bihar, Jharkhand and Orissa are also indicative of a higher emphasis on home cooked meals, which conversely translates to a lower share of categories like salty snacks and chocolate.

## TOP 30 NATIONAL CATEGORY CONTRIBUTION



Source: Nielsen

However the underlying theme in each of these states seems similar. For starters, these states contribute 7% each to incremental FMCG sales nationally. Categories catering to family needs take precedence with food categories in Bihar, Jharkhand and Orissa and non-food in Madhya Pradesh and Chhattisgarh. A similar trend is also seen in impulse food and personal care. However, with the overall slowdown in India's economy and high inflation, growth in all three clusters is led by food categories with the non-food segment taking a backseat.

Some trends also reflect the demographic situation of these states. For instance, some categories like confectionery and biscuits have higher skew in Bihar and Jharkhand, which have the highest concentration of children in India, and some of the traditionally milk-deficient and undernourished states with low healthcare facilities and spends, have a higher focus on **health, wellness** and **cure** categories.



IMPULSE AND INDULGENCE, ALONG WITH HEALTH AND WELLNESS, ARE CATEGORIES THAT WILL DRIVE GROWTH IN EMERGING STATES.



## VALUE CONTRIBUTION BY PRODUCT GROUP

	INDIA	BHR + JHK	ORISSA	MP + CHHT
 <b>FAMILY FOOD</b>	26%	29%	31%	25%
 <b>FAMILY NON FOOD</b>	26%	24%	22%	33%
 <b>IMPULSE &amp; INDULGENCE</b>	24%	26%	23%	19%
 <b>PERSONAL CARE</b>	11%	9%	8%	14%
 <b>HEALTH &amp; WELLNESS</b>	10%	13%	17%	7%
 <b>NICHE &amp; ASPIRATIONAL</b>	3%	1%	1%	1%

Green highlight indicates growth faster than overall FMCG

Source: Nielsen

## THE MARKETER'S PLAYBOOK

So far, companies operating in categories that have a skew in these states, or regional companies, seem to be performing the best. Of the top 10 national FMCG companies, only the top three are common to all five states, since regional companies that understand and address specific consumer needs seem to find more favour in the hinterlands.

There are lessons to be learned from the companies that have got their regional strategies right. A focus on the following critical areas will help win in these five states as they have the potential to fuel growth even while other developed states in the country face stagnation.



**AVAILABILITY:** Direct reach can help companies in high density areas of Bihar and Jharkhand, while an indirect network will be more useful in the deeper rural pockets of Madhya Pradesh and Orissa.



**PRICING:** Smaller and affordable offerings can be useful in categories of impulse and indulgence, and larger cost effective price points may boost sales for regular consumption categories, particularly in Orissa.



**PORTFOLIO:** A diverse portfolio offering should keep the focus on family centric and regional skew categories.

## ABOUT THE AUTHORS



**VIJAY UDASI**  
EXECUTIVE DIRECTOR  
NIELSEN INDIA



**SANCHALI CHAKRABORTY**  
DIRECTOR  
NIELSEN INDIA

Krishna Kamal Mishra from the Nielsen Sales Effectiveness Practice Area contributed to this issue of Featured Insights.

---

## ABOUT NIELSEN

Nielsen N.V. (NYSE: NLSN) is a global performance management company that provides a comprehensive understanding of what consumers Watch and Buy. Nielsen's Watch segment provides media and advertising clients with Total Audience measurement services across all devices where content — video, audio and text — is consumed. The Buy segment offers consumer packaged goods manufacturers and retailers the industry's only global view of retail performance measurement. By integrating information from its Watch and Buy segments and other data sources, Nielsen provides its clients with both world-class measurement as well as analytics that help improve performance. Nielsen, an S&P 500 company, has operations in over 100 countries that cover more than 90 percent of the world's population.

For more information, visit [www.nielsen.com](http://www.nielsen.com).

Copyright © 2015 The Nielsen Company. All rights reserved. Nielsen and the Nielsen logo are trademarks or registered trademarks of CZT/ACN Trademarks, L.L.C. Other product and service names are trademarks or registered trademarks of their respective companies.